



# Government Actuary's Department



## Local Government Pension Scheme

(England and Wales)

Application of a pension credit to the former spouse or civil partner of  
the member (post-2014 members)

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## 1 Introduction

1.1 The Secretary of State for Housing, Communities and Local Government is required to issue actuarial guidance on the calculation of the pension credit for the former spouse or civil partner (the “pension credit member”) following a divorce proceeding.

1.2 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

1.3 In the remainder of this note:

- > the second section describes the benefits provided to a pension credit member
- > the third section describes the calculation of the pension credit
- > the fourth section sets out examples of the calculation of a pension credit
- > Appendix A summarises the assumptions underlying the factors
- > Appendix B sets out the factors
- > Appendix C sets out some important limitations

### Implementation and Review

1.4 The Secretary of State is required to consult with GAD before issuing actuarial guidance under Regulation 2(3) of the Local Government Pension Scheme Regulations 2013 (‘the 2013 Regulations’) (SI 2013/2356).

1.5 As part of this consultation, the Ministry for 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.

1.6 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.

1.7 This guidance applies where the member whose pension rights are being shared had been a member of the 2014 Scheme. Where the member whose pension rights are being shared had not been a member of the 2014 Scheme, the “Application of a pension credit to the former spouse or civil partner of the member (pre-2014 leaver)” guidance applies.



- 1.8 This guidance supersedes the previous version of guidance “Local Government Pension Scheme (England and Wales): Application of a pension credit to the former spouse or civil partner of the member (post-2014 members)” dated 12 April 2016.
- 1.9 MHCLG has informed GAD that this guidance will come into force with effect from 1 April 2019.
- 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 be referred to MHCLG in the first instance.
- 1.11 The factors contained in this note will be subject to review periodically. This will depend on external circumstances, for example when the LGPS cash equivalent transfer value basis is reviewed; when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future valuation of the LGPS.

#### **Relevant legislative references**

- 1.12 The Secretary of State for Communities and Local Government is required under the 2013 Regulations to issue actuarial guidance on the establishment of pension credit accounts for former spouses or civil partners of members in respect of whom the Court makes a pension sharing order [regulation 29 (2)].
- 1.13 Regulation 29(4) of the 2013 Regulations recognises that a pension credit may itself be the subject of a pension sharing order. This guidance also applies for any such “second generation” pension credit.
- 1.14 Regulations 30(10), 30(11) and 30(12) from the 2013 Regulations set out how the pension credit member’s benefits can be brought into payment. As set out in Regulation 20 of The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulation 2014 (‘the 2014 Scheme Transitional Regulations’) (SI 2014/525), where a member has benefits in both the 2014 scheme and earlier schemes the benefits the pension credit member will be entitled to are wholly under the 2014 Scheme.
- 1.15 This guidance is designed to be consistent with the Welfare Reform and Pensions Act 1999 (“the Act”) and associated regulations (principally the Pension Sharing (Implementation and Discharge of Liability) Regulations 2000.

#### **Use of this note**

- 1.16 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.



- 1.17 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**

- 1.18 When issued by the Secretary of State in accordance with paragraph 1.6 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 Pension credit benefits

- 2.1 Where a pension sharing order is made by the Court, the former spouse or civil partner (the pension credit member) is allocated a percentage (up to 100%) of the value of the member's benefits. These rights can be discharged by the administering authority, either by making a transfer payment to another appropriate scheme (as prescribed in the relevant legislation), or by establishing a pension credit within the administering authority's fund.
- 2.2 The main benefits are as follows:
- 2.2.1 A pension payable for life from the Normal Pension Age (NPA) equal to the State Pension Age of the former spouse or civil partner;
- 2.2.2 The pension can be commenced from an earlier or later age between ages 55 and 75, subject to adjustment for early or late payment in accordance with the appropriate guidance;
- 2.2.3 Part of the pension can be commuted for a cash sum at its commencement so long as the member whose pension rights are being shared had not commuted a part of his or her pension for a cash sum on retirement or on flexible retirement where the date of retirement or flexible retirement was prior to the valuation date used for implementing the pension sharing order;
- 2.2.4 No dependants' pension is payable on the death of a pension credit member.
- 2.2.5 The pension is increased in accordance with the Pensions Increase Act with effect from the day on which the pension sharing order takes effect (the Transfer day).
- 2.3 The general principle is that the pension credit established in the fund is actuarially equivalent to the proportion of the cash equivalent of the member's benefits awarded to the former spouse or civil partner. The benefits from the pension credit are in addition to any benefits the former spouse or civil partner may be entitled to under the LGPS Regulations in his or her own right.
- 2.4 It is assumed that the cash equivalent of a member's benefit for divorce purposes has already been determined.
- 2.5 This note can be adopted and applied in respect of the benefits for the former spouse or civil partner of an elected member.



