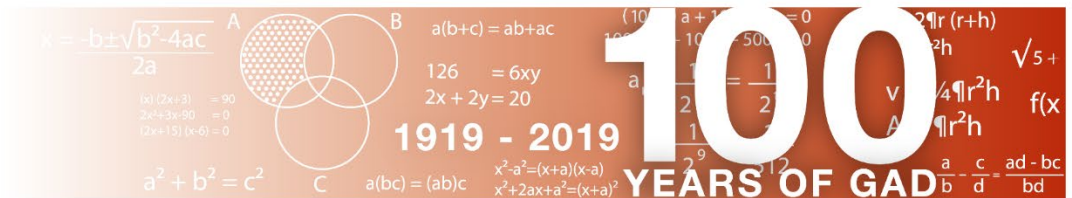




Government  
Actuary's  
Department



## The Firefighters' Pension Scheme (Wales)

1992 and 2006 schemes

Trivial Commutation and Capitalisation for Death Gratuities

Factors and guidance

Date: 29 January 2020





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## 1 Introduction

- 1.1 This note is provided for Welsh Ministers in its role as manager of the Firefighters' Pension Schemes (Wales). This note relates to the 1992 and 2007 schemes and sets out the factors and guidance for trivial commutation and the calculation of the capitalised value of benefits for the purpose of determining death gratuities.
- 1.2 This guidance applies to the trivial commutation of pensions under Rules B8 and E5 of the Firefighters' Pension Scheme (FPS) Order 1992 (SI 1992/129) and Rule 10 of Part 3 and Rule 5 of Part 4 of Schedule 1 of the New Firefighters' Pension Scheme (Wales) Order 2007 (SI 2007/1072).
- 1.3 This guidance covers trivial commutation cases where any period during which a survivor's pension is paid at an increased rate (such as under rule E8 of the Firefighters' Pension Scheme Order 1992) has ended.
- 1.4 This note also provides the guidance used in the calculation of the capitalised value of benefits for the purpose of determining death gratuities under rule E4 of The Firefighters' Pension Scheme Order 1992.
- 1.5 This guidance does not cover:
  - The capitalised value of children's pensions under rule E6 of FPS Order 1992 or Rule 12 of Part 4 of the New Firefighters' Pension Scheme (Wales) Order 2007.
  - The capitalised value of pension credit benefits under Rule IA2 of FPS Order 1992 or Rule 2 of Part 6 of Schedule 1 of the New Firefighters' Pension Scheme (Wales) Order 2007.
- 1.6 The factors provided in this note have been prepared in light of our letter to Welsh Ministers dated 30 October 2018, and subsequent discussions.
- 1.7 This guidance is intended to supersede any advice previously issued, for the purposes of trivial commutation and capitalisation for death gratuity calculations, carried out from the date issued on the cover. No advice or factors issued in the past should be used for cases after this date. In particular, this guidance supersedes:  
  
"Firefighters' Pension Scheme: Trivial Commutation and Capitalisation for Death Gratuities" dated 3 January 2012.
- 1.8 The above guidance note dated 3 January 2012 covered the following sections of the scheme:
  - Firefighters' Pension Scheme 1992
  - Firefighters' Pension Scheme (Wales) 2007



- 1.9 The factors in this note have been updated but the calculation methodology remains unchanged.
- 1.10 This guidance relates only to benefits accrued under the 1992 and 2007 Scheme Regulations. Some firefighters may also have benefits under the 2015 Scheme which should be dealt with separately according to relevant scheme guidance.
- 1.11 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
- 1.12 In the remainder of this note:
- Section 2 provides guidance on trivial commutation calculations
  - Section 3 provides guidance on capitalisation for death gratuity calculations
  - Section 4 provides examples
  - 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
- 1.13 The actuarial factors in this note come into force in advance of this note
- 1.14 Cases that are not covered by this guidance should be referred to the Firefighters' Pension Team at the Welsh Government, for onward transmission to GAD. If this gives rise to issues that are of general applicability then the Welsh Assembly Government may be prepared to cover GAD's fees. Otherwise, fire authorities would need to meet GAD's fees.
- 1.15 If administrators have any questions about how to use this guidance they should in the first instance consult published information on the Firefighters' Pensions pages at:
- <http://fpsregs.org/index.php>
- 1.16 If this does not help, administrators should contact the Firefighters' Pension teams at the Welsh Government. The Firefighters' Pension teams will seek input from the scheme actuary if necessary.



