

Police Pension Scheme 1987
New Police Pension Scheme 2006

New commutation factors: Q&A
What are the changes that you are introducing?

We are introducing:

- new commutation factors for the exchange of annual pension for lump sum in the Police Pension Scheme 1987 (the old scheme); and
- new factors for the exchange of lump sum for additional annual pension in the Police Pension Scheme 2006 (the new scheme).

Why are you introducing new factors?

The factors change from time to time, primarily to reflect changes in longevity (since the lump sums are designed to be actuarially equivalent to the annual pension given up). They were last changed in 1998. The new factors have been recommended by Government Actuary's Department.

What does 'actuarially equivalent' mean?

In the old scheme, you can give up some of your annual pension (up to a quarter, if you have 30 years service) for an immediate tax free lump sum. This sum is calculated to be equivalent, as far as possible, to the annual pension which has been given up and which you would have received over your lifetime.

Is my lump sum still tax-free?

Yes. That has not changed.

When is this happening?

The new factors were announced for introduction in Scotland on 9 September 2008 with immediate effect.

How does this affect me?

It depends which pension scheme you are in (see the next question) and, if you have already retired, when you retired. If you are a member of the old pension scheme, the amount of lump sum which you will be able to get by commuting part of your annual pension on retirement will be higher than it was under the old factors. If you are a member of the new scheme, the amount of extra annual pension which you can get by exchanging part of your fixed lump sum on retirement will be less than it was under the old factors.

How do I know which scheme I am in?

If you joined the service before 6 April 2006 you will be a member of the old scheme, unless you have opted out or chose to transfer to the new scheme. If you joined the

service on or after 6 April 2006 you will be a member of the new scheme. If you want to make sure, you should contact the pensions administrator for your force.

I have already retired. Does this affect me?

Only if you were a member of the old scheme, you retired on or after 1 October 2007 and you chose to commute part of your annual pension for a lump sum. If all this applies to you, you will be entitled to additional lump sum because of the new factors. The pensions administrators for your force will write to you shortly to explain how much you will get. If you retired before 1 October 2007, or if you retired from the new pension scheme, the changes do not affect you.

This seems to apply to me. How can I find out more?

You can look at the new factors and the guidance that goes with them on the [SPPA](#) website.

You can contact the pensions administrator for your force (there is a list of contacts on the Home Office website), but they will probably be dealing with a lot of enquiries and might not be able to give you any detailed information straight away. If you have already retired on or after 1 October 2007, your pensions administrator will be writing to you shortly.

Why is it different under the old and new schemes?

Under the old scheme, you can commute some of your annual pension for a lump sum on retirement. Under the new scheme, introduced on 6 April 2006, you get a fixed lump sum on retirement of four times annual pension. You can exchange some of this for additional annual pension.

Why do members of the old scheme get increased benefits when members of the new scheme do not?

Because the benefits are different and the effect of the new factors is different in each case. The old scheme factors are higher primarily because of increased longevity, so officers giving up annual pension for a lump sum get more. The position in the new scheme is a mirror image of this: officers giving up part of a lump sum for additional annual pension will get less (because, on the whole, they can be expected to be living longer than before).

Why are you backdating the old scheme factors to 1 October 2007?

Any new factors which are introduced can only apply going forward. It is, however, unavoidable that new factors take time to implement and so some backdating may be appropriate. But there has to be a cut-off point somewhere. In this case the implementation date of 1 October 2007 was fixed in the light of actuarial advice as a fair and appropriate date.

I retired before 1 October 2007 - it seems unfair that I miss out

There has to be a cut-off point somewhere. We recognise that the introduction of new factors from a particular date will seem unfair to those who retired just before then. But it is inherent in the process of changing the factors over time that not everyone will benefit.

Why did you not give advance warning of these changes?

It is in the nature of this sort of change that we have to announce it when it happens. The backdating of the new factors for the old scheme allows for the fact that we have not been able to give advance warning. Even if we had given advance warning, there would still have been a cut-off point.

Why was there no backdating last time?

The changes were smaller and had less impact on the scheme and were therefore easier to implement quickly.

Why are you not backdating the new scheme factors?

Because in the new scheme the new factors reduce the amount of additional annual pension payable and would have a detrimental effect on any officer who has already retired from NPPS having opted to exchange lump sum for additional annual pension (in practice there will be very few if any such cases).

In the old scheme, why do male officers benefit proportionately more from the change than female officers?

The new factors are higher than the highest of the old factors for both men and women – both men and women will benefit. Increases are proportionately greater for men because the previous factors were lower for men and the new factors are the same for both men and women.

Why are all the new factors gender neutral?

The differences in mortality rates between men and women is not as high as it once was. These days, given moves towards anti-discrimination, the presumption should be that the same terms apply for men and women, unless there are strong reasons why not

Will you pay interest on backdated payments in the old scheme?

Yes, where they go back more than 3 months.

Why do the new factors for the old scheme change by month rather than by year?

To smooth out the effect of the factors. This is an improvement which means that delaying retirement slightly or bringing it forward will no longer have such a drastic

effect on the lump sum.

What if an officer has died since retiring from the old scheme after 1 October 2007?

The extra will be paid to the former officer's estate.

**SPPA
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