



# Government Actuary's Department

## **Local Government Pension Scheme (Scotland) Interfund Transfers**

Date: 26 February 2015  
Authors: Ian Boonin FIA  
Neville Hosegood FIA



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## 1 Introduction

- 1.1 The Scottish Ministers are required under the Local Government Pension Scheme (Scotland) Regulations 2014 ('the 2014 Regulations') (SSI 2014/164) 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
- 1.4 The Government Actuary's Department (GAD) seeks to achieve a high standard in all our work. Please go to our [website](#)<sup>1</sup> for details of the standards we apply.

### Implementation and Review

- 1.5 The Scottish Ministers are required to consult the Scheme Actuary before issuing actuarial guidance under the 2014 Regulations [Regulation 2(3) of the 2014 Regulations].
- 1.6 As part of this consultation, the Scottish Public Pensions Agency (SPPA) has asked GAD, as Scheme Actuary, 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.
- 1.7 This note has effect only when this guidance is issued by the Scottish Ministers in accordance with Regulation 2(3) of the 2014 Regulations, and is subject to the implementation instructions provided at that time.
- 1.8 When issued, this guidance will replace the previous guidance which was in the form of a letter dated 5 October 2012.

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<sup>1</sup> <https://www.gov.uk/government/organisations/government-actuaries-department/about/terms-of-reference>



- 1.9 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 SPPA.
- 1.10 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**

- 1.11 This note has been prepared for SPPA 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.
- 1.12 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**

- 1.13 When issued by the Scottish Ministers in accordance with paragraph 1.7 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 100 of the 2014 Regulations, where a member of the 2015 Scheme ceases active membership of one fund and immediately commences active membership of another fund his 2015 Scheme membership in the old fund is transferred to the new fund.
- 2.2 Where this situation occurs then under regulation 100(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 Scottish Ministers unless ten or more members transfer together between two administering authorities.
- 2.3 Regulation 10 of the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 ("the 2015 Scheme Transitional Regulations") (SSI 2014/233) also provides for potential transfer value payments between funds for members with LGPS service before 1 April 2015 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 Scottish Ministers.
- 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 Scottish Ministers (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 2015 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 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 Club factors are provided in the current guidance document "Individual Incoming & Outgoing Transfers". Administrators should take care to ensure that they use the current factors relevant to Club transfers.
- 3.2 The effective date of the calculation should be the date on which the requirement to effect the transfer is triggered. Where aggregation of benefits is provided automatically, the effective date of calculation should be the date the member rejoins the Scheme (or the day following the cessation of concurrent employments): where aggregation is a matter of member election, the effective date should be the date of that election.
- 3.3 If a member is over age 65, 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 2009 membership. At the time of writing, the current factors are provided in the Guidance document "Pensioner Cash Equivalent Factors on Divorce from 1 January 2012", dated 18 January 2012.
- 3.4 As set out in the guidance document "Individual Incoming & Outgoing Transfers", a transfer payment should be paid within 3 months of the guarantee date (which is the effective date of the calculation). If the payment is not made within that time, it should be recalculated as at the date of payment.
- 3.5 A service credit calculation is not required under regulation 10(2)(a) of the 2015 Scheme Transitional Regulations because the individual's membership records will transfer from his old fund to his new fund.
- 3.6 The amount of purchased earned pension under regulations 10(4), 10(5) and 10(6) of the 2015 Scheme Transitional Regulations should be calculated by treating the total transfer value received as an incoming non-club transfer.
- 3.7 Please refer to the current Guidance document "Individual Incoming & Outgoing Transfers" for example calculations.



## Appendix A: Cited Regulations

### A.1 Excerpts from the 2014 Regulations<sup>2</sup>

#### Introductory

2.—

...

(3) The Scottish Ministers may, after consultation with the Scheme Actuary, issue actuarial guidance to administering authorities.

#### Changes of administering authority

100.—

(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's past period of membership has been aggregated with the current period of membership.

(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 Scottish Ministers.

...

(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 2015 Scheme Transitional Regulations<sup>3</sup>

#### Interfund adjustments etc.

10.—

(1) Paragraph (2) applies to a member in a fund—

- (a) who became an active member of the 2015 Scheme by virtue of regulation 5(1) of these Regulations (membership of the 2015 Scheme);

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<sup>2</sup> The Local Government Pension Scheme (Scotland) Regulations 2014 (SSI 2014/164)

<sup>3</sup> The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (SSI 2014 / 233)



- (b) who subsequently became a deferred member or deferred refund member of the 2015 Scheme;
  - (c) who becomes again an active member of the 2015 Scheme with no continuous break in active membership of any public service pension scheme of more than five years; and
  - (d) 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)—
- (a) to have the pension rights accrued in respect of service before 1st April 2015 preserved by regulation 3 (membership before 1st April 2015) calculated as final salary benefits with final pay calculated under regulations 9 to 11 of the Benefits Regulations (calculation of final pay) or, where those preserved benefits accrued whilst a councillor member, calculated as career average pay benefits with career average pay calculated in accordance with paragraph 1 of the Schedule to the Benefits Regulations as if they were still in force; and
  - (b) 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 Scottish Ministers.
- (3) Paragraph (4) applies to a member in a fund—
- (a) who became an active member of the 2015 Scheme by virtue of regulation 5(1) (membership of the 2015 Scheme);
  - (b) who subsequently became a deferred member of the 2015 Scheme;
  - (c) who becomes again an active member of the 2015 Scheme with a continuous break in active membership of any public service pension scheme of more than five years; and
  - (d) where the deferred benefits pursuant to sub-paragraph (b) are aggregated with the benefits accruing pursuant to sub-paragraph (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 Scottish Ministers 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 2015 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 Scottish Ministers 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 2015 Scheme by virtue of regulation 5(1) (membership of the 2015 Scheme), but who subsequently becomes an active member of the 2015 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 Scottish Ministers, 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.



## 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 contained 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 Scotland regulations and Local Government funds governed by the England and Wales regulations or 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' transfers 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 the Scottish Public Pensions Agency (SPPA). In no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.