

## **THE LOCAL GOVERNMENT PENSION SCHEME**

### **Payments between funds and authorities - Regulation 125**

1. Regulation 125 of the Local Government Pension Scheme Regulations 1997 (SI No. 1612 of 1997) provides for a payment to be made where a pension fund becomes an active member's appropriate fund and, immediately before it does so, another fund was his appropriate fund and also, if Regulation 32(1) applies to the member, he has made an election under that Regulation. Regulation 32(1) applies where a deferred member becomes an active member again before becoming entitled to the immediate payment of his deferred benefits. Subject to certain limitations, such a member may elect, under Regulation 32, to have his former membership aggregated with his membership on or after the date he becomes an active member again; the member would then cease to be entitled to deferred benefits in respect of his former membership.
2. Where the member's appropriate administering authority has changed, as well as his appropriate fund, Regulation 125(2) requires the payment to be made by the member's former administering authority to his new administering authority. Where, however, the member's appropriate administering authority has not changed, just his appropriate fund, Regulation 125(5) requires the appropriate administering authority to arrange for the payment to be made from member's former appropriate fund to his new appropriate fund.
3. Regulation 125(2) provides for a payment from the old to the new administering authority and Regulation 125(5) provides for a payment from the old fund to the new fund, (where the member's appropriate administering authority has not changed), to be such amount as is indicated in guidance issued by the Government Actuary. In the case of payments from the old to the new administering authority in respect of two or more members as a result of the same event, Regulation 125(3) provides that the two administering authorities may agree that the total payment should be determined by actuaries appointed by them rather than that it should be the sum of the payments for the individual members as indicated in the guidance from the Government Actuary. The purpose of this note prepared by the Government Actuary's Department for the Department of the Environment, Transport and the Regions, and issued to them for onward transmission to administering authorities and employing authorities, is to provide the guidance required by Regulations 125(2) and 125(5).

### **Amounts to be paid**

4. The increase in the value of the benefits to be met from a new fund as a result of an active member electing to aggregate an earlier period of membership, during which another fund was the appropriate fund, with his current membership depends on a number of factors. These include his current salary, age, length of membership, normal retirement date, amount of Guaranteed Minimum Pension ("GMP") and market conditions.

5. For a considerable number of years, payments between administering authorities and funds have depended only on age, in very broad age bands, at the date membership with the old administering authority or fund ceased, salary at that date and length of membership, other factors being ignored. This need not matter where an administering authority or fund is paying out, in aggregate, much the same amount as it is receiving. It could become important for administering authorities which are significant net payers or net receivers of payments, under Regulation 125, if circumstances are significantly different from those assumed implicitly in the average factors.
6. There is some debate within the actuarial profession at the present time about the need for possible changes in valuation methodology and actuarial assumptions for valuations of occupational pension schemes. Depending on the outcome of this debate, it may be appropriate for a different approach to be adopted when determining payments between funds and authorities. However, for the time being, it seems reasonable to retain the current approach, and accordingly the guidance to be given under Regulations 125(2) and 125(5) is that the payments should depend only on three factors. These are:-
- (i) age at the date on which former membership ceased,
  - (ii) the member's annual rate of pay at the date former membership ceased, as the term "pay" is defined in Regulation 13, and
  - (iii) the length of former membership which is to be aggregated with current service in deriving the benefits to be paid from the new appropriate fund.
7. The payment for each £100 of pay for each year of service according to age should be:-

Age at date on which former membership ceased	Percentage of pay for each year of former membership*
	%
less than 30	11
30 to 39	12
40 to 49	13
50 and over	14

\*Where the period of former membership is not an exact number of years, it should be rounded to the nearer whole number (including nought when the period is 182 days or less).

8. Where the period to elapse between the date on which a member's former membership ceased and the date payment is made to the new administering authority or fund exceeds 6 months, interest should be added:
- (i) at the rate of 6 per cent with yearly rests for each complete

period of a year ending before 1 April 1977, and

- (ii) at the rate of 2.25 per cent with three-monthly rests for each complete period of 3 months beginning after 31 March 1977.

**Period for which factors apply**

- 9. The basis for the payments described in this note is not subject to market conditions at the time of payment and it is necessary therefore to review the basis from time to time to ensure that it is appropriate. It is in any event intended to review the level of payments, which has been used for many years, after completion of the actuarial valuations of the funds of administering authorities in England and Wales at 31 March 1998. Consideration will also be given then to the introduction of additional or different parameters in the calculation such as the GMP, the member's normal retirement date, sex, current pay, rather than pay at the date former membership ceased, as well as market conditions at the time of payment.

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June 1998**