

04 September 2009

Circular 08/2009

To: Salaries and Wages Departments
Pensions Contacts

Dear Colleagues

Market Adjustment Factor for calculation of capital cost of compensatory added years

1. Purpose of this Circular

This circular has been issued to advise authorities of an error in the Market Adjustment Factor for calculation of capital cost of compensatory added years which appeared on the NILGOSC website on 10 March 2009.

2. Corrected Market Adjustment Factor

Please note that the correct market adjustment factor at March 2009 was 1.12 and not 1.19 as per the website. I apologise for this error and the website has now been updated to reflect the correct market adjustment factor.

The guidance which we have relating to capitalisation costs for accounts is dated 16 August 2000 and on reviewing it today it appears out-of-date. I have attached a copy of this guidance for your information. This guidance was produced by Bacon and Woodrow for those employing authorities who awarded compensatory added years and were required to provide capital values of compensatory added years pensions in their accounts. It is not used by NILGOSC as we are not a compensatory paying authority.

Since October 2008 the Scheme has received updated factors from the Government Actuary's Department (GAD) for calculating market adjustment factors which remove the 2% underpin, refer to a different index and revise factors for all Scheme calculations. These updated factors reflect increasing longevity. Unfortunately the revised market adjustment factor for transfers was used in the advice from NILGOSC on 10 March 2009 rather than the factor in accordance with the Bacon and Woodrow guidance.

It appears that the guidance relating to calculation of capital costs of compensatory added years should be updated. Please let me know if you wish NILGOSC to request updated guidance from the actuary. The cost of this guidance will have to be recharged to those employers to whom it applies.

If you have any questions regarding the content of this circular, please contact either myself or Mark Wright. Once again I apologise for the error.

Yours sincerely

A handwritten signature in black ink that reads "Zena Kee". The letters are cursive and fluid, with the first letter of each name being capitalized and larger than the others.

Zena Kee
Pensions Manager



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17 AUG 2000

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16 August 2000

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Dear Deane

Compensatory Added Years pensions Capitalisation for accounts

I refer to our recent telephone conversation concerning the increasing numbers of enquiries from employers about the need to provide capital values of compensatory added years pensions in their accounts.

Background

I understand that the Code of Practice on Local Authority Accounting in the United Kingdom 2000 has now been issued by CIPFA. This is effective for financial years commencing on or after 1 April 2000.

Though I have not yet seen a copy, I believe that the principal change in relation to accounting for pension costs is that:-

Local authorities will be required to disclose the capitalised costs of ex gratia and discretionary pension payments, both in respect of decisions in the current financial year and past years, as a note to the consolidated revenue account.

Current position

In order to produce these figures, actuarial calculations will be required. These can be carried out to a 'reasonable degree of accuracy' using tables of factors which are age dependent. Whether a 'reasonable degree of accuracy' is sufficient to comply with the Code is a matter for the auditors but, given the nature of the information, I would be surprised if it is not.

There has been some initial discussion on this matter amongst the members of the ACA local government sub-committee, and it looks like we will move towards a standard nationwide approach to this shortly. However, at present, several different proposals are up for discussion so it would be premature to issue factors at this stage.



Therefore, I suggest that we hold fire for a while. If any cases crop up in the meantime that cannot wait, I have attached an interim recommendation based on the current Regulation 143 augmentation factors issued by the Government Actuary's Department with an appropriate market adjustment factor.

I hope that this is helpful.

Yours sincerely
for Bacon & Woodrow

T N Lunn

Enc



Calculation of capital cost of compensatory added years

Interim calculation method

The capital value of a pension in payment can be calculated as follows for the purposes of complying with the Code of Practice on Local Authority Accounting in the United Kingdom 2000, issued by CIPFA.

The value of the pension is calculated as follows:

$$\text{Value} = [(\text{Pension} * \text{PP Factor}) + (\text{Spouse's Pension} * \text{CSP Factor})] * \text{MVA}$$

Where

Pension = The annual rate of pension in payment to the former employee at the calculation date.

PP Factor = The appropriate factor for personal pension, as issued by the Government Actuary's Department, for the calculation of augmentation costs under regulation 143 of the Local Government Regulations 1997, by reference to the former employee's age and sex at the calculation date.

