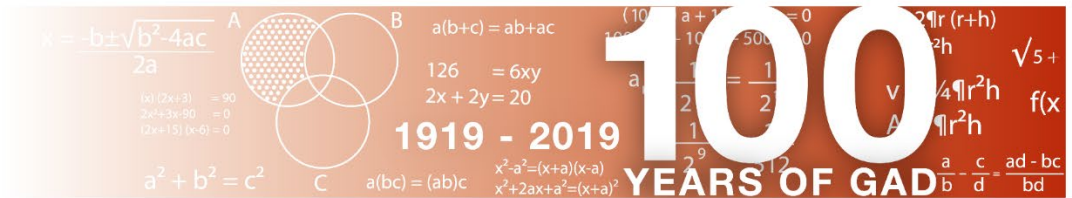




Government
Actuary's
Department



Local Government Pension Scheme (Northern Ireland)

Late Retirement

Date: 29 July 2019





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1 Introduction

- 1.1 The Department for Communities (DfC) is required to consult the Scheme Actuary before issuing actuarial guidance under The Local Government Pension Scheme Regulations (Northern Ireland) 2014 ('the 2014 Regulations') (SRNI 2014/188), to issue actuarial guidance on late retirement increases to benefits payable after normal pension age.
- 1.2 This guidance also applies to benefits accrued before 1 April 2015, including members who left active service before 1 April 2015, and to Councillor members.
- 1.3 The remainder of this introduction contains:
 - details of the implementation and future review of this guidance, and
 - statements about third party reliance and liability
- 1.4 In the remainder of this note:
 - the second section describes the increase to be applied on late retirement
 - the third section provides examples
 - Appendix A summarises the assumptions underlying the factors
 - Appendix B sets out the factors
 - Appendix C sets out some important limitations

Implementation and Review

- 1.5 DfC is required to consult the Scheme Actuary before issuing actuarial guidance under Regulation 2(3) of the 2014 Regulations.
- 1.6 As part of this consultation, the DfC has asked GAD to recommend actuarial guidance in respect of the regulations detailed above. This document forms GAD's recommendation for the actuarial guidance required by these regulations.
- 1.7 This note has effect only when it is issued by DfC in accordance with Regulation 2(3) of the 2014 Regulations. It is subject to the implementation instructions provided at that time. DfC has informed GAD that this guidance will come into force with effect from 1 September 2019.
- 1.8 This guidance replaces the previous guidance titled "Local Government Pension Scheme (Northern Ireland): Late Retirement" dated 21 March 2017.
- 1.9 Administrators should satisfy themselves that the late retirement increases awarded at retirement comply with all legislative requirements including, but not limited to, tax requirements. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 1.10 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 DfC.



- 1.11 In line with best practice and in order to make sure that factors are used as intended and the instructions are fit for purpose, we suggest that some example calculations are sent to GAD for review.
- 1.12 The factors contained in this guidance will be subject to review periodically. This will depend on external circumstances, for example whenever there is a change in the SCAPE basis; when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future actuarial valuation where mortality and other relevant experience is reviewed or if other credible and material information comes to light.

Relevant legislative references

- 1.13 This document sets out the general method for calculating late retirement increases under the 2014 Regulations for members [regulation 31 (4)] and pension credit members [regulation 31 (11)] deferring receipt of their pension until after normal pension age.
- 1.14 Regulation 3(5) of the Local Government Pension Scheme (Amendment and Transitional Provisions) Regulations (Northern Ireland) 2014 ("the 2015 Scheme Transitional Regulations") (SRNI 2014/189) able in accordance with the 2009 Scheme [Regulation 3(8) of the 2015 Scheme also refers to actuarial adjustments in respect of retirement pensions and retirement grants accrued before 1 April 2015.
- 1.15 Where a person has not been a member of the 2015 scheme, benefits payable in respect of service before 1 April 2015 are pay Transitional Regulations]. Details of the requirements under the 2009 Scheme are listed in the following paragraphs (which reflect the change made from the Government Actuary to DfC as the person responsible for issuing guidance) [Regulation 3(12) of the 2015 Scheme Transitional Regulations].
- 1.16 In relation to Regulation 17(2) of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations (Northern Ireland) 2009 ('the 2009 Regulations') (SRNI 2009/32), DfC is required to issue guidance to determine the increase applicable to benefits when a member remains in employment or joins the LGPS after their 65th birthday.
- 1.17 In relation to Regulation 29(5) of the 2009 Regulations, DfC is required to issue guidance to determine the increase applicable to accrued benefits when a member who has left service without immediate entitlement to benefits under any of regulations 16 to 20 chooses not to receive payment of those benefits immediately on attaining normal retirement age.
- 1.18 In relation to Regulation 14(3) of the 2009 Regulations, DfC is required to issue guidance to determine the increase to be applied to the additional pension where it is taken after normal retirement age.



