



# Government Actuary's Department

## **Local Government Pension Scheme (Scotland)**

### **Late Retirement**

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## 1 Introduction

- 1.1 The Scottish Ministers are required under the Local Government Pension Scheme (Scotland) Regulations 2014 ('the 2014 Regulations') (SSI 2014/164), 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 sets out the factors
  - > Appendices B and C quote the relevant statutory references
  - > Appendix D sets out some important limitations

### Implementation and Review

- 1.5 The Scottish Ministers are required to consult the Scheme Actuary before issuing actuarial guidance under the 2014 Regulations [Regulation 2(3) of the 2014 Regulations].
- 1.6 As part of this consultation the Scottish Public Pensions Agency (SPPA) has asked GAD, as Scheme Actuary, 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 this guidance is issued by the Scottish Ministers in accordance with Regulation 2(3) of the 2014 Regulations, and is subject to the implementation instructions provided at that time. SPPA has informed GAD that this guidance will come into force with effect from 24 April 2017.
- 1.8 This guidance replaces the previous guidance dated 26 February 2015. In particular, Late Retirement Factors have been updated but the calculation methodology remains unchanged, and unisex factors have replaced gender specific factors. Therefore examples in the previous guidance, updated for factors in this guidance can be used for illustrative purposes.



- 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 SPPA.
- 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 SPPA 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 Scottish Ministers in accordance with paragraph 1.7 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 The increase in benefits

- 2.1 Pensions are increased if they are taken after the following ages:
- > For service before 1 April 2015: age 65
  - > For service on or after 1 April 2015: State Pension Age, or if higher, age 65
- 2.2 For members retiring after age 65 with a State Pension Age greater than 65, retirement might occur between age 65 and State Pension Age, or after State Pension Age. Where retirement takes place after age 65 but before State Pension Age, the pre-2015 benefits will be adjusted upwards in accordance with this guidance document and the post-2015 benefits will be adjusted downwards in accordance with the guidance document "Early Retirement". Where retirement takes place at State Pension Age, benefits from pre-2015 service will be adjusted upwards in accordance with this guidance document. Where retirement takes place after State Pension Age, benefits from both periods will be adjusted upwards in accordance with this guidance document but different increases will apply to service before 1 April 2015 and on or after 1 April 2015.
- 2.3 SPPA has confirmed that, 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 (Transitional Provisions and Savings) (Scotland) Regulations 2014 ('the 2015 Scheme Transitional Regulations') (SSI 2014/233)), 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.
- 2.4 SPPA has also confirmed that State Pension Age for the purpose of calculating late retirement factors should be based on legislation in force at the point benefits are paid.
- 2.5 The pension and retirement grant (if payable) should be uplifted in accordance with the factors set out in the table in Appendix A to this document. The table in Appendix A has a single unisex column for the increments that need to be applied to the pensions of both male and female members, and a single column for the increments to be applied to any retirement grant. The retirement grant factors should only be applied to automatic retirement grants: any commutation should be taken after the pension has been increased with reference to the pension factors. Where the member retires in between ages the factors should be interpolated.
- 2.6 Subject to paragraph 2.9 below, the increase under this guidance should be applied to the total pension, including the Guaranteed Minimum Pension ("GMP") element of the pension. The increase should be applied to the benefits after Pensions Increases have been added in relation to any period of deferment.



- 2.7 Under regulations 26(6) and 28(3) 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 and earlier schemes should also be increased under the Pensions Increase Acts.
- 2.8 Regulations 29(3) and 29(11) of the 2014 Regulations require that the pension must come into payment no later than the day before the member's 75<sup>th</sup> birthday.
- 2.9 Section 13 of the Pension Schemes 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 2.5. 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).



### **3 Examples**

- 3.1 The calculation methodology is unchanged from the previous guidance and therefore examples in the previous guidance, updated for factors in this guidance can be used for illustrative purposes.



## Appendix A: Factors

<i>Years late</i>	<i>Pension Increase (%)</i>	<i>Retirement Grant Increase (%)</i>
0	0.0%	0.0%
1	3.5%	0.3%
2	7.2%	0.6%
3	11.3%	0.9%
4	15.7%	1.2%
5	20.5%	1.5%
6	25.7%	1.8%
7	31.3%	2.1%
8	37.4%	2.4%
9	44.1%	2.7%
10	51.2%	3.0%

### Notes:

- (1) Where the member's 'Age at Retirement' is not an integer number, the factors from the table should be interpolated for part years.
- (2) Subject to paragraph 2.3, the above factors should be applied separately for pre-1 April 2015 benefits (by reference to age 65, regardless of whether the member has a right to retire with an unreduced pension before the age of 65), and to post-1 April 2015 benefits (by reference to Normal Pension Age).





## Appendix B: Cited Regulations

### B.1 Excerpts from the 2014 Regulations<sup>1</sup>

#### Introductory

##### 2.—

...

(3) The Scottish Ministers may, after consultation with the Scheme Actuary, issue actuarial guidance to administering authorities.

#### Retirement pension accounts: deferred and pension credit members

##### 26.—

...

(6) The balance in the member's account is adjusted each year by the index rate adjustment from the date that an increase would apply if that balance were a pension in payment to which the Pensions (Increase) Act 1971 applied.

#### Pension credit accounts

##### 28.—

...

(3) The amount credited under paragraph (2) is the opening balance for the following Scheme year and, thereafter, the balance in the account each year is adjusted by the index rate adjustment from the date that an increase would apply if that balance were a pension in payment to which the Pensions (Increase) Act 1971 applied.

#### Retirement benefits

##### 29. —

(1) Subject to paragraph (3), a member who attains normal pension age and is not an employee in local government service at that time is entitled to immediate payment of a retirement pension without reduction.

