



Government
Actuary's
Department

Local Government Pension Scheme (Scotland)

**Use of accumulated AVCs to provide additional pension
under the Scheme**

Factors and guidance

Date: 16 April 2020





Contents

	page
1 Introduction	1
2 Calculation of additional pension	4
3 Benefits purchased from AVC funds	5
4 Examples	7
Appendix A: Factor Tables	8
Appendix B: Assumptions underlying factors	14
Appendix C: Limitations	15



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 actuarial guidance on the calculation of additional pension payable from the Scheme to a retiring member arising from any additional voluntary contributions that are not taken as cash or used to arrange a drawdown facility or to secure an annuity with an insurance company.
- 1.2 This guidance relates to benefits purchased from a member's accumulated AVC funds.
- 1.3 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
- 1.4 In the remainder of this note:
- the second section describes the calculation of additional pension using accumulated AVCs
 - the third section describes the benefits purchased by a member who has taken up this option
 - the fourth section contains example calculations
 - Appendix A sets out the factor tables applicable to this guidance
 - Appendix B sets out the assumptions underlying the factors that are contained in this guidance note
 - Appendix C sets out some important limitations

Implementation and Review

- 1.5 Scottish Ministers are required to consult the Scheme Actuary before issuing actuarial guidance under Regulation 2(3) of the 2018 Regulations.
- 1.6 As part of this consultation the 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 Scottish Ministers in accordance with Regulation 2(3) of the 2018 Regulations and is subject to the implementation instructions provided at that time.



- 1.8 The factors provided in this note have been prepared in light of the advice on assumptions to the Scottish Public Pensions Agency (SPPA) in our letter dated 30 October 2018.
- 1.9 This guidance is intended to supersede any factors or advice previously issued, for the purposes of the conversion of accumulated AVCs into additional scheme pension for members. In particular, this guidance supersedes:
- “Local Government Pension Scheme (Scotland): Use of accumulated AVCs to provide additional pension under the Scheme” dated 10 May 2017
- 1.10 Factors contained in this note have been updated but the calculation methodology remains unchanged. SPPA has decided the factors apply with effect from the date on the cover of this guidance note.
- 1.11 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 SPPA.
- 1.12 In line with best practice and to make sure factors are being used as intended and the instructions are fit for purpose, we suggest that some example calculations are sent to GAD for review.
- 1.13 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.

Regulatory references

- 1.14 This guidance only applies to members drawing the realisable value of AVC arrangement under regulation 17 of the 2018 Regulations.
- 1.15 Scottish Ministers are required under the 2018 Regulations to issue actuarial guidance on the amount of additional pension purchased by the portion of the realisable value in the AVC arrangement specified by the member [regulation 17(6) of the 2018 regulations].
- 1.16 Regulation 45(3) of the 2018 Regulations specifies the amount of pension due to a surviving spouse, civil partner or cohabiting partner on the death of a pensioner member who has purchased scheme benefits using AVCs under regulation 17(6). Regulations 46(4), (5) and (9) of the 2018 regulations specify the amount of pension due to any eligible children on the death of a pensioner member who has purchased scheme benefits using AVCs under regulation 17(6).



Third party reliance

- 1.17 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.
- 1.18 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 Calculation of additional pension

2.1 The tables included in this note provide the amounts of additional pension payable to a member for each £100 of accumulated AVCs, according to the member's age at the date the member becomes entitled to the immediate payment of retirement benefits.

2.2 The conversion of accumulated AVCs into additional pension is calculated as follows:

$$\text{Amount of additional pension purchased from AVC fund} = \text{AVC fund} \times \frac{\text{Factor}}{100}$$

where:

AVC fund is the Amount of AVCs being converted into additional pension at the calculation date;

Factor is the applicable factor from Tables 1 or 2 in Appendix A (tables 805 or 806 respectively in the consolidated factors workbook)

