

The Changes in the Lump Sum Age Factors.

Implementation date :-

PPS 1 October 2007 – the age factors increased, so officers' who wish to commute may, if they wish, take a larger lump sum

NPPS 1 July 2008 – generally the lump sum is unchanged, however, a part of the lump sum may be given up for a larger pension

The significant changes

Factors have now increased significantly for all ages.

Men and women have the same factors.

Factors now start to decrease at 50 years of age rather than 51.

Factors decrease on a monthly basis rather than annually (although this does not necessarily mean that the lump sum will reduce over time).

The pension left in payment is unchanged unless the increase is taken as pension rather than extra lump sum.

The money used to fund the increase is from the officer's own pension entitlement.

Officers' who retire with between 25 and 30 years' service but are not yet 55, will find that the lump sums are unchanged, however, the pensions left in payment are higher.

Officers' who do not wish to commute will find the pension figures unchanged.

Further information

The age factors for both men and women have been increased and standardised. The age factor for men under 51 had been £15 per £1 commuted and women it had been £17.25; both have now increased to £19 per £1 commuted (age under 50), an increase for men of £4 and women £1.75 per pound commuted.

Up until the change, the factor was 15 for men and 17.25 for women and this was constant until the 51st birthday when men's factor dropped by 10 pence to 14.90 and women's by 15 pence to 17.05. These reduced factors applied for a year and then dropped again on the 52nd and then every subsequent birthday. Although the decrease in the factor meant that the lump sum fell immediately after a birthday, the annual salary increase meant that the lump sum would, in fact, grow again and just before the following birthday be considerably higher than at the previous birthday.

Under the new system, there is no dramatic annual drop, but a gradual decrease each month after the age of 50 as the new table of age factors states "Age in years and completed months on day pension commences". The factor of 19 applies until 50 years of age, but once 50 years and one complete month has been achieved, the factor drops to £18.98 (a drop of 2 pence per pound commuted). After 50 years and two complete months the factor reduces to 18.97 and continues to drop in a similar way each month thereafter. By the time of the 51st birthday the factor is 18.80 and at age 55 it has reduced to 18 (compared to 14.50 for men and 16.25 for women previously) and at age 60 to 16. As before the annual salary increase has a stronger influence than the decreasing age factors and therefore the overall trend is for the lump sum to increase.

If an officer leaves with between 25 and 30 years service, but has not yet reached the age of 55, the regulations state that the maximum lump sum that can be achieved is $2\frac{1}{4}$ the pension and therefore the lump sum has to remain unchanged. The increased factors, however, produce a higher pension in payment after commutation (although the increase is not as dramatic as with lump sums).

As an example, at 29 years' service a PC with CRTP would receive a pension entitlement of £23300 pa approximately and lump sum of £52425 ($2\frac{1}{4} \times 23300$). With the old factor of 15, the pension in payment would have been reduced to £19805 pa, but has now risen to about £20540 pa. This pension is not paid however, until the age of 50. If the officer retires prior to the age of 50 and has to wait until this age for the pension to come into payment, then a formula will be applied to account for depreciation in the intervening period. The pension itself will not acquire Pension Increases until the age of 55.

Frequently asked questions

What is an 'age factor' and how is the lump sum achieved?

If an age factor is given as, say 19 or 18.15 it means for every pound that is commuted (given up) from the pension, the person receives a lump sum of £19 or £18.15. Therefore, for example, if the commuted amount is £5000 and the factor is 18.15, then the lump sum is $£5000 \times 18.15$, which is £90750.

What causes the pension (and lump sum) to continue to grow when maximum pension is achieved at thirty years service?

If you look at your pay slip you will see that your annual salary is quoted, however, this figure forms only part of your salary that is used for pension purposes.

As your pension is a Final Salary scheme, this means that when you resign/retire the whole of your final year's salary is used to calculate your pension.

The exact salary earned in the last 365 days is used for the calculation and is called the Average Pensionable Pay (APP). The elements of your salary that are used to calculate your pension are Basic Salary, London Weighting and Competency Related Threshold Payments (and also temporary salary).

At any date in time that an officer leaves, let's say 21 May 08, then the calculation for the APP starts on 22 May 07 and all changes of salary during this last year are used.

In this example I will use a PC without CRTP.

In May 07, the pay rates awarded in September 06 were still extant.

In July 07 there was a London Weighting increase

In December 07 there was the salary increase of 1.9% (after the adjustment for the late awarding).

