



Government
Actuary's
Department

Firefighters' Pension Scheme (1992) (Scotland)

Commutation on retirement

Factors and guidance

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1 Introduction

Scope of this guidance note

- 1.1 Rule B7 of the Firefighters' Pension Scheme Order 1992 (S) (SI 1992/129) ("the Regulations") states that a member entitled to an ordinary, short service, ill health or deferred pension may commute a portion of their pension for a lump sum. The lump sum is the actuarial equivalent of the commuted portion at the date of retirement, calculated from tables prepared by the Government Actuary.
- 1.2 Rule N11 of the Firefighters' Pension Scheme Order 1992 (S) (SI 1992/129) states that certain pension credit members may commute a portion of their pension for a lump sum.
- 1.3 The lump sum is the actuarial equivalent of the commuted portion at a specified age.
- 1.4 The purpose of this note is to provide to administrators the tables for commutation of pension to lump sum in the Firefighters' Pension Scheme (1992) in Scotland ("1992 Scheme").
- 1.5 The guidance supersedes the commutation guidance issued by GAD dated 31 October 2018 and any previous guidance or advice issued by GAD in connection with firefighters' pension commutation and has immediate effect.
- 1.6 This note should not be used for any purpose other than to determine the commutation factor that should be applied to the amount of pension commuted to provide a lump sum in the 1992 Scheme. For example:
 - This guidance does not apply to the commutation for lump sum in the 2006 Scheme or the 2015 Scheme.
 - This guidance does not apply to the trivial commutation of pension under rules B8, E5 and E6 of the Regulations.
 - This guidance also does not cover the calculation of the capitalised value of benefits for the purpose of determining death gratuities under rule E4 of the Regulations.
 - This guidance does not cover firefighters in England, Wales or Northern Ireland. These firefighters are covered under separate guidance.
- 1.7 This note should be considered in its entirety, not as individual sections which if considered in isolation, may be misleading. Conclusions reached by a review of some sections on their own may be incorrect.
- 1.8 This note only covers the actuarial principles around the calculation and application of commutation factors. Any legal advice in this area should be sought from an appropriately qualified person or source.



Underpin to commutation lump sums in England

- 1.9 Rule B7(3A) of the Regulations states that the commutation factors applicable for firefighters in England should be used for retirements in Scotland where this would lead to a greater lump sum for retirement dates falling after 20th May 2014.
- 1.10 We can confirm that the factors in England will lead to larger lump sums in all cases based on the factors currently in force.
- 1.11 Note that the underpin mentioned in paragraph 1.10 above does not apply to pension credit members.

Changes to previous guidance

- 1.12 We have revised all of the commutation factors from those set out in the commutation guidance dated 31 October 2018. This guidance note includes updated tables and illustrative examples to show these revised factors.
- 1.13 On 21st February 2022, the Scottish Public Pensions Agency (SPPA)¹ confirmed the removal of a restriction that was formerly set out under Regulation B7(5) of the Regulations. This provision had restricted members with less than 30 years' service who were retiring with an ordinary pension under the age of 55 to commute a maximum of 2.25 times their annual pension at retirement. Since 1 April 2022, all Firefighters who are entitled to an ordinary pension are able to commute up to the maximum of 25% of their pension.
- 1.14 The guidance in paragraph 2.1 has been updated and we have removed the example which demonstrated how the 2.25 times pension restriction on the commutation lump sum was applied.
- 1.15 Our guidance has also been updated to include the latest tables of commutation factors applicable in England for ease of reference because the underpin requires use of the factors applicable in England for all retirements except for pension credit members. Administrators should ensure that they are using the latest factors when calculating commutation lump sums on retirement.
- 1.16 The guidance and formulae that should be used to calculate commutation lump sums in the 1992 Scheme is otherwise unchanged.

