Government Actuary's Department

Local Government Pension Scheme (England and Wales)

Late Retirement DRAFT NOTE

Date: 8 February 2019
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Contents

1   Introduction

1.1   The Secretary of State for Housing, Communities and Local Government is required under the Local Government Pension Scheme Regulations 2013 ('the 2013 Regulations') (SI 2013/2356) to issue actuarial guidance on late retirement increases to benefits payable after normal pension age.

1.2   This guidance also applies to benefits accrued before 1 April 2014, including members who left active service before 1 April 2014, and to Councillor members.

1.3   The remainder of this introduction contains:

>   details of the implementation and future review of this guidance, and

>   statements about third party reliance and liability

1.4   In the remainder of this note:

>   the second section describes the increase to be applied on late retirement

>   the third section provides examples

>   Appendix A summarises the assumptions underlying the factors

>   Appendix B sets out the factors

>   Appendix C sets out some important limitations

Implementation and Review

1.5   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].

1.6   As part of this consultation the Ministry of Housing, Communities and Local Government (MHCLG) has asked GAD 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 Secretary of State in accordance with Regulation 2(3) of the 2013 Regulations, and is subject to the implementation instructions provided at that time.

1.8   MHCLG has informed GAD that this guidance will come into force with effect from xx. [D/N for purposes of this draft note we assume implementation from 1 April 2019.]

1.9   This guidance replaces the previous guidance titled "Local Government Pension Scheme (England and Wales): Late Retirement" dated 18 April 2016.

1.10   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 MHCLG.

1.11   GAD recommends that 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 future valuation of the LGPS.

Use of this note

1.12   This note has been prepared for MHCLG 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.

1.13   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

1.14   When issued by the Secretary of State 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 The increase in benefits

2.1 Benefits are increased if they are taken after the following normal pension ages (NPA):

> For service before 1 April 2014: age 65

> For service on or after 1 April 2014: State Pension Age, or if higher, age 65 (except in the case of councillor members, where the age will be age 65).

2.2 MHCLG has confirmed that when calculating late retirement increases, State Pension Age should be based on legislation in force at the point benefits are paid.

2.3 Where the member has different NPA for pre-1 April 2014 and post-31 March 2014 service and reached both prior to 1 April 2019, separate late retirement increases should be calculated for each of these periods of service.

2.4 Where a member has two distinct NPAs and retirement occurs between them, only pre 2014 benefits are increased and the post-2014 benefits are reduced in accordance with the guidance document "Early payment of pension".

2.5 The process for calculating these increases is set out in paragraphs 2.8 to 2.11 below and is dependent on how the period from NRA to retirement falls relative to 1 April 2019. If the member retired prior to 1 April 2019, then our previous guidance dated 18 April 2016 should be used to determine the relevant increases.

2.6 Subject to paragraph 2.15 below, the increase under this guidance should be applied to the total pre April 2014 pension, including any Guaranteed Minimum Pension ("GMP") element of that pension. The increase should be applied to the benefits after Pensions Increases have been added in relation to any period of deferment.

2.7 Any commutation should be taken after the pension has been increased with reference to the pension factors. The retirement grant factors should only be applied to automatic 3/80ths retirement grant (if any) deriving from pre-1 April 2008 service.

Calculation steps

2.8 **Step A: Pre 1 April 2019 late retirement increase method**

If the member reached NPA (as defined in 2.1 above) prior to 1 April 2019 for any of their service, then calculate **Pension uplift A** for the periods from the day the member reached NPA to 31 March 2019 inclusive.

The formula for the Pension **uplift A** is as follows:

Pension uplift A = No. of days from NPA to 31 March 2019 inclusive x 0.010%

Where the member is entitled to a retirement grant, **Grant uplift B** should be calculated as follows (using the pre-2014 NPA):

Grant uplift A = No. of days from NPA to 31 March 2019 inclusive x 0.001%

Otherwise, if the member reached NPA on or after 1 April 2019 for any of their service, then **Pension uplift A** and any **Grant uplift A** for that service should be set equal to 0.0%.

2.9 **Step B: Post 1 April 2019 late retirement increase method (part 1)**

Determine the **Pension uplift B** for the periods from the day the member reached NPA to the date of retirement using the factors set out in the first column of table 402 in Appendix B.

Where the member is entitled to a retirement grant, **Grant uplift B** should be determined for the period from the day the member reached their pre-2014 NPA to the date of retirement using the factors set out in the second column of table 402 in Appendix B.

