



# Government Actuary's Department

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

### **Limit on Total Amount of Benefits - Lifetime Allowance**

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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') (SI 2014/164), to issue actuarial guidance on the calculation of the capital value of a member's benefits from the Local Government Pension Scheme (LGPS, or "the Scheme") in order to compare that capital value against the member's lifetime allowance and to make adjustments where relevant.
- 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:
- > Section 2 describes the treatment for members with no protection
  - > Section 3 describes the treatment for members with Enhanced Protection
  - > Section 4 describes the treatment for members with Fixed Protection
  - > Section 5 describes the treatment for members with Individual Protection 2014
  - > Section 6 provides examples
  - > Appendix A sets out the factors
  - > Appendix B quotes the relevant statutory references
  - > Appendix C 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 above. 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 This guidance replaces the previous guidance dated 5 March 2013.

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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 pension terminology, and some familiarity with retirement calculations for the Local Government Pension Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to SPPA.
- 1.10 The factors contained in this note will be reviewed periodically. This will depend on external circumstances, for example when the LGPS cash equivalent transfer value basis is reviewed; 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 Members without Enhanced or Fixed Protection, or Individual Protection 2014

- 2.1 This section relates to members without Enhanced Protection, Fixed Protection, or Individual Protection 2014, including:
- > members with Primary Protection
  - > members who registered for Enhanced Protection, Fixed Protection, or Individual Protection 2014, but for whom the protections lapsed
- 2.2 This section covers the following topics:
- > The Available Lifetime Allowance (ALTA)
  - > Members' benefits
  - > Calculating the value of benefits
  - > Calculating the value of benefits over the ALTA
  - > Lump sum above ALTA
  - > Pension above remaining ALTA

### Available lifetime allowance

- 2.3 Each member will have a LTA setting a ceiling on the pension savings that can benefit from tax relief.
- 2.4 The standard LTA (SLTA) is fixed for each financial year. The SLTA in 2014-15 is set at £1,250,000. See:  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM11101010.htm>.
- 2.5 There are various circumstances where the standard lifetime allowance does not apply, including when the member has Primary Protection. Primary Protection applies where total relevant pension rights in approved pension schemes as at 5 April 2006 were valued in excess of £1.5 million and were registered by 5 April 2009 (except in exceptional circumstances). See:  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM03102000.htm>
- 2.6 Under Primary Protection, the individual is granted a personal lifetime allowance, in place of the standard lifetime allowance. The personal allowance is increased annually in line with the standard lifetime allowance, but taking the latter to be at least equal to £1.8 million for tax years following 5 April 2012. See:  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM11101020.htm>
- 2.7 The application of the Lifetime allowance is described in the HMRC Registered Pension Schemes Manual:  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm11300030.htm>



- 2.8 In summary, part of a member's LTA will be used up at each Benefit Crystallisation Event ('BCE'). A BCE will reduce the LTA available at subsequent or simultaneous BCEs. Each member is responsible for providing to the LGPS details of the percentage of the standard LTA ('SLTA') used up by previous BCEs as well as the dates and amounts of lump sum taken at the previous BCEs. Once the aggregated percentages of the SLTA represented by previous BCEs are deducted from the member's LTA (expressed as a percentage of the SLTA), the remaining amount is the member's available LTA (ALTA).
- 2.9 For a member with no protection, the member's LTA is 100% of the SLTA: the percentage can only exceed 100% where there is some form of protection.
- 2.10 If a member has any BCEs, including the crystallisation of money-purchase type Additional Voluntary Contributions (AVCs), occurring simultaneously with the crystallisation of their LGPS benefits then they should inform LGPS of the order in which the BCEs should be deemed to occur. In the calculation of the payment of benefits from the LGPS, the ALTA should only be reduced in relation to previous BCEs and simultaneous BCEs that are deemed by the member to occur before the crystallisation of his/her LGPS benefits. See:  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm11300030.htm>.
- 2.11 Under Regulation 17(7) of the 2014 Regulations, a member may use the accumulated value of his AVCs to provide additional benefits under the Scheme (see the current guidance: "Use of accumulated AVCs to provide additional benefits under the Scheme").
- 2.12 If additional benefits are provided through the Scheme, then these can be in the form of a lump sum, a pension, or a combination of the two. Where benefits are provided through the Scheme, these are valued for LTA purposes in the same way as a defined benefit pension (ie in the same manner as basic LGPS benefits, with the pension being valued using the appropriate factor given in the HMRC Registered Pension Schemes Manual).
- 2.13 Alternatively, the member can take their AVC benefits outside the fund, by arranging a drawdown facility or by purchasing an annuity from an insurance company. If benefits are provided in this manner, then for LTA purposes they are valued as money purchase benefits, i.e. the amount of the total AVC fund is used. The member must inform the administrator which BCE occurs first – see:  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm11102030.htm>.
- 2.14 Lump sum benefits are assumed to be crystallised before pension benefits. See:  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm11104730.htm>.