- 1.19 A member may also have a transfer credit that was awarded under protected regulation 68(8) of The Local Government Pension Scheme Regulations (Northern Ireland) 2002 (SRNI 2002/352) protected by virtue of Schedule 1 of the Local Government Pension Scheme (Amendment and Transitional Provisions) Regulations (Northern Ireland) 2009 (SRNI 2009/34) and regulation 14(1)(b) of the 2015 Scheme Transitional Regulations. The transfer credit is treated as arising from pre-1 April 2015 membership and this guidance document is also relevant in determining any increases to be applied in respect of those transfer credits.
- 1.20 DfC has previously confirmed that similar increases should also be applied in respect of members who left service with immediate entitlement to benefits under regulation 16 or 16A of the 2009 Regulations but who choose not to receive payment immediately.

Third party reliance

- 1.21 This guidance has been prepared for the use of DfC and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on DfC and the scheme administrators' websites, but must not otherwise be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.
- 1.22 Other than DfC and the scheme administrators, no person or third party is entitled to place any reliance on the contents of this guidance, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this guidance, whether or not GAD has agreed to the disclosure of its advice to the third party.
- 1.23 When issued by DfC in accordance with paragraph 1.7 above, this note should be used as the actuarial guidance required under the regulations cited.



2 The increase in benefits

- 2.1 Benefits are increased if they are taken after the following normal pension ages (NPA):
- For service before 1 April 2015: age 65
 - For service on or after 1 April 2015: State Pension Age, or if higher, age 65 (except in the case of councillor members, where the age will be age 65).
- 2.2 DfC has confirmed that when calculating late retirement increases, State Pension Age should be based on legislation in force at the point benefits are paid.
- 2.3 Where the member has different NPA for pre-1 April 2015 and post-31 March 2015 service, separate late retirement increases should be calculated for each of these periods of service.
- 2.4 Where a member has two distinct NPAs and retirement occurs between them, only pre-2015 benefits are increased and the post-2015 benefits are reduced in accordance with the guidance document 'Early payment of pension'.
- 2.5 The process for calculating these increases is set out in paragraphs 2.8 to 2.12 below. It depends on how the period from NPA to retirement falls relative to 1 September 2019. If the member retired prior to 1 September 2019, then our previous guidance dated 21 March 2017 should be used to determine the relevant increases.
- 2.6 Subject to paragraph 2.16 below, the increase under this guidance should be applied to the total pre-April 2015 pension, including any Guaranteed Minimum Pension ("GMP") element of that pension. The increase should be applied to the benefits after Pensions Increases have been added in relation to any period of deferment.
- 2.7 Any commutation of pension should be applied after the pension has been increased with reference to the pension factors. The retirement grant factors should only be applied to automatic 3/80ths retirement grant (if any) deriving from pre-1 April 2009 service.



Calculation of late retirement increases

- 2.8 If the member reached NPA after **1 September 2019** the total late retirement increase is calculated as follows:

$$\text{Pension increase} = \text{DAY}(1) \times \text{LRFP}(1) + \dots + \text{DAY}(N) \times \text{LRFP}(N)$$

$$\text{Retirement grant increase} = \text{DAY}(1) \times \text{LRFRG}(1) + \dots + \text{DAY}(N) \times \text{LRFRG}(N)$$

Where:

N = the number of years the member has deferred retirement, including any part year. (Equivalently, the number of anniversaries of NPA before retirement plus one)

DAY(i) = the number of days in each separate year worked after NPA(i). That is, the number of days on or after each anniversary of the NPA up to, but not including, the next anniversary of the NPA. Starting with the day the member reached NPA (or 1 September 2019 if later) and up to but not including the date of retirement.

