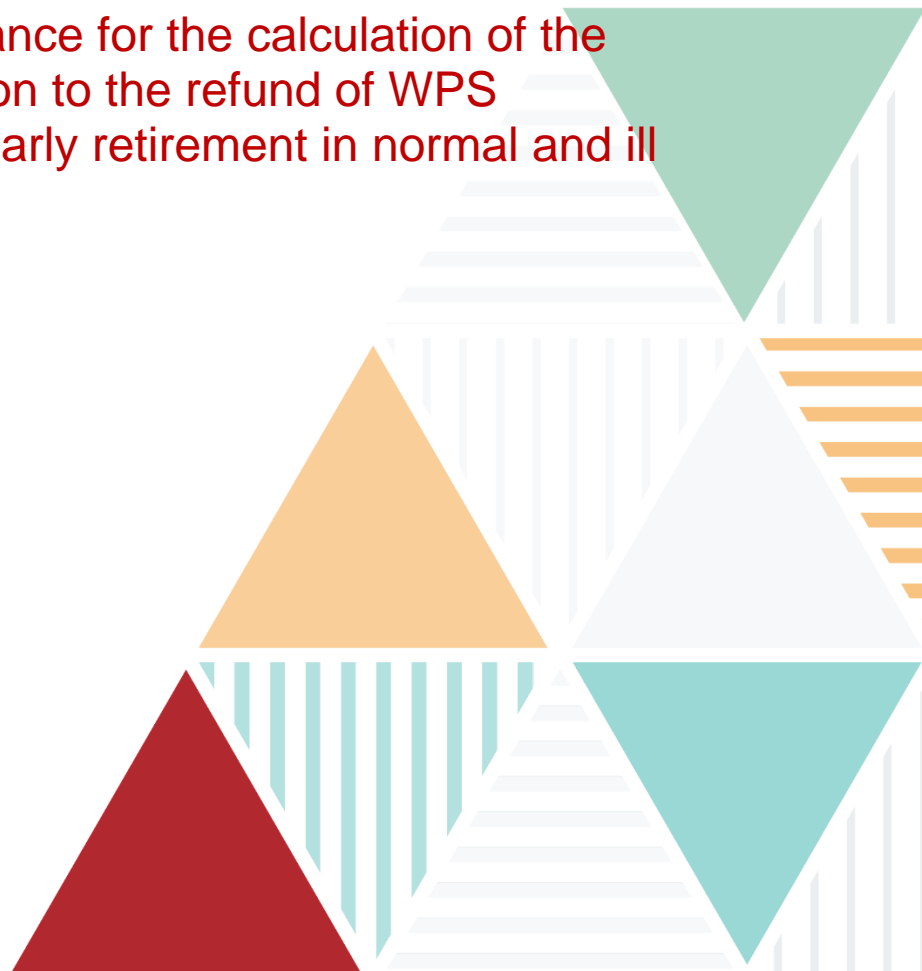




Widow(er)s' Pension Scheme (WPS) refund – additional reduction for Classic Plus section members whose pension comes into payment before age 60

Factors and guidance for the calculation of the additional reduction to the refund of WPS contributions on early retirement in normal and ill health

Date: December 2022





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1 Introduction

- 1.1 This note is addressed to the Northern Ireland Department of Finance (“DoF NI”) as scheme manager of the Principal Civil Service Pension Scheme Northern Ireland (PCSPS(NI) or ‘the scheme’).
- 1.2 The purpose of this note is to provide the DoF NI with factors to be used to calculate the additional reduction required under rule L.19(8) that is to be made to a Classic Plus member’s refund of Widow(er)’s Pension Scheme (WPS) contributions where the member’s pension comes into payment before age 60 (the “additional reduction”).
- 1.3 Where a Classic Plus member receives a refund of WPS contributions this will be reduced in accordance with the following scheme rules:

Section I: L.19(4) and L.19(8)

Initial reduction

- 1.4 Under rule L.19(4) the refund of WPS contributions is first reduced by deducting “20% of the annual value of the widow’s guaranteed minimum pension that would have been payable under rule E.27 (guaranteed minimum pensions for surviving spouses)”. This deduction is modified under rules L.19(5), (6) and (7) to take account of periods where the member was previously married or had previously taken a transfer into the scheme - please refer to the scheme rules to calculate this deduction – this note does not cover the calculation of this initial deduction.

