



Government Actuary's Department

Police pension schemes (England & Wales)

2015 Scheme

Early payment reduction

Factors and guidance

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1 Introduction

Scope of this guidance note

- 1.1 This note is provided for the Home Office (HO) as scheme manager of the police pension schemes. This note relates to the 2015 scheme and sets out the general method for assessing:
 - > the actuarial reduction on early payment of pension (early payment reduction)
 - > the cost of buying out the early payment reduction.
- 1.2 This note contains the tables and guidance to be issued by the Home Secretary following consultation with the scheme actuary referred to in the following sections of the Police Pensions Regulations 2015 (SI 2015/445):
 - > regulation 50 – Actuarial reduction on early payment of pension (early payment reduction)
 - > regulation 122 – Option to buy out early payment reduction.
- 1.3 The factors provided in this note have been prepared in light of our advice to HO dated 13 February 2015 and 2 March 2015 and its instructions following that advice. The actuarial factors in this note come into force from 1 April 2015.
- 1.4 The formulae and factors for calculating the early payment reduction and cost of buying out the early payment reduction are set out in the following sections:
 - > Section 2 covers the calculation of the early payment reduction in the 2015 scheme.
 - > Section 3 covers the calculation of the cost of buying out the early payment reduction in the 2015 scheme.
 - > Section 4 sets out example calculations.
 - > Appendix A contains the factors required to determine the early retirement reduction and cost of buying out the early retirement reduction in the 2015 scheme.
- 1.5 This note does not cover the method for adjusting pension debits for early payment, which should be treated in line with the appropriate following guidance,
 - > Pension sharing debits: *Police pension schemes (England & Wales): 2015 scheme: Transfer values and pension sharing on divorce* dated 23 April 2015
 - > Tax charge debits: *Police pension schemes (England & Wales): 2015 scheme: Tax charge debits* dated 7 May 2015.
- 1.6 This note does not apply to retirements on grounds of ill-health, under regulation 102.



- 1.7 If you have any questions about how to use this guidance, contact the Police Pensions Team at the Home Office. The team can be contacted in writing at the following address: Police Workforce and Capability Unit (PWCU), Home Office, 6th Floor, Fry Building, 2 Marsham Street, London SW1P 4DF. HO will seek input from the scheme actuary if necessary.



2 Early payment reduction

Introduction

- 2.1 An early payment reduction applies to members who retire 'early' in normal health. Early means, for active 2015 scheme members those who retire before Normal Pension Age (NPA) and for deferred 2015 scheme members (including pension credit members) those who retire before reaching their State Pension Age (SPA).¹
- 2.2 This section refers only to benefits reduced in accordance with regulation 50 of the Police Pensions Regulations 2015.
- 2.3 Guidance for calculating the early payment reduction applied to members retiring early from active service is set out in paragraphs 2.7 to 2.10 below.
- 2.4 Guidance for calculating the early payment reduction applied to members retiring early from deferred status is set out in paragraph 2.11 to 2.14 below.
- 2.5 The surviving adult's pension and eligible child's pension is calculated using the member's pension before deduction of the early payment reduction but after any allowance for commutation.
- 2.6 Worked examples are provided in Section 4.

Members retiring from active service

- 2.7 Under regulation 69, the member's retirement account must specify the early payment reductions applying to each amount of retirement earned pension and retirement added pension.
- 2.8 The early payment reduction applying to each amount of retirement pension (ie earned, added (self only) and added (all beneficiaries)) should be calculated using the following formula,

$$\text{Early Payment Reduction} = \text{Retirement pension} \times (1 - F_A)$$

where,

- > Retirement pension is taken from the relevant retirement account at the date of retirement and should include transferred in pension (see the definition in regulation 69)
 - > F_A is the early payment reduction factor from **Table A**, chosen by reference to the number of years and complete months to the member's NPA at the point of retirement.
- 2.9 For the avoidance of doubt, do not deduct any commutation amount from the amounts of retirement pension prior to carrying out the calculation in paragraph 2.8.

