



## Principal Civil Service Pension Scheme Northern Ireland

GMP tests for classic, classic plus, premium and nuvos  
members

Date: 13 December 2019





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## 1 Introduction

- 1.1 This note is addressed to the Northern Ireland Department of Finance (DoF NI) as scheme manager of the Principal Civil Service Pension Scheme Northern Ireland (PCSPS(NI) or 'scheme').
- 1.2 The purpose of the note is to provide DoF NI with factors to be used in carrying out the Guaranteed Minimum Pension (GMP) tests required before permitting members to exercise certain options within the PCSPS(NI), and accompanying guidance to demonstrate how these factors should be applied and in which circumstances.
- 1.3 The GMP tests are intended to minimise the risk that the relevant part of a member's benefits will be insufficient to cover the member's entitlement to a GMP and therefore, in line with contracting out legislation, require a top-up at GMP payment age (currently 60 for females and 65 for males).
- 1.4 This guidance is based on a member's current, unequalised GMP. Once the approach to the equalisation of GMP has been finalised by HMT this note will need to be amended.
- 1.5 This guidance describes the tests required at the retirement of a member under GMP payment age<sup>1</sup> with accrued GMP who wishes to exercise an option to
- retire before NPA,
  - commute some of their pension for a cash lump sum or
  - take partial retirement.
- 1.6 The factors provided in this note have been prepared in light of our advice to DoF NI dated 30 October 2018 and subsequent correspondence following that advice.
- 1.7 Factors are the responsibility of the Scheme Actuary under the following rules. This guidance has immediate effect, replacing all previous guidance relating to GMP tests for PCSPS(NI) members.

Test	Section	Rule
Early Retirement	Classic	3.10(a)
	Premium and Classic Plus	D.3(5)
	Nuvos	E.24(6)
Commutation	Classic	3.54(iv)
	Premium and Classic Plus	D.8(4)
	Nuvos	E.16(5)
Partial Retirement	Classic	3.3b(x)
	Premium and Classic Plus	D.1A(9)
	Nuvos	E.24(6)

- 1.8 GMP tests on transfer in and allocation should be treated on a case by case basis.

<sup>1</sup> GMP payment age is 60 (females) and 65 (males)



- 1.9 Appendix A sets out the principal assumptions underlying the factors contained in this guidance note
- 1.10 Appendix B sets out some important limitations.
- 1.11 This guidance is intended to supersede any advice previously issued, for the purposes of GMP test calculations, which rely on input from the Scheme Actuary. In particular, this guidance supersedes:

“Principal Civil Service Pension Scheme Northern Ireland: GMP tests for classic, classic plus, premium and nuvos” dated 13 May 2015.

### **Implementation**

- 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 Principal Civil Service Pension Scheme Northern Ireland. Any questions concerning the application of the guidance should, in the first instance, be referred to the DoF NI.
- 1.13 The factors contained in this guidance 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.

### **Third party reliance**

- 1.14 This guidance has been prepared for the use of the DoF NI and their scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on the DoF NI and their 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.
- 1.15 Other than the DoF NI and their 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.
- 1.16 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.

Third parties may wish to seek their own actuarial advice where appropriate.



## 2 Instructions

- 2.1 To carry out the GMP test the total amount of the GMP is required, revalued to the calculation date (i.e. the retirement date). The amount of GMP to be tested needs to allow for the PI factor (i.e. GMP is divided by PI factor) that was used to uprate notionally the pensionable earnings in question when determining final pensionable earnings for calculating a member's retirement pension.
- 2.2 In order to test whether the option can be exercised the following two values are compared:
- Pension = the amount of the pre 97 pension about to be brought into payment including any reduction for early payment but before any adjustment for commutation or allocation. This amount should include any transferred in pension but exclude any added years purchased. No PI should have been added to this pension.
  - Test Value = the GMP increased as in paragraph 2.1 increased by 2.20% (simple) for each year by which the member's last birthday was before their relevant birthday. This increase is subject to a maximum increase of 20%. For classic members the relevant birthday is that at which the member will reach age 60, for members of premium, classic plus and nuvos that at which the member will reach age 61.
- 2.3 In the case of early retirement, the retirement may proceed only if:

$$\mathbf{Pension \geq Test Value}$$

- 2.4 In the case of partial retirement, the minimum percentage of the member's pension that may come into payment is given by:

$$\frac{\mathbf{Test Value}}{\mathbf{Pension}} \times 100\%$$

If this value is greater than 100% then partial retirement may not go ahead.

- 2.5 In cases of commutation the maximum percentage of the member's pension that can be given up in total is given by (this may be further restricted by the rules relating to this option):

$$\frac{\mathbf{Pension - Test Value}}{\mathbf{Pension}} \times 100\%$$

If the Test Value is greater than the Pension then no option to commute pension can be exercised.



**Comparison at GMP payment age (or when GMP comes into payment)**

- 2.6 We understand that a test is done when the GMP comes into payment (to ensure the GMP is covered by the member's pension). This test should continue to be performed as normal.



### 3 Example

#### GMP test on early retirement with commutation

- Sex Female
- Normal Pension Age (NPA) 60 years
- Section Classic
- Annual GMP (revalued to calculation date) £350
- Age last birthday at calculation date 56

The member's last birthday was four years before her 60<sup>th</sup>, so the GMP is increased by 2.20% four times, i.e. £350 x [1+(0.022 x 4)] = £380.80. The reduced pre-commutation pre 97 pension (£500) exceeds this amount so the GMP test is passed and the member can retire early.

The maximum percentage that the member can commute is:

$$\frac{500 - 380.80}{500} \times 100\% = 23.8\%$$

The member can commute up to 23.8% of her pension and still pass the GMP test (assuming that no pension is allocated to a dependant). However, this limit does not override any other restrictions which may limit the pension that can be commuted.



## Appendix A: Principal assumptions underlying factors

### Financial assumptions

Nominal discount rate	4.448% pa
CPI	2.00% pa
RPI	3.15% pa
Long term earnings growth	4.20% pa
Real discount rate (in excess of CPI)	2.40% pa
Real discount rate (in excess of long term earnings growth)	0.24% pa





## Appendix B: Limitations of this guidance

- B.1 This guidance should not be used for any purpose other than those set out in this guidance.
- B.2 The factors contained in this guidance are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- B.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.
- B.4 This guidance only covers the actuarial principles around the calculation and application of GMP test factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- B.5 Scheme managers and administrators should satisfy themselves that GMP test calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- B.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 DoF NI and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.