



Teachers' Pension Scheme

Final salary and career average sections

Lifetime Allowance tax charge debits

Factors and guidance

Date: 11 September 2019





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1 Introduction

Purpose

- 1.1 This note is provided for the Department for Education (DfE) as scheme manager of the Teachers' Pension Scheme (TPS or 'the scheme'). It covers the calculation formulae and factors to use to determine the debit to apply to a member's pension at retirement once it has been determined that a Lifetime Allowance (LTA) tax charge will be paid from the scheme.
- 1.2 Please follow legislation, HMRC guidance and any additional guidance issued by Teachers' Pensions when determining the amount of any tax charge that will be paid from the scheme.
- 1.3 This document relates to regulation 123 of The Teachers' Pensions Regulations 2010 (SI 2010/990) and regulation 182 of The Teachers' Pension Scheme Regulations 2014 (SI 2014/512).
- 1.4 The factors and guidance provided in this note have been prepared in light of our advice to DfE dated 30 October 2018 and subsequent correspondence, and its instructions following that advice.
- 1.5 This guidance is intended to supersede any factors or advice previously issued, for the purposes of lifetime allowance debit calculations, which rely on input from the Scheme Actuary. In particular, this guidance supersedes:
 - *Teachers' Pension Scheme - Final salary sections and career average section: Lifetime Allowance Tax Charge Debits- Factors and guidance* dated 10 May 2016.
- 1.6 The factors in this note have been updated but the calculation methodology remains unchanged.
- 1.7 Section 2 covers the calculation and implementation of LTA debits. An illustrative example is set out in Section 3.
- 1.8 The factors are provided in Appendix A, details of the principal assumptions underlying the factors contained in this guidance note can be found in Appendix B and some important limitations can be found in Appendix C.

Exclusions

- 1.9 This guidance note should only be used for calculating the reduction to benefits due to a LTA tax charge. It should not be used for any other purpose.



Implementation and review

- 1.10 The factors contained in this guidance will apply from a date to be determined by DfE. The guidance will apply with immediate effect from the date this note is issued.
- 1.11 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.
- 1.12 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.
- 1.13 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.
- 1.14 The remainder of this note covers the factor tables, guidance on their use and a number of worked examples. These are provided separately for the final salary and career average sections of the scheme.

Third party reliance

- 1.15 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 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.
- 1.16 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 Lifetime Allowance debits

- 2.1 The process below is appropriate for members at retirement and subject to benefit reduction due to an LTA tax charge.
- 2.2 The determination of LTA charges is outside the scope of this note but such charges should be determined after the member has decided the form of benefits to be taken (i.e. after commutation decisions).
- 2.3 This section sets out the guidance for calculating the LTA debit which will be applied to a member's benefits.
- 2.4 Members in all sections will have a debit applied to their pension benefits.
- 2.5 The LTA debits will not be applied to the benefits payable to a future surviving spouse, civil partner or children on the member's death.

Factors

- 2.6 The factors to be used to determine the member's pension reduction to cover an LTA charge are included in Tables LTA_NH1 (Table 610 in consolidated factors spreadsheet) for members retiring on grounds of normal health) and LTA_IH1 (Table 611 in consolidated factors spreadsheet) for members retiring on grounds of ill health in Appendix A.
- 2.7 The appropriate factor, F_p , will depend on the member's age (last birthday) at their date of retirement and whether or not they have retired on the grounds of ill health.



Calculations – NPA 60 final salary benefits

- 2.8 The LTA debits to apply to a member's pension entitlements at retirement should be calculated as shown below.
- 2.9 The LTA pension debit ('LTAPD') is calculated as:

$$\text{LTAPD} = \text{LTATC} \div F_p$$

LTATC	LTA tax charge payable by the scheme administrator
F_p	factor for tax charge on member's pension – Table LTA_NH1 (Table 610) or LTA_IH1 (Table 611)

- 2.10 No debit is to be applied to the member's lump sum.

Calculations – NPA 65 final salary or career average section benefits

- 2.11 The LTA debits to apply to a member's pension entitlement at retirement should be calculated as shown below.
- 2.12 The LTA pension debit ('LTAPD') is calculated as:

$$\text{LTAPD} = \text{LTATC} \div F_p$$

LTATC	LTA tax charge payable by the scheme administrator
F_p	factor for tax charge on member's pension – Table LTA_NH1 (Table 610) or LTA_IH1 (Table 611)

Exclusions

- 2.13 Please note that if a member:
- takes their pension early due to ill health, and
 - is aged under 55 at the time their pension commences, and
 - pension increases are not granted until age 55
- then the case should be referred to GAD.



3 Example

Member retiring at age 60 on ordinary grounds from the final salary section with NPA 60 benefits only, with LTA charge

The following information is needed for this calculation:

A. Member date of birth	1 January 1960
B. Retirement date	1 January 2020
C. Member age	60
D. LTA charge	£30,000

Under 2.9, the LTA pension debit is calculated as:

$$\text{LTAPD} = \text{LTATC} \div F_p$$

We have:

LTATC = 30,000 (from D.)

F_p = 20.79 (from **Table LTA_NH1**)

Substituting these values into the formula we get:

$$\begin{aligned}\text{LTAPD} &= £30,000 \div 20.79 \\ &= £1,443.00\text{pa}\end{aligned}$$

The member's pension will be reduced by **£1,443.00** per annum until the member dies.

Appendix A: Factors for calculating LTA debit

Table LTA_NH1

Table 610 in consolidated factors spreadsheet

Factors to calculate debit to pension for LTA tax charges for retirements not on grounds of ill health

Age last birthday at relevant date	LTA debit factor per £1 pension pa
55	23.17
56	22.71
57	22.24
58	21.77
59	21.28
60	20.79
61	20.28
62	19.77
63	19.25
64	18.72
65	18.19
66	17.64
67	17.09
68	16.54
69	15.97
70	15.40
71	14.82
72	14.24
73	13.66
74	13.07

Table LTA_IH1

Table 611 in consolidated factors spreadsheet

Factors to calculate debit to pension for LTA tax charges for retirements on grounds of ill health

Age last birthday at relevant date	LTA debit factor per £1 of pension per annum
20	29.39
21	29.20
22	29.01
23	28.82
24	28.63
25	28.44
26	28.25
27	28.06
28	27.87
29	27.68
30	27.49
31	27.31
32	27.11
33	26.92
34	26.72
35	26.51
36	26.31
37	26.10
38	25.88
39	25.65
40	25.42
41	25.18
42	24.92
43	24.66
44	24.39
45	24.10
46	23.80
47	23.49
48	23.17
49	22.84
50	22.49
51	22.14
52	21.78
53	21.41
54	21.02
55	20.63
56	20.24
57	19.83
58	19.41
59	18.99
60	18.53



61	18.04
62	17.55
63	17.06
64	16.57
65	16.07
66	15.57
67	15.05



Appendix B: Principal 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 and adjustments	Male member: 106% of S2NMA_L Female member: 75% of S1NFA_L up to age 79, 86% at ages 80 to 84, 100% at ages 85 to 89, 108% from age 90 (as per 2016 valuation)
Future mortality improvements	Based on ONS principal UK population projections 2016
Year of Use	2020

Other assumptions

Proportion of male members for unisex factors	30%
Allowance for commutation	Nil other than for mandatory lump sum cases

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 lifetime allowance pension debit 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 lifetime allowance pension debit 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.