



Government
Actuary's
Department

Armed Forces Pension Arrangements

Pension Sharing on Divorce for McCloud members:
Initial CEV calculation is before 1 October 2023 and
valuation day is on or after 1 October 2023 –
Guidance for “boundary cases”

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24 July 2025

Government Actuary's Department

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1. Introduction

1.1 This guidance is addressed to the Ministry of Defence (MOD) as scheme manager of the Armed Forces Pension Arrangements (the Schemes). The Schemes include the Armed Forces Pension Scheme 2015 (AFPS15) and the Early Departure Payments Scheme 2015 (EDP15), known collectively as the reformed scheme, and the following legacy schemes:

- The Armed Forces Pension Scheme 1975 (AFPS75)
- The Armed Forces Pension Scheme 2005 (AFPS05)
- The Early Departure Payments Scheme 2005 (EDP05)
- The Full Time Reserve Service Pension Scheme 1997 (FTRS97)
- The Reserve Forces Pension Scheme 2005 (RFPS05) and
- The Non-Regular Permanent Staff Pension Scheme 2011 (NRPS11).

1.2 This guidance has been prepared in accordance with the following Regulations of SI 2023/998 (the Remediable Service Regulations):

Administrative procedure	Regulation(s)	Relevant section of this document
Calculation and application of appropriate amounts, remediable credit adjustment and pension credits	AFPS75: Schedule 1, regulation 22 to 23 AFPS05: Schedule 2, regulation 25 to 26 RFPS05: Schedule 4, regulation 22 to 23 FTRS97: Schedule 5, regulation 23 to 24 NRPS11: Schedule 6, regulation 23 to 24 AFPS15: Schedule 7, regulation 9, 11, 12	3 to 4
Calculation of pension debits	AFPS75: Schedule 1, regulation 24 to 27 AFPS05: Schedule 2, regulation 27 to 30 RFPS05: Schedule 4, regulation 24 to 27 FTRS97: Schedule 5, regulation 25 to 28 NRPS11: Schedule 6, regulation 25 to 28	5

1.3 This guidance assumes that rollback as part of McCloud remedy has taken place which means all remediable service of in-scope members has been placed back into their relevant legacy scheme¹.

¹ This includes in-scope McCloud pensioners, even though their benefits in payment may remain unchanged until their immediate choice election is made.

- 1.4 This guidance applies to “boundary cases” which involve pension debit members (PDMs):
- who are eligible for the McCloud remedy (McCloud members), **and**
 - for whom pension information, including an initial Cash Equivalent Value (CEV)² with a calculation date before 1 October 2023, has been provided for the purposes of divorce proceedings, **and**
 - the Pension Sharing Order (PSO) **valuation day** is on or after 1 October 2023.

This guidance is also relevant to the corresponding pension credit members (PCMs).

- 1.5 In this guidance note, “shareable remediable service” means remediable service which is subject to sharing under the PSO. Shareable remediable service starts from 1 April 2015 (or later if member had a qualifying break in service) and ends on the earlier of
- The day before the PSO **transfer day**
 - The day remediable service ends.
- 1.6 This guidance distinguishes between groups of McCloud members as calculation steps for remediable shareable rights and pension credit vary for non-pensioners and pensioners, and also depend on what their pre-remedy protection status is, what annexes are received as part of their PSO and whether the PSO **transfer day** is before 1 October 2023³. For the calculations of remediable pension debit and other relevant debits, calculation steps also vary depending on whether a final and irrevocable remedy choice has been made by the PSO **transfer day**.

² The initial CEV is produced when seeking a PSO (discussed in Section 2 of this guidance). This is not to be confused with the calculation of the CEV for implementing the PSO (set out in Section 3 of this guidance).

³ Whether the PSO **transfer day** is before 1 October 2023 only matters for unprotected members whose PSO contains both a legacy scheme annex and a reformed scheme annex.

- 1.7 If, under the rules of the scheme, a member can make separate McCloud elections in relation to remediable service in two or more employments, they should be assigned a group for each employment separately.
- 1.8 This guidance covers pensioner members where the McCloud choice would result in pension adjustments for past overpayments or underpayments (i.e. adjustment under PSPJOA section 14 for immediate choice members, or equivalent adjustment for deferred choice pensioners).
- 1.9 This guidance also covers cases where a member has made voluntary pension contributions in respect of remediable service to increase their benefits. Please see paragraph 3.6 to 3.11.
- 1.10 Depending on the McCloud member’s pensionable service covered by their PSO, one or more of the following tranches may be shareable in divorce:
- Tranche 1: Shareable non-remediable pension benefits in respect of legacy scheme service (which will include all service prior to 1 April 2015)
 - Tranche 2: Shareable remediable pension benefits in respect of remediable service (which will always fall into the remedy period 1 April 2015 to 31 March 2022)⁴
 - Tranche 3: Shareable non-remediable pension benefits in respect of reformed scheme service (which will include all service post 31 March 2022)⁵

This guidance covers only the calculations relating to Tranche 2: Shareable remediable pension benefits in respect of remediable service (which will always fall into the remedy period 1 April 2015 to 31 March 2022). There may be interactions with the calculations for Tranche 1 or Tranche 3 in Scottish divorce cases (see Section 3).

Tranche	Period of service the pension benefits relate to	Primary divorce guidance to use ⁶	Scheme benefits are payable from
1	Pre-1 April 2015	Relevant legacy scheme guidance ⁷	Relevant legacy scheme
2	1 April 2015 to 31 March 2022	This guidance	Relevant legacy scheme

⁴ Please note that if **transfer day** is on or before the day remediable service ends, the PDM has some McCloud remediable service between 1 April 2015 and 31 March 2022 that is not shareable. McCloud remedy still applies to this non-shareable service, but it is not relevant to the divorce guidance notes as only shareable remediable service is considered for divorce.

⁵ For most members, Tranche 3 is pension benefits in respect of service post 31 March 2022. However, for a member with a disqualifying break, pensionable service in relation to Tranche 3 may start before 1 April 2022.

⁶ The relevant guidance should be used in conjunction with the factors in force at the **valuation day** for the calculation of the CEV for implementation.

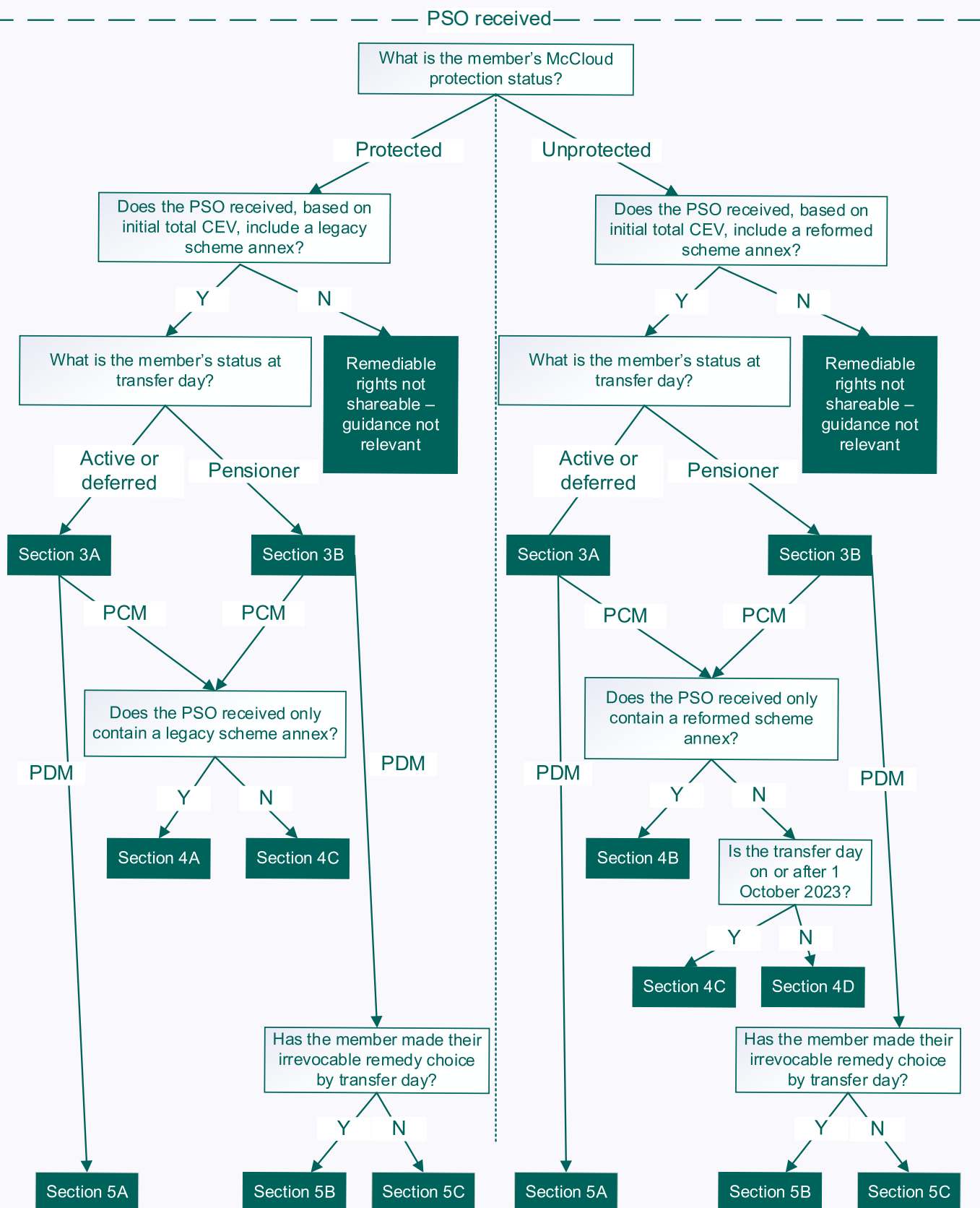
⁷ If a protected McCloud member is going through a Scottish divorce and they accrued Tranche 1 benefits during their marriage, the calculation for ESCE in the relevant legacy scheme guidance will need to be changed. More information can be found in paragraph 3.16 and 3.28.

