

The Local Government Pension Scheme (Scotland)
Schedule 7: Councillors
Individual (Non Club) Transfers

Date: 2 October 2007

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1 Background

- 1.1 Under Schedule 7 of the Local Government Pension Scheme (Scotland) Regulations 1998 (“the Principal Regulations”) (SI 1998/366), as inserted by the Local Government Pensions Etc (Councillors and VisitScotland) (Scotland) Amendment Regulations 2007 (SSI 2007/71), councillors in service from 2 May 2007 become eligible to join the LGPS on a career average pay basis.
- 1.2 Although not specifically mentioned in the Schedule, Councillors will have the facility to transfer-in pension rights from previous arrangements in exchange for benefits in the LGPS Scheme. When a councillor ceases active membership they will also have the option to transfer their benefits out of the LGPS.
- 1.3 In accordance with regulation 121(8), a councillor may only transfer in benefits if he or she has given notice of wishing to transfer within twelve months of becoming an active member. The date of becoming an active member will normally be the later of the date the councillor was first elected and 2 May 2007.
- 1.4 Career average schemes are excluded from the Public Sector Transfer Club so this guidance only considers transfers on a non-Club basis. A transfer may be accepted from a scheme that is a member of the ‘Club’, but it will be on a non-Club basis.
- 1.5 This GAD guidance note comes into effect from 2 May 2007. The purpose of this note is to provide clarification of the methodology to be adopted in calculating outward transfer values and granting additional benefits in respect of an inward individual transfer for councillor members.
- 1.6 Previous GAD guidance was issued by Noel Mulvihill in August 2004, which updates original guidance from September 1995 (‘New Factors for Individual Transfers from 1 October 1995’). This guidance should continue to be followed for non-councillor members.

2 Benefits on inward transfers

- 2.1 If a councillor member elects to transfer-in the value of their pension benefits from a previous arrangement they will be credited with a corresponding transfer credit in the form of additional membership in the LGPS. This transfer credit will provide the following benefits in addition to the other benefits accrued or purchased by the Councillor:

Retirement

- 2.2 On attaining age 65, a pension will be payable for life and a lump sum equal to three times the initial rate of pension will be payable, both in respect of the transfer value received. The pension will be indexed in line with the Retail Prices Index (RPI) from the effective date of the calculation. The pension payable at retirement may be commuted to provide a larger lump sum, subject to HMRC limits.
- 2.3 Once in payment, the pension is indexed in line with RPI.

Death before retirement

- 2.4 Should a councillor die before age retirement, the attaching long-term spouse's or civil partner's pension payable will be 50% of the full rate of pension credited from a transfer in, indexed in line with RPI up to the date of death. Any long-term children's pensions payable will be calculated based on the member's pension including the pension credited from any transfers-in.
- 2.5 The pension is indexed in line with RPI from the effective date of the calculation up to the date of death.
- 2.6 The short-term pensions and death grant payable on the death of a councillor member while in active service are unaffected by transfers in to the Scheme since they are based on multiples of career average pay.
- 2.7 The member pension used when calculating the death grant payable on the death of a deferred councillor member should include the pension credited from any transfers-in to the Scheme.

Ill health

- 2.8 Should a councillor suffer incapacity before age 65, the pension paid on retirement will include the rate of pension credited from any transfer-in, together with an attaching lump sum of three times the initial pension. The pension will be indexed in line with RPI from the effective date of the transfer-in up to the date of retirement.

Death after retirement

- 2.9 On death of a member after retirement, the short and long-term pensions payable to a spouse, civil partner or child are calculated with reference to the member pension payable before the member's death including the pension credited from any transfers-in as is the death grant that may be payable.

