

## Teachers' Pension Scheme

## Final salary section

## Purchasing additional family benefits

## Factors and guidance

Date: 11 September 2019



## Contents

<b>1</b>	<b>Introduction</b>	<b>1</b>
<b>2</b>	<b>Purchasing additional family benefits</b>	<b>3</b>
<b>3</b>	<b>Example calculations</b>	<b>4</b>
	<b>Appendix A: Table of factors</b>	<b>6</b>
	<b>Appendix B: Assumptions underlying factors</b>	<b>7</b>
	<b>Appendix C: Limitations</b>	<b>8</b>



## 1 Introduction

- 1.1 This note is provided for the Department for Education (DfE) as scheme manager of the Teachers' Pension Scheme (TPS). These factors should be used only to calculate the cost of purchasing additional family benefits in respect of periods of non-qualifying service, as outlined in Section 2 of this note.
- 1.2 This note relates to regulation 21 and Schedule 5 of The Teachers' Pensions Regulations 2010 (SI 2010/990) ('the Regulations').
- 1.3 This note sets out the actuarial guidance on the calculations to determine the cost to members of purchasing periods of past service which did not accrue family benefits in the TPS (periods of 'non-qualifying service' as defined in paragraph 3 of Schedule 5 to the Regulations).
- 1.4 The guidance and factors in this note have been prepared in light of our advice to DfE of 30 October 2018 and its instructions following that advice.
- 1.5 This guidance is intended to supersede any factors or advice previously issued, for the purposes of purchasing additional family benefits, carried out from a date to be specified by DfE. No advice or factors issued in the past should be used for cases after this date. In particular, this guidance supersedes:  
  
"Teachers' Pension Scheme - Final Salary Section: Purchasing additional family benefits: Factor and guidance" dated 27 August 2015
- 1.6 Factors should be selected according to the sex of both the member and dependant.

### **Implementation and Review**

- 1.7 The factors contained in this guidance will apply from a date to be determined by DfE.
- 1.8 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Teachers' Pension Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to DfE.
- 1.9 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.
- 1.10 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**

- 1.11 This guidance has been prepared for the use of DfE and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on the DfE 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.
- 1.12 Other than DfE and the 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.



## 2 Purchasing additional family benefits

- 2.1 The factors in this note should be used to determine the cost to members of purchasing periods of past service which did not accrue family benefits in the TPS.
- 2.2 Periods of 'non-qualifying service' for the purposes of accruing family benefits are defined in paragraph 3 of Schedule 5 to the Regulations.
- 2.3 A member can purchase additional family benefits either by lump sum under paragraph 16(2) of Schedule 5 to the Regulations, or by regular contributions under paragraph 15(3) of Schedule 5 to the Regulations.
- 2.4 If a member elects to purchase additional family benefits through a lump sum, the contribution payable to the scheme should be calculated as,

$$A \times B \times C$$

Where,

**A** is the factor from the Table 801 (**Table 728 in the consolidated factors spreadsheet**) in Appendix A chosen according to the sex of the member and the dependant,

**B** is the amount of non-qualifying service, in years, to be purchased, and

**C** is the annual rate of the member's contributable salary.

- 2.5 If a member elects to purchase additional family benefits by paying regular contributions based on a chosen percentage of their contributable salary, then the period, in years, over which this should be paid should be calculated as,

$$\frac{A}{B} \times C$$

Where,

**A** is the amount of non-qualifying service, in years, to be purchased,

**B** is the member's chosen contribution rate as a percentage of salary, and

**C** is the factor from the Table 801 (**Table 728 in the consolidated factors spreadsheet**) in Appendix A chosen according to the sex of the member and the dependant.



### 3 Example calculations

#### Example 1: Purchase through lump sum

##### Member Details

Member's sex	Male
Beneficiary's sex	Male
Period of non-qualifying service to be purchased (B)	6 years
Annual rate of contributable salary at calculation date (C)	£35,000 pa
<b>Factor from Table 801 (A)</b>	<b>1.5%</b>

##### Cost of Purchase

From paragraph 2.4 the lump sum payable is calculated as,

$$A \times B \times C$$

$$1.5\% \times 6 \times £35,000.00 = £3,150.00$$



## Example 2: Purchase through regular contributions

### Member Details

Member's sex	Female
Beneficiary's sex	Male
Period of non-qualifying service to be purchased (A)	3 years
Member's chosen additional contribution rate (B)	6%

<b>Factor from Table 801 (C)</b>	<b>1.0%</b>
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### Cost of Purchase

From paragraph 2.5, the period, in years, over which additional contributions of 6% are payable is,

$$\frac{A}{B} \times C$$

$$3/6\% \times 1.0\% = 0.50 \text{ years}$$

So the member can purchase the additional three years of family benefits by paying an additional 6% of their contributable salary for 0.50 years.



## Appendix A: Table of factors

**Table 801 (Table 728 in the consolidated factors spreadsheet):**

**Factors for calculating the cost of additional family benefits**

Sex of Member	Sex of Beneficiary	Factor
Male	Male	1.5%
Male	Female	2.5%
Female	Male	1.0%
Female	Female	1.6%





## Appendix B: Assumptions underlying factors

### Financial assumptions

Nominal discount rate	4.448% pa
Real discount rate (in excess of CPI)	2.40% pa
Real discount rate (in excess of earnings)	0.24% pa

### Mortality assumptions

Base mortality tables and adjustments	Male Members: 106% of S2NMA_L and Female Members:  75% of S1NFA_L up to age 79, 86% at ages 80 to 84, 100% at ages 85 to 89, 108% from age 90  Male Dependants: 120% of S2NMA Female Dependants: 95% of S2DFA
Future mortality improvements	Based on ONS principal UK population projections 2016
Year of Use	2020

### Other assumptions

Age difference between member and beneficiary	Zero if same gender; otherwise male members assumed 3 years older and female members assumed 2 years younger
Allowance for commutation	Nil



## Appendix C: Limitations

- 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 the purchase of additional family benefit 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 the purchase of additional family benefit 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 DfE and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.