Spouse's pension = The annual rate of pension that would become payable to a spouse if the member were to die at the calculation date.

CSP Factor = The appropriate contingent spouse's pension factor, as issued by the Government Actuary's Department for the calculation of augmentation costs under regulation 143 of the Local Government Regulations 1997, by reference to the former employee's age and sex at the calculation date.

MVA = A market adjustment factor calculated by reference to the yield on the FT-Actuaries Index of index linked government stocks over 5 years (0% inflation) on the first working day of the month in which the calculation date falls. The appropriate adjustment is calculated by reference to the following table:

Yield on index (% pa)	MVA
2.0	1.12
3.0	1.04
4.0	1.00
5.0	0.92

Adjustments for intermediate yields should be calculated by interpolation.

*Yield for April 2001
was 2.46%*

*Mar 2002 2.51
MVA 1.08*

Mar 2003 2.00 = 1.12.



Example calculation

Sex	Male
Marital status	Married
Date of calculation =	15 August 2000
Date of birth =	15 April 1940
Pension =	£5,000 pa
Spouse's Pension =	£2,500 pa
Yield on FTA Index of index linked government stocks over 5 years (0% inflation) on first working day of month =	2.18%

Calculation

Age of member	61 (next birthday)
PP Factor	12.98
CSP Factor	2.99
MVA	1.1056

Capital value of benefits:

$$[(5,000 \times 12.98) + (2,500 \times 2.99)] \times 1.1056 = \text{£}80,018$$

The Local Government Pension Scheme

Augmentation of Service - Regulations 52, 80 and 143

1. Under Regulation 52 or Regulation 143 of the Local Government Pension Scheme Regulations 1997 (the "LGPS Regulations") an employing authority may pass a resolution to augment a current or past leaver's service. If a rate of additional contributions to the fund of the administering authority is not agreed with the employer, Regulation 80 of the LGPS Regulations provides for payment to the fund of the appropriate sum shown in guidance issued by the Government Actuary (the "appropriate sum"). The purpose of this note prepared by the Government Actuary's Department is to provide the guidance required by Regulation 80(3). The note has been prepared for the Department of the Environment, Transport and the Regions and issued to them for onward transmission to administering authorities and employing authorities.

2. Four sets of factors are attached to this Guidance Note, as summarised below. The detailed application of these factors, according to the circumstances of the augmentation, is explained in subsequent paragraphs.

Appendix 1

Factors to calculate costs for member's pension and contingent spouse's pension in respect of current and past leavers.

Appendix 2

Factors for spouse's pension in payment, in respect of deceased members.

Appendix 3

Factors for children's pension in payment, in respect of deceased members.

Appendix 4

Factors to allow for the effect of deferment of pension increase to age 55, for past leavers under age 55.

AUGMENTATION UNDER REGULATION 52

3. Under Regulation 52(1) an employing authority may resolve to increase the total membership (i.e. the total period of reckonable service) of a member who leaves his employment on or after his 50th birthday. Such resolution may only be passed within the period commencing one month before the date of leaving service and ending 6 months after the date of leaving service.

4. Members whose total membership is increased will normally be in receipt of a pension at the date of the

resolution, or be due to receive a pension immediately from the date (subsequent to the date of the resolution) when they leave service. However, in some cases the member would not have been, or be, entitled to an immediate pension on leaving service and would not have applied, successfully, for early payment of the deferred benefits to which he was entitled on leaving service. Also, in a few cases, the member's spouse or children would be in receipt of pension at the date of the resolution, because the member had died.

Members in receipt of pension, or due an immediate pension when they leave service

5. The increase in annual pension with effect from the date of the resolution (or subsequent leaving service) as a consequence of the additional period of membership awarded by the employer should be determined. The increase in the annual contingent spouse's long-term pension due to the resolution, which would normally be half the increase in the member's pension, should also be determined. (For entrants over age 40 the increase in the contingent spouse's pension would be 3/8ths of the increase in the member's pension because of Regulation 54).

