Rule B7 explains commutation and sets out the terms and limitations.

The meaning of "commutation"

Rule B7(2) explains that a person can "commute" a portion of a pension to provide a lump sum.

"Commutation" means converting part of your pension entitlement into a lump sum payment. Unlike instalments of pension paid to you periodically for the rest of your days, the commuted portion would be paid as a single lump sum at the time that you become eligible to receive payment of your pension.

Eligibility and limitation

Rule B7(1) allows you to commute a portion of an ordinary, short service, or deferred pension. It also allows you to commute a portion of an ill-health pension but Rule B7(2A) restricts this to a lower tier ill-health pension: you cannot commute any portion of a higher tier ill-health pension.

Rule B7(4) and (5) set the limits on the portion of your pension which can be commuted. The circumstances of your retirement and your age determine the maximum portion you may commute.

In the following explanation of limits the expression "full amount of pension" is used. According to Rule B7(6) this means the amount of pension to which you are entitled before any reductions are applied –

- because you have allocated part of it (see the explanation of Rule B9)

- because you have previously commuted part of an ill-health pension (where that pension has been cancelled and you returned to the fire and rescue service on recovering your health – see "Effect of previous ill-health retirement")

- for National Insurance modification at State pensionable age – generally firefighters with service before 1 April 1980 (see pages B Gen 2).

If you have service before 1 April 1972, it would also mean the amount of pension to which you were entitled before a reduction was made, on retirement, to complete the contribution method of paying for improved widow's benefits.

If, however, you are a firefighter who chose to improve widow's benefits by having a percentage reduction made to your pension on retirement, the "full amount of pension" would mean your pension **after** this reduction had been made.

If you have a period of service as a part-time regular firefighter "full amount of pension" means the pension due **after** any adjustment required under Schedule 2 Part VIA in respect of that part-time service.

Also, the effect of Rule B12 means that if a pension sharing order has been issued by a court on divorce or annulment of marriage, or dissolution of civil partnership, it will be the pension as due to you **after** the reduction required by the order.

Rule B7 (continued)

Eligibility and limitation (continued)

To summarise, any adjustments or reductions which apply to your pension will be ignored except where –

- having service before 1 April 1972, you undertook to pay for a better widow's pension by having your own pension reduced,

- your pension is based on any period of part-time service, or

- your pension is subject to a pension sharing order.

So how much of the "full amount of pension" can you commute?

The limits on the portion of pension which can be commuted are set out in Rule B7(4) and (5). There are two main limits to consider. These are explained below. Note that you can choose to commute any portion of pension below and up to these limits.

Where, below, reference is made to a certain length of pensionable service below, remember that Rule A7(4) requires that any period of service as a part-time regular firefighter should be treated as whole-time when calculating pensionable service. For example, a person who has served as a regular firefighter for 25 years on a half-time contract would be able to count 25 years as pensionable service.

Commutation of one quarter of the full amount of pension

This is the greatest portion of pension which can be commuted. This applies to you if retire –

- with an ordinary pension based on 30 years' pensionable service, or
- with an ill-health pension, or
- with a deferred pension, or
- at or after normal pension age (55).

Commutation restricted to provide a lump sum no greater than two and a quarter times the full amount of pension before commutation

If you are not eligible to commute one quarter of your pension, the lump sum is limited to two and a quarter times the full amount of pension before commutation.

You would be restricted in this way if you retire –

- with an ordinary pension at age 50 or over,
- with 25 or more years' pensionable service but less than 30, and
- before normal pension age.

Rule B7 (continued)

Eligibility and limitation (continued)

Further limitation

Rule B10 sets two further limits on the amount you can commute –

- if you also choose to "allocate" a portion of your pension (see the explanation in Rule B9) you must be careful that the total of commutation and allocation together does not exceed one third of your pension (before any reduction for widow's benefit options and National Insurance modification, etc.), and

- if you are entitled to a deferred pension, you must not commute such a large portion that the remaining part of your pension would be less than your Guaranteed Minimum Pension (see the explanation of Guaranteed Minimum Pension in Rule J1 and in Annexe 8).

HM Revenue and Customs also impose a limit on how much a member of a pension scheme can commute before tax charges apply – see "Tax" below.