- 2.6 MHCLG has confirmed that:
- 2.6.1 State Pension Age for the purpose of calculating initial pension credits should be as set out in HM Treasury Directions ('HMT Directions') made in exercise of the powers conferred on them by sections 11(2) and 12(3) of the Public Service Pensions Act 2013<sup>1</sup>, and not legislation in force at the transfer day.
  - 2.6.2 State Pension Age for the purpose of calculating the pension credit at retirement should be as set out in legislation in force at the date of retirement. If State Pension Age is different for these two calculations, the initial pension credit should not be recalculated.

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<sup>1</sup> A consolidated version of HM Treasury Directions dated 11 March 2014, including subsequent amendments up to and including 9 March 2015, is found in the following link; SPA assumptions are set out at direction 18:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/411287/HMT\\_Directions\\_9\\_Mar\\_2015.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/411287/HMT_Directions_9_Mar_2015.pdf)  
(As at the date of this guidance, later amending directions have not amended direction 18)



### 3 Calculation of the pension credit

- 3.1 This section sets out the methodology for calculating the pension credit following the issue of a pension sharing order by the Court.

#### Appropriate percentage

- 3.2 For divorces in England and Wales, the pension sharing order will specify the percentage of the cash equivalent of the member's benefits that the former spouse or civil partner will be entitled to (the "appropriate percentage").
- 3.3 The former spouse or civil partner's cash equivalent ("ESCE") is determined by applying the appropriate percentage to the cash equivalent of the member's benefit for divorce purposes (see paragraph 2.4).
- 3.4 If an LGPS member is divorced in a court that specifies a monetary amount, then this amount should be taken as the ESCE...

#### Calculation

- 3.5 Section 29(8) of the Act defines the Transfer day as the day on which the pension sharing order takes effect. (The Transfer day is sometimes also referred to as the Effective date.)
- 3.6 The calculation of the pension credit should be based on the age and NPA of the former spouse or civil partner at the Transfer day. **Do not use the age and NPA of the member.**

#### Pension credit calculation for former spouse or civil partner

- 3.7 The pension credit as at the Transfer day will be:

$$\text{ESCE} \div F_P$$

Where:

**ESCE** the former spouse or civil partner's cash equivalent

**F<sub>P</sub>** factor for pension for former spouse or civil partner from Table 4.1 (Where the former spouse or civil partner's NPA is not on their birthday, the factor should be obtained by interpolation using the method set out in either paragraph 3.8 or 3.9 below.)





### Former spouse or civil partner with a NPA of years and whole months

- 3.8 Where a pension credit member has a NPA that is a whole number of years and months, the factors should be determined using the appropriate factors in the tables in Appendix B using straight line interpolation based on months. For example, to determine the factors applicable to a member with a normal pension age of 66 years and 2 months, the formula below should be used:

$$F_P(\text{NPA 66 years, 2 months}) = F_P(\text{NPA66}) + \{2/12 \times [F_P(\text{NPA67}) - F_P(\text{NPA66})]\}$$

Where:

*F<sub>P</sub>(NPAxx) is the factor applying for a Normal Pension Age of xx*

### Former spouse or civil partner with an NPA of years and part months

- 3.9 Some pension credit members will have a State Pension Age that falls on a specified date. This may mean that their NPA is based on years and days rather than years and whole months. In this case, the factors should be determined using the appropriate factors in the tables in Appendix B using straight line interpolation based on days. For example, to determine the factors applicable to a member with a normal pension age of 67 years and 249 days, the formula below should be used:

$$F_P(\text{NPA 67 years, 249 days}) = F_P(\text{NPA67}) + \{249/365 \times [F_P(\text{NPA68}) - F_P(\text{NPA67})]\}$$

