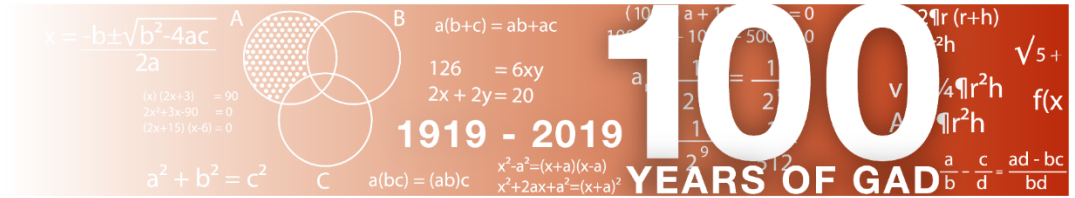




Government  
Actuary's  
Department



## Teachers' Pension Scheme

### Final salary section and career average section

Over NPA non-Club incoming transfers

Factors and guidance

Date: 27 October 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). It sets out how to determine the appropriate service credit or pension credit for incoming non-Club transfers into the TPS for final salary section members and career average section members above NPA.
- 1.2 A service credit in respect of a non-Club transfer value may be awarded in the final salary section of the TPS in accordance with Paragraph 12(2) of Schedule 6 to The Teachers' Pension Scheme Regulations 2010 (SI 2010/990).
- 1.3 A pension credit in respect of a non-Club transfer value may be awarded in the career average section of the TPS in accordance with Paragraph 206 of The Teachers' Pension Scheme Regulations 2014 (SI 2014/512).
- 1.4 The factors provided in this note have been prepared in light of our advice to DfE dated 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 non-club incoming transfer calculations for members over their NPA, which rely on input from the Scheme Actuary. In particular, this guidance supersedes:
- “Teachers' Pension Scheme: Final salary sections and career average section. Over-NPA Non-Club incoming transfers – Factors and guidance” dated 14 May 2015.
- 1.6 Transfers-in in respect of members over NPA are not normally permitted in the TPS. This guidance is only intended to be used for cases allowed by the scheme manager where:
- a member's application was received before their NPA but the service credit or pension credit is calculated with an effective date after their NPA; or
  - discretion has been exercised to allow a post NPA transfer-in.
- 1.7 The formulae and factors for calculating the service credit or pension credit to be awarded are set out in the following sections:
- Section 2 covers the calculation of the service credit to be awarded to a NPA 60 member over NPA in the final salary section.
  - Section 3 covers the calculation of the service credit to be awarded to a NPA 65 member over NPA in the final salary section.
  - Section 4 covers the calculation of the pension credit to be awarded to a member over NPA in the career average section.
- 1.8 The relevant factors for all sections are set out in Appendix A.
- 1.9 Appendix B sets out the principal assumptions underlying the factors contained in this guidance note. Some important limitations can be found in Appendix C



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## Exclusions

- 1.10 This note only covers non-Club incoming transfers into the TPS for NPA 60 final salary members aged 60 to 74, NPA 65 final salary members aged 65 to 74 and career average section members aged NPA to 74.
- 1.11 *Teachers' Pension Scheme: Final salary and career average section: Non-Club incoming transfers: Factors and guidance* should be used for non-Club incoming transfers into the TPS for members aged under NPA.
- 1.12 Different instructions and factors should be used to calculate service credits or pension credits for transfers made in accordance with the Public Sector Transfer Club.

## Implementation and Review

- 1.13 In previous factors and guidance, an adjustment was applied to GMP to reflect the inflationary increases on the GMP, which were the responsibility of the State Scheme after GMP Payment Age. Following the requirement to equalise GMPs as set out in our letter "GMP Equalisation: Calculations involving actuarial factors" dated 12 August 2019, the GMP adjustment factor has been removed from the calculation methodology for all members reaching State Pension age after 6 April 2016 with effect from the date of receipt of this guidance note.
- 1.14 Our understanding of the usual transitional arrangements for transfer in calculations is that quotes are made using factors effective at that time. Therefore, we suggest the following transitional arrangements could be reasonable for transfer in calculations:
- Where the transfer in has been completed before the effective date of the new approach, this original credit should be honoured. Furthermore, transfer in quotations provided before the effective date of the new approach could remain valid where monies are received within one year of a member's starting date. As noted previously, this is pending any decision to subsequently take retrospective action on completed cases.
  - For any other quotations in progress after the effective date of the new approach, this new approach would be used for the calculation.
- 1.15 We recommend that the new approach in respect of GMP entitlements is implemented from the date of receipt of each of our updated guidance notes.
- 1.16 The factors contained in this guidance will apply from 29 October 2018. This implementation date has been determined by DfE. This guidance will apply from the date this note is issued.
- 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 Teachers' Pension Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to DfE.
- 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 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 Teachers' Pensions 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 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 Service credit formula – Final salary section, NPA 60