Commutation factors

In order to work out the capital value of the portion of pension you have chosen to commute, you must refer to commutation factors provided by the Government Actuary. The commutation factors are issued in the form of a table. The most recent table is given on page B7-Chart 1. When deciding commutation factors, the Government Actuary makes certain assumptions about –

- future interest rates – which would affect the income likely to be received if your lump sum was invested, and

- life expectancy (mortality rates) – which would affect the length of time for which that income would be received.

The tables are altered from time to time to reflect changes in these assumptions.

The factors in the table show how much you would receive as a lump sum for each £100 of your pension you commute. If, for example, you are a male firefighter who will be age 53 next birthday, you will receive a lump sum of £1,480 for each £100 of pension you give up. If you are a female firefighter of the same age you would receive £1,685 for each £100 commuted.

The factors are higher (and therefore the lump sum bigger) for younger people and for women. This is because mortality statistics indicate that they will live longer. The average woman lives longer than the average man and would, therefore, be drawing an annual pension for longer. The assessment must take this into account because by commuting she will give up a greater amount of pension over her lifetime than a man would (see "Points To Note", Point 4).

When the option of commutation was originally introduced into the Scheme, a fire authority could, if they wished, require a firefighter to undergo a medical to satisfy the authority of normal life expectancy. This no longer applies.

Rule B7 (continued)

Commutation factors (continued)

Care needs to be taken when deciding which factors should be used because of the wording of the first column of the table – *"Age next birthday when pension becomes payable".*

When deciding which table factor applies to you in relation to the age given in the first column of the table, note the following –

(a) if you retire immediately on attaining normal pension age (55), the rules allow "age next birthday when pension becomes payable" to be age 55.

(b) if you are entitled to a deferred pension which becomes payable at age 60, the rules allow "age next birthday when pension becomes payable" to be age 60.

(c) if you are retiring on any other grounds, "age next birthday when pension becomes payable" will be the age you attain at the next birthday following the first day you are entitled to payment of pension.

Remember that you attain a particular age at 00.00 hours between the day you celebrate the anniversary of your birth and the day before. This means that unless you are leaving as soon as you attain normal pension age you should have a last day of service **at least two days** before you celebrate the anniversary of your birth to ensure the use of the factor appropriate to your age at that birthday. The effect of this is illustrated on page B7-Example 1.

Method of calculation of commutation

To work out the lump sum to which you would be entitled by commutation you must first decide how much you want to commute and check it is within the limits allowed. The limits are given above in "Eligibility and limitation".

Suppose you are entitled to a full pension (i.e. after any adjustment for part-time service but before any relevant reductions are made as described in "Eligibility and limitation") of £24,000 a year and you are allowed to commute a maximum of one quarter. This means that you can choose to convert any part of the pension, up to a maximum of £6,000, to provide a lump sum. If your age next birthday is, say, 54 and you are a male firefighter, for each £100 you choose to commute you would receive a lump sum of £1,465.

So if you chose to commute £1,000 you would receive an annual pension of £23,000 (£24,000 - £1,000) and your lump sum would be £1,000/100 x 1465 = £14,650.00

Or, if you chose to commute £6,000 you would receive an annual pension of £18,000 (£24,000 - £6,000) and your lump sum would be £6,000/100 x 1465 = £87,900.00.

The portion of pension you commute does not have to be in units of £100. You are free to choose any figure you like within the limits.

> **Rule B7 (continued)**

Method of calculation of commutation (continued)

What if you cannot commute a quarter but are limited to a lump sum of two and a quarter times the uncommuted pension?

Firstly you would have to work out what the maximum lump sum would be. If your lump sum can be no greater than two and a quarter times your pension and the full amount of your pension is £24,000 the biggest lump sum you can achieve is 2.25 x £24,000 = £54,000.

Suppose you decide that you want the maximum lump sum. You will next have to work out what portion of your pension you must commute to arrive at that figure. To do this, the normal commutation calculation is reversed – you divide the lump sum by the commutation factor and multiply by 100.

For example, if you are a female firefighter aged 51 next birthday, you use the commutation factor 1725. From this you can work out that the maximum commutable portion of pension is £54,000/1725 x 100 = £3,130.4347.

So, in this example, if you commute the maximum –

- your annual pension would be £24,000 less £3,130.4347 = £20,869.57

- your lump sum would be £3,130.4347/100 x 1725 = £54,000.00.

(Working to 4 decimal places until the final figure is reached.)