3	Post-31 March 2022 ⁸	Reformed scheme guidance ⁹	Reformed scheme
1.11	If the member has transfer in benefits received by the scheme during remediable service, the administrators should establish the member’s remediable service benefits under the legacy scheme option and the reformed scheme option by first considering the ‘Guidance for applying McCloud remedy to incoming non-Club transfer’, and ‘The Public Sector Transfer Club Memorandum’.		
1.12	<p>The flow chart on the next page sets out how the sections and subsections of this guidance apply to an individual pension debit member (PDM), whose PSO also affects the corresponding pension credit member (PCM):</p> <ul style="list-style-type: none"> • Section 2 discusses the calculation of the initial cash equivalent value. • Section 3 sets out the approach to calculate the remediable shareable rights. • Section 4 sets out the approach to calculate the remediable pension credit. • Section 5 sets out the approach to calculate the remediable pension debit and other relevant debits. 		
1.13	Nothing in this guidance should be read as overriding the regulations which govern the Schemes.		

⁸ For a member with a disqualifying break, pensionable service in relation to Tranche 3 may start before 1 April 2022.

⁹ If an unprotected McCloud member is going through a Scottish divorce and they accrued Tranche 3 benefits during their marriage, the calculation for ESCE in the reformed scheme guidance will need to be changed. More information can be found in paragraph 3.21.

**McCloud member with initial CEV calculation date before 1/10/2023
and PSO valuation day is on or after 1/10/2023**



Exclusions

- 1.14 This guidance does not apply to members who are not eligible for McCloud remedy. For these members, the administrators should use the relevant scheme guidance and factors.
- 1.15 For McCloud members with remediable service described in paragraph 1.4, this guidance covers only the calculations of cash equivalent values, shareable rights, pension credits and pension debits in respect of McCloud shareable remediable service. If a member has relevant Tranche 1 and Tranche 3 benefits, equivalent calculations should be carried out using the primary guidance shown in the table in paragraph 1.10. The resultant answers (for all relevant tranches) should be added together to give total amounts for all the member’s pensionable service.

Implementation

- 1.16 This guidance should be used on or after 1 October 2023 for a member described in paragraph 1.4.
- 1.17 This guidance has been written for pension administrators and assumes knowledge of general pension terminology, and familiarity with retirement calculations for the Schemes. Any questions concerning the application of the guidance should, in the first instance, be referred to the scheme manager.
- 1.18 In line with best practice and in order to ensure that factors are being used as intended and the instructions are fit for purpose, we suggest that some example calculations are sent to GAD for review. In particular, the following cases should be referred to the scheme manager in the first instance, for onward referral to GAD:
- Cases where compensation differs depending on McCloud choice (e.g. in relation to annual allowance tax charges, in particular in out of scope years).
 - Cases where the member had purchased Added Pension in AFPS15 as a part-time volunteer reserve.
 - Any non-standard cases.

- 1.19 This guidance should be read in conjunction with the divorce guidance(s) in force. These include:

GAD note	Issued on¹⁰
Armed Forces Pension Arrangements Pension Sharing on Divorce Factor guidance Version 1.1	13 Feb 2020

Compliance and limitations

- 1.20 Other than MOD and the scheme administrators, no person or third party is entitled to place any reliance on the contents of this guidance, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this guidance, whether or not GAD has agreed to the disclosure of its advice to the third party.
- 1.21 This guidance may be published on MOD and the scheme administrator’s website but must not otherwise be reproduced, distributed or communicated in whole or in part to any other person without GAD’s prior written permission.
- 1.22 If any cases arise which do not fall under the standard approach set out in this guidance, they should be referred to the scheme manager in the first instance.
- 1.23 This guidance has been carried out in accordance with the applicable Technical Actuarial Standard: TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

¹⁰ The factors included in the listed guidance note have been updated since the note was first issued. For all calculations, please use factors in force at the **valuation day** for the calculation of the CEV for implementation.

2. Initial cash equivalent value

- 2.1 For this guidance note to apply, the administrator must have already provided information, including the initial CEV with a calculation date before 1 October 2023. Therefore, no further guidance regarding the calculation of initial CEV will be provided in this section. The remainder of this guidance note will focus on calculations for the implementation of a PSO with a **valuation day** on or after 1 October 2023, which has been determined based on an initial CEV with a calculation date before 1 October 2023.

3. Calculation of the value of remediable shareable rights

- 3.1 In cases where the court issues a PSO which does not include an annex which specifies remediable service should be shared, the administrator would not need to produce another remedy service CEV for implementation because the court has decided that the member's benefits accrued during the remediable service are not to be shared with the ex-partner (i.e. Tranche 2 benefits are not shareable). This effectively sets the percentage of member's remediable benefits to be shared for the remedy period as 0%, or in the case of a Scottish divorce, a monetary amount of £0 in respect of remediable service. Cases include:
- A protected McCloud member with only a reformed scheme annex means remediable service is not shareable.
 - An unprotected McCloud member with only a legacy scheme annex means remediable service is not shareable.
- 3.2 The shareable rights relating to non-remediable service should be calculated separately using the relevant scheme guidance and factors in force on the **valuation day** and using **transfer day** as the calculation date. Similarly, the administrator should use the relevant guidance and factors for the calculation of shareable rights, pension credit and debit.

PSO with an annex which specifies remediable service should be shared

- 3.3 The remainder of this section focuses on the calculation of the remediable cash equivalent value (RCEV) for the following members, when the court issues a PSO with an annex which specifies remediable service should be shared.
- For a protected McCloud member, having a legacy scheme annex means remediable service is shareable.
 - For an unprotected McCloud member, having a reformed scheme annex means remediable service is shareable.
- As mentioned in paragraph 1.10, RCEV may only form part of a member's shareable CEV in divorce. In these circumstances, separate CEVs should be calculated for each tranche of benefits in respect of non-remediable service.
- 3.4 For the calculation of the Remediable Cash Equivalent Value (RCEV), it is the member's status as at the **transfer day** that determines which group a member falls under:
- Group 1 consists of in-scope PDMs (per paragraph 1.4) who were active or deferred members at the **transfer day**.
 - Group 2 consists of in-scope PDMs (per paragraph 1.4) who were pensioners at the **transfer day**.
- 3.5 For members with remediable benefits in payment who also have a deferred pension account in respect of remediable service, their CEV should include values of benefits in payment as well as their deferred benefits. This means they may be Group 1 for some service and Group 2 for some service.

Members who made voluntary pension contributions in respect of remediable service

Additional Reckonable Service

3.6 For the groups of members listed below who have made voluntary contributions to secure Additional Reckonable Service in respect of remediable service (in AFPS75 or AFPS05), the additional reckonable service benefits will be payable from the legacy scheme regardless of McCloud choice. Therefore, the RCEV calculated in paragraphs 3.14 and 3.26 should also include the CEV of the legacy benefits provided by the member voluntary contribution payments, regardless of the McCloud choice.