### **Member's benefits**

- 2.15 The member's standard benefits from the LGPS will be in the form of a pension and, in many cases, a retirement grant.



- 2.16 The member has an option to commute part of their pension for an additional lump sum under regulation 32(1) of the 2014 Regulations. The member decides how much additional pension they wish to commute, or, equivalently, how much additional lump sum they wish to take. The resulting pension and lump sum after commutation should be calculated. See the current guidance: "Limit on Additional Cash Commutation".

#### **Calculate value of benefits**

- 2.17 For the purposes of Regulation 48(3) of the 2014 Regulations the capital value of the member's accrued rights should be calculated in accordance with Finance Act 2004, associated regulations and HMRC guidance. Reference should also be made to the current guidance: "Limit on Additional Cash Commutation".

- 2.18 After calculating the amount of pension and lump sum after commutation, the value of these benefits should be calculated. A factor of 20 is used to value a member's pension in determining whether the value of the member's benefits exceeds the ALTA. The capital value of the member's accrued rights is therefore:

$$CV = LS + (20 \times P)$$

Where:

LS = Retirement Grant + Additional lump sum by commutation

P = Pension after commutation

See: <http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM11104220.htm>.

#### **Calculation of benefits over Available Lifetime Allowance (ALTA)**

- 2.19 After calculating the amount of pension and lump sum after commutation, the level of benefits over the ALTA should be calculated.
- 2.20 Regulation 48 of the 2014 Regulations states that benefits in excess of the member's lifetime allowance can only be paid in accordance with guidance issued by the Scottish Ministers and the benefits should be capped accordingly. The guidance set out below reflects our understanding of SPPA policy on the options to be made available to members on how such benefits above the lifetime allowance can be paid. For the avoidance of doubt, setting out the options and examples below does not constitute, and should not be taken as constituting, advice to members. Members requiring or seeking advice should obtain it from an appropriate source.

#### **Lump sum above ALTA**

- 2.21 First, the lump sum above the permitted maximum Tax Free Lump Sum (TFLS) should be calculated. A tax charge of 55% applies to any lump sum in excess of the TFLS. In general, where the value of the member's benefits exceeds the ALTA, the permitted maximum TFLS is one quarter of the ALTA. However there are exceptions to this, see:  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM09104220.htm>



### **Pension above remaining ALTA**

2.22 Lump sum benefits are assumed to crystallise before pension benefits, so the member's ALTA is reduced by the TFLS. The post-commutation pension above the remaining ALTA should then be calculated. If the member has any post-commutation pension above the remaining ALTA, the member has three options, namely:

- > Option 1 – the member commutes pension for a further lump sum (which is subject to tax)
- > Option 2 – tax is paid immediately by reduction of lump sum; no reduction is made to the member's pension
- > Option 3 – the Scheme pays tax on the value of pension above ALTA and the member's pension is reduced

The member may take a combination of options 1, 2 and 3.