Notice of commutation and time limits

Rule B7(7) requires that notice of commutation should be given in writing by the firefighter to the fire and rescue authority. You must state the portion of pension you wish to commute.

It must be given no earlier than 4 months before your intended date of retirement and no later than the day before the pension comes into payment.

Effect of previous ill-health retirement

If you left the fire and rescue service with an ill-health pension and then recovered your health your payments of ill-health pension (except for any "secured portion" at State pensionable age in old cases – this relates to the State Graduated Pension Scheme which ran from 1961 to 1975 – see Annexe 8) will be withdrawn.

If you are not re-employed as a firefighter you would then become entitled to a deferred pension based on the period of service on which the ill-health pension was based but excluding ill-health enhancement.

If you are re-employed as a firefighter, the service upon which the ill-health pension was based (but excluding any ill-health enhancement) would count towards a pension on your second retirement.

Rule B7 (continued)

Effect of previous ill-health retirement (continued)

At the time that your ill-health pension is stopped you would not have to repay any lump sum you have received by way of commutation. However, when you become eligible to draw your new pension (deferred or otherwise) account must be taken of that commutation.

Rule B7(10) requires that if you commuted part of your ill-health pension –

- the amount that you can commute now will be reduced by the amount you commuted before (this will affect the limit on commutation),

- your pension will be reduced in respect of both commutations (or just the first commutation if you choose not to commute again).

Tax

The FPS and the benefits it provides must comply with tax rules as set out in the Finance Act 2004 which became effective on 6 April 2006. For the lump sum by commutation to be exempt from tax charges, it must be assessed and paid as an authorised payment.

This form of benefit is described in the tax rules as a "pension commencement lump sum".

Before 6 April 2006, the FPS time limits in which an election for commutation could be made extended to 6 months after retirement. For the commutation lump sum to be treated as a pension commencement lump sum, however, entitlement to it must arise immediately before a person becomes entitled to the pension in connection with which it is paid. For this reason the FPS was amended with effect from 6 April 2006 so that the notice of election had to be given, at the latest, on the day before the pension comes into payment.

A pension commencement lump sum must be paid within 3 months of the person becoming entitled to retirement benefits. HM Revenue and Customs accept, however, that at the retirement date a pensions administrator may not have all the necessary paperwork to confirm entitlement to retirement benefits. Consequently the 3 months starts to run from the date at which the administrator has all the necessary information to be able to pay the award.

A pension commencement lump sum must be paid before the scheme member attains age 75. In the highly unlikely situation that a firefighter is still in employment at that age, benefits under the FPS would have to be put into payment before he/she attains age 75 in order to satisfy this rule.

There is a limit on the amount of pension commencement lump sum that a scheme member can take. It must not exceed more than 25% of a scheme member's Lifetime Allowance. There is a Standard Lifetime Allowance which is set each tax year. For the tax year 2006/07 the Standard Lifetime Allowance is £1,500,000 and 25% of this is £375,000. Any amount over the permitted maximum would not be a pension commencement lump sum, it would be an unauthorised payment and taxed accordingly.

Rule B7 (continued)

Payment

Rule B7(8) states that the notice of commutation will have effect from the date of your retirement.

Rule B7(9) explains that within 3 months of your date of retirement, your fire and rescue authority must pay you the lump sum by commutation and reduce your pension accordingly

Other terms of payment are set out in Rules L3 and L5.

Example

Examples of commutation are given on pages B7-Example 2. (See also "Method of calculation of commutation" above.)

Useful reference source

- FSC 36/1976: right to commute after 25 years' service (not previously allowed)
- FSC 15/1978: contracting-out restrictions
- FSC 39/1978: contracting-out restrictions
- FSC 4/1998: revised commutation factors effective from 27 July 1998
- FSC 8/1998: amendments to FSC 4/1988 – table headings and details
- Neath v Hugh Steeper [ECJ 1994]: use of differing actuarial factors for males and females
- FSC 30/2004: clarifies that the "30 years" service requirement for one quarter commutation means 30 years <u>pensionable</u> service
- FPSC 4/2005: explains replacement of compulsory retirement age by normal pension age
- FPSC 9/2006: explains amendment to B7 in compliance with the new tax regime

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Rule B7 (continued)

Points To Note

1. Commuting has no effect on the amount of awards paid to your dependants. These are based on your pension before commutation.