- Protected members who made remediable voluntary contributions to secure additional reckonable service during remediable service under the relevant legacy scheme.
- Unprotected members who, before the **transfer day**, retrospectively purchased additional reckonable service under the relevant legacy scheme.

Enhanced Pension

3.7 For the groups of members listed below who have made voluntary contributions to secure Enhanced Pension in respect of remediable service (in AFPS75), the enhanced pension benefits will only be payable from the legacy scheme if member elects for the legacy scheme as their final and irrevocable McCloud choice. Therefore, the RCEV calculated using the AFPS75 scheme guidance and factors as if remediable service was in AFPS75¹¹ should also include the CEV of the legacy benefits provided by the contribution payments. This should not be included in the reformed CEV as the member will not receive any benefits or compensation in respect of Enhanced Pension if they choose the reformed scheme.

- Protected members who made remediable voluntary contributions to secure enhanced pension during remediable service under AFPS75.
- Unprotected members who, before the **transfer day**, retrospectively purchased Enhanced Pension under AFPS75.

AFPS15 Added Pension

3.8 For immediate choice unprotected pensioners who have not made an irrevocable choice (and nor has a final default choice been applied) as at **transfer day**, AFPS15 Added Pension already in payment will remain in payment until the member makes their immediate choice. The McCloud choice implementation will result in these members receiving compensation for all their Added Pension contributions, less tax relief, plus interest and minus any Added Pension received. Therefore, when calculating Init_CEV in paragraph 3.23, Alt_CEV in paragraph 3.24, and Alt_UpayAdj in paragraph 3.25, the AFPS15 Added Pension should be excluded and the RCEV should include an allowance for the compensation, calculated as if the McCloud election is implemented on the **transfer day**. This compensation is payable regardless of the member's McCloud choice and so is included in both Init_CEV and Alt_CEV.

¹¹ This relates to CEVL in paragraph 3.12, Init_CEV in paragraph 3.23 for immediate choice pensioners who were protected or deferred choice pensioners or Alt_CEV in paragraph 3.24 for immediate choice pensioners who were unprotected. For each member, one of these items will then be used to calculate RCEV.

- 3.9 For unprotected active or deferred members as at **transfer day**, where the **transfer day** is before 1 October 2023, AFPS15 Added Pension compensation will not have been paid as at **transfer day**. As in paragraph 3.8, compensation will be payable to members regardless of McCloud choice and so is included in both the CEVL and CEVR. Since the purchase of Added Pension will be extinguished by the compensation payment, the AFPS15 Added Pension should be excluded.
- 3.10 Unlike the unprotected members described in paragraph 3.8 and 3.9, who are yet to be due AFPS15 Added Pension compensation as at **transfer day**, it is assumed that AFPS15 Added Pension compensation has been settled for all other unprotected members. For unprotected active or deferred members as at **transfer day**, where the **transfer day** is on or after 1 October 2023, and for deferred choice unprotected pensioners as at **transfer day**, the Added Pension compensation would have been due as at 1 October 2023. For unprotected immediate choice pensioners, who have made an irrevocable choice (or have had a default choice applied) as at **transfer day**, the Added Pension compensation would have been due when the member made (or defaulted to) their McCloud choice. Where this compensation is not fully settled for members described in this paragraph, this should be settled outside the divorce CEV process; no allowance is made in the RCEV calculations.

General

- 3.11 Please note that where the RCEV includes allowance for Additional Reckonable Service benefits, Enhanced Pension benefits or Added Pension compensation (as set out in paragraphs 3.6 to 3.9), these components are also subject to debits by the pension sharing order.

3A. Group 1 – In-scope PDMs who were active or deferred members at the transfer day

This section applies to a member who was an active or deferred member at the **transfer day**. Since **transfer day**, the member might have retired or remained as active or deferred till the present day.

3.12 CEVL – stands for Cash Equivalent Value Legacy

Calculate the remediable legacy scheme cash equivalent in respect of the PDM's shareable remediable service at the PSO **valuation day** using the relevant legacy scheme guidance and factors in force on that day and using **transfer day** as the calculation date, assuming all rights for remediable service are based on benefits in the relevant legacy scheme^{12,13,14}. We will refer to this as “CEVL” (Cash Equivalent Value Legacy).

3.13 CEVR – stands for Cash Equivalent Value Reformed

Calculate the remediable reformed scheme cash equivalent in respect of the PDM's shareable remediable service at the PSO **valuation day** using the reformed scheme guidance and factors in force on that day and using **transfer day** as the calculation date, assuming all rights for remediable service are based on benefits in the reformed scheme^{12,14}. We will refer to this as “CEVR” (Cash Equivalent Value Reformed).

3.14 RCEV – stands for Remediable Cash Equivalent Value

The Remediable Cash Equivalent Value (relates to Tranche 2) is calculated as follows:

$$\text{RCEV} = \text{Maximum (CEVL, CEVR)}$$

CEVL	Cash equivalent value legacy, calculated in paragraph 3.12
CEVR	Cash equivalent value reformed, calculated in paragraph 3.13

3.15 The CEVs relating to shareable non-remediable service should be calculated separately, using the relevant guidance and factors in force at the **valuation day**. The resultant answers added together will give the total CEV.

3.16 PCEVL – stands for Ex-partner Cash Equivalent Value Legacy

Calculate the Ex-partner Cash Equivalent Value Legacy. This is the value of shareable rights to be credited to the ex-partner (pension credit member) which relates to the shareable remediable service if the value of the member's shareable remediable benefits is defined as CEVL.

¹² As per paragraph 3.6, if members made voluntary contributions to secure Additional Reckonable Service in respect of remediable service (in AFPS75 or AFPS05) before **transfer day**, please include the CEV of the legacy benefits provided by the contribution payments.

¹³ As per paragraph 3.7, if members made voluntary contributions to secure Enhanced Pension in respect of remediable service (in AFPS75) before **transfer day**, please include the CEV of the legacy benefits provided by the contribution payments.

¹⁴ As per paragraph 3.9, where AFPS15 Added Pension compensation is due on or after **transfer day** then this should be included in the CEV. Since the purchase of Added Pension will be extinguished by the compensation payment, the AFPS15 Added Pension should be excluded.

$$\text{PCEVL} = \text{CEVL} \times \text{relevant percentage}$$

CEVL Cash equivalent value legacy, calculated in paragraph 3.12

Relevant percentage

		English law	Scottish law
Protection status of PDM	Protected	Legacy scheme PSO %	Implied percentage = $[\text{MAL} \div (\text{CEVL} + \text{Tranche 1 CEV})]$
	Unprotected	Reformed scheme PSO %	Implied percentage = $[\text{MAR} \div (\text{CEVR} + \text{Tranche 3 CEV})]$

MAL Monetary amount (MA) specified in the legacy scheme PSO annex
 MAR Monetary amount (MA) specified in the reformed scheme PSO annex
 Tranche 1 CEV CEV as at **transfer day** in respect of legacy scheme service prior to 1 April 2015, as explained in paragraph 1.10 and 1.15. This could be zero for divorce purposes if the member did not accrue Tranche 1 benefits during their marriage
 Tranche 3 CEV CEV as at **transfer day** in respect of reformed scheme service after 31 March 2022¹⁵, as explained in paragraph 1.10 and 1.15. This could be zero for divorce purposes if the member did not accrue Tranche 3 benefits during their marriage

For a protected McCloud member, this relevant percentage will also apply to any pre-remediable service (i.e. Tranche 1) benefits which are being shared. For an unprotected McCloud member, this relevant percentage will also apply to any post-remediable service (i.e. Tranche 3) benefits which are being shared. See paragraph 3.21.

¹⁵ For a member with disqualifying break, pensionable service in relation to Tranche 3 may start before 1 April 2022.

3.17 **PCEVR – stands for Ex-partner Cash Equivalent Value Reformed**

Calculate the Ex-partner Cash Equivalent Value Reformed. This is the value of shareable rights to be credited to the ex-partner (pension credit member) which relates to the shareable remediable service if the value of the member’s shareable remediable benefits is defined as CEVR.

$$\text{PCEVR} = \text{CEVR} \times \text{relevant percentage}$$

CEVR	Cash equivalent value reformed, calculated in paragraph 3.13
Relevant percentage	As defined within the table in paragraph 3.16

For a protected McCloud member, this relevant percentage will also apply to any pre-remediable service (i.e. Tranche 1) benefits which are being shared. For an unprotected McCloud member, this relevant percentage will also apply to any post-remediable service (i.e. Tranche 3) benefits which are being shared. See paragraph 3.21.

