

**Police Pension Schemes 1987 and 1988
& New Police Pension Schemes 2006**

**Trivial Commutation
and Capitalisation for Death Gratuities**

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Introduction

This guidance applies to the trivial commutation of pensions under regulations B8, E4(3) and M3 of The Police Pensions Regulations 1987 and regulation 38 of The Police Pensions Regulations 2006 (and under the corresponding Scottish and Northern Ireland regulations).

This guidance also applies to the calculation of the capitalised value of benefits for the purpose of determining death gratuities under regulation E3 of The Police Pensions Regulations 1987 and regulation 45 of The Police Pensions Regulations 2006 (and under the corresponding Scottish and Northern Ireland regulations).

The scope of cases that are covered by this guidance is detailed later in this note. Cases that are not covered by this guidance should be referred to Home Office, Scottish Public Pensions Agency (SPPA) or Northern Ireland Office (NIO) (as applicable) for onward transmission to GAD. If this gives rise to issues that are of general applicability then Home Office, SPPA or NIO may be prepared to cover GAD's fees. Otherwise, police authorities would need to meet GAD's fees.

If administrators have any questions about how to use this guidance they should in the first instance consult published information or raise queries on the Police Pensions Administrators' Forum at:

<http://pensions.police.homeoffice.gov.uk/>

If the Forum does not help, administrators may contact the Police Pensions Teams at the Home Office, SPPA or NIO, who will seek input from the scheme actuary if necessary.

1 Trivial Commutation

1.1 This guidance covers trivial commutation cases where all the following criteria are met:

- the former officer or the deceased former officer's surviving spouse or partner has attained his or her State Pension Age; and
- the scheme administrator has not received a notification from the National Insurance Contributions Office (NICO) that the pension scheme should pay full pension increases on the Guaranteed Minimum Pension (GMP) element of the pension, as well as on the excess over GMP; and
- any period during which a survivor's pension is paid at an increased rate (such as under regulation E8 of the Police Pensions Regulations 1987) has ended.

1.2 Various restrictions on trivial pension commutation are imposed by the pension taxation regime under Finance Act 2004. Administrators will need to ensure that the payment of a lump sum in lieu of a small pension is compliant with the tax rules as well as with the police pension regulations.

1.3 Some of the main taxation restrictions applicable when commuting a small pension payable to a former officer are as follows:

- Trivial commutation can take place only between the ages of 60 and 75.
- In general the member must not have already received a trivial commutation lump sum from another registered pension scheme or, if he or she has, it was less than 12 months previously.
- The member must confirm that his or her total pension rights held in registered pension schemes do not exceed 1% of the standard lifetime allowance on a nominated date. At the time of writing this note draft regulations have been issued that would allow pension rights of a total value not exceeding £2,000 to be paid as a trivial commutation lump sum, irrespective of the level other pension rights held in unrelated registered pension schemes.

1.4 Some of the main restrictions applicable when commuting a small pension payable to the surviving widow(er) or partner are as follows:

- Payment must be made before the date on which the former officer would have reached age 75. No lump sum can be paid if the former officer was aged 75 or over at death.
- The lump sum paid must not exceed 1% of the standard lifetime allowance.

Former officer

- 1.5 In the case of a small pension in payment to a former officer the lump sum payable should be determined as follows:

$$\begin{aligned} & (\text{PREGMP} \times F_{\text{pre}}) + (\text{POSTGMP} \times F_{\text{post}}) + (\text{EXCESS} \times F_{\text{excess}}) \\ & + (\text{PREGMP}_w \times F_{\text{prew}}) + (\text{POSTGMP}_w \times F_{\text{postw}}) + (\text{EX}_w \times F_{\text{exw}}) \end{aligned}$$

where

PREGMP annual GMP in payment accrued before 6.4.88
 POSTGMP annual GMP in payment accrued from 6.4.88
 EXCESS annual pension in payment in excess of GMP
 PREGMP_w annual survivor's GMP accrued before 6.4.88 payable upon member's death
 POSTGMP_w annual survivor's GMP accrued from 6.4.88 payable upon member's death
 EX_w annual survivor's pension in excess of GMP payable upon member's death