- 2.3 Table 1 applies to members who become entitled to the immediate payment of retirement benefits under Regulation 29 of the 2018 Regulations. Requests for Table 1 factors for members under age 50 should be made to SPPA for onward transmission to GAD.
- 2.4 Table 2 applies to members who become entitled to an ill-health pension under Regulation 34 or Regulation 36 of the 2018 Regulations. Requests for Table 2 factors for members under age 30 should be made to SPPA for onward transmission to GAD.
- 2.5 The factors are now unisex - separate factors are no longer provided for men and women.
- 2.6 Examples of the calculation of additional pension purchased from a member's AVC fund can be found in section 4



3 Benefits purchased from AVC funds

- 3.1 The additional pension is payable from the date used in the calculation.
- 3.2 The additional pension (and any associated dependant's pension) is increased in accordance with the Pensions Increase Acts. The date used in the calculation is also the Pension Increase date for this additional pension.
- 3.3 The benefits provided to a member awarded additional pension are not fully specified in the regulations. However, SPPA has confirmed the details of additional pension benefits described below.
- 3.4 A member will receive the following benefits:

Own benefits

- 3.4.1 The total pension awarded will be increased by the amount of additional pension purchased.
- 3.4.2 The additional pension may not be commuted for cash. If a member wishes to take some of his AVCs as a lump sum that part of the fund should not be converted to scheme pension.
- 3.4.3 On death in retirement before age 75 a lump sum is payable equal to ten times the annual rate of additional pension in payment before death, less the amount of additional pension already paid.
- 3.4.4 The additional pension is increased in accordance with the Pensions Increase Acts.

Dependants' benefits

- 3.5 The following additional benefits will be paid on the death of the member.
 - 3.5.1 The additional spouse, civil partner or nominated cohabiting partner's pension is 30.625% (i.e. 49/160ths) of the rate of additional member's pension purchased, in accordance with Regulation 45 of the 2018 Regulations.
 - 3.5.2 The child's additional pension is 15.3125% (i.e. 49/320ths) of the member's additional pension if there is one eligible child. If there are two or more eligible children then the total children's pension awarded is 30.625% (i.e. 49/160ths) of the member's additional pension and is shared equally between the eligible children, in accordance with Regulation 46 of the 2018 Regulations.
 - 3.5.3 If there is no pension payable to an eligible spouse, civil partner or nominated cohabiting partner, then each additional child's pension is increased to a level one-third higher than that shown in 3.5.2 above, in accordance with Regulation 46 of the 2018 Regulations.



- 3.12 The dependant's additional pension is increased before it comes into payment on the same basis as applies to the member's pension. Once in payment, the dependant's additional pension is increased in accordance with the Pensions Increase Acts.



4 Examples

Example 1: Retirement in normal health

Member Details

Date of Birth	18 May 1956
Normal Pension Age	66
Pension Type required	Member and dependants' benefits
Date of election	30 June 2020
Amount of AVC fund	£20,000.00
Age at date of election	64 years 1 month

Amount of additional annual pension for every £100 of AVCs (from Table 1) £5.44

Amount of additional annual pension for an AVC fund of £20,000.00 $£20,000.00 \times \frac{5.44}{100} = £1,088.00 p. a.$

The additional pension calculated above is increased in accordance with the Pension Increase Acts and cannot be commuted for cash.

Example 2: Retirement in ill health

Member Details

Date of Birth	17 May 1965
Normal Pension Age	67
Pension Type required	Member only
Date of election	31 December 2020
Amount of AVC fund	£10,000.00
Age at date of election	55 years 7 months

Amount of additional annual pension for every £100 of AVCs (from Table 2) £5.18

Amount of additional annual pension for an AVC fund of £10,000.00 $£10,000.00 \times \frac{5.18}{100} = £518.00 p. a.$

The additional pension calculated above is increased in accordance with the Pension Increase Acts and cannot be commuted for cash.



