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Financial Planning on Separation Conference 2024

Navigating McCloud: Public Sector Pension Remedy

INSIGHTS FOR FINANCIAL ADVISORS AND KEY POINTS TO NOTE WHEN ADVISING CLIENTS

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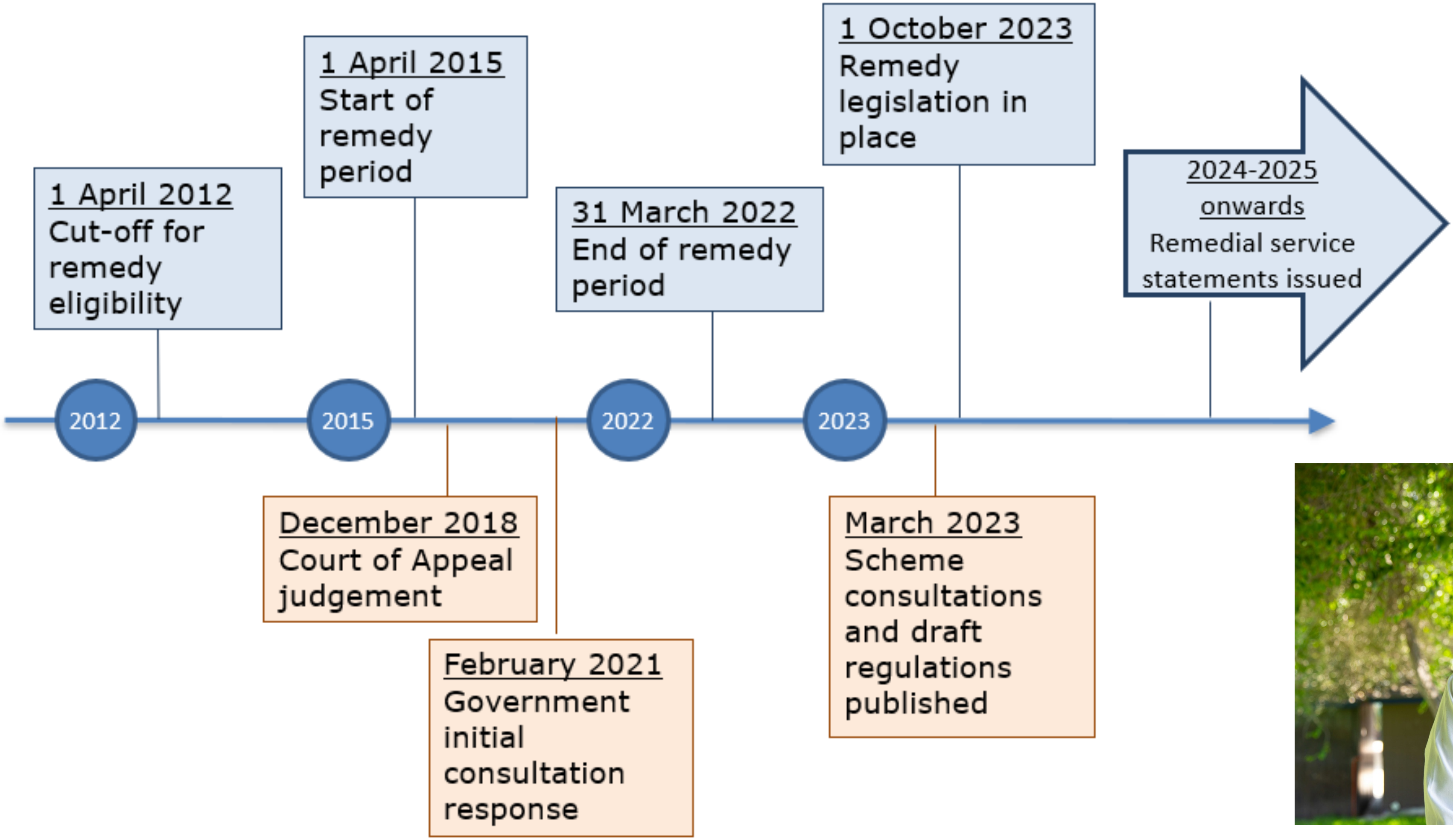
How it all started!