#### **Option 1 – member commutes pension for a further lump sum**

2.23 The member can take all or part of any pension above the remaining ALTA as a further lump sum (although it should be noted that GMPs and section 9(2B) rights cannot be commuted). A tax charge of 55% will apply to this additional lump sum.

#### **Option 2 – tax paid immediately by reduction of lump sum; no reduction to member's pension**

2.24 If the member has not commuted their entire pension above the remaining ALTA for a lump sum, they can receive the pension and become liable to a Lifetime Allowance Charge (LTAC) on the pension above the remaining ALTA. A LTAC of 25% applies to the value of any pension in excess of the available LTA. The administrator should check with the member who will actually pay the LTAC. If the administrator pays then the LTAC should be deducted from the member's lump sum; otherwise the member becomes responsible for paying the LTAC.

#### **Option 3 – scheme pays tax on value of pension above ALTA and the member's pension is reduced**

2.25 As an alternative to option 2 in paragraph 2.24, a member may choose to have their pension reduced in respect of any LTAC to be recovered. There will be a consequential adjustment ('Lifetime Allowance debit') made to the member's pension entitlement from the Scheme in respect of the tax charges met by the Scheme.

2.26 The Lifetime Allowance debit will not be applied to the benefits payable to a future surviving spouse, civil partner, cohabiting partner or children on the member's death, including any lump sum on death before retirement.

2.27 The member's age (required to select the appropriate factor from Table A or B) should be calculated as at the retirement date.

2.28 The Lifetime Allowance pension debit ('LTAPD') to apply to the member's pension entitlement at retirement is calculated as:

$$\text{LTAPD} = \text{LTATC} \div F_P$$





Where:

LTATC Lifetime Allowance tax charge payable by the Scheme administrator

F<sub>P</sub> pensioner cash equivalent factors for divorce purposes that are in force at retirement are used: these are provided in tables 1.1, 1.2, 2.1 and 2.2 of the guidance 'Pensioner Cash Equivalent Factors on Divorce from 1 January 2012', dated 18 January 2012. The relevant factors contained in that guidance have been reproduced in tables A and B in Appendix A. If those factors have subsequently been revised then the revised factors should be used.



### 3 Enhanced Protection

3.1 This part of the guidance covers members with Enhanced Protection.

#### Retaining enhanced protection

3.2 Members registered for Enhanced Protection must meet the requirements of the Finance Act 2004 to retain the protection on retirement. If these requirements are not met and Enhanced Protection lapses, the procedure appropriate to those subject to standard provisions earlier in this note should be followed.

3.3 Funds should ask for confirmation from members claiming Enhanced Protection that they have not already lost this status through actions relating to another scheme.

3.4 HMRC will provide the member with a certificate confirming the registration of the Enhanced Protection and, if relevant, showing the protected lump sum percentage, which indicates the maximum percentage of the value of total benefits that can be taken as a tax-free lump sum. See:  
<http://www.hmrc.gov.uk/manuals/rpsmanual/rpsm03100530.htm>.

3.5 A member who is registered for Enhanced Protection is responsible for providing the LGPS with the unique reference number from the relevant HMRC certificate with details of their protection. The member should also provide the LGPS with the relevant form giving them authorisation to view the HMRC certificate.

3.6 SPPA has informed GAD that members will be able to notionally split the crystallisation of their defined benefit rights. This will allow members with Enhanced Protection to crystallise benefits below the relevant benefit accrual limit so Enhanced Protection is retained during that crystallisation. When the remaining benefits are crystallised, Enhanced Protection would be lost and the appropriate guidance in Section 2 for members with or without Primary Protection should be followed. The LGPS regulations do not provide for split crystallisation but SPPA has indicated to GAD that split crystallisation is in accordance with SPPA policy. Authorities, though, may wish to confirm with HMRC that they still accept split crystallisation. Further details on split crystallisation are contained in paragraphs 3.15 to 3.18.

