



Government Actuary's Department

Local Government Pension Scheme (England and Wales)

2014 Scheme: Revaluation of member pension accounts

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1. The Local Government Pension Scheme (England and Wales): Actuarial valuation as at 31 March 2013¹ noted that the inclusion of additional year's revaluation in CARE accounts had increased the proposed employer cost cap by 0.4% of pensionable pay, compared with target overall cost under the Scheme Advisory Board cost control arrangement. The purpose of this note is to compare two different revaluation methods for sample members. It is intended to aid discussion of the valuation results. Readers should note the limitations set out at Appendix A.
2. The revaluation in a CARE scheme can be done in the following ways:
 - 'Final salary style' revaluation:
Revaluation as at 1 Apr 2021 (for example) is applied to benefits earned in previous years (ie up to 31 Mar 2020) but not to earned pension in the year just completed (1 Apr 2020 – 31 Mar 2021).
Under this revaluation, if an employee is an active member of the scheme for a single scheme year before retirement, the pension at retirement from the CARE scheme is the same as the pension at retirement from a comparable final salary scheme (ie with the same accrual rate and final salary based on pension earned over the year before leaving)
 - Immediate revaluation:
Revaluation as at 1 Apr 2021 (for example) is applied to all benefits; that is both benefits earned in previous year (ie up to 31 Mar 2020) and to earned pension in the year just completed (1 Apr 2020 – 31 Mar 2021).
Under this revaluation, the benefits earned in 1 Apr 2020 – 31 Mar 2021 are revalued immediately.
3. Immediate revaluation results in higher pensions than 'Final salary style' revaluation, and so higher costs.
4. This note compares the benefits to sample members under the two revaluation approaches above. The sample members are as follows:
 - Member 1: service 1 Apr 2020 – 31 Mar 2022
 - Member 2: service 1 Dec 2020 – 30 Nov 2022
5. We make the following assumptions:
 - Members' pensionable pay:
 - i. 1st year of service: £11,500
 - ii. 2nd year of service: £12,000

¹ <http://www.lgpsregs.org/index.php/dclg-publications/dclg-other>



- HM Treasury Revaluation Orders / Pension Increase Orders: 3% in each year

Further minor assumptions are set out in Appendix B.

Member 1: service 1 Apr 2020 – 31 Mar 2022

6. The following table shows the member's salary and earned pension before revaluation:

	Year 1 1 Apr 2020 - 31 Mar 2021	Year 2 1 Apr 2021 - 31 Mar 2022	Total
Salary	11,500.00	12,000.00	23,500.00
Earned pension	234.69	244.90	479.59

'Final salary style' revaluation

7. The following table shows the member's pension including revaluation and pension increases ('PI') under 'final salary style' revaluation:

	Year 1	Year 2	Total
As at 31 Mar 2021	234.69		234.69
Revaluation	0.00		0.00
As at 1 Apr 2021	234.69		234.69
As at 31 Mar 2022	234.69	244.90	479.59
Revaluation	7.04	0.00	7.04
As at 1 Apr 2022	241.73	244.90	486.63
PI Apr 2022	0.00	0.00	0.00
As at mid-Apr 2022	241.73	244.90	486.63
PI Apr 2023	7.25	7.35	14.60
As at mid-Apr 2023	248.99	252.24	501.23

Immediate revaluation

8. The following table shows the member's pension including revaluation and pension increases under immediate revaluation:

	Year 1	Year 2	Total
As at 31 Mar 2021	234.69		234.69
Revaluation	7.04		7.04
As at 1 Apr 2021	241.73		241.73
As at 31 Mar 2022	241.73	244.90	486.63
Revaluation	7.25	7.35	14.60
As at 1 Apr 2022	248.99	252.24	501.23
PI Apr 2022	0.00	0.00	0.00
As at mid-Apr 2022	248.99	252.24	501.23
PI Apr 2023	7.47	7.57	15.04
As at mid-Apr 2023	256.46	259.81	516.27



9. Note that the pension at retirement is £486.63 under 'Final salary style' revaluation; it is £501.23 under immediate valuation.
10. The LGPS 2014 project note 'LGPS 2014 – A career average pension'² set out a similar example, but for a member with 5 years of service. The pension earned in that example in the final two years of service was £486.63 (241.73 + 244.90). This is consistent with the pension at retirement under the 'final salary style' revaluation above.

