



Government  
Actuary's  
Department

# UPC offsetting examples - Q&A session with GAD

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# Introduction

## Roles and responsibilities

- HMRC
- Scheme managers
- Administrators
- NPCC and LGA
- GAD commissioned by HO

## Agenda

- HMRC example 2
- GAD example 1
- Next steps

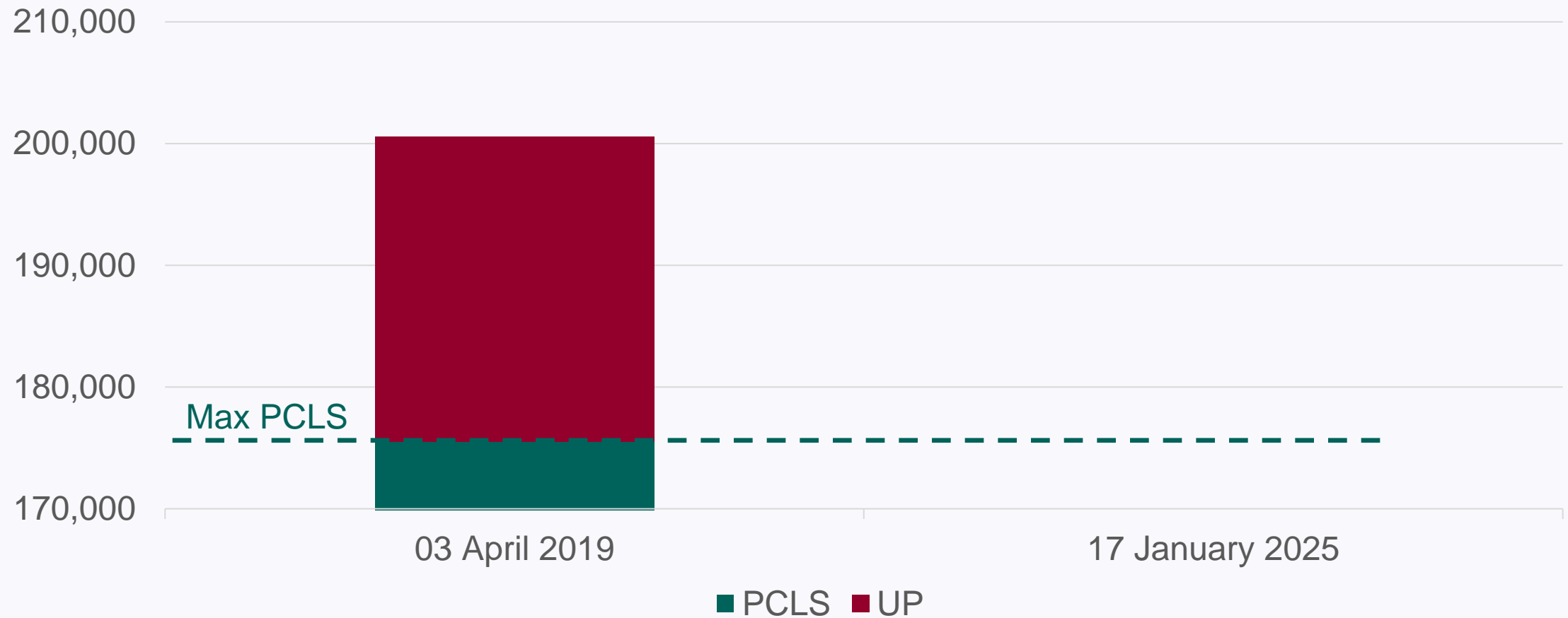


# HMRC example 2

3 UPC offsetting examples – 18 March 2025



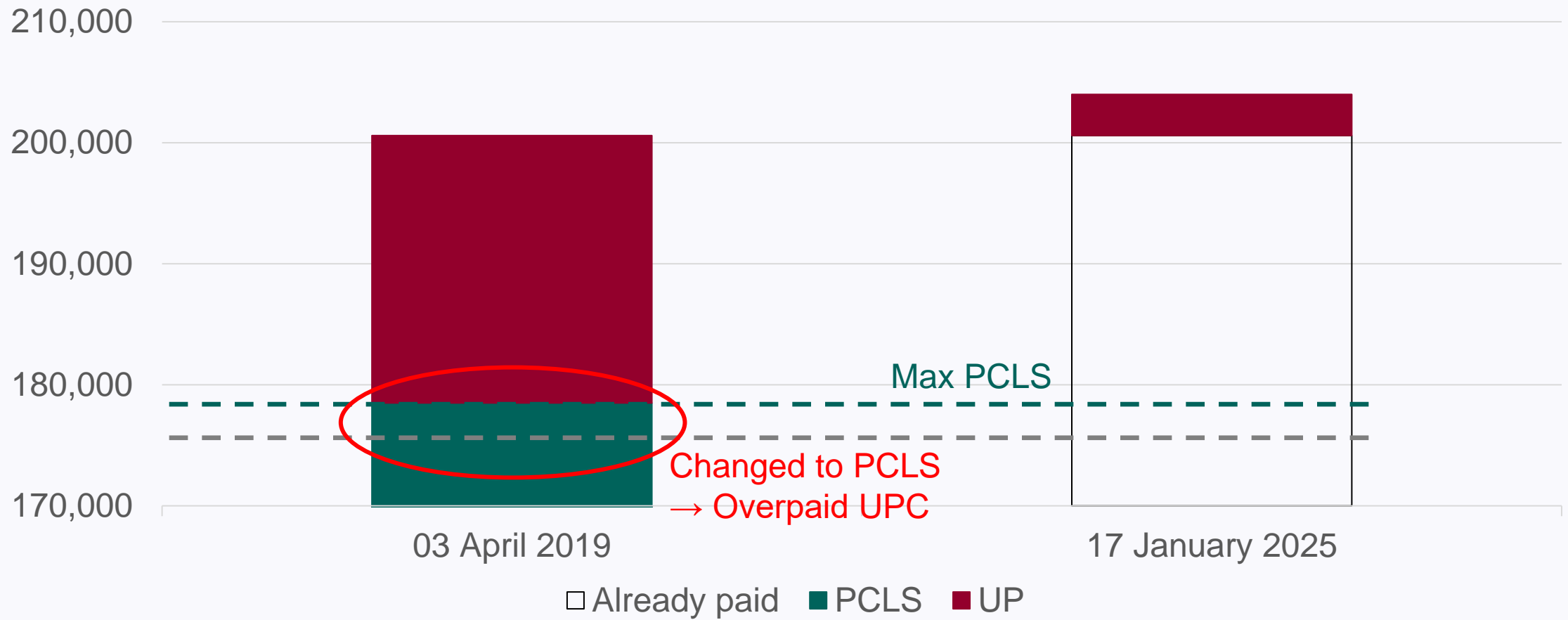
# HMRC example 2, before remedy



4 UPC offsetting examples – 18 March 2025



# HMRC example 2, after remedy



5 UPC offsetting examples – 18 March 2025