¹ Use the State Pension Age according to legislation at the date of retirement



- 2.10 The member's annual rate of full retirement pension at retirement is then calculated, in accordance with regulation 98, by subtracting the early payment reductions from the member's full retirement pension specified in the member's retirement account (together with any reductions for commutation). However, if the member or employer exercise the option to buy out any early payment reduction under regulation 122, the annual rate of full retirement pension is calculated without deduction of that early payment reduction. See section 3 for the cost of buying of the early payment reduction.

Members retiring from deferred status

- 2.11 Under regulation 66, the deferred member's account must specify the early payment reductions applying to each amount of deferred pension and deferred added pension.
- 2.12 The early payment reduction applying to each amount of deferred pension (ie earned, added (self only) and added (all beneficiaries)) can be calculated using the following formula,

$$\text{Early Payment Reduction} = \text{Deferred pension} \times (1 - F_B)$$

where,

- > Deferred pension is taken from the relevant deferred account at the date of retirement and should include transferred in pension (see the definition in regulation 65)
 - > F_B is the early payment reduction factor from **Table B**, chosen by reference to the number of years and complete months to the member's SPA at the point of retirement.
- 2.13 For the avoidance of doubt, do not deduct any commutation amount from the amounts of deferred pension prior to carrying out the calculation in paragraph 2.12.
- 2.14 The member's annual rate of full retirement pension at retirement is then calculated, in accordance with regulation 99, by subtracting the early payment reductions from the each amount of deferred pension specified in the deferred member's account (together with any reductions for commutation). However, if the member or employer exercise the option to buy out any early payment reduction under regulation 122, the annual rate of full retirement pension is calculated without deduction of that early payment reduction. See section 3 for the cost of buying of the early payment reduction.

Pension credit members

- 2.15 Under regulation 129, the annual rate of pension payable to a pension credit member is calculated with subtraction of the early payment reduction.



- 2.16 The early payment reduction applying to the pension credit member's pension can be calculated using the following formula,

$$\text{Early Payment Reduction} = \text{Pension credit} \times (1 - F_B)$$

where,

- > Pension credit is taken from the member's account at the date of retirement and should include pension increases awarded under the provisions of the Pensions (Increase) Act 1971
 - > F_B is the early payment reduction factor from **Table B**, chosen by reference to the number of years and complete months to the member's SPA at the point of retirement.
- 2.17 For the avoidance of doubt, do not deduct any commutation amount from the amount of pension credit prior to carrying out the calculation in paragraph 2.16.
- 2.18 The pension credit member's annual rate of pension at retirement is then calculated, in accordance with regulation 129, by subtracting the early payment reduction from the pension credit amount at the date of retirement (i.e. including pension increases awarded under the provisions of the Pensions (Increase) Act 1971) together with any reductions for commutation.



3 Option to buy out the early payment reduction

Introduction

- 3.1 Members and employers have the option to buy out the early payment reduction, as calculated in paragraphs 2.8 and 2.12 for active members and deferred members respectively, by making a special payment at the point of retirement.
- 3.2 The restrictions and criteria which apply to this option are set out in regulation 122 of the Police Pensions Regulations 2015.
- 3.3 The cost of buying out the early payment reduction applying to each amount of retirement or deferred pension (ie earned, added (self only) and added (all beneficiaries)) should be calculated using the formula below,

$$\text{Buy-out cost} = F_C \times \text{EPR}$$

where,

- > F_C is the buy-out factor from **Table C** chosen by reference to the member's age at retirement in years and complete months
 - > EPR is the early payment reduction for each account to be bought out.
- 3.4 An example calculation is set out in Section 4.



4 Example calculations

Example 1: Early retirement of an active member with added pension

Member Details

Date of birth	1 November 1970
Date of retirement	1 November 2025
Age at retirement (years and complete months)	55 years and 0 months
Period to NPA 60 (years and complete months)	5 years and 0 months

Retirement account details

Retirement earned pension at retirement	£9,000 pa
Retirement added pension (self only) at retirement	£250 pa

Early payment reduction

As the member is retiring from active service the formula in paragraph 2.8 should be used.

