

## **Briefing note – Reporting of pension fund transactions for LGPS in England and Wales**

### **1. Introduction**

This document has been produced further to discussions that the LGPC Secretariat have held with GAD and DCLG on new requirements for the reporting of LGPS pension fund transactions for cashflows from 1<sup>st</sup> April 2017 onwards.

The new split of transactions is required in order that GAD may undertake their cost control calculations under sections 11 and 12 of the Public Service Pensions Act 2013. Whilst the cost control process in the LGPS in England and Wales is first being undertaken during 2016 when the data split outlined in this document will not be held by administering authorities, GAD are seeking a more comprehensive data set for the 2019 process to ensure the calculations are based on the most detailed data available.

Under [regulation 114\(4\)](#) of the LGPS Regulations 2013, administering authorities must provide the Scheme actuary (i.e. GAD) with the information it requires to undertake a valuation of the Scheme. For the avoidance of doubt, administering authorities must therefore hold, and be able to supply, the information detailed in section 5 of this paper from 2017/18 onwards in order to comply with the 2013 Regulations.

Previous communications on this topic have suggested that this information would also be required to be included in LGPS fund accounts via amendments to the Accounts and Audit Regulations 2015 (SI2015/234). However, it has since been agreed that this data need not be included in fund accounts and the accounting regulations will therefore not be amended for the purposes set out in this document. Nevertheless, the totals of the cashflows must reconcile with the totals included in funds' audited accounts.

Section 5 of this paper contains a data specification setting out the new reporting requirements so that pension funds may ensure that their pensions payroll, payments and accounting software systems are updated to be able to report in line with these requirements by 1<sup>st</sup> April 2017. The data specification has been significantly revised following feedback received after a draft version was first circulated in June 2016 and following subsequent discussions held with GAD and the LGPS's administration software providers.

The specification in section 5 is now final and should be acted upon by funds.

### **2. Summary of the new requirements**

For the purposes of cost control, GAD will largely be treating the pre-April 2014 Scheme, the post-March 2014 main section and the post-March 2014 50/50 section as if these are individual periods of pension scheme membership. To do this, these periods need to be valued as if each period is separate from any other period of LGPS benefit accrual and GAD will, therefore, where appropriate, need these elements split out in to their respective parts:

- Transactions relating to final salary (pre-April 2014) benefit accrual,
- Transactions relating to career average (post-March 2014) main section benefit accrual, and
- Transactions relating to career average (post-March 2014) 50/50 section benefit accrual.

### **3. Software systems affected**

The data referred to in this document is transactions data – i.e. cashflows in and out of pension funds. It therefore primarily relates to items stored in pensions payroll, payments and accounting software systems. These systems, and the interfaces between them, will need to be updated in order for funds to provide data to GAD in accordance with the new requirements in 2019 and beyond. Pensions administration systems will also need to be able to store the data as split in section 5 in order that this data can flow through to pensions payroll, payments and accounting software systems accordingly.

Following simplifications made to this document after it was first circulated in June 2016, we understand that LGPS administration software providers anticipate being able to update their systems to hold the new split of data in time for April 2017. Funds should be working to ensure that their other software systems (e.g. pensions payroll) are also capable of delivering the new data requirements for April 2017 onwards.

### **4. Providing the data to GAD**

GAD's 2019 cost control calculations will be done using membership and transactions data provided by each fund to GAD. To supply the transactions data, each fund will, on request from GAD in the months after the 31<sup>st</sup> March 2019 valuation date, have to complete a standard data capture spreadsheet containing all the transactions data outlined in section 5 of this document. The data will only need to be provided at fund level, and not at individual employer level.

A sample data capture spreadsheet for submitting this data to GAD is attached to this document. This is just an example of what this document may look like and the final version may differ in look and format when circulated to funds in 2019.

In 2019, the data will have to be provided as specified for the 2017/18 and 2018/19 scheme years. For 2016/17, funds will not need to provide data to GAD in accordance with the new requirements, but will just need to supply totals of each category.

A similar process will be followed for all fund valuation years after 2019. For all subsequent valuations, data for all years in the valuation period will have to be provided in accordance with the new requirements.

In due course, it is possible that the data funds provide to GAD for cost control purposes may be able to be used as a replacement for some of the other data requests that funds receive from their actuaries. In the meantime, funds should ensure that they can continue to provide their fund actuary with transactions data in accordance with their own requirements.

