Civil Service Pension Scheme (Great Britain)

McCloud remedy guidance: Deemed elections

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Contents

1.   Introduction

1.1   This guidance is addressed to Cabinet Office as the scheme manager of the Civil Service Pension Scheme (Great Britain) ('CSGB' or 'the Scheme'). The Scheme includes the Classic, Classic Plus, Premium and Nuvos sections (the legacy schemes) and alpha (the '2015 scheme' or 'the reformed scheme').

1.2   This guidance has been prepared for the use of the Scheme administrator for the purpose of determining the relative value of reformed scheme remediable service benefits and legacy scheme remediable service benefits where the scheme manager is required to consider a deemed election.

1.3   This guidance sets out the approach to be used in determining the value of reformed and legacy remediable service benefits (under McCloud remedy) where the immediate choice member has not made an election.

1.4   The results from the calculations set out in this guidance will be used to determine which scheme's benefits would be of higher value.

1.5   This guidance has been prepared in accordance with the following Regulations of SI 2023/942 (the Remediable Service Regulations):

Administrative requirement	Regulation(s)	Relevant section of this document
Immediate choice decision: no choice has been communicated to scheme manager	10	2 and 3

1.6   Where reference is made to cash equivalent factors, the factors in force at the assessment date should be used.

1.7   The Public Service Pensions and Judicial Offices Act 2022 (the Act) requires that schemes issue members with a Remediable Service Statement (RSS) to support a member in making an election for benefits (and in other circumstances). Section 29 of the Act and Direction 20 of The Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022 (as amended) (the HMT Directions) set out what must be included in the statements.

Exclusions

1.8   The guidance only applies where an immediate choice decision has not been made in relation to an immediate choice member with mixed remediable service in the statutory period and the scheme manager is required to consider the relative value of reformed and legacy scheme remediable service benefits and whether a deemed election for reformed scheme benefits should be made.

1.9   This guidance only applies for members of the Scheme who fall under the scope of the McCloud remedy, and any subsequent reference to the member is limited to this group. To be in scope of the McCloud remedy, a member must have remediable service as defined by Section 1 of the Public Service Pensions and Judicial Offices Act 2022.

1.10   Nothing in this guidance should be read as overriding the regulations which govern the Scheme.

Implementation

1.11   This guidance should be used with effect from 1 October 2023.

1.12   The survivor's pension to be used in the calculation is the pension that would be payable to the member's dependant if the member died on the assessment date. Please note that survivor's pension elements (excluding children's pensions) should be included whether or not the member has an eligible dependant at the date of the calculation.

1.13   For cases where the dependants' benefits are already in payment, all dependant benefits (excluding children's pensions – see paragraph 1.15) should be valued. Further details are provided in section 3.

1.14   This guidance has been written for the scheme manager and scheme administrator and assumes knowledge of general pension terminology, and familiarity with pension calculations for the Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to the Cabinet Office.

1.15   Cases where children's pensions are in payment should be referred to GAD, via the Cabinet Office. We do not envisage any other special cases not covered by this note. However, if any others occur they should be referred to GAD, via the Cabinet Office, in the first instance.

1.16   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.

Compliance and limitations

1.17   This guidance has been prepared for the use by Cabinet Office and the Scheme administrator for the purpose of calculating the value of benefits where no election under McCloud remedy has been made by an immediate choice member with mixed remediable service. This guidance may be published on Cabinet Office 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.

1.18   Other than Cabinet Office and the Scheme administrator, 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.

1.19   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.

2.   Immediate Choice Members

The information and data provided in a Remediable Service Statement should be used to determine which scheme (legacy or reformed) offers remediable service benefits with the greater value.

2.1   In-scope members who retired before 1 October 2023 with remediable service, will be required to make an immediate choice decision in relation to benefits for their remediable service. An immediate choice decision permits the member to make or not make a section 6 election in respect of their remediable service benefits for reformed scheme benefits. Where a choice arises for a member who has died before implementation of remedy please refer to section 3.

2.2   Regulation 10 (3) (b) of the Remediable Service Regulations requires the scheme manager, having consulted the scheme actuary, to determine whether the reformed benefits are of greater value than legacy benefits in relation to the member's remediable service benefits in the circumstances where no election is made and the member has mixed remediable service.

