



Government  
Actuary's  
Department

# Armed Forces Pension Arrangements

Pension Sharing on Divorce for McCloud members:  
Valuation day before 1 October 2023 –  
“Retrospective full guidance L”

## Protected members

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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 Public Service Pensions and Judicial Offices Act 2022 (PSPJOA) and the following Regulations of SI 2023/998 (the Remediable Service Regulations):

Administrative procedure	Regulation(s)	Relevant section of this document
<b>Calculation of initial amount and alternative amount</b>	AFPS75: Schedule 1, regulation 18, 20 AFPS05: Schedule 2, regulation 21, 23 RFPS05: Schedule 4, regulation 18, 20 FTRS97: Schedule 5, regulation 19, 21 NRPS11: Schedule 6, regulation 19, 21	2
<b>Calculation of remediable credit adjustment</b>	AFPS75: Schedule 1, regulation 20 AFPS05: Schedule 2, regulation 23 RFPS05: Schedule 4, regulation 20 FTRS97: Schedule 5, regulation 21 NRPS11: Schedule 6, regulation 21	2
<b>Applying a remediable credit adjustment</b>	AFPS75: Schedule 1, regulation 23 AFPS05: Schedule 2, regulation 26 RFPS05: Schedule 4, regulation 23 FTRS97: Schedule 5, regulation 24 NRPS11: Schedule 6, regulation 24	3
<b>Re-calculation of member’s pension debit</b>	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	4

1.3 This guidance **must** be read in conjunction with the “Retrospective full guidance – Introductory note” dated 24 July 2025. This linked guidance sets out full details of:

- Exclusions
- Implementation
- Treatment of member voluntary contributions
- Compliance and limitations

1.4 This guidance applies to pension debit members (PDMs) who:

- are eligible for the McCloud remedy (McCloud members), **and**
- were **fully protected** as part of the transitional protection arrangements (protected members)<sup>1</sup>, **and**
- have an in-scope PSO on divorce

This guidance is also relevant to the corresponding pension credit members (PCMs) for whom the same in-scope PSO applies.

1.5 By an in-scope PSO, this guidance means the following:

- The PSO **valuation day** is before 1 October 2023<sup>2</sup>, **and**
- The PSO covers remediable service (which always falls into the remedy period 1 April 2015 to 31 March 2022)

1.6 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

1.7 This guidance applies to the following McCloud PDMs, i.e. PDMs with shareable remediable service, and their corresponding PCMs.

		PSO annex received		Comments
In which scheme was shared remediable service accrued?	PDM’s protection status	Legacy	Reformed	
Legacy scheme only	Protected	✓	x	

<sup>1</sup> See the Retrospective full guidance – Introductory note for more information on which retrospective full guidance note should be used.

<sup>2</sup> A PSO with a **valuation day** before 1 October 2023 means it was implemented before the Remediable Service Regulations came into effect.

		✓	✓	PSO% could be the same or different for each scheme
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- ✓ means the PSO applies to that scheme
- × means the PSO does not apply to that scheme

1.8 This guidance distinguishes between two groups of McCloud members as calculation steps vary for them:

- 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**.

### Members who made voluntary pension contributions during the period of shared remediable service

#### Additional Reckonable Service

- 1.9 Where a protected member has made voluntary contributions to secure Additional Reckonable Service in respect of remediable service in AFPS75 or AFPS05, then in applying this guidance, both the Init\_CEV and Alt\_CEV should include the CEV of legacy benefits provided by the member remediable service voluntary contributions payments.
- 1.10 Regardless of the member’s McCloud choice, the additional reckonable service benefits are payable from the legacy scheme and a debit should apply to this benefit in line with the the legacy PSO%.

#### Enhanced Pension

- 1.11 Where a protected member has made voluntary contributions to secure Enhanced Pension in respect of remediable service in AFPS75, then in applying this guidance, the Init\_CEV (not Alt\_CEV) should include the CEV of legacy benefits provided by the member remediable service voluntary contributions payments.
- 1.12 The enhanced pension benefits are payable from the legacy scheme if the member elects for the legacy scheme as their final and irrevocable McCloud choice. Therefore a debit should apply to this benefits in line with the legacy PSO% if member elects (or is defaulted to) legacy scheme benefits for remediable service.
- 1.13 If a pensioner (already receiving enhanced pension benefits) chooses to receive reformed scheme benefits, the ACTpayment in the calculation of Underpayment Adjustment Debit (see paragraph 4.20) should take into account of enhanced pension benefits, in relation to shareable remediable service, received between retirement and **transfer day**.

