



Government  
Actuary's  
Department

# Local Government Pension Scheme (Scotland) Interfund Transfers

Date: 15 September 2020





## Contents

	<b>page</b>
<b>1 Introduction</b>	<b>1</b>
<b>2 Legislation and background</b>	<b>3</b>
<b>3 Calculation of transfer amount and earned pension</b>	<b>4</b>
<b>Appendix B: Limitations</b>	<b>6</b>



## 1 Introduction

1.1 Scottish Ministers are required under the Local Government Pension Scheme (Scotland) Regulations 2018 ('the 2018 Regulations') (SSI 2018/141) to issue guidance in respect of the Local Government Pension Scheme on the transfer payment made from one fund to another when a member exercises the option to aggregate the past period of service with the current period.

1.2 The remainder of this introduction contains:

- details of the implementation and future review of this guidance, and
- statements about third party reliance and liability

1.3 In the remainder of this note:

- the second section provides background information
- the third section describes the derivation of the transfer value
- Appendix A sets out some important limitations

### Implementation and Review

1.4 Scottish Ministers are required to consult the Scheme Actuary before issuing actuarial guidance under the 2018 Regulations [Regulation 2(3) of the 2018 Regulations].

1.5 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 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 Scottish Ministers in accordance with Regulation 2(3) of the 2018 Regulations and is subject to the implementation instructions provided at that time.

1.7 When issued, this guidance will replace the previous guidance dated 26 February 2015. We understand SPPA will implement this note with effect from 15 September 2020.

1.8 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 (Scotland). Any questions concerning the application of the guidance should, in the first instance, be referred to the SPPA.



### **Third party reliance**

- 1.9 This guidance has been prepared for the use of SPPA for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on SPPA's website but must not otherwise be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.
- 1.10 Other than SPPA, 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.



## 2 Legislation and background

2.1 Under Regulation 97 of the 2018 Regulations, where a member of the 2015 Scheme ceases active membership of one fund and immediately commences active membership of another fund:

- in case where a member has the option of aggregating the past period of membership with the current period of membership, the member has exercised the option to aggregate those periods or
- in a case where a member has the option of not aggregating a period of membership with the current period of membership, the member has not exercised the option of retaining separate benefits,

their 2015 Scheme membership in the old fund is transferred to the new fund.

2.2 Where this situation occurs then under regulation 97(2) the member's old administering authority must make a payment to the new administering authority or payment must be made between appropriate funds where the administering authority has not changed. This amount is calculated according to actuarial guidance issued by Scottish Ministers unless ten or more members transfer together between two administering authorities.

2.3 Regulation 10 of the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 ("the 2015 Scheme Transitional Regulations") (SSI 2014/233) also provides for potential transfer value payments between funds for members with LGPS service before 1 April 2015 who subsequently join a different LGPS fund. The transfer values for the different scenarios in regulations 10(2)(b), 10(4), 10(5) and 10(6) are to be calculated in accordance with actuarial guidance issued by Scottish Ministers.

2.4 Regulations 10(4), 10(5) and 10(6) also provide that the amount of earned pension in respect of transfer value payments under these regulations is calculated in accordance with actuarial guidance issued by Scottish Ministers (see paragraph 3.5).

2.5 The treatment of the benefits under the new fund, and of the benefits relating to pre and post-1 April 2015 service in particular, are not covered by this guidance. Administrators should satisfy themselves that the increase in membership complies with all legislative requirements and they should consider related issues including, but not limited to, annual allowance and lifetime allowance tax charges.



### 3 Calculation of transfer amount and earned pension

- 3.1 The transfer amount for any interfund transfer should be calculated as an outgoing non-Club transfer from the member's old fund. In practice, it may be necessary to calculate separate transfer values in respect of final salary related benefits and CARE benefits. At the time of writing, the current non-Club factors are provided in the current guidance document "The Local Government Pension Scheme (Scotland): Individual Incoming & Outgoing Transfers" and the associated factors are included in the latest consolidated factors workbook. Administrators should take care to ensure that they use the current factors relevant to non-Club transfers when performing their calculations.

Note that the above is a change from our previous guidance note "The Local Government Pension Scheme (Scotland): Interfund Transfers" note dated 25 February 2015 in which it was indicated that an interfund transfer should be calculated as an outgoing Club transfer from the member's old fund.

- 3.2 If a member is over the age by reference to which an element of the transfer value is calculated (e.g. where a member is aged 61 and the CRA applicable to an element of the transfer is age 60), then the transfer amount should be calculated in the same way as if the member were requesting a CETV quotation on divorce. As for the divorce calculation, the transfer amount should include allowance for the retirement grant entitlement in respect of any pre-April 2009 membership. At the time of writing, the current factors are provided in the latest consolidated factor workbook and also the Guidance document The Local Government Pension Scheme (Scotland): Pension Sharing following Divorce.
- 3.3 As set out in the guidance document "The Local Government Pension Scheme (Scotland): Individual Incoming & Outgoing Transfers", a transfer payment should be paid within 3 months of the guarantee date (which is the effective date of the calculation). If the payment is not made within that time, it should be recalculated as at the date of payment.
- 3.4 A service credit calculation is not required under regulation 10(2)(a) of the 2015 Scheme Transitional Regulations because the individual's membership records will transfer from his old fund to his new fund.
- 3.5 The amount of purchased earned pension under regulations 10(4), 10(5) and 10(6) of the 2015 Scheme Transitional Regulations should be calculated by treating the total transfer value received as an incoming non-club transfer except for the modification below for the relevant date of the calculation.
- 3.6 Please refer to the latest Guidance document "The Local Government Pension Scheme (Scotland): Individual Incoming & Outgoing Transfers" for example calculations.

#### **Relevant date**

- 3.7 The relevant date for the calculation of the Interfund value should be the date of the election that triggers the transfer.



- 3.8 Where the benefits for a member with entitlement to a deferred refund are automatically aggregated, the relevant date for the Interfund transfer is the date the member becomes again an active member (or the day following the cessation of the concurrent employment that would have resulted in entitlement to a deferred refund had it not been concurrent).
- 3.9 The relevant date for the Interfund transfer for a member with deferred benefits to whom regulation 10(6) of the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (SSI 2014/233) does not apply is the day after the last date on which the member could elect for benefits not to be aggregated (i.e. the end of the 12 month, or longer, period if agreed by the employer), or, if sooner, the earlier of:
- a) the date of cessation of active membership with the employer with whom the deferred membership is to be aggregated; and
  - b) the date on which the member confirms in writing that he/she does not wish to retain separate benefits/elects for the aggregation to proceed.
- 3.10 The relevant date for the calculation of an earned pension credit under regulation 10(4), 10(5) or 10(6) should be the same date as was used to calculate the transfer amount.
- 3.11 The relevant date for a member with deferred benefits to whom regulation 10(6) of the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 does apply is the date of the election that triggers the transfer.

#### **Late payment adjustment**

- 3.12 If the Interfund transfer amount is not paid within 3 months of the relevant date, it should be recalculated as at the date of payment (which would take account of any change in age and pension increases or revaluation that had occurred between the relevant date and the date of payment).
- 3.13 The earned pension credit under regulations 10(4), 10(5) and 10(6) should not be recalculated in the event of late payment.



## Appendix A: Limitations

- A.1 This guidance should not be used for any purpose other than those set out in this guidance.
- A.2 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.
- A.3 This guidance only covers the actuarial principles around the calculation and interfund transfers. Any legal advice in this area should be sought from an appropriately qualified person or source.
- A.4 Scheme managers and administrators should satisfy themselves that interfund transfer calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- A.5 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 SPPA and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.