Use of the guidance

¹ https://pensions.gov.scot/sites/default/files/2022-02/Firefighter_Circular_2022_02_Changes_to_Commutation_provision_in_the_Firemen%E2%80%99s_Pension_Scheme_1992_v2.pdf



- 1.17 This guidance has been prepared for the use of the SPPA for the purposes of demonstrating the application of the factors covered by this guidance only.
- 1.18 This guidance assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Firefighters' Pension Schemes.
- 1.19 Any questions concerning the application of the guidance should be referred to the Government Actuary's Department (GAD).

Third party reliance

- 1.20 Other than the SPPA, 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.
- 1.21 This note does not provide advice on whether a member should commute any part of their pension. Third parties should not rely on this guidance, but should separately seek their own actuarial advice where appropriate.



2 Administration

- 2.1 The amount of the 1992 Scheme pension that can be commuted is subject to the limits set out in the Regulations. In most cases a quarter of the pension can be commuted. Please refer to the Regulations for full details of the commutation limits applicable to members.
- 2.2 Rule B10 of the Regulations describes additional restrictions on the amount of pension that can be commuted in certain circumstances.
- 2.3 Restrictions on pension commutation are also imposed by the pension taxation regime under Finance Act 2004. Administrators must ensure that the payment of a lump sum in lieu of pension is compliant with the tax rules as well as with the Regulations. The main taxation restriction is that for a lump sum to be authorised under the tax rules it must not exceed 25% of the total value of benefits crystallised ("25% HMRC limit"). Additionally, where a firefighter's pension savings exceed HMRC's Lifetime Allowance (LTA) (for retirements prior to 6 April 2023) or £268,275 (for retirements on or after 6 April), an additional tax charge may fall due.

Please refer to HMRC guidance for further information.

- 2.4 There are some scenarios where the 25% HMRC limit could potentially be breached.
- A member with a commutation factor above 20 commutes 25% of their pension. This can be avoided by commuting a lower proportion of pension.
 - Allocation in accordance with rule B9 of the Regulations.

Please refer to HMRC guidance if such cases arise.

1992 Scheme commutation – retiring from active service or on pension credit

- 2.5 For a firefighter retiring on pension directly from firefighter service or a pension credit member, the lump sum payable can be determined as follows:

1992 Scheme pension given up × factor from Table 1 (Table 1A for pension credits)

Equivalently, the 1992 scheme pension given up can be determined as follows:

lump sum payable from the 1992 scheme ÷ factor from Table 1 (Table 1A for pension credits)

- 2.6 Note that the factor for retirements below age 50 should only be used for retirements in ill health since retirements under other rules are not possible until age 50.
- 2.7 Rule N11(5) of the Regulations states that the lump sum for a pension credit member is "the actuarial equivalent of the commuted portion of the pension at the later of (a) the day on which the pension sharing order takes effect; and (b) the day on which the pension credit member attains age 60".



2.8 The examples in section 3 illustrate the commutation calculation. For all retirement dates, the underpin mentioned in paragraphs 1.10 to 1.12 should be applied.

1992 Scheme commutation – break between leaving service and pension commencing

2.9 For a firefighter retiring with a break between leaving service as an active member of the firefighters' pension schemes and pension commencing, the commutation lump sum should be calculated as in paragraph 2.5 above in the following cases:

- If the pension commences at or above age 55; or
- If the pension commences on grounds of ill health before age 55 and attracts full pension increases.

2.10 In other cases where the pension commences before age 55 a special calculation is needed. If any cases arise, please refer them to GAD.

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3 Example calculations

3.1 This section provides a examples of the calculations described in this note.

Example 1 – 1992 Scheme : retiring from active service

Date of birth: 1 April 1964

Date pension commences: 1 April 2024

Pensionable Service: 30 years (continuous service - excluding doubling)

1992 Scheme pension payable: £20,000 per year

Age on day pension commences: 60 years 0 months

Proportion of pension commuted: 20%

Commutation Factor = 20.6 (from table 1)

3.2 Lump sum = $£20,000 \times 20\% \times 20.6$
= **£82,400**

3.3 Pension after commutation for maximum lump sum
= $£20,000 - (£82,400 \div 20.6)$
= **£16,000 per year**

3.4 Under the current tax regime, the maximum lump sum that can be taken without being liable for a tax charge is 25% of the combined assessed value of the post-commutation pension and lump sum. To assess the value of the post-commutation pension HMRC currently use a factor of 20.