2. There is no need to commute the maximum amount allowed although many people do so. It is sensible to think about the relative advantages of commuting in your own case well ahead of your retirement. The sort of things you need to consider include –

   - whether you have a particular purpose for which you will need a lump sum and, if so, how big a lump sum;

   - if you take a lump sum for that purpose, whether the pension you have left will be enough for your needs;

   - if you plan to invest your lump sum to provide a regular income, whether you can get as much income this way as you would have received from the pension you would be giving up, bearing in mind that under present legislation –

     - your pension is index-linked to keep pace with inflation, and

     - your lump sum is tax free;

   - if your health is uncertain, whether you could do better to take a lump sum which would be available for your dependants in the event of your death.

3. Only that part of your pension which remains in payment after commutation is increased under Pensions Increase Acts and Orders. (Although if your lump sum is paid some time after retirement it may be subject to an increase to bring it up to current value when first put into payment and may have one more small increase at the next Pensions Increase date – see Annexe 10.)

4. The difference between factors used for males and females of the same age and between factors used for different ages of the same sex reflect average life expectancy. Suppose a male firefighter and a female firefighter both aged 50, both with a pension of £10,000 a year, decide to commute a quarter of their pension to provide a lump sum. How much pension are they giving up? According to life expectancy tables used by actuaries, a male aged 50 is expected to live 36.2 further years. So, disregarding any Pensions Increase, he can expect to receive total pension payments of 36.2 x £10,000, i.e. £362,000 between retirement and death. If he commutes a quarter, he is giving up £362,000/4 = £90,500 worth of regular instalments of pension for a one-off payment of lump sum. A female aged 50 is expected to live for a further 39.1 years. So, disregarding any Pensions Increase, she can expect to receive 39.1 x £10,000, i.e. £391,000 between retirement and death. If she commutes a quarter, she is giving up £391,000/4 = £97,750 worth of regular instalments of pension for a one-off payment of lump sum. The female is paying more for the lump sum than the male. So she gets more.

Rule B7 (continued)

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5. Similar principles apply for the differences between commutation factors for older and younger firefighters of the same sex. A male aged 60 is expected to live a further 25.9 years. So if he has a pension of £10,000 he would expect to receive a total of £259,000 over his lifetime. If he commutes a quarter he is giving up £259,000/4 = £64,750. This is less than his 50 year old male colleague as illustrated in Point 6, so he gets less by way of lump sum.

6. In "Neath v Steeper" [22 December 1993], the ECJ ruling was that "sex-based mortality or actuarial tables are perfectly proper where justified by experience".

7. If an "earmarking" order has been issued by a court on divorce, dissolution of a civil partnership, annulment or judicial separation (see Annexe 14) the lump sum by commutation may need to be reduced in accordance with the order.

8. Pension provisions for part-time regular firefighters were introduced on 13 September 2004. If your pension is assessed using the principles in Schedule 2 Part VIA because all or part of your service as a regular firefighter was part-time, commutation is applied to the pension to which you are entitled **after** the application of the formula in Schedule 2 Part VIA.

9. "Normal pension age" replaced "compulsory retirement age" in Rule A13 on 21 November 2005. Compulsory retirement age was age 55 for all ranks up to and including Station Officer, age 60 for Assistant Divisional Officer and ranks above. Before 21 November 2005, Rule B7 permitted one quarter commutation if a firefighter retired –

- with an ordinary pension based on 30 years' pensionable service, or
- with an ill-health pension, or
- with a deferred pension, or
- at compulsory retirement age.

There was a special provision, however, that allowed a fire authority – at their discretion – to permit one quarter commutation in circumstances where a firefighter was entitled to an ordinary pension based on less than 30 years' pensionable service and –

- was granted an extension of service beyond compulsory retirement age (thereby extending the compulsory retirement age) and retired before the end of the extension, or

- held the rank of ADO or above and retired on or after age 55 but before age 60.

Now that the one of the tests for quarter commutation is based on a firefighter's normal pension age which is 55 in all cases, the above special provision is no longer necessary. It was removed from Rule B7 on 21 November 2005. Anyone who retires on or after attaining normal pension age (55) can commute one quarter pension regardless of length of service.

