



Government
Actuary's
Department

Local Government Pension Scheme (England and Wales)

Protected Regulation 66(8)

Conversion of accumulated AVCs to transfer credits

Factors and guidance

Date: 5 May 2021





Contents

1	Introduction	1
2	Calculation of transfer credits	4
3	Example	6
	Appendix A: Assumptions underlying factors	7
	Appendix B: Factor Table	8
	Appendix C: Limitations	9



1 Introduction

- 1.1 The Secretary of State for Housing, Communities and Local Government is required to issue actuarial guidance on the amount of service credit a member may be granted in respect of the accumulated value of additional voluntary contributions ('AVCs') in the LGPS.
- 1.2 This guidance only covers the actuarial principles around the calculation of service credits in respect of AVCs for members who made an election to pay AVCs under regulation 60(1) of the Local Government Pension Scheme Regulations 1997 ('the 1997 Regulations') prior to 13 November 2001.
- 1.3 This guidance does not apply to Councillor members. Regulations permitting Councillors to have access to the Local Government Pension Scheme were not made until 2003.
- 1.4 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.
- 1.5 In the remainder of this note:
 - section 2 covers calculation of transfer credits from an AVC fund(s)
 - section 3 sets out an example calculation
 - Appendix A sets out the underlying assumptions used in the calculation of the factors enclosed in this guidance note
 - Appendix B sets out the factors
 - Appendix C sets out some important limitations

Implementation and Review

- 1.6 The Secretary of State is required to consult with GAD before issuing actuarial guidance under the Local Government Pension Scheme Regulations 2013 ('the 2013 Regulations') [Regulation 2(3) of the 2013 Regulations].
- 1.7 As part of this consultation the Ministry for Housing, Communities and Local Government (MHCLG) have asked GAD 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.
- 1.8 The guidance and factors provided in this note have been prepared in light of our advice to MHCLG dated 30 October 2018 and its instructions following that advice.



- 1.9 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.
- 1.10 This guidance is intended to supersede any factors or advice previously issued, for the purposes of the conversion of accumulated AVCs into transfer credits. In particular, this guidance supersedes:
- “Local Government Pension Scheme (England and Wales): Protected Regulation 66(8) - Conversion of accumulated AVCs to transfer credits” dated 10 February 2017.
- 1.11 Factors contained in this note have been updated but the calculation methodology remains unchanged. They are reproduced from the latest consolidated factors workbook as at the date of this note. These factors were implemented by MHCLG in advance of this guidance and apply from 21 June 2019. This implementation date was determined by MHCLG.
- 1.12 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.
- 1.13 The factors contained in this guidance 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

- 1.14 Regulation 66(8) of the 1997 Regulations is protected by virtue of:
- regulation 4 of The Local Government Pension Scheme (Amendment No. 2) Regulations 2001 (SI 2001/3401);
 - schedule 1 of the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI 2008/238), as amended by regulation 25(2) of The Local Government Pension Scheme (Amendment) Regulations 2008 (SI 2008/1083); and
 - regulation 15(2A)(b) of The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525).
- 1.15 These were provided for members who made an election under regulation 60(1) of the 1997 Regulations prior to 13 November 2001 to have the right to make an election under regulation 66 of those regulations, as they stood prior to 13 November 2001.



- 1.16 Protected regulations 66(1)(c) and 66(5) of the 1997 regulations provided for a member who becomes entitled to an ill-health pension to elect to have the accumulated value of their AVC used to acquire a transfer credit in the LGPS. Similarly, protected regulations 66(1)(d) and 66(5) permitted an active member who has attained age 50, and who has stopped paying AVCs, to use the accumulated value of these AVCs to acquire a transfer credit in the LGPS.
- 1.17 In the 1997 regulations, protected regulation 66(6) provided for the transfer credit to be calculated on the same basis as if a transfer value were being accepted for the member under Regulation 121, except that, under protected regulation 66(8), transfer credits acquired under 66(5) must not entitle the member to benefits in the form of a lump sum payable at retirement. In view of this, protected regulation 66(8) also provided that the transfer credit should be calculated in accordance with standard transfer calculation methodology, with an adjustment reflecting the fact that the credit will not apply in calculation of the retirement grant.
- 1.18 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 2013 Regulations.