...

(3) A member to whom paragraph (1) applies may elect to defer payment of a retirement pension to a date after that member's normal pension age up to the date when that member attains the age of 75.

(4) A member who starts to receive payment of a retirement pension from a date after that member's normal pension age is entitled to enhancement of the pension by the amount shown as appropriate in actuarial guidance issued by the Scottish Ministers.

(5) Subject to paragraph (13) a member who has not attained normal pension age but who has attained the age of 55 or over, may elect to receive immediate payment of a retirement pension in relation to an employment if that member is not an employee in local

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<sup>1</sup> The Local Government Pension Scheme (Scotland) Regulations 2014 (SSI 2014/164)



government service in that employment, but the amount of the retirement pension must be reduced by the amount shown as appropriate in actuarial guidance issued by the Scottish Ministers.

...

(11) A pension credit member may, before reaching normal pension age, elect to defer payment of a retirement pension deriving from a pension credit to a date after that member's normal pension age and, if the member does so, is entitled to immediate payment of a retirement pension from any date up to the date when that member attains the age of 75, enhanced by the amount shown as appropriate in actuarial guidance issued by the Scottish Ministers, irrespective of whether the pension credit member is also an employee in local government service.

## **B.2 Excerpts from the 2015 Scheme Transitional Regulations<sup>2</sup>**

### **Membership before 1st April 2015**

#### **3.—**

...

(4) Where a person has been an active member of the 2015 Scheme, and retirement benefits under paragraph (1) are payable to a member in accordance with regulation 11 of these Regulations (retirement benefits), the benefits paid from Earlier Schemes and the 2015 Scheme are, for all purposes, to be regarded as constituting a single pension scheme.

(5) But a retirement pension and any retirement grant payable to a member under paragraph (4) is subject to actuarial adjustment if it would have been subject to actuarial adjustment under the 2009 Scheme, irrespective of whether retirement pension under the 2015 Scheme payable at the same time is subject to actuarial adjustment.

...

(8) Where a person has not been an active member of the 2015 Scheme and has benefits under the Earlier Schemes, or has been an active member of the 2015 Scheme and has benefits under the Earlier Schemes which have not been aggregated with the benefits in the 2015 Scheme, the benefits payable as a consequence of paragraph (1) are payable in accordance with the Earlier Schemes as applied by this regulation.

...

(10) Any guidance issued by the Scheme Actuary in accordance with any provision in the Earlier Regulations is to be treated as actuarial guidance issued by the Scottish Ministers as defined in Schedule 1 to the 2014 Regulations and any reference to guidance issued by the Government Actuary in the Earlier Regulations is to be construed as a reference to actuarial guidance issued by the Scottish Ministers.

### **Statutory underpin**

#### **4.—**

...

(4) The active member's pension account is to be increased at the underpin date by the amount by which the underpin amount exceeds the assumed benefits on the underpin date.

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<sup>2</sup> The Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2014 (SSI 2014 / 233)



## Appendix C: Legislative references

### Service in the 2015 scheme

- C.1 The Scottish Ministers are required under the 2014 Regulations to:
- (i) issue actuarial guidance on late retirement increases when a member receives their pension after normal pension age [regulation 29 (4)];
  - (ii) issue actuarial guidance when a pension credit member defers receipt of their pension until after normal pension age [regulation 29 (11)]; and
  - (iii) consult the Government Actuary's Department (GAD) before issuing such guidance [regulation 2(3)].

### Service accrued before 1 April 2015

- C.2 Regulation 3(5) of the 2015 Scheme Transitional Regulations also refers to actuarial adjustments in respect of retirement pensions and retirement grants accrued before 1 April 2015.
- C.3 Where a person has not been a member of the 2015 scheme, benefits payable in respect of service before 1 April 2015 are payable in accordance with the 2009 Scheme [Regulation 3(8) of the 2015 Scheme Transitional Regulations]. Details of the requirements under the 2009 Scheme are listed in the following paragraphs (which reflect the change made from the Scheme Actuary or the Government Actuary to the Scottish Ministers as the person responsible for issuing guidance) [Regulation 3(10) of the 2015 Scheme Transitional Regulations].
- C.4 In relation to Regulation 17(2) of the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 ('the 2008 Regulations') (SSI 2008/230), the Scottish Ministers are required to issue guidance to determine the increase applicable to benefits when a member remains in employment or joins the LGPS after their 65<sup>th</sup> birthday.
- C.5 In relation to Regulation 29(5) of the 2008 Regulations, the Scottish Ministers are 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.
- C.6 SPPA has previously confirmed that similar increases should also be applied in respect of members who left service with immediate entitlement to benefits under regulations 16, 16A, 16B, 16C or 16D of the 2008 Regulations but who choose not to receive payment immediately.
- C.7 In relation to Regulation 14(3) of the 2008 Regulations, the Scottish Ministers are required to issue guidance on the increase to be applied to the additional pension where it is taken after normal retirement age.



- C.8 A member may also have a transfer credit that was awarded under protected regulation 65(8) of The Local Government Pension Scheme (Scotland) Regulations 1998 (SI 1998/366) protected by virtue of Schedule 1 of the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008 (SSI 2008/229) and regulation 15(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.



## Appendix D: Limitations

- D.1 This note should not be used for any purpose other than to determine benefits on late retirement in accordance with the regulations cited above.
- D.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.
- D.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.
- D.4 This note 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.
- D.5 Administrators should satisfy themselves that late retirement complies with all legislative requirements including, but not limited to, taxation and contracting-out requirements.
- D.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 the Scottish Public Pensions Agency. In no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.