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## **The Local Government Pension Scheme (England and Wales)**

### **Increase of Membership by Employing Authority**

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## **1 Introduction and Legislative Background**

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- 1.1 Regulations 12, 12A and 12B of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (“the Benefits Regulations”) (SI 2007/1166) provide an opportunity for employing authorities to increase the total membership of an active member. Regulations 12(1) and 12(2) of the Benefits Regulations provide that an employing authority may resolve to increase the total membership of the LGPS of an active member, provided that the total additional membership does not exceed 10 years.
- 1.2 Under regulation 3(2) and 6(3) of Schedule 2 of the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (“the Transitional Regulations”) (SI 2008/238), membership augmented by a resolution under regulation 12 of the Benefits Regulations is not counted as membership for the purpose of satisfying the 85 year rule under Regulation 3(1) of Schedule 2 of the Transitional Regulations.
- 1.3 Regulation 40(2) of the Local Government Pension Scheme (Administration) Regulations 2008 (“the Administration Regulations”) (SI 2008/239) gives, in most cases, two options for making the payments required in respect of the resolution under Regulation 12 of the Benefits Regulations. The options allowed under Regulation 40(4) and 40(5) of the Administration Regulations does not involve the Government Actuary. The option allowed under Regulation 40(3) of the Administration Regulations requires a payment to be made as shown in guidance issued by the Government Actuary.
- 1.4 Administering and employing authorities may wish to consider their need for professional advice as to which option might be more appropriate in particular circumstances. The purpose of this guidance note is to provide the guidance referred to in Regulation 40(3) of the Administration Regulations to the Department for Communities and Local Government (DCLG) for onward transmission to the administering authorities.
- 1.5 The additional membership provided will be post-2008 membership and will have an NRA of 65. If the member draws the benefits relating to this additional membership earlier or later than age 65, then the benefits should be reduced or increased in line with the relevant GAD guidance.
- 1.6 In carrying out this work I have followed our normal quality control processes for work conducted on public service pension matters<sup>1</sup>.

### **Implementation and Review**

- 1.7 The guidance contained in this note should be followed with immediate effect.
- 1.8 The guidance should be reviewed periodically, depending on external circumstances, for example when changes in the actuarial assumptions adopted for transfer factors take place, or following each triennial cycle of future valuations of the LGPS.

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<sup>1</sup> The GAD Statement of Understanding  
[http://www.gad.gov.uk/Documents/Occupational%20Pensions/GAD\\_Statement\\_of\\_Understanding\\_v\\_1.1\\_Dec\\_2011.pdf](http://www.gad.gov.uk/Documents/Occupational%20Pensions/GAD_Statement_of_Understanding_v_1.1_Dec_2011.pdf) sets out the standards which the Department currently applies for any work carried out in this area.

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**Limitations**

- 1.9 This guidance note should not be used for any purpose other than to determine the payment that employers should make under Regulation 40(3) of the Administration Regulations following an increase of membership under Regulation 12 of the Benefits Regulations.
- 1.10 This guidance 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.
- 1.11 This guidance note only covers the principles around the calculation of the charge to be paid by employers following an augmentation of membership. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 1.12 Administrators should satisfy themselves that the increase in membership complies with all legislative requirements and they should consider related issues including, but not limited to, annual allowance and lifetime allowance tax charges.
- 1.13 Administrators should take care to ensure that they use the current factors issued by GAD in their calculations.

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**2 Calculations**

- 2.1 Resolutions made after 1 April 2008 will only provide service subject to NRA65 (unless the member retires immediately following the resolution). The membership awarded counts as post-2008 membership for the purpose of accrual rates and should be counted as Part D membership for the purposes of early retirement. It is not counted as membership for the purpose of satisfying the 85 year rule under Regulation 3(1) of Schedule 2 of the Transitional Regulations.
- 2.2 There are three scenarios in which employer augmentation may occur, the member may remain in service following the increase in membership, the member may leave the scheme without an immediate entitlement to an unreduced pension or the member may leave the scheme with an immediate entitlement to an unreduced pension.
- 2.3 The cost (C) of providing the additional membership is based on the following formula.  

$$C = S \times Y \times (F_p + 0.375 \times F_{wid}) / 60$$

**Where:**

S = Pay

Y = Additional membership in years, and part-years, to be granted

F<sub>p</sub> = Factor for member's pension (suitable for NRA65)

F<sub>wid</sub> = Factor for spouse's pension

S, Y, F<sub>p</sub> and F<sub>wid</sub> are determined as at the date the resolution was passed

**Member remaining in service following resolution**

- 2.4 If the member is expected to remain in service following the date of the resolution to increase membership the appropriate sum should be determined by reference to the Non-Club Transfer-In factors in force at the Calculation Date. The Transfer-In factors appropriate for this purpose are those used in respect of individual transfers received (under Regulation 83 of the Administration Regulations) from pension arrangements, which are not members of the Public Sector Transfer Club. At the time of writing the current non-club incoming transfer factors are set out in table 2 of version 4.1 of the 'Transfer Suite' dated 22 February 2012.

