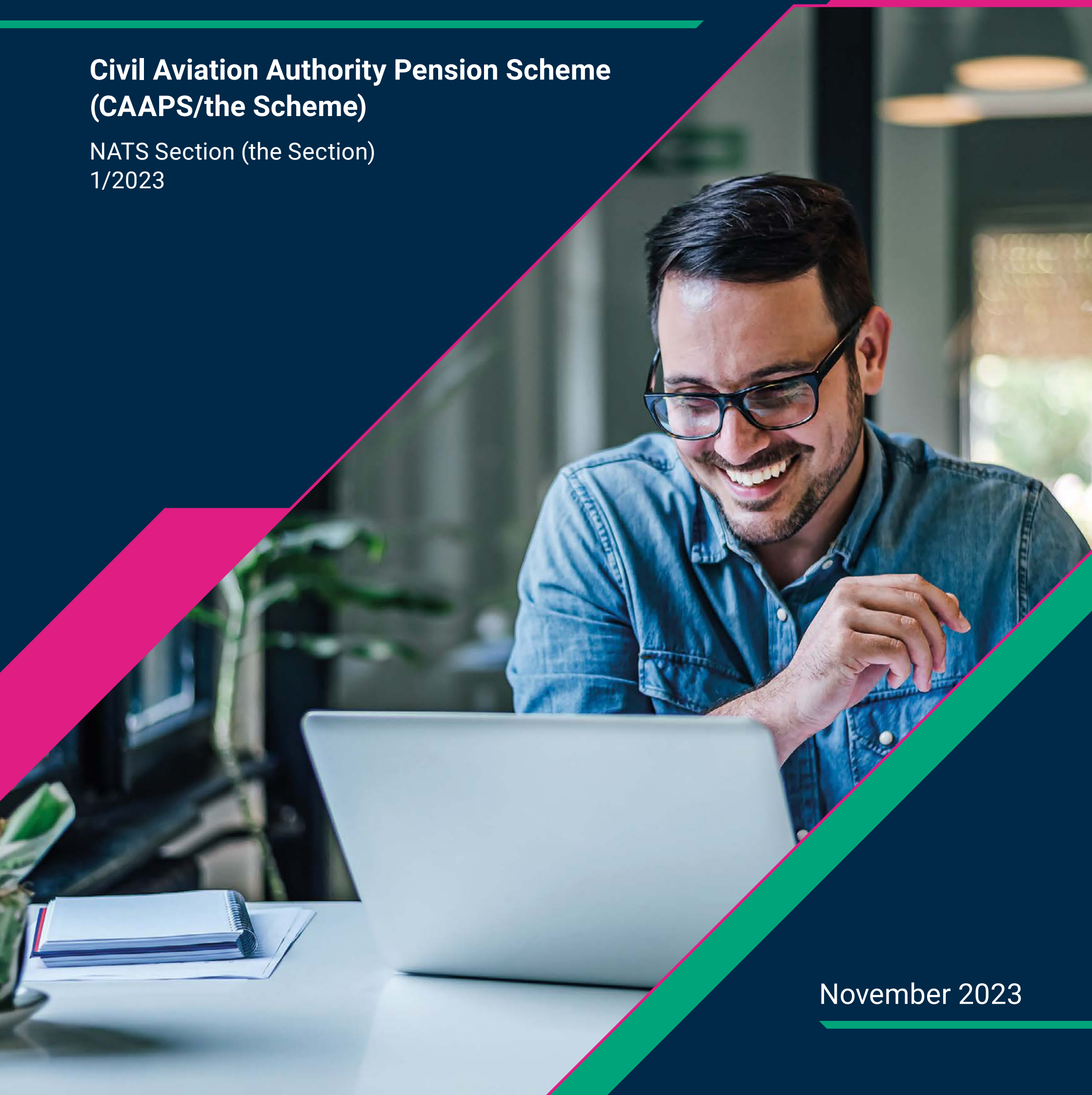
caaps

Pensions Notice

Civil Aviation Authority Pension Scheme (CAAPS/the Scheme)

NATS Section (the Section)
1/2023



November 2023

We've reviewed how we calculate some of your benefits

In this notice, you can find out about new rates, known as actuarial factors, that we'll be using to calculate some of your benefits from 1 February 2024.

