



Government Actuary's Department

Finlaison House
15-17 Furnival Street
London
EC4A 1AB

Marc Sherratt
Firefighters' Pensions
Communities and Local Government
By email to: Marc.Sherratt@communities.gsi.gov.uk

T 0207 211 2629
E matt.wood@gad.gov.uk

www.gov.uk/gad

18 March 2016

Dear Marc

Firefighters' Pension Scheme 1992 (England) 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 Firefighters' Pension Scheme 1992 (the 1992 Scheme), the Government Actuary has undertaken a review of the scheme lump sum retirement commutation factors to maintain the actuarial equivalence required under Rule B7 of the Firefighters' Pension Scheme Order 1992. 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 in GAD's letter of 20 May 2014. It accompanies the guidance note we issued today, containing the revised factors. That guidance has immediate effect, replacing the guidance issued on 11 October 2012 and the factors issued on 20 May 2014. It should be distributed to FRAs in England as soon as possible. I've written separately to contacts in Welsh Government and the Department of Health, Social Services and Public Safety with a similar request. Separate guidance has been issued covering firefighters in Scotland.

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 1992 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 1992 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