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## 1 Introduction

- 1.1 This note is provided for the Scottish Public Pensions Agency (SPPA) as scheme manager of the Scottish Teachers' Pension Scheme 2015 (STPS). It should be used only to calculate the pension debits applying to a career average member who has elected for the scheme to pay annual allowance related tax charges on their behalf.
- 1.2 Relevant legislation in respect of the annual allowance is contained in sections 227, 237B and 237E of the Finance Act 2004 (as amended) and regulation 176 of The Teachers' Pension Scheme (Scotland)(No 2) Regulations 2014 (SSI 2014/292).
- 1.3 The guidance and factors provided in this note have been prepared in light of our advice to SPPA dated 30 October 2018 and its instructions following that advice.
- 1.4 Separate guidance has been provided to cover members of the final salary section.
- 1.5 We have not previously provided a guidance note for AA scheme pays as these debits were previously calculated with reference to the debits for pension sharing on divorce. The method for AA scheme pays is now set out in this guidance note and the pension sharing on divorce method should no longer be used.
- 1.6 No advice issued in the past for the STPS should be used for Scheme Pays calculations. No advice or factors issued for the STPS should be used for reductions to STSS benefits.
- 1.7 These factors should **not** be used to calculate debits in respect of lifetime allowance tax charges, or debits resulting from pension sharing on divorce. Please refer to the relevant guidance notes in order to calculate debits in relation to pension on divorce or lifetime allowance tax charges.
- 1.8 Section 2 of this guidance note covers the calculation and implementation of annual allowance debits. Section 3 sets out some example calculations.
- 1.9 Details of the principal assumptions underlying the factors contained in this guidance note can be found in Appendix A. The factors are provided in Appendix B and some important limitations can be found in Appendix C.

### Implementation and review

- 1.10 The factors contained in this guidance were implemented by SPPA earlier in 2019 in advance of this guidance note. This guidance will apply with immediate effect from the date this note is issued.
- 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 Scottish Teachers' Pension Scheme 2015. Any questions concerning the application of the guidance should, in the first instance, be referred to SPPA.



- 1.12 In line with best practice and in order to make sure that factors are being used as intended and the instructions are fit for purpose, we suggest that some example calculations are sent to GAD for review.
- 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.
- 1.14 The remainder of this note covers the factor tables, guidance on their use and a number of worked examples.

### **Third party reliance**

- 1.15 This guidance has been prepared for the use of SPPA for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on SPPA'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.
- 1.16 Other than SPPA, 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 Annual allowance debits

- 2.1 If a member becomes liable to pay an annual allowance charge in any tax year (and certain conditions are met) they can make an election requiring the scheme administrator to pay all or part of the charge on their behalf. This is commonly known as 'scheme pays'.
- 2.2 Following an election for the scheme to meet the annual allowance tax charge, consequential adjustments ('annual allowance debits') must be made to the member's benefit entitlements from the scheme.
- 2.3 Annual allowance debits will need to be calculated in respect of each tax year in which a member elects to allow the scheme to meet the annual allowance tax charge.
- 2.4 Paragraphs 2.6 to 2.14 set out the guidance for calculating the annual allowance debits at the time of the election.
- 2.5 Paragraphs 2.15 to 2.20 set out the guidance for calculating the annual allowance debits applying at retirement.

### Calculating annual allowance debits

- 2.6 This section sets out guidance for calculating annual allowance debits which will be applied to a member's benefits.
- 2.7 The annual allowance debits will not be applied to the benefits payable to a future surviving spouse, civil partner or children on the member's death.
- 2.8 Annual allowance debits do not affect GMPs.
- 2.9 The member's age (last birthday) should be calculated as at the implementation date which is 5 April of the tax year to which the tax charge relates.

### Calculation of the annual allowance debit at the time of the election

- 2.10 The annual allowance debit to apply to the pension entitlement should be calculated as shown below.
- 2.11 The annual allowance pension debit ( $D^P$ ) should be calculated as:

$$D^P = \frac{TC}{F_x^P}$$

where:

$TC$  annual allowance tax charge payable by the scheme administrator

$F_x^P$  factor for tax charge on pension for a member aged  $x$



- 2.12 The factors are set out in Table CSP65a (Table 605 in the consolidated factors spreadsheet) for members with a NPA of 65, Table CSP66a (Table 606 in the consolidated factors spreadsheet) for members with a NPA of 66, Table CSP67a (Table 607 in the consolidated factors spreadsheet) for members with a NPA of 67 and Table CSP68a (Table 608 in the consolidated factors spreadsheet) for members with a NPA of 68 in Appendix B. Factors should be selected according to a member's normal pension age (NPA)<sup>1</sup> and their age (last birthday) at the implementation date.
- 2.13 SPPA should store the debits calculated above and the implementation date of these debits on the member's record. Where a member has multiple annual allowance debits, they should be recorded separately.

