

**The Local Government Pension Scheme
(England and Wales)
Individual Incoming & Outgoing Transfers**

Version 2: new transfer factors from October 2008

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Table of Contents

1	Legislative background	2
2	Transfers out	3
3	Transfers in	6
4	Examples	8

1 Legislative background

- 1.1 Under Regulation 83 of the Local Government Pension Scheme (Administration) Regulations 2008 (“the Administration Regulations”) (SI 2008/239), a member may elect to transfer benefits from another scheme to the LGPS to be credited with additional membership. Under regulation 79 of the Administration Regulations, a member may elect to transfer benefits from the LGPS to another scheme.
- 1.2 Existing guidance on these topics is provided in the note issued by the Government Actuary’s Department (GAD) in September 1995, entitled “New Factors for Individual Transfers from 1 October 1995” (and an extension plus some minor revisions were made later that year).
- 1.3 In 1999 a change was made to the yield definition for the purposes of adjustment for market conditions, a further note was issued in March 2004 providing additional clarification of how the 1995 guidance should be applied, and a letter from Andrew Johnston to Terry Crossley dated 18 October 2006 had the effect of revising the 1995 guidance to allow for the introduction of new early retirement factors from 1 October 2006. A note dated 27 April 2005 was issued to allow for the changes that were to be made by the Local Government Pension Scheme (Amendment) (No 2) Regulations 2004. However, since most of these amendments were later made ineffective, that guidance is not needed.
- 1.4 From April 2008, further consolidated guidance was produced to accommodate the scheme changes introduced that month, and subsequently, from October 2008, new transfer factors were promulgated. The latest version of these new factors was issued on 23 March 2009 and is entitled “Actuarial Factors for Individual Cash Equivalent and Club Transfers from 1 October 2008 – version 1.3” (referred to as v1.3 of the Transfer Factor Suite). This guidance note should be read in conjunction with the latest version of the Transfer Factor Suite.
- 1.5 This note has been prepared by GAD at the request of Communities and Local Government (CLG), and issued to them for onward transmission to administering authorities and employing authorities. Its purpose is to provide guidance reflecting the changes to the LGPS coming into force on 1 April 2008 (insofar as they are relevant to the treatment of incoming and outgoing individual transfers) in the context of the new transfer factors that have applied from October 2008. The Government Actuary has approved the release of this guidance.
- 1.6 Transfers within the public-sector transfer club are covered by the “Club Memorandum” published by Cabinet Office. The latest edition of the memorandum at the time of writing is PSTC3 that was issued in dated January 2009; it incorporates the new club transfer and adjustment for market conditions factors that have applied since October 2008.
- 1.7 This guidance also makes allowance for the provisions of the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI 2008/238) (“The Transitional Regulations”).
- 1.8 Community Scheme Transfers under regulation 85 of the Administration Regulations are not covered by this guidance. Funds should contact Local Government Employers (LGE) on an individual basis when dealing with a potential transfer under this regulation.

2 Transfers out

- 2.1 Cash equivalents and Club transfers for members with no service after 31 March 2008 can be calculated using the guidance as it stood at that date, but using the new transfer factors where applicable. Members with some or all of their service after 31 March 2008 will require different treatment as described below.
- 2.2 The main effect upon the calculation of outgoing transfer values of the changes coming into force on 1 April 2008 will arise because LGPS benefits accruing from that date will take the form of a pension based on a one-sixtieths accrual rate, rather than a one-eightieths pension plus a separate three-eightieths lump sum. Thus, before the exercise of any commutation option, benefits accrued from 1 April 2008 will consist only of member pension and associated contingent survivor benefits and children's pensions and the relevant factors should be applied to these benefits. Therefore, the lump sum factor for retirement grants will not be required in respect of this element of benefits.
- 2.3 Account also needs to be taken of the different pension ages applicable to different cohorts of members and in some cases to different periods of their service. For a member who only has service accrued on or after 1 April 2008, pension age 65 ("PA65") applies to the whole of their service. Under the current approach, it is necessary to apply a 5-year conversion factor to the PA60 pension factor (as shown in the Transfer Factor Suite).
- 2.4 Calculations will also potentially be further complicated by the need to recognise periods of service and cohorts of members with different combinations of accrual rate and pension age. For example, members in service both before and after 1 April 2008 will have benefits based on mixed accrual rates.
- 2.5 Similarly, many members in service both before 1 October 2006 and after 1 April 2008 will have service with mixed retirement ages. Separate calculations using factors specific to the applicable pension age in each case will need to be used in respect of periods with different pension ages (although, once again, no retirement grant will be included in respect of post-2008 service). If such a member has additional pension, or membership gained other than through active service, then those benefits may also have a different retirement age, in which case those elements will also require a separate calculation.
- 2.6 At most, a member may have some CRA membership, some taper membership and some PA65 membership; some elements of such membership may be based on eightieths accruals and other elements on sixtieths, but in no case should it be necessary to calculate more than three intermediate CETVs (see Groups 1 and 2 in Table 1 below).
- 2.7 For each element of service to which a particular retirement age attaches, a separate calculation will be required using transfer factors for that specific retirement age. Under the current approach, for PAs above 60, it is necessary to apply the appropriate conversion factors, both in the case of outgoing non-Club CETVs and in the case of Club transfers (as shown in the Transfer Factor Suite).
- 2.8 Appropriate Adjustments for Market conditions (AMCs - as shown in the Transfer Factor Suite) should be applied – a "mixed" (pension and lump sum) AMC to outgoing non-Club transfer values where there is a Retirement Grant attaching to eightieths benefits (and also – as required under Club rules – in Club cases of all types) and a

