



Police pension schemes (Scotland)

2006 Scheme

Exchange of lump sum for additional annual pension payments

Factors and guidance

Date:





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1 Introduction

- 1.1 This note is provided for the Scottish Public Pensions Agency (SPPA) as scheme manager of the Police pension schemes in Scotland.
- 1.2 This guidance applies to the calculation of the exchange of lump sum for additional annual pension payments (also known as inverse commutation), in the 2006 scheme under regulation 37 of the Police Pensions (Scotland) Regulations 2007 (SSI 2007/201).
- 1.3 The factors provided in this note have been prepared in light of our letter to SPPA dated 30 October 2018, and subsequent discussions. The factors were effective from 29 October 2018.
- 1.4 The guidance contained in this note is effective from the date on the cover.
- 1.5 This guidance is intended to supersede any advice previously issued, for the purposes of inverse commutation calculations, carried out from the date on the cover of this note. No advice issued in the past should be used for cases after this date. In particular, this guidance supersedes:

“Police Pension Schemes (Scotland): 2006 Scheme - Exchange of lump sum for additional annual pension payments. Factors and guidance” dated 30 March 2015.
- 1.6 The factors in this note have been updated but the calculation methodology remains unchanged.
- 1.7 Cases that are not covered by this guidance should be referred to GAD.
- 1.8 If you have any questions about how to use this guidance, contact the Police Pensions Team at the SPPA. The team can be contacted in writing at the following address: Scottish Public Pensions Agency, 7 Tweedside Park, Tweedbank, Galashiels TD1 3TE. SPPA will seek input from the Scheme actuary if necessary.
- 1.9 In the remainder of this note:
 - The second section describes the exchange of lump sum for annual pension payments calculation
 - The third section contains an example of the calculation
 - Appendix A contains the table of factors
 - Appendix B contains the assumptions underlying the factors provided in this guidance note
 - Appendix C sets out some important limitations



Implementation and Review

- 1.10 This guidance will apply from the date issued on the cover.
- 1.11 It has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Police Pension Schemes (Scotland). Any questions concerning the application of the guidance should, in the first instance, be referred to SPPA.
- 1.12 In line with best practice and in order to make sure that factors are being used as intended and the instructions are fit for purpose, we suggest that some example calculations are sent to GAD for review.
- 1.13 The factors contained in this note will be subject to review periodically. This will depend on external circumstances, for example whenever there is a change in the SCAPE basis; when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future actuarial valuation where mortality and other relevant experience is reviewed or if other credible and material information comes to light.

Third party reliance

- 1.14 This guidance has been prepared for the use of the 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 the 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.
- 1.15 Other than the 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 Exchange of lump sum

- 2.1 All or part of a member's 2006 scheme lump sum may be exchanged for additional annual pension payments. This option applies to an ordinary pension or a deferred pension (paid on normal health grounds) but not to an ill-health pension or to a deferred pension paid early on grounds of ill-health.
- 2.2 The annual pension amount calculated using the factors in this guidance note is payable to the member only. Survivors' pensions are not affected by the member's decision to exchange lump sum for additional annual pension payments.
- 2.3 The factors in the table in Appendix A are unisex.
- 2.4 The additional annual pension payments should be determined as follows:

$$\frac{\text{Lump sum}}{\text{Factor}}$$

where

- Lump sum - the lump sum amount to be exchanged for additional annual pension payments
- Factor - determined from the table in the appendix as applicable for the member's age (in years and completed months)



3 Example

3.1 Conversion of lump sum into annual pension payments

Gender of member:	Male
Date of birth:	5 August 1961
Date of pension commencement:	15 May 2020
Age in years and complete months at pension commencement:	58 years 9 months
Lump sum to be exchanged:	£50,000
Factor (58 years 9 months):	20.10

Formula:
$$\frac{\text{Lump sum to be exchanged}}{\text{Factor}}$$

Additional annual pension payments payable to the member:

$$= \frac{£50,000}{20.10} = £2,487.56 \text{ per year}$$



Appendix A: Table of factors

**Table: 2006 scheme factors for exchange of lump sum for additional annual pension payments
Males and Females
(Table 504 in Consolidated factor spreadsheet)**

Years	Age in years and completed months on day pension commences											
	0	1	2	3	4	5	6	7	8	9	10	11
55	21.93	21.89	21.85	21.81	21.77	21.73	21.69	21.65	21.61	21.57	21.53	21.49
56	21.45	21.41	21.37	21.33	21.29	21.25	21.21	21.17	21.13	21.08	21.04	21.00
57	20.96	20.92	20.88	20.84	20.80	20.76	20.72	20.68	20.63	20.59	20.55	20.51
58	20.47	20.43	20.39	20.35	20.30	20.26	20.22	20.18	20.14	20.10	20.05	20.01
59	19.97	19.93	19.89	19.84	19.80	19.76	19.72	19.67	19.63	19.59	19.55	19.51
60	19.46	19.42	19.38	19.33	19.29	19.25	19.20	19.16	19.12	19.08	19.03	18.99
61	18.95	18.90	18.86	18.82	18.77	18.73	18.68	18.64	18.60	18.55	18.51	18.47
62	18.42	18.38	18.33	18.29	18.25	18.20	18.16	18.11	18.07	18.02	17.98	17.94
63	17.89	17.85	17.80	17.76	17.71	17.67	17.62	17.58	17.53	17.49	17.44	17.40
64	17.35	17.31	17.26	17.22	17.17	17.13	17.08	17.04	16.99	16.94	16.90	16.85
65	16.81											



Appendix B: Assumptions underlying factors

Financial assumptions

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

Mortality assumptions

Base mortality tables - members	S2NMA and S2NFA
Base table adjustment – members in normal health	117% (males and females)
Base mortality tables - dependants	S2NMA and S2NFA
Base table adjustment – dependants	116% (males and females)
Future mortality improvement	Based on ONS principal UK population projections 2016
Year of use	2020

Other assumptions

Proportion of male members for the purposes of unisexing factors	70%
Family statistics	80% (male), 75% (female) of members assumed married at retirement (85% (male), 80% (female) assumed partnered)
Age difference between member and partner	Males assumed 3 years older than partner. Females assumed 3 years younger than partner.
Allowance for commutation	Nil



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 inverse 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 inverse 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 SPPA and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.