



Government
Actuary's
Department

Local Government Pension Scheme (England & Wales)

Conversion of lump sum into pension – Regulation 58

Factors and guidance

Date: 5 May 2021





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1 Introduction

- 1.1 This note is provided for the Ministry for Housing, Communities and Local Government (MHCLG) as scheme manager of the Local Government Pension Scheme in England and Wales.
- 1.2 This guidance applies to the calculation of the exchange of lump sum for additional annual pension payments (also known as inverse commutation), for qualifying members of the scheme under regulation 58 of The Local Government Pension Scheme Regulations 1997 (SI 1997/1612) (“the LGPS Regulations”).
- 1.3 The tables attached to this note provide factors which show the additional pension paid to the member for each £100 of lump sum given up, according to their age at the date the member becomes entitled to immediate payment of pension. Separate factors are provided for members who have an eligible partner and those who do not, and for members retiring on normal or ill health grounds. Please note that these factors apply to both men and women – we are no longer providing sex-specific factors.
- 1.4 If factors are required for any members not covered by this guidance please contact MHCLG with details for onward transmission to GAD. In particular, any cases involving members aged below 55 and retiring in normal health should be referred to MHCLG to be forwarded onto GAD.
- 1.5 The remainder of this introduction contains:
 - details of the implementation and future review of this guidance,
 - the relevant legislative references, and
 - statements about third party reliance and liability
- 1.6 In the remainder of this note:
 - The second section describes the exchange of lump sum for annual pension payments calculation
 - The third section contains an example of the calculation
 - Appendix A contains the assumptions underlying the factors provided in this guidance note
 - Appendix B contains the table of factors
 - Appendix C sets out some important limitations



Implementation and Review

- 1.7 The Secretary of State is required to consult GAD before issuing actuarial guidance under the 2013 Regulations [Regulation 2(3) of the 2013 Regulations].
- 1.8 As part of this consultation 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.
- 1.9 MHCLG has asked GAD to prepare guidance for administering authorities for the purpose of updating the existing factors for converting a lump sum into pension.
- 1.10 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.
- 1.11 This guidance is intended to supersede advice previously issued, for the purposes of inverse commutation calculations, carried out from the date issued on the cover. No advice issued in the past should be used for cases after this date. In particular, this guidance supersedes:

"Local Government Pension Scheme (England and Wales): Conversion of lump sum into pension – Regulation 58" dated 14 April 2016.
- 1.12 The factors in this note have been updated but the calculation methodology remains unchanged.
- 1.13 The factors contained in this note are reproduced from the latest consolidated factors workbook as at the date of this note. The factors contained in this guidance note were implemented by MHCLG in advance of this guidance and apply from 21 June 2019. This implementation date was determined by MHCLG.
- 1.14 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 (England and Wales). Any questions concerning the application of the guidance should, in the first instance, be referred to MHCLG.
- 1.15 The factors contained in this note will be subject to review periodically. This will depend on external circumstances, for example whenever there is a change in the SCAPE basis; when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future actuarial valuation where mortality and other relevant experience is reviewed or if other credible and material information comes to light.



Relevant legislative references

- 1.16 Regulation 58(4) of the LGPS Regulations states that these members become entitled to such additional pension as determined in guidance issued by the Government Actuary. Regulation 3(12) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 requires that guidance issued by the Government Actuary under earlier regulations is to be treated as actuarial guidance issued by the Secretary of State as defined by the Local Government Pension Scheme Regulations 2013 [‘the 2013 Regulations’].
- 1.17 Regulation 58(1) of the LGPS Regulations provides an opportunity for members to convert a lump sum benefit into pension (“inverse commutation”). This regulation has been revoked under Schedule 1 of the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI 2008/238). However, we understand from MHCLG that there are a small number of members to whom this regulation still applies.

Third party reliance

- 1.18 This guidance has been prepared for the use of MHCLG and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on MHCLG and the scheme administrator’s website but must not otherwise be reproduced, distributed or communicated in whole or in part to any other person without GAD’s prior written permission.
- 1.19 Other than MHCLG and the scheme administrators, no person or third party is entitled to place any reliance on the contents of this guidance, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this guidance, whether or not GAD has agreed to the disclosure of its advice to the third party.



