Government Actuary's Department

Armed Forces Pension Scheme

McCloud guidance examples – applying McCloud remedy to retrospective divorce cases using Retrospective guidance L

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Government Actuary's Department

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Introduction

These examples have been prepared for use by the scheme administrator to demonstrate the calculations set out in the *Pension Sharing on Divorce for McCloud members: Initial Cash Equivalent Value calculation before 1 October 2023 – "Retrospective guidance L"*, dated 7 June 2024 (referred to as the 'McCloud guidance note' in these examples). These examples should be read in conjunction with that guidance note.

These examples on applying McCloud remedy to retrospective divorce depend on carrying out divorce calculations in respect of benefits in the legacy schemes and the reformed scheme. Guidance and examples on these calculations are set out in divorce guidance notes for those schemes, as referenced in the *Pension Sharing on Divorce for McCloud members: Initial Cash Equivalent Value calculation before 1 October 2023 – "Retrospective guidance" - Introductory note*, dated 7 June 2024.

These examples cover Tranche 2 benefits only (as defined in the McCloud guidance note). Tranche 1 and Tranche 3 calculations should be carried out in addition as required.

The examples refer to the following terminology, in line with those set out in the McCloud guidance note:

For 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_PCEV	Alternative Ex-Partner Cash Equivalent Value	PCM
RPCEV	Remediable Ex-Partner Cash Equivalent Value	PCM
RCredAdj	Remediable Credit Adjustment	PCM

Compliance and limitations

These examples have been prepared for use by the scheme manager and scheme administrator of the Armed Forces Pension Scheme for the purpose of applying the McCloud remedy to retrospective divorce cases. They were commissioned by the scheme manager, and were prepared by GAD in our role advising the scheme manager on the Armed Forces Pension Scheme.

These examples may be published on the scheme manager and scheme administrator's website.

Other than the scheme manager and scheme administrator, no person or third party is entitled to place any reliance on the contents of these examples, 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 these examples, whether or not GAD has agreed to the disclosure of its advice to the third party.

These examples have been prepared 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.

Example 1 – Protected member, legacy annex only, no RCredAdj

In this example, the remedy is applied to a protected active member whose PSO includes a legacy annex only.

Member data required

Status	Active
Date of birth	1 October 1965
Sex	Male
Protection status	Protected
Valuation day	30 September 2022
Transfer day	1 October 2021
Member's age at transfer day	56
Ex-spouse's age at transfer day	55
Details of PSO annex	Legacy annex amount to be shared: £32,000 Total legacy CEV: £160,000 As this is a Scotland divorce case, the implied percentage to be shared from the legacy scheme should be calculated based on the monetary amount specified by the legacy scheme PSO: Legacy scheme PSO% = £32,000 / £160,000 = 20%

Data required for remedy calculations

Information on the benefits earned by the member in the remedy period as if they were earned only in the legacy scheme and only in the reformed scheme is required:

Remedy period benefits	If accrued in legacy scheme	If accrued in reformed scheme
Scheme	AFPS05	AFPS15
Normal pension age from active	55	60
Deferred pension age	65	67
Pension	£2,800.00	£4,100.00
Survivor pension	£1,750.00	£2,562.50
Lump sum	£8,400.00	n/a

Calculations required

Step 1 – Calculation of Initial Cash Equivalent Value (Init_CEV)

As the member was a protected member, we know the CEV used to implement the PSO reflects AFPS05 in all of the member's remediable service.

Therefore **Init_CEV** is:

Service period	Scheme	Calculation method	Value (Init_CEV)
Tranche 2	AFPS05	Legacy scheme guidance Armed Forces Pension Arrangements Pension Sharing on Divorce Factor guidance dated 13 February 2020 Table 301	£73,850.00

Step 2 – Calculation of Initial Ex-Partner Cash Equivalent Value (Init_PCEV)

The value of the shareable rights credited to the PCM which relates to the remediable service only is as follows:

Init_PCEV = Init_CEV x legacy scheme PSO%

= £73,850.00 x 20%

= £14,770.00

Step 3 – Calculation of Alternative Cash Equivalent Value (Alt_CEV)