3 Calculating transfer credits

- 3.1 When a councillor makes a request to transfer-in benefits from a previous pension arrangement, a transfer value will be provided in the correspondence. The incoming transfer value needs to be converted into a transfer credit. This credit takes the form of the benefits described in section 2.
- 3.2 The effective date of the transfer-in calculation is set in the same way as for a non-club transfer-in made by a non-councillor member.
- 3.3 The information required by LGPS in processing a transfer-in request is as follows:
- member's name
 - member's date of birth
 - member's sex
 - effective date of the transfer value quote
 - member's marital or civil partnership status at the effective date of the transfer-in
 - If there are any GMP protected rights the scheme will require details regarding the associated GMP included in the transfer value:
 - the amount of GMP accrued after 5 April 1988 and the total GMP, as at the effective date of the transfer value quote, including revaluations
 - the rate of revaluation applicable to the GMP, and
 - whether revaluation subsequent to the last day of service has actually occurred
 - the amount of the transfer value in respect of section 9(2B) rights

3.4 Notation

TV represents the transfer value paid by the sending scheme

AMC is the adjustment for market conditions at the relevant age

F_p is the factor for personal pension at the relevant age

F_{LS} is the factor for the lump sum at the relevant age

F_{CWP} is the factor for contingent widow(er)'s, civil partner's or unmarried partner's pension at the relevant age

F_{GMP} is the factor for GMP at the relevant age

F_{PR} is the factor for Protected Rights at the relevant age

ERF_p is the early retirement factor for member pension at the relevant age

ERF_{LS} is the early retirement factor for lump sum at the relevant age

PREGMP is the annual rate of incoming GMP accrued before 6 April 1988, including revaluation to the guarantee date

POSTGMP is the annual rate of incoming GMP accrued after 6 April 1988, including revaluation to the guarantee date

Section9(2B)Rights is the amount of the transfer value due to post-1997 contracted-out rights

The source for the factors is the CETV factors, *not* the incoming non-Club factors.

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3.5 As such, the rate of pension credited is:

$$[(TV \div AMC) + (PREGMP + 0.45 \times POSTGMP) \times F_{gmp}] \div F_{Tot}$$

where the F_{Tot} term is equal to

$$(F_p \times ERF_p) + (3 \times F_{LS} \times ERF_{LS}) + (F_{CWP} \div 2)$$

3.6 The rate of pension credited due to section 9(2B) rights is

$$(Section9(2B)Rights \div AMC) \div F_{Tot}$$

where the F_{Tot} term is as above

3.7 If the transfer value contains GMP protected rights, then the transfer value should be tested to ensure that it is sufficient to provide the GMP.

The portion of transfer value available to cover GMP is:

$$TV - Section9(2B)Rights$$

The cost of providing GMP benefits is:

$$(PREGMP + p \times POSTGMP) \times F_{PR} \times AMC$$

Where p is equal to 1.25 for male transferees, 1.35 for female transferees aged up to 60 and 1.3 for female transferees aged 60 or over.

If the cost of providing GMP benefits exceeds the portion of the transfer value available to cover the GMP then the transfer should be refused.

3.8 Examples calculations can be found in the Appendix to this guidance.

4 Transfer out requests

- 4.1 After a councillor ceases active membership, they will have the option to transfer-out their benefits to another pension arrangement. In these circumstances, the transfer value should be calculated in line with existing GAD guidance for determining transfer values.
- 4.2 The transfer value will be based on the accrued pension and lump sum, revalued from date of leaving to the guarantee date. If the receiving scheme is a member of the Club, it should be made clear that the transfer value is a non-Club transfer value.

Appendix

Example 1 – Credit granted on a transfer-in by a councillor

Data

A male councillor, born on 1 February 1957. He is currently married.

Transfer value = £100,000 (No GMP benefits or Section 9(2B) rights included)

Let's suppose the date of calculation is 1 June 2007. He is aged 50 years, 4 months

Factors

F_p	=	8.23
F_{LS}	=	0.68
F_{CWP}	=	3.28
ERF_p	=	0.76
ERF_{LS}	=	0.88

The transfer factors above are derived using the male, NRA 60 Club factors for the member's age last birthday. The early retirement factors are based on retirement five years early.

