



**The Local Government Pension Scheme
(Scotland)
Late Retirement**

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1 Introduction

- 1.1 Under Regulation 17(2) of the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 (“the Benefit Regulations”) (SSI 2008/230), the Scheme Actuary is required to issue guidance to determine the increase applicable to accrued benefits when a member remains in employment after their 65th birthday.
- 1.2 Under Regulation 29(5) of the Benefit Regulations, the Scheme Actuary 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.
- 1.3 Regulation 14(3) requires the Scheme Actuary to issue guidance on the increase to be applied to the additional pension where it is taken after normal retirement age.
- 1.4 A member may also have a transfer credit that was awarded under protected regulation 65(5) of the Local Government Pension Scheme (Scotland) Regulations 1998 (“the 1998 Regulations”) (SI 1998/366) protected by virtue of 65(8) of the 1998 Regulations. This guidance also applies for reductions applied in respect of those transfer credits.
- 1.5 The purpose of the guidance note is to provide guidance referred to in Regulations 14(3), 17(2) and 29(5) of the Benefit Regulations and Regulation 65(5) of the 1998 Regulations. This note has been prepared by the Government Actuary’s Department (GAD) for the Scottish Public Pensions Agency (SPPA) for onward transmission to administering authorities in order to provide the guidance required.
- 1.6 SPPA have confirmed that similar increases should be applied on Flexible Retirement after age 65.

Implementation and Review

- 1.7 The factors and guidance contained in this note should be followed with immediate effect.
- 1.8 The factors should be reviewed periodically, depending on external circumstances, for example when changes in the actuarial assumptions adopted for other scheme factors take place, or following each triennial cycle of future valuations of the LGPS (Scotland).
- 1.9 This guidance note replaces the previous guidance dated 26 March 2010.

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Limitations

- 1.10 This note should not be used for any purpose other than to determine benefits on late retirement.
- 1.11 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.
- 1.12 This note only covers the principles around the calculation of the benefits on late retirement. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 1.13 Administrators should satisfy themselves that late retirement complies with all legislative requirements including, but not limited to, tax and contracting-out requirements.

2 The Increase in benefits

- 2.1 Members remaining in active service after their 65th birthday continue to accrue pension benefits as they had before their 65th birthday. When they choose to retire, the initial level of pension and retirement grant (if payable) is increased.
- 2.2 Members postponing retirement until after their 65th birthday, but not remaining in service, do not accrue any further benefits but those benefits already accrued are increased.
- 2.3 The pension should be uplifted by 0.014% simple – and the retirement grant (if payable) uplifted by 0.007% simple – for each day after the member's 65th birthday but before the member's actual retirement date.
- 2.4 Subject to paragraph 2.9 below, the increase under this guidance should be applied to the total pension, including the Guaranteed Minimum Pension ("GMP") element of the pension. The increases should be applied to the benefits after Pensions' Increases have been added if there was a period of deferment.
- 2.5 The increases under this guidance should be based on the pension after pension increases has been included if there was a period of deferment.
- 2.6 Once in payment, pensions should be increased in accordance with the Pensions (Increase) Act 1971, as required by Regulation 38 of the Benefit Regulations from the day of actual retirement not the member's 65th birthday.
- 2.7 SPPA have confirmed that members who, under Regulation 29(5) of the Benefit Regulations, defer benefits on leaving service with an immediate entitlement to benefits are treated in the same way as members who leave service with no immediate entitlement to benefits and then defer benefits beyond Normal Retirement Age. No late retirement uplifts are applied prior to age 65.
- 2.8 SPPA have confirmed that the pension paid to a dependent following the death of a member after late retirement should be calculated as if no addition for late payment had been applied to the member's pension.
- 2.9 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).
- 2.10 Regulation 17(4) of the Benefit Regulations requires that the pension must come into payment no later than the day before the member's 75th birthday. Periods of service after age 75 do not count when calculating the increase applicable.
- 2.11 The late retirement increases have been provided in a simple format to ease administration. They should not be regarded as representing strict actuarial neutrality for all profiles of late retirement.

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- 2.12 Regulation 17 of the Benefit Regulations appears to be ambiguous on the issue of whether members who join the scheme after age 65 are eligible for late retirement enhancement. We would recommend that Funds take legal advice on the correct benefits to be paid here, as the paying of the correct benefits is the Fund's responsibility.
- 2.13 Where it is confirmed that such a member should receive a late retirement uplift, it may be more appropriate to use an uplift calculated by reference to the time elapsed between the member's 65th birthday and his retirement date, rather than one referring to the member's date of joining the fund. However, Funds may wish to take legal advice on this issue alongside the more general issue of whether any uplift should apply.

3 Example

Member retiring from active service after age 65

Consider a male member, whose 65th birthday fell on 30 May 2012.

The member decided to remain as an active member and retire on 30 September 2012, with his last day of service 29 September 2012. The period after his 65th birthday to retirement is 0 years 123 days

Member's benefits at 30/09/2012 before late retirement additions:

Pension	£18,000.00 pa
Retirement Grant	£50,000.00

The late retirement increases should be calculated as:

Pension	$18,000.00 \times 123 \times 0.00014$	= £309.96 pa
Retirement grant	$50,000.00 \times 123 \times 0.00007$	= £430.50

The prospective benefits payable from 1 October 2012 are:

Member's pension:	$18,000.00 + 309.96$	= £18,309.96 pa
Retirement grant:	$50,000.00 + 430.50$	= £50,430.50

However, the member could decide to commute part of his pension of £18,309.96 into an additional lump sum in accordance with regulation 21 of the Benefits Regulations.

Pensions Increases should be awarded each April based on a P.I. beginning date of 1 October 2012.

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Member retiring from deferment after age 65

Consider a male member, whose 65th birthday fell on 30 May 2012.

The member's last day of service was 29 May 2009 but he retired on 30 September 2012. His details are as follows:

Period after 65th birthday to retirement: 0 years 123 days

Member's benefits at 30/09/2012 after revaluation in deferment but before late retirement additions:

Pension	£20,000.00 pa
Retirement Grant	£60,000.00

No P.I. is awarded since the member has retired in same year as their normal retirement date.

The late retirement increases should be calculated as:

Pension	$£20,000.00 \times 123 \times 0.00014$	= £344.40 pa
Retirement grant	$£60,000.00 \times 123 \times 0.00007$	= £516.60

The prospective benefits payable from 1 October 2012 are:

Member's pension:	$£20,000.00 + £344.40$	= £20,344.40 pa
Retirement grant:	$£60,000.00 + £516.60$	= £60,516.60

However, the member could decide to commute part of his pension of £20,344.40 into an additional lump sum in accordance with regulation 21 of the Benefits Regulations.

Pensions Increases should be awarded each April based on a P.I. beginning date of 30 May 2012.

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