$F_A = 0.775$ (from **Table A**)

Early payment reduction on retirement earned pension

$$\begin{aligned} &= \text{Retirement earned pension} \times (1 - F_A) \\ &= £9,000 \times (1 - 0.775) \\ &= £9,000 \times 0.225 \\ &= £2,025 \end{aligned}$$

The member's retirement earned pension should be reduced by £2,025 pa to £6,975 pa on retirement (prior to any allowance for commutation).

Early payment reduction on retirement added pension

$$\begin{aligned} &= \text{Retirement added pension} \times (1 - F_A) \\ &= £250 \times (1 - 0.775) \\ &= £250 \times 0.225 \\ &= £56.25 \end{aligned}$$

The member's retirement added pension should be reduced by £56.25 pa to £193.75 pa on retirement (prior to any allowance for commutation).

The member's retirement account must specify:-

Early payment reduction on retirement earned pension = £2,025 pa

Early payment reduction on retirement added pension = £56.25 pa

The member's annual rate of full retirement earned pension = £6,975 pa

The member's annual rate of full retirement added pension = £193.75 pa

Any deductions for commutation should then be made in accordance with the scheme regulations.



Example 2: Early retirement of a deferred member

Member Details

Date of birth	1 May 1976
Date of retirement	1 June 2032
SPA	67
Age at retirement	56 years 1 month
Period to SPA (years and complete months)	10 years and 11 months

Deferred account details

Deferred pension at retirement	£3,000 pa
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Early payment reduction

As the member is retiring from deferred status, the formula in paragraph 2.12 should be used.

$$F_B = 0.545 \text{ (from Table B)}$$

Early payment reduction on deferred earned pension

$$\begin{aligned} &= \text{Deferred earned pension} \times (1 - F_B) \\ &= £3,000 \times (1 - 0.545) \\ &= £3,000 \times 0.455 \\ &= £1,365 \end{aligned}$$

The member's deferred pension should be reduced by £1,365 pa to £1,635 pa on retirement (prior to any allowance for commutation).

The member's retirement account must specify:-

Early payment reduction on deferred earned pension = £1,365 pa

The member's annual rate of full deferred pension = £1,635 pa

Any deductions for commutation should then be made in accordance with the scheme regulations.



Example 3: Member opts to buy out the early payment reduction

Member Details

Date of birth	1 June 1965
Date of retirement	5 July 2022
Member age at retirement	57 years 1 month
Early payment reduction to be bought out	£500 pa

The cost of the buy-out option should be calculated using the formula in paragraph 3.3.

$F_C = 19.97$ (from **Table C**)

$$\begin{aligned}\text{Cost of buy-out} &= F_C \times \text{EPR} \\ &= 19.97 \times \text{£}500 \\ &= \text{£}9,985.00\end{aligned}$$

Therefore the member (or if relevant, the employer) needs to pay the scheme £9,985 in order to buy out the member's early payment reduction.



Appendix A: Tables of Factors

**Table A – Early payment reduction factor – retirement from active service before NPA
Males and Females**

	Period to NPA (in years and complete months)					
	Years					
months	0	1	2	3	4	5
0	0.998	0.947	0.899	0.855	0.814	0.775
1	0.994	0.943	0.896	0.852	0.811	
2	0.989	0.939	0.892	0.848	0.807	
3	0.985	0.935	0.888	0.845	0.804	
4	0.981	0.931	0.885	0.841	0.801	
5	0.977	0.927	0.881	0.838	0.798	
6	0.972	0.923	0.877	0.834	0.794	
7	0.968	0.919	0.873	0.831	0.791	
8	0.964	0.915	0.870	0.827	0.788	
9	0.959	0.911	0.866	0.824	0.785	
10	0.955	0.907	0.862	0.821	0.781	
11	0.951	0.903	0.859	0.817	0.778	



