GAD

Government Actuary's Department
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LOCAL GOVERNMENT PENSION SCHEME (LGPS)

INDIVIDUAL TRANSFERS TO AND FROM THE LGPS

1. Introduction

1.1   The arrangements currently applicable for individual transfers to and from the LGPS are set out in a note issued by the Government Actuary's Department (GAD) in September 1995, entitled "New Factors for Individual Transfers from 1 October 1995"*. This further note, which has been prepared by GAD at the request of ODPM Local Government Pensions Division, supplements the 1995 note, and reflects various amendments to the LGPS Regulations, most recently those introduced by the Local Government Pension Scheme (Amendment) (No.2) Regulations 2004, SI 2004, No. 3372, which is effective from 1 April 2005. This latest version of the supplement to the 1995 note therefore supersedes that issued in March 2004, which may now be disregarded.

1.2   The purpose of this note is to provide clarification of the methodology to be adopted for calculation of individual outward transfer values and of service credits to be awarded in respect of individual incoming transfers, taking into account the combined effects of the following regulations :

(1) Local Government Pension Scheme Regulations 1997
(2) The Local Government Pension Scheme (Miscellaneous) Regulations 2001
(3) The Local Government Pension Scheme (Amendment No 2) Regulations 2001, and
(4) The Local Government Pension Scheme (Amendment) Regulations 2002.
(5) Local Government Pension Scheme (Amendment) (No.2) Regulations 2004 ("2004 Amending Regulations").

1.3   This note relates to both club and non-club transfers.

including minor revisions and extensions issued later that year, and allowing for later 1999 changes in the yield definition for the purposes of adjustment for market condition

2. Regulatory background

2.1 ***Pre-April 1998*** Prior to 1 April 1998, the Normal Retirement Date (NRD) for members of the LGPS was defined under the terms of Regulation C3 of the Local Government Pension Scheme Regulations 1995. If the member's total period of potential membership was at least 25 years by age 60, the NRD fell on the sixtieth birthday. If the potential period of membership reached 25 years between ages 60 and 65, the NRD fell on the following day, and in all other cases it fell on the sixty-fifth birthday.

2.2 Where a member brought in a transfer value from another scheme, Regulation 122 K14(1)(b) and paragraphs 5 and 10 of Schedule B6 of the Regulations provided explicitly that the member's total period of membership for the purpose of determining the NRD would include an additional period of service. This additional period of service was not the reckonable service credited in LGPS, but the period of service in respect of which pension rights had accrued under the previous occupational pension scheme (or appropriate policy) which gave rise to the transfer value. The bringing in of a transfer value could therefore have the effect of bringing forward the NRD, and, where this took place, the service credit to be awarded was calculated on the basis of the new NRD.

2.3 ***Post-March 1998*** For entrants to the LGPS on or after 1 April 1998, Regulation 25 of the Local Government Pension Scheme Regulations 1997 defined the NRD as the sixty-fifth birthday. However, Regulation 31 (as it stood prior to the changes introduced by the 2004 Amending Regulations) allowed that, at any age from 60, retirement on an unreduced pension would be permitted before the NRD if the conditions of the "Rule of 85" had been met. In simple terms, the Rule of 85 requires that the sum of the number of completed years of age and the number of completed years of total membership must amount to at least 85 before a member is permitted to retire on an unreduced pension. For this purpose, where a transfer value has been brought into the scheme, total membership is defined under Regulation 9(1)(c) as including the period of reckonable service credited on receipt of a transfer value, rather than the period of membership in the previous scheme.

2.4 The Local Government Pension Scheme Regulations 1997 did not change the definition of NRD for entrants prior to April 1998. However, for some such entrants, the "Rule of 85" did bring forward the date at which unreduced benefits could be paid since they could satisfy the "Rule of 85" prior to their NRD. For those entrants who had brought in a transfer value, the "Rule of 85" provisions would give entitlement to unreduced benefits from an age which is dependant on total membership including the service credited in exchange for the transfer value, rather than the period of membership of the previous scheme The NRD of pre–April 1998 entrants might also be brought forward as a result of bringing in a transfer value, although in this case the new NRD would be determined on the basis of the period of membership in the previous pension scheme.