3.5 Under HMRC's assessment the value of these benefits is therefore:
= $(£16,000 \times 20) + £82,400$
= £402,400

3.6 25% of this:
= $25\% \times £402,400$
= £100,600

3.7 The lump sum elected (£82,400) is lower than the 25% of the HMRC limit (£100,600).



Example 2 – Avoiding breaching the 25% HMRC limit

- 3.8 To illustrate how members may be able to avoid breaching the 25% HMRC limit by commuting less pension than the maximum available under the 1992 Scheme, this example makes use of the current tax regime in force at the time of writing, in its most common form. Administrators should check whether there have been any changes to the tax regime, or whether any additional complexities apply, before undertaking individual calculations. Individuals may wish to seek financial advice regarding pensions and taxation.
- 3.9 **As per paragraphs 1.9 to 1.11 and 1.15, lump sums should be calculated using the factors that apply in England.**
- 3.10 **Please note that the underpin mentioned above does not apply to pension credit members. For pension credit members the factors from Table 1A should be used.**
- 3.11 Date of birth: 15 August 1968
Date pension commences: 15 August 2023
Pensionable Service: 30 years (continuous service - excluding doubling)
1992 Scheme pension payable: £30,000 per year
Age on day pension commences: 55 years 0 months
Commutation Factor = 23.6 (from factor Table 1)
- 3.12 The maximum amount of pension available to commute according to the Regulations is a quarter of the full amount of the pension.
- 3.13 Maximum lump sum under scheme regulations
 $= £30,000 \times \frac{1}{4} \times 23.6$
= £177,000
- 3.14 Pension after commutation for the maximum lump sum permitted under scheme regulations
 $= £30,000 - (£177,000 \div 23.6)$
= £22,500 per year (which is $£30,000 \times \frac{3}{4}$)
- 3.15 Under the current tax regime, the maximum lump sum that can be taken without being liable for a tax charge is 25% of the combined assessed value of the post-commutation pension and lump sum. To assess the value of the post-commutation pension HMRC currently use a factor of 20.
- 3.16 Under HMRC's assessment the value of these benefits is therefore:
 $= (£22,500 \times 20) + £177,000$
= £627,000



3.17 25% of this:

$$\begin{aligned} &= 25\% \times \text{£}627,000 \\ &= \text{£}156,750 \end{aligned}$$

3.18 Therefore, if the member commuted the maximum under the scheme regulations (to give a lump sum of £177,000), they would be liable for a tax charge, as this exceeds the maximum tax-free lump sum permitted (£156,750).

3.19 To calculate the maximum amount of pension that can be commuted in this case without incurring a tax charge, it is necessary first to calculate the maximum 1992 Scheme lump sum allowable within the HMRC limit.

3.20 HMRC's maximum tax-free lump sum is calculated using the following equation:

$$\begin{aligned} \text{Maximum lump sum} &= \frac{20 \times \text{pension before commutation}}{3 + (20 \div \text{factor from table})} \\ &= \frac{20 \times 30,000}{3 + (20 \div 23.6)} \\ &= \text{£}155,947 \text{ (rounded down to nearest £1)} \end{aligned}$$

3.21 Setting the lump sum from the 1992 Scheme at this level ensures that the HMRC limit is not exceeded.

3.22 The amount of pension required to be commuted from the 1992 Scheme to provide this maximum *tax-free* lump sum:

$$\begin{aligned} &= \text{£}155,947 \div 23.6 \\ &= \text{£}6,607.92 \text{ per year} \end{aligned}$$