## 5. Data specification

### Reporting of income items

Item	Description	Additional notes	<i>To be split where relevant into the following categories</i>			Total (sum of columns A to C)
			Column A - Pre-April 2014 benefit accrual	Column B - Post-March 2014 main section benefit accrual	Column C - Post-March 2014 50/50 section benefit accrual	
1	Employee basic contributions	<ul style="list-style-type: none"> <li>To be allocated to columns B or C according to the section of the Scheme the member is in.</li> </ul>	X	✓	✓	✓
2	Employer contributions (future service and deficit)	<ul style="list-style-type: none"> <li>This item does not need to be split between columns A to C as GAD have confirmed this is not necessary for their calculations.</li> <li>This item to include any employer contributions towards additional pension, for example where an employer contributes towards shared cost APCs, or where an employer is contributing towards part-time buy back.</li> <li>Note that this does not preclude any requirement from a fund's actuary to require that contributions data is split between deficit and future service elements.</li> </ul>	X	X	X	✓
3	Employer strain payments	<ul style="list-style-type: none"> <li>To include all employer strain payments relating to redundancy, ill health, DBs into payment, flexible retirement, etc.</li> </ul>	X	X	X	✓

		<ul style="list-style-type: none"> <li>This item does not need to be split between columns A to C as GAD have confirmed this is not necessary for their calculations.</li> <li>However, if a fund can split the data between the three benefit types it may choose to do so.</li> </ul>				
4	Employee additional contributions (added years, ARCs, APCs, SCAPCs, PTBB, Pre72, etc)	<ul style="list-style-type: none"> <li>To be allocated to column A or B according to the time the transaction first arose.</li> <li>For example: <ul style="list-style-type: none"> <li>all APCs would be allocated to the post-March 2014 main section, column B.</li> <li>all added years and ARCs would be allocated to the pre-April 2014 section, column A.</li> </ul> </li> </ul>	✓	✓	X	✓
5	Transfers in	<ul style="list-style-type: none"> <li>The treatment will depend on the type of transfer received.</li> <li>Interfund transfers should be split between columns A to C where the transfer received contains any or all of these elements.</li> <li>For inward Club and non-Club transfers, any final salary element received should be allocated to column A, and any career average element received should be allocated to column B.</li> <li><b>See section 6 for further comments.</b></li> </ul>	✓	✓	✓	✓

**Reporting of expenditure items**

Item	Description	Additional notes	<i>To be split where relevant into the following categories</i>			Total (sum of columns A to C)
			Column A - Pre-April 2014 benefit accrual	Column B - Post-March 2014 main section benefit accrual	Column C - Post-March 2014 50/50 section benefit accrual	
1	Member pensions	<ul style="list-style-type: none"> <li>• This item to include pensions increase (PI).</li> <li>• Ill health enhancements to be allocated to the period when the enhancement was awarded. (NB, this allocation applies only to the enhancement.) For example, if an ill health enhancement became payable prior to April 2014, this would go into column A.</li> <li>• All ill-health enhancements awarded post-April 2014 should be allocated to column B as all such enhancements are awarded at the main section accrual rate, even if the member was in the 50/50 section at the time of their ill-health retirement.</li> <li>• For pensions in payment by virtue of a pension credit, if this pension relates purely to final salary benefit accrual, this should be allocated to column A. In all other cases, this should be allocated to column B.</li> <li>• Any GMP element to be</li> </ul>	✓	✓	✓	✓

		allocated to column A unless there is no final salary element to the individual's pension, in which case the GMP should be allocated to column B.				
2	Retirement lump sums	<ul style="list-style-type: none"> <li>• This item to include PI.</li> <li>• Accrued lump sums (and PI on accrued lump sums) relating to pre-April 2008 membership to be allocated to column A.</li> <li>• Commuted lump sums to be apportioned between columns A to C based on benefit accrual.</li> <li>• Where an individual's commuted lump sum has been calculated based on an annual pension figure that includes some PI, this PI does not need to be separately identified. The apportioning of the commuted lump sum as set out in section 6 will be deemed to provide for an appropriate split of PI between the different elements.</li> <li>• <b>See section 6 for further comments.</b></li> </ul>	✓	✓	✓	✓
3	Death grants	<ul style="list-style-type: none"> <li>• This item to include interest paid.</li> <li>• All active member death grants for deaths after 31 March 2014 should be allocated to column B.</li> <li>• Deferred and pensioner member death grants should be apportioned between columns A to C based on benefit accrual.</li> </ul>	✓	✓	✓	✓