Based on the benefits the member would have accrued in the remedy period in the reformed scheme, **Alt_CEV** is as follows:

Service period	Scheme	Calculation method	Value (CEV)
Tranche 2	AFPS15	Reformed scheme guidance Armed Forces Pension Arrangements Pension Sharing on Divorce Factor guidance, dated 13 February 2020 Table 204	£59,239.88

Step 4 – Calculation of Alternative Ex-Partner Cash Equivalent Value (Alt_PCEV)

The value of the shareable rights that would have been credited to the PCM if the remedy period benefits were earned in the reformed scheme is as follows:

Alt_PCEV = Alt_CEV x legacy scheme PSO%

= £59,239.88 x 20%

= £11,847.98

Step 5 – Calculation of Remediable Ex-Partner Cash Equivalent Value (RPCEV)

RPCEV = Maximum (Init_PCEV, Alt_PCEV)

= Maximum (£14,770.00, £11,847.98)

= £14,770.00

Step 6 – Calculation of Remediable Credit Adjustment (RCredAdj)

RCredAdj = RPCEV – Init_PCEV

= £14,770.00 - £14,770.00

= £0.00

Step 7 – Calculation of the remediable pension credit in respect of RCredAdj

As the RCredAdj is zero, no further calculations or adjustments are necessary and the PCM should be presented with the necessary information.

Step 8 – Re-calculation of member’s pension debit

Details of the pension debits as they apply under the legacy scheme and as they apply under the reformed scheme are required.

Service period	Member debit amounts
Tranche 2 (legacy scheme)	• Member's pension debit = 20% x £2,800.00 **= £560.00 p.a.** • Survivor's pension debit = 20% x £1,750.00 = **£350.00 p.a.** • Lump sum debit = 20% x £8,400.00 = **£1,680.00**
Tranche 2 (reformed scheme)	• Member's pension debit = 20% x £4,100.00 **= £820.00 p.a.** • Survivor's pension debit = 20% x £2,562.50 = **£512.50 p.a.**

The pension debits are revalued as usual for each option.

Example 2 – Protected member, legacy annex only, RCredAdj required

In this example, unlike in Example 1, RCredAdj is determined to be greater than zero.

This example only considers the steps required after having determined a positive RCredAdj. For an example on determining the RCredAdj, please see Example 1.

Member data required

Status	Deferred
Date of birth	1 October 1961
Sex	Male
Protection status	Protected
Valuation day	30 September 2022
Transfer day	1 October 2021
Member's age at transfer day	60
Ex-spouse's age at transfer day	57
Details of PSO annex	Legacy annex: 20%

Data required for remedy calculations

Information on the benefits earned by the member in the remedy period as if they were earned only in the legacy scheme and only in the reformed scheme is required:

Remedy period benefits	If accrued in legacy scheme	If accrued in reformed scheme
Scheme	AFPS05	AFPS15
Deferred pension age	65	67
Pension	£700.00	£1,100.00
Survivor pension	£437.50	£687.50
Lump sum	£2,100.00	n/a

Calculations required

In this example, **RCredAdj** has been determined to be £648.10.

Step 1 – Calculation of the remediable pension credit in respect of RCredAdj

As the RCredAdj is positive, it will need to be converted into an additional pension credit for the PCM. As the PSO contains a legacy scheme annex only, the pension credit based on RCredAdj will be transferred into the ex-partner's pension credit account in the legacy scheme, calculated using the relevant legacy scheme guidance and factors in force at the **valuation day**.

The additional pension credit member in respect of RCredAdj is as follows:

Service period	Scheme	Calculation method	Ex-partner additional pension credit amounts
Tranche 2 (Legacy scheme basis)	AFPS05	Using RCredAdj as the ex-partner's cash equivalent (ESCE) in applying the legacy scheme pension credit guidance. Armed Forces Pension Arrangements Pension Sharing on Divorce Factor guidance dated 13 February 2020 Table 307	• Pension of **£38.03 p.a.** • Lump sum of **£114.10**

The additional pension credit is revalued from the transfer day as with the original pension credit.

