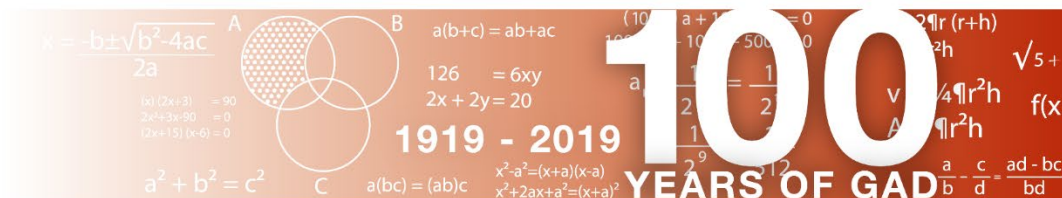




Government
Actuary's
Department



The Firefighters' Pension Scheme (Scotland) 2015

Commutation of Small Pensions

Factors and guidance

Date: 29 January 2020





Contents

1	Introduction	1
2	Guidance on Commutation of Small Pensions	4
3	Examples	6
	Appendix A: Factor tables	8
	Appendix B: Assumptions underlying factors	11
	Appendix C: Limitations	12



1 Introduction

- 1.1 This note is provided for Welsh Ministers in their role as manager of the Firefighters' Pension Schemes (Wales). This note relates to commutation of small pensions in accordance with Regulation 157 of the 2015 Scheme Regulations. It sets out the general method for calculating the cash value for the purpose of commutation of small pensions.
- 1.2 Scottish Ministers, as responsible authority under Schedule 2 paragraph 6 of the Public Service Pensions Act 2013 ('the responsible authority') are required under the Firefighters' Pension Scheme (Scotland) Regulations 2015 ('the 2015 Scheme Regulations') (SSI 2015/19), to issue actuarial guidance on the commutation of small pensions (Regulation 157(3) of the 2015 Scheme Regulations).
- 1.3 This guidance relates only to benefits accrued under the 2015 Scheme Regulations. Some firefighters may also have benefits under the 1992 Scheme or the NFPS which should be dealt with separately according to relevant scheme guidance.
- 1.4 SPPA acting on behalf of Scottish Ministers may commute small pensions under Regulation 157(3) of the 2015 Scheme Regulations.
- 1.5 The remainder of this introduction contains:
 - Details of the implementation and future review of this guidance
 - Statements about the use of this note and third party reliance
- 1.6 In the remainder of this note:
 - Section 2 provides guidance on commutation of small pensions
 - Section 3 provides examples for trivial commutation calculations
 - Appendix A sets out the factor tables
 - Appendix B sets out the assumptions underlying the factors contained in this guidance note.
 - Appendix C sets out some important limitations
- 1.7 The factors provided in this note have been prepared in light of our advice to SPPA dated 30 October 2018 and its instructions following that advice. Those factors were issued in advance of this note and came into effect on 29 October 2018.
- 1.8 This guidance is intended to supersede any advice previously issued, for the purposes of trivial commutation calculations, carried out from the issued date on the cover. No advice or factors issued in the past should be used for cases after this date. In particular, this guidance supersedes:

"The Firefighters' Pension Scheme (Scotland) 2015: Commutation of small pensions" dated 1 April 2015
- 1.9 The factors in this note have been updated but the calculation methodology remains unchanged.



Implementation and Review

- 1.10 The responsible authority is required to consult the scheme actuary before issuing actuarial guidance under the 2015 Scheme Regulations.
- 1.11 As part of this consultation the responsible authority has asked GAD, as scheme actuary, to recommend actuarial guidance in respect of the regulations detailed below. This document forms GAD's recommendation for the actuarial guidance required by these regulations.
- 1.12 This note has effect only when this guidance is issued by the responsible authority to the scheme manager as defined in Regulation 4 of the 2015 Scheme Regulations, and is subject to the implementation instructions provided at that time.
- 1.13 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Firefighters' Pension Scheme (Scotland) 2015. Any questions concerning the application of the guidance should, in the first instance, be referred to the Firefighters' Pensions team at SPPA.
- 1.14 The factors contained in this note will be reviewed periodically. This will depend on external circumstances, for example when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future valuation of the Firefighters' Pension Scheme (Scotland) 2015 where mortality and other relevant experience is reviewed or if other credible and material information comes to light.
- 1.15 The scheme manager and administrators should ensure that they use the latest factors in circulation.

Use of this note

- 1.16 This note has been prepared for the responsible authority and can be relied upon by them. We are content for this note to be released to third parties, provided that:
 - it is released in full;
 - the advice is not quoted selectively or partially; and
 - GAD is identified as the source of the note.
- 1.17 Third parties may wish 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.

Third party reliance

- 1.18 This guidance has been prepared for the use of SPPA and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on SPPA and the scheme administrator'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.



- 1.19 Other than SPPA and the scheme administrators, 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 Guidance on Commutation of Small Pensions

- 2.1 Various restrictions on the trivial commutation of pensions are imposed by both the pension taxation regime under the Finance Act 2004 (and any amending legislation) and contracting out legislation. Administrators should ensure that the payment of a lump sum in lieu of a small pension is compliant with these restrictions as well as with the Firefighters' pension scheme regulations.