2.5 The Local Government Pension Scheme (Miscellaneous) Regulations 2001 amended the 1997 Regulations to extend the NRD definition of age 65 to entrants prior to April 1998, but the Local Government Pension Scheme (Amendment No 2) Regulations 2001 effectively reversed this change. It is also assumed that, if the NRD or normal retirement age of such an entrant needs to be determined before he or she reaches that age, it must be assumed that membership will be continuous.

2.6 The 2004 Amending Regulations have the effect of removing the Rule of 85 provisions from Regulation 31, but they also provide certain transitional protections under which the Rule of 85 remains relevant in respect of some (or in some cases all) of the total membership of members who joined the scheme before 1 April 2005.

3. Current position

3.1 Following the coming into effect of the Local Government Pension Scheme (Amendment No 2) Regulations 2001, the position had been effectively as follows :

a) An entrant prior to April 1998 retained an NRD not before the sixtieth birthday and not after the sixty-fifth birthday, dependant only upon the date on which 25 years of service could potentially be completed, such service including any period in respect of which pension rights had accrued under a previous occupational pension scheme (or appropriate policy) which gave rise to a transfer credit in the LGPS.
b) Subsequent entrants had an NRD falling on their sixty-fifth birthday*.
c) In both cases, retirement prior to NRD with unreduced benefits was possible if the "Rule of 85" condition has been met.

but FSA review cases who could have joined the LGPS prior to 1 April 1998 should be treated for the purposes of determining their NRDs as if they were entrants prior to April 1998.

3.2. For the majority of LGPS members who joined prior to 1 April 2005, the Rule of 85 retirement date would precede or coincide with the NRD (for both pre-April 1998 and subsequent entrants), and this group is referred to in the remainder of this note as Category A . However, there may be cases of pre-April 1998 entrants for which the NRD would precede the "Rule of 85" date (whether the NRD is at age 65 or earlier). Such cases are referred to in the remainder of this note as Category B. For either group, the "Critical Retirement Age" (CRA) in respect of any relevant period of service is defined as the earlier of the age at NRD or such earlier date on or after the sixtieth birthday on which the sum defined in paragraph 4 of Regulation 31 (as it stood prior to the changes introduced by the 2004 Amending Regulations) first reaches or exceeds 85.

3.3. Following the coming into force of the 2004 Amending Regulations on 1 April 2005, the NRD is defined as the sixty-fifth birthday for all members. However, the transitional protections are such that members who joined before 1 April 2005 effectively retain their existing CRA in respect of service up to and including 31 March 2013 (where they would attain age 60 before 1 April 2013) or up to and including 31 March 2005 (in other cases).

3.4. In addition to providing clarification on the method of calculation of transfer values and service credits, this note also covers the interactions of these calculations with the determination of the reduced NRD or Rule of 85 retirement age, where appropriate, and also indicates the appropriate treatment where members have periods of service to which different effective retirement ages are attached.

4. Outgoing Individual Transfer Values

4.1 Individual outgoing transfer values are calculated in accordance with the GAD note of September 1995, based on the factors in Appendices 2, 4 and 5 to that note. Paragraph 8 and Appendix 4 of the September 1995 note relate to the method to be used where the retirement age is greater than 60. The effect of the 2004 Amending Regulations is such that there will potentially be three main categories of calculation:

(i) for members joining on or after 1 April 2005 (whose NRD therefore falls on their sixty-fifth birthday in respect of the whole of their membership), the retirement age to be used for paragraph 8 calculations is 65;

      (ii)   for existing members on 31 March 2005 who will reach age 60 on or after 1 April 2013,

          (a) where the CRA in respect of service to 31 March 2005 is 65, the retirement age to be used for paragraph 8 calculations is 65;

          (b) where the CRA in respect of service to 31 March 2005 is below 65, two separate paragraph 8 calculations will be required, the first using that CRA in respect of service to 31 March 2005, and the second using age 65 in respect of service after that date.