3.18 **RPCEV – stands for Remediable Ex-partner Cash Equivalent Value**

Calculate the Ex-partner Remediable Cash Equivalent Value. This is the value of shareable rights to be credited to the ex-partner (pension credit member) which relates to the shareable remediable service if the value of the member’s shareable remediable benefits is defined as RCEV.

$$\text{RPCEV} = \text{Maximum} (\text{PCEVL}, \text{PCEVR})$$

PCEVL	Ex-partner Cash equivalent value legacy, calculated in paragraph 3.16
PCEVR	Ex-partner Cash equivalent value reformed, calculated in paragraph 3.17

RCredAdj = RPCEV – Relevant Ex-partner Cash equivalent value

Relevant Ex-partner Cash equivalent value

		Transfer day before 1 October 2023	Transfer day on or after 1 October 2023
Protection status of PDM	Protected	PCEVL Ex-partner Cash equivalent value Legacy, calculated in paragraph 3.16	PCEVL Ex-partner Cash equivalent value Legacy, calculated in paragraph 3.16
	Unprotected	PCEVR Ex-partner Cash equivalent value Reformed, calculated in paragraph 3.17	PCEVL ¹⁶ Ex-partner Cash equivalent value Legacy, calculated in paragraph 3.16

If the PDM is a protected member, it is only non-zero if PCEVR is higher than PCEVL.

If the PDM is an unprotected member with a PSO **transfer day** before 1 October 2023, it is only non-zero if PCEVL is higher than PCEVR.

3.20 The shareable rights relating to non-remediable service should be calculated separately, using the relevant guidance and factors in force at the **valuation day**. The resultant answers added together will give the total shareable rights.

3.21 For divorces under Scottish law: For a protected McCloud member whose legacy scheme PSO covers Tranche 1 benefits (i.e. member has pre-1 April 2015 service), the calculation of the ex-partner’s cash equivalent value in respect of Tranche 1 CEV should use the implied percentage calculated in paragraph 3.16 in place of the “Appropriate percentage” set out in Part A (legacy section) of the existing scheme divorce guidance.

For an unprotected McCloud member whose reformed scheme PSO covers Tranche 3 benefits (i.e. member has post-31 March 2022 service¹⁷), the calculation of the ex-partner's cash equivalent value in respect of Tranche 3 CEV should use the implied

¹⁶ Notice the RCredAdj calculation for an unprotected member with PSO **transfer day** on or after 1 October 2023 deducts PCEVL from RPCEV. This is because remediable service for unprotected members has been rolled back to the legacy scheme on 1 October 2023.

¹⁷ For a member with disqualifying break, pensionable service in relation to Tranche 3 may start before 1 April 2022.

percentage calculated in paragraph 3.16 in place of the “Appropriate percentage” set out in Part B (reformed section) of the existing scheme divorce guidance.

- 3.22 Any charges to cover the cost of work generated by the PSO, which MOD has decided should be attributed to the ex-partner, should be deducted from the total shareable rights awarded to the ex-partner.

3B. Group 2 – In-scope PDMs who were pensioners at the transfer day

This section applies to a member who was a pensioner at the **transfer day**. Regardless of whether the member has made their irrevocable remedy choice by the **transfer day**, the value of remediable shareable rights at the **transfer day** will be determined on a “better of” (legacy or reformed) basis.

3.23 Init_CEV – stands for Initial scheme Cash Equivalent Value

Using the relevant scheme guidance and factors in force as at the PSO **valuation day** and **transfer day** as the calculation date, calculate the cash equivalent in respect of the PDM's shareable remediable service in the initial scheme, i.e. the scheme from which they are currently receiving remediable benefit payments.

For immediate choice pensioners who were protected or deferred choice pensioners¹⁸:

The initial scheme is the legacy scheme^{19,20}.

For immediate choice pensioners who were unprotected:

The initial scheme is the reformed scheme^{19,21,22}.

Please note that the CEV should include any rights of the member under the scheme. For a member who has benefits in payment but also has a deferred pension account, the CEV should include both the pension in payment and any other rights in respect of remediable service which are not yet in payment.

3.24 Alt_CEV – stands for Alternative Cash Equivalent Value

Using the relevant scheme guidance and factors in force as at the PSO **valuation day** and **transfer day** as the calculation date, calculate the cash equivalent in respect of the PDM's shareable remediable service in the alternative scheme.

¹⁸ Generally, a deferred choice member will make their choice before retirement, but exceptionally they may retire and start receiving legacy scheme payments before making their DCU election. These members may have been protected or unprotected before rollback.

¹⁹ As per paragraph 3.6, if members made voluntary contributions to secure Additional Reckonable Service in respect of remediable service (in AFPS75 or AFPS05) before **transfer day**, please include the CEV of the legacy benefits provided by the contribution payments.

²⁰ As per paragraph 3.7, if protected pensioners or deferred choice pensioners made voluntary contributions to secure Enhanced Pension in respect of remediable service (in AFPS75) before **transfer day**, please include the CEV of the legacy benefits provided by the contribution payments.

²¹ As per paragraph 3.7, if unprotected pensioners made voluntary contributions to secure Enhanced Pension in respect of remediable service (in AFPS75) before **transfer day**, no allowance for this should be made in the initial (reformed) CEV.

²² As per paragraph 3.8, if unprotected pensioners are receiving AFPS15 Added Pension, please exclude AFPS15 Added Pension from the CEV and include an allowance for compensation.

To calculate Alt_CEV, the administrator should first calculate the member’s remediable benefits as at the **transfer day**²³, as though remediable service were in the alternative scheme^{24,25,26,27}, using the following assumptions about alternative scheme benefits:

If the member took normal health retirement and, if they were to make an alternative scheme election, would be entitled to elect for immediate retirement benefits from the alternative scheme, the administrator should assume in the calculation of member’s remediable benefits that:

- the member retired at the actual retirement age,
- any adjustment for early or late payment under the rules of the alternative scheme applied,
- and the member commuted the minimum that would be permitted if the member’s McCloud election was the alternative scheme

If the member took normal health retirement and would not be entitled to elect for immediate retirement benefits from the alternative scheme if they made an alternative scheme election, the administrator should assume alternative benefits are payable as a deferred pension from deferred pension age, and the member commuted the minimum that would be permitted if the member’s McCloud election was the alternative scheme.

If the member took ill-health retirement from the initial scheme, the administrator should consider the member’s eligibility for ill-health retirement from the alternative scheme to determine if the member could have retired under ill-health at the actual retirement age, and if so what the ill-health benefits would be. If the member would not be eligible for ill-health benefits, then one of the two preceding paragraphs applies, depending on whether the member would have been entitled to immediate retirement benefits from the alternative scheme at their actual retirement age.

3.25 **Alt_UpayAdj – stands for Alternative Underpayment Adjustment**

As the member has been receiving benefits in respect of the remedy period, allowance should be made for McCloud remedy under/ overpayments of benefits associated with the alternative scheme:

²³ Although Alt_CEV is future looking as at the **transfer day** because it is the value of future benefits payable to the member under the alternative scheme under the specific assumptions, the calculation of what the payment streams in the alternative scheme would have been from the member’s actual retirement age is also needed for Underpayment adjustments (see paragraph 3.25).

²⁴ As per paragraph 3.6, if members made voluntary contributions to secure Additional Reckonable Service in respect of remediable service (in AFPS75 or AFPS05) before **transfer day**, please include the CEV of the legacy benefits provided by the contribution payments.

²⁵ As per paragraph 3.7, if protected pensioners or deferred choice pensioners made voluntary contributions to secure Enhanced Pension in respect of remediable service (in AFPS75) before **transfer day**, no allowance for this should be made in the alternative (reformed) CEV.

²⁶ As per paragraph 3.7, if unprotected pensioners made voluntary contributions to secure Enhanced Pension in respect of remediable service (in AFPS75) before **transfer day**, please include the CEV of the legacy benefits provided by the contribution payments.