Former firefighter

- 2.2 In the case of a small pension in payment to a former firefighter the lump sum payable in lieu of future pensions should be determined as follows:

$$\text{PEN} \times F_{\text{pen}} + \text{SPEN} \times F_{\text{spen}}$$

where:

PEN annual pension in payment

SPEN annual survivor's pension payable upon member's death

F_{pen} factor for pension in payment - Table 1

F_{spen} factor for contingent survivor's pension – Table 1

- 2.3 Example 1 in section 3 illustrates a small pension commutation for a former firefighter in the 2015 scheme.
- 2.4 The survivor's pension used in the calculation is the pension that would actually be payable to the member's spouse or partner if the former firefighter died on the day of the calculation. No survivor's pension elements should be included when a former firefighter has no spouse or qualifying partner.
- 2.5 In all cases the factors should be applied to the member's or survivor's pension actually in payment (or which would actually be payable upon the member's death) from the scheme. This should include all pension increases up to the date of commutation including, for example, any increase needed to ensure that the GMP anti-franking requirements under Pension Schemes Act 1993 are satisfied.



Surviving spouse or partner

- 2.6 In the case of a small pension in payment to the surviving spouse or partner of a former firefighter the lump sum payable in lieu of future pensions should be determined as follows:

$$\text{WPEN} \times F_{\text{wpen}}$$

where

WPEN = annual pension in payment

F_{wpen} = factor for surviving spouse or partner's pension - Table 2

Eligible children and pension credit members

- 2.7 The scheme manager may also pay an eligible child or pension credit member a lump sum in accordance with Regulation 157 of the 2015 Scheme Regulations. The responsible authority should refer any such requests to GAD.



3 Examples

Example 1: Trivial commutation of small pension – Former Firefighter

Sex:	Male
Date of birth:	01/09/1955
Calculation date:	01/12/2020
Total pension in payment:	£700 pa
Survivor's pension:	£350 pa (wife entitled to receive half pension on death)

Age in completed years on calculation date: 65

PEN	£700 pa
SPEN	£350 pa

Factors should be taken from **Table 1**

F_{pen}	15.783
F_{spen}	3.686

The trivial commutation lump sum payable to the member is calculated as follows:

$$\begin{aligned} &= \text{PEN} \times F_{\text{pen}} + \text{SPEN} \times F_{\text{spen}} \\ &= £700.00 \times 15.783 + £350.00 \times 3.686 \\ &= £11,048.10 + £1,290.10 \\ &= £12,338.20 \end{aligned}$$



Example 2 – Trivial commutation: 2015 scheme widow

Sex:	Female – spouse of a former firefighter
Date of birth:	01/08/1976
Calculation date:	01/02/2020
Total pension in payment:	£250 pa

Age in completed years on calculation date: 43

PEN	£250 pa
-----	---------

The factors should be taken from **Table 2**.

F_{wpen}	26.649
------------	--------

The widow's trivial commutation lump sum can be calculated as follows:

$$\begin{aligned} &= \text{PEN} \times F_{wpen} \\ &= £250.00 \times 26.649 \\ &= £6,662.25 \end{aligned}$$



Appendix A: Factor tables

Table 1: Trivial commutation Factors for former firefighters (Table 503 in the consolidated factor spreadsheet)

Age in complete years	Unisex Factor for benefits in payment (Fpen)	Unisex Factor for spouse or partner's pension (Fspen)
55	20.982	3.302
56	20.489	3.352
57	19.990	3.400
58	19.484	3.445
59	18.972	3.487
60	18.454	3.527
61	17.930	3.565
62	17.400	3.600
63	16.865	3.632
64	16.326	3.660
65	15.783	3.686
66	15.237	3.708
67	14.689	3.725
68	14.141	3.738
69	13.592	3.698
70	13.044	3.653
71	12.498	3.650
72	11.955	3.640
73	11.418	3.623
74	10.888	3.483



**Table 2: Trivial commutation for surviving spouse or partner
(Table 504 in the consolidated factor spreadsheet)**

Age in complete years	Surviving spouse or partner unisex (Fwpen)
25	32.058
26	31.795
27	31.527
28	31.255
29	30.978
30	30.697
31	30.412
32	30.123
33	29.829
34	29.532
35	29.230
36	28.925
37	28.616
38	28.303
39	27.984
40	27.660
41	27.330
42	26.993
43	26.649
44	26.296
45	25.934
46	25.563
47	25.182
48	24.791
49	24.390
50	23.980
51	23.561
52	23.133
53	22.696
54	22.252
55	21.799
56	21.338
57	20.869
58	20.394
59	19.910
60	19.419
61	18.920
62	18.414
63	17.901



Table 2 (cont): Trivial commutation for surviving spouse or partner (Table 504 in the consolidated factor spreadsheet)

Age in complete years	Surviving spouse or partner unisex (Fwpen)
64	17.382
65	16.855
66	16.322
67	15.783
68	15.240
69	14.691
70	14.139
71	13.584
72	13.026
73	12.466
74	11.907
75	11.349
76	10.794
77	10.243
78	9.696
79	9.152
80	8.614
81	8.081
82	7.557
83	7.044
84	6.544
85	6.061
86	5.599
87	5.161
88	4.750
89	4.366
90	4.005
91	3.668
92	3.353
93	3.059
94	2.789
95	2.548
96	2.337
97	2.156
98	2.003
99	1.869



Appendix B: Assumptions underlying factors

Financial assumptions

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

Mortality assumptions

Baseline mortality	Standard table	Adjustment
Pensioners	S2NMA	134%
Dependants	S2DFA	118%

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

Other assumptions

Proportion of male members for the purposes of unisexing factors	95%
Proportion married/partnered at retirement	75% of members assumed married at retirement (80% assumed partnered)
Age difference between member and partner	Males assumed 3 years older than partner. Females assumed 3 years younger than partner.



Appendix C: Limitations

- C.1 This note should not be used for any purpose other than those set out in this guidance note.
- C.2 The factors contained in this note 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 note only covers the actuarial principles around the calculation and application of trivial commutation 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 trivial commutation 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 the SPPA and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.