

## Local Government Pension Scheme – England & Wales

### Miscellaneous Amendments to Guidance – September 2014

#### Introduction

The Secretary of State for Communities and Local Government is required to consult the Government Actuary's Department ("GAD") before issuing actuarial guidance under the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), and amendments to actuarial guidance are therefore also subject to the same consultation requirement.

Following the issue by the Secretary of State of actuarial guidance on certain aspects of the Scheme's operation, GAD has considered various areas in which that guidance might be revised. This document forms GAD's recommendation for revisions to the actuarial guidance as detailed below. This document should be read in conjunction with the guidance documents to which it refers.

This note has effect only when issued as actuarial guidance 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.

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.

#### Amendments to actuarial guidance

##### 1. *Individual Incoming and Outgoing Transfers*

The guidance document "Individual Incoming and Outgoing Transfers", dated 28 March 2014, is amended as follows:

(a) Paragraph 7.4 is replaced by:

"Transfer credits (for non-Club transfers-in) should be calculated by reference to NPA. DCLG have confirmed that SPA for the purpose of calculating transfer credits should be as set out in HM Treasury Directions made in exercise of the powers conferred on them by sections 11(2) and 12(3) of the Public Service Pensions Act 2013<sup>2</sup>. If the member subsequently retires before attaining NPA, their transferred-in benefits will then be subject to the normal early retirement reductions applicable to

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

<sup>2</sup> At the time of writing, HM Treasury Directions currently in force are dated 2 June 2014; SPA assumptions are set out at direction 18.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/318029/valuations\\_and\\_cost\\_cap\\_directions\\_final\\_020614.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/318029/valuations_and_cost_cap_directions_final_020614.pdf)

NPA benefits, as described in the Early Retirement guidance document applicable at the time.”

(b) The final entry (referring to ADJ<sup>P-14</sup>) in the table headed “Factors (male, aged 57 last birthday at Guarantee Date)” in Section 13 (Example 2) is deleted.

(c) The final two tables in Section 13 (Example 2) are replaced by:

**“Service after 1 April 2014**

	Calculation	Result
Pension	$500.00 \times (1 - 0.1406) \times 13.22 \times 1.31$	£7,441.63
Dependant's Pension	$153.13 \times 3.60$	£551.27
Total Amount		<b>£7,992.90</b>

**Total transfer value**

	Transfer value
Service before 1 April 2008	£96,483.83
Service from 1 April 2008 to 31 March 2014	£32,466.52
Service after 1 April 2014	£7,992.90
Total transfer value	<b>£136,943.25”</b>

**2. Use of Accumulated AVCs to provide additional pension under the Scheme**

The guidance document “Use of Accumulated AVCs to provide additional pension under the Scheme”, dated 28 March 2014, is amended as follows:

(a) Paragraph 1.7 is replaced by:

”This guidance relates to benefits purchased from a member's accumulated AVC funds where the member commenced payment of AVCs on or after 1 April 2014. Where the member commenced payment of AVCs prior to 1 April 2014, the guidance dated 20 March 2012 applies. This guidance uses the same assumptions as those on which the 20 March 2012 guidance was based.”

(b) Paragraph 3.2 is replaced by:

“The benefits provided to a member awarded additional pension are not fully specified in the regulations. However, DCLG have confirmed the details of additional pension benefits described below.”

### 3. *Limit on Additional Cash Commutation*

The guidance document "Limit on Additional Cash Commutation", dated 26 March 2014, is amended as follows:

(a) Paragraph 1.7 is replaced by:

"This guidance relates to commutation of a member's pension benefits at retirement for a pension commencement lump sum, regardless of whether the member has been an active member of the 2014 scheme, or whether the pension benefits were earned before or after 1 April 2014. It replaces the previous guidance dated 1 March 2013."

### 4. *Trivial Commutation*

The guidance document "Trivial Commutation", dated 28 March 2014, is amended as follows:

(a) Paragraph 1.7 is replaced by:

"This guidance relates to commutation of trivial or small benefit rights, regardless of whether the member has been an active member of the 2014 scheme, or whether the benefits were earned before or after 1 April 2014. It replaces the previous guidance dated 21 November 2012 but uses the same principal assumptions on which that guidance was based. However, this guidance differs slightly from the previous guidance in including an explicit factor when valuing a member's pension on retirement in order to allow for the dependant's pension payable on the member's death: in previous guidance this was allowed for within the factor that applied to the member's pension."