## Implementation and Review

- 1.17 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 Schemes (Wales). Any questions concerning the application of the guidance should, in the first instance, be referred to the Welsh Government.
- 1.18 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.
- 1.19 The factors contained in this guidance 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.
- 1.20 Scheme managers and administrators should ensure that they use the latest factors in circulation.

## Use of this note

- 1.21 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.
- 1.22 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

- 1.23 This guidance has been prepared for the use of the Welsh Government 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 Welsh Government 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.



- 1.24 Other than the Welsh Government 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 Trivial Commutation

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 trivial commutation lump sum is compliant with these restrictions as well as with the Firefighters' pension scheme regulations.

2.2 This note does not provide advice on whether or not to trivially commute a pension.

### Former firefighter

2.3 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

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

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

2.4 Example 1 in section 4 illustrates a small pension commutation for a former firefighter in the 1992 or 2007 schemes.

2.5 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.

2.6 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

- 2.7 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:

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

where

WPEN      annual pension in payment

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

- 2.8 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.





### 3 Capitalisation factors for death gratuities

- 3.1 Rules E4 of The Firefighters' Pension Scheme 1992 section provides for a return of the firefighter's aggregate pension contributions on death, less any payments made or due to the officer on account of his or her pension and the capitalised value of any pension or allowance granted in respect of the officer's death.
- 3.2 This guidance relates to the determination of the capitalised value of the long-term survivor's pension. Any short-term increase in the level of survivor's pension (such as under regulation E8 of the Firefighters' Pension Scheme Order 1992) must be taken into account in addition to the capitalised value of the long-term pension.
- 3.3 There is no such provision in the New Firefighters' Pension Scheme (Wales) (the 2007 Scheme).
- 3.4 Please note that the factors in this note should be applied to total pension, including any accrued Guaranteed Minimum Pension (GMP). Separate factors for GMP are not required.

#### Adult survivor pensions

- 3.5 The capitalised value of the survivor's pension can be determined in cases where the surviving spouse or partner is not entitled to any GMP and will not be entitled to any GMP in the future.
- 3.6 In those cases, the capitalised value can be calculated as follows:

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

where

WPEN = annual pension in payment to a dependant

F<sub>wpen</sub> = factor for pension

- 3.7 Factors for this calculation should be taken from **Table 2**.
- 3.8 Example 2 in section 4 illustrates the capitalisation for death gratuity calculation.
- 3.9 A death gratuity will not be payable if the capitalised value of the survivor's pension plus the value of other benefits paid to the member or surviving partner as described in the relevant regulations exceed the member's aggregate contributions.
- 3.10 For cases where the surviving spouse or partner is entitled to a GMP or could be entitled to a GMP in the future, a simple rule of thumb can be used to determine whether or not more detailed consideration is required.



- 3.11 The rule of thumb is that, for individuals below age 75, the capitalised value of the pension will always exceed the pension in payment multiplied by 11.0. Therefore, where the surviving spouse or partner's pension in payment multiplied by 11.0 exceeds the member's aggregate pension contributions, it is safe to conclude that the capitalised value of the survivor's pension exceeds the member's aggregate contributions. Example 3 in section 4 illustrates this calculation.
- 3.12 If the rule of thumb is not satisfied, or the member is over age 74, the case should be referred to the Welsh Government for forward transmission to GAD.
- 3.13 The rule of thumb factor is based on a factor for a non-increasing pension paid from age 74.
- 3.14 Please note that administrators are responsible for ensuring that payment of the death gratuity is compliant with relevant pensions taxation legislation, and administrators should seek further advice as necessary.



## 4 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 at calculation date: 65

|      |         |
|------|---------|
| PEN  | £700 pa |
| SPEN | £350 pa |

Factors should be taken from **Table 1**

|            |        |
|------------|--------|
| $F_{pen}$  | 16.440 |
| $F_{spen}$ | 3.422  |

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

$$\begin{aligned} &= \text{PEN} \times F_{pen} + \text{SPEN} \times F_{spen} \\ &= £700.00 \times 16.440 + £350.00 \times 3.422 \\ &= £11,508.00 + £1,197.70 \\ &= £12,705.70 \end{aligned}$$





### Example 3 – capitalisation of death gratuity: use of rule of thumb

|                                   |            |
|-----------------------------------|------------|
| Date former firefighter dies:     | 09/08/2021 |
| Widow's date of birth:            | 03/12/1970 |
| Age of widow at calculation date: | 50         |

|  |           |
|--|-----------|
| Long-term level of widow's pension:            | £2,000 pa |
| Firefighter's aggregate pension contributions: | £18,000   |

Widow is entitled to a GMP so the factors in table 2 cannot be used, but the rule of thumb can be used.