Where the member retires in between birthdays the factors should be interpolated. See the examples in section 3 for illustrations of how to do this interpolation.

2.10 **Step C: Post 1 April 2019 late retirement increase method (part 2)**

If the member reached NPA (as defined in 2.1 above) prior to 1 April 2019 for any of their service, then determine **Pension uplift C** for the periods from the day the member reached NPA to 31 March 2019 inclusive using the factors set out in the first column of table 402 in Appendix B.

Where the member is entitled to a retirement grant, **Grant uplift C** should be determined for the period from the day the member reached their pre-2014 NPA to 31 March 2019 inclusive using the factors set out in the second column of table 402 in Appendix B.

For members not born on 1 April the factors should be interpolated. See the examples in section 3 for illustrations of how to do this interpolation.

Otherwise, if the member reached NPA on or after 1 April 2019 for any of their service, then **Pension uplift C** and any **Grant uplift C** for that service should be set equal to 0.0%.

2.11 **Step D: Total pension increase at date of retirement**

The **Total pension increase** is calculated based on the following formula:

Total pension increase: (100% + Pension uplift A) x (100% + Pension uplift B)
(100% + Pension uplift C)

Where the member has different NPAs for pre-1 April 2014 and post-31 March 2014 service and reached both prior to retiring, separate **Total pension increases** should be determined for each. If the member is retiring at or before their later NPA (post-2014), then the Total pension increase should only be applied to their earlier NPA (pre-2014) pension.

Where the member is entitled to a retirement grant, the Total grant increase is calculated as follows:

Total grant increase: (100% + Grant uplift A) x (100% + Grant uplift B)
(100% + Grant uplift C)

Further considerations

2.12 MHCLG has confirmed that, where an addition to a member's benefits applies as a result of the statutory underpin (Regulation 4(4) of The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ('the 2014 Scheme Transitional Regulations') (SI 2014/525)), and the member's benefits are taken after age 65, all of the member's benefits accrued up to normal pension age in the 2008 scheme, (whether accrued before or after 1 April 2014), and the benefits corresponding to the 'underpin amount' described in regulation 4(6), are subject to an adjustment for late payment by reference to age 65. Any benefits in excess of this would be subject to adjustment (whether upwards for late payment or downwards for early payment) by reference to the member's normal pension age in the 2014 Scheme.

2.13 Under regulations 25(7), 26(6) and 29(3) of the 2013 Regulations, once in payment, retirement pensions should be increased in accordance with the 'index rate adjustment' (i.e. under the Pensions Increase Acts). Any pension accrued under the 2008 and earlier schemes should also be increased under the Pensions Increase Acts.

2.14 Regulations 30(3) and 30(11) of the 2013 Regulations require that the pension must come into payment no later than the day before the member's 75th birthday.

2.15 Section 13 of the Pension Schemes Act 1993 requires member consent if GMPs are deferred by more than 5 years after GMP pension age (which is age 60 for females and age 65 for males). Where a member elects to draw the GMP element of their total benefits, only the excess pension (over the GMP) should be increased at retirement in accordance with paragraph 2.3. This also applies where a deferred pension has been postponed until after age 65 but where the GMPs have been brought into payment earlier (at or after GMP pension age).

2.16 The factors in this guidance have been provided in a format to provide a smooth transition for individual members when factors are updated as required at periodic reviews. They provide outcomes of broadly actuarial neutrality within the constraints of the format adopted.

3   Examples

Example 1: Late retirement from active service having reached NPA before April 2019

Consider a male member, whose 65th birthday fell on 30 May 2017. His State Pension Age is therefore age 65 and his NPA for late retirement increases is 65 for both pre and post 2014 service.

The member decides to remain as an active member and retire on 30 September 2019, with his last day of service being 29 September 2019. His period worked after NPA includes the date at which new factors came into force on 1 April 2019. It is assumed that the statutory underpin has no impact on the member's benefits.

The member has several tranches of service as follows:

Pre-2008 Pension and Retirement Grant: Critical retirement age of 62
Post-2008 Pre-2014 Pension: Normal pension age of 65
Post-2014 Pension: Normal pension age of 65

Member's benefits at 30 September 2019 before late retirement additions:

Pre-2008 CRA 62:	Pension	£13,000.00 pa
	Retirement Grant	£39,000.00
Post-2008 Pre-2014 NPA 65:	Pension	£10,000.00 pa
Post-2014 NPA 65:	Pension	£6,000.00 pa

The late retirement increases should be calculated as follows:

Late retirement factors for pre-2014 apply from the member's 65th birthday, including for the benefits for which CRA applies. All the member's pre-2014 pension will therefore receive the same late retirement increase. In this instance, this will also be the same as the increase that should be applied to post-2014 pension.

