



Government Actuary's Department

Police pension schemes (England & Wales)

2015 scheme

Purchase of added pension

Factors and guidance

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Contents

1	Introduction	1
2	Calculation of AP credit	2
3	Overall limit of added pension	4
4	Examples	5
	Appendix A: Tables of factors	9



1 Introduction

- 1.1 This note is provided for the Home Office (HO) as scheme manager of the police pension schemes. The purpose of the note is to provide the factors for determining the amount of Added Pension (AP) to be credited to a member's pension account in respect of lump sum and periodical payments made by members to purchase such pension. This does not apply to protected members in the 1987 and 2006 schemes.
- 1.2 This note provides the actuarial guidance required by the scheme manager referred to in the following regulations:
- > Schedule 3, Part 3, paragraph 10(3) of the Police Pensions Regulations 2015 (SI 2015/445)
 - > Schedule 3, Part 3, paragraph 11(3) of the Police Pensions Regulations 2015 (SI 2015/445)
 - > Schedule 3, Part 4, paragraph 16(3)(b) of the Police Pensions Regulations 2015 (SI 2015/445)
 - > Schedule 3, Part 4, paragraph 17(3)(b) of the Police Pensions Regulations 2015 (SI 2015/445)
- 1.3 There is a maximum overall amount of extra pension a member can purchase and this note provides guidance on how administrators can calculate the maximum payment that a member can make in respect of AP.
- 1.4 The factors and guidance provided in this note have been prepared in light of our advice to HO dated 13 February 2015 and its instructions following that advice.
- 1.5 This note should not be used for any purpose other than to calculate the amount of added pension to be credited to a member's pension account in respect of lump sum and periodical payments made by the member to purchase such pension.
- 1.6 The implementation date of this guidance is 1 April 2015.
- 1.7 The remainder of this note contains the factor tables, guidance on their use and a number of worked examples. The new factors can be found in Appendix A.



2 Calculation of AP credit

- 2.1 An active member of the 2015 scheme may elect to purchase AP in accordance with Schedule 3 of the 2015 regulations. This purchase may be made by a lump sum payment or by periodical payments.
- 2.2 Payment by lump sum is available to those who have been in a continuous period of pensionable service for at least 12 months. Only one lump sum payment is permitted for each scheme year. Payments by lump sum may come from the whole of or part of a payment due to the member under the compensation scheme.
- 2.3 Payment by periodical payments may be made over any period specified by the member, and may be expressed as a percentage of salary or as a regular fixed sum. The amount of any periodical payment cannot be less than any minimum amount determined by the scheme manager.
- 2.4 The member can choose to purchase self only AP, which increases the member's retirement benefits only, or all beneficiaries AP, which also provides 50% of the AP to the member's surviving dependants.
- 2.5 At any given time, the total amount of AP in a member's pension account cannot exceed the overall limit of added pension,² which is set out in Part 1 of Schedule 3 to the 2015 regulations. An AP election should therefore only be accepted where this total will not be exceeded. See section 3 for more details.
- 2.6 Following receipt of a lump sum payment, an amount of added pension must be credited to the member's pension account for that scheme year. The amount credited should be calculated as follows:

$$AP\ Credit = \frac{Lump\ sum\ payment}{F}$$

Where:

F = factor for AP elections (see Tables S-AP and B-AP in Appendix A)

- 2.7 Factors for calculating the AP to be credited to a member's account should be selected with reference to:
- > the member's age (last birthday) at the start of the scheme year;
 - > whether dependant's benefits have been purchased; and
 - > the member's gender, if the election is to purchase self only AP.

² £6,500 for any scheme year ending before 1 April 2016.