3.23 The pension remaining after commutation:

$$\begin{aligned} &= \text{£}30,000 - \text{£}6,607.92 \\ &= \text{£}23,392.08 \text{ per year} \end{aligned}$$

3.24 To check that this is within HMRC limits, HMRC's assessment of the value of these benefits is:

$$\begin{aligned} &= (\text{£}23,392.08 \times 20) + \text{£}155,947 \\ &= \text{£}623,788.60 \end{aligned}$$

3.25 25% of this:

$$\begin{aligned} &= 25\% \times \text{£}623,788.60 \\ &= \text{£}155,947.15 \end{aligned}$$



- 3.26 So payment of the lump sum of £155,947 calculated above will not breach the tax-free limit (provided that there has been no breach in the member's Lifetime Allowance).



4 Table of factors

Table 1 – Factors for commutation of pension to lump sum (for all members except pension credit members)

Table 1 contains the 1992 Scheme commutation factors calculated for the Firefighters' Pension Scheme (England), which apply to members (excluding pension credit members) as outlined in 1.9 to 1.11 and 1.15.

Males and Females

Years	Age in years and completed months on day pension commences											
	0	1	2	3	4	5	6	7	8	9	10	11
Below 50	26.2											
50	26.2	26.2	26.1	26.1	26.1	26.0	26.0	25.9	25.9	25.9	25.8	25.8
51	25.7	25.7	25.7	25.6	25.6	25.5	25.5	25.5	25.4	25.4	25.3	25.3
52	25.2	25.2	25.2	25.1	25.1	25.0	25.0	24.9	24.9	24.9	24.8	24.8
53	24.7	24.7	24.6	24.6	24.5	24.5	24.5	24.4	24.4	24.3	24.3	24.2
54	24.2	24.1	24.1	24.0	24.0	24.0	23.9	23.9	23.8	23.8	23.7	23.7
55	23.6	23.6	23.5	23.5	23.4	23.4	23.3	23.3	23.2	23.2	23.1	23.1
56	23.0	23.0	22.9	22.9	22.8	22.8	22.7	22.7	22.6	22.6	22.5	22.5
57	22.4	22.4	22.3	22.3	22.2	22.2	22.1	22.1	22.0	22.0	21.9	21.9
58	21.8	21.8	21.7	21.7	21.6	21.6	21.5	21.5	21.4	21.4	21.3	21.3
59	21.2	21.2	21.1	21.1	21.0	21.0	20.9	20.9	20.8	20.8	20.7	20.7
60	20.6	20.6	20.5	20.5	20.4	20.4	20.3	20.3	20.2	20.2	20.1	20.1
61	20.0	20.0	19.9	19.9	19.8	19.8	19.7	19.7	19.6	19.5	19.5	19.4
62	19.4	19.3	19.3	19.2	19.2	19.1	19.1	19.0	19.0	18.9	18.9	18.8
63	18.8	18.7	18.7	18.6	18.6	18.5	18.5	18.4	18.4	18.3	18.2	18.2
64	18.1	18.1	18.0	18.0	17.9	17.9	17.8	17.8	17.7	17.7	17.6	17.6
65	17.5	17.5	17.4	17.4	17.3	17.3	17.2	17.1	17.1	17.0	17.0	16.9
66	16.9	16.8	16.8	16.7	16.7	16.6	16.6	16.5	16.5	16.4	16.4	16.3
67	16.3	16.2	16.1	16.1	16.0	16.0	15.9	15.9	15.8	15.8	15.7	15.7
68	15.6	15.6	15.5	15.5	15.4	15.4	15.3	15.3	15.2	15.1	15.1	15.0
69	15.0	14.9	14.9	14.8	14.8	14.7	14.7	14.6	14.6	14.5	14.5	14.4
70	14.4	14.3	14.3	14.2	14.1	14.1	14.0	14.0	13.9	13.9	13.8	13.8
71	13.7	13.7	13.6	13.6	13.5	13.5	13.4	13.4	13.3	13.3	13.2	13.2
72	13.1	13.1	13.0	12.9	12.9	12.8	12.8	12.7	12.7	12.6	12.6	12.5
73	12.5	12.4	12.4	12.3	12.3	12.2	12.2	12.1	12.1	12.0	12.0	11.9
74	11.9	11.8	11.8	11.7	11.7	11.6	11.6	11.5	11.5	11.4	11.4	11.3
75	11.3											

