



# Government Actuary's Department

## **Local Government Pension Scheme (England and Wales)**

Protected Regulation 66(8)

Conversion of accumulated AVCs to transfer credits

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## 1 Introduction

- 1.1 The Secretary of State for Communities and Local Government is required to issue actuarial guidance on the amount of service credit a member may be granted in respect of the accumulated value of additional voluntary contributions ('AVCs') in the LGPS.
- 1.2 The remainder of this introduction contains:
- > details of the implementation and future review of this guidance
  - > the relevant legislative references, and
  - > statements about third party reliance and liability.
- 1.3 In the remainder of this note:
- > section 2 covers calculation of benefits
  - > section 3 sets out an example calculation
  - > section 4 contains the factors
  - > Appendix A quotes the relevant statutory references
  - > Appendix B sets out some important limitations

### Implementation and Review

- 1.4 The Secretary of State is required to consult with GAD before issuing actuarial guidance under the Local Government Pension Scheme Regulations 2013 ('the 2013 Regulations') [Regulation 2(3) of the 2013 Regulations].
- 1.5 As part of this consultation the Department for Communities and Local Government (DCLG) have asked GAD to recommend actuarial guidance in respect of the regulations detailed below. This document forms GAD's recommendation for the actuarial guidance required by these regulations.
- 1.6 This note has effect only when this guidance is issued by the Secretary of State in accordance with Regulation 2(3) of the 2013 Regulations, and is subject to the implementation instructions provided at that time.
- 1.7 This guidance only covers the actuarial principles around the calculation of service credits in respect of AVCs for members who made an election to pay AVCs under regulation 60(1) of the 1997 Regulations prior to 13 November 2001.
- 1.8 This guidance does not apply to Councillor members. Regulations permitting Councillors to have access to the LGPS were not made until 2003.



- 1.9 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Local Government Pension Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to DCLG.
- 1.10 GAD recommends that factors should be reviewed periodically, depending on external circumstances, for example when changes in the actuarial assumptions adopted for other scheme factors take place, or following each triennial cycle of future valuations of the LGPS.

**Use of this note**

- 1.11 This note has been prepared for DCLG and can be relied upon by them. We are content for this note to be released to third parties, provided that:
- > it is released in full;
  - > the advice is not quoted selectively or partially; and
  - > GAD is identified as the source of the note.
- 1.12 Third parties may wish to seek their own actuarial advice where appropriate. GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this note.

**Third party reliance**

- 1.13 When issued by the Secretary of State in accordance with paragraph 1.6 above, this note should be used as the actuarial guidance required under the regulations cited. Other than for this purpose, no person or third party is entitled to place any reliance on the contents of this note, except to any extent explicitly stated herein.



## 2 Calculation of transfer credits

2.1 A transfer credit should be calculated as follows:

$$A = \frac{1}{60} \times \text{Pay} \times \left[ (\text{Factor}^P) + \left( \frac{60}{160} \times \text{Factor}^S \right) \right]$$

$$\text{Transfer Credit} = \frac{\text{AVC}}{A} = Y \text{ years and } D \text{ days}$$

Where:

- A = the cost of one years' pension accrual
- Pay = the member's rate of pensionable pay at the relevant date
- Factor<sup>P</sup> = the Gross Pension factor from the table in section 4 for the members gender and age last birthday
- Factor<sup>S</sup> = the Surviving Partner's Pension factor from the table in section 4 for the members gender and age last birthday
- AVC = the accumulated AVC fund at the relevant date

2.2 The transfer credit is treated as if it had arisen in the 2008 scheme.

2.3 The relevant date (which determines age and rate of LGPS pensionable pay) for the final transfer credit calculations should be the date the AVC fund is received. If the AVC fund is received after the member has ceased active membership then the relevant date should be the last day of active membership. The relevant date for estimate purposes should be the date the calculation is carried out but the resultant transfer credit should not be guaranteed.

2.4 Transfer credits should be calculated based on an assumed pension age of 65. If the member subsequently retires in normal health 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, as required by protected Regulation 66(7) and as detailed in paragraph B.15 of Appendix B to the actuarial guidance on Early Payment of Pension.

2.5 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 transfer credited under Protected Regulation 66(5) should be included in the calculation of the retirement grant. However, DCLG have confirmed that the member can commute pension for lump sum under Regulation 21 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 2007/1166).



- 2.6 DCLG have confirmed that the transfer credit does count towards the membership for the purposes of paragraph 4(2)(a)(i) of Schedule 2 to The Local Government Pension Scheme (Transitional Provisions, Savings & Amendment) Regulations 2014 (SI 2014/525). However, as the transfer credit is based on an assumed pension age of 65, the credit will need to be actuarially reduced for the period between age 65 and the resultant CRA using the reduction factors contained in the actuarial guidance on Early Payment of Pension before it is counted towards membership.



