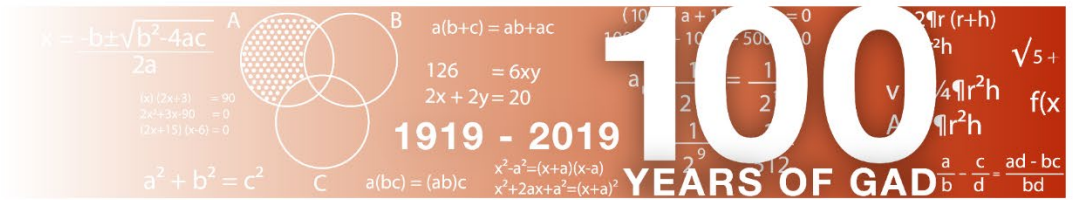




Government
Actuary's
Department



Teachers' Pension Scheme

Final salary sections and career average section

Conversion of lump sum to pension

Factors and guidance

Date: 24 June 2019





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1 Introduction

- 1.1 This note is provided for the Department for Education (DfE) as scheme manager of the Teachers' Pension Scheme (TPS).
- 1.2 The purpose of this note is to provide the DfE with factors to be used to calculate the pension payable to a member due to the conversion of a cash payment, such as a lump sum or repayment of contributions and accompanying guidance to demonstrate how these factors should be applied.
- 1.3 This document relates to regulations 61, 62, 77, and 78 of the Teachers' Pensions Regulations 2010 (S1 2010/990) and to regulation 125 of the Teachers' Pension Scheme Regulations 2014 as amended (S1 2014/512).
- 1.4 The scope of cases that are covered by this guidance is detailed later in this note. Cases which are not covered by this guidance should be referred to GAD.
- 1.5 This guidance supersedes the previous version of the guidance, "*Teachers' Pension Scheme: Final salary sections and career average section: Conversion of lump sum to pension: Factors and guidance*" dated 15 February 2016.

Assumptions

- 1.6 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.
- 1.7 Details of the assumptions underlying the factor tables in this guidance are set out in Appendix B.

Exclusions

- 1.8 These factors should not be used for inverse commutation arising from a failure to sign the declaration required under regulation 108 of the Teachers' Pensions Regulations 2010.

Implementation and review

- 1.9 The factors contained in this guidance were implemented in advance of this note, at a date chosen by DfE. This guidance will apply from the date issued on the cover.
- 1.10 The remainder of this note covers the factor tables, guidance on their use and worked examples.
- 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.

Third party reliance

- 1.14 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.
- 1.15 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 Lump sum conversion

- 2.1 Various restrictions on lump sum payments are imposed by the pension taxation regime under Finance Act 2004 and other relevant legislation. Teachers' Pensions (the scheme administrator) should ensure that the payment of benefits is compliant with these as well as with the Teachers' Pension Scheme Regulations.
- 2.2 The annual pension amount payable in respect of conversion of a lump sum (in addition to any other pension in payment) should be determined as follows:
- $$\frac{\text{Lump sum amount}}{\text{Factor}}$$
- 2.3 The 'Lump sum amount' is the amount that would otherwise be received by the member if the lump sum or repayment of contributions could be made under the scheme regulations.
- 2.4 The 'Factor' should be determined from the tables in Appendix A as applicable for the member's age (in completed years). The factors apply to both male and female members.
- 2.5 Table A1 contains factors for ages 75 and above. These factors are to be used for the conversion of a lump sum for **final salary section** members over age 75¹ (regulation 61 of the Teachers' Pensions Regulations 2010).
- 2.6 Table A2 contains factors below age 75. These factors are to be used for converting the repayment of contributions to an annuity or a lump sum to a pension where:
- > A **final salary section** member has undertaken further employment but failed to complete the one year qualifying period for further benefits (regulation 78 of the Teachers' Pensions Regulations 2010); or
 - > A **final salary section** member does not satisfy the service qualifying conditions, had a salary of over £5,000 and did not accrue service after 5 April 1980 (regulation 77 of the Teachers' Pensions Regulations 2010); or
 - > A **final salary section** member's automatic retirement lump sum exceeds the permitted maximum and the excess is to be converted into a pension (regulations 61(5)(d) and 62(3) of the Teachers' Pensions Regulations 2010); or
 - > A **career average section** member under age 75 does not satisfy the service qualifying conditions (regulation 125 of the Teachers' Pension Scheme Regulations 2014).

¹ Note the Finance Act 2011 has removed many of the restrictions on paying lump sum benefits to members over 75.



