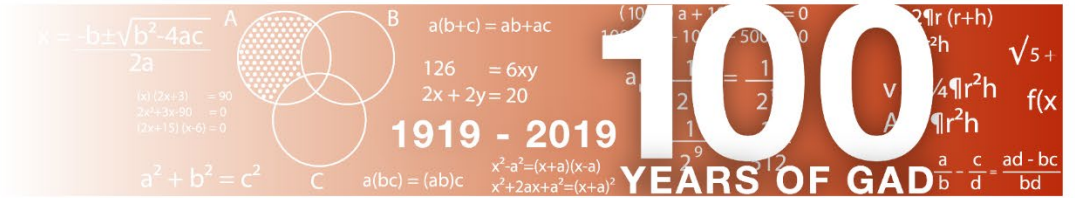




Government
Actuary's
Department



The Firefighters' Pension Scheme (Wales) 2015

Commutation of Small Pensions

Factors and guidance

Date: 29 January 2020





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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 177 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 Welsh 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 (Wales) Regulations 2015 ('the 2015 Scheme Regulations') (SI 2015/622(W.50)), to issue actuarial guidance on commutation of small pensions (Regulation 177(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 The scheme managers may commute small pensions under Regulation 177(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 the Welsh Ministers dated 30 October 2018 and its instructions following that advice.
- 1.8 The actuarial factors in this note were implemented in advance of this guidance note.
- 1.9 This guidance is intended to supersede any advice previously issued, for the purposes of trivial commutation calculations, carried out from the date issued on the front 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 (Wales) 2015: Commutation of small pensions”
dated 21 April 2015
- 1.10 The factors in this note have been updated but the calculation methodology remains unchanged.



Implementation and Review

- 1.11 The responsible authority is required to consult the scheme actuary before issuing actuarial guidance under the 2015 Scheme Regulations.
- 1.12 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.
- 1.13 This note has effect only when this guidance is issued by the responsible authority to scheme managers as defined in Regulation 4 of the 2015 Scheme Regulations, and is subject to the implementation instructions provided at that time.
- 1.14 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 (Wales) 2015. Any questions concerning the application of the guidance should, in the first instance, be referred to the Firefighters' Pensions team at Welsh Government.
- 1.15 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 (Wales) 2015 where mortality and other relevant experience is reviewed or if other credible and material information comes to light.
- 1.16 Scheme managers and administrators should ensure that they use the latest factors in circulation.

Third party reliance

- 1.17 This guidance has been prepared for the use of Welsh Ministers 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 Welsh Ministers 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.
- 1.18 Other than Welsh Ministers 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:

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

where

WPEN is the annual pension in payment

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

2.7 **Eligible children and pension credit members**

The scheme manager may also pay an eligible child or pension credit member a lump sum in accordance with Regulation 177 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}	16.533
F_{spen}	3.650

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

$$\begin{aligned} &= PEN \times F_{pen} + SPEN \times F_{spen} \\ &= 700.00 \times 16.533 + 350.00 \times 3.650 \\ &= 11,573.10 + 1,277.50 \\ &= 12,850.60 \end{aligned}$$

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

F_{wpen}	27.233
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The widow's trivial commutation lump sum can be calculated as follows:

$$\begin{aligned} &= PEN \times F_{wpen} \\ &= 250.00 \times 27.233 \\ &= £6,808.25 \end{aligned}$$



Appendix A: Factor tables

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

Age in completed years	Unisex Factor for benefits in payment (Fpen)	Unisex Factor for spouse or partner's pension (Fspen)
55	21.671	3.227
56	21.187	3.279
57	20.696	3.330
58	20.198	3.378
59	19.694	3.423
60	19.182	3.467
61	18.664	3.509
62	18.139	3.549
63	17.609	3.585
64	17.073	3.619
65	16.533	3.650
66	15.988	3.678
67	15.441	3.702
68	14.891	3.721
69	14.340	3.689
70	13.788	3.652
71	13.236	3.657
72	12.686	3.656
73	12.139	3.648
74	11.597	3.517



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

Age in completed years	Surviving spouse or partner unisex (Fwpen)
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)**

Age in completed years	Widow/Widower or other survivor (Fwpen)
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	2016 valuation	
	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.