Commutation factors: Details as given in Fire Service Circulars 4/1998 and 8/1998

Age next birthday when pension becomes payable (see Note 4)	Capital sum for each £100 of pension commuted	
	Men £	Women £
50 and under	1500	1725
51	1500	1725
52	1490	1705
53	1480	1685
54	1465	1660
55	1450	1625
56	1425	1600
57	1390	1575
58	1355	1550
59	1320	1520
60	1300	1500
61	1270	1470
62	1230	1430
63	1190	1400
64	1150	1360
65	1110	1320

NOTES

1.   This table is prepared by the Government Actuary's Department, and is subject to periodic review. It takes account of the fact that, in general, women live longer than men.

2.   The table is appropriate for pensions payable monthly or 4-weekly in advance. For pensions payable quarterly in advance £8 must be added to each of the amounts shown. For pensions payable weekly in advance £4 must be deducted.

3.   The table provides figures for each £100 of pension only as a convenient unit. You do not have to commute exact units of £100. Fractions of £100 are calculated proportionately.

4.   (a) If you retire immediately on reaching normal pension age (55)*, your "Age next birthday" (as referred to in the heading of the first column of the table) should be taken as that age.

        (b) If you become entitled to payment of a deferred pension on reaching the age of 60 your "Age next birthday" should be taken as 60.

        (c) If you plan to retire at or after age 50 in circumstances not covered by (a) you should make your last day of service at least two days before your birthday to ensure that it is the next birthday used for "Age next birthday" in the table.

        * "Normal pension age" replaced "compulsory retirement age" on 21 November 2005. Before this date, Note 4(a) began with "If you are required to retire on reaching a particular age".

Example of effect of age and last day of service on commutation

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The heading of the first column in the table given on page B7-Chart 1 is "Age next birthday when pension becomes payable". The notes beneath the table explain that –

- If you retire immediately upon attaining normal pension age (55)*, then you select a factor alongside age 55. For example, a male firefighter who retires on his 55th birthday will have a commutation factor of 1450 and a female firefighter who retires on her 55th birthday will have a commutation factor of 1625.

- If you are entitled to a deferred pension which becomes payable at age 60, then you use the factor alongside age 60 (1300 for a male firefighter, 1500 for a female firefighter).

* Before 21 November 2005 this was "compulsory retirement age" which was normally 55 or 60 according to rank, but could be a higher age if the firefighter had an extension to service under Rule A13(3). Consequently, a firefighter retiring before this date would select the factor alongside his or her compulsory retirement age or extended compulsory retirement age.

Be careful when selecting a factor from the table in any other circumstances!

You attain a particular age at 00.00 hours between the day you celebrate the anniversary of your birth and the day before. This means that unless you retire as soon as you attain age 55 you should have a last day of service **at least two days** before you celebrate the anniversary of your birth to ensure the use of the factor appropriate to your age at that birthday.

Example

A firefighter is eligible to retire with immediate payment of benefits because he has attained age 50 and has 25 or more years of service. He is not leaving on age grounds. He was born on 16 December 1950 and wishes to pick the last day of service with his brigade at which the highest commutation factor of 1500 can be used in the assessment of retirement benefits.

He looks at the heading of the first column of the table and notes that it says "Age next birthday when pension becomes payable". His first reaction is "I'll make my last day of service 16 December 2001 – my 51st birthday". He quickly realizes, however, that if his last day of service is 16 December 2001, the "age next birthday when pension becomes payable" is the age he attains on 16 December 2002, i.e. 52. If 16 December 2001 is chosen as his last day of service the commutation factor used would be 1490. So he thinks again.

"All right then," he says. "I'll go the day before my birthday." So he starts to plan on 15 December 2001 as being his last day of service. But then it occurs to him that if his last day of service is 15 December 2001, his pension becomes payable on 16 December 2001. And at the dawn of 16 December 2001 he will already have attained age 51. Consequently the "age next birthday when pension becomes payable" would still be 52. If 15 December 2001 is chosen as his last day of service the commutation factor used would still be 1490. So he thinks again.

"I get it", he says. "I must pick a last day of service two days before my 51st birthday if I am to be eligible for the commutation factor of 1500." He chooses 14 December 2001 as the last day he will spend in the fire service.

With a last day of 14 December 2001 his pension will be payable from 15 December 2001. With a date of birth of 16 December 1950 his "age next birthday when pension becomes payable" is 51. The appropriate commutation factor for this scenario is 1500. He's got it right.