Local Government Pension Scheme (England and Wales)
Individual incoming and outgoing transfers – v2: new factors from October 2008

“pension-only” AMC to outgoing non-Club transfer values where benefits are sixtieths and there is no attaching Retirement Grant.

2.9 If four categories of members and four of service are defined as set out below, the various combinations required for taking into CETV calculations are as set out in Table 1.

- Group 1: A member who was a member before 1st October 2006, and born on 31 March 1956 or earlier;
 - Group 2: A member who was a member before 1st October 2006, and born between 1 April 1956 and 31 March 1960 inclusive and who would reach their Critical Retirement Age by 31st March 2020;
 - Group 3: A member who was a member before 1st October 2006 who is not a Group 1 or Group 2 member;
 - Group 4: A member who was not a member before 1st October 2006.
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- Part A: Membership up to and including 31 March 2008
 - Part B: Membership from 1 April 2008 to 31 March 2016
 - Part C: Membership from 1 April 2016 to 31 March 2020
 - Part D: Membership from 1 March 2020

Table 1: combinations of pension age and accrual rate for CETV calculations

Membership type	Member category			
	Group 1	Group 2	Group 3	Group 4
Part A	CRA/80ths	CRA/80ths	CRA/80ths	65/80ths
Part B	CRA/60ths	Taper/60ths	65/60ths	65/60ths
Part C	65/60ths	Taper/60ths	65/60ths	65/60ths
Part D	65/60ths	65/60ths	65/60ths	65/60ths

2.10 The Early Retirement Guidance provides instructions on how to allocate periods of membership not gained through active service. Additional Pension benefits under regulations 13 or 14 of the Benefits Regulations do not require an accrual rate to calculate and their value should be calculated using PA65 factors. The factors should be applied to the accrued additional pension in the same way as they would be applied to other accrued pension for service from April 2008.

2.11 In order to calculate the part of a CETV in respect of taper membership under the current approach, special conversion factors are required for the adjustment to pension factors that converts from PA60 to other retirement ages. The tapered conversion factors for Part B and C membership of Group 2 members are calculated according to the taper period which is the number of years between 31 March 2016 and the date on which the member would first satisfy the rule of 85 and would also be aged 60 or over. Part-years should be taken into account in this calculation the result of which should be between 0 and 4 years. The interpolation factor (F) is then equal to the taper period divided by 4 years. Then the tapered conversion factors are interpolated from the CRA and age 65 factors as follows:

Local Government Pension Scheme (England and Wales)
Individual incoming and outgoing transfers – v2: new factors from October 2008

$$P_{Taper} = F_I \times P_{65} + (1 - F_I) \times P_{CRA}$$

P_{CRA} , P_{65} , and P_{Taper} are the pension conversion factors for critical retirement age, PA65 and taper service, respectively. Conversion factors are not used for spouse's pension or GMPs and no lump sums are accrued subject to tapered protection. Example calculations of a Group 2 and Group 3 member are shown in section 4.

