

Wales Fire and Rescue Service

Circular



Llywodraeth Cymru
Welsh Government

www.cymru.gov.uk

Circular number:	W-FRSC(2016)04	Date issued:	21 March 2016
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Status:	For Action
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Title:	Firefighters' Pension Scheme 1992 – Review of Commutation Factors following the change in the SCAPE Discount Rate
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Addressed to:	Please forward to:
Chief Fire Officers Chairs of Fire and Rescue Authorities Clerks to Fire and Rescue Authorities	Treasurers Pensions Officers

Summary

The Government Actuary's Department (GAD) is responsible for preparing tables of commutation factors, in accordance with rule B7 of the Firefighters' Pension Scheme Order 1992 (SI 1992/129).

GAD has undertaken a review of commutation factors as a result of the UK Government announcement on 16 March 2016 that the SCAPE discount rate has been reduced from 3% above CPI pa to 2.8% above CPI pa.

This circular details revised factors and guidance, replacing the guidance issued on 11 October 2012 and the factors issued on 20 May 2014 with immediate effect.

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Firefighters' Pension Scheme 1992 - Review of commutation factors following the change in the SCAPE discount rate

Introduction

1. The UK Government 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.
2. This is not a devolved matter, and the Welsh Government cannot deal with queries about the Treasury's announcement. However, it directly affects firefighters' pension schemes and the rights of scheme members; and we are passing it on accordingly.
3. As a result of the announcement, 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 Regulation B7 of the Firefighters' Pension Scheme Order 1992.
4. Revised guidance and factors are attached at Annex 1 and 2 respectively, replacing the guidance issued on 11 October 2012 and the factors issued on 20 May 2014 (W-FRSC(2014)06 refers).

Rationale behind this review

5. 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.
6. The Office for National Statistics also recently published updated population projections (the '2014-based population projections'). Although GAD 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 it makes for mortality improvements to the latest national population projections. Accordingly, GAD has 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

7. GAD's 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 GAD's assumption about future mortality improvements. This leads to a slight reduction in life expectancies at most ages.

Future reviews of commutation factors

8. 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.

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