Government Actuary's Department

Local Government Pension Scheme (Northern Ireland)

Trivial Commutation

Factors and guidance

Date: 14 October 2020

Contents

1 Introduction

1.1 The Department for Communities ("DfC") is required under the Local Government Pension Scheme Regulations (Northern Ireland) 2014 ('the 2014 Regulations') (SRNI 2014/188) to issue actuarial guidance on the calculation of the amounts payable on trivial commutation of a pension, either on a member's retirement, or following a member's death.

1.2 This guidance relates to commutation of trivial or, where applicable, small benefit rights, regardless of whether the member has been an active member of the 2015 scheme, or whether the benefits were earned before or after 1 April 2015. It also applies to councillors.

1.3 The remainder of this introduction contains:

- details of the implementation and future review of this guidance, and

- the relevant legislative references, and

- statements about third party reliance and liability

1.4 In the remainder of this note:

- Sections 2 to 5 deal respectively with the trivial commutation of a member's pension, a dependant's pension, children's pensions, and a pension credit member's pension, where the relevant conditions are met

- Section 6 provides examples

- Appendix A sets out the underlying assumptions used in the calculation of the factors contained in this guidance note

- Appendix B sets out the factors

- Appendix C sets out some important limitations

Implementation and Review

1.5 DfC is required to consult GAD before issuing actuarial guidance under the 2014 Regulations [Regulation 2(3) of the 2014 Regulations].

1.6 As part of this consultation DfC has asked GAD to recommend actuarial guidance in respect of the regulations detailed above. This document forms GAD's recommendation for the actuarial guidance required by these regulations.

1.7 This note has effect only when this guidance is issued by DfC to the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) in accordance with Regulation 2(3) of the 2014 Regulations and is subject to the implementation instructions provided at that time.

1.8   This guidance is intended to supersede advice previously issued, for the purposes of trivial commutation calculations, carried out from the date issued on the cover. No advice issued in the past should be used for cases after this date. In particular, this guidance supersedes:

        "Local Government Pension Scheme (Northern Ireland): Trivial Commutation" dated 19 March 2015 (updated 14 April 2016).

1.9   The factors in this note have been updated but the calculation methodology remains unchanged.

1.10   Factors contained in this note are reproduced from the latest consolidated factors workbook as at the date of this note. The factors contained in this guidance note were implemented in advance of this note and apply from 31 July 2019. This implementation date was determined by DfC.

1.11   This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the LGPS (Northern Ireland). Any questions concerning the application of the guidance should, in the first instance, be referred to DfC.

1.12   The factors contained in this note 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.

        Relevant legislative references

1.13   Regulation 35 of the 2014 Regulations provides that a member may elect to receive a lump sum through trivial commutation in lieu of pension payments.

1.14   Regulation 39 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations (Northern Ireland) 2009 (SR 2009/32) ("the Benefits Regulations") permits the Northern Ireland Local Government Officer's Superannuation Committee (NILGOSC) to pay a lump sum representing the capital value of a small pension to a member, or surviving dependant of a deceased member. Regulation 39(2) of the Benefits Regulations states that the lump sum is calculated in accordance with guidance issued by the Government Actuary.

1.15   Regulation 3(12) of the Local Government Pension Scheme (Amendment and Transitional Provisions) Regulations (Northern Ireland) 2014 (SR 2014/189) requires that any reference to guidance issued by the Government Actuary in the Earlier Regulations is to be construed as a reference to actuarial guidance issued by the Department as defined by the 2014 Regulations.

Third party reliance

1.16   This guidance has been prepared for the use of DfC and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on DfC and 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.

1.17   Other than DfC and 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 Commutation of a Member's pension

2.1 Payment of a trivial commutation lump sum in respect of a pension is permitted under Regulation 35 of the 2014 Regulations and discharges NILGOSC from its liability for any pension payable to the member, and for any pensions or lump sums which may become payable on the member's death (including children's pensions).

2.2 The factors for members aged 55 and over are set out at Table A in Appendix B, separately for male and female members.

2.3 The factors for members aged under 55 who retired in ill health are set out at Table D in Appendix B.

2.4 For continuity of formatting with the previous factor tables A and D, these are tabulated separately for male and female members. However, the factors are identical for males and females.

2.5 A case involving a member who retired in normal health who is under age 55 should be referred to DfC, for onward transmission to GAD, with full details.

2.6 Tables A and D give age specific factor to be multiplied respectively by the member's total pension (including any GMP) and the contingent spouse's, civil partner's or eligible cohabiting partner's pension payable on the member's death.

