



Government Actuary's Department

The Local Government Pension Scheme (England and Wales)

Calculation of the transfer share when the administering authority changes in connection with probation service arrangements

Date: 1 June 2014

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Contents

1	Introduction	1
	Legislative References	1
	Background	1
	Implementation and Review	2
	Use of this note	2
	Third party reliance	2
2	Calculation of the Transfer Share	3
	Appendix A: Definitions	5
	Appendix B: Limitations	6



1 Introduction

Legislative References

- 1.1 The Secretary of State for Communities and Local Government is required under the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) (SI 2013 No. 2356) as amended by the Local Government Pension Scheme (Offender Management) Regulations 2014 (SI 2014 No. 1146), to issue actuarial guidance to determine the transfer share that applies when the administering authority changes in connection with probation service arrangements.
- 1.2 The remainder of this introduction contains:
- > details of the background to these transfers
 - > 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 calculation of the transfer share
 - > The Appendices define various terms used in this guidance and set out important limitations

Background

- 1.4 As part of the Ministry of Justice’s Transforming Rehabilitation Programme, probation staff (the “transferring staff”) across 35 Probation Trusts will be transferred into one of 21 Community Rehabilitation Companies (“CRCs”) or the newly formed National Probation Service (“NPS”).
- 1.5 Whilst employed by the Probation Trusts, the transferring staff were eligible for LGPS membership in one of a number of different LGPS funds. Following the transfer of employment, the transferring staff will retain LGPS membership, which will be delivered through participation in the Greater Manchester Pension Fund (the “GMPF”) of the LGPS by the CRCs and the NPS.
- 1.6 All past service liabilities, including any entitlement to returns of contributions, in relation to probation staff (both current and former staff) employed by the Probation Trusts, and prior to them the local probation boards and probation committees, will be transferred from the LGPS funds which are currently administering these liabilities to the GMPF unless the liabilities have already been the subject of an exit payment. (GMPF will retain responsibility for the probation service liabilities that it already has).
- 1.7 The assets attributable to the probation service past service liabilities (“the transfer share”) will be transferred from the ceding LGPS funds to the GMPF. This Guidance sets out the basis for determining the value of this transfer share.
- 1.8 Following consultations with stakeholders we understand that the methodology adopted for these transfers should primarily follow the principles of simplicity and consistency. This guidance has been written with these principles in mind.



Implementation and Review

- 1.9 The Secretary of State is required to consult with the Government Actuary's Department ("GAD") before issuing actuarial guidance under the 2013 Regulations as amended by the Local Government Pension Scheme (Offender Management) Regulations 2014 [Regulation 104 (3) of the 2013 Regulations].
- 1.10 As part of this consultation DCLG has 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.
- 1.11 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.
- 1.12 This guidance has been written for parties involved in the transfer of pension rights that occurs when the administering authority changes in connection with probation service arrangements. It assumes knowledge of pensions and investment terminology and transfer value calculations.
- 1.13 This guidance specifically refers to transfer exercises that occur under Regulation 104 (3) of the 2013 Regulations and should not be used in conjunction with any other transfers; therefore we do not anticipate this guidance being updated in future.

Use of this note

- 1.14 This note has been prepared for DCLG. 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
- 1.15 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

- 1.16 When issued by the Secretary of State in accordance with paragraph 1.14 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 Calculation of the Transfer Share

2.1 The transfer share shall be calculated according to the formula—

$$\{A \times (1 + \text{return}) + \sum (B_t - C_t) \times (1 + \text{return}.t)\} \times (1 - \text{transact})$$