3.7 A member will automatically lose Enhanced Protection in any of the following circumstances (see:  
<http://www.hmrc.gov.uk/manuals/rpsmanual/rpsm03104070.htm>):

3.7.1 Where 'relevant benefit accrual' occurs under any arrangement in a registered pension scheme (including LGPS AVCs);

3.7.2 Where a transfer is made from any arrangement holding rights for the individual in a registered pension scheme and that transfer is not a "permitted transfer";

3.7.3 Where a new arrangement relating to the individual is made under a registered pension scheme otherwise than



- (i) to receive a permitted transfer;
- (ii) as part of a retirement-benefit activities compliance exercise; or
- (iii) as part of an age-equality compliance exercise;

3.7.4 Where an arrangement receives an impermissible transfer; and

3.7.5 Where the member notifies HMRC that they no longer wish to be covered by enhanced protection.

3.8 Whilst Enhanced Protection remains valid, an individual has no liability to the Lifetime Allowance Charge on any Benefit Crystallisation Event, and in addition an individual cannot take a lifetime allowance excess lump sum. See: <http://www.hmrc.gov.uk/manuals/rpsmanual/rpsm03104040.htm>. However the individual is only entitled to their benefit limit (see paragraph 3.7).

3.9 Once Enhanced Protection ceases, Benefit Crystallisation Events for the individual are potentially liable to the Lifetime Allowance Charge. See: <http://www.hmrc.gov.uk/manuals/rpsmanual/rpsm03104100.htm>.

#### Defined Benefit Accrual Limit

3.10 When a member retires, the administrator must determine whether the member's benefits are above the appropriate limit (as per paragraph 3.12). If the member's accrued LGPS benefits exceed the appropriate limit then this limit is the maximum amount that should be paid to the member, otherwise their Enhanced Protection is lost (but see paragraphs 3.6 and 3.15 – 3.18 relating to Split Crystallisation).

3.11 The first step is to determine the capital value of the member's accrued LGPS defined benefit rights as at 5 April 2006 ( $CV_{DB\ 5/4/06}$ ). This is calculated as for determining the total value of benefits on 5 April 2006, but money purchase AVCs should be excluded as they are part of a separate arrangement. This should be after any surrender of excess rights, if this was required.

$$CV_{DB\ 5/4/06} = 20 \times P_{5/4/06} + RG_{5/4/06}$$

where:

$P_{5/4/06}$  = annual scheme pension before commutation as at 5 April 2006

$RG_{5/4/06}$  = retirement grant as at 5 April 2006

3.12 The Enhanced Protection limit (EP Limit) is a multiple of  $CV_{DB\ 5/4/06}$ , determined as the highest of four calculations (see: <http://www.hmrc.gov.uk/manuals/rpsmanual/rpsm03104525.htm>)

$$EP\ Limit = \text{Max} (CV_{DB\ 5/4/06} \times \text{indexation, earnings recalculation amount})$$

Where indexation is the maximum of,

- 1.05 raised to the power of the number of years (with part years in decimal) between 5 April 2006 and the BCE
- Retail Prices Index in month of BCE  
Retail Prices Index in April 2006



- increase in line with the formula in Statutory Instrument 2006/130.

The earnings recalculation amount is

Final Pensionable Pay at the first LGPS BCE

Final Pensionable Pay at 5/4/06

$$\times [RG_{5/4/06} \times (1 - \{ERF_{LS}/100\}) + 20 \times P_{5/4/06} \times (1 - \{ERF_{Pen}/100\}) ]$$

Final Pensionable Pay should be calculated according to the rules of the LGPS on 5 April 2006. If a member's pay was capped at 5 April 2006, then the Final Pensionable Pay after 5 April 2006 should be based on the notional cap published by HMRC. Some members may have been capped but transferred in service on an uncapped basis. In this situation, an increase based on the change in capped salary may be applied to all benefits.