- 2.12 If the fund has previously received a non-club transfer in respect of the member, then an underpin applies in the case of a non-club transfer value calculation. The underpin is equal to the amount of the transfer received plus member contributions paid to the LGPS.
- 2.13 The protected-rights element of a non-club transfer value is equal to the value of the GMP calculated using the protected rights factors plus the value of benefits accrued after 6 April 1997, excluding added years or additional pension.
- 2.14 Members may flexibly retire, receiving a pension while remaining in service. If such a member leaves service and requests a CETV for the purposes of transferring a pension then the CETV should include allowance for the deferred benefits but not the benefits in payment. If such a member requests a CETV for the purposes of divorce, the following approach should be adopted. A CETV can be calculated for the pension in payment as it would be calculated for a full pensioner and in addition a separate CETV can be calculated for the benefits that have not yet come into payment as would be calculated for an active or deferred member. The sum of these two elements would then be the total CETV that should be quoted.
- 2.15 LGPS Club calculations should be based on the approach described above for CETV calculations, except that the Club earnings cap should not form part of these calculations (and, as noted in paragraph 2.8, a different AMC will apply).
- 2.16 All Club and outgoing non-Club CETV calculations in relation to 60ths benefits should be undertaken using only the pension factors and ignoring the lump sum factors. However, in the case of Club calculations, the mixed pension-and-lump sum AMCs should be applied, whereas in the case of outgoing non-Club CETV calculations, the pension-only AMCs should be applied.
- 2.17 A member is entitled to a CETV quotation for the purposes of transferring their pension provided that they make a transfer request while under age 64. A CETV quotation for divorce purposes must be provided at any age.
- 2.18 A transfer-out by a Councillor is always a non-Club transfer, whether the receiving scheme is a Club or non-Club scheme since Councillor benefits are not final salary benefits.

3 Transfers in

- 3.1 A member may request his Fund to accept a transfer value if the request is made within 12 months of joining or such longer period as his employer may allow. CLG policy is that transfer credits should not be granted after age 64½.
- 3.2 All incoming transfer credits should be calculated by reference to PA65. If the member subsequently retires before attaining age 65, their transferred-in benefits will then be subject to the normal early retirement reductions applicable to PA65 benefits, as described in the GAD guidance on early retirement.
- 3.3 Where members joined prior to 1 April 2008, transfer credits should be calculated so as to produce a service credit expressed in “80ths” form. For Club transfers-in, this will require a calculation involving both the pension and lump sum factors set out in the tables of Club transfer factors (currently PA60 tables with a 5-year conversion factor), and the application of a mixed pension-and-lump sum AMC. For non-Club transfers-in, this will require a calculation using both the pension and lump sum factors set out in the tables of non-Club transfer-in PA65/80ths factors (ie currently “Age 60 to convert to PA65”), and the application of a mixed pension-and-lump sum AMC.
- 3.4 Where members joined on or after 1 April 2008, transfer credits should be calculated so as to produce a service credit expressed in “60ths” form. For Club transfers-in, this will require a calculation involving only the pension factors set out in the tables of Club transfer factors (currently PA60 tables with a 5-year conversion factor), but the methodology agreed within the Club requires nevertheless that a mixed pension-and-lump sum AMC should be applied. For non-Club transfers-in, this will require a calculation using the pension factors set out in the tables of non-Club transfer-in PA65/60ths factors (ie currently “Age 60 to convert to PA65”); nevertheless, a mixed pension-and-lump sum AMC should be applied, because the pension factors have been developed allowing for some commutation for lump sum.
- 3.5 For the avoidance of doubt, no lump sum factor is required for service credits in 60ths form. The partner’s accrual rate remains at 160ths, which now represents 37.5% of the member’s 60ths pension.
- 3.6 Transfer credits awarded under protected regulation 66(5) of the 1997 Regulations should be calculated according to the GAD guidance under protected regulation 66(8). These credits will count as PA65 membership for the purposes of early retirement and will have an 80ths accrual rate for member’s pension and 160ths rate for partner’s pension but will have no attaching Retirement Grant.
- 3.7 If a member whose pay in the LGPS is above the Club earnings cap transfers in service that was subject to (or potentially subject to) an earnings cap in the sending scheme using a Club Transfer then a further adjustment is required as agreed by CLG. The service credit awarded should first be calculated with regard to the Club earnings cap. The credit should then be multiplied by the ratio of the Club earnings cap to the member’s pay in the LGPS. The Club earnings cap will be notified annually to Club schemes and will reflect the uprated Inland Revenue earnings cap if it had not been disapplied by HMRC. In 2009/10 the Club earnings cap is £123,600 a year. Since April 2006, the LGPS has not applied an earnings cap and thus the earnings cap does not need to be considered for any non-Club transfers in and for Club transfers-in from schemes which do not apply an earnings cap.
- 3.8 Members who were members immediately before 1 April 1998 could count the actual service relating to transferred-in benefits when calculating their rule of 85 age if that

Local Government Pension Scheme (England and Wales)
Individual incoming and outgoing transfers – v2: new factors from October 2008

service was greater than the service credit. However, this is not possible for credits awarded on or after 1 April 2008.