2 Calculation

- 2.1 Two tables are provided, Table A should be used in cases where the member retires in normal health and Table B should be used where the member retires on ill health grounds.
- 2.2 If the member has an eligible partner at the date the lump sum is converted to additional pension, then the factors in column 1 should be used. If a member has no eligible partner at the date of conversion, then the factors in column 2 of the table should be used.
- 2.3 The more favourable terms applicable to members who are has no eligible partner should be used only when the administering authority is satisfied that the member has no eligible partner.
- 2.4 MHCLG have confirmed that where the member has an eligible partner at death, an additional contingent pension is payable to the member's partner at the rate of 50% of the member's additional pension.
- 2.5 The additional annual pension payments should be determined as follows:

$$\frac{\text{Lump sum} \times \text{Factor}}{100}$$

Where

Lump sum = the lump sum amount to be exchanged for additional annual pension payments

Factor = determined from the table in the appendix as applicable for the member's age (in years and completed months) (Table 0-504 or 0-505 in the consolidated factor workbook)



3 Example

Member who retires in normal health

Member Details

Date of birth	1 February 1955
Sex	Male
Partner status	Married
Normal pension age	65
Lump sum amount to convert	£2,000
Date of conversion	1 February 2020

At the date of conversion, this member is exactly 65 years old. From Table A in this Note, the member is entitled to £5.15 of additional pension payments per annum for every £100 of lump sum available for conversion.

Hence, this member will be able to convert his £2,000 lump sum into:

$$£5.15 \times \frac{£2,000}{£100} = \mathbf{£103.00} \text{ of additional pension payments per annum.}$$

This additional pension will be up-rated in line with pension increases every year.

A contingent pension will be payable to their partner in the event that they survive the member. This will be equal to $50\% \times £103.00 = £51.50$ per annum and will also be up-rated in line with pension increases each year.



Appendix A: Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.448%
CPI	2.00%
Real discount rate (in excess of CPI)	2.40%

Mortality assumptions

Base mortality tables and adjustments – normal health	101% of S2NMA (Males) and 92% of S2NFA (Females) (as per 2016 valuation)
Base mortality tables and adjustments – ill health	107% of S2IMA (Males) and 106% of S2IFA (Females) (as per 2016 valuation)
Base mortality tables and adjustments – dependants	132% of S2NMA (Males) and 106% of S2NFA (Females) (as per 2016 valuation)
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% and 65% for dependants

Proportion partnered

Age	Males	Females
60	80%	75%
70	78%	57%
80	64%	28%
90	36%	8%

Age difference between member and partner Males assumed 3 years older than partner. Females assumed 2 years younger than partner.



Appendix B: Factors

**Table A: Amount of additional pension for every £100 of lump sum
Normal Retirement (ages 55 to 65) (Table 0-504 in the consolidated factor workbook)**

Age at date member becomes entitled to an immediate pension <i>in years and complete months</i>		Pension (£) for a member who has an eligible partner	Pension (£) for a member who has no eligible partner
from	to	Male & Female Column 1	Male & Female Column 2
55 years and 0 months	55 years and 5 months	4.14	4.35
55 years and 6 months	55 years and 11 months	4.18	4.39
56 years and 0 months	56 years and 5 months	4.21	4.43
56 years and 6 months	56 years and 11 months	4.25	4.48
57 years and 0 months	57 years and 5 months	4.30	4.53
57 years and 6 months	57 years and 11 months	4.34	4.57
58 years and 0 months	58 years and 5 months	4.38	4.62
58 years and 6 months	58 years and 11 months	4.43	4.67
59 years and 0 months	59 years and 5 months	4.47	4.73
59 years and 6 months	59 years and 11 months	4.52	4.78
60 years and 0 months	60 years and 5 months	4.57	4.83
60 years and 6 months	60 years and 11 months	4.62	4.89
61 years and 0 months	61 years and 5 months	4.67	4.95
61 years and 6 months	61 years and 11 months	4.72	5.01
62 years and 0 months	62 years and 5 months	4.78	5.07
62 years and 6 months	62 years and 11 months	4.83	5.14
63 years and 0 months	63 years and 5 months	4.89	5.21
63 years and 6 months	63 years and 11 months	4.95	5.27
64 years and 0 months	64 years and 5 months	5.01	5.35
64 years and 6 months	64 years and 11 months	5.08	5.42



**Table A: Amount of additional pension for every £100 of lump sum
Normal Retirement (ages 65 to 75) (Table 0-504 in the consolidated factor workbook)**