F_{pre} factor for pre-88 GMP in payment – table 1 or 2
 F_{post} factor for post-88 GMP in payment – table 1 or 2
 F_{excess} factor for excess pension in payment over GMP – table 1 or 2
 F_{prew} factor for contingent survivor's pre-88 GMP – table 1
 F_{postw} factor for contingent survivor's post-88 GMP – table 1 or 2
 F_{exw} factor for excess of contingent survivor's pension over GMP – table 1 or 2

- 1.6 Example 1 on page 8 illustrates this calculation.
- 1.7 The survivor's pension and GMP to be used in the calculation are the pension and GMP that would actually be payable to the member's spouse or partner if the former officer died on the day of the calculation. No survivor's pension elements should be included when a former officer has no spouse or qualifying partner. No PREGMP_w should be valued for female pensioners, whether they are married or otherwise, because no pre-1988 GMP is payable to the widower of a female officer.

Surviving spouse or partner

- 1.8 In the case of a small pension in payment to the surviving spouse or partner of a former officer the lump sum payable should be determined as follows:

$$(\text{PREGMP} \times F_{\text{pre}}) + (\text{POSTGMP} \times F_{\text{post}}) + (\text{EXCESS} \times F_{\text{excess}})$$

where

PREGMP annual GMP in payment accrued before 6.4.88
 POSTGMP annual GMP in payment accrued from 6.4.88
 EXCESS annual pension in payment in excess of GMP

F_{pre} factor for pre-88 GMP – table 3
 F_{post} factor for post-88 GMP – table 3
 F_{excess} factor for pension in excess of GMP – table 3

- 1.9 In the Police Pension Scheme 1987 (PPS) the lump sum paid to a surviving spouse is subject to an underpin calculated as follows:

$$\text{TOTAL PENSION} \times 11$$

where

$$\text{TOTAL PENSION} = \text{PREGMP} + \text{POSTGMP} + \text{EXCESS}$$

If this underpin is higher than the sum calculated using the attached tables then the underpin amount should be paid instead. This underpin does not apply in the Police Pension Scheme 2006 (NPPS).

- 1.10 Example 2 on page 9 illustrates this calculation.
- 1.11 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 at State Pension Age needed to ensure that the GMP anti-franking requirements under the Pension Schemes Act 1993 are satisfied.

2 Capitalisation factors for death gratuities

2.1 Both PPS and NPPS provide for a return of the officer'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. 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 Police Pensions Regulations 1987) must be brought into account in addition to the capitalised value of the long-term pension.

Adult survivor pensions

2.2 The capitalised value can be determined in cases where both of the following criteria are met:

- the surviving spouse or partner has attained his or her State Pension Age; and
- the scheme administrator has not received a notification from the National Insurance Contributions Office (NICO) that the pension scheme should pay full pension increases on the Guaranteed Minimum Pension (GMP) element of the pension, as well as on the excess over GMP.

2.3 In those cases the capitalised value can be calculated as follows:

$$(\text{PREGMP} \times F_{\text{pre}}) + (\text{POSTGMP} \times F_{\text{post}}) + (\text{EXCESS} \times F_{\text{excess}})$$

where

PREGMP annual GMP in payment accrued before 6.4.88
 POSTGMP annual GMP in payment accrued from 6.4.88
 EXCESS annual pension in payment in excess of GMP

F_{pre} factor for pre-88 GMP – table 3
 F_{post} factor for post-88 GMP – table 3
 F_{excess} factor for pension in excess of GMP – table 3

2.4 Example 3 on page 10 illustrates this calculation.

2.5 For other cases where the surviving spouse or partner has not yet attained his or her State Pension Age, a simple rule of thumb can be used to determine whether or not more detailed consideration is required.

Police Pension Schemes: Trivial Commutation and Capitalisation for Death Gratuities

- 2.6 The rule of thumb is that, for individuals below State Pension Age, the capitalised value of the pension will always exceed the pension in payment multiplied by 11.9. Therefore, where the surviving spouse or partner's pension in payment multiplied by 11.9 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 4 on page 10 illustrates this calculation.
- 2.7 If the second criterion at paragraph 2.2 is not met, or if the rule of thumb in paragraph 2.6 is not satisfied, the case should be referred to Home Office, SPPA or NIO (as applicable) for onward transmission to GAD.

