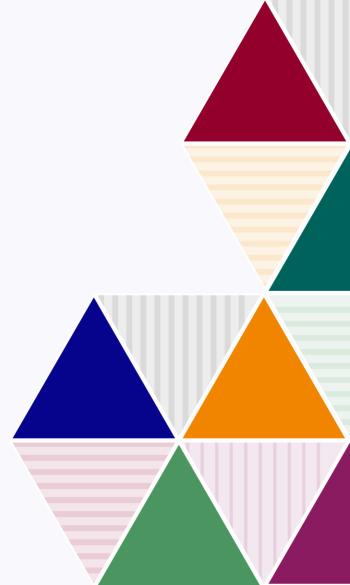# Armed Forces Pension Arrangements

Pension Sharing on Divorce for McCloud members: Valuation day before 1 October 2023 – "Retrospective full guidance R"

Unprotected members

Michael Scanlon FIA C.Act
Joanne Rigby FIA C.Act

24 July 2025
Government Actuary's Department

Contents

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
Calculation of initial amount and alternative amount	AFPS75: Schedule 1, regulation 18, 21 AFPS05: Schedule 2, regulation 21, 24 RFPS05: Schedule 4, regulation 18, 21 FTRS97: Schedule 5, regulation 19, 22 NRPS11: Schedule 6, regulation 19, 22 AFPS15: Schedule 7, regulation 8, 10	2
Calculation of remediable credit adjustment	AFPS75: Schedule 1, regulation 21 AFPS05: Schedule 2, regulation 24 RFPS05: Schedule 4, regulation 21 FTRS97: Schedule 5, regulation 22 NRPS11: Schedule 6, regulation 22 AFPS15: Schedule 7, regulation 10	2
Applying a remediable credit adjustment	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 AFPS15: Schedule 7, regulation 9, 10, 12	3
Re-calculation of member's pension debit	AFPS75: Schedule 1, regulation 24 to 27 AFPS05: Schedule 2, regulation 27 to 30	4

RFPS05: Schedule 4, regulation 24 to 27

FTRS97: Schedule 5, regulation 25 to 28

NRPS11: Schedule 6, regulation 25 to 28

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 **unprotected** as part of the transitional protection arrangements (unprotected members)[1], **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[2], **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.

---

[1] See the Retrospective full guidance – Introductory note for more information on which retrospective full guidance note should be used.

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

In which scheme was shared remediable service accrued?	PDM's protection status	PSO annex received		Comments
		Legacy	Reformed	
Reformed scheme only	Unprotected	✗	✓	
		✓ (i.e. Pre 1 April 2015 service)	✓	PSO% could be the same or different for each scheme

- ✓ 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 remediable service

AFPS15 Added Pension

1.9   Where an unprotected member has made voluntary contributions to purchase AFPS15 Added Pension in respect of remediable service, the CEV originally calculated on t**ransfer day** (before roll back) will have included allowance for the Added Pension benefits associated with these payments..

1.10   As the effect of rollback means members will not have been a member of AFPS15 during the remedy period and therefore would not have been eligible to purchase AFPS15 Added Pension, an unprotected member will have their AFPS15 Added Pension purchased in the remedy period extinguished and receive compensation for all their Added Pension contributions, less tax relief, plus interest and minus any Added Pension received, regardless of the McCloud choice. As this compensation is payable regardless of the member's McCloud choice, compensation in relation to the shareable remediable service is included in both Init_CEV and Alt_CEV (see paragraph 1.11), and no allowance is made for (extinguished) AFPS15 Added Pension benefits.

1.11   For unprotected active or deferred members as at **transfer day** (in Group 1), AFPS15 Added Pension compensation would have been due as at 1 October 2023 so will not have been paid as at **transfer day**. For unprotected pensioners as at **transfer day** (in Group 2), AFPS15 Added Pension already in payment will remain in payment until the member makes their immediate choice on or after 1 October 2023 so will not have been paid as at **transfer day**. Therefore, when calculating both Init_CEV in paragraph 2.2 or 2.8, and Alt_CEV in paragraph 2.4 or 2.10, the CEV should take into account of such

compensation payment in relation to the shareable remediable service, with interest applied up to **transfer day**.