6. The "appropriate sum" to be paid by the employing authority in these circumstances is the total of:

(a) the increase in annual pension due to the resolution multiplied by the personal pension factor specified in Appendix 1 according to the member's age on his next birthday after the date of the resolution or, after the date of leaving service, if the date of leaving service is after the date of the resolution;

(b) the increase in annual contingent spouse's long-term pension multiplied by the contingent spouse pension factor specified in Appendix 1 according to the member's age as described in sub-paragraph (a) above, whether or not the member is married;

(c) any increase in retirement grant due to the resolution;

(d) any increase in pension paid due to the resolution for a period between the date of leaving service and the subsequent date of the resolution.

Members no longer in service who are not in receipt of a pension and members still in service who are not entitled to an immediate pension when they leave

7. The increase in deferred benefits due to the resolution should be determined. Where the member had insufficient service to qualify for deferred benefits before the resolution to augment his service, the increase in deferred benefits due to the resolution should be calculated as though the qualifying conditions did not exist.

8. The appropriate sum is the cash equivalent transfer value of the increase in deferred benefits as at the date of the resolution, or, if the resolution were made before the member left service and was conditional on the satisfaction on the date of leaving service of the conditions for its making, as at the date the member left service. It should be noted that determining the appropriate sum in this way makes no allowance for any extra cost involved in a subsequent award of early retirement benefits - see para 11 below.

Spouses and children in receipt of pension at the date of the resolution

9. The increase in annual spouse's long-term pension and/or annual children's long-term pension from the date of the resolution which is due to the resolution should be determined. Where the administering authority has not apportioned the increase in children's long-term pension among the eligible children, it should be assumed that the increase in the children long-term pension is apportioned equally between the two youngest eligible children.

10. The appropriate sum is the total of:

(a) the increase in annual spouse's long-term pension due to the resolution multiplied by the widower's or widow's pension factor specified in Appendix 2 according to the widow(er)'s age on the next birthday after the date of the resolution;

(b) the increase in annual children's long-term pension due to the resolution (as apportioned between eligible children, if there is more than one), multiplied by the factor or factors for children's pensions specified in Appendix 3 according to the ages of the children on the birthday or birthdays next after the date of the resolution;

(c) any increase in pension paid due to the resolution for a period before the date of the resolution and any increase in the retirement grant paid due to the resolution.

Caveat

11. One potential side effect of augmenting a member's service could be an increase in the amount or value of benefits for other service. In the case of members in receipt of pension due an immediate pension when they leave, and for spouses and children of deceased member the appropriate sum will normally include the cost of increasing the benefits for other service. This is because it will have been based on the increase in pension due to the resolution derived by comparing the amount of the pension before and after the resolution. However, in the case of members not in receipt of a pension and members still in service who are not entitled to an immediate pension when they leave, the appropriate sum will not include the value of the increase in pension in respect of other service if the member were subsequently to elect to receive early payment of his retirement benefits under Regulation 31 (and the employer were to consent if the member were under age 60). This is because an augmentation of service under Regulation 52 will normally have the effect of bringing forward the age at which a member can retire with an unreduced pension under Rule 31. Employers should be aware of the side effect and of the potentially significant extra cost, when augmenting a member's service and also considering whether to consent to a request for immediate payment of benefits from a member under age 60 whose service has been augmented.

Augmentation under Regulation 143

12. Under Regulation 143(1), an employing authority may, by resolving to increase the total membership of a past leaver, convert periods of service credited under Discretionary Payment Regulations into Scheme membership.

13. Members whose total membership is increased by a resolution under Regulation 143 will either themselves be in receipt of a pension under the LGPS Regulations at the date of the resolution or, if they have died, their spouses and/or children will be in receipt of a pension under the LGPS Regulations.

Members in receipt of a pension

14. The increase in annual pension with effect from the date of the resolution, which is due from the date of the resolution should be determined. Also, the increase in annual pension from the 55th birthday should be determined, if different, for those not yet age 55, because of pension increases which have accrued since the date of leaving service. (The increase in annual pension from the date of the resolution should be the same as the annual payment under the Discretionary Payments Regulations.) The increase in annual contingent spouse's long-term pension due to the resolution, which would normally be half the increase in the member's pension or that due from the 55th birthday for those not yet 55 (but, for entrants over 45, could be 3/8ths), should also be determined.