Age at date member becomes entitled to an immediate pension <i>in years and complete months</i>		Pension (£) for a member who has an eligible partner	Pension (£) for a member who has no eligible partner
from	to	Male & Female Column 1	Male & Female Column 2
65 years and 0 months	65 years and 5 months	5.15	5.50
65 years and 6 months	65 years and 11 months	5.22	5.59
66 years and 0 months	66 years and 5 months	5.30	5.68
66 years and 6 months	66 years and 11 months	5.39	5.77
67 years and 0 months	67 years and 5 months	5.47	5.87
67 years and 6 months	67 years and 11 months	5.56	5.98
68 years and 0 months	68 years and 5 months	5.66	6.09
68 years and 6 months	68 years and 11 months	5.75	6.20
69 years and 0 months	69 years and 5 months	5.85	6.32
69 years and 6 months	69 years and 11 months	5.96	6.44
70 years and 0 months	70 years and 5 months	6.07	6.57
70 years and 6 months	70 years and 11 months	6.18	6.70
71 years and 0 months	71 years and 5 months	6.30	6.84
71 years and 6 months	71 years and 11 months	6.43	6.98
72 years and 0 months	72 years and 5 months	6.56	7.14
72 years and 6 months	72 years and 11 months	6.69	7.29
73 years and 0 months	73 years and 5 months	6.84	7.46
73 years and 6 months	73 years and 11 months	6.98	7.63
74 years and 0 months	74 years and 5 months	7.13	7.81
74 years and 6 months	74 years and 11 months	7.29	7.99



**Table B: Amount of additional pension for every £100 of lump sum
III-Health Retirement (ages 30 to 45) (Table 0-505 in the consolidated factor workbook)**

Age at date member becomes entitled to an immediate pension <i>in years and complete months</i>		Pension (£) for a member who has an eligible partner	Pension (£) for a member who has no eligible partner
from	to	Male & Female Column 1	Male & Female Column 2
30 years and 0 months <i>30 years and 6 months</i>	30 years and 5 months <i>30 years and 11 months</i>	3.31 3.32	3.64 3.65
31 years and 0 months <i>31 years and 6 months</i>	31 years and 5 months <i>31 years and 11 months</i>	3.34 3.35	3.67 3.68
32 years and 0 months <i>32 years and 6 months</i>	32 years and 5 months <i>32 years and 11 months</i>	3.36 3.37	3.69 3.71
33 years and 0 months <i>33 years and 6 months</i>	33 years and 5 months <i>33 years and 11 months</i>	3.39 3.40	3.72 3.73
34 years and 0 months <i>34 years and 6 months</i>	34 years and 5 months <i>34 years and 11 months</i>	3.41 3.43	3.75 3.76
35 years and 0 months <i>35 years and 6 months</i>	35 years and 5 months <i>35 years and 11 months</i>	3.44 3.45	3.78 3.79
36 years and 0 months <i>36 years and 6 months</i>	36 years and 5 months <i>36 years and 11 months</i>	3.47 3.48	3.81 3.82
37 years and 0 months <i>37 years and 6 months</i>	37 years and 5 months <i>37 years and 11 months</i>	3.50 3.51	3.84 3.85
38 years and 0 months <i>38 years and 6 months</i>	38 years and 5 months <i>38 years and 11 months</i>	3.53 3.55	3.87 3.89
39 years and 0 months <i>39 years and 6 months</i>	39 years and 5 months <i>39 years and 11 months</i>	3.56 3.58	3.90 3.92
40 years and 0 months <i>40 years and 6 months</i>	40 years and 5 months <i>40 years and 11 months</i>	3.60 3.62	3.94 3.96
41 years and 0 months <i>41 years and 6 months</i>	41 years and 5 months <i>41 years and 11 months</i>	3.63 3.65	3.98 4.00
42 years and 0 months <i>42 years and 6 months</i>	42 years and 5 months <i>42 years and 11 months</i>	3.67 3.69	4.02 4.04
43 years and 0 months <i>43 years and 6 months</i>	43 years and 5 months <i>43 years and 11 months</i>	3.71 3.73	4.06 4.08
44 years and 0 months <i>44 years and 6 months</i>	44 years and 5 months <i>44 years and 11 months</i>	3.76 3.78	4.11 4.13



**Table B: Amount of additional pension for every £100 of lump sum
III-Health Retirement (ages 45 to 60) (Table 0-505 in consolidated factor workbook)**