Third party reliance

- 1.19 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.
- 1.20 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 of transfer credits

2.1 A transfer credit should be calculated as follows:

$$A = \frac{1}{60} \times \text{Pay} \times \left[(\text{Factor}^P) + \left(\frac{60}{160} \times \text{Factor}^S \right) \right]$$

$$\text{Transfer Credit} = \frac{\text{AVC}}{A} = Y \text{ years and } D \text{ days}$$

Where:

- A = the cost of one years' pension accrual
- Pay = the member's rate of pensionable pay at the relevant date
- Factor^P = the Gross Pension factor from the table in Appendix B for the member's gender and age last birthday
- Factor^S = the Surviving Partner's Pension factor from the table in Appendix B for the member's gender and age last birthday
- AVC = the accumulated AVC fund at the relevant date

2.2 The transfer credit is treated as if it had arisen in the 2008 scheme.

2.3 The relevant date (which determines age and rate of LGPS pensionable pay) for the final transfer credit calculations should be the date that the AVC fund is received. If the AVC fund is received after the member has ceased active membership, then the relevant date should be the last day of active membership. The relevant date for estimate purposes should be the date on which the calculation is carried out but the resultant transfer credit should not be guaranteed.

2.4 Transfer credits should be calculated based on an assumed pension age of 65. If the member subsequently retires in normal health before (or after) age 65, the relevant early (or late) retirement factor, taken from the latest GAD guidance on early (or late) retirement, should be applied to the benefits derived from the calculated transfer credit, as required by protected Regulation 66(7).

2.5 The transfer credit calculated should be used in the calculation of the member's pension, eligible partner's long-term pension and children's long-term pension. No period of transfer credited under Protected Regulation 66(5) should be included in the calculation of the retirement grant. However, MHCLG have confirmed that the member can commute pension for lump sum under Regulation 33 of the 2013 Regulations.



- 2.6 MHCLG have confirmed that the transfer credit does count towards the membership for the purposes of paragraph 4(2)(a)(i) of Schedule 2 to The Local Government Pension Scheme (Transitional Provisions, Savings & Amendment) Regulations 2014 (SI 2014/525). However, as the transfer credit is based on an assumed pension age of 65, the credit will need to be actuarially reduced for the period between age 65 and the resultant CRA using the reduction factors contained in the actuarial guidance on Early Payment of Pension before it is counted towards membership.



3 Example

Member Data

Gender	Female
Age last birthday at the relevant date	61 years
Rate of pensionable pay at the relevant date	£30,000 per annum
Accumulated AVC fund at the relevant date	£50,000

Factors

Factor ^P	18.15
Factor ^S	2.03

Calculations

$$A = \frac{1}{60} \times £30,000.00 \times \left[(18.15) + \left(\frac{60}{160} \times 2.03 \right) \right] = £9,455.63$$

$$\text{Transfer Credit} = \frac{£50,000.00}{£9,455.63} = 5.2879 \text{ years} = 5 \text{ years } 105 \text{ days}$$

Notes

- i) The factors in the example are taken from table 801 in the latest consolidated factors workbook (reproduced in the factor table found in Appendix B).
- ii) The relevant date is defined in paragraph 2.3 of this guidance note.
- iii) Benefits in respect of the transfer credit should be actuarially reduced if taken before age 65 (except in cases of ill health retirement) or increased for late retirement after age 65 (see paragraph 2.4).



Appendix A: Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.448% pa
CPI	2.00% 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

In-service decrement rates

Withdrawal	Nil
Age retirement	Nil before NPA, 100% at NPA
Ill health retirement	In line with 2016 valuation

Other assumptions

Proportion of male members for unisex factors	35%
Proportion partnered	100% for Additional Pension with attaching dependants' pension, nil otherwise
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



Appendix B: Factor Table

**Table 4.1: Factors for the conversion of accumulated AVCs to transfer credits
(Table 801 in consolidated factors workbook)**

Age last birthday at relevant date	Factor for male members		Factors for female members	
	Gross Pension Factor	Surviving Partner's Pension Factor	Gross Pension Factor	Surviving Partner's Pension Factor
50	17.16	2.10	17.16	2.10
51	17.28	2.11	17.28	2.11
52	17.40	2.12	17.40	2.12
53	17.51	2.11	17.51	2.11
54	17.61	2.12	17.61	2.12
55	17.71	2.11	17.71	2.11
56	17.79	2.11	17.79	2.11
57	17.87	2.10	17.87	2.10
58	17.94	2.09	17.94	2.09
59	18.01	2.07	18.01	2.07
60	18.08	2.05	18.08	2.05
61	18.15	2.03	18.15	2.03
62	18.21	2.00	18.21	2.00
63	18.29	1.97	18.29	1.97
64	18.36	1.93	18.36	1.93
65	18.16	1.92	18.16	1.92
66	17.65	1.93	17.65	1.93
67	17.15	1.93	17.15	1.93
68	16.64	1.93	16.64	1.93
69	16.13	1.83	16.13	1.83
70	15.63	1.73	15.63	1.73
71	15.12	1.72	15.12	1.72
72	14.63	1.71	14.63	1.71
73	14.15	1.70	14.15	1.70
74	13.67	1.58	13.67	1.58
75	13.21	1.47	13.21	1.47



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 conversion of accumulated AVCs into transfer credit 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 the conversion of accumulated AVCs into transfer credit 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.