15. The appropriate sum is the total of:

(a) the increase in annual pension, or the increase in annual pension after age 55, if more, due to the resolution, multiplied by the personal pension factor specified in Appendix 1 according to the member's age on his next birthday after the date of the resolution;

(b) the increase in annual contingent spouse's long-term pension multiplied by the contingent spouse pension factor specified in Appendix 1 according to the member's age on his next birthday after the date of the resolution whether or not the member is married;

as reduced, if appropriate, in accordance with paragraph 17.

16. If, as a result of the resolution, a member's retirement grant under the LGPS Regulations increased retrospectively, the appropriate sum should be increased by the amount of the increase in the Retirement Grant due to the resolution.

17. If a member is under 55 at the date of the resolution and the increase in his annual pension due to the resolution is less than the increase in his annual pension after age 55 due to the resolution, because pension increases since he left service are not due to take effect until he reaches aged 55, the appropriate sum should be reduced by the annual accrued pension increases (i.e. the difference between the increase in annual pension after age 55 due to the resolution and the increase in annual pension before then) multiplied by the factor for increase in personal pension not paid before 55 specified in Appendix 4 according to the period between the date of the resolution and the member's 55th birthday.

Spouses and children of deceased members in receipt of pension

18. The increase in annual spouse's long-term pension and/or annual children's long-term pension from the date of the resolution which is due to the resolution should be determined (These amounts should be the same as the corresponding annual payments under the Discretionary Payments Regulations.) When the administering authority has not apportioned the

children's long-term pension among the eligible children it should be assumed that the increase in the children's long-term pension is apportioned equally between the two youngest eligible children.

19. The appropriate sum is the total of:

- (a) the increase in annual spouse's long-term pension due to the resolution multiplied by the widower's or widow's pension factor specified in Appendix 2 according to the widow(er)'s age on the birthday after the date of the resolution;
- (b) the increase in annual children's long-term pension due to the resolution, as apportioned between eligible children if there is more than one, multiplied by the factor or factors for children's pensions specified in Appendix 3 according to the ages of the children on the birthday or birthdays next after the date of the resolution.

Period for which factors apply

20. As the factors are not subject to market conditions at the date the appropriate sum is to be determined, it is appropriate that they should be subject to periodic review. It is expected that the first such review will take place after completion of the actuarial valuations as at 31 March 1998.

Government Actuary's Department

28 January 1998

Appendix 1 - Member's Pension and Contingent Spouse's Pension

Augmentation of Service for Current and Past Leavers

The factors below are to be used for calculating the appropriate sum to be paid where an employing authority augments the service of a current or past leaver under Regulation 52 or Regulation 143.

Age next birthday of member	Male members		Female members	
	Factor for personal pension of 1 p.a.	Factor for contingent spouse's pension of 1 p.a.	Factor for personal pension of 1 p.a.	Factor for contingent spouse's pension of 1 p.a.
51	16.01	2.40	17.11	0.80
52	15.81	2.47	16.94	0.82
53	15.58	2.53	16.74	0.83
54	15.31	2.59	16.51	0.85
55	15.01	2.65	16.23	0.86
56	14.69	2.71	15.94	0.87
57	14.36	2.77	15.63	0.89
58	14.02	2.83	15.32	0.90
59	13.68	2.88	14.99	0.91
60	13.33	2.94	14.66	0.92
61	12.98	2.99	14.33	0.92
62	12.62	3.03	13.99	0.92
63	12.26	3.08	13.64	0.91
64	11.90	3.11	13.28	0.90
65	11.54	3.15	12.92	0.89
66	11.19	3.17	12.56	0.88
67	10.83	3.16	12.19	0.86
68	10.48	3.15	11.81	0.84
69	10.13	3.13	11.44	0.82
70	9.79	3.10	11.06	0.79

Notes

(1) The calculation of the appropriate sum for cases under Regulation 52 is described in paragraph 6 of the Guidance Note.

(2) For cases under Regulation 143, the calculation is similar, as described in paragraphs 15 and 16 of the Guidance Note. However, a deduction may be appropriate using the factors in Appendix 4 as described in paragraph 17.