### 3 Example

#### Member Data

|                                              |                   |
|----------------------------------------------|-------------------|
| Gender                                       | Female            |
| Age last birthday at the relevant date       | 61 years          |
| Rate of pensionable pay at the relevant date | £30,000 per annum |
| Accumulated AVC fund at the relevant date    | £50,000           |

#### Factors

|                     |       |
|---------------------|-------|
| Factor <sup>P</sup> | 17.88 |
| Factor <sup>S</sup> | 1.31  |

#### Calculations

$$A = \frac{1}{60} \times £30,000 \times \left[ (17.88) + \left( \frac{60}{160} \times 1.31 \right) \right] = £9,185.63$$

$$\text{Transfer Credit} = \frac{£50,000}{£9,185.63} = 5.4433 \text{ years} = 5 \text{ years } 162 \text{ days}$$

#### Notes

- i) The factors in the example are taken from the table of factors in section 4.
- ii) The relevant date is defined in paragraph 2.3 of this guidance note.
- iii) Benefits in respect of the transfer credit should be actuarially reduced if taken before age 65 (except in cases of ill health retirement) or increased for late retirement after age 65 (see paragraph 2.4).



## 4 Factors

Table 4.1: Factors for the conversion of accumulated AVCs to transfer credits

| Age last birthday at relevant date | Factor for male members |                                    | Factors for female members |                                    |
|------------------------------------|-------------------------|------------------------------------|----------------------------|------------------------------------|
|                                    | Gross Pension Factor    | Surviving Partner's Pension Factor | Gross Pension Factor       | Surviving Partner's Pension Factor |
| 50                                 | 15.54                   | 3.47                               | 16.66                      | 1.40                               |
| 51                                 | 15.66                   | 3.48                               | 16.81                      | 1.41                               |
| 52                                 | 15.78                   | 3.50                               | 16.95                      | 1.41                               |
| 53                                 | 15.89                   | 3.50                               | 17.08                      | 1.40                               |
| 54                                 | 16.00                   | 3.51                               | 17.20                      | 1.40                               |
| 55                                 | 16.10                   | 3.51                               | 17.32                      | 1.39                               |
| 56                                 | 16.20                   | 3.51                               | 17.42                      | 1.38                               |
| 57                                 | 16.29                   | 3.50                               | 17.52                      | 1.38                               |
| 58                                 | 16.38                   | 3.49                               | 17.62                      | 1.36                               |
| 59                                 | 16.46                   | 3.47                               | 17.71                      | 1.35                               |
| 60                                 | 16.55                   | 3.45                               | 17.80                      | 1.33                               |
| 61                                 | 16.64                   | 3.42                               | 17.88                      | 1.31                               |
| 62                                 | 16.73                   | 3.39                               | 17.96                      | 1.29                               |
| 63                                 | 16.83                   | 3.35                               | 18.05                      | 1.26                               |
| 64                                 | 16.94                   | 3.31                               | 18.14                      | 1.23                               |
| 65                                 | 16.77                   | 3.30                               | 17.96                      | 1.22                               |
| 66                                 | 16.31                   | 3.35                               | 17.51                      | 1.21                               |
| 67                                 | 15.85                   | 3.38                               | 17.05                      | 1.21                               |
| 68                                 | 15.39                   | 3.42                               | 16.59                      | 1.20                               |
| 69                                 | 14.93                   | 3.40                               | 16.12                      | 1.06                               |
| 70                                 | 14.47                   | 3.38                               | 15.66                      | 0.91                               |
| 71                                 | 14.02                   | 3.41                               | 15.19                      | 0.90                               |
| 72                                 | 13.58                   | 3.42                               | 14.73                      | 0.89                               |
| 73                                 | 13.15                   | 3.43                               | 14.28                      | 0.88                               |
| 74                                 | 12.73                   | 3.32                               | 13.84                      | 0.76                               |
| 75                                 | 12.34                   | 3.20                               | 13.40                      | 0.64                               |





## Appendix A: Cited regulations

- A.1 Regulation 66(8) of the Local Government Pension Scheme Regulations 1997 (SI 1997/1612) ("the 1997 Regulations") is protected by virtue of:
- > regulation 4 of The Local Government Pension Scheme (Amendment No. 2) Regulations 2001 (SI 2001/3401);
  - > schedule 1 of the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI 2008/238), as amended by regulation 25(2) of The Local Government Pension Scheme (Amendment) Regulations 2008 (SI 2008/1083); and
  - > regulation 15(1)(b) of The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525).
- A.2 These were provided for members who made an election under regulation 60(1) of the 1997 Regulations prior to 13 November 2001 to have the right to make an election under regulation 66 of those regulations, as they stood prior to 13 November 2001.
- A.3 Protected regulations 66(1)(c) and 66(5) provided for a member who becomes entitled to an ill-health pension to elect to have the accumulated value of their used to acquire a transfer credit in the LGPS. Similarly protected regulations 66(1)(d) and 66(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.
- A.4 In the 1997 regulations, protected regulation 66(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 66(8), transfer credits acquired under 66(5) must not entitle the member to benefits in the form of a lump sum payable at retirement. In view of this, protected regulation 66(8) also provided that the transfer credit should be calculated in accordance with standard transfer calculation methodology, with an adjustment reflecting the fact that the credit will not apply in calculation of the retirement grant.
- A.5 Regulation 3(12) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 requires that guidance issued by the Government Actuary under earlier regulations is to be treated as actuarial guidance issued by the Secretary of State as defined by the Local Government Pension Scheme Regulations 2013 ["the 2013 Regulations"].