		<ul style="list-style-type: none"> <li>• <b>See section 6 for further comments.</b></li> </ul>				
4	Dependant pensions	<ul style="list-style-type: none"> <li>• This item to include PI.</li> <li>• No portion to be included in column C as all post-March 2014 dependant benefits accrue in the main section.</li> <li>• Death in service enhancements to be allocated to the period when the enhancement was awarded. For example, if a death in service enhancement became payable prior to April 2014, this would go into column A. (NB, this applies only to the enhancement.)</li> <li>• Any GMP element to be allocated to column A unless there is no final salary element to the individual's pension, in which case the GMP should be allocated to column B.</li> </ul>	✓	✓	X	✓
5	Transfers out	<ul style="list-style-type: none"> <li>• This item to include any interest that may be payable on transfers.</li> <li>• The value of the transfer to be apportioned between columns A to C based on calculations set out in actuarial guidance.</li> <li>• Transfers of pension credits to be allocated according to the Scheme in which the pension credit was granted. For example: <ul style="list-style-type: none"> <li>- if the transfer relates to a post-March 2014 pension</li> </ul> </li> </ul>	✓	✓	✓	✓

		<p>credit, this should be allocated to column B,</p> <ul style="list-style-type: none"> <li>- if the transfer relates to a pre-April 2014 pension credit, this should be allocated to column A.</li> </ul> <ul style="list-style-type: none"> <li>• <b>See section 6 for further comments.</b></li> </ul>				
6	Refunds	<ul style="list-style-type: none"> <li>• This item does not need to be split between columns A to C as GAD have confirmed that this split will not be material, now or in the future.</li> <li>• This item to include interest paid.</li> <li>• To be disclosed net of Contribution Equivalent Premiums (CEPs) and tax.</li> </ul>	X	X	X	✓
7	Trivial commutation/ De Minimis payments	<ul style="list-style-type: none"> <li>• This item does not need to be split as GAD do not expect this item to be material.</li> <li>• This item to include interest paid.</li> </ul>	X	X	X	✓
8	Tax charges	<ul style="list-style-type: none"> <li>• To be split according to when and in what section of the scheme the transaction arose.</li> <li>• For example: <ul style="list-style-type: none"> <li>- If the annual allowance was breached post-March 2014 and the member was in the 50/50 section of the scheme, the whole of the scheme pays tax charge (if used) would be allocated to column C.</li> <li>- If the tax-charge relates to a pre-April 2014 unauthorised</li> </ul> </li> </ul>	✓	✓	✓	✓



		<p>payment, the whole of the tax charge would be allocated to column A.</p> <ul style="list-style-type: none"> <li>In practice, this will mean the majority of tax charges will be allocated to column B.</li> </ul>				
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## 6. Notes on calculations

In some cases, it may not immediately be clear how a benefit can be split into any or all of the pre-April 2014, post-March 2014 main and post-March 2014 50/50 categories. Where this may be the case, please see the below:

### a. Commuted lump sums

Under regulation 13 of the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (the Transitional Regulations), where a member has both pre-April 2014 and post-March 2014 membership and commutes some of their pension to lump sum, each part of the member's pension is reduced in proportion to the total pension.

#### Example

##### **Pre-commutation**

Total pension - £10,000pa

Proportion based on pre-April 2014 benefit accrual - £9,000pa

Proportion based on post-March 2014 benefit accrual - £1,000pa

The member chooses to commute £1,000 pension to lump sum, giving the member a commuted lump sum of £12,000. 90% of the member's pension relates to pre-April 2014 benefit accrual and 10% relates to post-March 2014 benefit accrual, so £900 of the commuted pension relates to pre-April 2014 benefit accrual and £100 relates to post-March 2014 benefit accrual.

##### **Post-commutation**

Total pension - £9,000

Proportion to be allocated to pre-April 2014 benefit accrual - £8,100pa

Proportion to be allocated to post-March 2014 benefit accrual - £900pa

Commuted lump sum - £12,000

Proportion to be allocated to pre-April 2014 benefit accrual - £10,800pa (12,000 \* 0.90)

Proportion to be allocated to post-March 2014 benefit accrual - £1,200pa (12,000 \* 0.10)

#### Taking into account the 50/50 section

In addition to the above, for the purposes of providing transactions data to GAD for cost control, if the member was in the 50/50 section for a time, their post-March 2014 lump sum will need to be proportioned in accordance with the proportion of their post-March 2014 pension that relates to the time when they were in the 50/50 section of the scheme.