- 2.1 This section illustrates how a service credit should be calculated for a member who is over NPA and is transferring service into the NPA 60 final salary section of the TPS.
- 2.2 The service credit awarded to the member should be calculated as:

$$service = \frac{CETV}{\left[ \frac{1}{80} \times F_x^P + \frac{3}{80} \times F_x^{LS} + \frac{1}{160} \times F_x^S \right]} \times CS$$

where

- $CETV$  = the member's incoming transfer value
- $CS$  = member's final contributable salary (per annum) at the relevant date
- $F_x^P$  = relevant gross pension factor for a member aged x
- $F_x^{LS}$  = relevant lump sum factor for a member aged x
- $F_x^S$  = relevant survivor's pension factor for a member aged x

- 2.3 The factors are set out in Appendix A. Factors should be selected with reference to a member's sex and age.
- 2.4 The tables in Appendix A cover NPA 60 members aged 60-74.



### 3 Service credit formula – Final salary section, NPA 65

- 3.1 This section illustrates how a service credit should be calculated for a member who is over NPA and is transferring service into the NPA 65 final salary section.
- 3.2 The service credit awarded to the member should be calculated as:

$$service = \frac{CETV}{\left[ \frac{1}{60} \times F_x^P + \frac{1}{160} \times F_x^S \right]} \times CS$$

where

- $CETV$  = the member's incoming transfer value
- $CS$  = member's final contributable salary (per annum) at the relevant date
- $F_x^P$  = relevant gross pension factor for a member aged x
- $F_x^S$  = relevant survivor's pension factor for a member aged x

- 3.3 The factors are set out in Appendix A. Factors should be selected with reference to a member's sex and age.
- 3.4 The tables in Appendix A cover NPA 65 final salary section members aged 65 – 74.



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## 4 Pension credit formula – Career average section

- 4.1 This section illustrates how a pension credit should be calculated for a member who is over NPA and is transferring pension into the career average section of the TPS.
- 4.2 The pension credit awarded to the member should be calculated as:

$$\text{pension credit} = \frac{CETV}{\left[ F_x^P + \frac{3}{8} \times F_x^S \right]}$$

where

$CETV$  = the member's incoming transfer value

$F_x^P$  = relevant gross pension factor for a member aged  $x$

$F_x^S$  = relevant survivor's pension factor for a member aged  $x$

- 4.3 The relevant factors are set out in Appendix A. Factors should be selected with reference to a member's sex and age.
- 4.4 The tables in Appendix A cover members in the career average section with:
- a normal pension age of 65, aged 65 – 74
  - a normal pension age of 66, aged 66 – 74
  - a normal pension age of 67, aged 67 – 74
  - a normal pension age of 68, aged 68 – 74





## 5 Example calculations

### Example 1: Female member – NPA 60 scheme member

Date of birth	18/08/1957
Normal Pension Age	60
Calculation date	15/04/2020
Age last birthday	62 years
Final contributable salary at relevant date	£30,000
Transfer value received	£35,000
Relevant formula	Paragraph 2.2
Relevant table	Table 613 in guidance, x-240 in consolidated factors spreadsheet
Gross Pension factor	19.74
Lump sum factor	1.00
Survivor's pension factor	1.48

### Service credit awarded

$$\begin{aligned}
 \text{service} &= \frac{[CETV]}{\left[ \frac{1}{80} \times F_x^P + \frac{3}{80} \times F_x^{LS} + \frac{1}{160} \times F_x^S \right] \times CS} \\
 &= \frac{£35,000.00}{\left[ \frac{1}{80} \times 19.74 + \frac{3}{80} \times 1.00 + \frac{1}{160} \times 1.48 \right] \times £30,000.00} \\
 &= 3.975 \text{ years' service credit (3 years 356 days)}
 \end{aligned}$$



**Example 2: Male member – NPA 65 scheme member**

Date of birth	18/08/1951
Normal Pension Age	65
Calculation date	15/04/2020
Age last birthday	68 years
Final contributable salary at relevant date	£25,000
Transfer value received	£30,000
Relevant formula	Paragraph 3.2
Relevant table	Table 603 in guidance, x-239 in consolidated factors spreadsheet
Gross Pension factor	16.46
Survivor's pension factor	1.51