      (iii)   for existing members on 31 March 2005 who will reach age 60 before 1 April 2013,

          (a) where either of the following conditions are met:

- the date of exit is prior to 1 April 2013, or

- the CRA in respect of service to 31 March 2013 is 65

              just one paragraph 8 calculation will be required, covering all service to the date of exit, based on the CRA as defined in paragraph 3.2 above.

          (b) in all other cases, that is, where the date of exit is on or after 1 April 2013 and the CRA in respect of service to 31 March 2013 is below 65, two separate paragraph 8 calculations will be required, the first using that CRA in respect of service to 31 March 2013, and the second using age 65 in respect of service after that date.

5. Incoming Individual Transfer Values

5.1   The treatment of incoming individual transfer values will depend on the member's date of joining the scheme.

5.2   Members who join on or after 1 April 2005 and subsequently bring in a transfer value will have an NRD falling on their sixty-fifth birthday, and their transfer credits should be calculated based on this NRD. The amount of the credits will have no effect on the age at which they are first entitled to retire with unreduced benefits. For such members, the remainder of this note is not applicable.

5.3 Members joining before 1 April 2005 but subsequently bringing in a transfer value will be entitled to transfer credits which will be treated as service accrued prior to 1 April 2005, and the whole of any incoming transfer value for such members should be applied to determine the amount of such credits. The effect of such credits might be to reduce the CRA applying to service up to 31 March 2005 (or up to 31 March 2013 where applicable), and it is therefore necessary to follow the procedures set out in the remainder of this note in order to determine the amount of such service credits and the new CRA (where applicable).

5.4 *Category B* - The NRD of members in Category B may be reduced as a result of bringing in a transfer value, in which case the provisions of Regulation 123 will apply. In this case total membership will be determined for the purpose of establishing the new NRD as including the period of membership of the previous occupational pension scheme. The service credit is then normally calculated using the new NRD in accordance with the GAD note of September 1995 based on the factors in Appendices 2 (for club transfers), 3 (for non-club transfers), 4 and 5 to that note. (In rare Category B cases, it may also be necessary to verify that a Category A type calculation would not lead to a "Rule of 85" retirement date that precedes the new NRD.)

5.5 In the case of a transfer in from a personal pension scheme, the NRD is calculated by including the service credit awarded in respect of the incoming transfer value. The service credit may therefore lead to a reduction in the NRD, and any reduction in the NRD may be dependant on the amount of service credited. However, the amount of the service credit may also depend on the new NRD, since the value of pension benefits varies according to the age at which pension commences. There is thus potentially an inter-dependency between the NRD and the service credit, and an iteration methodology must be adopted which ensures consistent results. In such cases, the methodology explained below in respect of determining a new CRA for Category A cases can be applied to Category B cases by replacing references to the CRA with references to the NRD.

5.6 *Category A* - The CRA of members in Category A is calculated allowing in the "Rule of 85" calculations for the total membership projected to retirement, including the service credit awarded in respect of any incoming transfer value. The service credit may therefore lead to a reduction in the CRA, and any reduction in the CRA may be dependant on the amount of service credited. However, the amount of the service credit may also depend on the new CRA, since the value of pension benefits varies according to the age at which pension commerces. There is thus potentially an inter-dependency between the CRA and the service credit, and a methodology must be adopted (for both club and non-club transfers) to determine both in a manner which ensures consistent results.

5.7   For Category A members with a CRA of 60 before taking account of the service credit transfer, there can be no reduction in the CRA. The calculation is therefore straightforward.

5.8   For Category A members with a CRA above 60, there are several possible methodologies for determining a service credit and reduced CRA, on a consistent basis and within a reasonable degree of accuracy, each of which could be regarded as consistent with the guidance and factors set out in the GAD note of September 1995. One relatively simple methodology, based on linear interpolation (where required) within the framework of an iterative procedure, is described in the Appendix to this note. We consider that this methodology is reasonable for the LGPS and consistent with the Regulations.

5.9   *Examples* Also attached to this note are two examples to illustrate the calculations required to determine the reduced CRA and the service credit to be granted in respect of the incoming transfer value, where this relates to service accrued up to 31 March 2005 in the case of existing members on that date who will attain age 60 only after 31 March 2013, or up to 31 March 2013 for those who will attain age 60 before 1 April 2013.

