

**The Armed Forces
pension schemes**

Pensions Policy Instruction

PPI 3/07

April 2007

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| What this is about: | Method for re-calculating the value of AFPS 75 pension when the member reaches age 55, where a Pension Sharing Order (PSO) had previously been implemented after the member's discharge. |
| Which pension schemes are affected: | AFPS 75 – APW, Part 15, Section 32, Article 456 - RN OIC, Schedule XVII, Section III, Clause 16 - QR (RAF), Chap 48, para 3281 |
| Who should read this: | SPVA Pension Administrators, EDS Pensions Administrators, Paymaster. |
| When it takes effect: | Immediately |
| Cancellation date: | |
| Contact points: | SP Pol Pensions – Review 1a Ext 89615MB |

Purpose

1. The purpose of this instruction is to advise the method to be used for re-assessing a pension debit member's pension when he reaches age 55, if:

- a. the debit member is an AFPS 75 member, and
- b. on implementation of the PSO the Transfer Day was:
 - (1) after the member was discharged with an Immediate Pension (IP), and
 - (2) before he reached age 55.

2. The aim of the calculations in this instruction is to assess the increased value of the debit member's share of the whole pension when, at age 55, any abatement in respect of Resettlement Commutation ends and pension increases are due.

Value of the Whole Pension as at the Transfer Day

3. The process for sharing a pension on the Transfer Day, where the pension in question is already in payment, involves assessing the Cash

Equivalent Value (CEV) of the original member's pension rights as at the Transfer Day. These rights include:

- a. the pension MOD otherwise expected to pay to the member from the Transfer Day up to age 55 taking into account any amount he surrendered in respect of Resettlement Commutation, and
- b. the greater value of his pension from age 55 onwards, and
- c. the value of widow's pension in the event of his death.

The CEV, which is the notional 'fund value' of those benefits is found by applying actuarial factors that have been supplied by the Government Actuary's Department (GAD) and are installed in the Compensation and Pensions System (CAPS). The term 'fund value' here means the amount that MOD would pay to another pension provider to accept a transfer of the responsibility to pay the equivalent of all of those pension rights from a different scheme.

Credit Member's Pension Share

4. The credit member's pension share is unaffected by the increases that are due to be paid in the debit member's share at age 55. The reason for this is that all such increases were taken into account when the CEV of the whole pension was calculated at the Transfer Day. Consequently, the value of her pension share, which is a specified percentage of the whole value, already includes all the anticipated future changes in that value that could be predicted on the Transfer Day. The whole of the CEV of the credit member's share is used to purchase her an in-Scheme deferred pension that is payable to her when she reaches her pension benefit age (see paragraph 5). Pension increases will also be added at that time from the deemed date of the day following the Transfer Day.

5. At paragraph 5, the term 'pension benefit age' means either:
- a. age 60, where the PSO in respect of her credit member's pension was sealed by the court before 6 April 2006, or
 - a. age 65, where the PSO in respect of her credit member's pension was sealed by the court on or after 6 April 2006.

Debit Member's Pension Share

6. The value of the debit member's immediate and future pension share can also be calculated as at the Transfer Day. In this case the pension that would have been payable, had it not been for the PSO, is reduced by the percentage that the PSO directed must be transferred to the credit member. Where the debit member is an immediate pensioner who is under age 55 on the Transfer Day, the calculation of his pension share involves finding two new values, which are:

- a. Before Age 55. This is the amount of his pension share,

payable from the day following the Transfer Day and until age 55. This is simply the value of the pension that was in payment to him (after any abatement for Resettlement Commutation, where applicable) on the day before the Transfer Day reduced by the percentage specified in the PSO.

b. From Age 55. The new basic amount of pension due to the debit member from age 55 can also be calculated as at the Transfer Day. The amount is to be found by applying the following method:

(1) first calculate the notional value of the whole pension as at the Transfer Day;

(i) ignoring any abatements in respect of Resettlement Commutation or re-employment (where applicable), but

(ii) taking into account any pension increases that have been authorised for payment since the day following the member's last day of reckonable service, as if those increases were payable on the Transfer Day.

(2) The debit member's notional basic pension share is the amount calculated at (1) above reduced by the percentage specified in the PSO.

The sum at (2) above is the new basic value of the member's pension share from age 55. When the debit member reaches age 55, the pension paying authority is to add pension increases that have been authorised from the day following the Transfer Day.