The calculation, therefore is as follows

Calculation of the APP:-	£	£	£
22.05.07 - 30.06.07 - 40 days	40/366	35040	3829.51
01.07.07 – 30.11.07 - 153 days	153/366	35091	14669.19
01.12.07 – 21.05.08 - 173 days	173/366	35916	<u>16976.69</u>
		APP=	35475.39

If the APP for 21 May is £35475.39 then the 30 year pension is 40/60 of this and gives a gross pension of £23650.26 pa.

From this amount up to one quarter (£5912.57) may be commuted (given up).

Using the new factor of 19 for an officer under 50, the lump sum is £112338.74 (£5912.57 x 19) and the reduced pension in payment is £17737.70 pa (3/4 of the gross pension).

On the other hand if the officer retires a day later, there will be one day less at last year's pay rate (39 days rather than 40) and one more day at the current pay rate (174 rather than 173).

Repeating the calculation above, but with the adjusted number of days the APP is now £35477.78 – an increase of £2.39 on the previous day.

This is not a lot but it increases the pension to £23651.85, the lump sum to £112346.30 and the pension in payment to £17738.89 pa.

If the two sets of figures are compared, on 22 May the pension before commutation has increased by £2.39, the lump sum by £7.56 and the residual pension by £1.19.

This level of increase continues every day and although this may not seem very much, it is only one day's growth, but in one month the lump sum will increase by around £225 and the residual pension £35.

The constant climbing of the APP and therefore gross pension entitlement means that it helps to balance the dropping of the age factors.

Why is the pension not affected – just the lump sum?

Let me give an example to explain. Let's say that the salary for pension purposes (i.e. APP) is £30000. The pension therefore at 30 years is £20000 pa, i.e. 40/60 (2/3) of the salary. This pension could be taken as it stood (minus tax of course), or part of it could be commuted for a lump sum. Commutation is the amount that is given up to raise the lump sum and is not, in fact, the lump sum itself. The maximum that can be commuted is one quarter. So in this case, one quarter of £20000 is £5000. To get the lump sum, the amount commuted is multiplied by an age factor. Up until the Home Secretary's announcement, the factor for a male under 51 was 15 (that meant that for every pound commuted, 15 pounds was paid as a lump sum) so the lump sum was £75000 (£5000 x 15). As another example, for a woman at 55, the factor was 16.25, therefore the lump sum was £5000 x 16.25 = £81250. The pension that was therefore paid (and again subject to tax) was £15000 pa (the £20000 pension minus the £5000 commuted). As you can see

the pension entitlement and pension paid after commutation remains the same irrespective of the age factor that is used to calculate the lump sum.

The Home Secretary has said that the factors have been increased for all ages, so in the example above, where the commuted figure is £5000, she has increased the factor from 15 for men and 17.25 for women to 19 for both, which gives £95000, but the pension in payment after commutation is still £15000 pa as the same figure of £5000 has been commuted.

As the factors are now reduced monthly, what effect does this reduction have on my lump sum?

If you look closely at the tables, you will see that between the ages of 50 and 55 there is a drop of a penny or two each month and after the age of 55 there is a slightly bigger monthly drop. As explained earlier, the APP increases slightly on a daily basis and this causes the pension and lump sum to climb proportionately as well. As time goes on, each month when the day of the birthday anniversary is passed (for instance if someone's birthday is 10th January, then the significant date each successive month is the 8th - two days before the birthday anniversary), the lump sum will drop and will be lower than the pre-birthday anniversary figure. From this lower figure, the following and each successive day, the lump sum will climb by the same daily amount as previously. After about a fortnight, the lump sum will have grown to reach parity with the pre-birthday anniversary figure and during the next fortnight, the lump will continue to grow, reaching its new maximum on 8th, prior to its next fall. However, both the overall monthly gain – and monthly drop are not dramatic and the increase in pension can often offset any loss.

Important - although the lump figures are dropping and climbing on a monthly basis after the age of 50, the pension itself is totally unaffected and increases slightly each succeeding day irrespective of age because of the increasing APP (average pensionable pay). This increasing APP, of course, is dependent on having annual pay rises.

Am I able to take the extra lump as pension instead?

Yes. If your pension is £20000, the original lump sum £75000, the new lump sum £95000 and pension in payment £15000, then if you prefer to take the £20000 which is the additional lump sum to which you are now entitled as pension instead and just take the original £75000 as the lump sum, you need to divide the 20000 by 19 (under 50), which gives £1052.63 and this is the extra pension (total of £15000 + £1052.63 = £16052.63 pa). So the lump sum will still be £75000 and the revised pension £16052.63 pa. The principle described can be used in all cases using the appropriate APP, service and age factors.