Pre 2015 Scheme – LEGACY SCHEME	Post 2015 Scheme – REFORMED SCHEME
Final Salary	Career Averaged Revalued Earnings (CARE)
Normal Retirement Age 60/65 or younger	Normal Retirement Age is State Pension Age (SPA)
Favours those who receive good pay increases in the final years before retirement	Favours those with flat pay progression typically low/medium earners
Favours those who want to retire from employment at a younger age	Favours those who are happy to work until SPA

Public Sector Remedy Timeline



Changes to the format of public sector pension benefits if impacted by remedy

Period of public sector membership		Pre March 2015	April 2015 to March 2017	April 2017 to March 2022	April 2022 to March 2027
Position before 1 October 2023	Protected member	L	L	L	R
	Non-Protected member	L	R	R	R
	Taper member	L	L	R	R
Position from 1 October 2023		L	L	L	R
Position at retirement at 1 April 2027	Option 1	L	L	L	R
	Option 2	L	R	R	R
Which scheme are benefits held in after 1 Oct 2023		LEGACY SCHEME			REFORMED SCHEME

L = Legacy Scheme benefit structure

R = Reformed scheme benefit structure

Taper end date = 31 March 2017

Retirement on 1 April 2027

The process of moving benefits back to the **legacy** structure for the remedy period is called "Rollback"

Who qualifies for remedy?

Members are defined to be "in scope" for remedy assessment if the following conditions are satisfied:

- they had pensionable service during the remedy period, **1 April 2015 to 31 March 2022**
- the pensionable service (that would have been service in the legacy scheme but for the discrimination) must be in the legacy scheme or the 2015 scheme
- they were in pensionable service under a legacy public service pension scheme **on or before 31 March 2012**; and they have **not since had a disqualifying gap (5 years or more)** before starting any pensionable service during the remedy period
- where there is more than one period of pensionable service in the remedy period, there must not be a disqualifying gap between periods, for subsequent periods to count as remediable service

What is the Legal Framework for the changes?

The **primary legislation** is the "Public Service Pensions and Judicial Offices Act 2022" (Royal Assent 10 March 2022)

This sets out the legal framework requiring public sector pension schemes to make changes to their regulations to facilitate remedy for the discrimination judged to have taken place

McCloud 1 changes (e.g. National Health Service Pension Schemes (Amendment) Regulations 2022, applies from April 2022)

- Close the Legacy pension schemes to future accrual from 1 April 2022

McCloud 2 changes (e.g. National Health Service Pension Schemes (Remediable Service) Regulations 2023)

- Update scheme rules to allow payment of Legacy benefits for service between 1 April 2015 and 31 March 2022
- Benefits in respect of accrual between 1 April 2015 and 31 March 2022 moved into Legacy scheme with the Legacy benefit structure (usually final salary or final rank)
- Implement the "deferred choice underpin" so that when benefits become payable, eligible members can choose Legacy or Reformed benefits between 1 April 2015 and 31 March 2022
- Correct any over/underpayment of benefits/contributions based on choice made by the member for the remedy period
- Pay compensation for any financial loss arising from Remedy (e.g. overpaid tax)

Do all public sector schemes deal with remedy in the same way?

The simple answer is no!

- The Judicial Pension Scheme offered all members an “immediate choice” to be made by 1 April 2022 rather than a “deferred choice underpin”. They also set up a new scheme “The Judicial Pension Scheme 2022” for post 1 April 2022 accrual.
- The Local Government Pension Scheme implemented structure changes from 1 April 2014 rather than 1 April 2015. Also all members were moved to the new structure in April 2014 independent of age or period to retirement. The discrimination issue for this scheme relates to a “Statutory Underpin” given to older members where their post 1 April 2014 benefits were guaranteed not to be less than if they were instead calculated on the “final salary” benefit structure in place immediately before 1 April 2014. The remedy in this case is to extend the Statutory Underpin to all “in scope” members.
- The other public sector pension schemes, in general, operate remedy in the same way, as is described in the next few slides.

Does Immediate choice or Deferred choice apply?

The status of a member is based on their position on 30 September 2023.

Immediate choice given to:

- pensioner members
- the beneficiaries of deceased members who died before 1 October 2023
- Remediable Service Statement (RSS) providing benefit comparison to be provided by 1 April 2025. Choice must be made within 12 months of receipt otherwise default is legacy pension benefits will be provided.

