

Annex C – The two-stage process

As outlined in paragraphs 60 and 61, we are proposing the introduction of a two-stage process for calculating a member’s entitlement from the underpin. Under this, calculations would take place at a member’s “underpin date” and their “underpin crystallisation date”. This annex contains further details on the proposals we set out in our draft regulations.

The underpin date – proposed approach

- A member’s underpin date will be the earlier of:
 - the date they leave active service with an immediate or deferred entitlement to a pension,
 - the date they reach their 2009 Scheme normal retirement age, or
 - the date they die.
- The underpin date will relate to a specific ‘relevant scheme membership’ – i.e. a single scheme membership in which the member:
 - was active in the LGPS on 31 March 2012,
 - had membership of the 2015 Scheme, and
 - did not have a disqualifying break in service.
- It is possible a member may have two (or more) relevant scheme memberships. Where this applies, they may have different underpin dates in respect of each one.
- At a member’s underpin date, an initial comparison of the member’s 2015 Scheme and 2009 Scheme benefits will be undertaken based on:
 - a member’s ‘provisional assumed benefits’ in a relevant scheme membership – broadly, the career average benefits they have accrued in the 2015 Scheme over the underpin period¹, and
 - a member’s ‘provisional underpin amount’ in a relevant scheme membership – broadly, the final salary benefits the member would have built up in the 2009 Scheme over the same period².
- If the provisional underpin amount is higher than the provisional assumed benefits at a member’s underpin date, the member will be awarded a ‘provisional guarantee amount’ in respect of that relevant scheme membership.

¹ The underpin period runs from 1 April 2015 to 31 March 2022, or to the member’s underpin date where that is earlier than 31 March 2022.

² If the underpin date is after 31 March 2022, the member’s final salary for the year up to their underpin date would be used for the purposes of calculating their provisional underpin amount.

- A provisional guarantee amount is a provisional assessment that the 2009 Scheme benefits would have been better for the member. At a member's underpin date, there would be no change to a member's pension entitlement arising from the provisional guarantee amount³. However, annual benefit statements sent to the member after their underpin date would confirm if a provisional guarantee amount has applied.
- Members may have multiple underpin dates in respect of a relevant scheme membership. This may occur where:
 - A member has concurrent employments and ceases to be an active member in one (in which they have relevant scheme membership). An underpin date will apply at the point the member leaves the LGPS in that post. If the member then aggregates their relevant scheme membership with their ongoing post, a further underpin date will apply at the earlier of the following:
 - the date they leave active service,
 - the date they reach their 2009 Scheme normal retirement age, or
 - the date they die.
 - A member leaves an employment in which they have relevant scheme membership with an immediate or deferred entitlement to a pension. An underpin date would apply at their date of leaving. If the member then re-joins the LGPS and aggregates their membership (without a disqualifying break in service), a further underpin date will apply at the earlier of the following:
 - the date they leave active service,
 - the date they reach their 2009 Scheme normal retirement age, or
 - the date they die.

The underpin crystallisation date – proposed approach

- As the period between a member's underpin date and the date they take their benefits from the LGPS could be 30 or 40 years, we propose that all members have an underpin crystallisation date in respect of a relevant scheme membership.
- A variety of circumstances will give rise to a member's underpin crystallisation date and a member can only have one underpin crystallisation date in respect of a relevant scheme membership. A member's underpin crystallisation date

³ Unless their underpin crystallisation date immediately follows their underpin date – for example, if a member takes immediate payment of their benefits upon leaving the scheme.

will be the earliest of the following in respect of a relevant scheme membership:

- the date a member takes voluntary payment of their pension, at any age between 55 and 75,
 - the date a member takes flexible retirement,
 - the date a member aged 55 or over leaves active membership as a result of redundancy, or due to business efficiency,
 - the date a member retires on ill-health grounds,
 - the date a member transfers out or trivially commutes their benefits, or
 - the date a member dies.
- What happens at a member’s underpin crystallisation date will vary, and is described in more detail for each circumstance in the ‘the revised underpin – application’ section in the body of this document. In most cases, however, it will involve a member’s provisional underpin amount and their provisional assumed benefits being updated to give a member’s ‘final underpin amount’ and their ‘final assumed benefits’. How the provisional figures are updated to become final figures will vary depending on the circumstance. The below table summarises what is proposed to apply under the draft regulations.

Circumstance giving rise to a member’s underpin crystallisation date	How provisional underpin amount and provisional assumed benefits calculated at a member’s underpin date are updated at a member’s underpin crystallisation date
Voluntary age retirement or flexible retirement	<ul style="list-style-type: none"> ● To include any cost of living increases that would have applied to the member’s pension under the 2009 or 2015 Schemes between the member’s underpin date and their underpin crystallisation date, and ● To include any actuarial adjustments relating to the member’s age, that would have applied under the 2009 or the 2015 Schemes.
Redundancy ⁴ and ill-health pension being paid (from active or deferred status)	<ul style="list-style-type: none"> ● To include any cost of living increases that would have applied to the member’s pension under the 2009 or 2015 Schemes between the member’s underpin

⁴ Including termination on grounds of business efficiency

	<p>date and their underpin crystallisation date, and</p> <ul style="list-style-type: none"> • To include any actuarial increases relating to the member's age, that would have applied under the 2009 Scheme and 2054 Scheme.
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- Where a member's final underpin amount is higher than their final assumed benefits at a member's underpin crystallisation date, the member will be awarded a 'final guarantee amount' in respect of that relevant scheme membership. An addition would be made to their pension account in respect of that final guarantee amount.
- For certain types of underpin crystallisation, the draft regulations do not prescribe that members' provisional underpin amount and provisional assumed benefits are updated to give 'final' amounts. This applies in the following cases:
 - Transfers out – instead, administrators will need to comply with actuarial guidance issued by the Scottish Ministers
 - Trivial commutations – instead, administrators will need to comply with actuarial guidance issued by the Scottish Ministers
 - Deaths – instead, the regulations prescribe what should apply in relation to any survivor benefits that may be payable.