



# Local Government Pension Scheme (England and Wales) Late Retirement

Date: 28 June 2019





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## 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 1 September 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 Administrators should satisfy themselves that the late retirement increases awarded at retirement comply with all legislative requirements including, but not limited to, tax requirements. Any legal advice in this area should be sought from an appropriately qualified person or source.



- 1.11 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.
- 1.12 In line with best practice and in order to make sure that factors are used as intended and the instructions are fit for purpose, we suggest that some example calculations are sent to GAD for review.
- 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 This document sets out the general method for calculating late retirement increases under the Local Government Pension Scheme Regulations 2013 ('the 2013 Regulations') (SI 2013/2356) for members [regulation 30 (4)] and pension credit members [regulation 30 (11)] deferring receipt of their pension until after normal pension age.
- 1.15 Regulation 3(5) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Scheme Transitional Regulations") (SI 2014/525) also refers to actuarial adjustments in respect of retirement pensions and retirement grants accrued before 1 April 2014.
- 1.16 Where a person has not been a member of the 2014 scheme, benefits payable in respect of service before 1 April 2014 are payable in accordance with the 2008 Scheme [Regulation 3(8) of the 2014 Scheme Transitional Regulations]. Details of the requirements under the 2008 Scheme are listed in the following paragraphs (which reflect the change made from the Government Actuary to the Secretary of State as the person responsible for issuing guidance) [Regulation 3(12) of the 2014 Scheme Transitional Regulations].
- 1.17 In relation to Regulation 17(2) of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 ('the 2007 Regulations') (SI 2007/1166), the Secretary of State is required to issue guidance to determine the increase applicable to benefits when a member remains in employment or joins the LGPS after their 65<sup>th</sup> birthday.
- 1.18 In relation to Regulation 29(5) of the 2007 Regulations, the Secretary of State is required to issue guidance to determine the increase applicable to accrued benefits when a member who has left service without immediate entitlement to benefits under any of regulations 16 to 20 chooses not to receive payment of those benefits immediately on attaining normal retirement age.



- 1.19 The Department for Communities and Local Government (DCLG) has previously confirmed that similar increases should also be applied in respect of members who left service with immediate entitlement to benefits under regulation 16 or 16A of the 2007 Regulations but who choose not to receive payment immediately.

**Use of this note**

- 1.20 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.
- 1.21 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**

- 1.22 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.
- 1.23 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.
- 1.24 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 September 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 2.12 below and is dependent on how the period from NPA to retirement falls relative to 1 September 2019. If the member retired prior to 1 September 2019, then our previous guidance dated 18 April 2016 should be used to determine the relevant increases.
- 2.6 Subject to paragraph 2.16 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 of late retirement increases

- 2.8 If the member reached NPA after 1 September 2019 the total late retirement increase is calculated as follows:

$$\text{Pension increase} = \text{DAY}(1) \times \text{LRFP}(1) + \dots + \text{DAY}(N) \times \text{LRFP}(N)$$

$$\text{Retirement grant increase} = \text{DAY}(1) \times \text{LRFRG}(1) + \dots + \text{DAY}(N) \times \text{LRFRG}(N)$$

Where:

$N$  = the number of years the member has deferred retirement, including any part year. (Equivalently the number of anniversaries of NPA before retirement plus one)

$\text{DAY}(i)$  = the number of days in each separate year worked after NPA( $i$ ). I.e. the number of days on or after each anniversary of their NPA up to but not including next anniversary of NPA starting the day the member reached NPA (or 1 September 2019 if later) and up to but not including the date of retirement.

$\text{LRFP}(i)$  = the late retirement increase pension factor for each year worked after NPA ( $i$ ) set out in table 402 in Appendix B.

$\text{LRFRG}(i)$  = the late retirement increase retirement grant factor for each year worked after NPA ( $i$ ) set out in table 402 in Appendix B.

### Members who reached NPA before 1 September 2019

- 2.9 If the member reached NPA (as defined in 2.1 above) prior to 1 September 2019 for any of part of their service, then additionally calculate the late retirement increases to pension and retirement grant for the period from the day the member reached NPA to 31 August 2019 inclusive. Use the method and factors specified in the previous guidance titled "Local Government Pension Scheme (England and Wales): Late Retirement" dated 18 April 2016.
- 2.10 The total late retirement increase for these members is the sum of the increases before 1 September 2019 (as set out in 2.9) and on and after 1 September 2019 (as calculated in 2.8).
- 2.11 See section 3 example 1 for an illustration calculation for such a member.

### Member with multiple distinct NPAs

- 2.12 Where the member has different NPAs for pre-1 April 2014 and post-31 March 2014 service or any pension credit benefits and reached both prior to retiring, separate total late retirement increases should be determined for each. If the member is retiring at or before their later NPA (post-2014), then the total late retirement increase should only be applied to their earlier NPA (pre-2014) benefits.
- 2.13 See section 3 example 2 for an illustration calculation for such a member.



### Further considerations

- 2.14 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.
- 2.15 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.
- 2.16 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 75<sup>th</sup> birthday.
- 2.17 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).
- 2.18 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, NPA reached before September 2019**

Consider a male member, whose 65th birthday fell on 30 October 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 29 February 2020, with his last day of service being 28 February 2020. His period worked after NPA includes the date at which new factors came into force on 1 September 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 29 February 2020 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 122 days. The period from (and including) 1 September 2019 to retirement is 181 days.