Calculation

Assume the yield (FT Actuaries Index of British Index Linked Stocks of duration greater than 5 years (0% inflation assumption)) on the calculation date is 2%.

The AMC for a male councillor, aged 50 (last birthday) is 1.31.

(Note, where the yield on the calculation date is less than 2%, the 2% yield figure should be used. Where the yield is not an integer %, the AMC should be calculated by interpolation.)

Using the formulae in 3.5, F_{Tot} is equal to:

$$(8.23 \times 0.76) + (3 \times 0.68 \times 0.88) + (3.28 \div 2) = 9.69$$

Adjusting the transfer value for the AMC gives: $100,000/1.31 = 76,336$

Carrying out the calculation gives:

Personal Pension = $76,336 \div 9.69 = £7,878$ pa

Lump Sum = $3 \times$ Personal Pension = £23,634

Therefore, this councillor would be credited with a pension of £7,878 pa and a lump sum of £23,634, both payable from 65 and attracting increases in line with RPI.

Example 2 – Credit granted on a transfer-in by a councillor

Data

A female councillor, born on 1 March 1960. She is currently unmarried.

Transfer value = £100,000 (Revalued post 88 GMP of £450 pa and Section 9(2B) rights of £30,000)

Let's suppose the date of calculation is 1 June 2007. She is aged 47 years, 3 months

Factors

F_p	=	8.47
F_{LS}	=	0.60
F_{CWP}	=	0.67
F_{GMP}	=	3.29
F_{PR}	=	6.57
ERF_p	=	0.77
ERF_{LS}	=	0.88

The transfer factors above are derived using the female, NRA 60 Club factors for the member's age last birthday. The early retirement factors are based on retirement five years early.

Calculation

Assume the yield (FT Actuaries Index of British Index Linked Stocks of duration greater than 5 years (0% inflation assumption)) on the calculation date is 2%.

The AMC for a female councillor, aged 47 (last birthday) is 1.35.

Using the formulae in 3.5, the F_{Tot} is equal to:

$$(8.47 \times 0.77) + (3 \times 0.60 \times 0.88) + (0.67 \div 2) = 8.44$$

The transfer value needs to be adjusted for the AMC and GMP pension in this case:

$$\text{Adjusted transfer value} = (100,000 \div 1.35) + (0 + 450 \times 0.45) \times 3.29 = 74,740$$

Carrying out the calculation gives:

$$\text{Personal Pension} = 74,740 \div 8.44 = \text{£}8,855 \text{ pa}$$

$$\text{Lump Sum} = 3 \times \text{Personal Pension} = \text{£}26,565$$

$$\text{Adjusted Section 9(2B) rights} = 30,000 \div 1.35 = 22,222$$

$$\text{Personal pension due to Section 9(2B) rights} = 22,222 \div 8.44 = \text{£}2,633 \text{ pa}$$

$$\text{Section 9(2B) Lump sum} = 3 \times \text{personal pension} = \text{£}7,899$$

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Test that the transfer value is sufficient to cover the GMP:

Transfer value available to cover the GMP is $100,000 - 30,000 = £70,000$

The cost of providing the GMP benefits is:

$$(0 + 1.35 \times 450) \times 6.57 \times 1.35 = £5,388$$

This is less than the transfer value less Section 9(2B) rights which is available to cover these benefits so the transfer may be accepted.

Therefore, this councillor would be credited with a pension of £8,855 pa and a lump sum of £26,565, both payable from 65 and attracting increases in line with RPI up to 65. The GMP of £450 pa would be increased in line with section 148 orders to age 60 and then increments after that. Once in payment at age 65, increases on the (post-88) GMP portion of the pension would be RPI-linked, limited to 3% a year and increases on the remaining pension would be fully RPI-linked.