Where:

*F<sub>P</sub>(NPAxx) is the factor applying for a Normal Pension Age of xx*



## 4 Examples

### Example 1: Pension credit calculation for a former spouse under Normal Pension Age

#### Former spouse data:

Date of birth: 1 March 1977  
 Transfer day: 1 December 2021  
 Age last birthday at transfer day: 44  
 Normal Pension Age: 67  
 % awarded to spouse: 50%

Cash Equivalent in respect of Pre 1 April 2008 service: £195,000  
 Cash Equivalent in respect of service between 1 April 2008 and 31 March 2014: £ 96,000  
 Cash Equivalent in respect of Post 1 April 2014 service: £ 59,000  
**Total Cash Equivalent as at transfer day: £350,000**

#### Factor (F<sub>P</sub>)

Former spouse aged 44 at last birthday with NPA 67: 10.06

#### Calculations

	Calculation	Result
ESCE Pre 2008	50% x £195,000	£97,500
ESCE 2008 – 2014	50% x £96,000	£48,000
ESCE Post 2014	50% x £59,000	£29,500

Pre 2008 pension credit from NPA: £97,500 ÷ 10.06 = £9,691.85 per annum (1)  
 2008 to 2014 pension credit from NPA: £48,000 ÷ 10.06 = £4,771.37 per annum (2)  
 Post 2014 pension credit from NPA: £29,500 ÷ 10.06 = £2,932.41 per annum (3)

**Total pension credit from NPA (1) + (2) + (3) = £17,395.63 per annum**



**Example 2: Post 2014 member - spouse with a non-integer NPA.**

**Former spouse data:**

Date of birth: 6 May 1977  
 State pension date: 6 July 2044  
 Transfer day: 1 December 2019  
 Age last birthday at transfer day: 42  
 Normal Pension Age: 67 years 2 months  
 % awarded to spouse: 50%

Cash Equivalent in respect of Pre 1 April 2008 service: £ 0  
 Cash Equivalent in respect of service between 1 April 2008 and 31 March 2014: £ 45,000  
 Cash Equivalent in respect of Post 1 April 2014 service: £ 66,000  
**Total Cash Equivalent as at transfer day: £111,000**

**Factor (F<sub>P</sub>)**

Former spouse aged 42 at last birthday with NPA 67: 9.64  
 Former spouse aged 42 at last birthday with NPA 68: 9.13

Former spouse aged 42 at last birthday with NPA 67 years 2 months  
 = 9.64 + [2 ÷ 12 x (9.13 – 9.64)] = **9.56**

**Calculations**

	Calculation	Result
ESCE Pre 2008	50% x £0	£0
ESCE 2008 – 2014	50% x £45,000	£22,500
ESCE Post 2014	50% x £66,000	£33,000

Pre 2008 pension credit from NPA: £0.00 ÷ 9.56 = £0.00 per annum (1)  
 2008 to 2014 pension credit from NPA: £22,500 ÷ 9.56 = £2,353.56 per annum (2)  
 Post 2014 pension credit from NPA: £33,000 ÷ 9.56 = £3,451.88 per annum (3)

**Total pension credit from NPA (1) + (2) + (3) = £5,805.44 per annum**



## Appendix A: Assumptions underlying factors

### Financial assumptions

Nominal discount rate	4.448% 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 female pension credit members for unisex factors	35%
Allowance for commutation	Nil except for mandatory lump sum cases



## Appendix B: Factor table

Table 4.1: Factors applicable to former spouse or civil partner (0-309)