1.12   In applying this guidance to calculation of Alt_UpayAdj in paragraph 2.11, AFPS15 Added Pension received in relation to shareable remediable service should not be included in ACTpayment. However AFPS15 Added Pension received is allowed for in the AFPS15 compensation as described in paragraph 1.10, which is included in the Init_CEV and Alt_CEV (as per paragraph 1.11).

1.13   Since AFPS15 Added Pension purchased during the remedy period is (or will be) extinguished (see paragraph 1.10), the initial pension debit, which was originally applied on the **valuation day** using the calculation date of the **transfer day**, is no longer applicable for members with AFPS15 Added Pension. This holds even if the member elects reformed scheme benefits for remediable service, as the original debit would have included AFPS15 Added Pension benefits. The administrator should recalculate the reformed scheme debit to exclude AFPS15 Added Pension benefits. This recalculation should still use the **transfer day** as the calculation date, assume that all rights in respect of shareable remediable service are based solely on benefits in the reformed scheme (i.e., excluding any AFPS15 Added Pension), and should apply the relevant reformed scheme guidance that was extant at the original **valuation day**. The percentage used for the pension debit calculation should be the reformed scheme PSO%, which is the same as that used for Init_PCEV in paragraph 2.3 or 2.9.

1.14   Please note the AFPS15 Added Pension compensation in relation to shareable remediable service (see paragraph 1.10) is also subject to debits by the pension sharing order.

1.15   As part of the McCloud remedy, an unprotected member who made voluntary contributions to purchase AFPS15 Added Pension in respect of remediable service has several mitigating options to increase their benefits. For the avoidance of doubt, (the take up of) these options do not need to be considered in this guidance as the decision is made after **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
Init_CEV	Initial Cash Equivalent Value	PDM
Init_PCEV	Initial Ex-Partner Cash Equivalent Value	PCM
Alt_CEV	Alternative Cash Equivalent Value	PDM
Alt_UpayAdj	Alternative Underpayment Adjustment	PDM (Group 2 only)
Alt_PCEV	Alternative Ex-Partner Cash Equivalent Value	PCM
RPCEV	Remediable Ex-Partner Cash Equivalent Value	PCM
RCredAdj	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 reformed scheme CEV used to implement the PSO originally which relates to shareable remediable service[3].

Including only the shareable remediable service benefits, the administrator should use the reformed 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 (with the exception of AFPS15 Added Pension[3]) 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.

Init_PCEV = Init_CEV x reformed scheme PSO%

For divorces under English law:

Reformed scheme PSO% is the percentage to be shared from the reformed scheme as specified by the reformed scheme PSO.

For divorces under Scottish law:

Reformed scheme PSO% is the implied percentage to be shared from the reformed scheme as calculated based on the monetary amount specified by the reformed 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 legacy scheme[3].

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 legacy scheme. The value of such benefits should then be calculated

---

[3] As per paragraphs 1.10 and 1.11, if members made voluntary contributions to secure AFPS15 Added Pension in respect of remediable service, please exclude AFPS15 Added Pension from the CEV and include an allowance for compensation.

using the relevant legacy 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 relevant legacy scheme.

> **Alt_PCEV = Alt_CEV x reformed scheme PSO%**

The reformed 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**.

> **RPCEV = Max (Init_PCEV, 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.

> **RCredAdj = RPCEV – 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 the relevant legacy scheme benefits:

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

If the member took normal health retirement before **transfer day** and would not be entitled to elect for immediate retirement benefits from the relevant legacy scheme if they made a legacy scheme election, the administrator should assume the legacy 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 legacy scheme.