Deferred choice (that is choice at the point of retirement) given to:

- Active and deferred members
- RSS must be provided by 1 April 2025. Must be provided annually thereafter to actives and on request (no more than once a year) to deferreds

Impact on pension sharing – latest CEV issued before 1 Oct 2023

- Irrespective of the date of the share, CEV will be based on the pre 1 October 2023 structure
- The "transfer day" and "valuation day" still have the same definitions as in the Welfare Reform and Pensions Act 1999, it is simply the case that the scheme benefits on the transfer day will be calculated as though "rollback" never took place
- Pension credits to an ex-spouse will be granted in the same legacy or reformed scheme that the pension sharing order has been applied to
- After 1 October 2023, post pension share implementation, the scheme will need to write to pension credit members and advise if the benefits are to be subject to a "remediable credit adjustment" (RCA). This could be done by enhancing the credit pension by a multiplier

E.g. if just post 1 April 2015 benefits are shared for a non-protected member

Multiplier = (maximum(A,B)+C) / (B+C) where

A = CEV of 1 Apr 15 to 31 Mar 22 benefits – legacy structure
B = CEV of 1 Apr 15 to 31 Mar 22 benefits – reformed structure
C = CEV of post 1 Apr 22 benefits – reformed structure

Impact on pension sharing – latest CEV issued after 1 Oct 2023

Irrespective of the date of the share, CEV will be based on the following formula

- For legacy scheme benefits (accrued pre 1 April 2022), CEV = A + (maximum(B,C)
- For reformed scheme benefits (accrued post 1 April 2022), CEV = D

A = CEV of pre 1 Apr 15 benefits – legacy structure
B = CEV of 1 Apr 15 to 31 Mar 22 benefits – legacy structure
C = CEV of 1 Apr 15 to 31 Mar 22 benefits – reformed structure
D = CEV of post 1 Apr 22 benefits – reformed structure

Pension credits to an ex-spouse will be granted in the same legacy or reformed scheme that the pension sharing order has been applied to

What about pension debits?

The scheme will calculate the leaving service benefits on the transfer day for the remedy period (1 April 2015 to 31 March 2022) on two alternative sets of assumptions

- **Basis A** – assuming that the pension benefits that the member had accrued during this period are based on the **legacy** benefit structure
- **Basis B** – assuming that the pension benefits that the member had accrued during this period are based on the **reformed** benefit structure
- The pension debit is then calculated by multiplying the percentage share by the leaving service benefits on both bases A and B
- The pension debit benefits will then be **revalued to the retirement age** at which the member draws their benefits based on the revaluation rules of the scheme
- If the member **chooses legacy benefits** for their remedy period choice, then the scheme will deduct from these the revalued **pension debit (Basis A).**
- If **reformed benefits are chosen**, the same applies except using the revalued **pension debit (Basis B)**

Civil Service CEV statement – Pre 1 October 2023

Date of calculation	31 July 2023
Transfer Value Details	
(PCSPS) classic : CETV	£ 249,825.47
(CSOPS) alpha : CETV	£ 83,190.75
Summary of PCSPS benefits at date of calculation	
Pension (PCSPS)	£ 9,981.24
Lump sum (PCSPS)	£ 29,943.72
Widow(er)/Partner Pension (PCSPS)	£ 4,469.61
NI Modification	£ 0.00
GMP Pre 88	£ 0.00
GMP Post 88	£ 0.00
Summary of CSOPS benefits at date of calculation	
Pension (CSOPS)	£ 5,370.84
Widow(er)/Partner Pension (CSOPS)	£ 2,014.07

Female age 58 active
Year joined scheme 1984
Taper member – Joined CSOPS (Alpha) in Dec 2016

Current remedy period benefits split
1 Apr 15 to 30 Nov 16 - PCSPS
1 Dec 16 to 31 Mar 22 - CSOPS

Post choice remedy period benefits split
1 Apr 15 to 31 Mar 22 – PCSPS **OR**
1 Apr 15 to 31 Mar 22 - CSOPS

Civil Service CEV statement – Post 1 October 2023

Date of calculation	10 January 2024

Transfer Value Details

(PCSPS) classic : CETV	£333,347.88
(CSOPS) alpha : CETV	£19,954.79

Summary of PCSPS benefits at date of calculation

Pension (PCSPS)	£15,210.38
Lump sum (PCSPS)	£28,560.09
Widow(er)/Partner Pension (PCSPS)	£6,362.48
GMP Pre 88	£0.00
GMP Post 88	£0.00