2.7 The inclusion of an amount relating to a dependant's pension applies whether or not the member has a spouse, civil partner or eligible cohabiting partner at the time the commutation occurs.

2.8 DfC have confirmed that the calculations of trivial commutation amounts should use the same assumption on survivor entitlement for all members regardless of their gender or current relationship with a potential future survivor. The calculation should use the survivor benefit amount that would be payable to a pre-leaving female spouse (widow).

2.9 The lump sum capital value payable should be determined in accordance with the following formula:

Member's pension x Fac1

plus

Dependant's pension x Fac2

where:

Fac1 = factor applied to Member's pension

Fac2 = factor applied to Dependant's pension payable on the member's death

Both factors are taken from Table A or D according to the characteristics of the Member *(Table 0-501A, 0-501B, 0-504A or 0-504B in the consolidated factors workbook)*.

2.10   The 'Member's pension' is the pension that would otherwise be paid if trivial commutation were not to proceed. Therefore, this pension is the pension after any reduction due to commutation for tax-free cash if relevant. The 'Dependant's pension' should be as set out in paragraph 2.8

2.11   Various restrictions on the trivial commutation of pensions are imposed by both the pension taxation regime under the Finance Act 2004 (and any amending legislation) and contracting out legislation. Administrators should ensure that the payment of a lump sum in lieu of a small pension is compliant with these restrictions as well as with the LGPS scheme regulations.

3 Commutation of a Dependant's pension

3.1 NILGOSC may commute the pension which is payable on a member's death to any surviving spouse, civil partner or eligible cohabiting partner or to (or in respect of) an eligible child or children by paying a trivial commutation lump sum death benefit.

3.2 Table B in Appendix B sets out age specific factors for the surviving spouse, civil partner or eligible cohabiting partner. For consistency with previous guidance, these are set out separately for males and females (but contains identical factors for males and females). These factors are multiplied by the dependant's total pension (including any GMP) to give the lump sum capital value payable.

3.3 This formula only allows for the dependant's <u>pension</u>: any lump sum death benefits should be paid separately.

3.4 The lump sum capital value payable should be determined in accordance with the following formula:

Dependant's Pension x Fac1

where:

Fac1 = factor taken from Table B *(Table 0-502A or 0-502B in the consolidated factors workbook)*

The 'Dependant's pension is the pension that would otherwise be paid if trivial commutation were not to proceed.

3.5 Various restrictions on the trivial commutation of pensions are imposed by both the pension taxation regime under the Finance Act 2004 (and any amending legislation) and contracting out legislation. Administrators should ensure that the payment of a lump sum in lieu of a small pension is compliant with these restrictions as well as with the LGPS scheme regulations.

4   Commutation of Children's pensions

4.1   Table C gives the factors to be multiplied by the pension payable to or in respect of children. This table should be used to value a pension which is payable to, or in respect of, an eligible child or children.

4.2   All the factors for children are independent of gender. Those for children aged up to 15 are based on the child's age, while those for children aged 16 and over are based on the length of time until their 18th birthday or, if longer, that the child is expected to remain in full-time education or vocational training (up to an upper limit of the child's 23rd birthday). NILGOSC should determine this period in the light of the individual child's circumstances.

4.3   Where a factor is required for a child aged 16 and over which does not relate to a whole number of years, this should be rounded to the nearest whole number of years.

4.4   No factors are provided to value a pension to a child who is incapacitated. Children's long-term pension should not be commuted where one of the children in the family who is receiving a pension is under age 17 and incapacitated.

4.5   A case involving a child over age 17 who is not in full-time education or vocational training but is still an eligible child because he or she is incapacitated should be referred to DfC, for onward transmission to GAD, with full details.

4.6   The lump sum capital value payable should be determined in accordance with the following formula:

Child's Pension x Fac1

where:

Fac1 = factor taken from Table C ***(Table 0-503A or 0-503B in the consolidated factors workbook)***.

The 'Child's pension' is the pension that would otherwise be paid if trivial commutation were not to proceed.

4.7   Various restrictions on the trivial commutation of children's pensions are imposed by both the pension taxation regime under the Finance Act 2004 (and any amending legislation). Administrators should ensure that the payment of a lump sum in lieu of a small pension is compliant with these restrictions as well as with the LGPS scheme regulations.