2.3   The capitalised value of the member's benefits for remediable service in both the legacy and reformed schemes should be determined to assess whether the reformed scheme benefits are of higher value. The assessment of value must include allowance for payments already made.

2.4   The assessment date should be the calculation date assumed in the Remediable Service Statement.

Scheme managers will need to compare Value_Legacy with Value_Reformed:

Value_Legacy: Value of legacy scheme benefits for remediable service

Value_Reformed: Value of reformed scheme benefits for remediable service

If Value_Reformed is greater than Value_Legacy, then a section 6 election for the member should be treated as having been made immediately before the end of the section 6 election period.

Calculating Value_Legacy

2.5   The capitalised value of the member's pension benefits with legacy scheme benefits for remediable service is calculated as follows:

$$\text{Value\_Legacy} = (P_m^L \times F_m^L) + (P_s^L \times F_s^L) + \text{Legacy\_Adj}$$

Where:

P_m^L = annual pension amount in respect of remediable service, assuming **legacy** scheme benefits, as shown on the member's RSS[1]. It has been assumed the amount shown on the RSS will in all cases reflect the pension payable after allowing for the amount of cash taken at retirement by commutation (or otherwise). Where an alternative presentation has been used please refer the case to GAD, via the Cabinet Office

P_s^L = annual survivor's pension amount payable upon the member's death, in respect of remediable service, assuming **legacy** scheme benefits, as shown on the member's RSS[2]

F_m^L = Legacy scheme cash equivalent factor for pension in payment to a member

F_s^L = Legacy scheme cash equivalent factor for contingent survivor's pension

Legacy_Adj = any amount owed to a member, including interest to the assessment date, should the member elect for **legacy** scheme benefits, as shown on the RSS[3]. Any monies owed by a member under this option will be written off and as such should <u>not</u> be included in the calculation. This data item could be zero.

2.6   Retirements on the grounds of ill health should use **ill health pensioner cash equivalent** factors taken from Table P1CEIH1. Retirements other than on the grounds of ill health should use standard **pensioner cash equivalent** factors taken from Table P1CENH1. Where a deferred pension is shown for the **legacy** scheme on the RSS, then please refer the case to GAD, via the Cabinet Office.

2.7   The legacy scheme factors in force at the assessment date should be used, based on the member's age last birthday at the assessment date.

Calculating Value_Reformed

2.8   The capitalised value of the member's pension benefits with reformed scheme benefits for remediable service is calculated as follows:

Value_Reformed = $(P_m^R \times F_m^R) + (P_s^R \times F_s^R)$ + Reformed_Adj

Where:

P_m^R = annual pension amount in respect of remediable service, assuming **reformed** scheme benefits, as shown on the member's RSS[1]. It has been assumed the amount shown on the RSS will in all cases reflect the pension payable after allowing for the amount of cash taken at retirement by commutation (or otherwise). Where an alternative presentation has been used please refer the case to GAD, via the Cabinet Office

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[1] As shown in the "Your pre-tax annual pension" line of the RSS

[2] As shown in the "Annual benefits for your dependants" line of the RSS

[3] This is the sum of the amounts owed to the member in the "Differences" and "Interest due to you" lines of the RSS

P_s^R = annual survivor's pension amount payable upon member's death, in respect of remediable service, assuming **reformed** scheme benefits, as shown on the RSS[4]

F_m^R = Reformed scheme cash equivalent factor for pension in payment to a member

F_s^R = Reformed scheme cash equivalent factor for contingent survivor's pension

Reformed_Adj = any amount owed to a member, including interest to the assessment date, should the member elect for **reformed** scheme benefits, as shown on the RSS[5]. Any monies owed by a member under this option will be written off and as such should not be included in the calculation. This data item could be zero

2.9   Retirements on the grounds of ill health should use **ill health pensioner cash equivalent** factors taken from Table P2CEIH1. Retirements other than on the grounds of ill health should use **pensioner cash equivalent** factors taken from Table P2CENH1. Where a deferred pension is shown for the **reformed** scheme on the RSS, then please refer the case to GAD, via the Cabinet Office.

2.10   The reformed scheme factors in force at the assessment date should be used, based on the member's age last birthday at the assessment date.