### 5. *Flexible Retirement*

The guidance document "Flexible Retirement", dated 31 March 2014, is amended as follows:

(a) In Section 4, the subsection entitled "Pre-2014 pension drawn-down" is replaced by:

#### Pre-2014 pension drawn-down

Part A membership for flexible retirement = 19 years  
Part A pension (before actuarial reduction) =  $19 / 80 \times \text{£}25,000.00 = \text{£}5,937.50$  pa  
(Part A retirement grant of  $3 \times \text{£}5,937.50 = \text{£}17,812.50$ )

Part B1 membership for flexible retirement =  $0.5 \times 6$  years = 3 years  
Part B1 pension (before actuarial reduction) =  $3 / 60 \times \text{£}25,000.00 = \text{£}1,250.00$  pa

The appropriate Early Retirement factors from the current guidance are:



Part A

$$P_{\text{CRA}} = 6\%$$

$$RG_{\text{CRA}} = 3\%$$

Part B1

$$P_{\text{taper}} = 21\%$$

(Part A: In accordance with Paragraph 1(d) of Schedule 2 of the 2014 Scheme Transitional Regulations, a 1 year deduction applies for the period between age 57 and Rule of 85 age of 58.)

(Part B1: The pension taper reduction has been calculated in accordance with paragraphs 2.10 and 2.11 of the current guidance on Early Payment of Pension.)  
The Pre-2014 benefits paid to the member at flexible retirement will be:

$$\text{Part A pension} = \pounds 5,937.50 \times (1 - 0.06) = \pounds 5,581.25 \text{ pa}$$

*(Retirement grant of  $\pounds 17,812.50 \times (1 - 0.03) = \pounds 17,278.13$  will also be paid to the member.)*

$$\text{Part B1 pension} = \pounds 1,250.00 \times (1 - 0.21) = \pounds 987.50 \text{ pa}$$

$$\text{Total Pre-2014 drawn-down pension at flexible retirement} =$$

$$\pounds 5,581.25 + \pounds 987.50 = \pounds 6,568.75 \text{ pa}''$$

(b) In Section 4, the subsection entitled "Scenario 1 – Retirement at NPA" is amended by replacing the first sentence with:

"In accordance with paragraph 3.8, normal pension age for the 2014 pension will be age 66, attained on 31 March 2023."

**6. Pension credits on divorce**

The guidance document "Application of a Pension Credit to the Former Spouse or Civil Partner of the Member", dated 26 March 2014, is amended as follows:

(a) Paragraph 1.9 is replaced by:

"This guidance applies where the member whose pension rights are being shared had been a member of the 2014 Scheme and the Transfer day is on or after 1 April 2014. Where the member whose pension rights are being shared had not been a member of the 2014 Scheme, or where the Transfer day is before 1 April 2014, the guidance dated 5 October 2012 continues to apply. This guidance uses the same assumptions as those on which the 5 October 2012 guidance was based."

(b) In section 6, the following sentence is inserted before "EXAMPLE 1":

"Both the examples in this section assume that the member whose pension rights are being shared had been a member of the 2014 Scheme."

## 7. *Scheme Pays*

The guidance document “Annual Allowance Charges: Calculation of Scheme Pays Offset”, dated 1 April 2014, is amended as follows:

(a) Paragraph 2.3 is replaced by:

“DCLG have confirmed that the Relevant Date (also known as the Implementation Date) will be the day coincident with the end of the pension input period. The pension input period in the LGPS runs from 1 April to 31 March, so the Relevant Date will be 31 March.”

(b) In section 3, Example 1, the Relevant Date is changed from 1 April 2015 to 31 March 2015 in both places it appears (at “C.” and in the penultimate sentence of the example).

(c) In section 3, Example 2, the Relevant Date is changed from 1 April 2016 to 31 March 2016 where it appears at “G.”

### **Use of this note**

This note has been prepared for the Department for Communities and Local Government 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

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**

When issued by the Secretary of State in accordance with the Introduction section, this note should be treated as amending the relevant actuarial guidance documents. 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.

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