Additional reduction

- 1.5 Under rule L.19(8), where the member’s pension comes into payment before age 60 the refund of WPS contributions “*may be subject to further reduction in accordance with guidance provided by the Scheme Actuary.*” The factors in this note should be used to calculate this ‘additional reduction’ required under rule L.19(8).
- 1.6 DoF NI have confirmed that the *additional reduction* should be determined separately for members retiring in ill-health. The *additional reduction* for members retiring in ill-health is greater than that for members retiring in normal health, reflecting the longer period that a widow(er)’s pension is expected to be paid for should the member (re)marry in retirement.
- 1.7 **The factors in this note only apply for cases where the member’s pension comes into payment before age 60.**
- 1.8 The factors provided in this note have been prepared in light of our advice to the DoF NI dated 30 October 2018 and its instructions following that advice.
- 1.9 Section 2 sets out the methodology to be applied when calculating the WPS premium and section 3 sets out some worked examples of applying the factors.
- 1.10 Appendix A sets out the principal assumptions underlying the factors contained in this guidance note



- 1.11 Appendix B sets out the factor tables to be used to calculate the WPS premium.
- 1.12 Appendix C sets out some important limitations.
- 1.13 This guidance is intended to supersede any advice previously issued, for the purposes of calculating the reduction to a Classic Plus member's WPS contributions refund, which rely on input from the Scheme Actuary. In particular, this guidance supersedes:

“Principal Civil Service Pension Scheme Northern Ireland (PCSPS(NI)): Widow(er)s' Pension Scheme (WPS) refund – premium reduction for Classic Plus section members whose pension comes into payment before age 60. Factors and guidance for the calculation of the premium to be deducted from the refund of WPS contributions on normal, early and ill health retirement” dated 5 August 2016

- 1.14 The factors contained in this note are effective took effect from 1 April 2019 and should be passed to the scheme administrators to use for future cases.
- 1.15 We don't anticipate any special cases not covered by this note. However, if any do occur they should be referred to GAD.

Cases not covered by this note

- 1.16 This note only relates to benefits in the **classic plus** section of the PCSPS(NI). Benefits in the **classic** section of the PCSPS(NI) should be dealt with in accordance with the latest version of our note *“Widow(er)s' Pension Scheme (WPS) refund – premium reduction for Classic section members”*.
- 1.17 This note should not be used in relation to benefits held in the **Premium, Nuvos** or **alpha** sections of the scheme.
- 1.18 This note does not attempt to describe the method for determining the amount of any (unreduced) refund of WPS contributions. Any references in this note to the calculation of the refund of WPS contributions are included solely to help explain how the refund should be reduced. They should not be treated as guidance on how to calculate the unreduced refund.

Implementation

- 1.19 This guidance will apply from the date issued on the cover.
- 1.20 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Principal Civil Service Pension Scheme Northern Ireland. Any questions concerning the application of the guidance should, in the first instance, be referred to the DoF NI.
- 1.21 In line with best practice and in order to make sure 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.



- 1.22 The factors contained in this guidance will be subject to review periodically. This will depend on external circumstances, for example whenever there is a change in the SCAPE basis; when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future actuarial valuation where mortality and other relevant experience is reviewed or if other credible and material information comes to light.

Third party reliance

- 1.23 This guidance has been prepared for the use of the DoF NI and their scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on the DoF NI and their 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.
- 1.24 Other than the DoF NI and their scheme administrators, no person or third party is entitled to place any reliance on the contents of this guidance, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this guidance, whether or not GAD has agreed to the disclosure of its advice to the third party.
- 1.25 We are content for this note to be released to third parties, provided that:
- it is released in full;
 - the advice is not quoted selectively or partially; and
 - GAD is identified as the source of the note.

Third parties may wish to seek their own actuarial advice where appropriate.



2 Guidance on application of factors

- 2.1 Throughout this note the term “unmarried” should be understood to mean “neither married nor in a civil partnership”.
- 2.2 A Classic Plus member of the scheme who was not married on 1st October 2002, and has remained unmarried throughout the period from that date until the date they take their pension, may be entitled to a refund of the WPS contributions made in respect of the period of time before 1st October 2002 that the member was unmarried.
- 2.3 This refund should be reduced to reflect the possibility that the member may marry in retirement and therefore bring into payment the surviving spouse’s pension for which contributions have been refunded.

- 2.4 The net refund payment made to a classic plus member whose pension comes into payment before age 60 should be calculated as:

$$\text{Net refund} = \text{WPS refund} - \text{initial reduction} - \text{additional reduction}$$

where

WPS refund = refund of WPS contributions calculated before any reduction

initial reduction = reduction calculated under rule L.19(4)-(7)

additional reduction = the reduction calculated under paragraph 2.5 below

- 2.5 The additional reduction should be calculated as:

$$\text{Additional reduction} = \text{initial reduction} \times \text{Factor}$$

where:

initial reduction = reduction calculated under rule L.19(4)-(7)

Factor = the factor from Table 1 or Table 2 in Appendix A as appropriate.

The factor to use will depend on the member’s age (last birthday) and whether they retired on normal or ill health grounds.

