Government Actuary's Department

Finlaison House
15-17 Furnival Street
London
EC4A 1AB

Local Government Pension Scheme – England & Wales

Miscellaneous Amendments to Guidance – November 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[1] 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 2.8 is replaced by:

"DCLG have confirmed that State Pension Age for the purpose of calculating transfer value factors 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[2], and not legislation in force at the guarantee date."

[The relevant footnote is also to be regarded as part of the guidance document.]

(b) Paragraph 7.1 is replaced by:

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[1] https://www.gov.uk/government/organisations/government-actuarys-department/about/terms-of-reference

[2] 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

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"A member may request his Fund to accept a transfer value if the request is made within 12 months of joining, or such longer period as his employer and administering authority may allow for incoming non-Club transfers."

(c) Paragraph 7.3 is replaced by:
"Incoming transfer credits (for Club transfers-in) should be calculated by reference to PA65. If the member subsequently retires before attaining age 65, their transferred-in benefits will then be subject to the normal early retirement reductions applicable to PA65 benefits, as described in the Early Retirement guidance document applicable at the time."

(d) Paragraph 7.4 is replaced by:

"Transfer credits (for non-Club transfers-in) should be calculated by reference to NPA. DCLG have confirmed that State Pension Age 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[3]. If the member subsequently retires before attaining NPA, their transferred-in benefits will then be subject to the normal early retirement reductions applicable to NPA benefits, as described in the Early Retirement guidance document applicable at the time."

[The relevant footnote is also to be regarded as part of the guidance document.]

(e) The final entry (referring to ADJ^{P-14}) in the table headed "Factors (male, aged 57 last birthday at Guarantee Date)" in Section 13 (Example 2) is deleted.

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

"Service after 1 April 2014

	Calculation	Result
Pension	500.00 x (1 – 0.1406) x 13.22 x 1.31	£7,441.63
Dependant's Pension	153.13 x 3.60	£551.27
Total Amount		**£7,992.90**

[3] 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

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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	**£136,943.25”**

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 also applies in relation to councillors. 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:

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"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 x £25,000.00 = £5,937.50 pa
(Part A retirement grant of 3 x £5,937.50 = £17,812.50)

Part B1 membership for flexible retirement = 0.5 x 6 years = 3 years
Part B1 pension (before actuarial reduction) = 3/ 60 x £25,000.00 = £1,250.00 pa

The appropriate Early Retirement factors from the current guidance are:

Part A	Part B1
P_{CRA} = 6%	P_{taper} = 21%
RG_{CRA} = 3%	

(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:

Part A pension = £5,937.50 x (1 – 0.06) = £5,581.25 pa
(Retirement grant of £17,812.50 x (1 - 0.03) = £17,278.13 will also be paid to the member.)

Part B1 pension = £1,250.00 x (1 – 0.21) £987.50 pa

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Total Pre-2014 drawn-down pension at flexible retirement =
£5,581.25 + £987.50 = £6,568.75 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 2024."

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. Pension debits on divorce

The guidance document "Application of a Pension Debit for Divorced Members", dated 4 March 2013, is amended as follows:

(a) Paragraph 2.10 is replaced by:

"No debit should be applied to the death grant payable on the death of a member who was contributing to the scheme at their death."

8. Scheme Pays

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

(a) Section 2 is replaced by the revised wording shown in the Appendix.

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(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."

8.2 The guidance document "Annual Allowance Charges: Calculation of Scheme Pays Offset", dated 6 September 2012 (which remains relevant where a Scheme Pays election was made prior to 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 paragraph 2.23 the word "before" in the opening sentence is replaced by "at".

(c) In section 3, Example 1, the Relevant Date is changed from 1 April 2012 to 31 March 2012 in both places it appears (at "C." and in the penultimate sentence of the example).