## 2. Calculation of initial amount, alternative amount and remediable credit adjustment

- 2.1 For each in-scope PSO this section sets out how the following items should be calculated for the two groups of members described in paragraph 1.8. Note that **Alt\_UpayAdj** is only relevant for Group 2 members (i.e. in-scope PDMs (per paragraph 1.4) who were pensioners at the **transfer day**).

For shareable remediable service		
	Stands for	Relates to
<b>Init_CEV</b>	Initial Cash Equivalent Value	PDM
<b>Init_PCEV</b>	Initial Ex-Partner Cash Equivalent Value	PCM
<b>Alt_CEV</b>	Alternative Cash Equivalent Value	PDM
<b>Alt_UpayAdj</b>	Alternative Underpayment Adjustment	PDM (Group 2 only)
<b>Alt_PCEV</b>	Alternative Ex-Partner Cash Equivalent Value	PCM
<b>RPCEV</b>	Remediable Ex-Partner Cash Equivalent Value	PCM
<b>RCredAdj</b>	Remediable Credit Adjustment	PCM

## 2A. 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.

### 2.2 Init\_CEV – stands for Initial Cash Equivalent Value

This is the part of the legacy scheme CEV used to implement the PSO originally which relates to shareable remediable service<sup>3,4</sup>.

Including only the shareable remediable service benefits, the administrator should use the relevant legacy scheme guidance and factors extant at the original **valuation day** for this calculation. As per the full CEV calculation (on the **valuation day** which was used for implementation), this calculation of Init\_CEV should refer to the member's status (including whether an active or deferred member) and age last birthday at the **transfer day**. Essentially, the administrator is repeating the calculation of the CEV used for implementation as if it were being done on the original **valuation day** but only taking into account shareable remediable service benefits.

### 2.3 Init\_PCEV – stands for Initial Ex-Partner Cash Equivalent Value.

This is the value of shareable rights credited to the ex-partner (pension credit member) which relates to the shareable remediable service.

$$\text{Init\_PCEV} = \text{Init\_CEV} \times \text{legacy scheme PSO\%}$$

For divorces under English law:

Legacy scheme PSO% is the percentage to be shared from the legacy scheme as specified by the legacy scheme PSO.

For divorces under Scottish law:

Legacy scheme PSO% is the implied percentage to be shared from the legacy scheme as calculated based on the monetary amount specified by the legacy scheme PSO. Where relevant, this implied percentage was already calculated when the PSO was implemented.

### 2.4 Alt\_CEV – stands for Alternative Cash Equivalent Value

This is the shareable remediable service CEV assuming all rights for shareable remediable service are based on benefits in the reformed scheme<sup>3</sup>.

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<sup>3</sup> As per paragraph 1.9, if members made voluntary contributions to secure Additional Reckonable Service in respect of remediable service (in AFPS75 or AFPS05), please include the CEV of the legacy benefits provided by the contribution payments.

<sup>4</sup> As per paragraph 1.11, if members made voluntary contributions to secure Enhanced Pension in respect of remediable service (in AFPS75), please include the CEV of the legacy benefits provided by the contribution payments.

To calculate **Alt\_CEV**, the administrator should first calculate the member’s shareable remediable benefits on the day before the **transfer day** as though shareable remediable service were in the reformed scheme. The value of such benefits should then be calculated using the relevant reformed scheme guidance and factors extant at the original **valuation day**. This calculation should refer to the member’s status (including whether an active or deferred member) and age last birthday at the **transfer day**.

## 2.5 **Alt\_PCEV – stands for Alternative Ex-Partner Cash Equivalent Value**

This is the value of shareable rights, relating to shareable remediable service, that would have been credited to the PCM had the shareable rights been associated with the reformed scheme.

$$\text{Alt\_PCEV} = \text{Alt\_CEV} \times \text{legacy scheme PSO\%}$$

The legacy scheme PSO% is the same as that identified in paragraph 2.3.