- 2.6 Where the initial reduction plus the additional reduction exceeds the refund of WPS contributions, the net refund of WPS contributions should be zero (i.e. the net refund to the member should not be negative).
- 2.7 Examples illustrating how this guidance should be carried out are given in Section 3.



3 Example Calculations

- 3.1 This section provides examples of the calculations described by this note.
- 3.2 Note that the refunds of WPS contributions in the example are only illustrative and are not intended to reflect the actual refund that would apply.

Example 1: Early retirement in normal health

Suppose the member retires before age 60 in normal health. The following information is needed for this calculation:

Unreduced refund:	£3,792
Age at early retirement:	51
Type of early retirement:	Normal health
Initial reduction:	£500

From paragraph 2.6, the formula for calculating the additional reduction is:

$$\text{Additional reduction} = \text{initial reduction} \times \text{Factor}$$

We have:

<i>Initial reduction</i>	=	£500
<i>Age at early retirement</i>	=	51
<i>Factor at age 51</i>	=	1.525 (taken from Table 1)

The additional reduction is therefore:

$$\text{Additional reduction} = £500.00 \times 1.525 = £762.50$$

The net refund due to the member is therefore £3,792.00 - £500.00 - £762.50 = £2,529.50



Example 2: Early retirement in ill health

Suppose the member retires before NRA in ill health. The following information is needed for this calculation:

Unreduced refund:	£3,792
Age at early retirement:	40
Type of early retirement:	Ill health
Initial reduction:	£500

From paragraph 2.6, the formula for calculating the additional reduction is:

$$\text{Additional reduction} = \text{initial reduction} \times \text{Factor}$$

We have:

Initial reduction	=	£500
Age at early retirement	=	40
Factor at age 40	=	3.425 (taken from Table 2)

The additional reduction is therefore:

$$\text{Additional reduction} = £500.00 \times 3.425 = £1,712.50$$

The net refund due to the member is therefore $£3,792.00 - £500.00 - £1,712.50 = £1,579.50$



Appendix A: Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.448% pa
CPI	2.00% pa
Real discount rate (in excess of CPI)	2.40% pa

Mortality assumptions

Base mortality tables	S2NMA and S2NFA
Base table adjustment	Member: 110% of S2NMA for males and 110% of S2NFA for females (as per 2016 valuation)
Future mortality improvement	Based on ONS principal UK population projections 2016
Year of Use	2020

Other assumptions

Proportion of male members for the purpose of unisexing factors	50%
Age difference between member and partner	Males assumed to be 3 years older than partner and females assumed to be 2 years younger than partner
Proportions partnered	Classic: 68% (male) and 50% (female) at retirement.
Allowance for commutation	Nil except for mandatory lump sum cases



Appendix B: Factor tables

Table 1: P1WPS_NH2 (Table 813 in consolidated factors spreadsheet) - Factors to calculate the additional reduction for classic plus members retiring in normal health – Unisex factors

Age	Factor
50	1.700
51	1.525
52	1.375
53	1.200
54	1.075
55	0.975
56	0.900
57	0.825
58	0.800
59	0.775



Table 2: P1WPS_IH2 (Table 814 in consolidated factors spreadsheet) - Factors to calculate the additional reduction for classic plus members retiring early in ill health – Unisex factors

Age	Factor	Age	Factor	Age	Factor	Age	Factor
20	4.600	30	4.575	40	3.425	50	1.700
21	4.625	31	4.500	41	3.250	51	1.525
22	4.650	32	4.425	42	3.075	52	1.375
23	4.675	33	4.325	43	2.900	53	1.200
24	4.700	34	4.225	44	2.725	54	1.075
25	4.725	35	4.125	45	2.550	55	0.975
26	4.725	36	4.000	46	2.375	56	0.900
27	4.700	37	3.875	47	2.225	57	0.825
28	4.675	38	3.750	48	2.050	58	0.800
29	4.625	39	3.575	49	1.875	59	0.775



Appendix C: Limitations of this guidance

- C.1 This guidance should not be used for any purpose other than those set out in this guidance.
- C.2 The factors contained in this guidance are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- C.3 Advice provided by GAD must be taken in context and is intended to be considered in its entirety. Individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect. GAD does not accept responsibility for advice that is altered or used selectively. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.
- C.4 This guidance only covers the actuarial principles around the calculation and application of WPS premium reduction factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- C.5 Scheme managers and administrators should satisfy themselves that WPS premium reduction calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- C.6 This guidance is based on the Regulations in force at the time of writing. It is possible that future changes to the Regulations might create inconsistencies between this guidance and the Regulations. If users of this guidance believe there to be any such inconsistencies, they should bring this to the attention of the DoF NI and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.