



# Government Actuary's Department

## **The Firefighters' Pension Scheme (Wales) 2015 Individual Cash Equivalent Transfers**

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## 1 Introduction

- 1.1 The 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 cash equivalent transfer values (regulation 146(1) of the 2015 Scheme Regulations).
- 1.2 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
- 1.3 In the remainder of this note:
  - > Sections 2, 3 and 4 describe the issues and set out the formulae
  - > Section 5 contains examples
  - > Appendix A sets out some important limitations
- 1.4 The Government Actuary's Department (GAD) seeks to achieve a high standard in all our work. Please go to our [website](#)<sup>1</sup> for details of the standards we apply.

### Implementation and Review

- 1.5 The responsible authority is required to consult the scheme actuary before issuing actuarial guidance under the 2015 Scheme Regulations.
- 1.6 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.
- 1.7 The responsible authority has confirmed that, for the purposes of regulations made under section 97 (calculation of cash equivalents) of the Pension Schemes Act 1993, the responsible authority will assume the role of manager the scheme.
- 1.8 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.
- 1.9 This note relates to cash equivalent transfer values payable or receivable in accordance with Part 10, Chapters 2 and 3 of the 2015 Scheme Regulations. The document sets out the general methods for assessing:
  - > Statutory (non-Club) cash equivalent transfer values; and
  - > The benefits to be provided in respect of incoming CETVs
- 1.10 This document does not cover Club transfers or details relating to calculation and application of CETV's on divorce.

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<sup>1</sup> <https://www.gov.uk/government/organisations/government-actuaries-department/about/terms-of-reference>



- 1.11 This guidance relates only to benefits accrued under the 2015 Scheme Regulations. Some firefighters may also have benefits under the 1992 Scheme or the NFPS which should be dealt with separately according to relevant scheme guidance.
- 1.12 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Firefighters' Pension Scheme (Wales) 2015. Any questions concerning the application of the guidance should, in the first instance, be referred to the Firefighters' Pensions team at Welsh Government.
- 1.13 The factors contained in this note will be reviewed periodically. This will depend on external circumstances, for example when changes in the actuarial assumptions adopted for other scheme factors take place; or following each cycle of future valuations of the Firefighters' Pension Scheme (Wales) 2015.
- 1.14 Scheme managers and administrators should ensure that they use the latest factors in circulation.

#### **Use of this note**

- 1.15 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.
- 1.16 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**

- 1.17 When issued by the responsible authority in accordance with paragraph 1.7 above, this note should be used as the actuarial guidance required under the regulations cited. Other than for this purpose, no person or third party is entitled to place any reliance on the contents of this note, except to any extent explicitly stated herein.



## 2 Transfers Out – general issues

### Entitlement to transfer

- 2.1 A transfer value may only be paid in accordance with regulation 142 of the 2015 Scheme Regulations and the provisions of the Pension Schemes Act 1993.

### Guarantee date

- 2.2 The relevant date for calculating a transfer value is the “guarantee date” as defined in The Occupational Pension Schemes (Transfer Values) Regulations 1996.
- 2.3 A transfer value should be guaranteed for three months from the guarantee date. If a request to pay the transfer value is made within three months of the guarantee date, it will not be necessary to recalculate the transfer value, provided the payment is made within 6 months of the guarantee date. If the payment is not made within that time, administrators must, for a CETV in accordance with the Occupational Pension Schemes (Transfer Values) Regulations 1996, pay the larger of:
- a) the recalculated transfer amount as at the date of payment, and
  - b) the original amount, increased with interest for the period between the guarantee date and the date of payment, calculated on a daily basis at an annual rate of 1% above base rate.

### Calculation of pension benefits

- 2.4 The benefits to be valued for serving firefighters are those that would be payable if the member had left service on the date of the calculation.
- 2.5 The benefits to be valued for a deferred member should include revaluation to the guarantee date. The accrued pension benefits should be calculated at the last day of service, and then increased in line with Pensions Increase (Review) Orders.

### Survivor's pension

- 2.6 The pension amount and factor for the survivor's pension do not depend on whether or not the member has a partner who would qualify for a survivor's pension in the event of the member's death.