LRFP(i) = the late retirement increase pension factor for each year worked after NPA(i) set out in table 402 in Appendix B.

LRFRG(i) = the late retirement increase retirement grant factor for each year worked after NPA(i) set out in table 402 in Appendix B.

Members who reached NPA before 1 September 2019

- 2.9 If the member reached NPA (as defined in 2.1 above) prior to 1 September 2019 for any of part of their service, then additionally calculate the late retirement increases to pension and retirement grant for the period from the day the member reached NPA to 31 August 2019 inclusive. Use the method and factors specified in the previous guidance titled "Local Government Pension Scheme (Northern Ireland): Late Retirement" dated 21 March 2017.
- 2.10 The total late retirement increase for these members is the sum of the increases before 1 September 2019 (as set out in 2.9) and on and after 1 September 2019 (as calculated in 2.8).
- 2.11 See section 3, example 1, for the calculation for such a member.



Member with multiple distinct NPAs

2.12 Where a member has different NPAs for

- i. pre-1 April 2015 service,
- ii. post-31 March 2015 service, or
- iii. any pension credit benefits,

and reached all of them prior to retiring, separate total late retirement increases should be determined and applied separately for each. If the member is retiring at or before any of their NPAs, then the respective total late retirement increase should only be determined and applied to the benefit tranches where they have passed the NPA at retirement.

2.13 See section 3, example 2, for the calculation for such a member.

Further considerations

- 2.14 DfC has confirmed where an addition to a member's benefits applies as a result of the statutory underpin (Regulation 4(4) of The Local Government Pension Scheme (Amendment and Transitional Provisions) Regulations (Northern Ireland) 2014 ('the 2015 Scheme Transitional Regulations') (SRNI 2014/189)), and the member's benefits are taken after age 65, all of the member's benefits accrued up to normal retirement age in the 2009 Scheme, whether accrued before or after 1 April 2015, including the addition due to the statutory underpin, are subject to an adjustment for late payment by reference to age 65. 2015 Scheme benefits earned after the member's normal retirement age in the 2009 Scheme will be subject to adjustment (whether upwards for late payment or downwards for early payment) by reference to the member's normal pension age in the 2015 Scheme.
- 2.15 Under regulations 27(7) and 28(6) of the 2014 Regulations, once in payment, retirement pensions should be increased in accordance with the 'index rate adjustment' (i.e. under the Pensions Increase Acts). Any pension accrued under the 2009 Regulations should also be increased under the Pensions Increase Acts.
- 2.16 Regulations 31(3) and 31(11) of the 2014 Regulations require that the pension must come into payment no later than the date when that member attains the age of 75.
- 2.17 Section 9 of the Pension Schemes (Northern Ireland) Act 1993 requires member consent if GMPs are deferred by more than 5 years after GMP pension age (which is age 60 for females and age 65 for males). Where a member elects to draw the GMP element of their total benefits, only the excess pension (over the GMP) should be increased at retirement in accordance with paragraph 2.3. This also applies where a deferred pension has been postponed until after age 65 but where the GMPs have been brought into payment earlier (at or after GMP pension age).



- 2.18 A councillor who was a deferred member of the Scheme in respect of a new council (as defined in the 2015 Scheme Transitional Regulations), or an active member of the Scheme before 1 April 2015, and who becomes a member of the 2015 Scheme will receive benefits deriving from their pre-1 April 2015 service increased for late payment (or reduced for early payment) by reference to retirement age 65, and benefits for post-1 April 2015 service increased for late payment (or reduced for early payment) by reference to NPA.
- 2.19 The factors in this guidance have been provided in a format to provide a smooth transition for individual members when factors are updated as required at periodic reviews. They provide outcomes of broadly actuarial neutrality within the constraints of the format adopted.



3 Examples

Example 1: Late retirement from active service, NPA reached before September 2019

Consider a male member, whose 65th birthday fell on 30 October 2017. His State Pension age is therefore age 65 and his NPA for late retirement increases is 65 for both pre and post 2015 service.