²⁷ As per paragraph 3.8, please include an allowance for AFPS15 Added Pension compensation for unprotected pensioners receiving AFPS15 Added Pension in their alternative (legacy) CEV.

Alt_UpayAdj = (ALTpayment – ACTpayment) based on payments up to **transfer day**, with interest applied to **transfer day**

ALTpayment Member benefits they would have received if they had been receiving alternative scheme benefits in respect of the remedy period²⁸

ACTpayment Actual benefits received by the members in respect of the remedy period excluding AFPS15 Added Pension if any²⁹

Please note that

- Interest on the underpayment adjustment, as required under the PSPJOA and associated Directions, should be applied up to the **transfer day**.
- Alt_UpayAdj can range from being positive to negative.
 - A positive Alt_UpayAdj occurs when the member has received less benefits than they would have in the scenario where all rights for remediable service are based on benefits in the alternative scheme. This means if they choose to take alternative scheme benefits for remediable service, they have been underpaid to date (the scheme owes the member money).
 - A negative Alt_UpayAdj occurs when the member has received more benefits than they would have in the scenario where all rights for remediable service are based on benefits in the alternative scheme. This means if they choose to take alternative scheme benefits for remediable service, they have been overpaid to date (the member owes the scheme money).
- Applicable interest rates differ between underpayments (positive Alt_UpayAdj) and overpayments (negative Alt_UpayAdj).
- Underpayments (positive Alt_UpayAdj) would be paid in full so should be calculated gross of tax. Overpayments (negative Alt_UpayAdj) would be collected net of tax paid on the overpayment so should be calculated net of tax.
- This section only applies to McCloud remedy under/overpayments i.e. those resulting from a McCloud choice or potential McCloud choice. Administrators should deal with under/overpayments relating to non-McCloud scenarios as per usual procedures; these non-McCloud under/overpayments are not covered by this note.

3.26 RCEV – stands for Remediable Cash Equivalent Value

RCEV = Maximum (Init_CEV, Alt_CEV + Alt_UpayAdj)

Init_CEV Initial Cash Equivalent Value, calculated in paragraph 3.233.24

Alt_CEV Alternative Cash Equivalent Value, calculated in paragraph 3.243.25

²⁸ Where the alternative scheme is the reformed scheme, benefits in relation to Additional Reckonable Service should be included, but not Enhanced Pension. Where the alternative scheme is the relevant legacy scheme and the member has purchased Additional Reckonable Service and/or Enhanced Pension before the **transfer day**, benefits in relation to these should be included.

²⁹ Where the initial scheme is the reformed scheme, no benefits in relation to Additional Reckonable Service or Enhanced Pension should have been paid. If an unprotected member has been receiving AFPS15 Added Pension, the AFPS15 Added Pension should be excluded as per paragraph 3.8. However it is to be included in the calculation of compensation, which should be included in the RCEV (via Init_CEV and Alt_CEV). Where the initial scheme is the relevant legacy scheme, benefits in relation to Additional Reckonable Service and/or Enhanced Pension should be included.

Alt_UpayAdj Underpayment adjustment associated with member choosing alternative scheme benefits (enter a positive number if the member has been underpaid; a negative number if the member has been overpaid), calculated in paragraph 3.25

3.27 The CEVs relating to shareable non-remediable service should be calculated separately, using the relevant guidance and factors in force at the **valuation day**. The resultant answers added together will give the total CEV.

3.28 **PCEVL – stands for Ex-partner Cash Equivalent Value Legacy**

Calculate the Ex-partner Cash Equivalent Value Legacy. This is the value of shareable rights to be credited to the ex-partner (pension credit member) which relates to the shareable remediable service if the value of the member’s shareable remediable service is based on benefits in the relevant legacy scheme.

For immediate choice pensioners who were protected or deferred choice pensioners³⁰:

$PCEVL = \text{Init_CEV} \times \text{relevant percentage}$

For immediate choice pensioners who were unprotected:

$PCEVL = (\text{Alt_CEV} + \text{Alt_UpayAdj}) \times \text{relevant percentage}$

Init_CEV Initial scheme Cash Equivalent Value, calculated in paragraph 3.23

Alt_CEV Alternative scheme Cash Equivalent Value, calculated in paragraph 3.24

Alt_UpayAdj Alternative Underpayment Adjustment, calculated in paragraph 3.25

Relevant percentage

		English law	Scottish law
Protection status of PDM	Protected	Legacy scheme PSO %	Implied percentage = $[\text{MAL} \div (\text{Init_CEV} + \text{Tranche 1 CEV})]$
	Unprotected	Reformed scheme PSO%	Implied percentage = $[\text{MAR} \div (\text{Init_CEV} + \text{Tranche 3 CEV})]$

MAL Monetary amount (MA) specified in the legacy scheme PSO annex
MAR Monetary amount (MA) specified in the reformed scheme PSO annex
Tranche 1 CEV CEV as at **transfer day** in respect of legacy scheme service prior to 1 April 2015, as explained in paragraph 1.10 and 1.15. This could be zero for divorce purposes if the member did not accrue Tranche 1 benefits during their marriage
Tranche 3 CEV CEV as at **transfer day** in respect of reformed scheme service after 31 March 2022³¹, as explained in paragraph 1.10 and 1.15. This could be zero for divorce purposes if the member did not accrue Tranche 3 benefits during their marriage

³⁰ Generally, a deferred choice member will make their choice before retirement, but exceptionally they may retire and start receiving legacy scheme payments before making their DCU election. These members may have been protected or unprotected before rollback.

³¹ For a member with a disqualifying break, pensionable service in relation to Tranche 3 may start before 1 April 2022.

For a protected McCloud member, this relevant percentage will also apply to any pre-remediable service (i.e. Tranche 1) benefits which are being shared. For an unprotected McCloud member, this relevant percentage will also apply to any post-remediable service (i.e. Tranche 3) benefits which are being shared. See paragraph 3.33.

3.29 **PCEVR – stands for Ex-partner Cash Equivalent Value Reformed**

Calculate the Ex-partner Cash Equivalent Value Reformed. This is the value of shareable rights to be credited to the ex-partner (pension credit member) which relates to the shareable remediable service if the value of the member’s shareable remediable service is based on benefits in the reformed scheme.

For immediate choice pensioners who were unprotected:

$$\text{PCEVR} = \text{Init_CEV} \times \text{relevant percentage}$$

For immediate choice pensioners who were protected or deferred choice pensioners³²:

$$\text{PCEVR} = (\text{Alt_CEV} + \text{Alt_UpayAdj}) \times \text{relevant percentage}$$

Init_CEV	Initial scheme Cash Equivalent Value, calculated in paragraph 3.23
Alt_CEV	Alternative scheme Cash Equivalent Value, calculated in paragraph 3.24
Alt_UpayAdj	Alternative Underpayment Adjustment, calculated in paragraph 3.25
Relevant percentage	As defined within the table in paragraph 3.28

For a protected McCloud member, this relevant percentage will also apply to any pre-remediable service (i.e. Tranche 1) benefits which are being shared. For an unprotected McCloud member, this relevant percentage will also apply to any post-remediable service (i.e. Tranche 3) benefits which are being shared. See paragraph 3.33.

3.30 **RPCEV – stands for Remediable Ex-partner Cash Equivalent Value**

Calculate the Ex-partner Remediable Cash Equivalent Value. This is the value of shareable rights to be credited to the ex-partner (pension credit member) which relates to the shareable remediable service if the value of the member’s shareable remediable benefits is defined as RCEV.

$$\text{RPCEV} = \text{Maximum} (\text{PCEVL}, \text{PCEVR})$$

PCEVL	Ex-partner Cash equivalent value legacy, calculated in paragraph 3.28
PCEVR	Ex-partner Cash equivalent value reformed, calculated in paragraph 3.29

3.31 **RCredAdj – stands for Remediable credit adjustment**

The Remediable Credit Adjustment, which we will refer to as “RCredAdj”, is calculated as follows:

³² Generally, a deferred choice member will make their choice before retirement, but exceptionally they may retire and start receiving legacy scheme payments before making their DCU election. These members may have been protected or unprotected before rollback.