### Changes to pension ages

- 2.7 The 2015 Scheme Regulations provide for a deferred pension to be payable without reduction for early payment from the higher of age 65 and the member's State Pension Age
- 2.8 The responsible authority has confirmed that State Pension Age for the purpose of calculating transfer value factors should be as set out in HM Treasury Directions made in exercise of the powers conferred on them by sections 11(2) and 12(3) of the Public Service Pensions Act 2013<sup>2</sup>, and not legislation in force at the guarantee date. Factors

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<sup>2</sup> A consolidated version of HM Treasury Directions dated 11 March 2014, including amendments made up to and including 3 March 2015, is found in the following link; SPA assumptions are set out at direction 18.  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/411287/HMT\\_Directions\\_9\\_Mar\\_2015.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/411287/HMT_Directions_9_Mar_2015.pdf)



are provided to accommodate the range of deferred pension ages members will have in relation to service on and after 1 April 2015 in accordance with the HM Treasury Directions.

### **Pension debit or offset members**

- 2.9 For members with a pension debit resulting from divorce and/or a pension offset resulting from a "Scheme Pays" election, the transfer value is calculated in two stages as described in paragraph 2.10.
- 2.10 First, a gross transfer value should be calculated ignoring the pension debit and/or the pension offset. Second, the value of the pension debit and/or pension offset should be calculated (ie the transfer value of a deferred pension of the same amount as the pension debit or offset applicable at deferred pension age). The transfer value quoted and paid is the net amount: the gross transfer value less the value of the pension debit and/or offset.
- 2.11 The results of each element of the calculation in 2.10 should be passed to the receiving scheme. The transfer value paid is the net amount: the gross transfer value less the value of the pension debit and/or offset.

### **Partial retirement**

- 2.12 A member may be receiving pension benefits whilst still accruing further benefits, for example after exercise of a partial retirement option. If such a member leaves service and requests a CETV (for the purposes of transferring a pension, not for divorce purposes) then the CETV should allow only for the deferred benefits but not the benefits in payment. The benefits in payment may not be transferred, and would only be considered when calculating a CETV for divorce purposes.

### **Transfers to other fire authorities**

- 2.13 Where a member takes up employment with a different fire authority within Wales, (but not one within England, Scotland or Northern Ireland) Part 10, Chapter 4 of the 2015 Scheme Regulations provides, in certain circumstances and under certain conditions, for the member's pension account to be transferred between the relevant fire authorities. If a member's pension account is transferred in this way, there is no requirement to calculate a transfer value or to make a transfer payment. The calculation of a transferred pension credit by the receiving authority is not required.



### 3 Statutory CETV transfers out

- 3.1 The formula for calculating a statutory CETV transfer value is given below.
- 3.2 Tables are provided for the range of deferred pension ages which apply to members accruing benefits under the 2015 Scheme regulations. The factors should be selected according to the member's age last birthday, sex and deferred pension age. If a member has a non-integer pension age then more than one factor is required and these factors are interpolated to obtain the actual factor to use.
- 3.3 Adjustments should be made for any GMP which, under the 2015 Scheme Regulations, can only arise where a previous transfer in has been received.

$$CETV = (P \times F_x^P + S \times F_x^S) - (G^{pre} \times F_x^{Gpre} + G^{post} \times F_x^{Gpost})$$

where:

$P$  = member's deferred pension at the relevant date

$S$  = partner's pension at the relevant date

$G^{pre}$  = pre-88 GMP at the relevant date

$G^{post}$  = post-88 GMP at the relevant date

$F_x^P$  = member's pension factor for a member aged x last birthday at the relevant date, taken from Tables 3 to 10 depending on the member's deferred pension age.

$F_x^S$  = partner's pension factor for a member aged x last birthday at the relevant date, taken from Tables 3 to 10 depending on the member's deferred pension age.

$F_x^{Gpre}$  = pre-88 GMP onset/offset factor for a member aged x last birthday at the relevant date, taken from Tables 3 to 10 depending on the member's deferred pension age.

$F_x^{Gpost}$  = post-88 GMP onset/offset factor for a member aged x last birthday at the relevant date, taken from Tables 3 to 10 depending on the member's deferred pension age.



