Government
Actuary's
Department

Teachers' Pension Scheme

Final salary sections and career average section

Premature retirement

Factors for capitalising the cost of compensation

Date: 3 October 2019

Contents

1 Introduction

1.1 This note is provided for the Department for Education (DfE) as scheme manager of the Teachers' Pension Scheme (TPS). These tables should be used to capitalise the cost to be paid by employers for granting premature retirement compensation.

1.2 These factors are to be used to calculate the actuarial value of compensation payable under Regulations 35(6), 35(7) and 36(2)(b) of *The Teachers (Compensation for Redundancy and Premature Retirement) Regulations 2015* (SI 2015/601).

1.3 The factors provided in this Note have been prepared in light of our advice to the Department for Education dated 30 October 2018 and its instructions following that advice.

1.4 This guidance is intended to supersede any factors or advice previously issued for the purposes of premature retirement capitalisation cost calculations, carried out from 21 December 2018, which rely on input from the Scheme Actuary. In particular this guidance supersedes:

"Teachers' Pension Scheme: Final Salary sections and Career Average section: Premature Retirement – Factors for capitalising the cost of compensation" dated 10 April 2015.

1.5 These factors do not cover any lump sum compensation amounts, which should be added as appropriate.

1.6 The principal assumptions underlying the factors contained in this guidance note can be found in Appendix B and some important limitations are set out in Appendix C.

Implementation and Review

1.7 The factors contained in this guidance will apply from 21 December 2018. This implementation date has been determined by GAD. This guidance will apply from the date issued on the cover.

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 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 Methodology

2.1 Regulations 19 and 20 of the Teachers (Compensation for Redundancy and Premature Retirement) Regulations 2015 (SI 2015/601) sets out the method by which the annual compensation should be calculated.

2.2 This section sets out the guidance for methodology to be used to calculate the cost of annual compensation which is to be met by the compensating authority under regulations 35 and 36 of the Teachers (Compensation for Redundancy and Premature Retirement) Regulations 2015 (SI 2015/601).

2.3 The methodology below applies to members in all sections of the scheme.

Factors

2.4 Factors in table 702 should be used to capitalise the cost of the annual compensation payable to the member.

Factors depend on the age but not the sex of the member.

2.5 Factors in table 712 should be used to capitalise the cost of the contingent long-term compensation payable on the death of the member (whether or not the member currently has a qualifying partner).

The factors should be selected according to the member's age. Factors do not depend on the age of the partner, or the sex of the member or the partner.

2.6 Factors are shown per £1 per annum of additional pension awarded.

Calculation

2.7 The capitalisation cost at retirement should be calculated as shown below.

Capitalisation cost = (Annual pension x F_p) + (Annual spouse's pension x F_{sp})

Annual pension	Annual compensation payable to the member at retirement in accordance with the regulations
Annual spouse's pension	Contingent long-term compensation payable on the death of the member in accordance with the regulations
F_p	Factor for capitalising the cost of the member's annual compensation – Table 702 (Table 801 in consolidated factors spreadsheet)
F_{sp}	Factor for capitalising the cost of the member's annual compensation – Table 712 (Table 802 in consolidated factors spreadsheet)

3 Example

Member retiring at age 55 on redundancy grounds from the final salary section

The following information is needed for this calculation:

A.	Member date of birth	1 January 1965
B.	Retirement date	1 January 2020
C.	Member age	55
D.	Additional member pension awarded on premature retirement	£3,500
E.	Additional spouse's pension awarded on premature retirement	£1,750 *

* To be included in the capitalisation cost regardless of whether the member has a qualifying partner at the premature retirement date.

Under 2.7, the capitalisation cost is calculated as:

Capitalisation cost = Annual pension x F_p + Annual spouse's pension x F_{sp}

We have:
Annual pension = £3,500 (from **D.**)
Annual spouse's pension = £1,750 (from **E.**)

F_p = 23.2 (from **Table 702**)
F_{sp} = 1.4 (from **Table 712**)

Substituting these values into the formula we get:

Capitalisation cost = (£3,500 x 23.2) + (£1,750 x 1.4)
= £81,200 + £2,450
= £83,650

Appendix A: Factor tables

Table 702 (Table 801 in consolidated factors spreadsheet):
Factors for capitalising the cost of the member's annual compensation (per £1pa of additional pension)

Age last birthday	Factor
55	23.2
56	22.7
57	22.2
58	21.8
59	21.3
60	20.8
61	20.3
62	19.7
63	19.2
64	18.7
65	18.1
66	17.6
67	17.0
68	16.5
69	15.9
70	15.3
71	14.7
72	14.1
73	13.5
74	12.9
75	12.3
76	11.7
77	11.1
78	10.5
79	9.9
80	9.3

Table 702 (continued) (Table 801 in consolidated factors spreadsheet): Factors for capitalising the cost of the member's annual compensation (per £1pa of additional pension)

Age last birthday	Factor
81	8.7
82	8.1
83	7.6
84	7.0
85	6.5
86	6.0
87	5.5
88	5.1
89	4.7
90	4.3
91	3.9
92	3.6
93	3.3
94	3.1
95	2.9
96	2.6
97	2.4
98	2.3
99	2.1
100	2.0

Table 712 (Table 802 in consolidated factors spreadsheet):
Factors for capitalising the cost of the contingent partner's long-term compensation (per £1pa of additional pension)

Age last birthday	Factor
55	1.4
56	1.4
57	1.4
58	1.4
59	1.4
60	1.5
61	1.5
62	1.5
63	1.5
64	1.5
65	1.5
66	1.5
67	1.5
68	1.5
69	1.5
70	1.4
71	1.4
72	1.4
73	1.4
74	1.4
75	1.3
76	1.2
77	1.2
78	1.2
79	1.2
80	1.0

Table 712 (continued) (Table 802 in consolidated factors spreadsheet):
Factors for capitalising the cost of the contingent partner's long-term compensation (per £1pa of additional pension)

Age last birthday	Factor
81	1.0
82	0.9
83	0.9
84	0.8
85	0.7
86	0.6
87	0.6
88	0.6
89	0.5
90	0.4
91	0.3
92	0.3
93	0.3
94	0.3
95	0.3
96	0.2
97	0.2
98	0.2
99	0.2
100	0.2

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 premature retirement cost capitalisation 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 premature retirement cost capitalisation 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.