Where—

- > "A" is the market value of the assets allocated to the liabilities relating to the transferring members as at the date of the previous triennial funding valuation based on a mid-price valuation;
- > "B_t" is the total of any contributions paid by or in respect of the transferring members plus any other income received in respect of the transferring members during any quarter.t or part.quarter, assumed to be uniformly distributed over quarter.t or part.quarter. For any quarter.t or part.quarter following the transfer date, B_t is NIL.
- > "C_t" is the total of any benefits paid to or in respect of the transferring members plus any expenditure in respect of the transferring members during quarter.t or part.quarter, assumed to be uniformly distributed over quarter.t or part.quarter. For any quarter.t or part.quarter following the transfer date, C_t is NIL.
- > "quarter.t" is any full quarter between the last valuation date and the calculation payment date. Quarter end dates are defined as 30 June, 30 September, 31 December and 31 March.
- > "part.quarter" is any period from the most recent quarter end prior to the calculation payment date, to the calculation payment date such that $\sum \text{quarter.t} + \text{part.quarter}$ is the time elapsed between the last valuation date and the calculation payment date.
- > "return" is the relevant cumulative actual investment return of the former fund from the last valuation date to the calculation payment date. Returns net of investment manager fees should be used where available. Where all or component parts of the return are only available gross of investment manager fees, a deduction of 0.3% pa should be applied to that part of the return which is gross of investment manager fees.
- > "return.t" is the relevant cumulative actual investment return of the former fund for the period from the mid-point of quarter.t or part.quarter to the calculation payment date, where the calculation assumes cash flows are uniformly distributed and so uses the square root of the actual return in quarter.t or part.quarter. Returns net of investment manager fees should be used where available. Where all or component parts of the return are only available gross of investment manager fees, a deduction of 0.3% pa should be applied to that part of the return which is gross of investment manager fees.
- > "transact" is an allowance for the costs of making the transfer payment in British pounds sterling cash (and not in liquid transferable holdings of pooled vehicles which track market capitalisation weighted indices). This has been set at 0.2% for the cash portion of the transfer payment.

2.2 Where a transfer payment is to be made in instalments on differing dates the calculation carried out in accordance with paragraph 2.1 and paragraph 2.4, refreshed in accordance with paragraph 2.6 must be by reference to the relevant calculation payment date.



- 2.3 For the avoidance of doubt, references to the benefits payable in respect of the transferring members includes the benefits payable to and in respect of those transferring members under the Scheme, the 1995 Scheme, the 1997 Scheme and the 2008 Scheme.
- 2.4 Where the relevant actual investment return for the former fund for any period, for the purposes of calculating the return in the formula in paragraph 2.1, is not available prior to the calculation payment date, an overall market index return constructed using the following component asset class weightings and associated total return indices, or such other component asset class weightings as may be agreed between the former authority and the GMPF based on the investment strategy of the former fund in respect of the assets attributable to the transferring members, shall be substituted for the purpose of calculating the transfer share pending the calculation to be carried out under paragraph 2.6:
- 25% UK Equity - based upon the FTSE UK All Share Total Return
 - 40% Overseas Equity - based upon the FTSE All-World ex UK Total Return
 - 15% Fixed Interest - based upon the FTSE UK Gilts over 15 years Total Return
 - 5% Index-Linked - based upon the FTSE UK Gilts Index-Linked over 15 years Total Return
 - 10% Property - based upon the IPD UK Index All Property monthly Total Return
 - 5% Cash - based upon the BoE Base Rate
- 2.5 For the purpose of the calculation in paragraph 2.1 any contribution or benefit in respect of AVCs or SCAVCs is ignored.
- 2.6 After the transfer payment has been made by a former authority, the transfer share calculation detailed in paragraphs 2.1 to 2.5 must be updated in line with the relevant actual investment return (“return” and “return.t”) for the former fund for the period from the last valuation date to the relevant calculation payment date when the actual return is known. The overall market index return referred to in paragraph 2.4 applies only in respect of the period from the latest date up to which actual investment returns are known, until close of the London markets on the last trading day prior to the relevant calculation payment date (the “refreshed calculation”). The refreshed calculation must be agreed between the actuary appointed by the former fund and the actuary appointed by the GMPF. Any shortfall or excess in the transfer payment that was received by the GMPF following the calculation of the transfer share in accordance with paragraphs 2.1 to 2.5 must be paid by the former fund to the GMPF (in the case of a shortfall) or by the GMPF to the former fund (in the case of an excess) following the refreshed calculation, within 20 days of the refreshed calculation having been agreed between the actuaries.
- 2.7 The procedure specified in regulation 104(4) of the 2013 Regulations applies in the event that the actuaries to the GMPF and former authority cannot agree on any aspect of the calculation of the transfer share or the refreshed calculation.
- 2.8 The actuary appointed by the former authority shall certify to the actuary appointed by the GMPF that the assets allocated to the liabilities relating to the transferring members for the purpose of “A” in the formula in paragraph 2.1 of this guidance represent a fair share of the assets of the former fund (acting equitably as between all of the Scheme employers participating in the former fund).