**Service credit awarded**

$$\begin{aligned}
 \text{service} &= \frac{[CETV]}{\left[ \frac{1}{60} \times F_x^P + \frac{1}{160} \times F_x^S \right] \times CS} \\
 &= \frac{£30,000.00}{\left[ \frac{1}{60} \times 16.46 + \frac{1}{160} \times 1.51 \right] \times £25,000.00}
 \end{aligned}$$

= 4.2288 years' service credit (4 years 84 days)



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**Example 3: Male member – Career Average scheme member**

Date of birth	05/12/1950
Normal Pension Age	65
Calculation date	15/04/2020
Age last birthday	69 years
Transfer value received	£25,000
Relevant formula	Paragraph 4.2
Relevant table	Table 603 in guidance, x-239 in consolidated factors spreadsheet
Gross Pension factor	15.89
Survivor's pension factor	1.49

**Transferred in pension awarded**

$$pensioncredit = \frac{[CETV]}{\left[F_x^P + \frac{3}{8} \times F_x^S\right]}$$

$$= \frac{£25,000.00}{\left[15.89 + \frac{3}{8} \times 1.49\right]}$$

$$= £1,519.87 \text{ per annum}$$



## Appendix A: Over NPA factors

Table 603 (Table 239 in consolidated factors spreadsheet): Factors for over NPA non-Club incoming transfers - men

Age last birthday at relevant date	Gross Pension of £1 per annum	Lump sum of £1	Survivor's Pension of £1 per annum
60	20.78	1.00	1.46
61	20.27	1.00	1.47
62	19.74	1.00	1.48
63	19.21	1.00	1.50
64	18.68	1.00	1.50
65	18.13	1.00	1.49
66	17.58	1.00	1.49
67	17.03	1.00	1.50
68	16.46	1.00	1.51
69	15.89	1.00	1.49
70	15.30	1.00	1.45
71	14.72	1.00	1.43
72	14.12	1.00	1.43
73	13.52	1.00	1.42
74	12.91	1.00	1.38

**Notes:**

1. As noted in paragraph 1.9, the GMP adjustment factor has been removed from the calculation methodology
2. This table covers men with:
  - a normal pension age of 60, aged 60 – 74
  - a normal pension age of 65, aged 65 – 74
  - a normal pension age of 66, aged 66 – 74
  - a normal pension age of 67, aged 67 – 74
  - a normal pension age of 68, aged 68 – 74



**Table 613 (Table 240 in consolidated factors spreadsheet): Factors for over NPA non-Club incoming transfers - women**

Age last birthday at relevant date	Gross Pension of £1 per annum	Lump sum of £1	Survivor's Pension of £1 per annum
60	20.78	1.00	1.46
61	20.27	1.00	1.47
62	19.74	1.00	1.48
63	19.21	1.00	1.50
64	18.68	1.00	1.50
65	18.13	1.00	1.49
66	17.58	1.00	1.49
67	17.03	1.00	1.50
68	16.46	1.00	1.51
69	15.89	1.00	1.49
70	15.30	1.00	1.45
71	14.72	1.00	1.43
72	14.12	1.00	1.43
73	13.52	1.00	1.42
74	12.91	1.00	1.38

**Notes:**

1. As noted in paragraph 1.9, the GMP adjustment factor has been removed from the calculation methodology
2. This table covers women with:
  - a normal pension age of 60, aged 60 – 74
  - a normal pension age of 65, aged 65 – 74
  - a normal pension age of 66, aged 66 – 74
  - a normal pension age of 67, aged 67 – 74
  - a normal pension age of 68, aged 68 – 74



## Appendix B: Assumptions underlying factors

### Financial assumptions

Nominal discount rate	4.448% pa
CPI	2.00% pa
Long term earnings growth	4.20% pa
Real discount rate (in excess of CPI)	2.40% pa
Real discount rate (in excess of general earnings growth)	0.24% 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
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	30%
Age difference between member and partner	Males assumed 3 years older than female partner and females assumed to be 2 years younger than partner. As assumed for the 2016 valuation
Proportions partnered	77% (male) and 58% (Female) assumed married or partnered at retirement
Allowance for commutation	Nil



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## 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 over-NPA non-club incoming transfer 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 over-NPA non-club incoming transfer 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.