- 3.9 Section 4 has an example of the calculation for a member joining on or after 1 April 2008.



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Local Government Pension Scheme (England and Wales)
 Individual incoming and outgoing transfers – v2: new factors from October 2008

4 Examples

1 CETV calculation for a member with CRA pre-2008 service and NRA65 post-2008 service

Member data:

Date of birth: 1 July 1965
 Sex: Male
 Marital status: Married
 Date of joining: 1 July 1985
 Guarantee date: 1 July 2008
 Yield on guarantee date: 2%
 (NB this is assumed and will not necessarily be the actual yield on that date)

Total service: 23 years 0 days
 Pre-2008 service: 22 years 274 days
 Post-2008 service: 91 days
 Final pensionable salary: £20,000
 Date of leaving: 30 June 2008

Pre-88 GMP £100 pa
 Post-88 GMP £500 pa

Initial Calculations

Service before 1 April 2008

Critical retirement age = 60

Mixed pension and lump sum benefits

Pension	= $(22+274/365) \times £20,000 / 80$	= £ 5,687.67 pa
Retirement grant	= $3 \times £5,687.67$	= £17,063.01
Dependants' pension	= $£5,687.67 / 2$	= £ 2,843.84 pa

Service from 1 April 2008

Critical retirement age = 65

Pension only benefits

Pension	= $91/365 \times £20,000 / 60$	= £ 83.11 pa
Dependants' pension	= $91/365 \times £20,000 / 160$	= £ 31.16 pa

Local Government Pension Scheme (England and Wales)
Individual incoming and outgoing transfers – v2: new factors from October 2008

Factors (Male, Aged 43 last birthday at Guarantee date)	
Pension Factor (CRA 60)	9.99
Retirement Grant Factor (CRA 60)	0.57
Partner's Factor (Married)	1.78
GMP Factor	2.54
Pension Conversion Factor (NRA60 to NRA65)	0.76
Retirement Grant Conversion Factor (NRA60 to NRA65)	0.88
Post-88 GMP Adjustment Factor	0.25
AMC (mixed pension and lump sum)	1.12
AMC (pension only)	1.12

Individual transfer (mixed pension and lump sum)

5,687.67	x 9.99	= £56,819.82
17,063.01	x 0.57	= £ 9,725.92
2,843.84	x 1.78	= £ 5,062.04
Total		= £71,607.78

Less GMP (£100 + 0.25 x £500) x 2.54 = (£571.50)

Amount before AMC = £71,036.28

Amount after AMC (71,036.28 x 1.12) = £79,560.63

Individual transfer (pension only)

83.11	x 0.76	x 9.99	= £ 631.00
31.16		x 1.78	= £ 55.46
Total			= £ 686.46

Amount before AMC = £ 686.46

Amount after AMC (686.46 x 1.12) = £ 768.84

Total individual Transfer Value = £80,329.47

Local Government Pension Scheme (England and Wales)
 Individual incoming and outgoing transfers – v2: new factors from October 2008

2 CETV calculation for a member with CRA pre-2008 service and taper post-2008 service

Member data:

Date of birth: 1 July 1958
 Sex: Male
 Marital status: Married
 Date of joining: 1 July 1985
 Guarantee date: 1 July 2008
 Yield on guarantee date: 2%
 (NB this is assumed and will not necessarily be the actual yield on that date)

Total service: 23 years 0 days
 Pre-2008 service: 22 years 274 days
 Post-2008 service: 91 days
 Final pensionable salary: £20,000
 Date of leaving: 30 June 2008

Pre-88 GMP £100 pa
 Post-88 GMP £500 pa

Initial Calculations

Service before 1 April 2008

Critical retirement age = 60

Mixed pension and lump sum benefits

Pension	= $(22+274/365) \times £20,000 / 80$	= £ 5,687.67 pa
Retirement grant	= $3 \times £5,687.67$	= £17,063.01
Dependants' pension	= $£5,687.67 / 2$	= £ 2,843.84 pa