- 2.8 Where a member chooses to purchase AP by periodic payments, an amount of AP should be credited to the member's pension account. The amount credited should be calculated as follows:

$$AP\ Credit = \frac{Periodic\ payment}{F}$$

Where:

Periodic payment is the nominal (£) amount of the payment made by the member (whether specified as a fixed sum or a percentage of pensionable earnings in the option notice)

F = factor for AP elections (see Tables S-AP and B-AP in Appendix A)

- 2.9 For members choosing periodic payments, the AP credit can be calculated and added to the member's account after each periodic payment or at the end of the scheme year. If the calculation is done at the end of the scheme year, add together of all of the periodic payments throughout the year and apply the formula in paragraph 2.8.
- 2.10 Factors for calculating the AP to be credited to a member's account should be selected with reference to:
- > the member's age (last birthday) at the start of the scheme year;
 - > whether dependant's benefits have been purchased; and
 - > the member's gender, if the election is to purchase self only AP.
- 2.11 Once credited to a member's pension account, the AP increases in line with increases awarded to eligible pensions under the Pensions (Increase) Act 1971 before coming into payment.



3 Overall limit of added pension

- 3.1 At any given time, the total amount of accrued AP in a member's pension account cannot exceed the overall limit of added pension set out in Part 1 of Schedule 3 to the 2015 regulations.
- 3.2 The maximum overall limit of added pension is £6,500 per annum for the 2015-16 financial year. The limit will change in accordance with Part 1 of Schedule 3 to the 2015 regulations in subsequent years.
- 3.3 The following formula should be used to calculate the maximum lump sum payment a member can make to purchase AP.

$$\text{Maximum LS payment} = H \times F$$

Where:

H = the available headroom under the overall limit of added pension.

F = factor for AP elections (see Tables S-AP and B-AP in Appendix A)

- 3.4 The available headroom under the overall limit of added pension can be calculated as the overall limit of added pension at the time of the election minus the total amount of AP credit within the member's pension account at the time of the election.
- 3.5 Factors for calculating the maximum lump sum payment amount should be selected with reference to;
- > the member's age (last birthday) at the start of the scheme year;
 - > whether dependant's benefits have been purchased; and
 - > the member's gender, if the AP to be purchased is self only AP.
- 3.6 The overall limit of added pension also applies to periodic payment elections. However, it is not possible to determine at the time of the election the exact amount of periodic payments permissible under the limit, where these fall in multiple scheme years. Each year the scheme manager should check that the total added pension credited to the member's pension account does not exceed the overall limit of added pension and, if it does, act in accordance with Part 1 of Schedule 3 to the 2015 regulations (cancellation of contract and refund of contributions as required).



4 Examples

Example 1: Lump sum payment

Member details

Date of birth 30 May 1971
Gender Male

AP election

Date payment received 1 Aug 2015
Scheme year 2015-16

Form of AP Self only
Lump sum payment £10,000

AP Credit

Relevant table S-AP
Member's age last birthday at start of scheme year 43
Factor for determining AP Credit (F) 12.18

Using the formula from paragraph 2.6, the amount of AP to be credited to a member's pension account can be calculated as follows,

$$AP\ Credit = \frac{Lump\ sum\ payment}{F}$$

$$AP\ Credit = \frac{£10,000}{12.18} = £821.02$$

At the date that the payment is received, the member's pension account should be credited with £821.02 pa of self only AP for the 2015-16 scheme year.



Example 2: Periodic payment

Member details

Date of birth 15 August 1980
Gender Female

AP election

Date payment received 25 June 2015
Scheme year 2015-16

Form of AP All beneficiaries
Periodic payment £10

AP Credit

Relevant table B-AP
Member's age last birthday at start of scheme year 34
Factor for determining AP Credit (F) 10.97

Using the formula from paragraph 2.8, the amount of AP to be credited to a member's pension account can be calculated as follows,

$$AP\ Credit = \frac{Periodic\ payment}{F}$$

$$AP\ Credit = \frac{£10}{10.97} = £0.91$$

At the date that the payment is received, the member's pension account should be credited with £0.91 pa of all beneficiaries AP for the 2015-16 scheme year.