Government Actuary's Department
27 April 2005

APPENDIX

DETERMINATION OF REDUCED "CRA" AND SERVICE CREDIT

FOR

CATEGORY A MEMBERS BRINGING IN A TRANSFER VALUE

(a) **Definitions**

(iv) **"CRA"** is the critical retirement age as defined in paragraph 3.2 of this note, i.e. the lower of NRD and the "Rule of 85" retirement age.

(v) **"Category A"** members are those who have a "Rule of 85" retirement age earlier than (or equal to) NRD.

(vi) **"G (x)"** is the sum, calculated at age x, of the integer part of the member's age (x) and the integer part of potential membership up to age x, including the service credit calculated in respect of an incoming transfer value (where appropriate) – as defined in paragraph 4 of Regulation 31 prior to the effect of SI 2004, No 3372.

(vii) **"F(y)"** - On any birthday, y, F(y) is the fractional part of potential membership to age y, including the service credit calculated in respect of any incoming transfer value.

(viii) **"C(y)"** is the service credit, calculated for retirement on birthday y, in respect of an incoming transfer value.

(b) **First Step**

(i) If the member's CRA before taking account of the transfer is age 60, no special action is required. Service credit is determined using age 60 factors.

(c) **Second Step (for pre-April 1998 entrants only)**

(i) Determine age at new NRD, w, allowing for period of membership of previous pension scheme.

(ii) If $w = 60$, the new CRA is 60 and service credit is determined using age 60 factors.

(iii)   Otherwise, determine service credit at age w.

(iv)   If G (w) ≤85, the new CRA is age w, and service credit is determined using age w factors.

(v)   If G (w) >85, proceed to Fourth Step.

(d)   **Third Step**

(i)   If member's CRA before transfer is age 65, determine service credit using age 65 factors.

(ii)   If G (65) ≤85, the CRA remains age 65, and service credit is determined using age 65 factors.

(iii)   If G (65) >85, proceed to Fourth Step.

(e)   **Fourth Step**

(i)   Determine service credit using age 60 transfer factors, and calculate G (60)

(ii)   If G (60) ≥85, the new CRA is 60, and service credit is determined using age 60 factors.

(iii)   If G(60) < 85, proceed to Fifth Step.

(f)   **Fifth Step**

(i)   For each successive birthday at which age x is attained, from age 61 to that immediately following (or coinciding with) the lower of the CRA before transfer and the new NRD (if any), calculate the service credit assuming the CRA is x years. Then determine G(x) for each x, including the service credit so calculated.

(ii)   If G(x) = 85 years exactly for x = 61, 62, 63, 64 or 65, then the new CRA is the value of x for which this condition is met, and the service credit is that calculated based on this new CRA.

(ii)   If there is no birthday from 61 to 65 inclusive at which G(x) = 85 exactly, then proceed to Sixth step.

(g) **Sixth Step**

(i) Identify the birthday age y for which

$G(y) < 85$ and $G(y+1) > 85$.

(ii) Determine the fraction (z) from the following formula:

$$z = \frac{85 - G(y) - F(y)}{1 + C(y+1) - C(y)}$$

where G(y), F(y) and C(y) are calculated with a retirement age y exact.

(iii) The service credit in respect of the incoming transfer value is then determined as:

$$z * C(y+1) + (1-z) * C(y).$$

(iv) The new CRA for the member is (y+z), rounded to the next highest day. This CRA may of course be reduced further in future for other reasons, such as the purchase of added years of service.

EXAMPLES OF REDUCED "CRA" AND SERVICE CREDIT

Example 1

Data

Male (married) with date of birth = 1.1.60

Entry to LGPS on 27 November 1998.

Age at entry = 38 years 330 days = 38.9041 years.

Salary at entry = £30,000.

Retirement Age

As the member is a post-April 1998 entrant, NRD = age 65

Rule of 85 would be satisfied (if no transfer value) when member attains age 62, and total membership is 23 years 35 days, because:

$$G(62) = 62 + 23 = 85 \text{ years (integral age and service only).}$$

Hence, CRA in absence of transfer value is age 62 exact.

