



Government Actuary's Department

Teachers' Pension Scheme

Final salary sections and career average section

Conversion of lump sum to pension

Factors and guidance

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Authors: Matt Wood & Donal Cormican



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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) and sets out how 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.
- 1.2 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 (S1 2014/512).
- 1.3 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.
- 1.4 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 9 February 2015.

Assumptions

- 1.5 The factors provided in this note have been prepared in light of our advice to the Department for Education dated 26 November 2014 and 1 February 2016 and its instructions following that advice.

Exclusions

- 1.6 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

- 1.7 The implementation date of this guidance note is 15 February 2015.
- 1.8 The remainder of this note covers the factor tables, guidance on their use and worked examples.



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; there are no longer sex-specific factors.
- 2.5 Table A1 contains factors for ages 75 and above. These factors are to be used for the conversion of 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 1934

Effective conversion date: 23 November 2015

Lump sum: £15,000

Age in complete years on effective conversion date: 81

Annual pension payable: $15,000 / 9.5 = £1,578.95$ pa

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

Date of birth: 6 December 1943

Effective conversion date: 21 March 2015

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

Age in complete years on effective conversion date: 71

Pension Payable: $£1,080 / 14.7 = £73.47$ 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 2015

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

Age in complete years on effective conversion date: 60

Pension Payable: $4,000 / 19.7 = £203.05$ pa



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

Date of birth: 16 September 1956

Effective conversion date: 16 September 2016

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:

$$(\pounds 264,000 - \pounds 250,000) / 19.7 = \pounds 710.66 \text{ pa}$$

Total pension paid to the member: £88,000 + £710.66 = £88,710.66

The member would receive a retirement lump sum of £250,000 and a pension of £88,710.66pa (of which £710.66 is in respect of the retirement lump sum above the permitted maximum).



Appendix A: Factors

Table A1: Conversion factors for members over age 75

Age last birthday	Factor
75	12.6
76	12.1
77	11.6
78	11.0
79	10.5
80	10.0
81	9.5
82	9.0
83	8.5
84	8.1
85	7.6
86	7.2
87	6.9
88	6.5
89	6.3
90	6.0
91	5.8
92	5.6
93	5.4
94	5.3
95	5.2



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

Age last birthday	Factor
55	21.6
56	21.2
57	20.9
58	20.5
59	20.1
60	19.7
61	19.3
62	18.9
63	18.4
64	18.0
65	17.6
66	17.1
67	16.6
68	16.2
69	15.7
70	15.2
71	14.7
72	14.1
73	13.6
74	13.1