Example of assessment of commutation

Example A

The firefighter aged 50 with 30 years' service who retires with an ordinary pension in Example A on pages B1-Example 1, decides to commute the maximum portion of pension to provide a lump sum. His pension before commutation is £16,000 a year.

Because he has 30 years' service, maximum commutation is one quarter of his pension.

Commutation factor (see page B7-Chart 1) for age 51 next birthday when pension becomes payable: 1500

Formula: Pension   = pension - $\dfrac{\text{pension}}{4}$

Lump sum = $\dfrac{1}{4}$ x $\dfrac{\text{pension}}{100}$ x commutation factor

Firefighter's pension after commutation will be:

£16,000.00 - $\dfrac{£16,000.00}{4}$

= £12,000.00 a year

Firefighter's lump sum on commutation will be:

$\dfrac{1}{4}$ x $\dfrac{£16,000.00}{100}$ x 1500

= £60,000.00

Example B

The firefighter aged 50 with 25 years 17 days of service who retires with an ordinary pension in Example B on pages B1-Example 1, decides to commute the maximum portion of pension to provide a lump sum. Her pension before commutation is £10,532.62 a year.

Because she has less than 30 years' service and is not retiring on health grounds or because she has reached normal pension age she is not entitled to commute one quarter of her pension like the firefighter in Example A. Instead, her lump sum must be no greater than two and a quarter times her uncommuted pension.

Commutation factor (see page B7-Chart 1) for age 51 next birthday when pension becomes payable: 1725

Formula: Pension   = pension - $\left[\dfrac{\text{pension x 2.25}}{\text{commutation factor}} \times 100\right]$

Lump sum = pension x 2.25

Firefighter's pension after commutation will be:

£10,532.62 - $\left[\dfrac{£10,532.62 \text{ x 2.25}}{1725} \times 100\right]$ = £10,532.62 - $\left[\dfrac{£23,698.3950}{1725} \times 100\right]$

= £9,158.80 a year

Firefighter's lump sum on commutation will be:

10,532.62 x 2.25 = £23,698.3950

= £23,698.40

Example of assessment of commutation (continued)

Example C

A firefighter with 21 years 188 days of service who retires on her 55th birthday with a short service pension in Example B on page B2-Example 1, decides to commute the maximum portion of pension to provide a lump sum. Her pension before commutation is £9,691.83 a year.

Because she has reached normal pension age she can commute one quarter of her pension.

Commutation factor (see page B7-Chart 1) for retirement immediately on attaining age 55: 1625

Formula: Pension   = pension - $\frac{pension}{4}$

Lump sum = $\frac{1}{4}$ x $\frac{pension}{100}$ x commutation factor

Firefighter's pension after commutation will be:

£9,691.83 - $\frac{£9,691.83}{4}$

= £7,268.87 a year

Firefighter's lump sum on commutation will be:

$\frac{1}{4}$ x $\frac{£9,691.83}{100}$ x 1625

= £39,373.06

Example D

The firefighter aged 56 with 10 years 123 days of service who retires with a short service pension in Example A on page B2-Example 1, decides to commute the maximum portion of pension to provide a lump sum. His pension before commutation is £3,350.91 a year.

He retires after attaining normal pension age and so can commute one quarter of his pension. (If he had retired before attaining age 55 he would be restricted to a lump sum no greater than two and a quarter times the uncommuted pension.)

Commutation factor (see page B7-Chart 1) alongside age 57 (his age next birthday when pension becomes payable) : 1390

Formula: Pension   = pension - $\frac{pension}{4}$

Lump sum = $\frac{1}{4}$ x $\frac{pension}{100}$ x commutation factor

Firefighter's pension after commutation will be:

£3,350.91 - $\frac{£3,350.91}{4}$

= £2,513.18 a year

Firefighter's lump sum on commutation will be:

$\frac{1}{4}$ x $\frac{£3,350.91}{100}$ x 1390

= £11,644.41

Example of assessment of commutation (continued)

Example E

The firefighter aged 35 with 12 years 15 days of service who retires with a higher tier ill-health award in Example C on pages B3-Example 1, decides to commute £1,500 of her lower tier ill-health pension to provide a lump sum. Her lower tier pension before commutation is £7,599.27 a year.

