



# Government Actuary's Department

## **The Local Government Pension Scheme (England and Wales)**

### **Interfund transfers**

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## 1 Introduction

1.1 The Secretary of State for Communities and Local Government is required under the Local Government Pension Scheme Regulations 2013 ('the 2013 Regulations') (SI 2013/2356), to issue guidance in respect of the Local Government Pension Scheme on the transfer payment made from one fund to another when a member exercises the option to aggregate the past period of service with the current period.

1.2 The remainder of this introduction contains:

- > details of the implementation and future review of this guidance, and
- > statements about third party reliance and liability.

1.3 In the remainder of this note:

- > The second section provides background information
- > The third section describes the derivation of the transfer value
- > Appendix A sets out the relevant Regulations
- > Appendix B sets out some important limitations.

### **Implementation and Review**

1.4 The Secretary of State is required to consult with GAD before issuing actuarial guidance under the 2013 Regulations [Regulation 2(3) of the 2013 Regulations].

1.5 As part of this consultation, the Department for Communities and Local Government (DCLG) has asked GAD to recommend actuarial guidance in respect of the regulations detailed below. This document forms GAD's recommendation for the actuarial guidance required by these regulations.

1.6 This note has effect only when this guidance is issued by the Secretary of State in accordance with Regulation 2(3) of the 2013 Regulations, and is subject to the implementation instructions provided at that time.

1.7 This guidance replaces the previous guidance dated 1 April 2014.

1.8 This guidance has been written for pension administrators and assumes some knowledge of general pensions terminology, and some familiarity with retirement calculations for the Local Government Pension Scheme ('the Scheme', or LGPS). Any questions concerning the application of the guidance should, in the first instance, be referred to DCLG.

1.9 GAD recommends that guidance and factors should be reviewed periodically, depending on external circumstances, for example when changes in the actuarial assumptions adopted for other scheme factors take place, or following each triennial cycle of future valuations of the LGPS.



### **Use of this note**

- 1.10 This note has been prepared for DCLG and can be relied upon by them. We are content for this note to be released to third parties, provided that:
- > it is released in full
  - > the advice is not quoted selectively or partially, and
  - > GAD is identified as the source of the note.
- 1.11 Third parties may wish to seek their own actuarial advice where appropriate. GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this note.

### **Third party reliance**

- 1.12 When issued by the Secretary of State in accordance with paragraph 1.6 above, this note should be used as the actuarial guidance required under the regulations cited. Other than for this purpose, no person or third party is entitled to place any reliance on the contents of this note, except to any extent explicitly stated herein.



## 2 Legislation and background

- 2.1 Under Regulation 103 of the 2013 Regulations, where a member ceases active membership of one fund and immediately commences active membership of another fund and
- in a case where a member has the option of aggregating the past period of membership with the current period of membership, the member has exercised the option to aggregate those periods or
  - in a case where a member has the option of not aggregating a past period of membership with the current period of membership, the member has not exercised the option of retaining separate benefits,
- the membership in the old fund is transferred to the new fund.
- 2.2 Where this situation occurs then under regulation 103(2) the member's old administering authority must make a payment to the new administering authority or payment must be made between appropriate funds where the administering authority has not changed. This amount is calculated according to actuarial guidance issued by the Secretary of State unless ten or more members transfer together between two administering authorities.
- 2.3 Regulation 10 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ('the 2014 Scheme Transitional Regulations') also provides for potential transfer value payments between funds for members with LGPS service before 1 April 2014 who subsequently join a different LGPS fund. The transfer values for the different scenarios in regulations 10(2)(b), 10(4), 10(5) and 10(6) are to be calculated in accordance with actuarial guidance issued by the Secretary of State.
- 2.4 Regulations 10(4), 10(5) and 10(6) also provide that the amount of earned pension in respect of transfer value payments under these regulations is calculated in accordance with actuarial guidance issued by the Secretary of State (see paragraph 3.5).
- 2.5 The treatment of the benefits under the new fund, and of the benefits relating to pre and post-1 April 2014 service in particular, are not covered by this guidance. Administrators should satisfy themselves that the increase in membership complies with all legislative requirements and they should consider related issues including, but not limited to, annual allowance and lifetime allowance tax charges.