The member decides to remain as an active member and retire on 29 February 2020, with his last day of service being 28 February 2020. His period worked after NPA includes the date at which new factors came into force on 1 September 2019. It is assumed that the statutory underpin has no impact on the member's benefits.

The member has three tranches of service as follows:

- (1) Pre-2009 Pension and Retirement Grant: Critical retirement age of 62
- (2) Post-2009 Pre-2015 Pension: Normal pension age of 65
- (3) Post-2015 Pension: Normal pension age of 65

Member's benefits at 29 February 2020 before late retirement additions:

Pre-2009 CRA 62:	Pension	£13,000.00 pa
	Retirement Grant	£39,000.00
Post-2009 Pre-2015 NPA 65:	Pension	£10,000.00 pa
Post-2015 NPA 65:	Pension	£6,000.00 pa

The late retirement increases should be calculated as follows.

Late retirement factors for pre-2015 apply from the member's 65th birthday, including for the benefits for which CRA applies. All the member's pre-2015 pension will therefore receive the same late retirement increase. In this instance, this will also be the same as the increase that should be applied to post-2015 pension.

The period from (and including) his 65th birthday to retirement is 2 years 122 days. The period from (and including) 1 September 2019 to retirement is 181 days.

(continued overleaf)



Pre 1 September 2019 late retirement increase

Using the method and factors in the late retirement guidance dated 23 January 2017.

Pension uplift = 6.71%

Grant uplift = 0.671%

Post 1 September 2019 late retirement increase

Apply uplift for the pension from the period from 1 September 2019 to retirement i.e.:

Period	Years late	Time elapsed	Increase per day
1 September 2019 to 67 th birthday	2	59 days	0.011%
67 th birthday to retirement	3	122 days	0.012%

Pension uplift = 59 x 0.011% + 122 x 0.012% = 2.113%

Use a similar method for the grant with a factor of 0.001% for all years.

Grant uplift = (59 + 122) x 0.001% = 0.181%

Total increase at date of retirement

Total pension increase = 6.71% + 2.113% = 8.823%

Total grant increase = 0.671% + 0.181% = 0.852%

The member's benefits payable from 29 February 2020 are:

Pre-2009 CRA 62 Pension =	13,000.00 x 1.08823	= £14,146.99pa
Pre-2009 CRA 62 Retirement grant =	39,000.00 x 1.00852	= £39,332.28
Post-2009 Pre-2015 NPA 65 pension =	10,000.00 x 1.08823	= £10,882.30pa
Post 2015 NPA 65 Pension =	6,000 x 1.08823	= £6,529.38pa

In aggregate:

Total pension =	£14,146.99 + £10,882.30 + £6,529.38	= £31,558.67pa
Total retirement grant =		= £39,332.28

The member could decide to commute part of his pension into an additional lump sum.



Example 2: Late retirement with two distinct NPA, both after 1 September 2019

Consider a female member, whose 65th birthday falls on 6 October 2019. The member has two tranches of pension: one with NPA 65 and the other with NPA 65 years and 8 months (6 June 2020)

The member decides to remain as an active member and retire on 28 February 2022, with her last day of service being 27 February 2022. It is assumed that the statutory underpin has no impact on the member's benefits.

Member's benefits at 28 February 2022 before late retirement additions:

Pre-2015 NPA 65:	Pension	£18,000.00 pa
	Retirement Grant	£54,000.00
Post-2015 NPA 65 years 8 months:	Pension	£3,000.00 pa

The late retirement increases should be calculated as follows:

The member reached age 65 after 1 September 2019, so no pre 1 September 2019 increase needs to be calculated.

The period from (and including) her 65th birthday to retirement is 2 years 145 days.

The period from (and including) age 65 years 8 months to retirement is 1 year and 267 days.