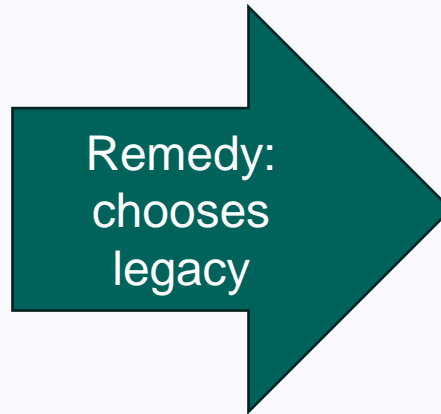
# HMRC example 2 – Taper protected member, 2015 scheme benefits not in payment

## Original benefits

Legacy scheme	Date
Pre remedy lump sum paid	3/4/2019
Pre remedy UPC paid	31/1/2020

Legacy scheme – pre remedy	
Post commutation annual pension	25,075
Lump sum	200,600
PCLS	175,525
Unauthorised payment	25,075
UPC	10,030



## Post remedy

Legacy scheme – post remedy

Post commutation annual pension	25,500
Lump sum	204,000

- Pension goes up, lump sum goes up
- Member will be owed additional top up lump sum and refund of overpaid UPC
- Member will need to pay UPC on top up, offset against refunded UPC



