

The Local Government Pension Scheme

Regulation 52

Increase of Membership by Employing Authority

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1 Introduction

- 1.1 Regulation 52(1) of the Local Government Pension Scheme Regulations 1997 (“the LGPS Regulations”) provides an opportunity for employing authorities to increase the total membership of an active member, as a result of an amendment made by Statutory Instrument 2004 No.573 on 4 March 2004 (effective from 1 April 2004). Regulation 52(1) of the LGPS now provides 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 the limits specified in Regulation 52(2).
- 1.2 Regulation 52(6) of the LGPS gives two options for making the payments required in respect of the resolution under Regulation 52(1). The option allowed under Regulation 52(6)(a), refers to Regulation 79 of the LGPS, and does not involve the Government Actuary. The second option – Regulation 52(6)(b) – refers to the payment required by Regulation 80(1) of the LGPS. Administering and employing authorities may wish to consider their need for professional advice as to which option might be more appropriate in particular circumstances. Regulation 80(1) of the LGPS provides that any resolution passed under Regulation 52 shall not become effective until the appropriate sum is paid to the appropriate fund (unless agreement has been reached to use the option under Regulation 52(6)(a) of the LGPS) where the appropriate sum is determined in accordance with guidance issued by the Government Actuary. The purpose of this guidance note is to provide the guidance referred to in Regulation 80(3) of the LGPS to the Department for Communities and Local Government (DCLG) for onward transmission to the administering authorities.

Formula

- 1.3 The appropriate sum should be determined by reference to the 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 121 of the LGPS) from pension arrangements, which are not members of the Public Sector Transfer Club.
- 1.4 The appropriate sum is calculated from the formulas below. The earliest age at which the member can retire from the LGPS without employer consent or actuarial reduction is referred to as that member’s Critical Retirement Age (CRA). It may be that the member’s CRA will change on account of an employing authority increasing the total membership of the member under Regulation 52 of the LGPS. Where the member’s CRA is unchanged following the award of additional membership the appropriate sum is (C) in the first formula below. Where the CRA changes, an additional cost falls on the employer in respect of the member’s entitlement to draw past service benefits at the earlier CRA. In these cases, the additional steps 1.5.3 to 1.5.5 in the next paragraph should be followed to calculate the additional cost (D). Members who commenced service after 1 October 2006 have a retirement age of 65 which is unaffected by their period of membership.
- 1.5 Steps to calculate the cost to the employing authority upon granting additional membership:
- 1.5.1 Determine the member’s CRA before and after the increase in membership. For the avoidance of doubt, the CRA should be calculated subject to a minimum of age 60.

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- 1.5.2 Calculate the cost (C) of providing the additional membership using the following formula. Note that if the additional membership is to be subject to a CRA then F_p , F_{Is} and F_{wid} should all be related to the member's CRA after the increase in membership. If the membership is subject to NRA65 then the factors should be based on NRA65. DCLG have stated that resolutions after 1 April 2008 will only provide service subject to NRA65.

$$C = S \times Y \times AMC \times \left(F_p + (3 \times F_{Is}) + \left(\frac{1}{2} \times F_{wid} \right) \right) / 80$$

where:

S = Pay (as defined by Regulation 13 of the LGPS)

AMC = Appropriate market value adjuster from the transfer-in tables

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

F_p = Non-club inward transfer factor for member's pension

F_{Is} = Non-club inward transfer factor for retirement grant

F_{wid} = Non-club inward transfer factor for spouse's pension

S, AMC, Y, F_p , F_{Is} , and F_{wid} are determined as at the date the resolution was passed

Pay (S) and the additional membership in years to be granted (Y) 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 21(3) of the LGPS provides that the Final Pay of a member in part-time employment should be adjusted). The additional membership granted (Y) is also treated as whole-time service. It would be incorrect to adjust the period of additional membership granted (Y) in the manner outlined in Regulation 11(3) of the LGPS.

Where the member's CRA does not change as a result of augmentation or if the member joined service after 1 October 2006, the cost to the employing authority is equal to (C). However if the member's CRA does change then the following additional steps should be followed:

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- 1.5.3 Calculate the cost (D) of providing the member's accrued service at date of calculation using the member CRA before the increase in membership.

$$D = S \times AS \times AMC \times \left(F_p + (3 \times F_{Is}) + \left(\frac{1}{2} \times F_{wid} \right) \right) / 80$$

where:

S, AMC, F_p , F_{Is} and F_{wid} are defined as under step 1.5.2. Note that the factors picked up for the calculation of (D) should be based on the member's CRA **before** augmentation. The points regarding whole-time equivalence also remain relevant.

AS = Accrued membership subject to a critical retirement age in years and part-years at the date of calculation, before the increase in membership. The accrued membership should have been adjusted for periods of part time service in the manner outlined in Regulation 11(3) of the LGPS.