Pre-2015 Pension NPA 65:

Apply uplift for the period between their 65th birthday and retirement i.e. 2 years 145 days:

Period	Years late	Time elapsed	Increase per day
65 th birthday to 66 th birthday	1	366 days	0.010%
66 th birthday to 67 th birthday	2	365 days	0.011%
67 th birthday to retirement	3	145 days	0.012%

$$\text{Pension uplift} = 366 \times 0.010\% + 365 \times 0.011\% + 145 \times 0.012\% = 9.415\%$$

Post-2015 Pension NPA 65 years 8 months:

Apply uplift for the 1 year 267 days between NPA at age 65 years 8 months and retirement:

Period	Years late	Time elapsed	Increase per day
1 year from age 65 years 8 months	1	365 days	0.010%
Age 66 years 8 months to retirement	2	267 days	0.011%

$$\text{Pension uplift} = 365 \times 0.010\% + 267 \times 0.011\% = 6.587\%$$

(continued overleaf)



Retirement grant NPA 65:

Apply uplift for the period between their 65th birthday and retirement i.e. 2 years 145 days:

$$\text{Grant uplift} = (366 + 365 + 145) \times 0.001\% = 0.876\%$$

The member's benefits payable from 28 February 2022 are:

Pre-2015 NPA 65 Pension: 18,000.00 x 1.09415 = £19,694.70 pa

Pre-2015 NPA 65 Retirement grant: 54,000.00 x 1.00876 = £54,473.04

Post-2015 NPA 65 yrs 8 mths Pension: 3,000.00 x 1.06587 = £3,197.61 pa

The member could decide to commute part of her pension into an additional lump sum.



Example 3: Late retirement for a deferred member

Consider a deferred male member, whose NPA is 65 years 7 months and 7 days. The member reaches his normal retirement age on 6 January 2020.

The member's last day of service was 30 April 2018 but he retired on 31 December 2020, almost a year after his NPA. It is assumed that the statutory underpin has no impact on the member's benefits.

The member's total benefits at 31 December 2020 before late retirement additions are:

Post-2015 NPA 65 years 7 months 7 days	Pension	£5,000.00 pa
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The late retirement increase would be calculated as follows:

The period from his NPA date of 6 January 2020 until 30 December 2020 (the day before his benefits become payable) inclusive is 0 years 360 days total.

The member reached NPA after 1 September 2019, so no pre-1 September 2019 increase needs to be calculated.

Post-2015 Pension NPA 65 years 7 months 7 days:

Period	Years late	Time elapsed	Increase per day
<i>NPA to retirement</i>	1	360 days	0.010%

Pension uplift = $360 \times 0.010\% = 3.60\%$

The benefits on late retirement at 31 December 2020 are:

Member's pension: **5,000.00 x 1.0360** **= £5,180.00 pa**

The member could decide to commute part of his uplifted pension into an additional lump sum.

Note that the same method would apply to pension credit members.



Appendix A: Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.448% pa
CPI	2.00% pa
Long term earnings growth	4.20% pa
Real discount rate (in excess of CPI)	2.40% pa

Mortality assumptions

	Males	Females
Retirements in normal health	103% of S2PMA	97% of S2PFA
Retirements in ill-health	103% of S2IMA	102% of S2IFA
Dependants	103% of S2PMA	97% of S2PFA

Future mortality improvement	Based on ONS principal UK population projections 2016
Year of Use	2020

Other assumptions

Proportion of male members for unisex factors	45%
Proportion partnered	N/A
Age difference between member and partner	Males assumed 3 years older than their partners and female members assumed 2 years younger than their partners
Allowance for commutation	N/A



Appendix B: Factors

Table 402: Late retirement increase for pre and post 31 March 2015 benefits

<i>Years late</i>	<i>Pension Increase (%)</i>	<i>Retirement Grant Increase (%)</i>
1	0.010%	0.001%
2	0.011%	0.001%
3	0.012%	0.001%
4	0.013%	0.001%
5	0.014%	0.001%
6	0.016%	0.001%
7	0.017%	0.001%
8	0.019%	0.001%
9	0.021%	0.001%
10	0.023%	0.001%



Appendix C: Limitations

- C.1 This guidance should not be used for any purpose other than those set out in this guidance.
- C.2 The factors contained in this guidance are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- C.3 Advice provided by GAD must be taken in context and is intended to be considered in its entirety. Individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect. GAD does not accept responsibility for advice that is altered or used selectively. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.
- C.4 This guidance only covers the actuarial principles around the calculation and application of late retirement factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- C.5 Scheme managers and administrators should satisfy themselves that late retirement calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- C.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 DfC and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.