# Offsetting calculations – recalculate UPC post remedy

<b>Step 1</b> Calculate PCLS paid by reformed scheme related to service prior to 1 April 2022	Member has no reformed scheme benefits – no calculation needed	
<b>Step 2</b> Calculate lump sum due from legacy scheme	Pension: £25,500 Lump sum: £204,000	
<b>Step 3</b> Recalculate maximum PCLS due from Legacy based on member choice for remedy	Update for new pension and lump sum above	$(25,500 \times 20 + 204,000) / 4 = 178,500$
<b>Step 4</b> Recalculate the amount of the original UP	Allow for the increase in PCLS	$200,600 - 178,500 = 22,100$
<b>Step 5</b> Calculate UPC on revised UP	Assumes UP taxed at 40%	$22,100 \times 40\% = 8,840$
<b>Step 6</b> Overpaid UPC		$10,030 - 8,840 = 1,190$



# Offsetting calculations – UPC on top up

<b>Step 7</b> Top up lump sum due from legacy		$204,000 - 200,600 = 3,400$
<b>Step 8</b> Proportion of top up lump sum that is UP	Top up lump sum is fully unauthorised	3,400
<b>Step 9</b> Interest on top up lump sum	Use Judgments and NS&I approach	1,575
<b>Step 10</b> Amount of interest that is UP	Top up LS is fully unauthorised so interest also UP	1,575
<b>Step 11</b> UPC before offsetting		$(1,575 + 3,400) \times 40\% = 1,990$
<b>Step 12</b> Interest on original overpaid UPC	Calculated using Part 4 tax losses methodology	115
<b>Step 13</b> Calculate net UPC on top up lump sum and interest		$1,990 - (1,190 + 115) = 685$
<b>Top up lump sum and interest UP less net UPC payable</b>		$3,400 + 1,575 - 685 = \underline{4,290}$