Age at date member becomes entitled to an immediate pension <i>in years and complete months</i>		Pension (£) for a member who has an eligible partner	Pension (£) for a member who has no eligible partner
from	to	Male & Female Column 1	Male & Female Column 2
45 years and 0 months	45 years and 5 months	3.80	4.16
45 years and 6 months	45 years and 11 months	3.82	4.18
46 years and 0 months	46 years and 5 months	3.85	4.21
46 years and 6 months	46 years and 11 months	3.87	4.24
47 years and 0 months	47 years and 5 months	3.90	4.26
47 years and 6 months	47 years and 11 months	3.92	4.29
48 years and 0 months	48 years and 5 months	3.95	4.32
48 years and 6 months	48 years and 11 months	3.98	4.35
49 years and 0 months	49 years and 5 months	4.00	4.38
49 years and 6 months	49 years and 11 months	4.03	4.42
50 years and 0 months	50 years and 5 months	4.06	4.45
50 years and 6 months	50 years and 11 months	4.09	4.48
51 years and 0 months	51 years and 5 months	4.12	4.52
51 years and 6 months	51 years and 11 months	4.16	4.56
52 years and 0 months	52 years and 5 months	4.19	4.59
52 years and 6 months	52 years and 11 months	4.22	4.63
53 years and 0 months	53 years and 5 months	4.26	4.67
53 years and 6 months	53 years and 11 months	4.29	4.71
54 years and 0 months	54 years and 5 months	4.33	4.76
54 years and 6 months	54 years and 11 months	4.37	4.80
55 years and 0 months	55 years and 5 months	4.41	4.84
55 years and 6 months	55 years and 11 months	4.45	4.89
56 years and 0 months	56 years and 5 months	4.49	4.94
56 years and 6 months	56 years and 11 months	4.53	4.99
57 years and 0 months	57 years and 5 months	4.57	5.04
57 years and 6 months	57 years and 11 months	4.62	5.09
58 years and 0 months	58 years and 5 months	4.67	5.14
58 years and 6 months	58 years and 11 months	4.71	5.20
59 years and 0 months	59 years and 5 months	4.76	5.25
59 years and 6 months	59 years and 11 months	4.81	5.31



**Table B: Amount of additional pension for every £100 of lump sum
III-Health Retirement (ages 60 to 75) (Table 0-505 in the consolidated factor workbook)**

Age at date member becomes entitled to an immediate pension <i>in years and complete months</i>		Pension (£) for a member who has an eligible partner	Pension (£) for a member who has no eligible partner
from	to	Male & Female Column 1	Male & Female Column 2
60 years and 0 months <i>60 years and 6 months</i>	60 years and 5 months <i>60 years and 11 months</i>	4.86 4.92	5.37 5.44
61 years and 0 months <i>61 years and 6 months</i>	61 years and 5 months <i>61 years and 11 months</i>	4.97 5.03	5.50 5.57
62 years and 0 months <i>62 years and 6 months</i>	62 years and 5 months <i>62 years and 11 months</i>	5.09 5.15	5.64 5.71
63 years and 0 months <i>63 years and 6 months</i>	63 years and 5 months <i>63 years and 11 months</i>	5.21 5.28	5.78 5.86
64 years and 0 months <i>64 years and 6 months</i>	64 years and 5 months <i>64 years and 11 months</i>	5.34 5.41	5.94 6.02
65 years and 0 months <i>65 years and 6 months</i>	65 years and 5 months <i>65 years and 11 months</i>	5.49 5.58	6.11 6.22
66 years and 0 months <i>66 years and 6 months</i>	66 years and 5 months <i>66 years and 11 months</i>	5.68 5.78	6.34 6.46
67 years and 0 months <i>67 years and 6 months</i>	67 years and 5 months <i>67 years and 11 months</i>	5.88 5.99	6.58 6.71
68 years and 0 months <i>68 years and 6 months</i>	68 years and 5 months <i>68 years and 11 months</i>	6.10 6.22	6.85 6.99
69 years and 0 months <i>69 years and 6 months</i>	69 years and 5 months <i>69 years and 11 months</i>	6.34 6.47	7.14 7.29
70 years and 0 months <i>70 years and 6 months</i>	70 years and 5 months <i>70 years and 11 months</i>	6.60 6.74	7.45 7.62
71 years and 0 months <i>71 years and 6 months</i>	71 years and 5 months <i>71 years and 11 months</i>	6.88 7.03	7.80 7.98
72 years and 0 months <i>72 years and 6 months</i>	72 years and 5 months <i>72 years and 11 months</i>	7.19 7.35	8.18 8.38
73 years and 0 months <i>73 years and 6 months</i>	73 years and 5 months <i>73 years and 11 months</i>	7.52 7.69	8.58 8.80
74 years and 0 months <i>74 years and 6 months</i>	74 years and 5 months <i>74 years and 11 months</i>	7.87 8.05	9.02 9.25



Appendix C: Limitations

- C.1 This guidance should not be used for any purpose other than those set out in this guidance.
- C.2 The factors contained in this guidance are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- C.3 Advice provided by GAD must be taken in context and is intended to be considered in its entirety. Individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect. GAD does not accept responsibility for advice that is altered or used selectively. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.
- C.4 This guidance only covers the actuarial principles around the calculation and application of inverse commutation factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- C.5 Scheme managers and administrators should satisfy themselves that inverse commutation calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out 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 MHCLG and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.