Service from 1 April 2008

Critical retirement age = 60

Pension only Benefits

Pension	= $91/365 \times £20,000 / 60$	= £ 83.11 pa
Dependants' pension	= $91/365 \times £20,000 / 160$	= £ 31.16 pa

Local Government Pension Scheme (England and Wales)
Individual incoming and outgoing transfers – v2: new factors from October 2008

Factors (Male, Aged 50 last birthday at Guarantee date)	
Pension Factor (CRA60)	12.64
Retirement Grant Factor (CRA60)	0.72
Partner's Factor (Married)	2.19
GMP Factor	2.90
Pension Adjustment Factor (NRA60 to NRA65)	0.76
Pension Adjustment Factor (NRA60 to CRA)	1.00
Post-88 GMP Adjustment Factor	0.25
AMC (mixed pension and lump sum)	1.12
AMC (pension only)	1.12

Taper adjustment factor

Taper period = 31/03/2016 – 01/07/2018 = 2 years 93 days

Interpolation factor = $(2+93/365) / 4 = 0.5637$

Tapered pension adjustment factor = $0.5637 \times 0.76 + (1 - 0.5637) \times 1.00 = 0.8647$

Individual transfer (mixed pension and lump sum)

5,687.67	x 12.64	= £ 71,892.15
17,063.01	x 0.72	= £ 12,285.37
2,843.84	x 2.19	= £ 6,228.01
Total		= £ 90,405.53
Less GMP (£100 + 0.25 x £500)	x 2.90	= (£ 652.50)
Amount before AMC		= £ 89,753.03
Amount after AMC (89,753.03	x 1.12)	= £100,523.39

Individual transfer (pension only)

83.11 x 0.8647	x 12.64	= £ 908.38
31.16	x 2.19	= £ 68.24
Total		= £ 976.62
Amount before AMC		= £ 976.62
Amount after AMC (976.62	x 1.12)	= £ 1,093.81
Total individual Transfer Value		= £101,617.20

Local Government Pension Scheme (England and Wales)
Individual incoming and outgoing transfers – v2: new factors from October 2008

3 Transfer-in for a post-2008 joiner

Member data:

Date of birth: 1 July 1975
Sex: Female
Marital status: Single
Date of joining: 1 July 2008
Salary: £20,000
Transfer date: 1 July 2008
Age 33 last birthday at Transfer Date
Yield on transfer date: 2%
(NB this is assumed and will not necessarily be the actual yield on that date)

Transfer value: £20,000
Pre-88 GMP: nil
Post-88 GMP: £100 pa

Factors (Female, aged 33 last birthday at Transfer date)	Club	Non-club
Pension Factor (CRA60)	7.48	14.01
Partner's Factor (Single)	0.57	1.16
GMP Factor	1.79	1.79
Pension Conversion Factor (PA60 to PA65)	0.77	0.77
Post-88 GMP Adjustment Factor	n/a	0.25
Post-88 GMP Conversion Factor (PA60 to PA65)	-1.20	n/a
AMC (mixed pension and lump sum)	1.12	1.12

Club calculation (assuming pensionable pay was also £20,000 in the previous club scheme)

Cost of 1 years service
 $\text{£}20,000 / 60 \times [7.48 \times 0.77 + 0.57 \times 60 / 160] = \text{£}1,991.12$

Adjusted Transfer Value
 $\text{£}20,000 / 1.12 + (-1.20) \times \text{£}100 \times 1.79 = \text{£}17,642.34$

Service credit
 $\text{£}17,642.34 / \text{£}1,991.12 = 8 \text{ years } 314 \text{ days}$

Non-club calculation

Cost of 1 years service
 $\text{£}20,000 / 60 \times [14.01 \times 0.77 + 1.16 \times 60 / 160] = \text{£}3,740.90$

Adjusted Transfer Value
 $\text{£}20,000 / 1.12 + 0.25 \times \text{£}100 \times 1.79 = \text{£}17,901.89$

Service credit
 $\text{£}17,901.89 / \text{£}3,740.90 = 4 \text{ years } 287 \text{ days}$

Note: this member has PA65 for all benefits. However since the 'core' transfer table is based on NRA 60, the pension factor must be adjusted to be appropriate for NRA 65. More guidance on this point is provided in the original CETV instructions.