$RCredAdj = RPCEV - \text{Relevant Ex-partner Cash equivalent value}$

RPCEV Ex-partner Remediable Cash Equivalent Value, calculated in paragraph 3.30

Relevant Ex-partner Cash equivalent value

		Transfer day before 1 October 2023	Transfer day on or after 1 October 2023
Protection status of PDM	Protected	PCEVL Ex-partner Cash equivalent value Legacy, calculated in paragraph 3.28	PCEVL Ex-partner Cash equivalent value Legacy, calculated in paragraph 3.28
	Unprotected	PCEVR Ex-partner Cash equivalent value Reformed, calculated in paragraph 3.29	PCEVL ³³ Ex-partner Cash equivalent value Legacy, calculated in paragraph 3.28

Note that RCredAdj forms part of RPCEV.

If the PDM is a protected member, it is only non-zero if PCEVR is higher than PCEVL.

If the PDM is an unprotected member with a PSO **transfer day** on or after 1 October 2023, it is only non-zero if PCEVR is higher than PCEVL.

If the PDM is an unprotected member with a PSO **transfer day** before 1 October 2023, it is only non-zero if PCEVL is higher than PCEVR.

- 3.32 The shareable rights relating to non-remediable service should be calculated separately, using the relevant guidance and factors in force at the **valuation day**. The resultant answers added together will give the total shareable rights.
- 3.33 For divorces under Scottish law: For a protected McCloud member whose legacy scheme PSO covers Tranche 1 benefits (i.e. member has pre-1 April 2015 service), the calculation of ex-partner’s cash equivalent value in respect of Tranche 1 CEV should use the implied percentage calculated in paragraph 3.28 in place of the “Appropriate percentage” set out in Part A (legacy section) of the existing scheme divorce guidance.
- For an unprotected McCloud member whose reformed scheme PSO covers Tranche 3 benefits (i.e. member has post-31 March 2022 service³⁴), the calculation of ex-partner’s cash equivalent value in respect of Tranche 3 CEV should use the implied percentage calculated in paragraph 3.28 in place of the “Appropriate percentage” set out in Part B (reformed section) of the existing scheme divorce guidance.
- 3.34 Any charges to cover the cost of work generated by the PSO, which MOD has decided should be attributed to the ex-partner, should be deducted from the total shareable rights awarded to the ex-partner.

³³ Notice the RCredAdj calculation for an unprotected member with PSO **transfer day** on or after 1 October 2023 deducts PCEVL from RPCEV. This is because remediable service for unprotected members has been rolled back to the legacy scheme on 1 October 2023.

³⁴ For a member with a disqualifying break, pensionable service in relation to Tranche 3 may start before 1 April 2022.

4. Calculation of the remediable pension credit

4.1 This section applies when the court issues a PSO with an annex which specifies remediable service should be shared.

- For a protected McCloud member, having a legacy scheme annex means remediable service is shareable.
- For an unprotected McCloud member, having a reformed scheme annex means remediable service is shareable.

4A. Ex-partner of a protected McCloud PDM whose PSO only contains a legacy scheme annex

4.2 This subsection applies for the ex-partner of a protected McCloud member who has only received a legacy scheme annex (no reformed scheme annex).

4.3 Following Part A (legacy section) of the Scheme’s divorce guidance and using factors in force at the **valuation day** (using **transfer day** as the calculation date), the administrator should calculate the pension credit in respect of RPCEV by setting the ex-partner’s cash equivalent (defined there as ESCE) to be the RPCEV calculated in paragraph 3.18 or 3.30.

The resultant pension credit is a legacy scheme credit and should be credited to the PCM’s legacy scheme account.

4.4 The pension credit relating to shareable non-remediable service should be calculated separately, using the relevant guidance and factors in force at the **valuation day**. The resultant pension credits for Tranche 1 (if any) added to pension credits calculated in paragraph 4.3 will give the total pension credit, all in the legacy scheme.

4B. Ex-partner of an unprotected McCloud PDM whose PSO only contains a reformed scheme annex

4.5 This subsection applies for the ex-partner of an unprotected McCloud member who has only received a reformed scheme annex (no legacy scheme annex).

4.6 Following Part B (reformed section) of the Scheme’s divorce guidance and using factors in force at the **valuation day** (using **transfer day** as the calculation date), the administrator should calculate the pension credit in respect of RPCEV by setting the ex-partner’s cash equivalent (defined there as ESCE) to be the RPCEV calculated in paragraph 3.18 or 3.30.

The resultant pension credit is a reformed scheme credit and should be credited to the PCM’s reformed scheme account.

4.7 The pension credit relating to shareable non-remediable service should be calculated separately, using the relevant guidance and factors in force at the **valuation day**. The resultant pension credits for Tranche 3 (if any) added to pension credits calculated in paragraph 4.6 will give the total pension credit, all in the reformed scheme.

4C. Ex-partner of a protected McCloud PDM whose PSO contains both a legacy scheme annex and a reformed scheme annex and Ex-partner of an unprotected McCloud PDM whose PSO, with a transfer day on or after 1 October 2023, contains both a legacy scheme annex and a reformed scheme annex

4.8 This subsection applies to the following members:

- The ex-partner of a protected McCloud member who has received a legacy scheme annex and a reformed scheme annex
- The ex-partner of an unprotected McCloud member who has received a legacy scheme annex and a reformed scheme annex, if the PSO **transfer day** is on or after 1 October 2023

4.9 Step 1: Following Part A (legacy section) of the Scheme’s divorce guidance and using factors in force at the **valuation day** (using **transfer day** as the calculation date), the administrator should calculate the pension credit in respect of PCEVL by setting the ex-partner’s cash equivalent (defined there as ESCE) to be the PCEVL calculated in paragraph 3.16 or 3.28.

The resultant pension credit is a legacy scheme credit.

4.10 Step 2: If the RCredAdj calculated in Section 3 is higher than zero, the administrator should carry out two pension credit calculations in respect of the RCredAdj at the **valuation day**, using the **transfer day** as the calculation date. They are:

- a. A pension credit assuming the RCredAdj will be transferred into the ex-partner’s pension credit account in the legacy scheme, calculated using Part A (legacy section) of the Scheme’s divorce guidance and factors in force at the **valuation day** by setting the ex-partner’s cash equivalent (defined there as ESCE) to be the RCredAdj.
- b. A pension credit assuming the RCredAdj will be transferred into the ex-partner’s pension credit account in the reformed scheme, calculated using Part B (reformed section) of the Scheme’s divorce guidance and factors in force at the **valuation day** by setting the ex-partner’s cash equivalent (defined there as ESCE) to be the RCredAdj.

The pension credit member will be offered a choice of the two pension credits. Unless the pension credit member completes the request to receive the pension credit relating to RCredAdj in the reformed scheme (as per paragraph 4.10b) within the required timescale, the pension credit member will receive the pension credit relating to RCredAdj in the legacy scheme (as per paragraph 4.10a).

4.11 The pension credit relating to shareable non-remediable service should be calculated separately, using the relevant guidance and factors in force at the **valuation day**. The resultant pension credits for different tranches added together will give the total pension credit.

If the pension credit member chooses to receive the RCredAdj pension credit in the reformed scheme (as per paragraph 4.10b) within the required timescale, Tranche 3 (if any) added to this RCredAdj pension credit will give the total pension credit in the reformed scheme, and any Tranche 1 pension credit and the PCEVL pension credit calculated in paragraph 4.9 added together will give the total pension credit in the legacy scheme.

If the pension credit member does not choose to receive the RCredAdj pension credit in the reformed scheme within the required timescale, any Tranche 3 pension credit will give the total pension credit in the reformed scheme. Any Tranche 1 pension credit and Tranche 2 pension credit (made up of both the PCEVL pension credit calculated in paragraph 4.9 and RCredAdj pension credit calculated in paragraph 4.10a) will make up the total pension credit in the legacy scheme.

4D. Ex-partner of an unprotected McCloud PDM whose PSO, with a transfer day before 1 October 2023, contains both a legacy scheme annex and a reformed scheme annex

4.12 This subsection applies for the ex-partner of an unprotected McCloud member who has received a legacy scheme annex and a reformed scheme annex, if the PSO **transfer day** is before 1 October 2023.

4.13 Step 1: Following Part B (reformed section) of the Scheme’s divorce guidance and using factors in force at the **valuation day** (using **transfer day** as the calculation date), the administrator should calculate the pension credit in respect of PCEVR by setting the ex-partner’s cash equivalent (defined there as ESCE) to be the PCEVR calculated in paragraph 3.17 or 3.29.

The resultant pension credit is a reformed scheme credit.