## 2.6 **RPCEV – stands for Remediable Ex-Partner Cash Equivalent Value**

This is the value of shareable rights, relating to shareable remediable service, specified by the McCloud remedy for divorce to be used to implement the PSO retrospectively. It should be used to calculate the pension credits as if the calculation had taken place on the original **valuation day**.

$$\text{RPCEV} = \text{Max} (\text{Init\_PCEV}, \text{Alt\_PCEV})$$

## 2.7 **RCredAdj – stands for Remediable Credit Adjustment**

This is the value of the retrospective adjustment to be made to the value of shareable rights as a result of the McCloud remedy for divorce.

$$\text{RCredAdj} = \text{RPCEV} - \text{Init\_PCEV}$$

RCredAdj can be positive or nil. If the RCredAdj is nil, the PCM should be presented with the necessary information, but there will be no further calculations or adjustment necessary. Section 3 will set out further calculations in the cases where the RCredAdj is positive.



## 2B. 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**. They would have been an immediate choice pensioner.

### 2.8 Init\_CEV – stands for Initial Cash Equivalent Value

To calculate Init\_CEV, the administrator should follow paragraph 2.2 but referring to the member’s pensioner status and age last birthday at the **transfer day**.

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 values of benefits in payment and any other rights in respect of shareable remediable service which are not yet in payment. For such members, the benefits in payment at **transfer day** should be valued in accordance with this section, and the other rights in respect of shareable remediable service which are not yet in payment at **transfer day** should be valued in accordance with section 2A (Group 1 – In-scope PDMs who were active or deferred members at the **transfer day**) above.

### 2.9 Init\_PCEV – stands for Initial Ex-Partner Cash Equivalent Value.

To calculate Init\_PCEV, the administrator should follow paragraph 2.3.

### 2.10 Alt\_CEV – stands for Alternative Cash Equivalent Value

To calculate Alt\_CEV, the administrator should follow paragraph 2.4 but referring to the member’s pensioner status and age last birthday at the **transfer day** and the following assumptions about reformed scheme benefits:

If the member took normal health retirement before **transfer day** and, if they were to make a reformed scheme election, would be entitled to elect for immediate retirement benefits from the reformed 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 reformed scheme applied,
- and the member commuted the minimum that would be permitted if the member’s McCloud election was the reformed scheme.

If the member took normal health retirement before **transfer day** and would not be entitled to elect for immediate retirement benefits from the reformed scheme if they made a reformed scheme election, the administrator should assume the reformed benefits (for all shareable remediable service) 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 reformed scheme.

If the member took ill-health retirement before **transfer day** in respect of remediable service from the legacy scheme, the administrator should consider the member’s eligibility for ill-health retirement from the reformed 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 reformed scheme at their actual retirement age.

## 2.11 **Alt\_UpayAdj – stands for Alternative Underpayment Adjustment**

As the member was a pensioner on the **transfer day**, the divorce calculations associated with the member receiving only reformed scheme benefits for shareable remediable service should include adjustments for any under/overpayments of benefits related to the McCloud remedy between retirement and **transfer day**.

To calculate Alt\_UpayAdj, the administrator should calculate the reformed benefits the member would have received between retirement and **transfer day** in respect of the shareable remediable service, had they been accruing reformed benefits, using the same assumptions about reformed benefits adopted in calculating Alt\_CEV in paragraph 2.102.10. We will refer to this as “Rpayment” (Reformed payments).

<b>Alt_UpayAdj</b>	<b>= (Rpayment – ACTpayment) based on payments up to transfer day, with interest applied to transfer day</b>
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Rpayment	Reformed benefit payments the member would have received between retirement and <b>transfer day</b> , in relation to shareable remediable service, had they been accruing reformed benefits <sup>5</sup> .
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ACTpayment	Actual benefits payments received between retirement and <b>transfer day</b> , in relation to shareable remediable service <sup>6</sup> .
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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, up to **transfer day**, received less benefits than they would have in the scenario where all rights for remediable service are based on benefits in the reformed scheme. This means if they choose to take reformed 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, up to **transfer day**, received more benefits than they would have in the scenario where all rights for remediable service are based on benefits in the reformed scheme. This means if they choose to take reformed 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.