5 Commutation of a Pension Credit Member's pension

5.1 NILGOSC may commute the pension payable to a pension credit member into a trivial commutation lump sum.

5.2 Table B should be used to capitalise lump sum benefits for pension credit members.

5.3 The lump sum capital value payable should be determined in accordance with the following formula:

Pension credit member's pension x Fac1

where:

Fac1 = factor taken from Table B **(Table 0-502A or 0-502B in the consolidated factors workbook)**.

The 'Pension credit member's pension' is the pension that would otherwise be paid if trivial commutation were not to proceed.

5.4 Various restrictions on the trivial commutation of a pension credit member's pension are imposed by both the pension taxation regime under the Finance Act 2004 (and any amending legislation). Administrators should ensure that the payment of a lump sum in lieu of a small pension is compliant with these restrictions as well as with the LGPS scheme regulations.

6   Examples

Example 1 – Trivial Commutation - Member's pension coming into payment at capitalisation date

Sex:	Male
Date of birth:	15 March 1957
Effective capitalisation date:	29 June 2020
Age in complete years on effective capitalisation date:	63
Member's total pension in payment:	£500 pa
Dependant's pension payable on the member's death:	£180 pa

Factors taken from **Table A** in **Appendix B**:

Fac1 =   18.66
Fac2 =   2.45

Trivial commutation lump sum payable:

(Member's pension $\times$ Fac1) + (Dependant's pension x Fac2)

= (£500 x 18.66) + (£180 x 2.45)

= £9,771.00

Example 2 – Trivial commutation - Dependant's pension coming into payment at capitalisation date

Sex:	Female
Date of birth:	15 March 1967
Effective capitalisation date:	29 June 2020
Age in complete years on effective capitalisation date:	53
Dependant's pension payable on the member's death:	£325 pa

Factors taken from **Table B** in **Appendix B**:

Fac1 =   23.24

Trivial commutation lump sum payable: **Dependant's pension x Fac1**

= (£325 x 23.24)

= £7,553.00

Note that the same factor table would apply to a trivial commutation of a pension credit member's pension – see section 5 for relevant formula.

Example 3 – Child's pension coming into payment at capitalisation date

Date of birth: 23 August 2001
Effective capitalisation date: 29 June 2019
Age in complete years on effective capitalisation date: 17
Number of years expected to remain in full-time education
or vocational training: 4 years (illustrative)

Child's total pension in payment: £660 pa

Factors taken from **Table C** in **Appendix B**:

Fac1 =   3.82

Trivial commutation lump sum payable = **Child's Pension** $\times$ **Fac1**

$$= £660 \times 3.82$$

$$= £2,521.20$$

Appendix A: Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.448% pa
CPI	2.00% pa
Real discount rate (in excess of CPI)	2.40% pa

Mortality assumptions

Males	standard table	adjustment
Retirements in normal health	S2PMA	103%
Ill-health pensioners	S2IMA	103%
Dependants	S2PMA	103%
Females		
Retirements in normal health	S2PFA	97%
Ill-health pensioners	S2IFA	102%
Dependants	S2PFA	97%

Future mortality improvement	Based on ONS principal UK population projections 2016
Year of Use	2020

Other assumptions

Proportion of male members for unisex factors	45%
Proportion partnered	At ages up to 65, 80% of males and females are assumed to be married or partnered at death, with consistent assumptions for current pensioners.
Age difference between member and partner	Males assumed 3 years older than partner. Females assumed 3 years younger than partner.

Appendix B: Factors

Table A: Factors for member's pension – Male member (see Section 2)
(Table 0-501A in Consolidated factors workbook)

Member's age last birthday at the date of commutation	Factor to apply to member's pension (Fac1)	Factor to apply to dependant's pension (Fac2)
55	22.45	2.31
56	22.00	2.33
57	21.54	2.35
58	21.08	2.37
59	20.61	2.39
60	20.13	2.41
61	19.65	2.42
62	19.16	2.44
63	18.66	2.45
64	18.17	2.46
65	17.63	2.46
66	17.04	2.45
67	16.46	2.44
68	15.86	2.42
69	15.26	2.39
70	14.66	2.37
71	14.05	2.33
72	13.45	2.29
73	12.85	2.24
74	12.26	2.19
75	11.68	2.13
76	11.11	2.06
77	10.55	1.99
78	9.99	1.91
79	9.44	1.82
80	8.89	1.73
81	8.35	1.63
82	7.82	1.53
83	7.30	1.42
84	6.80	1.31
85	6.32	1.20
86	5.85	1.09

Table A: Factors for member's pension – Male member (see Section 2)
(Table 0-501A in Consolidated factors workbook)