Appendix A: Definitions

A.1 This Appendix sets out definitions for a number of terms which are used in this Guidance.

- > “2013 Regulations” means the Local Government Pension Scheme Regulations 2013
- > “calculation payment date” means the payment date or, if the transfer payment is not received by the new authority on the payment date, the later of the payment date and the date or dates (when known) upon which the transfer payment is received by the new authority from the former authority;
- > “former authority” has the meaning given to it in Regulation 104(1)(b) of the 2013 Regulations;
- > “former fund” is the pension fund that was a member’s appropriate fund prior to the transfer date;
- > “last valuation date” is the date of the last actuarial valuation of the assets and liabilities of the former fund, namely 31 March 2013;
- > “payment date” means the date or dates agreed between the former authority and the GMPF for the making of the transfer payment to the GMPF or the date or dates notified to the former authority in accordance with Regulation 104(7) of the 2013 Regulations where agreement can’t be reached.
- > “Scheme” means the Local Government Pension Scheme constituted by the 2013 Regulations;
- > “transfer date” is the date on which the new pension fund becomes the member’s appropriate fund
- > “transfer payment” means a transfer of cash in British pounds sterling and/or liquid, transferable holdings of pooled vehicles which track market capitalisation weighted indices equal in value to the transfer share contemplated by Regulation 104 of the 2013 Regulations, in one or more instalments
- > “transfer share” means the value of the assets allocated to the actual and potential liabilities payable from the pension fund of a former authority in respect of the benefits that have accrued to transferring members as at the transfer date (including entitlements to returns of contributions), adjusted to the relevant calculation payment date, calculated in accordance with this Guidance;
- > “transferring members” are the employees and former employees (and those entitled through them, including pension credit members) of a probation trust (or its predecessor local probation boards or probation committees) who are the subject of the changes of Scheme employer or deemed Scheme employer and appropriate administering authority referred to in Regulation 104(1) of the 2013 Regulations and any persons specified in accordance with Regulation 3A (5) (d) or (e) of the 2013 Regulations (civil servants etc. engaged in probation provision) as being persons to whom Regulation 3A (5) applies;
- > “the 1995 Scheme” means the occupational pension scheme constituted by the Local Government Pension Scheme Regulations 1995;
- > “the 1997 Scheme” means the occupational pension scheme constituted by the Local Government Pension Scheme Regulations 1997;
- > “the 2008 Scheme” means the occupational pension scheme constituted by the Local Government Pension Scheme (Administration) Regulations 2008, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008.



Appendix B: Limitations

- B.1 This note should not be used for any purpose other than to determine the transfer share that applies when the administering authority changes in connection with probation service arrangements in accordance with the regulations cited above.
- B.2 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.
- B.3 This note only covers the actuarial principles around the calculation and application of the transfer share. Any legal advice in this area should be sought from an appropriately qualified person or source.
- B.4 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 DCLG. In no circumstances should this guidance take precedence over the regulations. Administrators should ensure that they comply with all relevant regulations.