Summary of CSOPS benefits at date of calculation

Pension (CSOPS)	£1,243.67
Widow(er)/Partner Pension (CSOPS)	£466.38

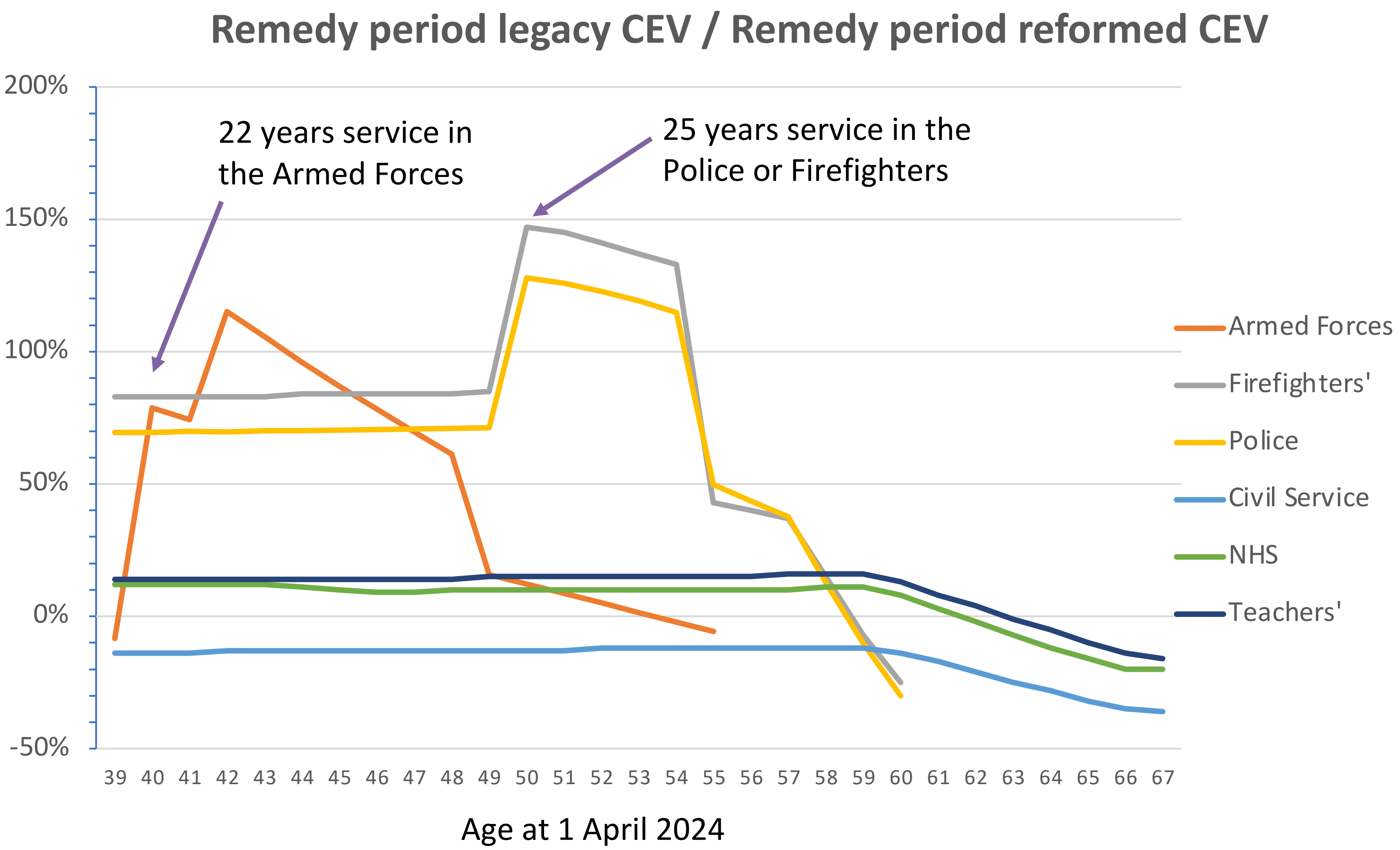
Pre 31 Mar 15	1 Apr 15 to 31 Mar 22
Final Salary structure	CARE structure
£9,520	£5,690
£28,560	n/a
£4,228	£2,134

1 Apr 22 onwards
CARE structure
£1,244
£466

Example impact for different schemes and member ages

Legacy CEV in remedy period

Reformed CEV in remedy period



The calculations assume the member joined the legacy scheme at age 18 (Armed Forces) and age 25 (the other schemes) and has had salary increases equal to the revaluation in the relevant CARE scheme.

Questions?

Happy to take any?

Disclaimer

- Whilst every effort has been made to ensure the accuracy of the information contained in this presentation, delegates should note that they should always check the benefit rules with the schemes concerned or with their tax advisers prior to making any financial decisions based upon these.

- Actuaries for Lawyers cannot be held responsible for any losses incurred as a result of relying upon information contained in this presentation as it does not constitute advice or act as a substitute for providing individual advice in relation to the specifics of a particular case.