This should be done in accordance with the above principles. For example, if £90 of the above member's post-commutation, post-March 2014 pension of £900 related to a time when they were in the 50/50 section, that would represent 10% of the member's total post-March 2014 pension. 10% of the post-March 2014 lump sum would therefore need to be apportioned to the 50/50 section (column C in the specification). This would work out as £120 (£1,200 \* 0.10).

#### **b. Transfers out**

Under GAD's individual incoming and outgoing transfers guidance dated 8<sup>th</sup> April 2016, to calculate the value of a transfer out, it is necessary to split an individual's benefits into the following categories (where applicable):

- pre-April 2008,
- post-March 2008 and pre- April 2014, and
- post-March 2014.

For GAD's purposes, the sum of the value of the CETV of the first two bullets should be the total inserted in the pre-April 2014 benefit category (column A in the specification) and the value of the CETV of the last bullet should be the total inserted in the post-March 2014 main section benefit category (column B in the specification).

#### Taking into account the 50/50 section

In addition to the above, for the purposes of providing transactions data to GAD for cost control, if the member was in the 50/50 section for a time, the part of the transfer value that relates to post-March 2014 benefit accrual will need to be split to take account of this period. This should be done by proportioning that part of the transfer value by reference to the amount of the member's post-March 2014 pension which relates to the 50/50 section. For example, if 10% of the total value of the member's post-March 2014 pension relates to 50/50 section membership, it should be 10% of that part of the transfer value which goes into the 50/50 section (column C).

### **c. Transfers in**

For an inward interfund transfer, the split in the transfer value calculated by the outgoing fund should be used to derive the split needed for the purposes of apportioning the payments between columns A to C in the specification.

For an inward Club or non-Club transfer, if the transfer is all career average, the total should all be allocated to the post-March 2014 main section (column B in the specification). If the transfer is all final salary, the total should all be allocated to the pre-April 2014 main section (column A in the specification). If the transfer includes both final salary and career average elements, the transfer should be split between the two columns in accordance with the outgoing scheme's calculation of the two elements (for a Club transfer, under the terms of the Club memorandum of March 2015). If the transfer in contains a GMP, the GMP should be treated as a pre-April 2014 benefit unless the member has no final salary membership, in which case it should be treated as a post-March 2014 main section benefit (column C).

### **d. Deferred and pensioner death grants**

Under regulation 17(8) of the Transitional Regulations, where a member becomes a deferred or pensioner member with pre-April 2014 and post-March 2014 scheme membership, the total death grant that is payable is based on adding the death grant payable for the pre-April 2014 membership, as calculated under the 2007 Benefits Regulations) with the death grant payable for the post-March 2014 membership, as calculated under the 2013 Regulations. The two elements calculated should provide the split in membership needed for the purposes of this document.

#### Taking into account the 50/50 section

In addition to the above, for the purposes of providing transactions data to GAD for cost control, if the member was in the 50/50 section for a time, the total of the post-March 2014 death grant will need to be split to take account of this period. This should be done by proportioning that part of the death grant by reference to the amount of the member's post-March 2014 pension which relates to the 50/50 section. For example, if 10% of the total value of the member's post-March 2014 pension relates to 50/50 section membership, it should be 10% of that part of the death grant which goes into the 50/50 section (column C).

## **7. Other issues to note**

- Where, for example, a pension is already in payment prior to 1<sup>st</sup> April 2017 (expenditure items 1 and 4) and has elements that fit into one or more of the columns A to C, backdated reworking will not, at this stage, be necessary so that these elements are correctly apportioned from April 2017 onwards.
- At this stage, GAD do not anticipate requiring retrospective allocation to be undertaken so that transactions that took place prior to April 2017 would need to be reported along the lines outlined in section 5. For example, if a transfer was paid in July 2015 that included both a pre-April 2014 and a post-March 2014 element, this would not need to be retrospectively allocated into the different sections.
- Where in section 5, the specification says that apportioning a split in a category of benefit isn't necessary as this is unlikely to be material to GAD's calculations (for example, trivial commutation), we understand that this position could change in the future, and such items may indeed need to be split out. Funds and software suppliers may wish to consider whether it is preferable to update their systems so that these elements can be split out as described now, or whether they would prefer to wait until this is possibly required at some point in the future.