4.14 Step 2: If the RCredAdj calculated in Section 3 is higher than zero, the administrator should carry out two pension credit calculations in respect of the RCredAdj at the **valuation day**, using the **transfer day** as the calculation date. They are:

- a. A pension credit assuming the RCredAdj will be transferred into the ex-partner’s pension credit account in the legacy scheme, calculated using Part A (legacy section) of the Scheme’s divorce guidance and factors in force at the **valuation day** by setting the ex-partner’s cash equivalent (defined there as ESCE) to be the RCredAdj.
- b. A pension credit assuming the RCredAdj will be transferred into the ex-partner’s pension credit account in the reformed scheme, calculated using Part B (reformed section) of the Scheme’s divorce guidance and factors in force at the **valuation day** by setting the ex-partner’s cash equivalent (defined there as ESCE) to be the RCredAdj.

The pension credit member will be offered a choice of the two pension credits. Unless the pension credit member completes the request to receive the pension credit relating to RCredAdj in the reformed scheme (as per paragraph 4.14b) within the required timescale, the pension credit member will receive the pension credit relating to RCredAdj in the legacy scheme (as per paragraph 4.14a).

4.15 The pension credit relating to shareable non-remediable service should be calculated separately, using the relevant guidance and factors in force at the **valuation day**. The resultant pension credits for different tranches added together will give the total pension credit.

If the pension credit member chooses to receive the RCredAdj pension credit in the reformed scheme (as per paragraph 4.14b) within the required timescale, Tranche 3 (if any) added to Tranche 2 pension credit (made up of both the PCEVR pension credit calculated in paragraph 4.13 and RCredAdj pension credit calculated in paragraph 4.14b)

will give the total pension credit in the reformed scheme, and any Tranche 1 pension credit will give the total pension credit in the legacy scheme.

If the pension credit member does not choose to receive the RCredAdj pension credit in the reformed scheme within the required timescale, Tranche 3 (if any) added to the PCEVR pension credit calculated in paragraph 4.13 will give the total pension credit in the reformed scheme. Any Tranche 1 pension credit and RCredAdj pension credit calculated in paragraph 4.14a will make up the total pension credit in the legacy scheme.

5. Calculation of the remediable pension debit and other relevant debits

- 5.1 This section applies when the court issues a PSO with an annex which specifies remediable service should be shared.
- For a protected McCloud member, having a legacy scheme annex means remediable service is shareable.
 - For an unprotected McCloud member, having a reformed scheme annex means remediable service is shareable.
- 5.2 Subsection 5A to 5C focus on the calculation of pension debits for shareable remediable service. The pension debits relating to shareable non-remediable service should be calculated separately as at **transfer day**, using the relevant guidance and factors in force at the **valuation day**.
- 5.3 For divorces under Scottish law (following on from paragraph 3.21 or 3.33): For a protected McCloud member whose legacy scheme PSO covers Tranche 1 benefits (i.e. member has pre-1 April 2015 service), the administrator should follow Part A (legacy section) of the existing scheme divorce guidance to calculate the pension debit in respect of Tranche 1 **but** replacing “Appropriate percentage” with the implied percentage calculated in paragraph 3.16 or 3.28.
- For an unprotected McCloud member whose reformed scheme PSO covers Tranche 3 benefits (i.e. member has post-31 March 2022 service³⁵), the administrator should follow Part B (reformed section) of the existing scheme divorce guidance to calculate the pension debit in respect of Tranche 3 **but** replacing “Appropriate percentage” with the implied percentage calculated in paragraph 3.16 or 3.28.
- 5.4 The pension debits for shareable non-remediable service plus the remediable service pension debit give the total pension debits which will apply depending on the member’s McCloud election (or assigned default scheme). These pension debits may have different benefit features, for example retirement ages, depending on whether they relate to the legacy or reformed style of benefits, and so should be considered separately for the purpose of any calculations.
- 5.5 Following rollback, benefits in relation to the remediable service will be payable from the relevant legacy scheme regardless of the McCloud choice. Therefore, as shown in the table in paragraph 1.10, the pension debit in respect of remediable service should be applied in the relevant legacy scheme.

³⁵ For a member with a disqualifying break, pensionable service in relation to Tranche 3 may start before 1 April 2022.

5A. McCloud deferred choice members who have not yet received pension benefits for McCloud remediable service by the transfer day

This section applies to a deferred choice member who has not yet received pension benefits for McCloud remediable service by the **transfer day**³⁶

- 5.6 As the McCloud remedy offers affected members a choice of benefits for remediable service and in a case of divorce, the benefits should reflect pension debits, the administrators should carry out two pension debit calculations.
- 5.7 The two pension debit calculations for remediable service should be carried out at the PSO **valuation day**, using the **transfer day** as the calculation date. They are:
- a. A pension debit assuming all rights in respect of remediable service are based on benefits in the relevant legacy scheme^{37,38}, calculated using the relevant legacy scheme guidance and factors in force at the **valuation day**.
 - b. A pension debit assuming all rights in respect of remediable service are based on benefits in the reformed scheme³⁸, calculated using the reformed scheme guidance and factors in force at the **valuation day**.
- 5.8 In both cases, the percentage used to calculate the pension debit should be the relevant percentage specified within the table in paragraph 3.16.
- 5.9 Both sets of debit calculations should be recorded on the administration system and revaluation should apply as usual.
- 5.10 Until the McCloud member makes their final and irrevocable deferred remedy choice and pension benefits come into payment, the pension debit applicable is that calculated as though all remediable service were in the relevant legacy scheme as the member is in the legacy scheme in respect of remediable service post-rollback. However, at the point when pension comes into payment, if they have elected for reformed scheme benefits for the remediable service, then the pension debit will need to be revised to reflect the pension debit in accordance with paragraph 5.7b above.

AFPS15 Added pension compensation adjustment debit

- 5.11 If paragraph 3.9 applies, i.e. the member is an unprotected active or deferred member as at **transfer day**, where **transfer day** is before 1 October 2023, and if the member had any AFPS15 Added Pension in respect of remediable service as at **transfer day**, the relevant compensation would have been included in the RCEV. A debit in respect of this compensation would therefore be needed, regardless of the member's election. A compensation adjustment debit reduces the compensation due to the member by the

³⁶ Regardless of whether they have made a McCloud choice and are awaiting payment.

³⁷ As per paragraph 3.6, if members made voluntary contributions to secure Additional Reckonable Service in respect of remediable service (in AFPS75 or AFPS05) before **transfer day**, please include the legacy benefits provided by the contribution payments.

³⁸ As per paragraph 3.7, if members made voluntary contributions to secure Enhanced Pension in respect of remediable service (in AFPS75) before **transfer day**, please include the legacy benefits provided by the contribution payments.

relevant percentage specified within the table in paragraph 3.16. The compensation adjustment debit which applies to the member’s contribution adjustment at **settlement date** will be:

$$\text{Deb_CompAdj} = \text{CompAdj} \times \text{relevant percentage}$$

CompAdj Compensation in respect of AFPS15 Added Pension contributions during the shareable remedy period (Added Pension contributions, less tax relief, plus interest to **settlement date**)

- 5.12 Note the compensation adjustment above should be consistent with the compensation included in the calculation of the Remediable Cash Equivalent Value (RCEV) in accordance with paragraphs 3.12 and 3.13 but will have interest applied to the **settlement date** rather than the **transfer day**.

5B. McCloud pensioners with known final and irrevocable remedy choice by the transfer day

This section applies to a McCloud pensioner who has either made their irrevocable remedy choice or had a final default choice applied by the **transfer day**.

- 5.13 For a McCloud member who has already made their irrevocable remedy choice or for whom a default choice has been applied by the **transfer day**, the rights relating to remediable service should be treated as being secured in line with the known McCloud choice.
- 5.14 This means only one pension debit calculation for remediable service should be carried out at the PSO **valuation day**, using the **transfer day** as the **calculation date** to reflect the McCloud choice:
- Using the relevant legacy scheme guidance and factors in force at **valuation day** if the McCloud choice was for legacy scheme benefits^{39,40}
 - Using the reformed scheme guidance and factors in force at **valuation day** if the McCloud choice was for reformed scheme benefits⁴¹
- 5.15 The percentage used to calculate the pension debit should be the relevant percentage specified within the table in paragraph 3.28.
- 5.16 Revaluation applies as usual to this pension debit. The debit applies with effect from **transfer day**.
- 5.17 It is expected that any AFPS15 Added Pension compensation adjustment and any underpayment adjustments arising from the member making their irrevocable McCloud choice are settled by **transfer day**⁴¹. This means no allowances are needed for these adjustments.