Children's pensions

- 2.8 This guidance does not cover the capitalised value of children's pensions. These cases must be referred to Home Office, SPPA or NIO (as applicable) for onwards transmission to GAD.

Example Calculations

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

Example 1 – trivial commutation: former officer

Male former officer

Date of birth: 15 May 1943

Calculation date: 9 August 2008

Total pension in payment: £700 pa
of which £150 pre-88 GMP and £550 excess over GMP

Married: wife entitled to receive half pension on death, including half of GMP

Age on calculation date: 65

PREGMP	150
EXCESS	550
PREGMP _w	75
EX _w	275
F _{pre}	10.9
F _{excess}	13.8
F _{prew}	2.8
F _{exw}	4.3

lump sum payable:

$$\begin{aligned}
 &= (\text{PREGMP} \times F_{\text{pre}}) + (\text{EXCESS} \times F_{\text{excess}}) + (\text{PREGMP}_w \times F_{\text{prew}}) + (\text{EX}_w \times F_{\text{exw}}) \\
 &= (150 \times 10.9) + (550 \times 13.8) + (75 \times 2.8) + (275 \times 4.3) \\
 &= 1,635 + 7,590 + 210 + 1,182.5 \\
 &= \mathbf{\pounds 10,617.50}
 \end{aligned}$$

Example 2 – trivial commutation: PPS widow

Date of birth: 8 September 1926

Calculation date: 9 August 2006

Total pension in payment: £900 pa
of which £300 pre-88 GMP and £600 excess over GMP

Age on calculation date: 79

PREGMP	300
EXCESS	600
F _{pre}	7.3
F _{excess}	8.7

$$\begin{aligned}\text{lump sum calculation:} &= (\text{PREGMP} \times F_{\text{pre}}) + (\text{EXCESS} \times F_{\text{excess}}) \\ &= (300 \times 7.3) + (600 \times 8.7) \\ &= 2,190 + 5,220 \\ &= \mathbf{\pounds 7,410}\end{aligned}$$

$$\begin{aligned}\text{check underpin:} &= \text{TOTAL PENSION} \times 11 \\ &= 900 \times 11 \\ &= \mathbf{\pounds 9,900}\end{aligned}$$

The underpin bites and the lump sum payable is therefore £9,900.

Example 3 – capitalisation for death gratuity: calculation

Widower of former PPS officer who died in deferment

Date of birth: 20 January 1940

Calculation date: 15 May 2010

Total pension in payment: £4,000 pa
of which £500 post-88 GMP and £3,500 excess over GMP

Payments already made to or in respect of officer: nil

Short-term increase to widower's pension: nil

Officer's aggregate pension contributions: £45,000

Age on calculation date: 70

POSTGMP	500
EXCESS	3,500
F_{post}	10.2
F_{excess}	11.0

$$\begin{aligned} \text{capitalised value} &= (\text{POSTGMP} \times F_{\text{pre}}) + (\text{EXCESS} \times F_{\text{excess}}) \\ &= (500 \times 10.2) + (3,500 \times 11.0) \\ &= 5,100 + 38,500 \\ &= \mathbf{\pounds 43,600} \end{aligned}$$

$$\begin{aligned} \text{death gratuity} &= \text{aggregate pension contributions} - \text{capitalised value of widower pension} \\ &= 45,000 - 43,600 \\ &= \mathbf{\pounds 1,400} \end{aligned}$$

Example 4 – capitalisation for death gratuity: use of rule of thumb

Date former officer dies: 9 August 2008

Widow's date of birth: 3 December 1960

Long-term level of widow's pension: £2,000 pa (which might include some GMP)

Officer's aggregate pension contributions: £18,000

Age of widow = 47

Widow has not reached State Pension Age so the factors in table 3 cannot be used, but the rule of thumb can be used.

$$\begin{aligned} \text{rule of thumb calculation:} &= 2,000 \times 11.9 \\ &= \mathbf{\pounds 23,800} \end{aligned}$$

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 officer.