- 2.7 The annuity under regulation 77 of the Teachers' Pensions Regulations 2010 (applicable for final salary section members only) is payable from life from the member's 60th birthday. Therefore, the factors to be used are those at age 60.
- 2.8 The annual pension amount calculated using the factors in this guidance note is payable to the member only. A pension will not be paid to any surviving dependant following a member's death.
- 2.9 For the avoidance of doubt, the Tables in Appendix A should not be used for inverse commutation arising from a failure to sign the declaration under regulation 108 of the Teachers' Pensions Regulations 2010.



3 Examples

3.1 **Example 1:** Conversion of lump sum for member over 75

Date of birth: 19 September 1939

Effective conversion date: 23 November 2020

Lump sum: £15,000

Age in complete years on effective conversion date: 81

Annual pension payable: $15,000 / 9.1 = £1,648.35$ pa

3.2 **Example 2:** Conversion of repayment of contributions for member under age 75.

Date of birth: 6 December 1947

Effective conversion date: 21 March 2019

Value of member's contributions at effective conversion date: £1,080

Age in complete years on effective conversion date: 71

Pension Payable: $£1,080 / 14.8 = £72.97$ pa

3.3 **Example 3 (applies to final salary sections only):** Conversion of repayment of contributions for member with no service since 5 April 1980, and salary was greater than £5,000

Date of birth: 16 March 1955

Effective conversion date: 16 March 2019

Value of member's contributions at effective conversion date: £4,000

Age in complete years on effective conversion date: 64

Pension Payable: $4,000 / 18.7 = £213.90$ pa



3.4 **Example 4:** Conversion of retirement lump sum in excess of permitted maximum

Date of birth: 16 September 1960

Effective conversion date: 16 September 2020

Original retirement pension: £88,000

Original retirement lump sum: £264,000

Permitted maximum lump sum: £250,000

Age in complete years on effective conversion date: 60

Pension payable in respect of excess lump sum above the permitted maximum:

$$(\pounds264,000 - \pounds250,000) / 20.8 = \pounds673.08 \text{ pa}$$

Total pension paid to the member: £88,000 + £673.08 = £88,673.08

The member would receive a retirement lump sum of £250,000 and a pension of £88,673.08 pa (of which £673.08 is in respect of the retirement lump sum above the permitted maximum).



Appendix A: Factors

Table A1: Conversion factors for members over age 75

Consolidated factor spreadsheet table number 504

| Age last birthday | Factor |
|--------------------------|---------------|
| 75 | 12.5 |
| 76 | 11.9 |
| 77 | 11.3 |
| 78 | 10.8 |
| 79 | 10.2 |
| 80 | 9.7 |
| 81 | 9.1 |
| 82 | 8.6 |
| 83 | 8.2 |
| 84 | 7.7 |
| 85 | 7.3 |
| 86 | 6.9 |
| 87 | 6.6 |
| 88 | 6.3 |
| 89 | 6.0 |
| 90 | 5.8 |
| 91 | 5.6 |
| 92 | 5.4 |
| 93 | 5.3 |
| 94 | 5.2 |
| 95 | 5.1 |



Table A2: Lump sum conversion factors in lieu of repayment of contributions or any retirement lump sum above the permitted maximum

Consolidated factor spreadsheet table number 505

| 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 | 19.8 |
| 63 | 19.3 |
| 64 | 18.7 |
| 65 | 18.2 |
| 66 | 17.6 |
| 67 | 17.1 |
| 68 | 16.5 |
| 69 | 16.0 |
| 70 | 15.4 |
| 71 | 14.8 |
| 72 | 14.2 |
| 73 | 13.7 |
| 74 | 13.1 |



Appendix B: Assumptions underlying factors

Financial assumptions

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

Mortality assumptions

Base mortality tables and adjustments:

| | Males | Females |
|------------------------------|-----------------|---|
| Retirements in normal health | 106% of S2NMA_L | Age dependant adjustments to S1NFA_L: ≤79: 75% 80-84: 86% 85-89: 100% ≥90: 108% |
| Future mortality improvement | | Based on ONS principal UK population projections 2016 |
| Year of Use | | 2020 |

Other assumptions

| | |
|---|---|
| Proportion of male members for unisex factors | 30% |
| Proportion married | 77% (Male) and 58% (Female) assumed married at retirement. |
| Age difference between member and partner | Male members 3 years older than spouse and female members 2 years younger than their spouse |
| 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 inverse commutation 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 inverse commutation 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.