#### **Pre 1 September 2019 late retirement increase**

Using the method and factors in the late retirement guidance dated 18 April 2016.

*Pension uplift* = 6.71%

*Grant uplift* = 0.671%

#### **Post 1 September 2019 late retirement increase**

Apply uplift for the pension from the period from 1 September 2019 to retirement i.e.:

Period	Years late	Time elapsed	Increase per day
<i>1 September 2019 to 67<sup>th</sup> birthday</i>	2	59 days	0.010%
<i>67<sup>th</sup> birthday to retirement</i>	3	122 days	0.011%

*Pension uplift* = 59 x 0.010% + 122 x 0.011% = 1.932%



Use a similar method for the grant with a factor of 0.001% for all years.

$$\text{Grant uplift} = (59 + 122) \times 0.001\% = 0.181\%$$

**Total increase at date of retirement**

$$\text{Total pension increase} = 6.71\% + 1.932\% = 8.642\%$$

$$\text{Total grant increase} = 0.671\% + 0.181\% = 0.852\%$$

**The member's benefits payable from 29 February 2020 are:**

<b>Pre-2008 CRA 62 Pension =</b>	<b>13,000.00 x 1.08642</b>	<b>= £14,123.46pa</b>
<b>Pre-2008 CRA 62 Retirement grant =</b>	<b>39,000.00 x 1.00852</b>	<b>= £39,332.28</b>
<b>Post-2008 Pre-2014 NPA 65 pension =</b>	<b>10,000.00 x 1.08642</b>	<b>= £10,864.20pa</b>
<b>Post 2014 NPA 65 Pension =</b>	<b>6,000 x 1.08642</b>	<b>= £6,518.52pa</b>

In aggregate:

<b>Total pension =</b>	<b>£14,123.46 + £10,864.20 + £6,518.52</b>	<b>= £31,506.18pa</b>
<b>Total retirement grant =</b>		<b>= £39,332.28</b>

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 September 2019**

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

The member decides to remain as an active member and retire on 28 February 2022, with her last day of service being 27 February 2022. It is assumed that the statutory underpin has no impact on the member's benefits.

Member's benefits at 28 February 2022 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 member reached age 65 after 1 September 2019, so no pre 1 September 2019 increase needs to be calculated.

The period from (and including) her 65th birthday to retirement is 2 years 145 days.

The period from (and including) age 65 years 8 months to retirement is 1 year and 267 days.

**Pre-2014 Pension NPA 65:**

Apply uplift for the period between their 65<sup>th</sup> birthday and retirement i.e. 2 years 145 days:

Period	Years late	Time elapsed	Increase per day
65 <sup>th</sup> birthday to 66 <sup>th</sup> birthday	1	366 days	0.010%
66 <sup>th</sup> birthday to 67 <sup>th</sup> birthday	2	365 days	0.010%
67 <sup>th</sup> birthday to retirement	3	145 days	0.011%

$$\text{Pension uplift} = 366 \times 0.010\% + 365 \times 0.010\% + 145 \times 0.011\% = 8.905\%$$

**Post-2014 Pension NPA 65 years 8 months:**

Apply uplift for the 1 year 267 days between NPA at age 65 years 8 months and retirement:

Period	Years late	Time elapsed	Increase per day
1 year from age 65 years 8 months	1	365 days	0.010%
Age 66 years 8 months to retirement	2	267 days	0.010%

$$\text{Pension uplift} = 365 \times 0.010\% + 267 \times 0.010\% = 6.320\%$$

**Retirement grant NPA 65:**

Apply uplift for the period between their 65<sup>th</sup> birthday and retirement i.e. 2 years 145 days:

$$\text{Grant uplift} = (366 + 365 + 145) \times 0.001\% = 0.876\%$$

**The member's benefits payable from 28 February 2022 are:**

Pre-2014 NPA 65 Pension:	18,000.00 x 1.08905	= £19,602.90 pa
Pre-2014 NPA 65 Retirement grant:	54,000.00 x 1.00876	= £54,473.04
Post-2014 NPA 65 yrs 8 mths Pension:	3,000.00 x 1.06320	= £3,189.60 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 7 days	Pension	£5,000.00 pa
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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 member reached NPA after 1 September 2019, so no pre 1 September 2019 increase needs to be calculated.

**Post-2014 Pension NPA 65 years 7 months 7 days:**

Period	Years late	Time elapsed	Increase per day
<i>NPA to retirement</i>	1	360 days	0.010%

*Pension uplift* = 360 x 0.010% = 3.60%

**The benefits on late retirement at 31 December 2020 are:**

**Member's pension:            5,000.00 x 1.0360            = £5,180.00 pa**

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

Note that the 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
<b>Retirements in normal health</b>	101% of S2NMA	92% of S2NFA
<b>Retirements in ill-health</b>	107% of S2IMA	106% of S2IFA
<b>Dependants</b>	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

<i>Years late</i>	<i>Pension Increase (%)</i>	<i>Retirement Grant Increase (%)</i>
1	0.010%	0.001%
2	0.010%	0.001%
3	0.011%	0.001%
4	0.012%	0.001%
5	0.014%	0.001%
6	0.015%	0.001%
7	0.017%	0.001%
8	0.018%	0.001%
9	0.020%	0.001%
10	0.022%	0.001%



## 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.