7. Re-employment Abatement. If the member is re-employed, any abatement of pension in respect of that re-employment will not affect the value of the credit member's pension and the implementation of a PSO has no effect on the value of a re-employment abatement. This means that the amount of the abatement will not be re-assessed as a consequence of a change in the debit member's entitlement, as explained below:

a. Cash Valuation on Transfer Day. Any re-employment abatement that was applied on Transfer Day is ignored for the purpose of assessing the CEV of the whole pension that is to be shared, and the subsequent amount of the credit member's pension rights.

b. Re-applying the Abatement Under Age 55. Once the debit member's pension share is calculated (as shown at subpara 6a) the amount of the abatement, as it was on the day his current period of re-employed service started, is deducted from any remaining pension due to him. If the abatement exceeds the debit member's new entitlement, payment of pension will cease. Negative balances are not to be recovered.

c. Re-applying the Abatement at Age 55. When the debit member's pension is re-assessed at age 55 (as shown at subpara 6b)

again the amount of the abatement is ignored and then re-applied at the same rate if the re-employment continues. Any new balance of unabated pension is payable from age 55. Negative balances are not to be recovered.

Effects of Life Commutation

8. If a debit member realised a capital sum by commuting pension under the Life Commutation Scheme, this would permanently reduce the value of the pension from the date of the commutation arrangement. If this was implemented before the Transfer Day, it would permanently reduce the amount of the pension available for sharing between the parties on the Transfer Day. Alternatively, if the debit member is permitted to commute under this Scheme after the Transfer Day, he will only be permitted to commute from his pension share and within the normal limits of that Scheme. Pension increases on the sum commuted are also given up on the proportion of his pension share that he opted to commute and from the date that he accepted the addition capital sum.

9. AFPS 75 rules do not permit the commutation of any part of a credit member's pension rights.

Example Calculations

10. At Annex A are some example calculations to illustrate the method described above.

CALCULATION OF THE DEBIT MEMBER'S PENSION SHARE AT AGE 55

Scenerio for Examples

1. Example calculations are given for illustration purposes. In these examples an imaginary case is used, where the debit member's pension was in payment on the Pension Sharing Transfer Day. He has been receiving 67% of the pre-sharing amount since age 53 and has now reached age 55. The administrator must reassess the amount of pension now due because the abatement in respect of Resettlement Commutation has ended and the member is now entitled to payment of pension increases that have accrued since his discharge at age 40. The debit member's personal details are:

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| Debit Member's Rank and Name | Cpl A N Other |
| Date of Birth | 16 May 1950 |
| Date of Discharge (Aged 40) | 15 May 1990 |
| Basic Rate of Pension (as at 16 May 1990) | £4,606.54 |
| Pension Sharing Transfer Day (Aged 53) | 14 May 2003 |
| Pension Share Transferred to Credit Member | 33% |
| Pension Share Remaining for Debit Member | 67% |
| Date Aged 55 | 16 May 2005 |

Step 1 - Find the Value of the Pension to be Shared at Age 55

2. The first step when reassessing the debit member's pension share is to find the value of ***the whole pension as it was on the Transfer Day*** and before it was shared between the parties named in the PSO. For this calculation, any abatements that were deducted in respect of Resettlement Commutation or re-employment are to be ignored. This calculation should be on file as it was used to find the CEV of the whole pension when the PSO was implemented.

3. In the example case:

- The basic pension amount was £4,606.54.
- The pension increase (PI) factor for the period between discharge on 16 May 1990 and the Transfer Day on 14 May 2003 was 0.51195.
- The notional value of the whole pension as at the Transfer Day was –

$$£4,606.54 \times 1.51195 = £6,964.86$$

Step 2 – Find the Basic Value of the Debit Member’s Pension Share as at the Transfer Day

4. The new basic value of debit member’s notional share as at the Transfer Day, is 67% of £6,964.86 = £4,666.46. The term basic value means excluding any abatement in respect of Resettlement Commutation and/or re-employment (if applicable).

Step 3 – Calculate the Debit Member’s Pension on Reaching Age 55

5. At age 55 any abatement in respect of Resettlement Commutation ceases and the basic value of the debit member’s pension is increased by the addition of PIs that have been authorised for payment from the deemed date of the day following the Transfer Day, as shown below:

- The debit member’s basic pension is £4,666.46.
- The PI factor for the period between the 15 May 2003 (Transfer Day) and 16 May 2005 (Age 55) was 0.0570.
- The revised value of the debit member’s pension at age 55 is $£4,666.46 \times 1.0570 = £4,932.45$

6. Thereafter, PIs are to be applied (as and when authorised) to the revalued debit member’s pension share of £4,932.25 from the new deemed date of his 55th birthday which fell on 16 May 2005.