### Non-integer NPAs

- 2.14 Where a member has a non-integer NPA, then factors should be interpolated. For example, for a member with a normal pension age of 67 years and 2 months the factor would be:

$$F_x^P(\text{NPA } 67 \text{ years } 2 \text{ months}) = F_x^P(\text{NPA } 67) + \{2/12 \times [F_x^P(\text{NPA } 68) - F_x^P(\text{NPA } 67)]\}$$

### Implementing debits at retirement

- 2.15 Guidance and factors for implementing debits at retirement for members retiring early in normal health can now be found in the note *Scottish Teachers' Superannuation Scheme and Scottish Teachers' Pension Scheme 2015: Early retirements in normal health: Factors and guidance* dated 20 June 2019. Guidance and factors for members retiring late will shortly be provided in a new guidance note "*Scottish Teachers' Pension Scheme 2015: Late retirements: Factors and Guidance*".
- 2.16 The annual allowance pension debit will be increased in line with the Pensions (Increase) Act up until the member's retirement.

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<sup>1</sup> Normal pension age is defined as a member's state pension age (or 65, if that is higher) in the career average section. For the purpose of this note, a member's expected NPA in the career average section is the same as their state pension age as set out in *The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014* - [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/357130/HMT\\_valuations\\_and\\_cost\\_cap\\_directions\\_reconsolidated\\_Sept\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/357130/HMT_valuations_and_cost_cap_directions_reconsolidated_Sept_2014.pdf)

As at the date of this guidance note, there have been no revisions made to paragraph 18 which sets out the assumptions for State Pension Age



2.17 On **ill health retirement**, each pension debit must be adjusted as follows:

$$AdjD^P = D^P \times PI \times F_x^R$$

$D^P$  annual allowance pension debit

$PI$  pension increase multiplier applying between the implementation date and the date of retirement

$F_x^R$  timing adjustment factor for member retiring at age x

2.18  $F_x^R$  is taken from Table TA1a (Table 609 in the consolidated factors spreadsheet) in Appendix A . The factor should be selected with reference to the period to a member's NPA (in years and months, with part months rounded up to the nearest month).

2.19 The pension to be implemented at retirement is the full pension, i.e. the pension before any debits, less all of the member's adjusted pension debits.

2.20 Note that if a member:

- takes their pension early due to ill health, and
- is aged under 55 at the time their pension commences, and
- pension increases are not granted until age 55

then the case should be referred to GAD.

### **Commutation**

2.21 Any exchange of pension for a lump sum (under regulation 162 of the Teachers' Pension Scheme (Scotland) (No.2) Regulations 2014 (SSI 2014/292)) should occur **after** the application of annual allowance debits.



### 3 Example calculations

This section provides an example of the calculations described in this note.

The examples below do not cover every form of annual allowance debit possible. However, it should be sufficient to illustrate the key stages of the guidance outlined in Section 2 of this note.

#### Example 1: Calculation of annual allowance debit

##### Member Details

NPA	67
Date of birth	14 March 1965
Annual allowance charge (TC)	£7,500
Tax year of annual allowance charge	2019/20
Implementation date	5 April 2020
Age at implementation date	55 years 0 months

##### Pension Debit

From 2.11, the formula for calculating the annual allowance pension debit is:

$$D^P = \frac{TC}{F_x^P}$$

$$F_x^P = 12.85 \quad \text{(from Table CSP67a)}$$

Substituting these values into the formula we get:

$$\begin{aligned} D^P &= £7,500 \div 12.85 \\ &= \mathbf{£583.66 \text{ pa}} \end{aligned}$$

Record these debits on the member's record with implementation date 5 April 2020. The annual allowance debits will not be applied to the benefits payable to a future surviving spouse, civil partner or children on the member's death.





**Example 2: NPA 67 member retiring at age 57 on grounds of ill health, with annual allowance debit**

**Member details**

NPA	67
Sex	Male
Date of birth	16 March 1964
Date of retirement	24 May 2021
Age at retirement (years and complete months)	57 years 2 months
Period to NPA (rounded up to the nearest month)	9 years 10 months
Member's pension before debit	£ 31,000 pa
Annual allowance pension debit 2015/16	£ 400 pa
Pension increase uprating factor 2015/16	1.006*

\* From 2015/16 debit implementation date, 5 April 2016, to retirement. Illustrative figure for the purpose of this example.