Because she is retiring on ill-health grounds the maximum amount she can commute is one quarter of her lower tier ill-health pension. One quarter of £7,599.27 is £1,899.82. Her chosen amount of £1,500 is within this limit.

Commutation factor (see page B7-Chart 1) for age 36 next birthday when pension becomes payable: 1725

Formula: Pension   = pension - amount chosen for commutation

Lump sum = amount chosen for commutation x commutation factor
                                100

Firefighter's lower tier ill-health pension after commutation will be:

£7,599.27 - £1,500.00

= £6,099.27 a year

Firefighter's lump sum on commutation will be:

£1,500.00 x 1725
    100

= £25,875.00

Example F

The same firefighter as in Example E above asks if she can commute sufficient to provide her with a lump sum of £30,000.

We know that she must not commute more than £1,899.82. If the amount of pension needed to provide a lump sum of £30,000 is less than this figure she can have her chosen lump sum.

Her commutation factor is 1725 and so to find out how much she will need to provide a lump sum of £30,000, we apply the normal commutation formula in reverse, i.e. divide by the factor and multiply by 100 –

£30,000 x 100   =   £1,739.1304
    1725

£1,739.13 is less than £1,899.82 and so she can have the lump sum she has requested.

Firefighter's pension after commutation will be:

£7,500.00 - £1,739.13

= £5,760.87 a year

Firefighter's lump sum on commutation will be:

£1,739.1304 x 1725
      100

= £30,000.00

Example of assessment of commutation (continued)

Example G1 – retirement before 21 November 2005

The firefighter aged 56 with 26 years of service who with an ordinary pension in Example C on pages B1-Example 1 decides to commute the maximum portion of his pension. His pension before commutation is £16,384 a year. He holds the rank of Assistant Divisional Officer (role of Station Manager B).)

Because the firefighter has less than 30 years' service and is not retiring on health grounds or because he has reached compulsory retirement age (60 for an Assistant Divisional Officer) he is not allowed to commute one quarter of his pension unless, being age 55 or over, his fire authority at their discretion consent to the quarter commutation.

Commutation factor (see page B7-Chart 1) for age 57 next birthday when pension becomes payable: 1390

Assume the fire authority permit one quarter commutation

Formula: Pension   = pension - $\frac{\text{pension}}{4}$

Lump sum = $\frac{1}{4}$ x $\frac{\text{pension}}{100}$ x commutation factor

Firefighter's pension after commutation will be:

£16,384.00 - $\frac{£16,384.00}{4}$

= £12,288.00 a year

Firefighter's lump sum on commutation will be:

$\frac{1}{4}$ x $\frac{£16,384.00}{100}$ x 1390

= £56,934.40

Assume the fire authority do not permit one quarter commutation

Formula: Pension   = pension - [$\frac{\text{pension x 2.25}}{\text{commutation factor}}$ x 100]

Lump sum = pension x 2.25

Firefighter's pension after commutation will be:

£16,384.00 - [$\frac{£16,384.00 \text{ x } 2.25}{1390}$ x 100] = £16,384.00 - £2,652.0863

= £13,731.91 a year

Firefighter's lump sum on commutation will be:

16,384.00 x 2.25

= £36,864.00

See next page for an example of commutation on or after 21 November 2005, i.e. after "compulsory retirement age" had been replaced by "normal pension age".

Example of assessment of commutation (continued)

Example G2 – retirement on or after 21 November 2005

The firefighter in Example G1 (on the previous page) retires on or after 21 November 2005. His pension before commutation is £16,384 a year and he wants to commute one quarter of that pension.

From 21 November 2005, regardless of a firefighter's rank/role, his "normal pension age" is 55. This firefighter having attained that age (he is 56) he no longer requires the consent of his fire and rescue authority to be able to commute one quarter pension

Commutation factor (see page B7-Chart 1) for age 57 next birthday when pension becomes payable: 1390

Formula: Pension   = pension - $\dfrac{\text{pension}}{4}$

Lump sum = $\dfrac{1}{4}$ x $\dfrac{\text{pension}}{100}$ x commutation factor

Firefighter's pension after commutation will be:

$$£16,384.00 - \frac{£16,384.00}{4}$$

= £12,288.00 a year

Firefighter's lump sum on commutation will be:

$$\frac{1}{4} \times \frac{£16,384.00}{100} \times 1390$$

= £56,934.40

> **Example of assessment of commutation (continued)**

Example H

A firefighter retired on grounds of ill-health before 1 April 2006 at age 44, having completed 20 years 335 days of service. He recovers his health and is again fit for firefighting duties. He does not return to employment with his former fire and rescue authority. His ill-health pension is terminated and he is awarded a deferred pension – see Example D on pages B5 – Example 1. His ill-health pension was calculated as £7,208.90 a year. His deferred pension is £6,972.60 a year. When entitled to the ill-health pension he chose to commute one quarter; on becoming entitled to receive the deferred pension he again wishes to commute the maximum portion of his pension. For example purposes, assume commutation factors have not been amended since his first retirement.

