



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 (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. Rule N11 of the Firefighters' Pension Scheme Order 1992 (SI 1992/129) states that certain pension credit members may commute a portion of their pension for a lump sum.
- 1.2 The lump sum is the actuarial equivalent of the commuted portion at a specified age.
- 1.3 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").
- 1.4 The guidance supersedes the commutation guidance issued by GAD dated 18 March 2016 and any previous guidance or advice issued by GAD in connection with firefighters' pension commutation and has immediate effect.
- 1.5 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.
- 1.6 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.
- 1.7 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.
- 1.8 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.



Underpin to commutation lump sums in England

- 1.9 Rule B7(3A) of the Regulations states that the commutation factors applicable in England should be used for retirements in Scotland where this would lead to a greater lump sum for retirement dates up to and including 31 March 2022.
- 1.10 We can confirm that the factors in England will lead to larger lump sums in all cases.
- 1.11 Note that the underpin mentioned in paragraph 1.9 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 18 March 2016. This guidance note includes updated tables and illustrative examples to show these revised factors. We have **not** altered the guidance and formulae that should be used to calculate commutation lump sums in the 1992 Scheme.

Questions about this guidance

- 1.13 Any questions concerning the application of the guidance should be referred to the Government Actuary's Department (GAD).



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. However, an ordinary pension in respect of at least 25 but less than 30 years of service (unless the member retires at, or after, age 55) or an eligible pension credit can be commuted to give a maximum lump sum of no more than $2\frac{1}{4}$ times the full amount of the annual pension (rules B7 or N11 of the Regulations. 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. Additionally, where a firefighter's pension savings exceed HMRC's Lifetime Allowance (LTA), 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:

pension given up \times factor from Table 1

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

lump sum payable \div factor from Table 1

- 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 at the normal benefit age”. Normal benefit age is defined in Schedule 1 of the legislation as age 60. GAD's understanding is, therefore, that the factor for 60 years 0 months (i.e. 18.7) should be used for all pension credit members in the 1992 Scheme in Scotland. Authorities may wish to take legal advice on this point.



- 2.8 The examples in section 3 illustrate the commutation calculation. For the avoidance of doubt, these examples show the use of the Scotland specific factors contained in this guidance document. For retirement dates up to and including 31 March 2022, the underpin mentioned in paragraph 1.9 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 examples of the calculations described in this note.

Example 1 – 1992 Scheme (FPS 2007 in Northern Ireland): retiring from active service

Date of birth: 1 April 1969

Date pension commences: 1 April 2019

Pensionable Service: 25 years (excluding doubling)

Total pension payable: £20,000 per year

Age on day pension commences: 50 years 0 months

Commutation Factor = 23.3 (from Table 1)

3.2 The member retires with an ordinary pension at age 50 with 25 years' service, so the maximum lump sum he can commute according to the 1992 Scheme (FPS 2007 in Northern Ireland) rules is two and a quarter times the full amount of the pension.

3.3 Maximum lump sum = $2.25 \times 20,000$
= £45,000

3.4 Pension after commutation for maximum lump sum
= $20,000 - (45,000 \div 23.3)$
= £18,068.67 per year



Example 2 – Avoiding breaching the 25% HMRC limit

- 3.5 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.
- 3.6 Date of birth: 15 August 1967
Date pension commences: 15 August 2019
Pensionable Service: 30 years (excluding doubling)
Total pension payable: £30,000 per year
Age on day pension commences: 52 years 0 months
Commutation Factor = 22.5 (from Table 1)
- 3.7 The member retires from active service at age 52 with 30 years' service, so the maximum amount of pension available to commute according to the Regulations is a quarter of the full amount of the pension.
- 3.8 Maximum lump sum under scheme regulations
$$= 30,000 \times \frac{1}{4} \times 22.5$$
$$= \mathbf{£168,750}$$
- 3.9 Pension after commutation for the maximum lump sum permitted under scheme regulations
$$= 30,000 - (168,750 \div 22.5)$$
$$= \mathbf{£22,500 \text{ per year}}$$
 (which is $£30,000 \times \frac{3}{4}$)
- 3.10 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.
- 3.11 Under HMRC's assessment the value of these benefits is therefore:
$$= (22,500 \times 20) + 168,750$$
$$= \mathbf{£618,750}$$
- 3.12 25% of this:
$$= 25\% \times 618,750$$
$$= \mathbf{£154,687.50}$$



3.13 Therefore, if the member commuted the maximum under the scheme regulations (to give a lump sum of £168,750), they would be liable for a tax charge, as this exceeds the maximum tax-free lump sum permitted (£154,687.50).