Appendix A: Factor Tables

Factors for members retiring in normal health

**Table 1 – Amount of additional annual pension for every £100 of accumulated AVCs
(Table 805 in consolidated factors workbook)**

Age at date member draws benefits from the AVC arrangement under Regulation 17(6), in years and complete months		Pension (£) for member if bought with dependants' benefits	Pension (£) for member only
From	To	Unisex	Unisex
50 years and 0 months	50 years and 5 months	4.03	4.12
<i>50 years and 6 months</i>	<i>50 years and 11 months</i>	4.06	4.15
51 years and 0 months	51 years and 5 months	4.09	4.19
<i>51 years and 6 months</i>	<i>51 years and 11 months</i>	4.12	4.22
52 years and 0 months	52 years and 5 months	4.16	4.26
<i>52 years and 6 months</i>	<i>52 years and 11 months</i>	4.20	4.30
53 years and 0 months	53 years and 5 months	4.24	4.34
<i>53 years and 6 months</i>	<i>53 years and 11 months</i>	4.28	4.39
54 years and 0 months	54 years and 5 months	4.32	4.43
<i>54 years and 6 months</i>	<i>54 years and 11 months</i>	4.36	4.48
55 years and 0 months	55 years and 5 months	4.40	4.52
<i>55 years and 6 months</i>	<i>55 years and 11 months</i>	4.45	4.57
56 years and 0 months	56 years and 5 months	4.49	4.62
<i>56 years and 6 months</i>	<i>56 years and 11 months</i>	4.54	4.67
57 years and 0 months	57 years and 5 months	4.59	4.72
<i>57 years and 6 months</i>	<i>57 years and 11 months</i>	4.64	4.77
58 years and 0 months	58 years and 5 months	4.69	4.83
<i>58 years and 6 months</i>	<i>58 years and 11 months</i>	4.74	4.88
59 years and 0 months	59 years and 5 months	4.80	4.94
<i>59 years and 6 months</i>	<i>59 years and 11 months</i>	4.85	5.00
60 years and 0 months	60 years and 5 months	4.91	5.06
<i>60 years and 6 months</i>	<i>60 years and 11 months</i>	4.97	5.13
61 years and 0 months	61 years and 5 months	5.03	5.19
<i>61 years and 6 months</i>	<i>61 years and 11 months</i>	5.09	5.26



Age at date member draws benefits from the AVC arrangement under Regulation 17(6), in years and complete months		Pension (£) for member if bought with dependants' benefits	Pension (£) for member only
From	To	Unisex	Unisex
62 years and 0 months	62 years and 5 months	5.16	5.33
62 years and 6 months	62 years and 11 months	5.23	5.40
63 years and 0 months	63 years and 5 months	5.30	5.48
63 years and 6 months	63 years and 11 months	5.37	5.55
64 years and 0 months	64 years and 5 months	5.44	5.63
64 years and 6 months	64 years and 11 months	5.51	5.71
65 years and 0 months	65 years and 5 months	5.60	5.80
65 years and 6 months	65 years and 11 months	5.69	5.91
66 years and 0 months	66 years and 5 months	5.79	6.02
66 years and 6 months	66 years and 11 months	5.89	6.13
67 years and 0 months	67 years and 5 months	6.00	6.24
67 years and 6 months	67 years and 11 months	6.11	6.36
68 years and 0 months	68 years and 5 months	6.23	6.49
68 years and 6 months	68 years and 11 months	6.35	6.62
69 years and 0 months	69 years and 5 months	6.48	6.75
69 years and 6 months	69 years and 11 months	6.63	6.89
70 years and 0 months	70 years and 5 months	6.77	7.04
70 years and 6 months	70 years and 11 months	6.92	7.20
71 years and 0 months	71 years and 5 months	7.07	7.37
71 years and 6 months	71 years and 11 months	7.23	7.54
72 years and 0 months	72 years and 5 months	7.40	7.71
72 years and 6 months	72 years and 11 months	7.57	7.90
73 years and 0 months	73 years and 5 months	7.75	8.09
73 years and 6 months	73 years and 11 months	7.94	8.29
74 years and 0 months	74 years and 5 months	8.14	8.50
74 years and 6 months	74 years and 11 months	8.36	8.72



Factors for members retiring in ill health

**Table 2 – Amount of additional annual pension for every £100 of accumulated AVCs
(Table 806 in consolidated factors workbook)**