Rule of thumb calculation:    = £2,000.00 × 11.0  
  = £22,000.00

The rule of thumb calculation gives a value higher than the total of officer contributions. It is therefore safe to conclude that the capitalised value of benefits exceeds the aggregate pension contributions paid by the firefighter and so no gratuity would be paid.



## Appendix A: Factor tables

**Table 1: Factors for commutation of small pension  
(Table 501 in the consolidated factor spreadsheet)**

| <b>Age in completed years</b> | <b>Factors for benefits in payment to former firefighter</b> | <b>Factors for spouse or partner pension</b> |
|-------------------------------|--|--|
| 60                            | 19.126   | 3.250  |
| 61                            | 18.602   | 3.290  |
| 62                            | 18.071   | 3.327  |
| 63                            | 17.534   | 3.361  |
| 64                            | 16.990   | 3.393  |
| 65                            | 16.440   | 3.422  |
| 66                            | 15.884   | 3.448  |
| 67                            | 15.323   | 3.471  |
| 68                            | 14.759   | 3.489  |
| 69                            | 14.191   | 3.502  |
| 70                            | 13.620   | 3.512  |
| 71                            | 13.046   | 3.516  |
| 72                            | 12.471   | 3.515  |
| 73                            | 11.897   | 3.507  |
| 74                            | 11.325   | 3.400  |



**Table 2: Factors for commutation of small pension and for capitalisation of survivor pension for determination of death gratuity  
(Table 502 in the consolidated factor spreadsheet)**

| <b>Age in completed years</b> | <b>Surviving spouse or partner unisex (Fwpen)</b> |
|-------------------------------|---|
| 25                            | 32.485  |
| 26                            | 32.233  |
| 27                            | 31.975  |
| 28                            | 31.713  |
| 29                            | 31.446  |
| 30                            | 31.175  |
| 31                            | 30.900  |
| 32                            | 30.620  |
| 33                            | 30.336  |
| 34                            | 30.047  |
| 35                            | 29.755  |
| 36                            | 29.458  |
| 37                            | 29.157  |
| 38                            | 28.851  |
| 39                            | 28.540  |
| 40                            | 28.223  |
| 41                            | 27.900  |
| 42                            | 27.571  |
| 43                            | 27.233  |
| 44                            | 26.888  |
| 45                            | 26.534  |
| 46                            | 26.170  |
| 47                            | 25.797  |
| 48                            | 25.414  |
| 49                            | 25.022  |
| 50                            | 24.620  |
| 51                            | 24.209  |
| 52                            | 23.790  |
| 53                            | 23.362  |
| 54                            | 22.925  |
| 55                            | 22.480  |
| 56                            | 22.027  |
| 57                            | 21.566  |
| 58                            | 21.098  |
| 59                            | 20.621  |
| 60                            | 20.137  |
| 61                            | 19.644  |
| 62                            | 19.143  |
| 63                            | 18.636  |



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

| <b>Age in completed<br/>years</b> | <b>Widow/Widower or<br/>other survivor<br/>(Fwpen)</b> |
|-----------------------------------|--|
| 64                                | 18.121   |
| 65                                | 17.599   |
| 66                                | 17.069   |
| 67                                | 16.533   |
| 68                                | 15.992   |
| 69                                | 15.445   |
| 70                                | 14.893   |
| 71                                | 14.337   |
| 72                                | 13.778   |
| 73                                | 13.216   |
| 74                                | 12.653   |
| 75                                | 12.090   |
| 76                                | 11.528   |
| 77                                | 10.969   |
| 78                                | 10.413   |
| 79                                | 9.859  |
| 80                                | 9.309  |
| 81                                | 8.764  |
| 82                                | 8.226  |
| 83                                | 7.698  |
| 84                                | 7.181  |
| 85                                | 6.680  |
| 86                                | 6.199  |
| 87                                | 5.741  |
| 88                                | 5.308  |
| 89                                | 4.902  |
| 90                                | 4.519  |
| 91                                | 4.160  |
| 92                                | 3.824  |
| 93                                | 3.509  |
| 94                                | 3.221  |
| 95                                | 2.962  |
| 96                                | 2.734  |
| 97                                | 2.537  |
| 98                                | 2.370  |
| 99                                | 2.223  |





## 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          | 113%       |
| Dependants         | S2DFA          | 100%       |

Future mortality improvements are in line with the 2016 ONS principal population projections for the UK

Year of use 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 Welsh Government and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.