Member's age last birthday at the date of commutation	Factor to apply to member's pension (Fac1)	Factor to apply to dependant's pension (Fac2)
87	5.41	0.98
88	5.00	0.86
89	4.62	0.76
90	4.26	0.65
91	3.93	0.56
92	3.62	0.47
93	3.33	0.39
94	3.07	0.32
95	2.83	0.25
96	2.62	0.20
97	2.44	0.15
98	2.29	0.11
99	2.15	0.08
100	2.03	0.06

Table A: Factors for member's pension – Female member (see Section 2)
(Table 0-501B in Consolidated factors workbook)

Member's age last birthday at the date of commutation	Factor to apply to member's pension (Fac1)	Factor to apply to dependant's pension (Fac2)
55	22.45	2.31
56	22.00	2.33
57	21.54	2.35
58	21.08	2.37
59	20.61	2.39
60	20.13	2.41
61	19.65	2.42
62	19.16	2.44
63	18.66	2.45
64	18.17	2.46
65	17.63	2.46
66	17.04	2.45
67	16.46	2.44

Table A: Factors for member's pension – Female member (see Section 2)
(Table 0-501B in Consolidated factors workbook)

Member's age last birthday at the date of commutation	Factor to apply to member's pension (Fac1)	Factor to apply to dependant's pension (Fac2)
68	15.86	2.42
69	15.26	2.39
70	14.66	2.37
71	14.05	2.33
72	13.45	2.29
73	12.85	2.24
74	12.26	2.19
75	11.68	2.13
76	11.11	2.06
77	10.55	1.99
78	9.99	1.91
79	9.44	1.82
80	8.89	1.73
81	8.35	1.63
82	7.82	1.53
83	7.30	1.42
84	6.80	1.31
85	6.32	1.20
86	5.85	1.09
87	5.41	0.98
88	5.00	0.86
89	4.62	0.76
90	4.26	0.65
91	3.93	0.56
92	3.62	0.47
93	3.33	0.39
94	3.07	0.32
95	2.83	0.25
96	2.62	0.20
97	2.44	0.15
98	2.29	0.11
99	2.15	0.08
100	2.03	0.06

Table B: Factors for surviving adult dependant's and pension credit member's pension – Females (see Sections 3 and 5)
(Table 0-502A in Consolidated factors workbook)

Age last birthday	Factor to apply to whole of pension (Fac1)	Age last birthday	Factor to apply to whole of pension (Fac1)	Age last birthday	Factor to apply to whole of pension (Fac1)
20	33.79	47	25.71	74	12.14
21	33.57	48	25.32	75	11.57
22	33.34	49	24.92	76	11.00
23	33.11	50	24.51	77	10.44
24	32.87	51	24.09	78	9.88
25	32.63	52	23.67	79	9.33
26	32.38	53	23.24	80	8.79
27	32.13	54	22.80	81	8.25
28	31.87	55	22.35	82	7.73
29	31.60	56	21.90	83	7.21
30	31.33	57	21.44	84	6.71
31	31.05	58	20.98	85	6.23
32	30.76	59	20.51	86	5.77
33	30.47	60	20.03	87	5.34
34	30.18	61	19.54	88	4.93
35	29.87	62	19.05	89	4.55
36	29.56	63	18.56	90	4.19
37	29.25	64	18.06	91	3.86
38	28.93	65	17.52	92	3.55
39	28.60	66	16.94	93	3.27
40	28.26	67	16.35	94	3.01
41	27.92	68	15.75	95	2.78
42	27.57	69	15.15	96	2.57
43	27.21	70	14.54	97	2.40
44	26.85	71	13.93	98	2.25
45	26.48	72	13.33	99	2.12
46	26.10	73	12.73	100	2.00

Table B: Factors for surviving adult dependant's and pension credit member's pension – Males (see Sections 3 and 5)
(Table 0-502B in Consolidated factors workbook)