3.14 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.

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

$$\begin{aligned}\text{Maximum lump sum} &= \frac{20 \times \text{pension before commutation}}{3 + (20 \div \text{factor from table})} \\ &= \frac{20 \times 30,000}{3 + (20 \div 22.5)} \\ &= \mathbf{\pounds 154,285} \text{ (rounded down to nearest } \pounds 1\text{)}\end{aligned}$$

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

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

$$\begin{aligned}&= 154,285 \div 22.5 \\ &= \pounds 6,857.11 \text{ per year}\end{aligned}$$

3.18 The pension remaining after commutation:

$$\begin{aligned}&= 30,000 - 6,857.11 \\ &= \mathbf{\pounds 23,142.89 \text{ per year}}\end{aligned}$$

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

$$\begin{aligned}&= (23,142.89 \times 20) + 154,285 \\ &= \pounds 617,142.80\end{aligned}$$

3.20 25% of this:

$$\begin{aligned}&= 25\% \times 617,142.80 \\ &= \pounds 154,285.70\end{aligned}$$

3.21 So payment of the lump sum of £154,285 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

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	23.3											
50	23.3	23.3	23.3	23.2	23.2	23.2	23.1	23.1	23.1	23.0	23.0	23.0
51	22.9	22.9	22.9	22.8	22.8	22.8	22.7	22.7	22.7	22.6	22.6	22.6
52	22.5	22.5	22.5	22.4	22.4	22.4	22.3	22.3	22.3	22.2	22.2	22.2
53	22.1	22.1	22.0	22.0	22.0	21.9	21.9	21.9	21.8	21.8	21.7	21.7
54	21.7	21.6	21.6	21.5	21.5	21.5	21.4	21.4	21.3	21.3	21.3	21.2
55	21.2	21.1	21.1	21.1	21.0	21.0	20.9	20.9	20.9	20.8	20.8	20.7
56	20.7	20.7	20.6	20.6	20.5	20.5	20.4	20.4	20.4	20.3	20.3	20.2
57	20.2	20.2	20.1	20.1	20.0	20.0	19.9	19.9	19.9	19.8	19.8	19.7
58	19.7	19.6	19.6	19.6	19.5	19.5	19.4	19.4	19.3	19.3	19.3	19.2
59	19.2	19.1	19.1	19.0	19.0	19.0	18.9	18.9	18.8	18.8	18.7	18.7
60	18.7	18.6	18.6	18.5	18.5	18.4	18.4	18.3	18.3	18.3	18.2	18.2
61	18.1	18.1	18.0	18.0	17.9	17.9	17.9	17.8	17.8	17.7	17.7	17.6
62	17.6	17.5	17.5	17.5	17.4	17.4	17.3	17.3	17.2	17.2	17.1	17.1
63	17.0	17.0	17.0	16.9	16.9	16.8	16.8	16.7	16.7	16.6	16.6	16.5
64	16.5	16.5	16.4	16.4	16.3	16.3	16.2	16.2	16.1	16.1	16.0	16.0
65	16.0	15.9	15.9	15.8	15.8	15.7	15.7	15.6	15.6	15.5	15.5	15.4
66	15.4	15.3	15.3	15.3	15.2	15.2	15.1	15.1	15.0	15.0	14.9	14.9
67	14.8	14.8	14.7	14.7	14.6	14.6	14.6	14.5	14.5	14.4	14.4	14.3
68	14.3	14.2	14.2	14.1	14.1	14.0	14.0	13.9	13.9	13.8	13.8	13.7
69	13.7	13.7	13.6	13.6	13.5	13.5	13.4	13.4	13.3	13.3	13.2	13.2
70	13.1	13.1	13.0	13.0	12.9	12.9	12.8	12.8	12.7	12.7	12.7	12.6
71	12.6	12.5	12.5	12.4	12.4	12.3	12.3	12.2	12.2	12.1	12.1	12.0
72	12.0	11.9	11.9	11.8	11.8	11.7	11.7	11.7	11.6	11.6	11.5	11.5
73	11.4	11.4	11.3	11.3	11.2	11.2	11.1	11.1	11.0	11.0	10.9	10.9
74	10.8	10.8	10.8	10.7	10.7	10.6	10.6	10.5	10.5	10.4	10.4	10.3
75	10.3											

The relevant day is the day that the pension commences for contributing members of the scheme. Administrators should refer to the guidance above on the relevant day for pension credit members.

These are Scotland specific factors. For retirement dates up to and including 31 March 2022 the underpin mentioned in paragraph 1.9 should be applied.