Age at date member draws benefits from the AVC arrangement under Regulation 17(6), in years and complete months		Pension (£) for member if bought with dependants' benefits	Pension (£) for member only
From	To	Unisex	Unisex
30 years and 0 months	30 years and 5 months	3.62	3.82
30 years and 6 months	30 years and 11 months	3.63	3.83
31 years and 0 months	31 years and 5 months	3.64	3.85
31 years and 6 months	31 years and 11 months	3.65	3.86
32 years and 0 months	32 years and 5 months	3.67	3.88
32 years and 6 months	32 years and 11 months	3.68	3.89
33 years and 0 months	33 years and 5 months	3.70	3.90
33 years and 6 months	33 years and 11 months	3.71	3.91
34 years and 0 months	34 years and 5 months	3.73	3.93
34 years and 6 months	34 years and 11 months	3.74	3.94
35 years and 0 months	35 years and 5 months	3.76	3.96
35 years and 6 months	35 years and 11 months	3.77	3.98
36 years and 0 months	36 years and 5 months	3.79	4.00
36 years and 6 months	36 years and 11 months	3.80	4.01
37 years and 0 months	37 years and 5 months	3.82	4.03
37 years and 6 months	37 years and 11 months	3.84	4.04
38 years and 0 months	38 years and 5 months	3.86	4.06
38 years and 6 months	38 years and 11 months	3.87	4.08
39 years and 0 months	39 years and 5 months	3.89	4.10
39 years and 6 months	39 years and 11 months	3.91	4.12
40 years and 0 months	40 years and 5 months	3.93	4.14
40 years and 6 months	40 years and 11 months	3.95	4.16



Age at date member draws benefits from the AVC arrangement under Regulation 17(6), in years and complete months		Pension (£) for member if bought with dependants' benefits	Pension (£) for member only
From	To	Unisex	Unisex
41 years and 0 months	41 years and 5 months	3.97	4.18
<i>41 years and 6 months</i>	<i>41 years and 11 months</i>	3.99	4.20
42 years and 0 months	42 years and 5 months	4.01	4.22
<i>42 years and 6 months</i>	<i>42 years and 11 months</i>	4.03	4.25
43 years and 0 months	43 years and 5 months	4.05	4.27
<i>43 years and 6 months</i>	<i>43 years and 11 months</i>	4.08	4.30
44 years and 0 months	44 years and 5 months	4.10	4.32
<i>44 years and 6 months</i>	<i>44 years and 11 months</i>	4.13	4.35
45 years and 0 months	45 years and 5 months	4.15	4.37
<i>45 years and 6 months</i>	<i>45 years and 11 months</i>	4.18	4.40
46 years and 0 months	46 years and 5 months	4.21	4.43
<i>46 years and 6 months</i>	<i>46 years and 11 months</i>	4.24	4.46
47 years and 0 months	47 years and 5 months	4.27	4.49
<i>47 years and 6 months</i>	<i>47 years and 11 months</i>	4.30	4.52
48 years and 0 months	48 years and 5 months	4.33	4.56
<i>48 years and 6 months</i>	<i>48 years and 11 months</i>	4.36	4.59
49 years and 0 months	49 years and 5 months	4.39	4.62
<i>49 years and 6 months</i>	<i>49 years and 11 months</i>	4.42	4.65
50 years and 0 months	50 years and 5 months	4.46	4.69
<i>50 years and 6 months</i>	<i>50 years and 11 months</i>	4.49	4.73
51 years and 0 months	51 years and 5 months	4.53	4.77
<i>51 years and 6 months</i>	<i>51 years and 11 months</i>	4.57	4.81
52 years and 0 months	52 years and 5 months	4.61	4.85
<i>52 years and 6 months</i>	<i>52 years and 11 months</i>	4.64	4.90
53 years and 0 months	53 years and 5 months	4.68	4.94
<i>53 years and 6 months</i>	<i>53 years and 11 months</i>	4.73	4.99