Actuarial factors used in benefit calculations are reviewed from time to time to ensure they continue to be appropriate to the Section, its members and current investment conditions. These factors have typically been reviewed every three years, following completion of an actuarial valuation, as factors have usually remained appropriate over the three-year period.

Following a valuation, the Trustee Directors would then reflect in the factors the latest thinking on actuarial assumptions considered as part of the valuation and any changes in financial conditions. Over the last 18 months or so, however, there have been significant changes in financial conditions (in particular a substantial increase in interest rates), as you will no doubt have seen in the press. These changes mean that some factors currently being used are no longer appropriate.

> Keeping the factors at their current level would lead to a significant strain on the Section's funding position.

As such, the Trustee Directors – similar to trustees in many other defined benefit pension schemes across the country – have asked the Scheme Actuary to provide advice in relation to the factors, and have agreed new factors including those used for:

- Commutation (exchanging pension for cash)
- Variable Pension Option (taking a bigger pension before State Pension Age (SPA) and a smaller pension after SPA)

The chart below illustrates the increase in index-linked gilt yields (which results from the increase in interest rates) over the period from 1 January 2022 to 30 September 2023.

What is changing?

The Trustee Directors use actuarial factors to calculate benefits under such circumstances as exchanging pension for cash and transferring benefits to another pension arrangement. As part of good governance, the Trustee Directors review these factors from time to time to ensure they are appropriate to the Section, its members and current investment conditions.

The Trustee Directors provide around three months' notice of changes to actuarial factors as this allows time for members to consider their options and take any action. This takes into account that members can draw their pension while remaining in employment. This means active members can access some or all of their pension benefits if they want to before the end of any notice period without having to leave employment. If you're already a deferred member, you can start your pension before the end of the notice period. There is no requirement for the Trustee to give notice of a change in actuarial factors, however, the Trustee feels that three months allows members enough time to make decisions whilst ensuring the factors in force reflect actuarial advice and prevailing financial conditions. The tables on the following pages illustrate the effect of the changes.

We've provided a 'Frequently asked questions' section on pages 8 to 10. Throughout this notice, we refer to the Retail Prices Index (RPI) and the Consumer Prices Index (CPI). Please see the answer to 'Why are there different RPI and CPI factors?' on page 10 to find out more.

Commutation of pension

Commutation is when a member chooses to exchange part of their pension for a cash lump sum when they retire.

Lump sum payable for each £1 of pension commuted				
	RPI rates to 31 January 2024	RPI rates from 1 February 2024	CPI rates to 31 January 2024	CPI rates from 1 February 2024
Age 55	35.207	26.415	33.059	25.244
Age 60	30.022	23.136	28.292	22.163
Age 65	25.005	19.815	23.655	19.029

The example below shows the benefits that would be payable under the current and new commutation factors for a member with an RPI-linked pension payable for life of £30,000 per year. The example assumes that the member takes the maximum allowable tax-free cash lump sum by commuting their pension and shows the residual pension that the member would receive after taking this lump sum. The pension of £30,000 per year before commutation used in the example below is for illustration. The retirement calculators on our website, **www.caaps.co.uk**, have been updated with the new factors for retirements on or after 1 February 2024. Please use the calculators to understand how the changes affect your benefits.

	Factors in force to 31 January 2024	Factors in force from 1 February 2024
Age 60	Maximum tax-free cash lump sum = £163,658 Residual pension = £24,549 per year	Maximum tax-free cash lump sum = £155,261 Residual pension = £23,289 per year

As noted on page 2, the Trustee Directors are not alone in reviewing actuarial factors since the significant increase in interest rates. Many other defined benefit pension schemes in the UK have reduced their commutation factors recently. The new NATS Section factors remain above average when compared to other schemes

Please see the ‘Frequently asked questions’ on page 8 for further information about why the commutation factors have changed since the last review. They also explain how the change in commutation factors will affect your Scheme Pays Debit.

Variable Pension Option (VPO)

The VPO is when a member decides to receive a higher pension from the Scheme before their SPA and a lower pension from the Scheme after their SPA (i.e. when any State Pension becomes payable). In effect, a member will give up some of the pension that is paid for the whole of their life and in exchange receive a temporary pension that is paid to SPA. The aim of this is typically to ensure a consistent level of income throughout retirement when taking account of retirement income from all sources.