<sup>5</sup> Benefits in relation to Additional Reckonable Service would still be payable from the legacy scheme so should be included (paragraph 1.9 and 1.10), but not Enhanced Pension (paragraph 1.11 and 1.12).

<sup>6</sup> Actual benefits received in relation to shareable remediable Additional Reckonable Service and/or Enhanced Pension should be included.

- This section only applies to McCloud remedy under/overpayments up to **transfer day** i.e. those resulting from a potential McCloud choice. The administrator should address under/overpayments relating to non-McCloud scenarios as per usual procedures; these non-McCloud under/overpayments are not covered by this note.

#### 2.12 **Alt\_PCEV – stands for Alternative Ex-Partner Cash Equivalent Value**

This is the value of shareable rights, relating to shareable remediable service, that would have been credited to the PCM had the shareable rights been associated with the reformed scheme.

$$\text{Alt\_PCEV} = (\text{Alt\_CEV} + \text{Alt\_UpayAdj}) \times \text{legacy scheme PSO\%}$$

The legacy scheme PSO% is the same as that identified in paragraph 2.3.

#### 2.13 **RPCEV – stands for Remediable Ex-Partner Cash Equivalent Value**

To calculate RPCEV, the administrator should follow paragraph 2.6.

#### 2.14 **RCredAdj – stands for Remediable Credit Adjustment**

To calculate RCredAdj, the administrator should follow paragraph 2.7.

### 3. Calculation of pension credit adjustments

- 3.1 A positive RCredAdj calculated in paragraph 2.7 or 2.142.14 will need to be converted into an extra pension credit for the PCM.
- 3.2 Any pension credit adjustment will be added to the PCM's pension account as if it was applied at the original **valuation day** with effect from **transfer day**. This means revaluation and pension increases apply from **transfer day**. If the PCM's pension credit in relation to Init\_PCEV has already come into payment then any underpayments relating to RCredAdj would need to be addressed by the administrator as appropriate.

#### PSO with legacy scheme annex only

- 3.3 For such members, the calculation of the pension credit adjustment based on the RCredAdj should be undertaken using the relevant legacy scheme guidance and factors extant at the original **valuation day**, selected based on the pension credit member's status and age last birthday at the **transfer day**. The extra pension credit should be applied to the PCM's legacy scheme pension account.

#### PDM was a protected member whose PSO contains both a legacy scheme annex and a reformed scheme annex

- 3.4 For such members, the PCM should receive a choice, in accordance with the regulations, whether the extra pension credit is applied to their legacy or reformed scheme account. This means the administrator should calculate two pension credit adjustments based on the RCredAdj:
- a. A pension credit adjustment calculated using the relevant legacy scheme guidance and factors extant at the original **valuation day**, selected based on the pension credit member's status and age last birthday at the **transfer day**. This assumes the RCredAdj will be transferred into the ex-partner's pension credit account in the legacy scheme.
  - b. A pension credit adjustment calculated using the reformed scheme guidance and factors extant at the original **valuation day**, selected based on the pension credit member's status and age last birthday at the **transfer day**. This assumes the RCredAdj will be transferred into the ex-partner's pension credit account in the reformed scheme.
- 3.5 The pension credit member will be offered a choice of the two pension credit adjustments. If the pension credit member does not complete the request to receive the pension credit in the reformed scheme (as per paragraph 3.4b) within the required timescale, the pension credit member will receive the pension credit in the legacy scheme (as per paragraph 3.4a).