Appendix 2 - Spouse's Pension**Augmentation of Service for Deceased Members**

The factors below are to be used for calculating the appropriate sum to be paid where an employing authority augments the service of a deceased member under Regulation 52 or Regulation 143.

Age next birthday of spouse of deceased member	Factor for surviving widower's pension of l p.a.	Factor for surviving widow's pension of l p.a.
21	22.31	22.73
22	22.21	22.63
23	22.10	22.53
24	21.98	22.43
25	21.86	22.32
26	21.73	22.20
27	21.60	22.09

28	21.46	21.96
29	21.32	21.84
30	21.17	21.70
31	21.01	21.57
32	20.85	21.43
33	20.69	21.28
34	20.51	21.13
35	20.33	20.97
36	20.14	20.81
37	19.95	20.64
38	19.75	20.46
39	19.54	20.28
40	19.32	20.10
41	19.10	19.90
42	18.87	19.70
43	18.63	19.50
44	18.39	19.28
45	18.14	19.06
46	17.88	18.83
47	17.61	18.60
48	17.34	18.36
49	17.05	18.11
50	16.76	17.85
51	16.47	17.59
52	16.16	17.31

53	15.85	17.03
54	15.53	16.75
55	15.21	16.45
56	14.88	16.14
57	14.54	15.83
58	14.19	15.51
59	13.84	15.18

Appendix 2 continued

Age next birthday of spouse of deceased member	Factor for surviving widower's pension of l p.a.	Factor for surviving widow's pension of l p.a.
60	13.47	14.85
61	13.11	14.50
62	12.74	14.15
63	12.36	13.80
64	11.98	13.43
65	11.60	13.06
66	11.22	12.68
67	10.84	12.30
68	10.46	11.90
69	10.08	11.51

70	9.70	11.11
71	9.32	10.71
72	8.95	10.30
73	8.59	9.90
74	8.23	9.50
75	7.88	9.11
76	7.53	8.72
77	7.19	8.33
78	6.87	7.96
79	6.55	7.60
80	6.24	7.24
81	5.95	6.91
82	5.66	6.58
83	5.39	6.27
84	5.12	5.98
85	4.87	5.70
86	4.63	5.44
87	4.40	5.19
88	4.18	4.96
89	3.98	4.74
90	3.78	4.54

Notes

(1) The calculation of the appropriate sum for cases under Regulation 52 is described in paragraph 10 of the Guidance Note.

(2) For cases under Regulation 143, the calculation of the appropriate sum is described in paragraph 19 of the Guidance Note.

Appendix 3 - Children's pension**Augmentation of Service for Deceased Members**

The factors below are to be used for calculating the appropriate sum to be paid where an employing authority augments the service of a deceased member under Regulation 52 or Regulation 143.

Age next birthday of child	Factor for children's pension or part of children's pension of l p.a.
1	13.20
2	12.71
3	12.20
4	11.67
5	11.12
6	10.54
7	9.94
8	9.32
9	8.67
10	8.00
11	7.30

12	6.57
13	5.81
14	5.03
15	4.21
16	3.36
17	2.47
18	2.83
19	2.38
20	1.92
21	0.98
22	0.25

Notes

(1) The calculation of the appropriate sum for cases under Regulation 52 is described in paragraph 10 of the Guidance Note.

(2) For cases under Regulation 143, the calculation of the appropriate sum is described in paragraph 19.

Appendix 4 - Past Leavers

Deduction for Pension Increases before age 55

The factors below are to be used for calculating the reduction in the appropriate sum for accrued pension increases not to be paid until age 55 where an employing authority augments the service of a past leaver under age 55 under Regulation 143

Period from date of resolution to 55th birthday	Factor for increases in personal pension of of l p.a. not paid before age 55
Years	
5	4.12
4	3.42
3	2.67
2	1.85
1	0.96
0	0

Notes

(1) The calculation of the deduction is described in paragraph 17 of the Guidance Note.

(2) When the period to the 55th birthday during which pension increases are not paid is not an exact number of years, factors should be interpolated for part years.