The period from (and including) his 65th birthday to retirement is 2 years 123 days. The period from (and including) his 65th birthday to 31 March 2019 is 1 year 306 days. The required factors from table 402 in Appendix B are therefore:

	Pension	Retirement grant
Factors in force prior to 1 April 2019		
Late retirement factor per day	0.010%	0.001%
Factors in force from 1 April 2019		
Late retirement factor for 1 year	3.5%	0.2%
Late retirement factor for 2 years	7.3%	0.5%
Late retirement factor for 3 years	11.4%	0.7%

Step A: Pre 1 April 2019 late retirement increase method

Pension uplift A = (365 + 306) x 0.010%   = 6.71%

Grant uplift A = (365 + 306) x 0.001%   = 0.671%

Step B: Post 1 April 2019 late retirement increase method (part 1):
Interpolate for the period between their 65th birthday and retirement i.e. 2 years 123 days:

Pension uplift B = 123 / 365 x 11.4% + (365 – 123) / 365 x 7.3%   = 8.68%

Grant uplift B = 123 / 365 x 0.7% + (365 – 123) / 365 x 0.5%   = 0.57%

Step C: Post 1 April 2019 late retirement increase method (part 2):

Interpolate for the period between their 65th birthday and 1 April 2019 i.e. 1 year 306 days:

Pension uplift C = 306 / 365 x 7.3% + (365 – 306) / 365 x 3.5%   = 6.69%

Grant uplift C = 306 / 365 x 0.5% + (365 – 306) / 365 x0.2%   = 0.45%

Step D: Total pension increase at date of retirement

Total pension increase = (100% + 6.71%) x (100% + 8.68%) / (100% + 6.69%) = 108.70%

Total grant increase = (100% + 0.671%) x (100% + 0.57%) / (100% + 0.45 %) = 100.79%

The member's benefits payable from 30 September 2019 are:

Pre-2008 CRA 62 Pension =	**13,000.00 x 1.087**	**= £14,131.00pa**
Pre-2008 CRA 62 Retirement grant =	**39,000.00 x 1.0079**	**= £39,308.10**
Post-2008 Pre-2014 NPA 65 pension =	**10,000.00 x 1.087**	**= £10,870.00pa**
Post 2014 NPA 65 Pension =	**6,000 x 1.087**	**= £6,522.00pa**

In aggregate:

Total pension =   **£14,131.00 + £10,870.00 + £6,522.00**   **= £31,523.00pa**

Total retirement grant =   **= £39,308.10**

The member could decide to commute part of his pension into an additional lump sum.

Example 2: Late retirement with two distinct NPA, both after 1 April 2019

Consider a female member, whose 65th birthday falls on 6 May 2019. The member has two tranches of pension with NPA 65 and NPA 65 years and 8 months (6 January 2020)

The member decides to remain as an active member and retire on 30 September 2021, with her last day of service being 29 September 2021. It is assumed that the statutory underpin has no impact on the member's benefits.

Member's benefits at 30 September 2021 before late retirement additions:

Pre-2014 NPA 65:	Pension	£18,000.00 pa
	Retirement Grant	£54,000.00
Post-2014 NPA 65 years 8 months:	Pension	£3,000.00 pa

The late retirement increases should be calculated as follows:

The period from (and including) her 65th birthday to retirement is 2 years 147 days. The period from (and including) reaching age 65 years and 8 months to retirement is 1 year and 267 days. The required factors from table 402 in Appendix B are therefore:

	Pension	Retirement grant
Late retirement factor for 1 years	3.5%	0.2%
Late retirement factor for 2 years	7.3%	0.5%
Late retirement factor for 3 years	11.4%	0.7%

The member reached age 65 after 1 April 2019. So for all of the member's benefits:

Pension uplift A = Pension uplift C = Grant uplift A = Grant uplift C = 0.0%

Pre-2014 Pension NPA 65:
Interpolate for the period between their 65th birthday and retirement ie 2 years 147 days:

Pension uplift B = 147 / 365 x 11.4% + (365 – 147) / 365 x 7.3%   = 8.95%

Total increase = (100% + 0.0%) x (100% + 8.95%) / (100% + 0.0%)   = 108.95%

Post-2014 Pension NPA 65 years 8 months:
Interpolate for the 1 year 267 days between NPA at age 65 years 8 months and retirement:

Pension uplift B = 267 / 365 x 7.3% + (365 – 267) / 365 x 3.5%   = 6.28%

Total increase = (100% + 0.0%) x (100% + 6.28%) / (100% + 0.0%)   = 106.28%

Retirement grant NPA 65:
Interpolate for the period between their 65th birthday and retirement i.e. 2 years 147 days:

Grant uplift B = 147 / 365 x 0.7% + 218 / 365 x 0.5%   = 0.58%

Total increase = (100% + 0.0%) x (100% + 0.58%) / (100% + 0.0%)   = 100.58%

The member's benefits payable from 30 September 2021 are:

Pre-2014 NPA 65 Pension:	**18,000.00 x 1.0895**	**= £19,611 pa**
Pre-2014 NPA 65 Retirement grant:	**54,000.00 x 1.0058**	**= £54,313.20**
Post-2014 NPA 65 yrs 8 mths Pension:	**3,000.00 x 1.0628**	**= £3,188.40 pa**

The member could decide to commute part of her pension into an additional lump sum.

Example 3: Late retirement for a deferred member

Consider a deferred male member, whose NPA is 65 years 7 months and 7 days. The member reaches his normal retirement age on 6 January 2020.

The member's last day of service was 30 April 2018 but he retired on 31 December 2020. It is assumed that the statutory underpin has no impact on the member's benefits.

The member's total benefits at 31 December 2020 before late retirement additions are:

Post-2014 NPA 65 years 7 months   Pension   £5,000.00 pa

The late retirement increase would be calculated as follows:

The period from his NPA date of 6 January 2020 until 30 December 2020 (the day before his benefits become payable) inclusive is 0 years 360 days total. The required factors from table 402 in Appendix B are therefore:

	Pension
Late retirement factor for 0 years	0.0%
Late retirement factor for 1 years	3.5%

The member reached age 65 after 1 April 2019. So for all of the member's benefits:

Pension uplift A = Pension uplift C = 0.0%

Post-2014 Pension NPA 65 years 7 months:
Interpolate for the period between their NPA and retirement i.e. 0 years 360 days:

Pension uplift A = 360 / 366 x 3.5% + 6 / 366 x 0.0%   = 3.44%

Total increase = (100% + 0.0%) x (100% + 6.28%) / (100% + 0.0%)   =103.44%

The benefits on late retirement at 31 December 2020 are:

Member's pension: 5,000.00 x 1.0344   = £5,172.00 pa

The member could decide to commute part of his pension into an additional lump sum.

Note that that same method would apply to pension credit members.

Appendix A: Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.448% pa
Long term earnings growth	4.20% pa
Real discount rate (in excess of CPI)	2.40% pa

Mortality assumptions

	Males	**Females**
Retirements in normal health	101% of S2NMA	92% of S2NFA
Retirements in ill-health	107% of S2IMA	106% of S2IFA
Dependants	132% of S2NMA	106% of S2NFA

Future mortality improvement	Based on ONS principal UK population projections 2016
Year of Use	2020

Other assumptions

Proportion of male members for unisex factors	35%
Proportion partnered	N/A
Age difference between member and partner	Males assumed 3 years older than their partners and female members assumed 2 years younger than their partners
Allowance for commutation	Nil except for mandatory lump sum cases

Appendix B: Factors

Table 402: Late retirement increase for pre and post 31 March 2014 benefits

Years late	Pension Increase (%)	Retirement Grant Increase (%)
0	0.0%	0.0%
1	3.5%	0.2%
2	7.3%	0.5%
3	11.4%	0.7%
4	15.9%	1.0%
5	20.9%	1.2%
6	26.4%	1.4%
7	32.4%	1.7%
8	39.1%	1.9%
9	46.4%	2.2%
10	54.5%	2.4%

Appendix C: Limitations

C.1 This note should not be used for any purpose other than to determine benefits on late retirement 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. This note only covers the actuarial principles around the calculation and application of late retirement factors. Any legal advice in this area should be sought from an appropriately qualified person or source.

C.4 Administrators should satisfy themselves that late retirement complies with all legislative requirements including, but not limited to, taxation and contracting-out requirements.

C.5 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 MHCLG. In no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.