Age last birthday	Factor to apply to whole of pension (Fac1)	Age last birthday	Factor to apply to whole of pension (Fac1)	Age last birthday	Factor to apply to whole of pension (Fac1)
20	33.79	47	25.71	74	12.14
21	33.57	48	25.32	75	11.57
22	33.34	49	24.92	76	11.00
23	33.11	50	24.51	77	10.44
24	32.87	51	24.09	78	9.88
25	32.63	52	23.67	79	9.33
26	32.38	53	23.24	80	8.79
27	32.13	54	22.80	81	8.25
28	31.87	55	22.35	82	7.73
29	31.60	56	21.90	83	7.21
30	31.33	57	21.44	84	6.71
31	31.05	58	20.98	85	6.23
32	30.76	59	20.51	86	5.77
33	30.47	60	20.03	87	5.34
34	30.18	61	19.54	88	4.93
35	29.87	62	19.05	89	4.55
36	29.56	63	18.56	90	4.19
37	29.25	64	18.06	91	3.86
38	28.93	65	17.52	92	3.55
39	28.60	66	16.94	93	3.27
40	28.26	67	16.35	94	3.01
41	27.92	68	15.75	95	2.78
42	27.57	69	15.15	96	2.57
43	27.21	70	14.54	97	2.40
44	26.85	71	13.93	98	2.25
45	26.48	72	13.33	99	2.12
46	26.10	73	12.73	100	2.00

Table C: Factors for children's pension (see Section 4)
(Tables 0-503A and 0-503B in Consolidated factors workbook)

1. Factors for application to a child's pension, other than in the case of an incapacitated child, where the child is below age 16

Age last birthday of child (male and female)	Factor to apply to child's pension (Fac1)
0	15.04
1	14.39
2	13.72
3	13.04
4	12.34
5	11.62
6	10.89
7	10.14
8	9.37
9	8.59
10	7.78
11	6.95
12	6.11
13	5.24
14	4.36
15	3.45

2. Factors for application to a child's pension, other than in the case of an incapacitated child, where the child is aged between 16 and 23. The factor should be chosen according to the time (in years, rounded to the nearest whole number) that the child is expected to remain in full-time education.

Number of years expected to remain in full-time education	Factor to apply to child's pension (Fac1)
7	6.45
6	5.59
5	4.71
4	3.82
3	2.90
2	1.95
1	0.99
0	0.00

Table D: Factors for member's pension – Male member who retired in ill health (see Section 2)

(Table 0-504A in Consolidated factors workbook)

Age last birthday	Member's Pension	Spouse Pension		Age last birthday	Member's Pension	Spouse Pension
20	29.56	4.46		47	23.44	3.72
21	29.36	4.46		48	23.11	3.69
22	29.17	4.47		49	22.78	3.67
23	28.97	4.47		50	22.45	3.60
24	28.78	4.47		51	22.45	2.42
25	28.58	4.46		52	22.45	2.31
26	28.38	4.46		53	22.45	2.31
27	28.18	4.44		54	22.45	2.31
28	27.99	4.43				
29	27.79	4.40				
30	27.59	4.38				
31	27.39	4.35				
32	27.19	4.32				
33	26.99	4.28				
34	26.78	4.25				
35	26.56	4.21				
36	26.34	4.17				
37	26.12	4.12				
38	25.89	4.08				
39	25.66	4.03				
40	25.42	3.99				
41	25.16	3.94				
42	24.90	3.90				
43	24.63	3.86				
44	24.35	3.82				
45	24.06	3.79				
46	23.75	3.75				

Table D: Factors for member's pension – Female member who retired in ill health (see Section 2)

(Table 0-504B in Consolidated factors workbook)

Age last birthday	Member's Pension	Spouse Pension		Age last birthday	Member's Pension	Spouse Pension
20	29.56	4.46		47	23.44	3.72
21	29.36	4.46		48	23.11	3.69
22	29.17	4.47		49	22.78	3.67
23	28.97	4.47		50	22.45	3.60
24	28.78	4.47		51	22.45	2.42
25	28.58	4.46		52	22.45	2.31
26	28.38	4.46		53	22.45	2.31
27	28.18	4.44		54	22.45	2.31
28	27.99	4.43				
29	27.79	4.40				
30	27.59	4.38				
31	27.39	4.35				
32	27.19	4.32				
33	26.99	4.28				
34	26.78	4.25				
35	26.56	4.21				
36	26.34	4.17				
37	26.12	4.12				
38	25.89	4.08				
39	25.66	4.03				
40	25.42	3.99				
41	25.16	3.94				
42	24.90	3.90				
43	24.63	3.86				
44	24.35	3.82				
45	24.06	3.79				
46	23.75	3.75				

Appendix C: Limitations

C.1   This note should not be used for any purpose other than those set out in this guidance note.

C.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.

C.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.

C.4   This note only covers the actuarial principles around the calculation and application of trivial commutation factors. Any legal advice in this area should be sought from an appropriately qualified person or source.

C.5   Scheme managers and administrators should satisfy themselves that trivial commutation calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.

C.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 DfC and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.