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Dear Peter

**Police Pension Scheme 1987 (England and Wales)
Review of commutation factors**

The Government Actuary is the duly appointed Scheme actuary to the Police Pension Scheme 1987 (the PPS). As the Scheme actuary, the Government Actuary has reviewed the commutation factors to maintain the actuarial equivalence required under Regulation B7(7) of the Police Pension Regulations 1987.

This letter sets out the rationale behind the recent review of the PPS commutation factors in England and Wales. It also discusses the reasons underlying the changes required to the factors from those first issued on 20 April 2011 (and 9 May 2012 for Tables 2 and 3 of the guidance).

This letter accompanies our guidance note of 22 May 2014, which contains the revised factors. That guidance has immediate effect, replacing the guidance issued on 9 May 2012 and 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.

Reasons for reviewing the commutation factors

We have conducted a review of recent demographic experience in the PPS as part of the 31 March 2012 actuarial valuation of the Police pension schemes¹. This review has provided us with new information about mortality rates in the scheme. Additionally, the Office for National Statistics (ONS) released its 2012-based principal population projections for the United Kingdom in November 2013. Our current best estimate of future changes to mortality is that they will be in line with the ONS's 2012-based projections, whereas the existing commutation factors are based on the corresponding 2008-based projections. Using this new information, we have reassessed our best estimate of life expectancy.

The valuation data has also allowed us to review the other assumptions used in the determination of the commutation factors.

The Government Actuary has judged that this new information warrants a review of the commutation factors in the PPS.

¹ Further detail of our analysis of experience exercise is set out in our advice on assumptions for the 2012 valuation, issued in draft on 27 January 2014.

Result of factor review

Taking the new information discussed above into account, we have determined that there should be a significant decrease to the commutation factor used for retirements of officers aged below 48 years and 6 months. The review did not suggest a need to amend the factors for other ages.

Factor for below age 48 years 6 months

The expected life expectancy of future ill-health retirees is the key determinant of this factor.

There has been a significant reduction in the number of members taking ill-health retirement in recent years, suggesting that a greater degree of ill health is now required to exercise this option. Therefore, all else being equal, we would expect the life expectancy of future ill-health pensioners to be shorter than existing ill-health pensioners. This makes it difficult to set this assumption based on the experience of current pensioners.

When we considered this issue for the 2012 valuation, our view was that the best estimate of life expectancy was given by the S11A standard mortality tables published by the Institute and Faculty of Actuaries' Continuous Mortality Investigation. These are based on mortality experience of ill-health pensioners in certain private sector pension schemes. We consider that the criteria for ill-health retirement in the PPS is now likely to be similar to criteria in private sector pension schemes and that ill-health life expectancies are likely to be driven primarily by the illness, meaning that future ill-health pensioners in the scheme are likely to have broadly similar life expectancies as ill-health pensioners in the private sector.

These life expectancies are shorter than those underlying the factors issued in 2011, resulting in a lower factor.

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 PPS or this letter please let me know.

Yours sincerely



Matt Wood
Government Actuary's Department