**Member leaving service following resolution without an immediate unreduced pension**

- 2.5 However, if the member is expected to leave service following the date of the resolution to increase membership, or has already left then the appropriate sum should be determined by reference to the club factors in force at the Calculation Date. At the time of writing the current club transfer factors are set out in table 1 of version 4.1 of the 'Transfer Suite' dated 22 February 2012.

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**Member leaving service following resolution with an immediate unreduced pension**

- 2.6 The member may leave with an immediate unreduced pension following the date of the resolution to increase membership, for example because an employer has agreed to waive any actuarial reductions to their pension, or may already be in receipt of a pension. In this case the appropriate sum should be determined by reference to the relevant Pensioner Cash Equivalent Factors set out in our guidance of 18 January 2012. The appropriate sum so calculated will cover both the augmentation of membership and waiving the early retirement factors for this augmented membership. However it does not cover the cost of waiving the early retirement factors for any other pensionable service.

**Other**

- 2.7 The pay (S) used in the calculations should be final pensionable pay as defined in Regulation 8 of the Benefits Regulations. Pay (S) should both be expressed (for the purposes of the calculation) as whole-time equivalents. For a member in part-time employment, S should be calculated as the pay which would have been paid to the member for a single comparable whole-time employment as Regulation 8(3) of the Benefits Regulations provides that the Final Pay of a member in part-time employment should be adjusted.
- 2.8 The additional membership granted (Y) should be expressed in years and part years. The period of additional membership granted (Y) should not be adjusted in the manner outlined in Regulation 7(3) of the Benefits Regulations because the increase in membership by the employing authority is not adjusted to allow for the hours worked by a member.
- 2.9 Administrators need to check that they are using the latest factors in force at the calculation date as factors are subject to change (see paragraph 1.7).
- 2.10 Any cases which do not fit in to the categories above should be sent to DCLG for onward transmission to GAD.

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**3 Examples**

- 3.1 An employing authority wishes to grant an active member, who is a married male aged 38, and whose current pensionable salary is £20,000 per annum, 2 years additional service. This member is expected to remain in service following the date the resolution is passed. Follow the steps outlined in section 2 to calculate the cost to the employing authority.
- 3.2 The appropriate factors for the formula are from the tables that are in force at the date the resolution is passed. In this example this is version 4.1 of the 'transfer factor suite' issued on 22 February 2012. As the member is expected to remain in service following the increase in membership we use the non-club incoming transfer factors (page 6 of the aforementioned guidance).

S	=	£20,000
Y	=	2.00
F <sub>p</sub>	=	13.65
F <sub>wid</sub>	=	4.01

- 3.3 Calculate the cost (C) using the above factors:

$$C = £20,000 \times 2.00 \times (13.65 + 0.375 \times 4.01) / 60$$

$$C = £10,102.50$$

- 3.4 Consider the same situation as in the previous example, but where the member is expected to leave service following the date the resolution is passed, the member does not have an entitlement to an immediate unreduced pension. Follow the steps outlined in section 2 to calculate the cost to the employing authority.
- 3.5 The appropriate factors for the formula are from the tables that are in force at the date the resolution is passed. In this example this is version 4.1 of the 'transfer factor suite' issued on 22 February 2012. As the member is not expected to remain in service following the increase in membership we use the club transfer factors (page 4 of the aforementioned guidance).

S	=	£20,000
Y	=	2.00
F <sub>p</sub>	=	7.80
F <sub>wid</sub>	=	2.37

- 3.6 Calculate the cost (C) using the above factors:

$$C = £20,000 \times 2.00 \times (7.80 + 0.375 \times 2.37) / 60$$

$$C = £5,792.50$$

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- 3.7 An employing authority wishes to grant an active member, who is a married male aged 58, and whose current pensionable salary is £20,000 per annum, 2 years additional service. This member is expected to retire in normal health and receive an immediate pension following the date the resolution is passed. The employer has agreed to waive any reductions to the pension relating to this membership as a result of the member retiring before age 65. Follow the steps outlined in section 2 to calculate the cost to the employing authority.
- 3.8 As the member is expected to retire immediately with an unreduced pension following the increase in membership the Pensioner CETV factors should be used. The appropriate factors for the formula are from the tables that are in force at the date the resolution is passed. In this example the factors are taken from version 1.0 of the 'Pensioner Cash Equivalent Factors on Divorce' guidance issued on 18 January 2012. As this member is male and retires in normal health, we should use Table 1.1 of this guidance.

S	=	£20,000
Y	=	2.00
F <sub>p</sub>	=	19.38
F <sub>wid</sub>	=	3.65

- 3.9 Calculate the cost (C) using the above factors:

$$C = £20,000 \times 2.00 \times (19.38 + 0.375 \times 3.65) / 60$$

$$C = £13,832.50$$

- 3.10 Note that this includes both the cost of augmenting membership by two years and waiving the early retirement factors that would normally apply to this augmented membership when taken at age 58. However it does not include the cost of waiving the early retirement factors on any other pensionable service.