Incoming Transfer Value

Amount of non-club incoming transfer value = £5,000, assumed to be received on date of entry.

Assume no GMP content.

Assume factor for Adjustment for Market Conditions = 1.

Transfer factor for CRA = 62 for £1 pa pension, plus associated lump sum and spouse's pension is:

$$7.97 \times 0.85 + 3 \times 0.65 \times 0.95 + (1/2) \times 3.30 = 10.277$$

Hence, service credit for CRA of 62 would be 1.297 years,

$$\text{where } (1.297/80) \times £30,000 \times 10.277 = £5,000.$$

Calculation of new CRA

Proceeding to fourth and fifth steps of determination (since first three steps are not applicable), the calculation of G(x) at the relevant ages gives the following:

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Birthday (x)	**Normal Service to age x**	**Service Credit for TV**	**Total Service Credit**			**Value of G(x)**
			Complete	**Integral**	**Fraction**	
	Years	*C(x)*			*F(x)*	
60	21.096	1.152	22.248	22	0.248	82
61	22.096	1.224	23.320	23	0.320	84
62	23.096	1.297	24.393	24	0.393	86

Note:
(i)   Col (4) = Col (2) + Col (3).
(ii)   As rule of 85 uses integral years only, Col (7) = col (1) + col (5).

Sixth Step

(i)   The relevant age (y) is age 61, since G(61) = 84, and G(62) = 86.

(ii)   Total service including service credit, calculated at age 61, is 23.320 years, and so fractional part of service is F(61) = 0.320

$$\text{Therefore, } z = \frac{85 - G(61) - F(61)}{1 + C(62) - C(61)}$$

$$= \frac{85 - 84 - 0.320}{1 + 1.297 - 1.224} = 0.6337$$

(iii)   Service credit in respect of incoming transfer value is:

0.6337 x C(62) + (1-0.6337) x C(61)

=   0.6337 x 1.297 + 0.3663 x 1.224

=   1.2703 years

=   1 year 99 days

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(iv)   New CRA $= y + z$

$= 61 + 0.6337$

$= 61$ years 232 days

<u>CHECK</u>

At new CRA of 61 years 232 days, normal service is 22 years 267 days, and service credit is 1 year 99 days.

Rule of 85 at new CRA gives:

Int (61 years 232 days) + Int $\left[22\dfrac{267}{365} + 1\dfrac{99}{365} \right] = 61 + 24 = 85$

This confirms that new CRA is correct.

Example 2

In example 2, the only difference from the data for example 1 is that the incoming transfer amount is assumed to be £7,500 instead of £5,000. The calculation of the new CRA is therefore based on the following table:

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Birthday (x)	**Normal Service to age x**	**Service Credit for TV**	**Total Service Credit**			**Value of G(x)**
			Complete	**Integral**	**Fraction**	
	Years	*C(x)*			*F(x)*	
60	21.096	1.729	22.824	22	0.824	82
61	22.096	1.836	23.932	23	0.932	84
62	23.096	1.946	25.042	25	0.042	87

Sixth Step

(v)   The relevant age (y) is age 61, since $G(61) = 84$, and $G(62) = 87$.

(vi)   Total service including service credit, calculated at age 61, is 23.932 years, and so fractional part of service is $F(61) = 0.932$

Therefore, z $=$ $\dfrac{85 - G(61) - F(61)}{1 + C(62) - C(61)}$

          $=$ $\dfrac{85 - 84 - 0.932}{1 + 1.946 - 1.836}$ $= 0.0613$

(vii)   Service credit in reflect of incoming transfer value is:

          $0.0613 * 1.946 + 0.9387 * 1.836$

        $=$ 1.8427 years

        $=$ 1 year 308 days

(viii) New CRA $= y + z$

               $= 61 + 0.0613$

               $= 61$ years 23 days

CHECK

At new CRA of 61 years 23 days, normal service is 22 years 58 days, and service credit is 1 year 308 days.

Rule of 85 at new CRA gives:

$$\text{Int (61 years 232 days)} + \text{Int}\left[22\frac{58}{365} + 1\frac{308}{365}\right] = 61 + 24 = 85$$

This confirms that new CRA is correct.