$ERF_{LS}$  and  $ERF_{Pen}$  are the early retirement factors that would be applied to the member's benefits at the date of crystallisation, but calculated according to the LGPS regulations on 5 April 2006. If the member is entitled to unreduced benefits, the early retirement factors are zero. If the member is retiring after age 65, then the late retirement increase required under regulation 29(4) of the 2014 Regulations should be allowed for in respect of the period between age 65 and retirement (rather than a reduction).

- 3.13 The total tax free lump sum that the member can take from the Scheme must not exceed the permitted maximum, see:  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM09104220.htm>
- 3.14 The member's pension from the Scheme must not exceed the remaining appropriate limit (as described in paragraph 3.12) after allowing for the lump sum taken. The pension paid to the member should be the lower of the remaining appropriate limit and the pension calculated in accordance with the current regulations.

### **Split Crystallisation** (see also paragraph 3.6)

- 3.15 The member must decide the order in which to crystallise their benefits. The different components are AVC benefits, defined benefit rights below the Enhanced Protection limit and defined benefit rights above the Enhanced Protection limit.
- 3.16 The member should decide if they wish to notionally split their defined benefit rights at the Enhanced Protection relevant benefit accrual limit level and, if so, on the split of those rights. This would allow benefits below this limit to be calculated with Enhanced Protection (as described in paragraphs 3.10 to 3.14); benefits above this limit would not have Enhanced Protection.
- 3.17 When each component is crystallised, the value of the benefits crystallised should be recorded as usual.



- 3.18 When a member crystallises benefits that are notionally split as described in paragraph 3.16, this section should not be used to calculate the benefits above the notional split. Instead, the member should either be treated as a member with Primary Protection (if they successfully registered for it) or as a “standard” member, with the appropriate guidance in section 2 being applied. Accordingly, LTAC is likely to be payable on all of these excess benefits, It may be possible to repackage the excess benefits by commuting pension for additional lump sum, so the amount of the LTAC will depend on the form of the excess benefits the member chooses to take which could consist of pension, lump sum or a combination of the two.



## 4 Fixed Protection (2012 or 2014)

- 4.1 This part of the guidance relates to members with Fixed Protection 2012 or Fixed Protection 2014.
- 4.2 Fixed Protection 2012 and 2014 were available to members who did not have primary or enhanced protection and who registered before 6 April 2012 or 6 April 2014 respectively. No further applications for these Fixed Protections are possible
- 4.3 Where Fixed Protection applies, the member's lifetime allowance is the greater of:
- the standard lifetime allowance (£1,250,000 for 2014-15); and
  - £1,800,000 for Fixed Protection 2012, or £1,500,000 for Fixed Protection 2014.
- 4.4 HMRC will have provided the member with a certificate confirming their registration for Fixed Protection. See:  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm11101510.htm>  
in relation to Fixed Protection 2012; and  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM11106220.htm>  
in relation to Fixed Protection 2014.

### Retaining Fixed Protection

- 4.5 Members registered for Fixed Protection must meet the requirements of the Finance Acts 2011 and 2013 to retain this protection on retirement. If these requirements are not met then Fixed Protection lapses and the procedure appropriate to those subject to standard provisions in Section 2 of this note should be followed although members may be able to use Individual Protection 2014.(see Section 5)
- 4.6 In return for Fixed Protection, the ability to accrue further benefits and pay contributions is severely restricted. In practice most members would need to cease active membership of the LGPS from 6 April 2012 or 6 April 2014, as appropriate, in order to retain Fixed Protection. The detailed provisions on how and when a member can lose Fixed Protection can be found at:  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM11101520.htm>  
in relation to Fixed Protection 2012; and  
<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM11106220.htm>  
in relation to Fixed Protection 2014.