If the member took ill-health retirement before **transfer day** in respect of remediable service from the reformed scheme, the administrator should consider the member's eligibility for ill-health retirement from the relevant legacy 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 legacy 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 the relevant legacy 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 legacy benefits the member would have received between retirement and **transfer day** in respect of the shareable remediable service, had they been accruing the relevant legacy benefits, using the same assumptions about legacy benefits adopted in calculating Alt_CEV in paragraph 2.10. We will refer to this as "Lpayment" (Legacy payments).

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

Lpayment	Legacy benefit payments the member would have received between retirement and **transfer day**, in relation to shareable remediable service, had they been accruing legacy benefits.
ACTpayment	Actual benefits payments received between retirement and **transfer day**, in relation to shareable remediable service, excluding AFPS15 Added Pension if any[4].

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 relevant legacy scheme. This means if they choose to take legacy 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 relevant legacy scheme. This means if they choose to take legacy 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.

---

[4] If a member has been receiving AFPS15 Added Pension, the AFPS15 Added Pension should be excluded as per paragraph 1.12. However it is to be included in the calculation of compensation, which is included in Init_CEV and Alt_CEV as per paragraph 1.11.

- 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 legacy scheme.

Alt_PCEV = (Alt_CEV + Alt_UpayAdj) x reformed scheme PSO%

The reformed 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 2.14 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 reformed scheme annex only

3.3   For such members, the calculation of the pension credit adjustment based on the RCredAdj should be undertaken 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**. The extra pension credit should be applied to the PCM's reformed scheme pension account.

PDM is an unprotected 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 reformed scheme benefits (which includes shareable remediable benefits)[5]. As the McCloud remedy offers affected members a choice of benefits for remediable service, the offer of the alternative (legacy) benefits should reflect the corresponding pension debit. Therefore, the administrator should calculate the alternative pension debit relating to shareable remediable service, based on legacy scheme benefits, as at the PSO **valuation day**.

4.2   The legacy 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 legacy scheme, and calculated using the relevant legacy 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 2.12.

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[6]. 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 relevant legacy scheme, using paragraph 4.2 above (and if applicable paragraph 4.22 below)[7]. Such illustrations will require an assumption about the **settlement date** and the member's commutation choice.

---

[5] For a member who has made voluntary contributions to secure AFPS15 Added Pension in respect of remediable service, please refer to paragraph 1.13.

[6] For a PDM with non-remediable service in the reformed scheme (which will include all service after 31 March 2022), the initial reformed scheme debit calculated at the original **valuation day** covered both remediable and non-remediable service. The administrator should isolate the reformed 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[7])

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 legacy scheme pension debit calculated as per paragraph 4.2 and revalued as per paragraph 4.3 above.

4.8   If a Group 1 member does not elect to receive reformed scheme benefits, the legacy 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 (i.e. reinstating the initial reformed scheme pension debit that was discussed in paragraph 4.1 unless the member has made voluntary contributions to secure AFPS15 Added Pension in respect of remediable service. In this case, please refer to paragraph 1.13).

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[8], 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

---

[7] 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.

[8] Ignoring any AFPS15 Added Pension received. This is handled as part of the AFPS15 Added Pension compensation.

member would be receiving instead at retirement and apply the appropriate debit, calculated as per paragraph 4.11 above.

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).

AFPS15 Added pension compensation adjustment debit

4.14   If paragraph 1.11 applies, i.e. the member is an unprotected active or deferred member as at **transfer day** 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 RPCEV[9]. A debit in respect of this compensation would therefore be needed, <u>regardless of the member's election</u>. A compensation adjustment debit reduces the compensation due to the member by the reformed scheme PSO%. The compensation adjustment debit which applies to the member's contribution adjustment at **settlement date** will be:

Deb_CompAdj	**= CompAdj x reformed scheme PSO%**

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**)

4.15   Note the compensation adjustment above should be consistent with the compensation included in the calculation of Init_CEV in paragraph 2.2 and Alt_CEV in paragraph 2.4 but will have interest applied to the **settlement date** rather than the **transfer day**.

