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Dear Angela

**Police Pension Scheme 1987 (England and Wales)
Review of commutation factors following the change in the SCAPE discount rate**

You will be aware that it was announced on 16 March 2016 that the SCAPE discount rate which is used for financing purposes for the public service pension schemes has been reduced from 3% above CPI pa to 2.8% above CPI pa.

Consequently, in his role as the Scheme actuary to the Police Pension Scheme 1987 (the 1987 scheme), the Government Actuary has undertaken a review of the scheme lump sum retirement commutation factors to maintain the actuarial equivalence required under Regulation B7(7) of the Police Pension Regulations 1987. The Government Actuary recommends that those factors are now revised.

This letter sets out the rationale behind this review and discusses the reasons for the changes to the previous set of factors issued on 22 May 2014. It accompanies the guidance note we issued today, containing the revised factors. That guidance has immediate effect, replacing the guidance issued on 22 May 2014. It should be distributed to Police forces in England and Wales as soon as possible. Separate guidance has been issued covering the forces in Scotland and Northern Ireland.

Rationale behind this review

The commutation factors are sensitive to the discount rate used in their calculation. The Government Actuary has judged that the change in the SCAPE discount rate warranted a review of the commutation factors in the 1987 scheme.

The Office for National Statistics also recently published updated population projections (the '2014-based population projections'). Although we had previously concluded the updating of the mortality assumptions in isolation was not significant enough on its own to require any change in factors, GAD policy is to align the assumption we make for mortality improvements to the latest national population projections. Accordingly, we have therefore updated both the discount rate and mortality improvement assumptions as part of the current review. All other assumptions are unchanged from the review in 2014.

Result of the factor review

Our review shows there should be an increase to all the lump sum retirement commutation factors at all ages. The main effect is due to the reduction in the discount rate, which leads to an increase in all of the factors. The largest increases are at young ages, with the effect decreasing as the age at retirement increases. This effect is offset to an extent by the effect of the change in our assumption about future mortality improvements. This leads to a slight reduction in life expectancies at most ages.

Future reviews of commutation factors

There is no set timeframe in which future reviews must be carried out. A future review can be prompted by changes to one or more underlying factors (such as longevity), and can be affected by further changes while they are being carried out. The Government Actuary can, and does, carry out reviews as and when he judges necessary in order to maintain actuarial equivalence.

If you have any questions on the factors and guidance for commutation in the 1987 scheme or this letter please let me know.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Matt Wood', written in a cursive style.

Matt Wood
Government Actuary's Department