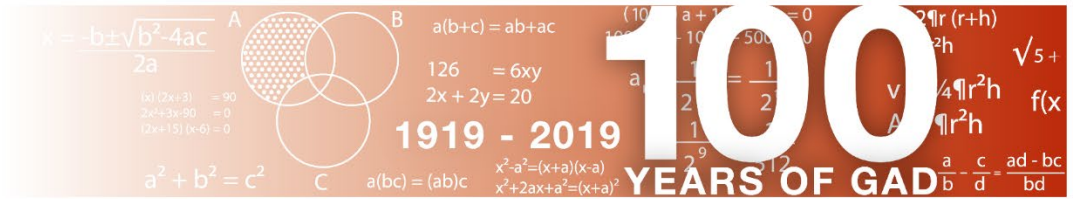




Government
Actuary's
Department



The Firefighters' Pension Scheme 2015 (Wales)

Lifetime Allowance pension debit

Factors and guidance

Date: 26 November 2019





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1 Introduction

- 1.1 Welsh Ministers, as responsible authority under Schedule 2 paragraph 6 of the Public Service Pension Act 2013 ('the responsible authority') are required under the Firefighters' Pension Scheme (Wales) Regulations 2015 ('the 2015 Scheme Regulations') (SI 2015/622 (W. 50)), to issue actuarial guidance on the Lifetime Allowance pension debit that will be applied to a member's benefits (regulation 189 of the 2015 Scheme Regulations) if the member and scheme are jointly and severally liable to pay a Lifetime Allowance Charge but no payment has been made under Regulation 188 of the 2015 Scheme Regulations
- 1.2 In order to assess whether the member is required to pay a Lifetime Allowance charge, the combined capital value of the member's accrued rights contained within the 2015 Scheme and any other relevant sources, should be calculated in accordance with the requirements of the Finance Act 2004, associated regulations, and guidance from HM Revenue & Customs (HMRC).
- 1.3 This guidance does not consider the calculation of the capital value of the member's accrued rights, and associated Lifetime Allowance charge, if applicable. This guidance only applies to calculate the reduction to pension benefits where a Lifetime Allowance charge calculated in line with paragraph 1.9 is paid by the Scheme in accordance with Regulation 179 of the 2015 Scheme Regulations. It does not consider payment of a Lifetime Allowance charge under Regulation 178, a reduction to benefits other than pension benefits under Regulation 179, or the order in which member's choose to crystalize their benefits.
- 1.4 This note relates only to benefits accrued under the 2015 Scheme Regulations. Some firefighters may also have benefits under the 1992 Scheme or the NFPS Scheme which should be dealt with separately according to relevant guidance.
- 1.5 The factors provided in this Note have been prepared in light of our advice to Welsh Ministers dated 30 October 2018 and its instructions following that advice
- 1.6 This guidance is intended to supersede any factors or advice previously issued, for the purposes of divorce and pension credit/debit calculations, carried out from 28 January 2019 In particular, this guidance supersedes:
- 1.7 "The Firefighters' Pension Scheme 2015 (Wales): Lifetime Allowance Pension Debit" dated 13 May 2015. The remainder of this introduction contains:
 - Details of the implementation and future review of this guidance
 - Statements about the use of this note and third party reliance
- 1.8 In the remainder of this note:
 - Section 2 describes the issues and sets out the formulae
 - Section 3 contains examples
 - Section 4 sets out the factors to be used
 - Appendix A sets out the principal assumptions underlying the factors contained in this guidance note
 - Appendix B sets out some important limitation



Implementation and Review

- 1.9 The responsible authority is required to consult the scheme actuary before issuing actuarial guidance under the 2015 Scheme Regulations.
- 1.10 As part of this consultation the responsible authority has asked GAD, as scheme actuary, to recommend actuarial guidance in respect of the regulations detailed below. This document forms GAD's recommendation for the actuarial guidance required by these regulations.
- 1.11 This note has effect only when this guidance is issued by the responsible authority to scheme managers as defined in Regulation 4 of the 2015 Scheme Regulations, and is subject to the implementation instructions provided at that time.
- 1.12 This note relates to Lifetime Allowance pension debits that should be applied to a member's pension in accordance with Regulation 189 of the 2015 Scheme Regulations.
- 1.13 If required, further guidance could be provided to advise on situations in which a Lifetime Allowance charge may be due, and to calculate the size of the Lifetime Allowance charge in such circumstances.
- 1.14 The factors contained in this guidance will apply from 28 January 2019. This implementation date has been determined by the Welsh Government. This guidance will apply from the date of issue.
- 1.15 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the 2015 Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to the Firefighters' Pensions team at Welsh Government.
- 1.16 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.

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.

Use of this note

- 1.17 This note has been prepared for the responsible authority and can be relied upon by them. We are content for this note to be released to third parties, provided that:
 - it is released in full;
 - the advice is not quoted selectively or partially; and
 - GAD is identified as the source of the note.



- 1.18 Third parties may wish to seek their own actuarial advice where appropriate. GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this note.