Age last birthday at relevant date	Normal Pension Age of 65	Normal Pension Age of 66	Normal Pension Age of 67	Normal Pension Age of 68
16	6.19	5.89	5.60	5.32
17	6.32	6.02	5.72	5.43
18	6.45	6.14	5.84	5.55
19	6.59	6.27	5.96	5.66
20	6.73	6.40	6.09	5.78
21	6.87	6.54	6.22	5.90
22	7.02	6.68	6.35	6.02
23	7.17	6.82	6.48	6.15
24	7.32	6.96	6.61	6.28
25	7.47	7.11	6.75	6.41
26	7.63	7.26	6.89	6.54
27	7.79	7.41	7.04	6.68
28	7.96	7.57	7.19	6.82
29	8.13	7.73	7.34	6.96
30	8.30	7.89	7.49	7.11
31	8.48	8.06	7.65	7.25
32	8.66	8.23	7.81	7.41
33	8.84	8.40	7.97	7.56
34	9.03	8.58	8.14	7.72
35	9.22	8.76	8.31	7.88
36	9.42	8.95	8.49	8.05
37	9.62	9.14	8.67	8.22
38	9.83	9.34	8.86	8.39
39	10.04	9.54	9.04	8.57
40	10.26	9.74	9.24	8.75
41	10.48	9.95	9.43	8.94
42	10.71	10.16	9.64	9.13
43	10.94	10.39	9.84	9.32
44	11.18	10.61	10.06	9.52
45	11.43	10.84	10.27	9.73
46	11.68	11.08	10.50	9.94
47	11.93	11.32	10.73	10.15
48	12.20	11.57	10.96	10.37
49	12.47	11.82	11.20	10.60
50	12.75	12.09	11.45	10.83
51	13.03	12.35	11.70	11.07
52	13.32	12.63	11.96	11.31
53	13.63	12.92	12.23	11.56
54	13.94	13.21	12.50	11.82
55	14.26	13.51	12.79	12.09
56	14.59	13.82	13.08	12.36
57	14.93	14.14	13.38	12.65
58	15.29	14.48	13.70	12.94
59	15.65	14.83	14.02	13.25



Age last birthday at relevant date	Normal Pension Age of 65	Normal Pension Age of 66	Normal Pension Age of 67	Normal Pension Age of 68
60	16.04	15.19	14.36	13.57
61	16.43	15.56	14.71	13.90
62	16.85	15.95	15.08	14.24
63	17.28	16.35	15.46	14.60
64	17.73	16.78	15.86	14.97
65	17.67	17.22	16.28	15.36
66	17.08	17.15	16.71	15.77
67	16.49	16.56	16.64	16.21
68	15.89	15.96	16.03	16.12
69	15.29	15.35	15.42	15.51
70	14.68	14.73	14.80	14.89
71	14.07	14.12	14.18	14.26
72	13.46	13.50	13.56	13.63
73	12.86	12.89	12.93	13.00
74	12.26	12.28	12.31	12.37
75	11.68	11.69	11.71	11.74
76	11.11	11.11	11.12	11.14
77	10.54	10.54	10.54	10.55
78	9.98	9.98	9.98	9.98
79	9.42	9.42	9.42	9.42
80	8.88	8.88	8.88	8.88
81	8.34	8.34	8.34	8.34
82	7.81	7.81	7.81	7.81
83	7.29	7.29	7.29	7.29
84	6.79	6.79	6.79	6.79
85	6.30	6.30	6.30	6.30
86	5.84	5.84	5.84	5.84
87	5.41	5.41	5.41	5.41
88	5.00	5.00	5.00	5.00
89	4.62	4.62	4.62	4.62
90	4.27	4.27	4.27	4.27
91	3.94	3.94	3.94	3.94
92	3.64	3.64	3.64	3.64
93	3.35	3.35	3.35	3.35
94	3.10	3.10	3.10	3.10
95	2.87	2.87	2.87	2.87

#### Notes

The factor should reflect the age of the former spouse or civil partner on the Transfer day (not the age of the member).



## Appendix C: Limitations

- C.1 This note should not be used for any purpose other than to determine the pension credit in the scheme for an ex-spouse or ex-civil partner following a divorce proceeding 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. 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 pension credit benefits. Any legal advice in this area should be sought from an appropriately qualified person or source.
- C.4 Administrators should satisfy themselves that the pension credit resulting from a pension sharing on divorce complies with all legislative requirements including, but not limited to, tax 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.