(d) In section 3, Example 2, the following amendments are made:

- i) Relevant Date is changed from 1 April 2012 to 31 March 2012 where it appears at "G."
- ii) After the number 1.035 at "G", the word "(illustrative)" is inserted.
- iii) "From 2.20" is replaced by: "From 2.23" where it appears immediately after "G".
- iv) The wording "From 2.9.2" is deleted.

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

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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.

Ian Boonin FIA
Michael Scanlon FIA
Government Actuary's Department
November 2014

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London
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APPENDIX

Replacement to section 2 of the guidance document "Annual Allowance Charges: Calculation of Scheme Pays Offset", dated 1 April 2014

2 Annual Allowance - Scheme Pays Mechanism

Introduction

2.1 This section sets out the method and instructions for calculating the pension offset applied to a member who incurs an Annual Allowance charge and elects to utilise the scheme pays mechanism to meet this charge. The scheme pays mechanism will not be available to all members incurring Annual Allowance charges, and administering authorities will need to ensure a member's eligibility before applying the approach set out in this guidance document.

2.2 It is our understanding from HM Treasury's initial documentation prepared during the development of the revised Annual Allowance regime, that costs incurred by the authorities in relation to operating the scheme pays mechanism may not be recovered from the member concerned.

2.3 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.

Calculation of the initial pension offset

2.4 The calculation of the pension offset for different categories of member is set out in the following sections. We note that:

- Unlike in the calculation of pension debits following a pension sharing order the pension offset is initially calculated using the member's normal pension age (unless the member has already attained that age). The offset will later be adjusted to reflect the date their pension comes into payment.
- Pension debits resulting from pension sharing orders have a consequential impact on the benefits payable to a surviving spouse or civil partner upon the member's death. This will not be the case for a scheme pays pension offset.
- The scheme pays pension offset will initially be based on the pension relating to post 1 April 2014 service (ie on the current tranche of benefits). Where, at retirement, the post-2014 pension is insufficient to cover the pension offset then the balance of the offset should be applied to the pension earned between 1 April 2008 and 31 March 2014, with suitable adjustment for early or late payment by reference to the post-2014 NPA. If the offset cannot be met from post-2008 benefits then the case should be referred to DCLG.

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Pension offset for an active member

2.5 The calculation depends on whether the member is below, or has attained, normal pension age at the Relevant Date. Details for the two situations are set out below.

2.5.1 Where the active member is below normal pension age, the principle is that the pension offset acts like a negative deferred pension. The offset should be expressed as a deduction to the member's pension which is to be recovered from the member's normal pension age. The calculation will be carried out at the Relevant Date for the particular member. The calculation of the pension offset is:

Pension offset = AATAX / (AAFAC x AAADJ)

Where:

AATAX = the Annual Allowance tax charge that the member has notified the scheme that they wish to meet via the scheme pays mechanism.

AAFAC = the Annual Allowance scheme pays factor from Table A1 based on the member's gender and age at the Relevant Date. These tables are based on a normal pension age of 65 and are included in Section 4 of this note. The factors in this table are copies of the 'Club and non-Club CETV Factors based on PA65' in tables 5.1 and 5.2 of the current guidance document "Individual Incoming & Outgoing Transfers".

AAADJ= the adjustment factor from Table A2 based on the member's gender and normal pension age. These tables are conversion factors from a normal pension age of 65 to a member's state pension age (if above age 65) and are included in Section 4 of this note. The factors in this table are copies of the 'Pension and Lump Sum Conversion Factors (from NPA 65)' in table 7.1(b) of the current guidance document "Individual Incoming & Outgoing Transfers".

The pension payable to the member on retirement at normal pension age will be reduced by an amount equal to the member's pension offset.

2.5.2 Where the active member has already attained normal pension age, the principle is that the pension offset acts like a negative pension entitlement. The offset should be expressed as a deduction to the member's pension which is to be recovered once the member retires. The calculation will be carried out at the Relevant Date for the particular member. The calculation of the pension offset is:

Pension offset = AATAX / AAFAC

Where:

AATAX = the Annual Allowance tax charge that the member has notified the scheme that they wish to meet via the scheme pays mechanism.