Member 2: service 1 Dec 2020 – 30 Nov 2022

11. The following table shows the member's salary and earned pension before revaluation:

	Year 1	Year 2	Year 3	Total
	1 Dec 2020 - 31 Mar 2021	1 Apr 2021 - 31 Mar 2022	1 Apr 2022 - 30 Nov 2022	
Months' service	4	12	8	
Pensionable pay	3,833.33	11,666.67	8,000.00	23,500.00
Earned pension	78.23	238.10	163.27	479.59

'Final salary style' revaluation

12. The following table shows the member's pension including revaluation and pension increases under 'final salary style' revaluation:

	Year 1	Year 2	Year 3	Total
As at 31 Mar 2021	78.23			78.23
Revaluation	0.00			0.00
As at 1 Apr 2021	78.23			78.23
As at 31 Mar 2022	78.23	238.10		316.33
Revaluation	2.35	0.00		2.35
As at 1 Apr 2022	80.58	238.10		318.67
As at 1 Dec 2022	80.58	238.10	163.27	481.94
As at 31 Mar 2023	80.58	238.10	163.27	481.94
Revaluation	1.60	4.71	0.00	6.31
As at 1 Apr 2023	82.17	242.81	163.27	488.25
PI Apr 2023	0.82	2.43	1.63	4.88
As at mid-Apr 2023	83.00	245.24	164.90	493.13
PI Apr 2024	2.49	7.36	4.95	14.79
As at mid-Apr 2024	85.49	252.60	169.84	507.93

² <http://www.lgps.org.uk/lge/aio/17364756>



Immediate revaluation

13. The following table shows the member's pension including revaluation and pension increases under immediate revaluation:

	Year 1	Year 2	Year 3	Total
As at 31 Mar 2021	78.23			78.23
Revaluation	0.78			0.78
As at 1 Apr 2021	79.01			79.01
As at 31 Mar 2022	79.01	238.10		317.11
Revaluation	2.37	7.14		9.51
As at 1 Apr 2022	81.38	245.24		326.62
As at 1 Dec 2022	81.38	245.24	163.27	489.89
As at 31 Mar 2023	81.38	245.24	163.27	489.89
Revaluation	1.61	4.86	3.23	9.70
As at 1 Apr 2023	83.00	250.09	166.50	499.59
PI Apr 2023	0.83	2.50	1.66	5.00
As at mid-Apr 2023	83.83	252.60	168.16	504.58
PI Apr 2024	2.51	7.58	5.04	15.14
As at mid-Apr 2024	86.34	260.17	173.21	519.72

14. Note that the pension at retirement is £481.94 under 'Final salary style' revaluation; it is £489.89 under immediate valuation.

15. The pension at retirement is lower for member 2 than member 1 under both revaluation methods. However this is not unreasonable, because member 2's pension will increase 4 months after retirement but member 1's pension will not increase until 12 months after retirement.



Appendix A: Limitations

16. This note is addressed to of the Department for Communities and Local Government (DCLG). It is intended for the use of DCLG to compare two different revaluation methods for sample members, to aid discussion of the valuation results. The information and advice in this note should not be relied upon, or assumed to be appropriate, for any other purpose or by any other person. In particular, this note is not intended to be a guide for administering the scheme. GAD does not accept any liability to third parties, whether or not GAD has agreed to the disclosure of its advice to the third party.
17. We are content for the DCLG to release this note to third parties, provided that:
- it is released in full
 - the advice is not quoted selectively or partially
 - GAD is identified as the source of the note, and
 - GAD is notified of such release.
18. Third parties whose interests may differ from those of DCLG should be encouraged 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.
19. GAD is not responsible for any decision taken by DCLG, except to the extent that the decision has been made in accordance with specific advice provided by GAD. Advice provided by GAD must be taken in context and is intended to be read and used as a whole, not in parts. GAD does not accept responsibility for advice that is altered or used selectively. No significant action should be taken based on oral advice alone. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.



Appendix B: Minor assumptions underlying calculations

20. We assume that the member's pay is paid in equal monthly instalments over their first and second years of service; that is we assume that member 1 receives a £500 pa pay increase on 1 Apr 2021 and member 2 receives a £500 pa pay increase on 1 Dec 2021.

21. For immediate revaluation, we have followed the methodology set out in LGPC Secretariat's note 'Revaluation (version 1.2)'³, in particular:

- Year of leaving: Partial revaluation is applied on the 1 April following the member's date of leaving, such that the total of the partial revaluation and partial pension increase is equal a whole year's pension increase
- Year of joining: Partial revaluation is applied on the 1 April following the member's date of joining of $n / 12 \times$ Treasury order, where n is the number of complete months since joining

We note that other public service pension schemes are taking a different approach to immediate revaluation for mid-year joiners / leavers.

22. For 'final salary style' revaluation, we have followed consistent approaches for mid-year joiners / leavers to those above, as follows:

- Year of leaving: Partial revaluation is applied on the 1 April following the member's date of leaving, such that the total of the partial revaluation and partial pension increase is equal a whole year's pension increase – but this revaluation is not applied to the earned pension in the year of leaving
- Year of joining: No revaluation is applied on the 1 Apr following the year of joining

23. For the purpose of these examples we have ignored the vesting period.

24. All figures in this note have been calculated based on unrounded values. Figures shown in this note are rounded to the nearest £0.01, and totals may not sum due to rounding.

³ <http://www.lgpsregs.org/index.php/guides/administration-guides-to-the-2014-scheme>