Third party reliance

- 1.19 This guidance has been prepared for the use of Welsh Ministers and/or the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on Welsh Ministers and/or 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
- 1.20 Other than Welsh Ministers and/or 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 – pension debit

- 2.1 Under regulation 189 of the 2015 Scheme Regulations benefits are reduced in respect of any Lifetime Allowance charges to be recovered.
- 2.2 If the reduction is to pension benefits, there will be a consequential adjustment ('Lifetime Allowance debit') made to the member's pension entitlement from the 2015 Scheme in respect of charges met by the 2015 Scheme

Calculations

- 2.3 The Lifetime Allowance pension debit ('LTAPD') to apply to the member's pension entitlement at retirement is calculated as:

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

LTATC	Lifetime Allowance tax charge payable by the 2015 Scheme
RTF	The relevant factor can be found in Table A (Table 626 in consolidated factors spreadsheet) for members retiring on grounds of normal health or Table B (Table 627 in consolidated factors spreadsheet) for members retiring on grounds of ill health.

Application of Lifetime Allowance debits

- 2.4 Lifetime Allowance debits will be applied to member pension only.
- 2.5 The Lifetime Allowance debit will not be applied to the benefits payable to a future surviving spouse, civil partner, nominated partner or children on the member's death, including any lump sum on death before retirement.

Interactions between Annual Allowance debits and Lifetime Allowance

- 2.6 We understand that when calculating Lifetime Allowance charges the pension tested should be that which would come into payment after allowing for the impact of any Annual Allowance 'scheme pays' offsets. Any Lifetime Allowance pension debit should therefore be applied to the member pension after deduction for any Annual Allowance debit.



3 Example calculation

Example 1: Member retiring at age 65 on ordinary grounds, with Lifetime Allowance charge

The following information is needed for this calculation:

A. Member date of birth	1 January 1955
B. Retirement date	1 January 2020
C. Member age	65
D. Gender	Male
E. Lifetime allowance tax charge	£30,000

Under 2.3, the Lifetime Allowance pension debit is calculated as:

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

We have:

LTATC = £30,000 (from E.)

RTF = 16.53 (pensioner cash equivalent factors for divorce purposes are used. At the time of writing this guidance the current factor is given in **Table A** of this guidance).

Substituting these values into the formula we get:

$$\begin{aligned}\text{LTAPD} &= £30,000.00 \div 16.53 \\ &= £1,814.88 \text{ pa}\end{aligned}$$

The current pension will be reduced by **£1,814.88** per annum.



4 Tables of factors

Table A (Table 626 in consolidated factors spreadsheet) – Factors for calculating Lifetime Allowance debit – Factors for calculating Lifetime Allowance debit

Age last birthday at relevant date	Male factor	Female factor
55	21.67	21.67
56	21.19	21.19
57	20.70	20.70
58	20.20	20.20
59	19.69	19.69
60	19.18	19.18
61	18.66	18.66
62	18.14	18.14
63	17.61	17.61
64	17.07	17.07
65	16.53	16.53
66	15.99	15.99
67	15.44	15.44
68	14.89	14.89
69	14.34	14.34
70	13.79	13.79
71	13.24	13.24
72	12.69	12.69
73	12.14	12.14
74	11.60	11.60
75	11.06	11.06

Table B (Table 627 in consolidated factors spreadsheet) – Factors for calculating Lifetime Allowance debit – Factors for calculating Lifetime Allowance debit (ill health retirement)

Age last birthday at relevant date	Male factor	Female factor
20	33.58	33.58
21	33.35	33.35
22	33.12	33.12
23	32.88	32.88
24	32.64	32.64
25	32.39	32.39
26	32.14	32.14
27	31.88	31.88
28	31.61	31.61
29	31.34	31.34
30	31.06	31.06
31	30.77	30.77



32	30.48	30.48
33	30.18	30.18
34	29.87	29.87
35	29.56	29.56
36	29.24	29.24
37	28.91	28.91
38	28.58	28.58
39	28.24	28.24
40	27.89	27.89
41	27.53	27.53
42	27.17	27.17
43	26.80	26.80
44	26.42	26.42
45	26.03	26.03
46	25.63	25.63
47	25.22	25.22
48	24.81	24.81
49	24.38	24.38
50	23.95	23.95
51	23.50	23.50
52	23.05	23.05
53	22.59	22.59
54	22.12	22.12
55	21.64	21.64
56	21.15	21.15
57	20.65	20.65
58	20.15	20.15
59	19.64	19.64
60	19.13	19.13
61	18.60	18.60
62	18.07	18.07
63	17.53	17.53
64	16.99	16.99
65	16.44	16.44
66	15.88	15.88
67	15.32	15.32



Appendix A: Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.856% pa
CPI	2.00% pa
RPI	3.15% pa

Mortality assumptions

Base mortality tables and adjustments	As per 2016 valuation: Males: 113% of S2NMA and Females: 113% of S2NFA Dependant: 113% of S2NMA and 100% of S2NFA
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	95% for members and 5% for dependants
Age difference between member and partner	Males assumed 3 years older than female partner and females assumed to be 3 years younger than partner As assumed for the 2016 valuation
Proportions partnered	75% of members assumed married at retirement (80% assumed partnered)
Allowance for commutation	Nil



Appendix B: Limitations

- B.1 This guidance should not be used for any purpose other than those set out in this guidance.
- B.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.
- B.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.
- B.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.
- B.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.
- B.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 Welsh Ministers and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.