POLICY NOTE

THE POLICE PENSIONS (COMMUTATION) AMENDMENT (SCOTLAND) REGULATIONS 2022

SSI 2022/80

The above instrument was made in exercise of the powers conferred by section 1 of the Police Pensions Act 1976. Functions under that Act as regards Scotland have been executively devolved to the Scottish Ministers. The instrument is subject to negative procedure.

The purpose of this instrument is to amend the provisions for commutation of pension in the Police Pensions Regulations 1987

Policy Objectives

This issue relates to the Police Pension Scheme 1987 (PPS) which was closed to new members from April 2006. Currently under regulation B7, members retiring with entitlement to an ordinary pension and who have reached their voluntary retirement age or have accrued at least 30 years' service may commute up to one quarter of their pension for a lump sum. In all other circumstances, the amount that a member may commute is limited under rule B7 (4)(b) and may not exceed 2.25 times the amount of pension.

A member may retire if they are aged 50 or over and have 25 or more years' service. However, as the commutation limit is likely to apply in these circumstances, should they commute the pension the lump sum is restricted. This provision dates back to revoked Inland Revenue legislation.

Lump sum payments are actuarially neutral, meaning the retirement lump sum is the equivalent value of the amount of pension being commuted. The Government Actuary's Department provides the actuarially-neutral factors which are used in the calculation of lump sums. Up until 2012, factors for lump sums in the Scottish Police Pension Scheme were calculated using data solely from England and Wales, due to a lack of specific data from Scotland being available. However, more detailed and robust data on Scotland was available from 2012.

Due to increased mortality rates in Scotland amongst normal aged pensioners, Scottish factors were lower, which would consequently lead to lower lump sums. Considering the impact of pension reform and the principle of protection, Scottish Ministers decided in 2014 to implement an underpin ensuring that the higher of either the England and Wales or Scottish factors are is applied to the lump sum at retirement. This underpin was due to end on 31 March 2022.

The regulations make amendments to the existing provision for commutation in PPS to:

- Remove the limit on commutation of pension for members who are below voluntary retirement age and have less than 30 years' service but are entitled to an ordinary pension (aged 50 with 25 years' service)

- Remove the end date for the underpin to commutation factors in England and Wales, where they are higher, so that the underpin continues indefinitely

Consultation

Following discussion on the policy objectives at the Scottish Police Pension Scheme Advisory Board, a formal consultation was undertaken from 24 December 2021 to 1 February 2022. The consultation was issued to representatives of police officers, employers and relevant Scottish and UK Government departments. A summary of consultation responses can be found on the Scottish Public Pensions Agency Website.

Impact Assessments

This policy does not impose any additional costs or reduce existing costs for business, third or public sector organisations and on that basis no Business and Regulatory Impact Assessment is required for these Regulations.

An Equality Impact Assessment has been completed and will appear on the SPPA website at: www.pensions.gov.scot.

Financial Effects

The changes provided by this instrument will not have a material impact on the costs of the scheme, which is subject to quadrennial valuations that take into account the commutation provision.

Scottish Public Pensions Agency
An Agency of the Scottish Government
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