³⁹ As per paragraph 3.6, if members made voluntary contributions to secure Additional Reckonable Service in respect of remediable service (in AFPS75 or AFPS05) before **transfer day**, please include the legacy benefits provided by the contribution payments.

⁴⁰ As per paragraph 3.7, if members made voluntary contributions to secure Enhanced Pension in respect of remediable service (in AFPS75) before **transfer day**, please include the legacy benefits provided by the contribution payments.

⁴¹ If any underpayment arising has not been settled, the scheme should resolve this as per scheme policy, outside of the debit calculations discussed here.

5C. McCloud immediate choice (protected or unprotected) pensioners or deferred choice pensioners for whom an irrevocable McCloud remedy choice has not been made by the transfer day

This section applies to an immediate choice (protected or unprotected) pensioner or deferred choice pensioner⁴² for whom an irrevocable McCloud choice has not been made (nor has a final default choice been applied) by the **transfer day**.

- 5.18 As the remedy choice is not known by **transfer day**, the administrator should implement a pension debit based on the member’s current benefits in payment. The percentage used to calculate the pension debit should be the relevant percentage specified within the table in paragraph 3.28. The debit is revalued as usual and applies with effect from **transfer day**.
- 5.19 If the member makes a McCloud election to receive their current benefits, the debit continues to be applied and no further action is needed.
- 5.20 If the member makes a McCloud election (or is defaulted) to receive the alternative scheme benefits, then the administrator should work out what the payment streams in the alternative scheme would have been from the member’s actual retirement age, allowing for the member’s actual choice of commutation. This would enable the administrator to calculate the ongoing pension that the member would be receiving instead at **transfer day** and apply the debit to this pension. The percentage used to calculate the pension debit should also be the relevant percentage specified within the table in paragraph 3.28.
- 5.21 If the Remediable Cash Equivalent Value (RCEV) included allowance for any deferred pension (e.g. for a pensioner with a deferred pension account), the debit for that deferred pension should be calculated in accordance with paragraphs 5.6 to 5.10.

Underpayment adjustment debit

- 5.22 To ensure the value of member’s debit reflects a share of all the benefits captured in the RCEV calculated in Section 3, an underpayment adjustment debit (Deb_AltUpayAdj) will apply if the member opts to receive alternative scheme benefits.
- 5.23 An underpayment adjustment debit reduces the amount of money owed, either from the scheme to the member or from the member to the scheme by the relevant percentage specified within the table in paragraph 3.28. If the member opts to receive alternative scheme benefits, the underpayment adjustment debit which applies to the member’s underpayment adjustment at **settlement date** will be:

$$\text{Deb_AltUpayAdj} = \text{UpayAdjAlt} \times \text{relevant percentage}$$

UpayAdjAlt = (ALTpayment – ACTpayment), based on payments up to **transfer day**, with interest applied to **settlement date** (a positive number if the scheme owes the member money; a negative number if the member owes the scheme money)

⁴² Generally, a deferred choice member will make their choice before retirement, but exceptionally they may retire and start receiving legacy scheme payments before making their DCU election. These members may have been protected or unprotected before rollback.

ALTpayment	Member benefits they would have received if they had been receiving alternative scheme benefits in respect of the remedy period, with the alternative scheme lump sum and ongoing pension reflecting the member’s actual commutation choice ⁴³
ACTpayment	Actual benefits received by the member in respect of the remedy period, excluding AFPS15 Added Pension if any ⁴⁴

5.24 Note the underpayment adjustment above is based on the member’s actual commutation choice, so may be different to the underpayment adjustment used in the calculation of the Remediable Cash Equivalent Value (RCEV) in accordance with paragraph 3.25 (which was based on an assumption that the member commuted the minimum permitted in the alternative scheme).

5.25 Please note that for the purposes of calculating the underpayment adjustment above, to which the relevant percentage should apply, the administrator should ignore payments on or after **transfer day**. The administrators should handle underpayments (or overpayments) between **transfer day** and **settlement date** separately, allowing for the pension debits which applied from **transfer day** plus McCloud interest (this is done outside of the divorce process which is the focus of this note).

AFPS15 Added pension compensation adjustment debit

5.26 If the member had any AFPS15 Added Pension in respect of remediable service as at **transfer day**, the relevant compensation would have been included in the RCEV as per paragraph 3.8. A debit in respect of this compensation would therefore be needed, regardless of the member’s election. A compensation adjustment debit reduces the compensation due to the member by the relevant percentage specified within the table in paragraph 3.28. The compensation adjustment debit which applies to the member’s contribution adjustment at **settlement date** will be:

$$\text{Deb_CompAdj} = \text{CompAdj} \times \text{relevant percentage}$$

CompAdj	Compensation in respect of AFPS15 Added Pension contributions during the remedy period (Added Pension contributions, less tax relief, minus any Added Pension received, plus interest to settlement date)
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5.27 Note the compensation adjustment above should be consistent with the compensation included in the calculation of the Remediable Cash Equivalent Value (RCEV) in accordance with paragraphs 3.23 and 3.24 but will have interest applied to the **settlement date** rather than the **transfer day**.

⁴³ Where the alternative scheme is the reformed scheme, benefits in relation to Additional Reckonable Service should be included, but not Enhanced Pension. Where the alternative scheme is the relevant legacy scheme and the member has purchased Additional Reckonable Service and/or Enhanced Pension before **transfer day**, benefits in relation to these should be included.

⁴⁴ Where the initial scheme is the reformed scheme, no benefits in relation to Additional Reckonable Service or Enhanced Pension should have been paid. If an unprotected member has been receiving AFPS15 Added Pension, the AFPS15 Added Pension should be excluded as per paragraph 3.8. However it is to be included in the calculation of compensation, which should be included in the RCEV (via Init_CEV and Alt_CEV). Where the initial scheme is the relevant legacy scheme, benefits in relation to Additional Reckonable Service and/or Enhanced Pension should be included.

- 5.28 If illustrative figures (including pension debits) are to be provided to the member in advance of them making their McCloud election, then the administrator may calculate illustrative figures using paragraphs 5.18 to 5.27 above. Such illustrations will require an assumption about the **settlement date** and the member’s commutation choice.

6. Appendix

Key definitions

Settlement date

After a member has made their final and irrevocable McCloud election regarding remediable service, or has been assigned the default scheme at the end of the election period, the **settlement date** is the day when all final payments are made between the member and the pension scheme. This date marks the resolution of any under/overpayments of benefits or contributions, thereby implementing the final scheme benefits.

Transfer day

Section 29(8) of the Welfare Reform and Pensions Act 1999 (1999 Act) defines the **transfer day** as the day on which the pension sharing order takes effect. (The **transfer day** is sometimes also referred to as the Effective date.)

If the calculation is being done after a pension sharing order has been made, the calculation date is the **transfer day**, as per our standard divorce guidance.

The calculation of the cash equivalent should include benefits or future benefits to which, immediately before the **transfer day**, the transferor (pension debit member) is entitled. Factors should be selected with reference to the member’s status and age at the **transfer day**.

Where pension credit benefits for an ex-partner are to be calculated, factors should be selected with reference to the ex-partner’s age at the **transfer day**, and the ex-partner’s deferred pension age.

Valuation day

Section 29(7) of the 1999 Act defines **valuation day** as a day within the Implementation Period for the transferee (pension credit member) to become entitled to the pension credit. The responsible authority may specify the **valuation day** by notice in writing to the transferor and transferee. Section 34(1) of the 1999 Act defines the implementation period as the four-month period that starts on the **transfer day**, or if later, on the date the pension scheme has the prescribed information needed to implement the pension sharing order. (The **valuation day** is sometimes referred to as the Implementation date.)

Factors for implementation of a PSO should be those in force as at the **valuation day**. Where the member or ex-partner has a different deferred pension age at the **valuation day** compared to the **transfer day**, the deferred pension age at the **valuation day** should be used.

Regulatory references for terms used in guidance note

	Stands for	Referred to in the Remediable Service Regulations as
PCEVL	Ex-partner Cash Equivalent Value Legacy	Legacy remediable appropriate amount
PCEVR	Ex-partner Cash Equivalent Value Reformed	Reformed remediable appropriate amount
RPCEV	Remediable Ex-partner Cash Equivalent Value	Remediable appropriate amount
RCredAdj	Remediable credit adjustment	Remediable credit adjustment