**Pension Debit**

Under 2.17, the formula for calculating the adjusted pension debit at retirement date is:

$$AdjD^P = D^P \times PI \times F_x^R$$

$$F_x^R = 0.581 \quad \text{(from Table TA1a)}$$

Substituting these values into the formula we get:

$$\begin{aligned} \text{Adjusted pension debit} &= £400 \times 1.006 \times 0.581 \\ &= £233.79 \text{ pa} \end{aligned}$$

The (pre-commutation) pension payable to the member is the full pension less the member's adjusted pension debit. The annual allowance debits will not be applied to the benefits payable to a future surviving spouse, civil partner or children on the member's death.

$$\begin{aligned} \text{Member's pension} &= £31,000.00 - £233.79 \\ &= \mathbf{£30,766.21 \text{ pa}} \end{aligned}$$



## Appendix A: Principal assumptions underlying factors

### Financial assumptions

Nominal discount rate	4.448% pa
CPI	2.00% pa
RPI	3.15% pa
Real discount rate (in excess of CPI)	2.40% pa
Real discount rate (in excess of RPI)	1.25% pa

### Mortality assumptions

#### Mortality assumptions

Members in normal health	<p>males: 119% S2NMA_L</p> <p>females: age-dependent adjustments to S1NFA_L 84% up to age 79 97% at ages 80 to 84 113% at ages 85 to 89 122% from age 90</p>
Members in ill-health	<p>under age 75 males: 79% S2IMA with underpin of 134% of S2NMA females: 96% S2IFA with underpin of 128% of S2NFA</p> <p>over age 75 males: 134% S2NMA and females: 128% S2NFA</p> <p>future: males: 100% S2IMA and females: 100% S2IFA</p>
Dependants	males: 135% S2NMA and females: 107% S2DFA
Future mortality improvements	based on ONS principal UK population projections 2016
Year of Use	2020

### Other assumptions

Proportion of male members for unisex factors	30%
Age difference between member and partner	Male members 3 years older than partner Female members 2 years younger than partner
Allowance for commutation	Nil other than for mandatory lump sum cases



## Appendix B: Tables of factors

- Table CSP65a (Table 605 in the consolidated factors spreadsheet): Factors for calculating annual allowance debit – **NPA 65**
- Table CSP66a (Table 606 in the consolidated factors spreadsheet): Factors for calculating annual allowance debit – **NPA 66**
- Table CSP67a (Table 607 in the consolidated factors spreadsheet): Factors for calculating annual allowance debit – **NPA 67**
- Table CSP68a (Table 608 in the consolidated factors spreadsheet): Factors for calculating annual allowance debit – **NPA 68**
- Table TA1a (Table 609 in the consolidated factors spreadsheet): Timing adjustment factors for ill health retirements – **All NPAs**



**Table CSP65a (Table 605 in the consolidated factors spreadsheet) – Factors for calculating annual allowance debit – NPA 65**

<b>Age last birthday at relevant date</b>	<b>Annual allowance debit factor per £1 of pension per annum</b>	<b>Age last birthday at relevant date</b>	<b>Annual allowance debit factor per £1 of pension per annum</b>
20	6.76	50	12.84
21	6.91	51	13.13
22	7.05	52	13.42
23	7.21	53	13.72
24	7.36	54	14.04
25	7.52	55	14.36
26	7.68	56	14.68
27	7.84	57	15.03
28	8.01	58	15.38
29	8.18	59	15.74
30	8.36	60	16.12
31	8.54	61	16.50
32	8.72	62	16.91
33	8.91	63	17.33
34	9.10	64	17.77
35	9.29	65	17.71
36	9.49	66	17.13
37	9.70	67	16.56
38	9.91	68	15.98
39	10.12	69	15.39
40	10.34	70	14.81
41	10.57	71	14.22
42	10.80	72	13.62
43	11.03	73	13.02
44	11.27	74	12.41
45	11.52		
46	11.77		
47	12.03		
48	12.29		
49	12.57		



**Table CSP66a (Table 606 in the consolidated factors spreadsheet)– Factors for calculating annual allowance debit – NPA 66**