2.11   Please note neither Value_Legacy or Value_Reformed above include any lump sum amounts. We have been advised that figures to be shown on RSSs will assume the amount of lump sum taken at retirement will be reflected in the net pension amounts shown under the legacy and reformed scheme options. Should this have not been possible for any members please refer to GAD, via the Cabinet Office, for further guidance.

2.12   For the avoidance of doubt, underpayments of pension and lump sum between retirement date and the assessment date have been reflected in the calculation of Value_Legacy or Value_Reformed. Any overpayments of pension and lump sum between retirement date and the assessment date will be written off and as such are not reflected in the calculation of Value_Legacy or Value_Reformed.

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[4] As shown in the "Annual benefits for your dependants" line of the RSS

[5] This is the sum of the amounts owed to the member in the "Differences" and "Interest due to you" lines of the RSS

3. Deaths and Dependants – Immediate Choice

3.1 Where following a member's death a decision maker does not make an election given an immediate choice, calculations are required to support the Scheme Manager to make a deemed election. This section applies to immediate choice dependant members where the dependant's pension is already in payment prior to 1 October 2023 and the immediate choice member had mixed remediable service.

> The information and data provided in a Remediable Service Statement should be used to determine which scheme (legacy or reformed) offers benefits with the greater value to the member or dependant.

Immediate choice dependant benefit comparison

3.2 Regulation 10 (3) (c) of the Remediable Service Regulations requires the scheme manager, having consulted the scheme actuary, to determine whether the reformed benefits are of greater value than legacy benefits in the circumstances where no election is made and the immediate choice member had mixed remediable service.

3.3 The capitalised value of the member's benefits for remediable service in both the legacy and reformed scheme should be determined to assess whether the reformed scheme benefits are of higher value.

3.4 The assessment date should be the calculation date assumed in the Remediable Service Statement.

> Scheme managers will need to compare Value_Legacy with Value_Reformed:
>
> **Value_Legacy: Value of legacy scheme benefits for remediable service**
>
> **Value_Reformed: Value of reformed scheme benefits for remediable service**
>
> **If Value_Reformed is greater than Value_Legacy the member should be assumed to have made a deemed election for reformed scheme benefits.**

Calculating Value_Legacy

3.5 The value of legacy scheme benefits for remediable service is calculated as follows:

$$(P_{(s)} \times F^L) + Legacy\_Adj$$

Where:

$P_{(s)}$ = annual **legacy** scheme adult dependant's pension amount payable upon the member's death shown on the RSS[6].

F^L = **Legacy** scheme dependant's trivial commutation factor

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[6] As shown in the "Your pre-tax annual pension" line of the RSS

Legacy_Adj = any amount owed to an adult dependant, including interest to the assessment date, should the adult dependant elect for **legacy** scheme benefits, as shown on the RSS[7]. Any monies owed by an adult dependant under this option will be written off and as such should <u>not</u> be included in the calculation. This data item could be zero

3.6   The legacy scheme factors in force at the assessment date should be used, taken from Table P1TCCL1 for classic members and P1TCPN1 for premium and nuvos members, based on the adult dependant's age last birthday at the assessment date.

Calculating Value_Reformed

3.7   The value of the member's pension benefits with reformed scheme benefits for remediable service is calculated as follows:

$$(P_{(s)} \times F^R) + \text{Reformed\_Adj}$$

Where:

$P_{(s)}$ = annual **reformed** scheme adult dependant's pension amount payable upon the member's death shown on the RSS[8].

F^R = **Reformed** scheme dependant's trivial commutation factor

Reformed_Adj = any amount owed to an adult dependant, including interest to the assessment date, should the adult dependant elect for **reformed** scheme benefits, as shown on the RSS[7]. Any monies owed by an adult dependant under this option will be written off and as such should <u>not</u> be included in the calculation. This data item could be zero

3.8   The reformed scheme factors in force at the assessment date should be used, taken from Table P2TC1, based on the adult dependant's age last birthday at the assessment date.

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[7] This is the sum of the amounts owed to the member in the "Differences" and "Interest due to you" lines of the RSS

[8] As shown in the "Your pre-tax annual pension" line of the RSS