---

[9] Either as compensation in Init_CEV or as compensation in Alt_CEV.

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.

4.16   As a pensioner on **transfer day**, an initial pension debit in relation to reformed scheme benefits (which includes shareable remediable benefits) has already been implemented. From 1 October 2023, benefits in respect of remediable service (and the debit in respect of shareable remediable service) are treated as being payable from the relevant legacy scheme (see PSPJOA section 2(3)(a)), but the amount of pension payable is not changed unless and until the member elects (or is defaulted to) legacy scheme benefits for remediable service (see PSPJOA section 6(4)). The benefits in respect of remediable service (and the debit in respect of shareable remediable service) can therefore remain in payment following roll back on 1 October 2023, until the member makes their McCloud election.

4.17   If a Group 2 member elects reformed scheme benefits for remediable service, the implemented initial pension debit remains correct and should continue to apply unless they have made voluntary contributions to secure AFPS15 Added Pension in respect of remediable service. If this is the case, please refer to paragraph 1.13.

4.18   If the member elects (or is defaulted to) legacy scheme benefits for remediable service, then the administrator should work out what the relevant legacy 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.

4.19   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).

4.20   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 paragraphs 2.8 and 2.10). 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

4.21   In all McCloud pensioner cases (including non-divorce), when the member chooses to receive legacy 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.

4.22 **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 reformed PSO%.

Deb_AltUpayAdj	**= (Lpayment – ACTpayment), with interest applied to settlement date x reformed scheme PSO%**

Lpayment	Legacy benefits the member would have received between retirement and **transfer day**, in relation to shareable remediable service, had they been accruing legacy benefits. These should reflect the legacy scheme lump sum (if any) and ongoing pension reflecting the member's actual commutation choice.
ACTpayment	Actual benefits payments received between retirement and **transfer day**, in relation to shareable remediable service, excluding AFPS15 Added Pension if any[10].

4.23 The notes in paragraph 2.11 apply but because the underpayment adjustment in paragraph 4.22 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).

4.24 Please note that for the purposes of calculating the underpayment adjustment above, to which the reformed 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 4.19.

AFPS15 Added pension compensation adjustment debit

4.25 If paragraph 1.11 applies, i.e. the member is an unprotected pensioner as at **transfer day** with AFPS15 Added pension in payment, the relevant compensation would have been included in the RPCEV[11]. A debit in respect of this compensation would therefore be needed, <u>regardless of the member's election</u>. A compensation adjustment debit reduces the compensation due to the member by the reformed scheme PSO%. The compensation adjustment debit which applies to the member's contribution adjustment at **settlement date** will be:

Deb_CompAdj	**= CompAdj x reformed scheme PSO%**

CompAdj	Compensation in respect of AFPS15 Added Pension contributions during the shareable remedy period (Added Pension contributions,

---

[10] If a member has been receiving AFPS15 Added Pension, the AFPS15 Added Pension should be excluded as per paragraph 1.12. However it is to be included in the calculation of compensation, which is included in Init_CEV and Alt_CEV as per paragraph 1.11.

[11] Either as compensation in Init_CEV or as compensation in Alt_CEV.

less tax relief, minus any Added Pension received, plus interest to **settlement date**)

4.26   Note the compensation adjustment above should be consistent with the compensation included in the calculation of Init_CEV in paragraph 2.8 and Alt_CEV in paragraph 2.10 but will have interest applied to the **settlement date** rather than the **transfer day**.

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
Init_PCEV	Initial Ex-Partner Cash Equivalent Value	Initial appropriate amount
Alt_PCEV	Alternative Ex-Partner Cash Equivalent Value	Reformed remediable appropriate amount
RPCEV	Remediable Ex-Partner Cash Equivalent Value	Remediable appropriate amount
RCredAdj	Remediable Credit Adjustment	Remediable credit adjustment