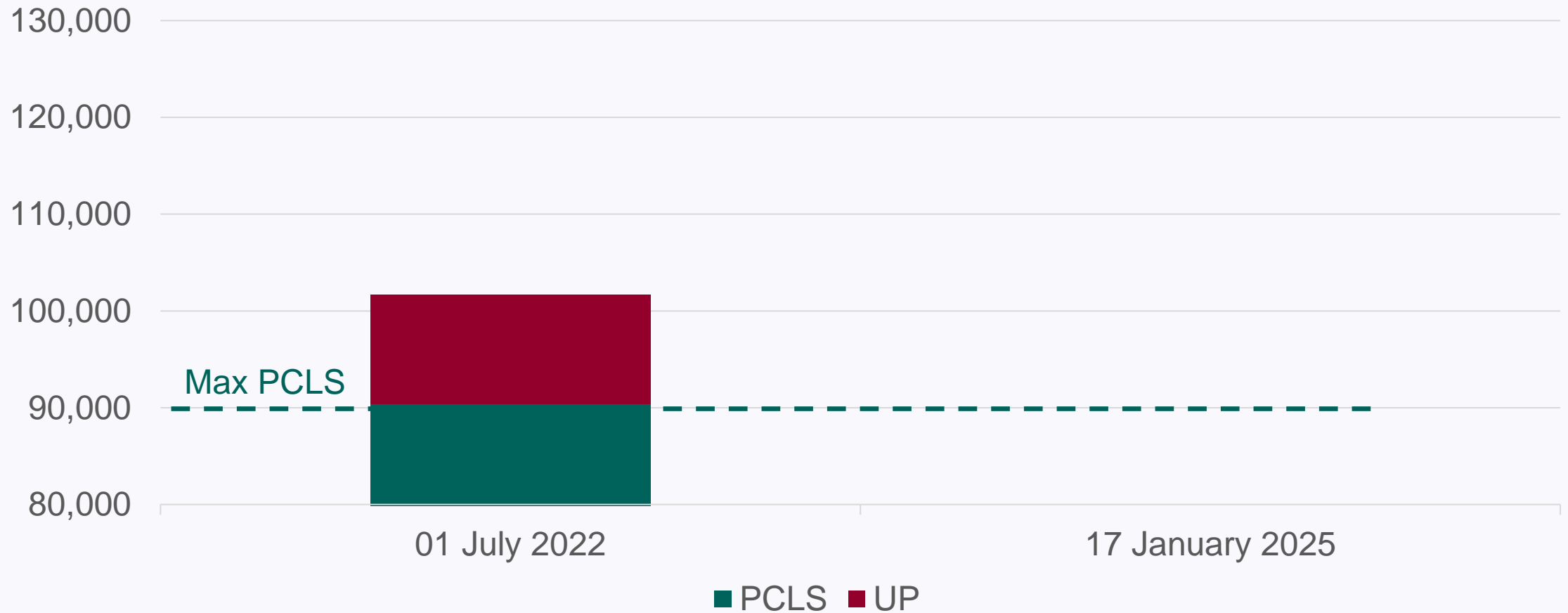




# GAD example 1



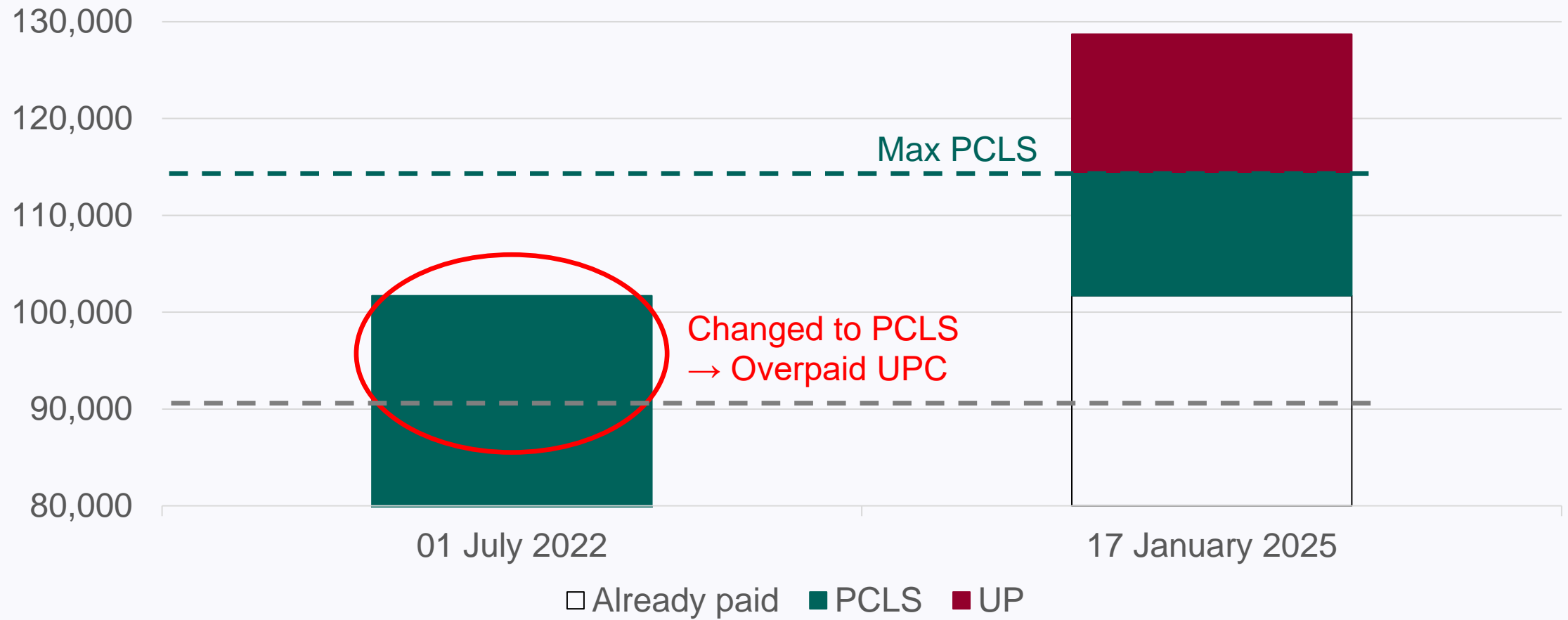
# GAD example 1, before remedy



10 UPC offsetting examples – 18 March 2025



# GAD example 1, after remedy



11 UPC offsetting examples – 18 March 2025



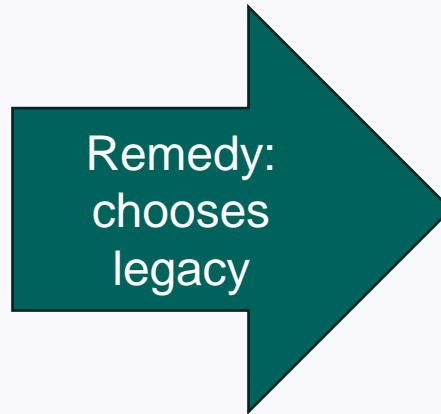
# GAD example 1 – Taper protected member, 2015 scheme benefits not in payment

## Original benefits

Legacy scheme	Date
Pre remedy lump sum paid	1/7//2022
Pre remedy UPC paid	31/1/2024

Legacy scheme – pre remedy	
Post commutation annual pension	13,000
Lump sum	101,703
PCLS	90,426
Unauthorised payment	11,277
UPC	4,511



## Post remedy

Legacy scheme – post remedy

Post commutation annual pension	16,453
Lump sum	128,718

- Pension goes up, lump sum goes up
- **Lump sum post remedy is partially UP**
- Member will be owed additional top up lump sum and refund of overpaid UPC
- Member will need to pay UPC on UP proportion of top up, offset against refunded UPC



# Offsetting calculations – recalculate UPC post remedy

<b>Step 1</b> Calculate PCLS paid by reformed scheme related to service prior to 1 April 2022	Member has no reformed scheme benefits – no calculation needed	
<b>Step 2</b> Calculate lump sum due from legacy scheme	Pension: £16,453 Lump sum: £128,718	
<b>Step 3</b> Recalculate maximum PCLS due from Legacy based on member choice for remedy	Update for new pension and lump sum above	$(16,453 \times 20 + 128,718) / 4 = 114,445$
<b>Step 4</b> Recalculate the amount of the original UP	Allow for the increase in PCLS	$\max(0, 101,703 - 114,445) = 0$
<b>Step 5</b> Calculate UPC on revised UP	Assumes UP taxed at 40%	$0 \times 40\% = 0$