<b>Age last birthday at relevant date</b>	<b>Annual allowance debit factor per £1 of pension per annum</b>	<b>Age last birthday at relevant date</b>	<b>Annual allowance debit factor per £1 of pension per annum</b>
20	6.43	50	12.17
21	6.57	51	12.44
22	6.71	52	12.71
23	6.85	53	13.00
24	6.99	54	13.29
25	7.14	55	13.59
26	7.30	56	13.90
27	7.45	57	14.22
28	7.61	58	14.55
29	7.77	59	14.89
30	7.94	60	15.25
31	8.11	61	15.61
32	8.28	62	15.99
33	8.46	63	16.39
34	8.64	64	16.80
35	8.82	65	17.23
36	9.01	66	17.16
37	9.20	67	16.58
38	9.40	68	15.99
39	9.60	69	15.40
40	9.81	70	14.81
41	10.02	71	14.22
42	10.24	72	13.62
43	10.46	73	13.02
44	10.69	74	12.41
45	10.92		
46	11.16		
47	11.40		
48	11.65		
49	11.91		



**Table CSP67a (Table 607 in the consolidated factors spreadsheet) – Factors for calculating annual allowance debit – NPA 67**

<b>Age last birthday at relevant date</b>	<b>Annual allowance debit factor per £1 of pension per annum</b>	<b>Age last birthday at relevant date</b>	<b>Annual allowance debit factor per £1 of pension per annum</b>
20	6.11	50	11.51
21	6.24	51	11.76
22	6.37	52	12.02
23	6.50	53	12.29
24	6.64	54	12.56
25	6.78	55	12.85
26	6.92	56	13.14
27	7.07	57	13.44
28	7.22	58	13.75
29	7.37	59	14.07
30	7.53	60	14.40
31	7.69	61	14.74
32	7.85	62	15.10
33	8.02	63	15.47
34	8.19	64	15.86
35	8.36	65	16.26
36	8.54	66	16.68
37	8.72	67	16.60
38	8.91	68	16.01
39	9.10	69	15.42
40	9.29	70	14.82
41	9.49	71	14.22
42	9.70	72	13.62
43	9.91	73	13.02
44	10.12	74	12.41
45	10.34		
46	10.56		
47	10.79		
48	11.02		
49	11.26		



**Table CSP68a (Table 608 in the consolidated factors spreadsheet) – Factors for calculating annual allowance debit – NPA 68**

<b>Age last birthday at relevant date</b>	<b>Annual allowance debit factor per £1 of pension per annum</b>	<b>Age last birthday at relevant date</b>	<b>Annual allowance debit factor per £1 of pension per annum</b>
20	5.79	50	10.87
21	5.91	51	11.11
22	6.04	52	11.35
23	6.16	53	11.60
24	6.29	54	11.86
25	6.43	55	12.12
26	6.56	56	12.40
27	6.70	57	12.68
28	6.84	58	12.97
29	6.98	59	13.27
30	7.13	60	13.58
31	7.28	61	13.90
32	7.44	62	14.23
33	7.59	63	14.58
34	7.75	64	14.94
35	7.92	65	15.32
36	8.08	66	15.71
37	8.25	67	16.12
38	8.43	68	16.04
39	8.61	69	15.44
40	8.79	70	14.83
41	8.98	71	14.23
42	9.17	72	13.62
43	9.37	73	13.02
44	9.57	74	12.41
45	9.77		
46	9.98		
47	10.20		
48	10.42		
49	10.64		

**Table TA1a (Table 609 in the consolidated factors spreadsheet) – Timing adjustment on ill health retirements – All NPAs**