This calculation will need to be made for each periodic payment received from the member. This can be done by either calculating separate AP credits at the point at which each payment is received, or by calculating the total AP credit in respect of all periodic payments at the end of the scheme year. This second approach is illustrated on the next page using details from the example above.



AP election – payments over scheme year

Scheme year	2015-16
Form of AP	All beneficiaries
Periodic payments over scheme year ³	£100

Using the formula from paragraph 2.8 and the factor selected above, the amount of AP to be credited to a member's pension account can be calculated as follows,

$$AP\ Credit = \frac{Periodic\ payments\ over\ scheme\ year}{F}$$

$$AP\ Credit = \frac{£100}{10.97} = £9.12$$

At the end of the scheme year, the member's pension account should be credited with £9.12 pa of all beneficiaries AP for the 2015-16 scheme year.

³ Option form received within 3 months of joining the scheme and so first periodic payment of £10 was made in June 2015 (rather than at the start of the scheme year).



Example 3: Maximum allowable payment

Member details

Date of birth 20 March 1971
Gender Female

AP election

Intended date of payment 1 July 2016
Scheme year 2016-17

Form of AP Self only
Total accrued AP £1,100
Overall limit of added pension for 2016-17⁴ £6,600
Available headroom (H) £5,500 (=£6,600 - £1,100)

AP Credit

Relevant table S-AP
Member's age last birthday at start of scheme year 45
Factor for determining AP Credit (F) 13.72

Using the formula from paragraph 3.3, the maximum lump sum payment that a member can make for self only AP can be calculated as follows,

$$\text{Maximum LS payment} = H \times F$$

$$\text{Maximum LS payment} = £5,500 \times 13.72 = £75,460$$

The maximum lump sum payment would be larger (£5,500 x 14.43 = £79,365) if the member elected to purchase all beneficiaries AP.

⁴ This is an illustrative figure for the example only, the 2016-17 overall limit of added pension should be determined in accordance with Part 1 of Schedule 3 to the 2015 regulations



Appendix A: Tables of factors

Table S-AP: Factors for self only AP

Age last birthday at start of scheme year	Added Pension Self only	
	Male	Female
20	6.57	7.30
21	6.76	7.51
22	6.95	7.72
23	7.14	7.94
24	7.34	8.16
25	7.54	8.38
26	7.76	8.61
27	7.97	8.84
28	8.19	9.07
29	8.42	9.31
30	8.66	9.55
31	8.89	9.80
32	9.14	10.05
33	9.38	10.31
34	9.64	10.57
35	9.89	10.84
36	10.16	11.12
37	10.43	11.40
38	10.71	11.69
39	10.99	11.97
40	11.28	12.26
41	11.58	12.55
42	11.88	12.84
43	12.18	13.13
44	12.48	13.42
45	12.79	13.72
46	13.10	14.03
47	13.42	14.34
48	13.75	14.67
49	14.09	15.00
50	14.44	15.35
51	14.80	15.71
52	15.17	16.09
53	15.57	16.49
54	15.98	16.91
55	16.41	17.36
56	16.87	17.84
57	17.35	18.35
58	17.87	18.89
59	18.14	19.17



Table B-AP: Factors for all beneficiaries AP

Age last birthday at start of scheme year	Added Pension All beneficiaries
	Male and Female
20	7.52
21	7.73
22	7.95
23	8.17
24	8.40
25	8.63
26	8.87
27	9.11
28	9.36
29	9.62
30	9.88
31	10.15
32	10.41
33	10.69
34	10.97
35	11.26
36	11.56
37	11.86
38	12.17
39	12.48
40	12.80
41	13.12
42	13.44
43	13.77
44	14.10
45	14.43
46	14.77
47	15.11
48	15.47
49	15.83
50	16.20
51	16.58
52	16.98
53	17.40
54	17.83
55	18.29
56	18.78
57	19.29
58	19.83
59	20.10