## **The Local Government Pension Scheme (Amendment No. 2) Regulations 2001<sup>1</sup>**

### Elections as to use of accumulated value of AVCs

4. For regulation 66, substitute—

“66.— ...

- 8) A person who made an election under regulation 60(1) prior to 13th November 2001 shall continue to have the rights to make elections as to the use of the accumulated value as under the provisions of this regulation prior to its amendment by the Local Government Pension Scheme (Amendment No. 2) Regulations 2001<sup>1</sup> and accordingly, so far as is necessary to give effect to those rights and to make provision for any matters incidental to them, those provisions shall be treated as if they had continued in effect.

...”

## **The Local Government Pension Scheme Regulations 1997<sup>2</sup>**

### Elections as to use of accumulated value of AVCs

66.—

- 1) This regulation applies where a person—
- a) leaves his employment with the employer who was his employing authority when he made an election under regulation 60(1);
  - b) stops being an active member without leaving that employment;
  - c) becomes entitled to an ill-health pension under regulation 27; or
  - d) elects under regulation 60(9) to stop paying AVCs but continues to be an active member and attains the age of 50.
- 2) Where paragraph (1)(a) or (c) applies to a person, he must elect to have the accumulated value of the invested additional contributions specified in regulation 64(2) used in one or more of the permissible ways and he may so elect where paragraph (1)(b) or (d) applies to him.
- 3) Where paragraph (1)(a) applies, the permissible ways are—
- a) to subscribe to an occupational pension scheme (other than the Scheme);
  - b) to subscribe to a personal pension scheme (including an additional voluntary contributions scheme, other than a FSAVC scheme);
  - c) to subscribe to a self-employed pension arrangement;
  - d) to purchase an appropriate policy from one or more AVC insurance companies.

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<sup>1</sup> S.I. 2001/3401: <http://www.legislation.gov.uk/uksi/2001/3401/contents/made>

<sup>2</sup> S.I. 1997/1612: <http://www.legislation.gov.uk/uksi/1997/1612/contents/made>



- 4) Where paragraph (1)(b) applies, the only permissible way is that mentioned in paragraph (3)(b).
- 5) Where paragraph (1)(c) or (d) applies, the only permissible way is to acquire transfer credits in the Scheme.
- 6) Those credits are calculated on the same basis as if a transfer value were being accepted for the member under regulation 121.
- 7) But where paragraph (1)(d) applies and the member becomes entitled to the payment of retirement benefits by virtue of an election under regulation 31 (early payment), those transfer credits shall be reduced to such percentage of the credits to which he would otherwise be entitled as is shown as appropriate in guidance issued by the Government Actuary.
- 8) Transfer credits acquired under paragraph (5) must not entitle the member to benefits in the form of a lump sum payable at retirement (and accordingly the period of membership with which he is credited for other purposes shall be adjusted appropriately in accordance with such guidance as may be issued by the Government Actuary).
- 9) Where paragraph (1)(c) or (d) applies, the election under paragraph (2) may only be made—
  - a) while the member remains an active member, or
  - b) not later than 30 days after he stops being an active member or such later date as the employing authority may agree.
- 10) But the employing authority may not agree under paragraph (9)(b) to the election being made later than—
  - a) one year before the member's NRD, or
  - b) the expiry of the period of six months beginning with the date he stops being an active member,whichever is later.
- 11) Where a person who has stopped being employed by an employing authority or being a member receives—
  - a) an ill-health grant under regulation 27,
  - b) a repayment of contributions under regulation 87, or
  - c) a payment under regulation 88(2),he must immediately be paid the accumulated value of the invested additional contributions mentioned in regulation 64(2).



## Appendix B: Limitations

- B.1 This note and the associated Factor Suite should not be used for any purpose other than for guidance in the calculation of transfer credits from AVCs.
- B.2 The factors contained in this note are subject to regular review. Administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- B.3 This note should be considered in its entirety as individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect.
- B.4 This note only covers the actuarial principles around the calculation of service credits in respect of AVCs for members who made an election to pay AVCs under regulation 60(1) of the 1997 Regulations prior to 13 November 2001. Any legal advice in this area should be sought from an appropriately qualified person or source.
- B.5 Administrators should satisfy themselves that the amended benefits arising from this option comply with all legislative requirements including, but not limited to, tax and contracting out requirements.
- B.6 This guidance is based on the Regulations in force at the time of writing. It is possible that future changes to the Regulations might create inconsistencies between this guidance and the Regulations. If users of this guidance believe there to be any such inconsistencies, they should bring this to the attention of DCLG. In no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.