**Males and Females**

Period to NPA Years	Months											
	0	1	2	3	4	5	6	7	8	9	10	11
0	1.000	0.998	0.993	0.988	0.983	0.978	0.973	0.968	0.963	0.958	0.953	0.948
1	0.943	0.939	0.934	0.930	0.925	0.920	0.916	0.911	0.907	0.902	0.897	0.893
2	0.888	0.884	0.880	0.876	0.871	0.867	0.863	0.859	0.855	0.851	0.846	0.842
3	0.838	0.834	0.830	0.827	0.823	0.819	0.815	0.812	0.808	0.804	0.800	0.797
4	0.793	0.789	0.786	0.782	0.779	0.775	0.772	0.768	0.765	0.761	0.758	0.754
5	0.751	0.747	0.744	0.741	0.737	0.734	0.731	0.727	0.724	0.721	0.717	0.714
6	0.711	0.707	0.704	0.701	0.698	0.695	0.692	0.688	0.685	0.682	0.679	0.676
7	0.673	0.670	0.667	0.664	0.661	0.658	0.655	0.652	0.649	0.646	0.643	0.640
8	0.637	0.635	0.632	0.629	0.626	0.624	0.621	0.618	0.615	0.613	0.610	0.607
9	0.604	0.602	0.600	0.597	0.595	0.593	0.590	0.588	0.586	0.583	0.581	0.579
10	0.576	0.574	0.572	0.569	0.567	0.565	0.563	0.560	0.558	0.556	0.554	0.551
11	0.549	0.547	0.545	0.543	0.541	0.539	0.537	0.534	0.532	0.530	0.528	0.526
12	0.524	0.522	0.520	0.518	0.516	0.514	0.512	0.511	0.509	0.507	0.505	0.503
13	0.501	0.499	0.497	0.495	0.494	0.492	0.490	0.488	0.486	0.484	0.483	0.481
14	0.479	0.477	0.476	0.474	0.472	0.471	0.469	0.467	0.466	0.464	0.462	0.461
15	0.459	0.457	0.456	0.454	0.452	0.451	0.449	0.447	0.446	0.444	0.442	0.441
16	0.439	0.437	0.436	0.434	0.433	0.431	0.430	0.428	0.427	0.425	0.424	0.422
17	0.421	0.419	0.418	0.416	0.415	0.414	0.412	0.411	0.409	0.408	0.407	0.405
18	0.404	0.402	0.401	0.400	0.398	0.397	0.396	0.394	0.393	0.392	0.390	0.389
19	0.388	0.386	0.385	0.384	0.383	0.381	0.380	0.379	0.378	0.376	0.375	0.374
20	0.373	0.371	0.370	0.369	0.368	0.367	0.366	0.364	0.363	0.362	0.361	0.360



**Table TA1a (Table 609 in the consolidated factors spreadsheet) – Timing adjustment on ill health retirements – All NPAs *continued***  
**Males and Females**

Period to NPA Years	Months											
	0	1	2	3	4	5	6	7	8	9	10	11
21	0.359	0.357	0.356	0.355	0.354	0.353	0.352	0.350	0.349	0.348	0.347	0.346
22	0.345	0.343	0.342	0.341	0.340	0.339	0.338	0.337	0.336	0.335	0.334	0.333
23	0.332	0.330	0.329	0.328	0.327	0.326	0.325	0.323	0.322	0.321	0.320	0.319
24	0.318	0.316	0.315	0.314	0.313	0.312	0.311	0.310	0.309	0.308	0.307	0.306
25	0.305	0.303	0.302	0.301	0.300	0.299	0.298	0.297	0.296	0.295	0.294	0.293
26	0.292	0.291	0.290	0.289	0.288	0.287	0.286	0.285	0.284	0.283	0.282	0.281
27	0.280	0.279	0.278	0.277	0.276	0.276	0.275	0.274	0.273	0.273	0.272	0.271
28	0.270	0.270	0.269	0.268	0.267	0.266	0.265	0.265	0.264	0.263	0.262	0.261
29	0.260	0.260	0.259	0.258	0.257	0.257	0.256	0.255	0.254	0.254	0.253	0.252
30	0.251	0.251	0.250	0.249	0.249	0.248	0.247	0.247	0.246	0.245	0.245	0.244
31	0.243	0.243	0.242	0.241	0.240	0.240	0.239	0.238	0.237	0.237	0.236	0.235
32	0.234	0.234	0.233	0.233	0.232	0.231	0.231	0.230	0.230	0.229	0.228	0.228
33	0.227	0.227	0.226	0.225	0.225	0.224	0.223	0.223	0.222	0.221	0.221	0.220
34	0.219	0.219	0.218	0.218	0.217	0.216	0.216	0.215	0.215	0.214	0.213	0.213
35	0.212	0.212	0.211	0.211	0.210	0.209	0.209	0.208	0.208	0.207	0.206	0.206
36	0.205	0.205	0.204	0.204	0.203	0.202	0.202	0.201	0.201	0.200	0.199	0.199
37	0.198	0.198	0.197	0.197	0.196	0.196	0.195	0.195	0.194	0.194	0.193	0.193
38	0.192	0.192	0.191	0.191	0.190	0.190	0.189	0.189	0.188	0.188	0.187	0.187
39	0.186	0.186	0.185	0.185	0.184	0.184	0.183	0.183	0.182	0.182	0.181	0.181

Notes:

- 1) These factors are to be used for implementing pension debits at retirement where the member is retiring on the grounds of ill health.
- 2) Factors should be selected with reference to the period to a member's NPA (in years and months, with part months rounded up to the nearest month)



## Appendix C: Limitations

- C.1 This guidance should not be used for any purpose other than those set out in this guidance.
- C.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.
- 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 guidance only covers the actuarial principles around the calculation and application of annual allowance pension debit 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 annual allowance pension debit 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 SPPA and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.