## 4. Calculation of member’s alternative pension debit and other relevant debits

- 4.1 The remediable benefits for each PDM described in paragraph 1.4 have already been reduced by an initial pension debit in relation to legacy scheme benefits (which includes shareable remediable benefits). As the McCloud remedy offers affected members a choice of benefits for remediable service, the offer of the alternative (reformed) benefits should reflect the corresponding pension debit. Therefore, the administrator should calculate the alternative pension debit relating to shareable remediable service, based on reformed scheme benefits, as at the PSO **valuation day**.
- 4.2 The reformed scheme debit calculation should use the **transfer day** as the calculation date, assuming all rights in respect of shareable remediable service are based on benefits in the reformed scheme, and calculated using the reformed scheme guidance extant at the original **valuation day**. The percentage used to calculate the pension debit should be the percentage used in the calculation of Alt\_PCEV in paragraph 2.5 or 2.122.12.
- 4.3 Both sets of debit calculations relate to shareable remediable service only. They should be recorded on the administration system and revaluation should apply as usual.
- 4.4 The pension debits relating to non-remediable service will remain unchanged<sup>7</sup>. The pension debits for 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.
- 4.5 Following rollback, benefits in relation to the remediable service will be payable from the relevant legacy scheme regardless of the McCloud choice. Therefore, the pension debit in respect of remediable service should be applied in the relevant legacy scheme.
- 4.6 If illustrative figures are to be provided to the member in advance of them making their McCloud election, then the administrator may calculate illustrative figures, associated with electing the reformed scheme, using paragraph 4.2 above (and if applicable paragraph 4.20 below). Such illustrations will require an assumption about the **settlement date** and the member’s commutation choice.

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<sup>7</sup> For a PDM with non-remediable service in the legacy scheme (which will include all service prior to 1 April 2015), the initial legacy scheme debit calculated at the original **valuation day** covered both non-remediable and remediable service. The administrator should isolate the legacy scheme pension debit relating to the non-remediable service.

#### 4A. 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**. After **transfer day**, the member can either:

- make a deferred choice election before retirement
- retire before making a McCloud election, including both immediate choice pensioners (who retired after **transfer day**, but before 1 October 2023) and deferred choice pensioners (who were active or deferred at 1 October 2023 but have since retired without making their McCloud election<sup>8</sup>)

##### Members who make a deferred choice election before retirement

- 4.7 For deferred choice members who are yet to retire, until they make 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, because of rollback. For each PDM described in paragraph 1.4, this is the same as the initial pension debit calculated originally at implementation, in relation to legacy scheme benefits (which includes shareable remediable benefits).
- 4.8 If a Group 1 member does not elect to receive reformed scheme benefits, the initial pension debit (revalued from **transfer day** to retirement) applies when the pension comes into payment.
- 4.9 At the point when pension comes into payment, if they have elected for reformed scheme benefits for remediable service, then the shareable remediable service pension debit will need to be revised to reflect the reformed scheme remediable service pension debit, calculated as per paragraph 4.2 and revalued as per paragraph 4.3 above.
- 4.10 Where the pension debit needs to be revised, this should be done as if it was implemented on the original **valuation day** with a calculation date of the **transfer day**.

##### Members who retire before making a McCloud election

- 4.11 The pension debit at retirement (based on either legacy scheme benefits or reformed scheme benefits for remediable service) should be calculated in accordance with paragraphs 4.1 to 4.3 above.
- 4.12 If, following the member’s McCloud election, benefits chosen for the remediable service (after the relevant debit has been applied) are different from the benefits paid up until that point, then the administrator should work out what the remediable service benefits payment streams would have been from the member’s actual retirement age, allowing for the member’s McCloud choice and actual choice of commutation. This would enable the administrator to calculate the revised lump sum (if any) and ongoing pension that the member would be receiving instead at retirement and apply the appropriate debit, calculated as per paragraph 4.11 above.

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<sup>8</sup> 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.

- 4.13 Where the pension debit needs to be revised, this should be done as if it was implemented on the original **valuation day** with a calculation date of the **transfer day**. Any change in value of pension in payment will be retrospective to the **transfer day**. The administrator should address any under/ overpayments between the date of retirement and **settlement date** as appropriate, allowing for the pension debits which applied from retirement, plus McCloud interest where appropriate (this is done outside of the divorce process which is the focus of this note).