It had not been my intention to take the lump sum, so is there any change in my pension?

No as you will receive the same pension entitlement for the date on which you are leaving as you would have done prior to the Home Secretary's announcement.

Ordinary Pensions – assuming retirement on 31 August 2008

POLICE OFFICERS – No Competency Related Threshold Payment included

Constable

Average pensionable pay £ 35,711 pa

(£ 33,810 pa (part year from December 07) + £ 2,106 London Weighting)

PC	Gross Pen	Maximum Lump Sum up to 50	Residual Pension up to 50	Maximum Lump Sum 53rd birthday	Residual Pension 53rd birthday	Maximum Lump sum 55th birthday	Maximum Lump Sum 60th birthday	Residual Pension After 55
Yrs								
25	17,855	40,175	15,741	40,175	15,672	80,349	71,422	13,392
26	19,046	42,853	16,790	42,853	16,717	85,706	76,183	14,284
27	20,236	45,531	17,840	45,531	17,762	91,063	80,945	15,177
28	21,427	48,210	18,889	48,210	18,806	96,419	85,706	16,070
29	22,617	50,888	19,939	50,888	19,851	101,776	90,468	16,963
30	23,807	113,084	17,855	109,513	17,855	107,133	95,229	17,855

Sergeant

Average pensionable pay £ 39,874

(£ 37,998 pa (part year from December 07) + £ 2,106 London Weighting)

PS	Gross Pen	Maximum Lump Sum Under 50	Residual Pension Under 50	Maximum Lump Sum 53rd birthday	Residual Pension 53rd birthday	Maximum Lump sum 55th birthday	Maximum Lump Sum 60th birthday	Residual Pension After 55
Yrs								
25	19,937	44,858	17,576	44,858	17,499	89,715	79,747	14,953
26	21,266	47,848	18,748	47,848	18,665	95,696	85,064	15,949
27	22,595	50,839	19,919	50,839	19,832	101,677	90,380	16,946
28	23,924	53,829	21,091	53,829	20,999	107,659	95,696	17,943
29	25,253	56,820	22,263	56,820	22,165	113,640	101,013	18,940
30	26,582	126,266	19,937	122,279	19,937	119,621	106,329	19,937

Inspector

Average pensionable pay £ 50712

(£ 48,903 pa (part year from December 07) + £ 2,106 London Weighting)

INSP	Gross Pen	Maximum Lump Sum Under 50	Residual Pension Under 50	Maximum Lump Sum 53rd birthday	Residual Pension 53rd birthday	Maximum Lump sum 55th birthday	Maximum Lump Sum 60th birthday	Residual Pension After 55
Yrs								
25	25,356	57,051	22,353	57,051	22,255	114,102	101,424	19,017
26	27,046	60,855	23,844	60,855	23,739	121,709	108,186	20,285
27	28,737	64,658	25,334	64,658	25,223	129,316	114,947	21,553
28	30,427	68,461	26,824	68,461	26,707	136,923	121,709	22,820
29	32,118	72,265	28,314	72,265	28,190	144,530	128,471	24,088
30	33,808	160,588	25,356	155,517	25,356	152,136	135,232	25,356

Chief Inspector (promoted after April 1994)

Average pensionable pay £ 53,623

(£ 51831 pa (part year from December 07) + £ 2,106 London Weighting)

CI >94 Gross Pen	Maximum Lump Sum Under 50	Residual Pension Under 50	Maximum Lump Sum 53rd birthday	Residual Pension 53rd birthday	Maximum Lump sum 55th birthday	Maximum Lump Sum 60th birthday	Residual Pension After 55	
Yrs								
25	26,811	60,326	23,636	60,326	23,533	120,652	107,246	20,109
26	28,599	64,348	25,212	64,348	25,102	128,695	114,396	21,449
27	30,386	68,369	26,788	68,369	26,671	136,739	121,545	22,790
28	32,174	72,391	28,364	72,391	28,239	144,782	128,695	24,130
29	33,961	76,413	29,939	76,413	29,808	152,825	135,845	25,471
30	35,749	169,806	26,811	164,444	26,811	160,869	142,995	26,811

Chief Inspector (promoted before 1994)

Average pensionable pay £ 54,428

(£ 52641 pa (part year from December 07) + £ 2,106 London Weighting)

