GAD

GOVERNMENT **ACTUARY'S** DEPARTMENT

Local Government Pension Scheme - Scotland

Protected Regulation 65(8)

Adjustment of Transfer Credits granted from accumulated AVCs

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Local Government Pension Scheme Scotland – Protected Regulation 65(8)
Adjustment of Transfer Credits granted from Accumulated AVCs

1.   Regulation 65(8) of the Local Government Pension Scheme (Scotland) Regulations 1998 (SI 1998/366) ("the 1998 Regulations"), which is protected by virtue of Schedule 1 of the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008 (SSI 2008/229), provided for members who made an election under regulation 59(1) of the 1998 Regulations prior to 30 June 2005 to have the right to make an election under regulation 65 of those regulations, as they stood prior to 30 June 2005.

2.   Protected regulations 65(1)(c) and 65(5) provided for a member who becomes entitled to an ill-health pension to elect to have the accumulated value of their additional voluntary contributions ('AVCs') used to acquire a transfer credit in the LGPS. Similarly protected regulations 65(1)(d) and 65(5) permitted an active member who has attained age 50, and who has stopped paying AVCs, to use the accumulated value of these AVCs to acquire a transfer credit in the LGPS.

3.   In the 1998 regulations, protected regulation 65(6) provided for the transfer credit to be calculated on the same basis as if a transfer value were being accepted for the member under Regulation 121, except that, under protected regulation 65(8), transfer credits acquired under 65(5) must not entitle the member to benefits in the form of a lump sum payable at retirement. In view of this, protected regulation 65(8) also provided that the period of membership with which the member would be credited should be calculated in accordance with guidance issued by the Government Actuary, setting out an adjustment to the standard transfer calculation methodology to reflect the fact that the credit will not apply in calculation of the retirement grant.

4.   The purpose of this note is to provide the guidance required by protected regulation 65(8) following the issue of new non-Club incoming transfer value factors from October 2008. It has been prepared by the Government Actuary's Department (GAD) for the Scottish Public Pensions Agency (SPPA) for onward transmission to administering authorities. The Government Actuary has approved the release of this guidance.

5.   Transfer credits in cases below age 65 should be calculated based on an assumed pension age of 65. If the member subsequently retires before (after) age 65, the relevant early (late) retirement factor, taken from the GAD guidance on early (late) retirement, should be applied to the benefits derived from the calculated transfer credit.

6.   The adjustment described in paragraph 3 is achieved by using the standard non-Club incoming transfer methodology applicable at the calculation date for 80ths benefits payable at pension age 65, but subject to the following amendments:

        i)   the lump sum term and lump sum factors should be omitted from the standard formula, and

        ii)   a pension-only (instead of mixed pension and lump sum) AMC should be applied.

7.   Where the member concerned is age 65 or over at the calculation date, the calculation should be undertaken using the non-ill-health pensioner divorce factors in relation to 80ths benefits (together with the pension-only AMCs tabulated with these factors), and the adjustment described in paragraph 3 is that no lump sum term

should be included in this calculation. No late retirement factors are applicable in such cases.

8.   The transfer credit so calculated should be used in the calculation of the member's pension, spouse's long-term pension and children's long-term pension. No period of service credited under Protected Regulation 65(5) should be included in the calculation of the retirement grant.

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26 March 2010

Examples

References in the examples are to tables of factors in Version 1.2 of the Scotland transfer factor suite and in the pensioner divorce factor tables.

Assumed yields in the examples on FT-Actuaries Index of index-linked HMG gilts of duration 15 years or more are:

(i)   on 0% inflation assumption = 1.24%
(ii)   on 5% inflation assumption = 1.16%

So yield to use in calculations is 1.20%.

Example 1

Female, age last birthday at calculation date   61
Rate of pensionable pay at calculation date   £30,000 pa
Accumulated AVC fund at calculation date   £50,000

Pension-only AMC at age 61 and a 1% yield = 1.18
Pension-only AMC at age 61 and a 2% yield = 1.10 (from Table 5.2 of transfer factor suite)

Interpolating, pension-only AMC to use = 0.8 x 1.18 + 0.2 x 1.10 = 1.164

Pension factor at age 61 (from Table 4.6 of transfer factor suite)   = 20.99
4-year (61 to 65) adjustment factor (from Table 3.1 of transfer factor suite)   = 0.81
Contingent partner factor at age 61 (from Table 4.6 of transfer factor suite)   = 1.25

Value of one year = 1/80th x £30,000 x (20.99 x 0.81 + 1.25/2) = £6,610.09

Pension-only service credit payable at 65 = (£50,000/1.164)/£6,610.09 = 6.4985 years

Example 2

Male age last birthday at calculation date   66
Rate of pensionable pay at calculation date   £25,000 pa
Accumulated AVC fund at calculation date   £30,000

Pension-only AMC at age 66 and a 1% yield = 1.16
Pension-only AMC at age 66 and a 2% yield = 1.09
(from Table 3.1 of pensioner divorce factors tables)

Interpolating, pension-only AMC to use = 0.8 x 1.16 + 0.2 x 1.09 = 1.146

Pension factor at age 66   = 15.17
Contingent partner factor at age 66   = 2.93
(from Table 1.1 of pensioner divorce factors tables)

Value of one year = 1/80th x £25,000 x (15.17 + 2.93/2) = £5,198.44

Pension-only service credit payable at 66 = (£30,000/1.146)/£ 5,198.44 = 5.0357 years