## 4B. 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**. They would have been an immediate choice pensioner.

- 4.14 As a pensioner on **transfer day**, an initial pension debit in relation to legacy scheme benefits (which includes shareable remediable benefits) has already been implemented.
- 4.15 If a Group 2 member does not elect for reformed scheme benefits for remediable service, the implemented initial pension debit remains correct and should continue to apply.
- 4.16 If the member elects for reformed scheme benefits for the remediable service, then the administrator should work out what the reformed scheme payment streams 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 revised ongoing pension that the member would be receiving instead at **transfer day** and apply the revised debit, calculated as per paragraph 4.2 and 4.3 above.
- 4.17 Where the pension debit needs to be revised, this should be done as if it was implemented on the original **valuation day** with a calculation date of the **transfer day**. Any change in value of pension in payment will be retrospective to the **transfer day**. The administrator should address any under/ overpayments between **transfer day** and **settlement date** as appropriate, allowing for the pension debits which applied from **transfer day** plus McCloud interest where appropriate (this is done outside of the divorce process which is the focus of this note).
- 4.18 In some cases, the Initial Cash Equivalent Value (Init\_CEV) and/or the Alternative Cash Equivalent Value (Alt\_CEV) may include allowance for rights in respect of shareable remediable service which are not yet in payment at **transfer day** (see paragraph 2.82.8 and 2.102.10). The debit in respect of these rights should be calculated in accordance with section 4A (Group 1 – In-scope PDMs who were active or deferred members at the **transfer day**) above.

### Underpayment adjustment debit

- 4.19 In all McCloud pensioner cases (including non-divorce), when the member chooses to receive reformed scheme benefits, the administrator would calculate McCloud remedy under/overpayments between date pension commenced and **settlement date**. The resulting under/overpayments would be settled with the appropriate interest.

### 4.20 **Deb\_AltUpayAdj – stands for Underpayment Adjustment Debit**

In the case of a divorce where the member was already a pensioner on **transfer day**, the under/overpayments pre-**transfer day** need to be shared with the ex-spouse in line with the PSO. This means an underpayment adjustment debit (Deb\_AltUpayAdj) should apply to reduce the amount of pre-**transfer day** money owed, either from the scheme to the member or from the member to the scheme, by the legacy PSO%.

<b>Deb_AltUpayAdj</b>	<b>= (Rpayment – ACTpayment), with interest applied to settlement date x legacy scheme PSO percentage</b>
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Rpayment	Reformed benefits the member would have received between retirement and <b>transfer day</b> , in relation to shareable remediable service, had they been accruing reformed benefits <sup>9</sup> . These should reflect the reformed scheme lump sum (if any) and ongoing pension reflecting the member’s actual commutation choice.
ACTpayment	Actual benefits payments received between retirement and <b>transfer day</b> , in relation to shareable remediable service <sup>10</sup> .

- 4.21 The notes in paragraph 2.11 apply but because the underpayment adjustment in paragraph 4.20 is based on the member’s actual commutation choice, it may be different to the underpayment adjustment in paragraph 2.11 (which assumed that the member commuted the minimum permitted in the alternative scheme).
- 4.22 Please note that for the purposes of calculating the underpayment adjustment above, to which the legacy PSO percentage should apply, the administrator should ignore payments on or after **transfer day**. The administrator should handle under/overpayments between **transfer day** and **settlement date** separately as mentioned in paragraph 4.17.

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<sup>9</sup> Benefits in relation to Additional Reckonable Service would still be payable from the legacy scheme so should be included (paragraph 1.9 and 1.10), but not Enhanced Pension (paragraph 1.11 and 1.12).

<sup>10</sup> Actual benefits received in relation to shareable remediable Additional Reckonable Service and/or Enhanced Pension should be included.

## 5. 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**

	<b>Stands for</b>	<b>Referred to in the Remediable Service Regulations as</b>
<b>Init_PCEV</b>	Initial Ex-Partner Cash Equivalent Value	Initial appropriate amount
<b>Alt_PCEV</b>	Alternative Ex-Partner Cash Equivalent Value	Reformed remediable appropriate amount
<b>RPCEV</b>	Remediable Ex-Partner Cash Equivalent Value	Remediable appropriate amount
<b>RCredAdj</b>	Remediable Credit Adjustment	Remediable credit adjustment