AAFAC = the Annual Allowance scheme pays factor from Table D1 based on the member's gender and age at the Relevant Date.

The pension payable to the member on retirement will be reduced by an amount equal to the member's pension offset, adjusted to

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allow for the period between the Relevant Date and the date of retirement.

2.6 Pension offsets do not affect GMPs.

2.7 Administrators should store the offset calculated above with the Relevant Date on the member's record. Where a member has multiple pension offsets, they should be recorded separately.

2.8 The pension offset should be increased in accordance with the relevant provisions of the 2013 Regulations or other relevant LGPS Regulations during the period between the Relevant Date and the member's eventual retirement.

Contingent survivor benefits

2.9 The benefits payable to a spouse, civil partner or other partner who is eligible to receive a pension on the member's death will not be reduced as a result of the scheme pays mechanism. This will apply regardless of whether the member dies during active service, in deferment or after retirement.

Other benefits

2.10 No offset will be applied to children's pensions.

2.11 No offset will be made to the lump sum death grant payable to an active member who dies in service.

2.12 No offset will be made to the death in deferment lump sum award that is payable to deferred members who incurred an Annual Allowance charge prior to exit, and elected for the scheme pays mechanism. However the lump sum will be based on the pension after any scheme pays offset has been applied.

2.13 No offset is made to any lump sum paid on death after retirement that is payable to pensioner members who incurred an Annual Allowance charge prior to exit, and elected for the scheme pays mechanism. However the lump sum will be based on the pension after any scheme pays offset has been applied.

Adjusting benefit offsets on leaving

2.14 If the member leaves the scheme prior to receipt of their pension then the pension offset should be treated in the same way as a pension debit following divorce (except that the scheme pays offset applies to member benefits only). In particular, if the member leaves with a Club transfer then the scheme pays offset will be preserved in the receiving scheme as described in the current guidance note on "Individual Incoming and Outgoing Transfers".

Adjusting benefit offsets at retirement

2.15 This section sets out the method and instructions for calculating the pension offset to be applied at the point of retirement. In many cases this could be several years after the pension offset was initially calculated.

2.16 When the member retires, the total pension is initially calculated ignoring the pension offset. The pension is then reduced to allow for the pension offset. The offset should be revalued from the Relevant Date up to the April immediately before the date of retirement in accordance with the relevant provisions of the 2013 Regulations or other relevant LGPS Regulations. If the

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pension is not drawn at normal pension age then the pension offset will need to be adjusted.

2.17 Administrators should take care to ensure that the most recent Early Retirement Factors and Late Retirement Factors are applied. It is the responsibility of administrators to ensure that they are using the most recent factors.

2.18 The pension offset to be applied at retirement if the member retires at normal pension age is as follows:

Pension offset at retirement at normal pension age = Pension offset × REV

Where:

Pension Offset = as calculated in paragraph 2.5

REV = the revaluation factor between the Relevant Date and the April immediately before the date of retirement.

2.19 The pension offset to be applied at retirement if the member retires before normal pension age is as follows:

Pension offset at retirement before normal pension age = Pension offset × REV x (100% – ERF)

Where:

Pension Offset = as calculated in paragraph 2.5

REV = the revaluation factor between the Relevant Date and the April immediately before the date of retirement.

ERF = where the member retires in ill-health the relevant factor should be used from Table B1; for all other cases Table B2 should be used. The factors in these tables are copies of the factors contained in the current "Pension Debit" guidance note issued by the Secretary of State or the current "Early Retirement" guidance.

2.20 The pension offset to be applied at retirement if the member retires after normal pension age depends on whether the member was above or below normal pension age at the Relevant Date, and the two situations are covered separately as follows:

2.20.1 Where the member was below normal pension age at the Relevant Date the pension offset at retirement is as follows:

Pension offset at retirement after normal pension age = Pension offset × REV x (100% + LRF)

Where:

Pension Offset = as calculated in paragraph 2.5

REV = the revaluation factor between the Relevant Date and the date of retirement.