<b>Step 6</b> Overpaid UPC		$4,511 - 0 = 4,511$



# Offsetting calculations – UPC on top up

<b>Step 7</b> Top up lump sum due from legacy		$128,718 - 101,703 = 27,015$
<b>Step 8</b> Proportion of top up lump sum that is UP		$128,718 - 114,445 = 14,273$ $14,273/27,015 = 53\%$ (12,742 as authorised payment)
<b>Step 9</b> Interest on top up lump sum	Use Judgments and NS&I approach	5,426
<b>Step 10</b> Amount of interest that is UP	Top up LS is partially unauthorised so pro-rate to get UP interest	$53\% \times 5,426 = 2,867$ (2,559 payable as SAMP)
<b>Step 11</b> UPC before offsetting		$(2,867 + 14,273) \times 40\% = 6,856$
<b>Step 12</b> Interest on original overpaid UPC	Calculated using Part 4 tax losses methodology	185
<b>Step 13</b> Calculate net UPC on top up lump sum and interest		$6,856 - (4,511 + 185) = 2,160$
<b>Top up lump sum and interest UP less net UPC payable</b>		$27,015 + 5,426 - 2,160 = \underline{30,281}$



# Next steps

15 UPC offsetting examples – 18 March 2025



# Next steps

- Performing calculations
- Further examples
  - Overpaid UPC greater than UPC due now
  - Unauthorised lump sum over 12 months after retirement
- Help on new types of case
  - Provide all inputs used in GAD examples, plus any other relevant details
  - Provide your calculation for comment
- Methodology note with HMRC for review
  - No change in lump sum, pension is increased
  - Reduction in lump sum, but because of an increase in the pension max PCLS has increased

16 UPC offsetting examples – 18 March 2025





# Questions and discussion

17 UPC offsetting examples – 18 March 2025





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