



Government
Actuary's
Department

Scottish Teachers' Superannuation Scheme

Premature retirement

Factors for capitalising the cost of compensation

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1 Introduction

- 1.1 This note is provided for the Scottish Public Pensions Agency ('SPPA') as administrators of the Scottish Teachers' Superannuation Scheme ('STSS').

The purpose of this note is to provide guidance for capitalising the cost to be paid by employers for granting premature retirement compensation.

- 1.2 This note relates to Regulation 19A(2) of *The Teachers (Compensation for Premature Retirement and Redundancy) (Scotland) Regulations 1996* (SI 1996/2317) as amended.

- 1.3 The principal assumptions underlying the factors contained in this guidance note can be found in Appendix A and some important limitations are set out in Appendix C.

Implementation and Review

- 1.4 The factors contained in this note have been prepared in light of our advice to SPPA dated 30 October 2018 and its instructions following that advice.

- 1.5 SPPA have advised the Government Actuary's Department that the factors contained in this note applied from **29 October 2018**. These factors were issued to SPPA on 21 December 2018 and our understanding is that they have been implemented for all calculations with an effective date from 29 October 2018.

Since December 2018, the updated factors have been used in conjunction with the previous guidance issued.

- 1.6 This guidance will apply with immediate effect upon receipt.

This guidance is intended to supersede any guidance previously issued for the purposes of premature retirement capitalisation cost calculations, which rely on input from the Scheme Actuary. In particular, this guidance supersedes:

"Scottish Teachers' Superannuation Scheme: Premature Retirement – Factors for capitalising the cost of compensation" dated 30 March 2015.

- 1.7 These factors do not cover any lump sum compensation amounts, which should be added as appropriate.

- 1.8 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the STSS. Any questions concerning the application of the guidance should, in the first instance, be referred to SPPA.

- 1.9 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, you may wish to send some example calculations to GAD for review.



- 1.10 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

- 1.11 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 the 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.
- 1.12 Other than the 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 Methodology

2.1 *The Teachers (Compensation for Premature Retirement and Redundancy) (Scotland) Regulations 1996 (SI 1996/2317)*, as amended, sets out the method by which the annual compensation should be calculated.

2.2 This section sets out the guidance for methodology to be used to calculate the cost of annual compensation which is to be met by the compensating authority under the *Teachers (Compensation for Premature Retirement and Redundancy) (Scotland) Regulations 1996 (SI 1996/2317)*, as amended.

2.3 The methodology below applies to members in all sections of the scheme.

Factors

2.4 Factors in table 701 in Appendix A (Table 808 in the consolidated factor workbook) should be used to capitalise the cost of the annual compensation payable to the member.

Factors depend on the age, but not the sex of the member.

2.5 Factors in table 711 in Appendix A (Table 809 in the consolidated factor workbook) should be used to capitalise the cost of the contingent long-term compensation payable on the death of the member (whether or not the member currently has a qualifying partner).

The factors should be selected according to the member's age. Factors do not depend on the age of the partner, or the sex of the member or the partner.

2.6 Factors are shown per £1 per annum of additional pension awarded.

Calculation

2.7 The capitalisation cost at retirement should be calculated as shown below.

Capitalisation cost = (Annual pension x F_p) + (Annual spouse's pension x F_{sp})

Annual pension	Annual compensation payable to the member at retirement in accordance with the regulations
Annual spouse's pension	Contingent long-term compensation payable on the death of the member in accordance with the regulations
F_p	Factor for capitalising the cost of the member's annual compensation – Table 701 (Table 808 in consolidated factors spreadsheet)
F_{sp}	Factor for capitalising the cost of the member's annual compensation – Table 711 (Table 809 in consolidated factors spreadsheet)



Exclusions

2.8 Please 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.



3 Example

Member retiring at age 55 on redundancy grounds from STSS

The following information is needed for this calculation:

A. Member date of birth	1 January 1965
B. Retirement date	1 January 2020
C. Member age	55
D. Additional member pension awarded on premature retirement	£3,500
E. Additional spouse's pension awarded on premature retirement	£1,750 *

* To be included in the capitalisation cost regardless of whether the member has a qualifying partner at the premature retirement date.

Under 2.7, the capitalisation cost is calculated as:

Capitalisation cost = Annual pension x F_p + Annual spouse's pension x F_{sp}

We have:

Annual pension = £3,500 (from D.)

Annual spouse's pension = £1,750 (from E.)

F_p = 22.8 (from **Table 701 in Appendix A**)

F_{sp} = 1.4 (from **Table 711 in Appendix A**)

Substituting these values into the formula we get:

Capitalisation cost = (£3,500 x 22.8) + (£1,750 x 1.4)
= £79,800 + £2,450
= £82,250



Appendix A: Factor tables

Table 701 (Table 808 in consolidated factors spreadsheet):

Factors for capitalising the cost of the member's annual compensation (per £1pa of additional pension)

Age last birthday	Factor	Age last birthday	Factor
55	22.8	81	8.2
56	22.3	82	7.7
57	21.8	83	7.1
58	21.3	84	6.6
59	20.8	85	6.1
60	20.3	86	5.6
61	19.8	87	5.1
62	19.3	88	4.7
63	18.7	89	4.3
64	18.2	90	3.9
65	17.7	91	3.6
66	17.1	92	3.3
67	16.5	93	3.0
68	16.0	94	2.8
69	15.4	95	2.6
70	14.8	96	2.4
71	14.2	97	2.2
72	13.6	98	2.0
73	13.0	99	1.9
74	12.4	100	1.8
75	11.8		
76	11.2		
77	10.6		
78	10.0		
79	9.4		
80	8.8		



Table 711 (Table 809 in consolidated factors spreadsheet):

Factors for capitalising the cost of the contingent partner's long-term compensation (per £1pa of additional pension)

Age last birthday	Factor	Age last birthday	Factor
55	1.4	81	0.9
56	1.4	82	0.9
57	1.4	83	0.9
58	1.4	84	0.8
59	1.4	85	0.7
60	1.5	86	0.6
61	1.5	87	0.6
62	1.5	88	0.6
63	1.5	89	0.5
64	1.5	90	0.4
65	1.5	91	0.3
66	1.5	92	0.3
67	1.5	93	0.3
68	1.5	94	0.3
69	1.5	95	0.2
70	1.4	96	0.2
71	1.4	97	0.2
72	1.4	98	0.2
73	1.4	99	0.2
74	1.4	100	0.2
75	1.3		
76	1.2		
77	1.2		
78	1.2		
79	1.1		
80	1.0		



Appendix B: Principal 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

Members in normal health	Male member: 119% S2NMA_L Female member: 84% of S1NFA_L up to age 79 97% at ages 80 to 84 113% at ages 85 to 89 122% from age 90
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%
Allowance for commutation	Nil other than for mandatory lump sum cases



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 premature retirement cost capitalisation 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 premature retirement cost capitalisation 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.