Table 1: Factors for commutation of small pension

Male former police officers

Age in completed years	Factors for benefits in payment to former officer			Factors for spouse or partner pension		
	Pre-88 GMP	Post-88 GMP	Excess over GMP	Pre-88 GMP	Post-88 GMP	Excess over GMP
65	10.9	12.9	13.8	2.8	3.7	4.3
66	10.4	12.2	13.2			
67	9.9	11.6	12.6			
68	9.5	11.1	12.0			
69	9.2	10.6	11.5			
70	8.9	10.2	11.0			
71	8.6	9.8	10.5			
72	8.3	9.4	10.1			
73	8.0	9.0	9.6			
74	7.6	8.6	9.2			

Table 2: Factors for commutation of small pension

Female former police officers

Age in completed years	Factors for benefits in payment to former officer			Factors for spouse or partner pension		
	Pre-88 GMP	Post-88 GMP	Excess over GMP	Pre-88 GMP	Post-88 GMP	Excess over GMP
60	11.9	14.4	15.8	n/a	1.3	1.5
61	11.7	14.1	15.4			
62	11.5	13.8	15.0			
63	11.3	13.5	14.6			
64	11.1	13.2	14.2			
65	10.9	12.9	13.8			
66	10.8	12.6	13.5			
67	10.6	12.4	13.3			
68	10.4	12.2	13.1			
69	10.2	11.9	12.8			
70	9.9	11.5	12.5			
71	9.6	11.2	12.1			
72	9.3	10.8	11.7			
73	9.0	10.4	11.2			
74	8.7	10.0	10.8			

Table 3: Factors for commutation of small pension and for capitalisation of survivor pension for determination of death gratuity

Widows, widowers and other former partners

Age in completed years	Widow or other female survivor			Widower or other male survivor		
	Pre-88 GMP	Post-88 GMP	Excess over GMP	Pre-88 GMP	Post-88 GMP	Excess over GMP
60	11.9	14.4	15.8	n/a	n/a	n/a
61	11.7	14.1	15.4			
62	11.5	13.8	15.0			
63	11.3	13.5	14.6			
64	11.1	13.2	14.2			
65	10.9	12.9	13.8		12.9	13.8
66	10.8	12.6	13.5		12.2	13.2
67	10.6	12.4	13.3		11.6	12.6
68	10.4	12.2	13.1		11.1	12.0
69	10.2	11.9	12.8		10.6	11.5
70	9.9	11.5	12.5		10.2	11.0
71	9.6	11.2	12.1		9.8	10.5
72	9.3	10.8	11.7		9.4	10.1
73	9.0	10.4	11.2		9.0	9.6
74	8.7	10.0	10.8		8.6	9.2
75	8.5	9.7	10.4		8.2	8.7
76	8.2	9.3	9.9		7.8	8.3
77	7.9	8.9	9.5		7.5	7.9
78	7.6	8.5	9.1		7.1	7.5
79	7.3	8.2	8.7		6.7	7.1
80	7.0	7.8	8.3	6.4	6.7	
81	6.7	7.5	7.9	6.1	6.4	
82	6.5	7.2	7.6	5.8	6.0	
83	6.2	6.8	7.2	5.5	5.7	
84	5.9	6.5	6.8	5.2	5.4	
85	5.7	6.2	6.5	4.9	5.1	
86	5.4	5.9	6.2	4.6	4.8	
87	5.2	5.6	5.9	4.3	4.5	
88	4.9	5.3	5.6	4.1	4.3	
89	4.7	5.1	5.3	3.9	4.0	
90	4.5	4.8	5.0	3.7	3.8	
91	4.3	4.6	4.8	3.5	3.6	
92	4.1	4.3	4.5	3.3	3.4	
93	3.9	4.1	4.3	3.1	3.2	
94	3.7	3.9	4.1	3.0	3.1	
95	3.5	3.7	3.9	2.8	2.9	
96	3.4	3.6	3.7	2.7	2.8	
97	3.2	3.4	3.5	2.6	2.6	
98	3.1	3.2	3.3	2.5	2.5	
99	2.9	3.0	3.1	2.4	2.4	