The relevant day is the day that the pension commences for contributing members of the scheme.



Table 1A – Factors for commutation of pension to lump sum for pension credit members

Table 1A contains factors calculated on assumptions relevant to the Firefighters' Pension Scheme (Scotland)

Males and Females

Years	Age in years and completed months on day pension commences											
	0	1	2	3	4	5	6	7	8	9	10	11
60	19.9	19.8	19.8	19.7	19.7	19.6	19.6	19.5	19.5	19.4	19.4	19.3
61	19.3	19.2	19.2	19.1	19.1	19.0	19.0	18.9	18.9	18.8	18.8	18.7
62	18.6	18.6	18.5	18.5	18.4	18.4	18.3	18.3	18.2	18.2	18.1	18.1
63	18.0	18.0	17.9	17.9	17.8	17.8	17.7	17.7	17.6	17.6	17.5	17.4
64	17.4	17.3	17.3	17.2	17.2	17.1	17.1	17.0	17.0	16.9	16.9	16.8
65	16.8	16.7	16.7	16.6	16.6	16.5	16.5	16.4	16.3	16.3	16.2	16.2
66	16.1	16.1	16.0	16.0	15.9	15.9	15.8	15.8	15.7	15.7	15.6	15.6
67	15.5	15.5	15.4	15.4	15.3	15.2	15.2	15.1	15.1	15.0	15.0	14.9
68	14.9	14.8	14.8	14.7	14.7	14.6	14.6	14.5	14.5	14.4	14.4	14.3
69	14.3	14.2	14.2	14.1	14.0	14.0	13.9	13.9	13.8	13.8	13.7	13.7
70	13.6	13.6	13.5	13.5	13.4	13.4	13.3	13.3	13.2	13.2	13.1	13.1
71	13.0	13.0	12.9	12.9	12.8	12.7	12.7	12.6	12.6	12.5	12.5	12.4
72	12.4	12.3	12.3	12.2	12.2	12.1	12.1	12.0	12.0	11.9	11.9	11.8
73	11.8	11.7	11.7	11.6	11.6	11.5	11.5	11.4	11.4	11.3	11.3	11.2
74	11.2	11.1	11.1	11.0	11.0	10.9	10.9	10.8	10.8	10.7	10.7	10.6
75	10.6											

Administrators should refer to the guidance above on the relevant day for pension credit members.



6 Assumptions underlying Scotland factors

Financial assumptions

Nominal discount rate	3.73% pa
CPI	2.00% pa
Real discount rate (in excess of CPI)	1.70% pa

Mortality assumptions

Base mortality tables and adjustments	As recommended for 2020 valuation: <u>Normal health and ill-health</u> Males: 126% of S3NMA_M and Females: 126% of S3NFA_M
Future mortality improvement	Based on ONS principal UK population projections 2020
Year of Use	2024

Other assumptions

Proportion of male members for unisex factors	95%
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7 Limitations

- 7.1 This guidance should not be used for any purpose other than those set out in this guidance.
- 7.2 The factors contained in this guidance are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- 7.3 Guidance 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 guidance provided by GAD.
- 7.4 This guidance only covers the actuarial principles around the calculation and application of cash commutation on retirement factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 7.5 Scheme managers and administrators should satisfy themselves that cash commutation factor calculations and benefit awards comply with all legislative requirements.
- 7.6 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.