Age at date member draws benefits from the AVC arrangement under Regulation 17(6), in years and complete months		Pension (£) for member if bought with dependants' benefits	Pension (£) for member only
From	To	Unisex	Unisex
54 years and 0 months	54 years and 5 months	4.77	5.03
<i>54 years and 6 months</i>	<i>54 years and 11 months</i>	4.82	5.08
55 years and 0 months	55 years and 5 months	4.86	5.13
<i>55 years and 6 months</i>	<i>55 years and 11 months</i>	4.91	5.18
56 years and 0 months	56 years and 5 months	4.96	5.24
<i>56 years and 6 months</i>	<i>56 years and 11 months</i>	5.01	5.29
57 years and 0 months	57 years and 5 months	5.06	5.34
<i>57 years and 6 months</i>	<i>57 years and 11 months</i>	5.11	5.40
58 years and 0 months	58 years and 5 months	5.17	5.46
<i>58 years and 6 months</i>	<i>58 years and 11 months</i>	5.22	5.52
59 years and 0 months	59 years and 5 months	5.28	5.58
<i>59 years and 6 months</i>	<i>59 years and 11 months</i>	5.34	5.65
60 years and 0 months	60 years and 5 months	5.40	5.72
<i>60 years and 6 months</i>	<i>60 years and 11 months</i>	5.47	5.79
61 years and 0 months	61 years and 5 months	5.54	5.86
<i>61 years and 6 months</i>	<i>61 years and 11 months</i>	5.61	5.93
62 years and 0 months	62 years and 5 months	5.68	6.01
<i>62 years and 6 months</i>	<i>62 years and 11 months</i>	5.75	6.09
63 years and 0 months	63 years and 5 months	5.82	6.17
<i>63 years and 6 months</i>	<i>63 years and 11 months</i>	5.89	6.25
64 years and 0 months	64 years and 5 months	5.97	6.34
<i>64 years and 6 months</i>	<i>64 years and 11 months</i>	6.06	6.43
65 years and 0 months	65 years and 5 months	6.16	6.54
<i>65 years and 6 months</i>	<i>65 years and 11 months</i>	6.27	6.67
66 years and 0 months	66 years and 5 months	6.39	6.80
<i>66 years and 6 months</i>	<i>66 years and 11 months</i>	6.52	6.94



Age at date member draws benefits from the AVC arrangement under Regulation 17(6), in years and complete months		Pension (£) for member if bought with dependants' benefits	Pension (£) for member only
From	To	Unisex	Unisex
67 years and 0 months	67 years and 5 months	6.65	7.09
67 years and 6 months	67 years and 11 months	6.79	7.24
68 years and 0 months	68 years and 5 months	6.94	7.41
68 years and 6 months	68 years and 11 months	7.09	7.58
69 years and 0 months	69 years and 5 months	7.27	7.76
69 years and 6 months	69 years and 11 months	7.46	7.95
70 years and 0 months	70 years and 5 months	7.64	8.14
70 years and 6 months	70 years and 11 months	7.83	8.34
71 years and 0 months	71 years and 5 months	8.02	8.55
71 years and 6 months	71 years and 11 months	8.22	8.78
72 years and 0 months	72 years and 5 months	8.43	9.01
72 years and 6 months	72 years and 11 months	8.64	9.26
73 years and 0 months	73 years and 5 months	8.87	9.51
73 years and 6 months	73 years and 11 months	9.10	9.77
74 years and 0 months	74 years and 5 months	9.37	10.04
74 years and 6 months	74 years and 11 months	9.66	10.32



Appendix B: Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.448% pa
Real discount rate (in excess of CPI)	2.40% pa

Mortality assumptions

	Males	Females
Retirements in normal health	122% of S2NMA	117% of S2NFA
Retirements in ill-health	In line with 2017 valuation	
Dependants	159% of S2NMA	131% of S2NFA

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

In-service decrement rates

Withdrawal	Nil
Age retirement	Nil before NPA, 100% at NPA
Ill health retirement	In line with 2017 valuation

Other assumptions

Proportion of male members for unisex factors	In line with 2017 valuation
Proportion partnered	In line with 2017 valuation
Age difference between member and partner	In line with 2017 valuation
Allowance for commutation	Nil



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 AVCs into additional pension conversion 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 the conversion of AVCs into additional pension 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 SPPA and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.