### Position at Retirement

- 4.7 The member should show their Fixed Protection certificate to the LGPS and be asked to confirm that they have not lost Fixed Protection through actions relating to another scheme.
- 4.8 The capital value of benefits and any Lifetime Allowance Tax Charge should be calculated in accordance with Section 2 but using the member's Lifetime Allowance in paragraph 4.3.



## **5 Individual Protection 2014**

- 5.1 Individual Protection 2014 was introduced by the Finance Act 2014.
- 5.2 Members who have pension savings of greater than £1.25 million on 5 April 2014 are able, until 5 April 2017, to apply for Individual Protection 2014 provided they do not hold Primary Protection.
- 5.3 A member with Individual Protection 2014 has a protected lifetime allowance equal to the capital value of their pension benefits on 5 April 2014, subject to an overall maximum of £1.5 million. However in contrast to Fixed Protection there are no restrictions on future pension accrual but, if members exceed their protected lifetime allowance, the excess will be subject to a lifetime allowance charge.



## 6 Examples

### Example 1 –

#### 1. Member retiring at the 2015 Scheme Normal Pension Age in normal health, with Lifetime Allowance charge

The following information is needed for this calculation:

A. Member's date of birth	1 January 1951
B. Retirement date	1 January 2016
C. Member's NPA	65
D. Member's age	65
E. Gender	Female
F. Lifetime allowance tax charge	£30,000

Under 2.27, the Lifetime Allowance pension debit is calculated as:

$$\text{LTAPD} = \text{LTATC} / F_P$$

We have:

$$\text{LTATC} = 30,000 \text{ (from F.)}$$

$F_P = 17.54$  (pensioner cash equivalent factors for divorce purposes are used. At the time of writing this guidance the current factor is given in **Table A** in Appendix A of this guidance.)

Substituting these values into the formula we get:

$$\begin{aligned} \text{LTAPD} &= 30,000 / 17.54 \\ &= \text{£}1,710.38 \end{aligned}$$

The current pension will be reduced by **£1,710.38** per annum.





**Example 2 –**

**2. Male member retiring at age 60 in normal health, with Lifetime Allowance charge**

Consider a 'standard' member, with no primary, enhanced, fixed or individual protection of benefits, who at his retirement in 2015-16 has not taken any previous BCEs, and for whom the current value of their benefits is in excess of the individual's available LTA at retirement.

Illustrative (expected) SLTA in 2015-16 = £1,250,000

**Member's benefits**

Annual Scheme pension (P) = £100,000 per annum  
Retirement grant from the Scheme (RG) = £250,000  
AVC fund value = £0

ALTA at retirement = £1,250,000 since no previous BCEs.

The member chooses to take a lump sum of £500,000.

To do so, he must take the shortfall in the lump sum over the RG, of £250,000, by commuting scheme pension of £20,833.33 per annum (£250,000 / 12).

The member's reduced pension, following commutation to reach the desired LS, (RP)  
= £100,000 - £20,833.33  
= £79,166.67 per annum

The administrator must check that this level of commutation is allowable in accordance with GAD Guidance: "Limit on Additional Cash Commutation"

**Calculate value of benefits**

The revised CV is now = (RP x 20) + LS  
= (79,166.67 x 20) + 500,000  
= £2,083,333.40

Where: LS = Retirement Grant + Additional lump sum by commutation  
RP = Pension after commutation



### **Lump sum above ALTA**

The lump sum in excess of the TFLS (XLS)  
= LS – TFLS  
= £500,000 - £ 312,500  
= £187,500

The tax charge  $LTAC_{LS} = 0.55 \times XLS = £103,125$

Lump sum after  $LTAC_{LS} = 500,000 - 103,125 = 396,875$

The member's ALTA is now £937,500 which is the previous ALTA less the TFLS (or LS had that been lower).