Step 2 – Re-calculation of member's pension debit

Details of the pension debits as they apply under the legacy scheme and as they apply under the reformed scheme are required.

Service period	Member debit amounts
Tranche 2 (legacy scheme)	• Member's pension debit = 20% x £700.00 = **£140.00 p.a.** • Survivor's pension debit = 20% x £437.50 = **£87.50 p.a.** • Lump sum debit = 20% x £2,100.00 = **£420.00**
Tranche 2 (reformed scheme)	• Member's pension debit = 20% x £1,100.00 = **£220.00 p.a.** • Survivor's pension debit = 20% x £687.50 = **£137.50 p.a.**

The pension debits are revalued as usual for each option.

Example 3 – Protected member, legacy and reformed annexes, RCredAdj required

In this example, like in Example 2, RCredAdj is determined to be greater than zero. However, in this example, the member has a legacy annex and a reformed annex.

This example only considers the steps required after having determined a positive RCredAdj. For an example on determining the RCredAdj, please see Example 1.

Member data required

Status	Active
Date of birth	1 April 1961
Sex	Male
Protection status	Protected
Valuation day	28 February 2023
Transfer day	1 July 2022
Member's age at transfer day	61
Ex-spouse's age at transfer day	59
Details of PSO annex	Legacy annex: 40% Reformed annex: 50%

Data required for remedy calculations

Information on the benefits earned by the member in the remedy period as if they were earned only in the legacy scheme and only in the reformed scheme is required:

Remedy period benefits	If accrued in legacy scheme	If accrued in reformed scheme
Scheme	AFPS05	AFPS15
Normal pension age from active	55	60
Deferred pension age	65	67
Pension	£3,300.00	£5,200.00
Survivor pension	£2,062.50	£3,250.00

Lump sum	£9,900.00	n/a

Calculations required

In this example, **RCredAdj** has been determined to be £12,000.00.

Step 1 – Calculation of the remediable pension credit in respect of RCredAdj

As the RCredAdj is positive, it will need to be converted into an additional pension credit for the PCM. As the PDM is a protected member and the PSO relates to both legacy and reformed schemes, the PCM should receive a choice whether the additional pension credit is applied to their legacy or reformed account. Therefore, the pension credit that would apply in the legacy scheme and in the reformed scheme needs to be calculated:

Service period	Scheme	Calculation method	Ex-partner pension credit amounts
Tranche 2 (Legacy scheme basis)	AFPS05	Using RCredAdj as the ex-partner's cash equivalent (ESCE) in applying the legacy scheme pension credit guidance Armed Forces Pension Arrangements Pension Sharing on Divorce Factor guidance dated 13 February 2020 Table 307	• Pension of **£670.77 p.a.** • Lump sum of **£2,012.30**
Tranche 2 (Reformed scheme basis)	AFPS15	Using RCredAdj as the ex-partner's cash equivalent (ESCE) in applying the reformed scheme pension credit guidance Armed Forces Pension Arrangements Pension Sharing on Divorce Factor guidance dated 13 February 2020 Table 309	• Pension of **£883.00 p.a.**

The additional pension credit should be revalued from transfer day as normal.

Step 2 – Re-calculation of member's pension debit

Details of the pension debits as they apply under the legacy scheme and as they apply under the reformed scheme are required.

Service period	Member debit amounts

Tranche 2 (legacy scheme)	• Member’s pension debit = 40% x £3,300.00 = **£1,320.00 p.a.** • Survivor’s pension debit = 40% x £2,062.50 = **£825.00 p.a.** • Lump sum debit = 40% x £9,900.00 = **£3,960.00**
Tranche 2 (reformed scheme)	• Member’s pension debit = 40% x £5,200.00 = **£2,080.00 p.a.** • Survivor’s pension debit = 40% x £3,250.00 = **£1,300.00 p.a.**

The percentage reduction to be applied should be the percentage specified in the PSO in relation to the period of remediable service. In this case, it is 40% as specified by the legacy PSO.

The pension debits are revalued as usual for each option.