Commutation factors (see page B7-Chart 1) for age 45 next birthday when pension becomes payable: 1500; for payment of a deferred pension at 60: 1300

Commutation of ill-health pension at age 44

Formula: Pension $= \text{pension} - \dfrac{\text{pension}}{4}$

Lump sum $= \dfrac{1}{4} \times \dfrac{\text{pension}}{100} \times \text{commutation factor}$

Firefighter's ill-health pension after commutation will be:

$£7,208.90 - \dfrac{£7,208.90}{4}$

$= £5,406.68$ a year

Firefighter's lump sum on commutation will be:

$\dfrac{1}{4} \times \dfrac{£7,208.90}{100} \times 1500$

$= £27,033.38$

Note that on termination of the ill-health award the firefighter is not required to repay the lump sum.

Commutation on payment of deferred pension at age 60

In normal circumstances up to one quarter of a deferred pension can be commuted **but** here the sum commuted on ill-health retirement must be taken into account and deducted from the deferred pension. This restricts further commutation.

One quarter of his deferred pension is $\dfrac{£6,972.60}{4} = £1,743.15$

He commuted one quarter of his ill-health pension, i.e. $\dfrac{£7,208.90}{4} = £1,802.23$

Because the sum deductible in respect of commutation of the ill-health pension is greater than one quarter of the deferred pension, no further commutation is possible.

Firefighter's deferred pension will be:

$£6,972.60 - £1,802.23$

$= £5,170.37$ a year

Firefighter's lump sum in respect of the deferred pension will be £Nil.

Example of assessment of commutation (continued)

Example I

A firefighter aged 32 with 10 years of service retired before 1 April 2006 with an ill-health pension of £4,000. He commutes one quarter. He recovers his health and recommences service as a firefighter at age 35. The ill-health pension is cancelled. He retires again at compulsory retirement age 55, having completed 30 years' service. He is entitled to an ordinary pension of £24,000. He commuted the maximum one quarter of his ill-health pension and chooses to commute as much of the ordinary pension as he can. For example purposes, assume commutation factors have not been amended since his first retirement.

Commutation factors (see page B7-Chart 1) for age 33 next birthday when pension becomes payable: 1500; for compulsory retirement age 55: 1450

Commutation of ill-health pension at age 32

Formula: Pension   = pension - $\dfrac{\text{pension}}{4}$

Lump sum = $\dfrac{1}{4}$ x $\dfrac{\text{pension}}{100}$ x commutation factor

Firefighter's ill-health pension after commutation will be:

£4,000.00 - $\dfrac{£4,000.00}{4}$

= £3,000.00 a year

Firefighter's lump sum on commutation will be:

$\dfrac{\text{I}}{4}$ x $\dfrac{£4,000.00}{100}$ x 1500

= £15,000.00

Note that on termination of the ill-health award the firefighter is not required to repay the lump sum.

Commutation on payment of ordinary pension at age 55

In normal circumstances up to one quarter of a pension payable at compulsory retirement age can be commuted **but** here the sum commuted on ill-health retirement must be taken into account and deducted from the ordinary pension. This restricts further commutation.

One quarter of his ordinary pension is $\dfrac{£24,000.00}{4}$ = £6,000.00

He commuted £1,000 of his ill-health pension. This must be deducted.

This means that he can commute £6,000.00 - £1,000.00 of his ordinary pension, i.e. £5,000.00

Firefighter's ordinary pension after commutation and deduction for earlier commutation will be:

£24,000.00 - £5,000.00 - £1,000.00

= £18,000.00 a year

Firefighter's lump sum on commutation of ordinary pension will be:

$\dfrac{£5,000.00}{100}$ x 1450

= £72,500.00