

LOCAL GOVERNMENT PENSION SCHEME (LGPS) (SCOTLAND)

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 the Scottish Public Pensions Agency ("SPPA"), supplements the 1995 note, in order to reflect changes to the LGPS Regulations.
- 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.
- 1.3 This note relates to both club and non-club transfers.

2. Regulatory background

- 2.1 **Pre-April 1998** Prior to 1 April 1998, the Pensionable Age for members of the LGPS in Scotland was defined under the terms of Schedule 1 and Regulation E2 of the Local Government Superannuation (Scotland) Regulations 1987. The Pensionable Age was determined (assuming continuous local government employment) by reference to the sum of total reckonable service and any additional qualifying service, for example arising as a result of bringing in a transfer value. If this sum was at least 25 years by age 60, the Pensionable Age fell on the sixtieth birthday. If it reached 25 years between ages 60 and 65, the Pensionable Age 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, Regulations D2(2)(a), E2(1), J9(1)(b) and Schedule 1 provided, that for the purpose of determining the Pensionable Age, any excess of the period of service in the other scheme over the reckonable service credited in exchange for the transfer value would be taken into account. This excess 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 Pensionable Age, and, where this took place, the service credit to be awarded was calculated on the basis of the new Pensionable Age.

**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 conditions*

- 2.3 ***Post-April 1998*** For entrants to the LGPS in Scotland on or after 1 April 1998, Regulation 24 of the Local Government Pension Scheme (Scotland) Regulations 1998 defined the Normal Retirement Date (“NRD”) as the sixty-fifth birthday, but also allowed (by means of Regulation 30) 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 8(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 (Scotland) Regulations 1998 did not change the formula for determining the Pensionable Age for entrants prior to April 1998, although it now referred to as the NRD. However, for some entrants prior to 1 April 1998, it 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.

3. Current position

- 3.1 The current position is now effectively as follows:
- a) An entrant prior to April 1998 retains 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 have an NRD of 65*.
 - c) In both cases, retirement prior to NRD with unreduced benefits is possible if the “Rule of 85” condition has been met.
- 3.2 For the majority of LGPS members, 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.
- 3.3 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.

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 members with a retirement age greater than 60. The retirement age to be used for paragraph 8 calculations (for members in both Categories A and B) is the NRD or such earlier date on or after the sixtieth birthday on which the sum defined in Regulation 30(4) first reaches or exceeds 85.

** but SIB 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.*

5. Incoming Individual Transfer Values

- 5.1 **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 cases, it may 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.) 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 a reiteration methodology must be adopted which ensures consistent results. The same methodology explained in respect of determining the CRA for Category A cases can be applied to Category B cases by replacing references to CRA with references to NRD
- 5.2 **Category A** - The NRD or, if lower, the “Rule of 85” retirement age (henceforth referred to as the critical retirement age, or 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 commences. 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.

- 5.3 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.
- 5.4 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.
- 5.5 *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

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APPENDIX

DETERMINATION OF REDUCED “CRA” AND SERVICE CREDIT FOR CATEGORY A MEMBERS BRINGING IN A TRANSFER VALUE

(a) **Definitions**

- (i) **“CRA”** is the critical retirement age as defined in paragraph 5.2 of this note, i.e. the lower of NRD and the “Rule of 85” retirement age.
- (ii) **“Category A”** members are those who have a “Rule of 85” retirement age earlier than (or equal to) NRD.
- (iii) **“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 30.
- (iv) **“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.
- (v) **“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 $G(w) \leq 85$, 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 $G(65) \leq 85$, 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 $G(60) \geq 85$, 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

$$G(y) < 85 \text{ and } G(y+1) > 85.$$

- (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	
	<i>Years</i>	<i>C(x)</i>			<i>F(x)</i>	
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

$$\begin{aligned}
 \text{Therefore, } z &= \frac{85 - G(61) - F(61)}{1 + C(62) - C(61)} \\
 &= \frac{85 - 84 - 0.320}{1 + 1.297 - 1.224} = 0.6337
 \end{aligned}$$

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

$$\begin{aligned}
 &0.6337 \times C(62) + (1-0.6337) \times C(61) \\
 &= 0.6337 \times 1.297 + 0.3663 \times 1.224 \\
 &= 1.2703 \text{ years} \\
 &= 1 \text{ year } 99 \text{ days}
 \end{aligned}$$

- (iv) New CRA = y + z

$$= 61 + 0.6337$$

$$= 61 \text{ years } 232 \text{ days}$$

CHECK

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:

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

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	
	<i>Years</i>	<i>C(x)</i>			<i>F(x)</i>	
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 $F(61) = 0.932$

$$\begin{aligned}\text{Therefore, } z &= \frac{85 - G(61) - F(61)}{1 + C(62) - C(61)} \\ &= \frac{85 - 84 - 0.932}{1 + 1.946 - 1.836} = 0.0613\end{aligned}$$

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

$$\begin{aligned}&0.0613 * 1.946 + 0.9387 * 1.836 \\ &= 1.8427 \text{ years} \\ &= 1 \text{ year } 308 \text{ days}\end{aligned}$$

- (viii) New CRA = $y + z$
- $$\begin{aligned}&= 61 + 0.0613 \\ &= 61 \text{ years } 23 \text{ days}\end{aligned}$$

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.