Table B – Early payment reduction factor – retirement from deferred status before SPA

Males and Females

	Period to SPA (in years and complete months)									
	Years									
months	0	1	2	3	4	5	6	7	8	9
0	0.997	0.938	0.883	0.832	0.786	0.743	0.703	0.666	0.632	0.600
1	0.992	0.933	0.879	0.828	0.782	0.740	0.700	0.663	0.629	0.597
2	0.987	0.928	0.874	0.825	0.779	0.736	0.697	0.660	0.627	0.595
3	0.982	0.924	0.870	0.821	0.775	0.733	0.694	0.658	0.624	0.592
4	0.977	0.919	0.866	0.817	0.771	0.730	0.691	0.655	0.621	0.590
5	0.972	0.915	0.862	0.813	0.768	0.726	0.688	0.652	0.619	0.587
6	0.967	0.910	0.857	0.809	0.764	0.723	0.685	0.649	0.616	0.585
7	0.962	0.906	0.853	0.805	0.761	0.720	0.681	0.646	0.613	0.582
8	0.957	0.901	0.849	0.801	0.757	0.716	0.678	0.643	0.610	0.580
9	0.952	0.896	0.845	0.797	0.753	0.713	0.675	0.640	0.608	0.578
10	0.947	0.892	0.841	0.793	0.750	0.710	0.672	0.637	0.605	0.575
11	0.942	0.887	0.836	0.790	0.746	0.706	0.669	0.635	0.602	0.573

	Period to SPA (in years and complete months)			
	Years			
months	10	11	12	13
0	0.570	0.542	0.516	0.492
1	0.568	0.540	0.514	
2	0.565	0.538	0.512	
3	0.563	0.536	0.510	
4	0.561	0.534	0.508	
5	0.558	0.531	0.506	
6	0.556	0.529	0.504	
7	0.554	0.527	0.502	
8	0.552	0.525	0.500	
9	0.549	0.523	0.498	
10	0.547	0.521	0.496	
11	0.545	0.518	0.494	

Table C – Early payment reduction buy-out factors

Males and females

Years	Age in years and complete months on day pension commences											
	Months											
	0	1	2	3	4	5	6	7	8	9	10	11
55	20.80	20.77	20.73	20.70	20.67	20.63	20.60	20.57	20.53	20.50	20.47	20.43
56	20.40	20.37	20.33	20.30	20.27	20.23	20.20	20.17	20.13	20.10	20.07	20.03
57	20.00	19.97	19.93	19.90	19.87	19.83	19.80	19.77	19.73	19.70	19.67	19.63
58	19.60	19.57	19.53	19.50	19.47	19.43	19.40	19.37	19.33	19.30	19.27	19.23
59	19.20	19.17	19.13	19.10	19.07	19.03	19.00	18.97	18.93	18.90	18.87	18.83
60	18.80	18.77	18.73	18.70	18.67	18.63	18.60	18.57	18.53	18.50	18.47	18.43
61	18.40	18.36	18.32	18.28	18.23	18.19	18.15	18.11	18.07	18.03	17.98	17.94
62	17.90	17.87	17.83	17.80	17.77	17.73	17.70	17.67	17.63	17.60	17.57	17.53
63	17.50	17.46	17.42	17.38	17.33	17.29	17.25	17.21	17.17	17.13	17.08	17.04
64	17.00	16.97	16.93	16.90	16.87	16.83	16.80	16.77	16.73	16.70	16.67	16.63
65	16.60	16.56	16.52	16.48	16.43	16.39	16.35	16.31	16.27	16.23	16.18	16.14
66	16.10	16.07	16.03	16.00	15.97	15.93	15.90	15.87	15.83	15.80	15.77	15.73
67	15.70	15.66	15.62	15.58	15.53	15.49	15.45	15.41	15.37	15.33	15.28	15.24