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LRF = late retirement factor from the latest Secretary of State guidance, which is set out for convenience in C1 of Section 4. The factors in this table are copies of the factors contained in the Secretary of State's most recent Late Retirement guidance.

2.20.2 Where the member had already attained normal pension age at the Relevant Date the pension offset at retirement is as follows:

Pension offset at retirement after normal pension age = Pension offset $\times$ REV x (100% + LRF1) / (100% + LRF2)

Where:

Pension Offset = as calculated in paragraph 2.5

REV = the revaluation factor between the Relevant Date and the date of retirement.

LRF1 = late retirement factor from the latest Secretary of State guidance applicable to the period between normal pension age and actual retirement, and

LRF2 = late retirement factor from the latest Secretary of State guidance applicable to the period between the normal pension age and the Relevant Date.

The Secretary of State guidance is set out for convenience in C1 of Section 4. The factors in this table are copies of the factors contained in the Secretary of State's most recent Late Retirement guidance.

2.21 The pension offset to be applied if the scheme pays election occurs when the member's retirement figures are already being processed is as follows:

Pension offset at retirement = AATAX / AAFAC

Where:

AATAX = the Annual Allowance tax charge that the member has notified the scheme that they wish to meet via the scheme pays mechanism.

AAFAC = if the member is retiring on age grounds then the Annual Allowance scheme pays factor is shown in Table D1 based on the member's gender and age at the Relevant Date. If the member is retiring on ill-health grounds then the factor is instead taken from Table E1.

2.22 In some circumstances a member retiring on ill-health grounds will be exempt from incurring an Annual Allowance charge in the year preceding retirement. However this will not apply to all ill health retirements. Members who are exempt in their final year of service may also have incurred Annual Allowance charges, and opted for the Annual Allowance scheme pays mechanism, earlier in their careers. In these cases benefit offsets will be applied at retirement but different adjustment factors (shown in table B1) will be applied from those used for other retirements (which can be found in table B2). The offset will be applied to members who retire in ill-health only if they have a permanent (ie tier 1 or tier 2) ill-health pension.

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Additional guidance for certain specific circumstances

2.23 **Interaction between Annual Allowance and scheme pays Lifetime Allowance ("LTA") charges**
We understand that when calculating LTA charges the pension tested should be that which would come into payment after allowing for the impact of any Annual Allowance scheme pays offsets. The calculations set out in this document should therefore be carried out prior to any LTA test being applied to these members.

2.24 **Multiple Annual Allowance and scheme pays offsets**
Some members may breach the Annual Allowance on more than one occasion during their careers. Since there is no limit on the number of times a member may opt to utilise scheme pays (subject to usual eligibility), a member may also have multiple Annual Allowance scheme pays offsets. In this circumstance each offset can be considered separately and treated in accordance with the guidance set out above.

2.25 **Interaction between Annual Allowance, scheme pays offsets and pension debits**
It is possible for members to have both AA scheme pays offsets and pension debits resulting from Pension Sharing on Divorce ("PSOD"). In this case each instance of the Annual Allowance scheme pays offset or the PSOD pension debit is treated in accordance with the relevant set of guidance.

2.26 **Members exercising options at the point of retirement**
Some members are able to exercise options at the point of retirement such as commuting pension for lump sum. This guidance note does not attempt to illustrate the interaction between Annual Allowance scheme pays offsets and any of these member options.

2.27 **Interaction between scheme pays offsets and flexible retirement**

Where a member opts to draw-down their membership, the offset relating to that part of the membership which is being drawn-down should be applied at the point of flexible retirement (and having regard to paragraphs 2.18 to 2.20 where relevant). Where the member elects to draw-down only a proportion of the membership, the offset should be pro-rated (in proportion to the membership being drawn-down) and applied to the relevant benefit being drawn-down, with allowance for early / late retirement factors as appropriate. The remaining offset should be applied when the member eventually retires.