### 3 Calculation of transfer amount and earned pension

- 3.1 The transfer amount for any interfund transfer should be calculated as an outgoing non-Club transfer from the member's old fund. In practice, it may be necessary to calculate separate transfer values in respect of final salary related benefits and CARE benefits. At the time of writing the current instructions and factors required to calculate a non-Club transfer value are provided in the current Guidance document 'Individual Incoming & Outgoing Transfers' and 'Actuarial Factors for Individual Cash Equivalent and Club Transfers' dated [tbc]. Administrators should take care to ensure that they use the current factors relevant to non-Club transfers.
- 3.2 If a member is over the age by reference to which an element of the transfer value is calculated (e.g. where a member is aged 61 and the CRA applicable to an element of the transfer is age 60), then the transfer amount should be calculated in the same way as if the member were requesting a CETV quotation on divorce. As for the divorce calculation, the transfer amount should include allowance for the retirement grant entitlement in respect of any pre-April 2008 membership. At the time of writing, the current factors are provided in the Guidance document 'Pensioner Cash Equivalent Factors on Divorce, dated [tbc].
- 3.3 A service credit calculation is not required under regulation 10(2)(a) of the 2014 Scheme Transitional Regulations because the individual's membership records will transfer from his old fund to his new fund.
- 3.4 The amount of purchased earned pension under regulations 10(4), 10(5) and 10(6) of the 2014 Scheme Transitional Regulations should be calculated by treating the total transfer value received as an incoming non-Club transfer except for the modification below for the relevant date of the calculation.
- 3.5 Please refer to the Guidance document 'Individual Incoming & Outgoing Transfers' for example calculations.

#### Relevant date

- 3.6 The relevant date for the calculation of the Interfund value should be the date of the election that triggers the transfer.
- 3.7 Where the benefits for a member with entitlement to a deferred refund are automatically aggregated, the relevant date for the Interfund transfer is the date the member becomes again an active member (or the day following the cessation of the concurrent employment that would have resulted in entitlement to a deferred refund had it not been concurrent).
- 3.8 The relevant date for the Interfund transfer for a member with deferred benefits to whom regulation 10(6) of the LGPS(Transitional Provisions, Savings and Amendment) Regulations 2014 does not apply is the day after the last date on which the member could elect for benefits not to be aggregated (i.e. the end of the 12 month period), or, if sooner, the earlier of:



- a) the date of active membership with the employer with whom the deferred membership is to be aggregated; and
  - b) the date on which the member confirms in writing that he/she does not wish to retain separate benefits/elects for the aggregation to proceed.
- 3.9 The relevant date for the calculation of an earned pension credit under regulation 10(4), 10(5) or 10(6) should be the same date as was used to calculate the transfer amount.
- 3.10 The relevant date for a member with deferred benefits to whom regulation 10(6) of the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 does apply is the date of the election that triggers the transfer.

#### **Late payment adjustment**

- 3.11 If the Interfund transfer amount is not paid within 3 months of the relevant date, it should be recalculated as at the date of payment (which would take account of any change in age and pension increases or revaluation that had occurred between the relevant date and the date of payment).
- 3.12 The earned pension credit under regulations 10(4), 10(5) and 10(6) should not be recalculated in the event of late payment.



## Appendix A: Cited regulations

### A.1 Excerpts from the 2013 Regulations

#### Introductory

2.—

...

(3) The Secretary of State may, after consultation with the Government Actuary's Department, issue actuarial guidance to administering authorities.

#### Changes of administering authority

103. —

- (1) Subject to paragraph (7), this regulation applies where—
  - (a) an administering authority becomes an active member's appropriate administering authority;
  - (b) immediately before it does so, another administering authority was that member's appropriate administering authority; and
  - (c) in a case where a member has the option of aggregating the past period of membership with the current period of membership, the member has exercised the option to aggregate those periods.
- (2) An administering authority which has ceased to be a member's appropriate administering authority must make a transfer value payment to the member's new appropriate administering authority in accordance with actuarial guidance issued by the Secretary of State.
- (3) Where paragraph (2) applies as respects 10 or more members by virtue of a single event, the amount of the payment under that paragraph shall be determined by agreement between an actuary appointed by the administering authority by which the payment must be made and an actuary appointed by the administering authority to which it must be made.
- (4) Where the actuaries cannot agree on the amount within 12 months of the date of transfer, or where there is more than one date of transfer, the date of the last transfer which relates to the single event—
  - (a) the matter shall be referred to a third actuary, chosen by agreement between the actuaries, or in default of agreement, by the President of the Institute and Faculty of Actuaries; and
  - (b) that actuary's determination shall be final.
- (5) The costs of determining the amount to be transferred shall be paid in equal shares by the fund held by the member's former appropriate administering authority and the fund held by the member's new appropriate administering authority.
- (6) Any payment under paragraph (2) must be credited to the new appropriate administering authority's fund.





- (7) This regulation does not apply where a member enters an employment in local government service which is concurrent with another in which the member is also an active member.