### **Pension above remaining ALTA**

The Scheme pension in excess of the tax allowance amount (XSP)  
= RP – ALTA / 20  
= £79,166.67 - £937,500 / 20  
= £32,291.67

The member has three options:-

#### **Option 1 – member commutes pension for a further lump sum (which is subject to tax)**

Further lump sum =  $12 \times £32,291.67$   
= £387,500.04  
 $LTAC_{LS} = 0.55 \times \text{further lump sum} = £213,125.02$   
Further lump sum after tax = £174,375.02

#### **Summary for Option 1**

Total lump sum after tax =  $£396,875 + 174,375.02 = 571,250.02$

Pension =  $£79,166.67 - £32,291.67 = 46,875.00$  per annum

Total LTAC =  $103,125 + 213,125.02 = 316,250.02$   
(paid by administrator)

#### **Option 2 – tax paid immediately by reduction of lump sum; no further reduction to member's pension**

The member agrees that the administrator will pay the LTAC by reducing their lump sum

Value of pension above ALTA =  $XSP \times 20$   
 $£32,291.67 \times 20$   
= £645,833.40



$$\text{LTAC}_P = 0.25 \times \text{value of pension above ALTA} = 0.25 \times \text{£}645,833.40 \\ = \text{£}161,458.35$$

### Summary for Option 2

$$\text{Total Lump Sum after tax} = 396,875 - 161,458.35 = \text{£}235,416.65$$

$$\text{Pension} = \text{£}79,166.67 \text{ per annum}$$

$$\text{Total LTAC} = 103,125 + 161,458.35 = \text{£}264,583.35 \\ \text{(paid by administrator)}$$

### **Option 3 – Scheme pays tax on value of pension above ALTA and the member's pension is reduced**

The Scheme pays the  $\text{LTAC}_P$  of £161,458.35

$F_P = 18.56$  (pensioner cash equivalent factors for divorce purposes are used. At the time of writing this guidance the current factor is given in **Table A** of Appendix A of this guidance.)

$$\text{Pension is reduced by } \text{LTAC}_P / F_P = \text{£}161,458.35 / 18.56 \\ = \text{£}8,699.26$$

leaving a pension of  $79,166.67 - 8,699.26 = 70,467.41$

### Summary for Option 3

$$\text{Total Lump Sum after Tax} = \text{£}396,875$$

$$\text{Pension} = \text{£}70,467.41 \text{ per annum}$$

$$\text{Total LTAC} = 103,125 + 161,458.35 = \text{£}264,583.35 \\ \text{(paid by administrator)}$$

NB: A spouse's, partner's and any children's pensions are unaffected by commutation or the reduction of the member's pension under Option 3.



## Appendix A: Factors for calculating Lifetime Allowance debit

Table A – Factors for calculating Lifetime Allowance debit (non ill-health cases)

Age last birthday at retirement	Gross Pension of £1 per annum	
	Males	Females
55	20.57	21.50
56	20.18	21.14
57	19.79	20.78
58	19.38	20.41
59	18.97	20.03
60	18.56	19.64
61	18.14	19.24
62	17.71	18.83
63	17.27	18.41
64	16.83	17.98
65	16.37	17.54
66	15.90	17.09
67	15.43	16.63
68	14.94	16.16
69	14.44	15.68
70	13.94	15.19
71	13.45	14.70
72	12.95	14.20
73	12.45	13.69
74	11.95	13.18