## 4 Non-Club Transfers in

- 4.1 A member may request that a transfer payment be accepted from another pension scheme. The request must be made no later than one year before the member reaches normal pension age. A request for a transfer payment from a non-occupational pension scheme must also be made within one year of joining, or such other period as the scheme manager may allow.
- 4.2 The responsible authority has confirmed that a transfer from another fire authority in England, Scotland or Northern Ireland should be treated as a Club transfer where the Club conditions are met otherwise the transfer should be treated as a non-Club transfer.

### Benefits provided

- 4.3 Non-Club transfers received by the Scheme will be applied to provide an amount of transferred pension credit of the same form as earned pension. The transferred pension credit will be added to the active member's account in accordance with regulation 43. Non-Club transferred pension will be revalued in line with ordinary earned pension

### Calculation of transferred pension credit

- 4.4 The formula for calculating a non-Club transferred pension credit is given below.
- 4.5 The factors should be selected from tables NM60 or NF60 of the Factor Suite according to the member's age last birthday and sex.
- 4.6 Adjustments should be made for any GMP for which liability is included in the transfer received.

$$\text{Transferred Pension} = \left( CETV + (G^{pre} \times F_x^{Gpre} + G^{post} \times F_x^{Gpost}) \right) \div (F_x^P + 0.5 \times F_x^S)$$

where:

$CETV$  = non-Club transfer payment received

$G^{pre}$  = pre-88 GMP at the relevant date

$G^{post}$  = post-88 GMP at the relevant date

$F_x^P$  = member's pension factor for a member aged x last birthday at the relevant date, taken from the tables NM60 or NF60 according to the member's gender.

$F_x^S$  = partner's pension factor for a member aged x last birthday at the relevant date, taken from the tables NM60 or NF60 according to the member's gender.





$F_x^{Gpre}$  = pre-88 GMP onset/offset factor for a member aged  $x$  last birthday at the relevant date, taken from the tables NM60 or NF60 according to the member's gender.

$F_x^{Gpost}$  = post-88 GMP onset/offset factor for a member aged  $x$  last birthday at the relevant date, taken from the tables NM60 or NF60 according to the member's gender..



## 5 Example calculations

### Example 1: CETV for a male

> Date of birth	18/08/1960
> Sex	Male
> Deferred Pension age	66 years 5 months
> Amount of deferred pension	£560
> Amount of deferred partner's pension	£280
> Amount of pre 88 GMP	£0
> Amount of post 88 GMP	£0
> Calculation date	15/04/2016
> Age last birthday	55
> Pension factor	11.48
> Survivor's pension factor	3.47
> Pre-88 GMP adjustment factor	2.01
> Post-88 GMP adjustment factor	-0.61
> CETV	$[(£560 * 11.48 + £280 * 3.47) - (£0 * 2.01 + £0 * (-0.61))]$ = £7,400.40

The factors used above were interpolated for non-integer DPA as shown below:

Factor at DPA 66 years 5 months

$$= \left(\frac{7}{12}\right) * \text{Factor at DPA 66} + \left(\frac{5}{12}\right) * \text{Factor at DPA 67}$$

### Example 2: Non-Club transfer in for a male

> Date of birth	18/08/1970
> Sex	Male
> Normal Pension age	60 years
> Amount of CETV	£15,600
> Amount of pre 88 GMP	£0



> Amount of post 88 GMP	£0
> Calculation date	15/04/2016
> Age last birthday	45
> Pension factor	18.31
> Survivor's pension factor	3.77
> Pre-88 GMP adjustment factor	3.37
> Post-88 GMP adjustment factor	0.51

$$\begin{aligned} \text{Transferred Pension} &= (15,600 + (0 \times 3.37 + 0 \times 0.51)) \div (18.31 + 0.5 \times 3.77) \\ &= \text{£}772.47 \end{aligned}$$



## Appendix A – Limitations

- A.1 This note should not be used for any purpose other than as the actuarial guidance required under the regulations cited.
- A.2 The factors contained in this note are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- A.3 This note should be considered in its entirety as individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect.
- A.4 This note only covers the actuarial principles of calculations required under the regulations cited. Any legal advice in this area should be sought from an appropriately qualified person or source.
- A.5 Scheme managers and administrators should satisfy themselves that calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting out requirements.
- A.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 the responsible authority. In no circumstances should this guidance take precedence over the Regulations. Scheme managers and administrators should ensure that they comply with all relevant Regulations.