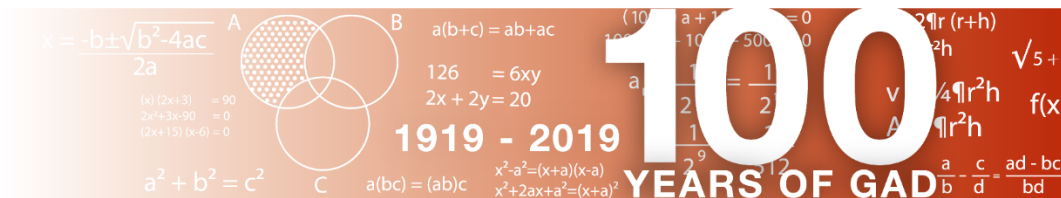




Government
Actuary's
Department



Principal Civil Service Pension Scheme Northern Ireland

Widow(er)s' Pension Scheme (WPS) refund –
premium reduction for Classic section members

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

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 (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 reduction that is to be made to a Classic member’s refund of Widow(er)’s Pension Scheme (WPS) contributions (the “premium”).
- 1.3 Where a Classic member receives a refund of WPS contributions this will be reduced in accordance with the following scheme rules:
 - Section II: 4.26d(iv), 4.26d(xii), 4.21(iv), 4.21(xii)
- 1.4 The scheme rules listed above state that the refund should be reduced by a ‘premium’ calculated in accordance with guidance provided by the Scheme Actuary. The DoF NI have also confirmed that the refund should be further reduced on early payment before age 60, and that the further reduction should also be calculated in accordance with guidance provided by the Scheme Actuary.
- 1.5 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.
- 1.6 This guidance is intended to supersede any advice previously issued, for the purposes of calculating the reduction to a Classic 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 section members. 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 27 April 2016
- 1.7 The factors contained in this note took effect from 1 April 2019 and should be passed to the scheme administrators to use for future cases.
- 1.8 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.
- 1.9 Appendix A sets out the principal assumptions underlying the factors contained in this guidance note
- 1.10 Appendix B sets out the factor tables to be used to calculate the WPS premium.
- 1.11 Appendix C sets out some important limitations.
- 1.12 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

- 1.13 This note only relates to benefits in the **classic** section of the PCSPS(NI). Benefits in the **classic plus** section of the PCSPS(NI) should be treated separately in accordance with the latest version of our guidance "*Widow(er)s' Pension Scheme (WPS) refund – premium reduction for Classic Plus section members whose pension comes into payment before age 60*".
- 1.14 This note should not be used in relation to benefits held in the **Premium, Nuvo**s or **alpha** sections of the scheme.
- 1.15 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

- 1.16 This guidance will apply from the date issued on the cover.
- 1.17 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. Any questions concerning the application of the guidance should, in the first instance, be referred to the DoF NI.
- 1.18 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.
- 1.19 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

- 1.20 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.



- 1.21 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.
- 1.22 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 member of the Classic section of the scheme who is unmarried at the time of retiring in the PCSPS(NI) may be entitled to a refund of the WPS contributions made in respect of the period of time that the member had been 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 spouse pension for which contributions have been refunded.
- 2.4 Examples illustrating how this guidance should be carried out are given in Section 3.
- 2.5 The net payment made to the member is calculated as the refund of WPS contributions, minus the ‘premium’.

Calculating the premium

- 2.6 The premium should be calculated as:

$$\text{Premium} = \text{widow(er)'s pension} \times \text{Factor}$$

where:

Widow(er)'s pension = current value of the post-retirement widow's or widower's pension that would be paid to a widow or widower of the member if the member were married and died immediately after the retirement date (ignoring any short-term pensions and guarantees).

Factor = the factor in table P1WPS_NH1 or P1WPS_IH1

Where the member retires before NRA, the factor to use will depend on the member's age (last birthday) and whether they retired on normal or ill health grounds. These factors are given in Appendix A.

- 2.7 Where the premium exceeds the refund of WPS contributions, the premium should be set equal to the refund of WPS contributions (i.e. the net payment to the member would be zero and should not be negative).



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: Normal retirement at or after NRA

Suppose the member retires at (or after) NRA. The following information is needed for this calculation.

Widow(er)'s Pension: £2,500
Unreduced refund: £3,792

From paragraph 2.6, the formula for calculating the premium is:

$$\text{Premium} = \text{widow(er)'s pension} \times \text{Factor}$$

We have:

$$\begin{aligned}\text{Widow(er)'s pension} &= £2,500 \\ \text{Factor} &= 34.5\% \text{ (taken from table 1)}\end{aligned}$$

The premium is therefore:

$$\text{Premium} = £2,500.00 \times 0.345 = £862.50$$

The net refund due to the member is therefore $£3,792.00 - £862.50 = £2,929.50$



Example 2: Early retirement in normal health

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

Widow(er)'s Pension: £2,500
Unreduced refund: £3,792
Age at early retirement: 51
Type of early retirement: Normal health

From paragraph 2.6, the formula for calculating the premium is:

$$\text{Premium} = \text{widow(er)'s pension} \times \text{Factor}$$

We have:

$$\begin{aligned}\text{Widow(er)'s pension} &= £2,500 \\ \text{Age at early retirement} &= 51 \\ \text{Factor at age 51} &= 50.5\% \text{ (taken from Table 1)}\end{aligned}$$

The premium is therefore:

$$\text{Premium} = £2,500.00 \times 0.505 = £ 1,262.50$$

$$\text{The net refund due to the member is therefore } £3,792.00 - £ 1,262.50 = £ 2,529.50$$



Example 3: Early retirement in ill health

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

Widow(er)'s Pension: £2,500
Unreduced refund: £3,792
Age at early retirement: 40
Type of early retirement: Ill health

From paragraph 2.6, the formula for calculating the premium is:

$$\text{Premium} = \text{widow(er)'s pension} \times \text{Factor}$$

We have:

$$\begin{aligned}\text{Widow(er)'s pension} &= £2,500 \\ \text{Age at early retirement} &= 40 \\ \text{Factor at age 40} &= 88.5\% \text{ (taken from Table 2)}\end{aligned}$$

The premium is therefore:

$$\text{Premium} = £2,500.00 \times 0.885 = £ 2,212.50$$

$$\text{The net refund due to the member is therefore } £3,792.00 - £ 2,212.50 = £ 1,579.50$$



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_NH1 (Table 811 in consolidated factors spreadsheet) - Factors to calculate the premium for members retiring in normal health – Unisex factors

Age	Factor
50	54.0%
51	50.5%
52	47.5%
53	44.0%
54	41.5%
55	39.5%
56	38.0%
57	36.5%
58	36.0%
59	35.5%
60 and above	34.5%

Table 2: P1WPS_IH1 (Table 812 in consolidated factors spreadsheet)- - Factors to calculate the premium for members retiring early in ill health – Unisex factors

Age	Factor	Age	Factor	Age	Factor	Age	Factor
20	112.0%	30	111.5%	40	88.5%	50	54.0%
21	112.5%	31	110.0%	41	85.0%	51	50.5%
22	113.0%	32	108.5%	42	81.5%	52	47.5%
23	113.5%	33	106.5%	43	78.0%	53	44.0%
24	114.0%	34	104.5%	44	74.5%	54	41.5%
25	114.5%	35	102.5%	45	71.0%	55	39.5%
26	114.5%	36	100.0%	46	67.5%	56	38.0%
27	114.0%	37	97.5%	47	64.5%	57	36.5%
28	113.5%	38	95.0%	48	61.0%	58	36.0%
29	112.5%	39	91.5%	49	57.5%	59	35.5%



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.