- 1.5.4 The table at paragraph 18 in the guidance on regulations 30 and 35 indicates which membership is subject to a CRA. Cases involving members who have membership subject to the taper are not covered by this guidance (such cases will not arise before 1 April 2008).

- 1.5.5 Cost to the employing authority of granting the additional membership is:

If CRA has changed, $Cost = C \times \left(1 + \frac{AS}{Y} \right) - D$

If CRA has not changed, $Cost = C$

Members with a CRA later than 60

- 1.6 Practitioners should note that the version of the Non-Club Incoming Transfer Values in force at the date this guidance was produced contains central factors appropriate for members with a retirement age of 60 and adjustments for other retirement ages. When processing a case for a member with a CRA greater than 60 the appropriate values of F_p and F_{Is} for use in the formula above cannot be read directly from the central factors – the adjustment is required as outlined in paragraphs 2 and 4 of Appendix 4 of the CETV guidance from the Government Actuary, dated 22 September 1995, as amended in October 2006.

2 Example 1 – No change in member CRA following augmentation

- 2.1 Consider the case where 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. At the date of calculation the member has accrued 10 years of service in the LGPS and he commenced service before 1 October 2006. Follow the steps outlined in paragraph 4 to calculate the cost to the employing authority.
- 2.1.1 Before the increase in membership, the member's CRA is age 60. The member's CRA will not change as a result of the augmentation so the cost of the augmentation is given by the formula in step 1.5.2 and we do not need to follow steps 1.5.3 and 1.5.4.

The appropriate factors for the formula, from the tables in force at the date this guidance was produced, are then:

S	=	£20,000
AMC	=	1.45 (assuming the reference yield* is 2% at the Calculation Date)
Y	=	2.0000
Fp	=	7.97
FIs	=	0.65
Fwid	=	3.30

*Practitioners are reminded that, at the date this guidance note was issued, the AMC factor appropriate for a reference yield of 2% is to be used if the reference yield falls below 2%. That adjustment, along with an adjustment to the relevant index on which the AMC is based, came into effect from January 1999.

- 2.1.2 Calculate (C) using the above factors:

$$\begin{aligned}
 \text{Cost} &= C \\
 &= £20,000 \times 2.0000 \times 1.45 \times \left(7.97 + (3 \times 0.65) + \left(\frac{1}{2} \times 3.30 \right) \right) / 80 \\
 &= £8,388
 \end{aligned}$$

3 Example 2 – Change in member CRA following augmentation

- 3.1 Consider the case where an employing authority wishes to grant an active member, who is a married male aged 50, and whose current pensionable salary is £20,000 per annum, 2 years additional membership on 1 April 2007. At the date of calculation this member has accrued 5 years of membership in the LGPS and he commenced service before 1 October 2006 so all of this service is subject to a CRA. Now follow the steps outlined above to calculate the cost to the employing authority.
- 3.1.1 Before the increase in membership, the member's CRA is age 65. After the increase the CRA will reduce to age 64, so both parts of the procedure must be followed.

The appropriate factors for the formula from the in force tables are then:

$$S = £20,000$$

$$AMC = 1.310 \text{ (if the reference yield is 2\% at the calculation date)}$$

$$Y = 2.000$$

$$AS = 5.000$$

Transfer in factors based on post-augmentation CRA of 64

$$F_p = 8.200 \text{ (=0.80 x 10.25)}$$

$$F_{ls} = 0.755 \text{ (=0.91 x 0.83)}$$

$$F_{wid} = 3.910$$

- 3.1.2 Calculate (C) by using the above factors:

$$C = £20,000 \times 2.000 \times 1.310 \times \left(8.200 + (3 \times 0.755) + \left(\frac{1}{2} \times 3.910 \right) \right) / 80$$

$$C = £8,135$$

From step 1.5.1 we see that the member's CRA has changed so we need to follow steps 1.5.3 and 1.5.4 to find the additional cost of this reduction in CRA.

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3.1.3 The appropriate transfer in factors for the formula are:

Transfer in factors based on pre-augmentation CRA of 65		
F_p	=	7.790 (=0.76 x 10.25)
F_{ls}	=	0.730 (=0.88 x 0.83)
F_{wid}	=	3.910

Calculate (D) using these factors:

$$D = £20,000 \times 5.000 \times 1.310 \times \left(7.790 + (3 \times 0.730) + \left(\frac{1}{2} \times 3.910 \right) \right) / 80$$

$$D = £19,544$$

3.1.4 The cost to the employing authority of granting 2 years of service to this member is:

$$Cost = £8,135 \times \left(1 + \frac{5}{2} \right) - £19,544 = £8,928$$