## A.2 Excerpts from the 2014 Scheme Transitional Regulations

### Interfund adjustments etc.

#### 10.—

- (1) Paragraph (2) applies to a member in a fund—
- who became an active member of the 2014 Scheme by virtue of regulation 5(1) of these Regulations (membership of the 2014 Scheme),
  - who subsequently became a deferred member or deferred refund member of the 2014 Scheme,
  - who becomes again an active member of the 2014 Scheme with no continuous break in active membership of any public service pension scheme of more than five years, and
  - where the deferred benefits or deferred refund benefits pursuant to sub-paragraph (b) are aggregated with the benefits accruing pursuant to sub-paragraph (c).
- (2) A member falling within the description in paragraph (1) is entitled, notwithstanding the revocations effected by regulation 2 (revocation of regulations)—
- to have the pension rights accrued in respect of service before 1st April 2014 preserved by regulation 3 of these Regulations (membership before 1st April 2014) calculated as final salary benefits with final pay calculated under regulations 8 to 11 of the Benefits Regulations (calculation of final pay) as if they were still in force; and
  - where the new period of active membership under paragraph (1)(c) is in a different fund, to have a payment made by the first administering authority to the subsequent administering authority in respect of those pension rights, calculated in accordance with actuarial guidance issued by the Secretary of State.
- (3) Paragraph (4) applies to a member in a fund—
- who became an active member of the 2014 Scheme by virtue of regulation 5(1) of these Regulations (membership of the 2014 Scheme),
  - who subsequently became a deferred member of the 2014 Scheme,
  - who becomes again an active member of the 2014 Scheme with a continuous break in active membership of any public service pension scheme of more than five years, and
  - where the deferred benefits pursuant to paragraph (3)(b) are aggregated with the benefits accruing pursuant to paragraph (3)(c).
- (4) A member falling within the description in paragraph (3) is entitled to a transfer value payment in relation to the deferred benefits to be credited to the member's active member account to purchase earned pension, with the transfer value payment and the amount of purchased earned pension being calculated in accordance with actuarial guidance issued by the Secretary of State and, where the new period of active membership under paragraph (3)(c) is in a different fund, the administering authority within whose fund the deferred benefits are held must make the transfer value payment



to the administering authority within whose fund the benefits which are being aggregated are held.

- (5) A member entitled to a refund of contributions from the Earlier Schemes, who becomes an active member of the 2014 Scheme, is entitled to a transfer value payment in relation to the benefits in respect of that membership, which is to be credited to the member's active member account to purchase earned pension, with the transfer value payment and the amount of purchased earned pension being calculated in accordance with actuarial guidance issued by the Secretary of State and, where the new period of active membership is in a different fund, the authority which has ceased to be the member's appropriate administering authority must make the transfer value payment to the authority that has become the member's appropriate administering authority.
- (6) A member with deferred benefits relating to the Earlier Schemes, who did not become a member of the 2014 Scheme by virtue of regulation 5(1) of these Regulations (membership of the 2014 Scheme), but who subsequently becomes an active member of the 2014 Scheme, may elect to receive a transfer value payment in relation to the deferred benefits to be credited to the member's active member account to purchase earned pension, with the transfer value payment and the amount of purchased earned pension being calculated in accordance with actuarial guidance issued by the Secretary of State, and where the new period of active membership is in a different fund, the authority which has ceased to be the member's appropriate administering authority must make the transfer value payment to the authority that has become the member's appropriate administering authority.
- (7) Where earned pension is purchased by a transfer value payment under paragraphs (4) to (6), regulation 3(1)(a) of these Regulations (membership before 1st April 2014) ceases to apply to the membership to which that transfer value payment relates.
- (8) Where deferred benefits or a deferred refund under paragraph (1) arise from the cessation of a concurrent employment and the member continues as an active member in a continuing employment in which the member became an active member by virtue of regulation 5(1) of these Regulations (membership of the 2014 Scheme), the formula in regulation 17(3) (concurrent employments) or, as the case may be, regulation 46(4) (rights to return of contributions) of the Administration Regulations must be applied in order to determine the rights the member is entitled to for the purposes of paragraph (2).
- (9) Where there is more than one continuing employment to which paragraph (8) applies, the member may, within 12 months of the date active membership in the concurrent employment ceased, make an election to the appropriate administering authority specifying which of the continuing employments the rights from the concurrent employment that has ceased are to be aggregated and, in the absence of an election from the member, the administering authority must make the determination on the member's behalf.
- (10) Where the deferred benefits or deferred refund under paragraph (1) arise from the cessation of variable-time employment and the new active membership is not variable-time employment, the formula in regulation 87(2) (changes of fund and variable-time employees) of the Administration Regulations must be applied in order to determine the rights to which the member is entitled for the purposes of paragraph (2).



## Appendix B: Limitations

- B.1 This note should not be used for any purpose other than to determine the transfer payment in a case of an interfund transfer in accordance with the regulations cited above.
- B.2 The factors referred to in this note are subject to periodic review. Administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- B.3 This note should be considered in its entirety as individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect.
- B.4 This note only covers the actuarial principles around the calculation of interfund transfers. Any legal advice in this area should be sought from an appropriately qualified person or source.
- B.5 Administrators should satisfy themselves that interfund transfers comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- B.6 This guidance should not be used for any 'cross-border' transfers between Local Government funds governed by the England and Wales regulations and Local Government funds governed by the Scottish regulations and the Northern Ireland regulations. LGPS funds in all regions are members of the Public Sector Transfer Club and so it would normally be expected that such 'cross-border' CETVs would be processed as Club transfers.
- B.7 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 DCLG. In no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.