**Table B – Factors for calculating Lifetime Allowance debit (retirement in ill health)**

Age last birthday at retirement	Gross Pension of £1 per annum	
	Males	Females
20	25.56	27.22
21	25.40	27.06
22	25.24	26.90
23	25.08	26.73
24	24.91	26.57
25	24.73	26.40
26	24.56	26.23
27	24.38	26.06
28	24.21	25.89
29	24.04	25.73
30	23.87	25.57
31	23.71	25.40
32	23.55	25.23
33	23.39	25.06
34	23.23	24.88
35	23.07	24.70
36	22.91	24.52
37	22.75	24.33
38	22.58	24.14
39	22.40	23.94
40	22.22	23.74
41	22.02	23.53
42	21.81	23.32
43	21.58	23.09
44	21.35	22.85
45	21.09	22.61
46	20.83	22.35
47	20.54	22.09
48	20.24	21.82
49	19.93	21.54
50	19.60	21.26
51	19.27	20.96
52	18.94	20.67
53	18.59	20.36
54	18.24	20.04
55	17.89	19.72
56	17.52	19.39
57	17.15	19.05
58	16.78	18.70
59	16.41	18.34
60	16.03	17.97
61	15.66	17.60
62	15.28	17.20
63	14.89	16.80
64	14.49	16.39
65	14.07	15.96
66	13.65	15.52
67	13.22	15.07



## Appendix B: Cited Regulations

### Excerpts from the 2014 Regulations<sup>2</sup>

#### Introductory

2.—

...

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

...

#### Additional voluntary contributions

17.—

...

(7) If a member draws benefits under regulation 29(1), (2), (4), (5), (7), (10) to (12) (retirement benefits) or regulation 34(1) (early payment of retirement pension on ill-health grounds: active members) or, if a member who draws benefits under regulation 29(6) (flexible retirement) makes an election to draw the realisable value in the AVC arrangement at the same time, that member must notify the appropriate administering authority that the realisable value under arrangements made under this regulation—

(a) is to be taken in full or in part by the member as a lump sum, and where only part is taken as a lump sum, the member must specify the amount to be so taken; and

(b) to the extent that the realisable value has not been taken as a lump sum, it is to be used—

(i) to purchase additional pension under the Scheme, the amount of which is to be determined by the administering authority in accordance with actuarial guidance issued by the Scottish Ministers, or

(ii) to the extent that it has not been used to purchase additional pension under the Scheme, to purchase an annuity from one or more insurance companies (within the meaning of section 275 of the Finance Act 2004).

#### Retirement benefits

29.—

...

(4) A member who starts to receive payment of a retirement pension from a date after that member's normal pension age is entitled to enhancement of the pension by the amount shown as appropriate in actuarial guidance issued by the Scottish Ministers.

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



### **Election for lump sum instead of pension**

#### **32.—**

(1) Subject to paragraph (4), a member entitled to a retirement pension under the Scheme may by written notice given to the appropriate administering authority before any benefits in relation to the benefit crystallisation event become payable, commute the retirement pension payable, or part thereof, at a rate of £12 for every £1 of annual pension commuted.

### **Limit on total amount of benefits**

#### **48. —**

(1) No person is entitled under any provision of these Regulations to receive benefits the capital value of which exceed that person's lifetime allowance, except in accordance with actuarial guidance issued by the Scottish Ministers and any benefits to which a person is entitled are restricted accordingly.

(2) In this regulation, "lifetime allowance" is to be construed in accordance with section 218 of and Schedule 36 to the Finance Act 2004 and, where applicable, is to include primary protection, enhanced protection or fixed protection within the meaning of those provisions.

(3) The capital value of a person's benefits shall be calculated in accordance with actuarial guidance issued by the Scottish Ministers.



## Appendix C: Limitations

- C.1 This note should not be used for any purpose other than to determine the capital value of a member's benefits under the Scheme and, where required in consequence of that determination, to determine an amount of Lifetime Allowance debit to apply to the member's benefits, in accordance with the regulations cited above.
- C.2 The factors contained in this note are subject to regular review. Administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- C.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.
- C.4 This note only covers the actuarial principles around the calculation of the capital value of a member's benefits and the determination of the amount of Lifetime Allowance debit to apply to a member's benefits where relevant. Any legal or tax advice in this area should be sought from an appropriately qualified person or source.
- C.5 Administrators should satisfy themselves that the capital value calculation and the application, where relevant, of a Lifetime Allowance debit, comply with all legislative requirements including, but not limited to, taxation requirements.
- C.6 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 SPPA. In no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.