The examples in the table below show the benefits that would be payable under the current and new VPO factors for a member with a CPI-linked pension payable for life of £30,000 per year and an SPA of 67. The examples show how a member's CPI-linked pension for life would change and the temporary pension (which is equal to the State Pension) that a member would receive after electing to take the VPO.

	Factors in force to 31 January 2024	Factors in force from 1 February 2024
Age 55	Pension payable for life = £26,505 per year Temporary pension to SPA = £10,600 per year Total pension payable to SPA = £37,105 per year	Pension payable for life = £25,722 per year Temporary pension to SPA = £10,600 per year Total pension payable to SPA = £36,322 per year
Age 60	Pension payable for life = £27,504 per year Temporary pension to SPA = £10,600 per year Total pension payable to SPA = £38,104 per year	Pension payable for life = £26,995 per year Temporary pension to SPA = £10,600 per year Total pension payable to SPA = £37,595 per year

Frequently asked questions

Q1 The commutation factors have decreased. Does this mean I will have less pension after commutation?

A Yes, as you need to commute more pension to provide the same lump sum, thereby decreasing your residual pension. This factor also determines the maximum lump sum you are allowed to take, so this too will decrease.

Q2 Why have the commutation factors reduced?

A Commutation factors are the terms used to convert a pension into a cash sum at retirement. The two key drivers as to how much a pension is worth are 1) how long a member is expected to live and 2) what return the Scheme can expect to make on index-linked gilts (which provide the best match to pension liabilities). The higher the return on index-linked gilts, the lower the monetary value of the pension. This is because as the expected investment returns on index-linked gilts increase, the value of the pension reduces as less money is needed now to meet future payments.

Since the previous review of factors, you will have seen considerable press coverage about how interest rates have increased substantially over the last 18 months. It is this significant change in interest rates, and resulting large rise in the expected investment returns from index-linked gilts, which has led to a corresponding reduction in the commutation factors. As the value of the pension is now considerably lower in cash terms it produces a smaller lump sum per £1 of pension surrendered.

Q3 How does the change in commutation factors interact with my Scheme Pays Debit?

A If you have previously used Scheme Pays, whereby the Scheme meets an Annual Allowance tax charge on your behalf, you will have a Scheme Pays Debit on your record. This is held as a cash sum and rolled up with interest to your retirement date or the date you transfer out. If you transfer out of the Scheme, any Scheme Pays Debit (with interest to that point) is deducted from your CETV. If you retire in the Scheme, any Scheme Pays Debit (with interest to that point) is converted into a pension using the commutation factors, and deducted from your pension. Note, as the commutation terms reduce, you need to give up more pension to meet your Scheme Pays Debit.

Q4 Why has the pension reduced if I take the VPO?

A As set out earlier, interest rates have increased substantially over the last 18 months. This significant change in interest rates has a resulting impact on the expected investment returns on index-linked gilts (which provide the best match to pension liabilities). As the expected investment returns on index-linked gilts increase, the value of the pension reduces as less money is needed now to meet future payments. This impact is proportionately greater the further into the future a pension is due to be paid, so the value of a whole-of-life pension reduces by more than the value of a temporary pension. When you take the VPO, we are effectively looking to equate the value of your whole-of-life pension with the value of the temporary pension plus an adjusted whole-of-life pension. As such, this substantial increase in interest rates has resulted in a reduction in the adjusted pension you receive if you take the VPO.

Frequently asked questions

Q5 Why are there different RPI and CPI factors?

A The RPI is the Retail Prices Index, a measure of inflation based on the increasing cost of a 'basket' of certain items representing typical spending in the UK. The CPI is the Consumer Prices Index, this is also a measure of inflation but is calculated in a different way.

A CPI-linked pension is less valuable than an RPI-linked pension as it is expected that increases in the CPI will be lower than increases in the RPI. For example, you will note that the CPI-linked commutation factors are lower than the RPI-linked commutation factors, as set out on page 4.

Q6 Have early or late retirement factors changed?

A The early and late retirement factors have not changed as these are not sensitive to changes in financial conditions.

Q7 Can I take my pension benefits and remain working for NATS?

A Yes, please see the Flexible Retirement Guide on the website, **www.caaps.co.uk** for more information on this.

Further information

If you have any questions about the information in this notice, you can contact the CAAPS Pensions Administration Department using the details below:

Email:
pensions@caa.co.uk

Freephone:
0800 0680 234

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If you would like a copy of this document in large print, please call the Pensions Administration Department on **0800 0680 234.**