CI <94 Gross Pen	Maximum Lump Sum Under 50	Residual Pension Under 50	Maximum Lump Sum 53rd birthday	Residual Pension 53rd birthday	Maximum Lump sum 55th birthday	Maximum Lump Sum 60th birthday	Residual Pension After 55	
Yrs								
25	27,214	61,231	23,991	61,231	23,886	122,462	108,856	20,410
26	29,028	65,313	25,591	65,313	25,478	130,627	116,113	21,771
27	30,842	69,395	27,190	69,395	27,071	138,791	123,370	23,132
28	32,657	73,477	28,789	73,477	28,663	146,955	130,627	24,492
29	34,471	77,560	30,389	77,560	30,256	155,119	137,884	25,853
30	36,285	172,355	27,214	166,912	27,214	163,283	145,141	27,214

POLICE OFFICERS – Competency Related Threshold Payment included

Constable

Average pensionable pay £ 36,833

(£ 33,810 (part year from December 07) + £ 2,106 London Weighting + £1,122 CRTP)

PC Gross Pen	Maximum Lump Sum up to 50	Residual Pension up to 50	Maximum Lump Sum 53rd birthday	Residual Pension 53rd birthday	Maximum Lump sum 55th birthday	Maximum Lump Sum 60th birthday	Residual Pension After 55	
Yrs								
25	18,416	41,437	16,236	41,437	16,164	82,874	73,666	13,812
26	19,644	44,199	17,318	44,199	17,242	88,399	78,577	14,733
27	20,872	46,962	18,400	46,962	18,320	93,924	83,488	15,654
28	22,100	49,724	19,483	49,724	19,397	99,449	88,399	16,575
29	23,327	52,487	20,565	52,487	20,475	104,974	93,310	17,496
30	24,555	116,637	18,416	112,954	18,416	110,499	98,221	18,416

Sergeant

Average pensionable pay £ 40,996

(£ 37,998 (part year from December 07) + £ 2,106 London Weighting + £1,122 CRTP)

PS	Gross Pen	Maximum Lump Sum up to 50	Residual Pension up to 50	Maximum Lump Sum 53rd birthday	Residual Pension 53rd birthday	Maximum Lump sum 55th birthday	Maximum Lump Sum 60th birthday	Residual Pension After 55
Yrs								
25	20,498	46,120	18,070	46,120	17,991	92,240	81,991	15,373
26	21,864	49,195	19,275	49,195	19,191	98,389	87,457	16,398
27	23,231	52,269	20,480	52,269	20,390	104,539	92,923	17,423
28	24,597	55,344	21,684	55,344	21,589	110,688	98,389	18,448
29	25,964	58,419	22,889	58,419	22,789	116,837	103,855	19,473
30	27,330	129,819	20,498	125,720	20,498	122,987	109,321	20,498

Inspector

Average pensionable pay £ 51,834

(£ 37,998 (part year from December 07) + £ 2,106 London Weighting + £1,122 CRTP)

INSP	Gross Pen	Maximum Lump Sum up to 50	Residual Pension up to 50	Maximum Lump Sum 53rd birthday	Residual Pension 53rd birthday	Maximum Lump sum 55th birthday	Maximum Lump Sum 60th birthday	Residual Pension After 55
Yrs								
25	25,917	58,313	22,848	58,313	22,748	116,627	103,668	19,438
26	27,645	62,201	24,371	62,201	24,264	124,402	110,579	20,734
27	29,373	66,089	25,894	66,089	25,781	132,177	117,491	22,030
28	31,100	69,976	27,418	69,976	27,297	139,952	124,402	23,325
29	32,828	73,864	28,941	73,864	28,814	147,727	131,313	24,621
30	34,556	164,141	25,917	158,958	25,917	155,502	138,224	25,917

Chief Inspector (promoted after April 1994)

Average pensionable pay £ 54,745

(£ 51,831 (part year from December 07) + £ 2,106 London Weighting + £1,122 CRTP)

CI >94	Gross Pen	Maximum Lump Sum up to 50	Residual Pension up to 50	Maximum Lump Sum 53rd birthday	Residual Pension 53rd birthday	Maximum Lump sum 55th birthday	Maximum Lump Sum 60th birthday	Residual Pension After 55
Yrs								
25	27,372	61,588	24,131	61,588	24,025	123,176	109,490	20,529
26	29,197	65,694	25,740	65,694	25,627	131,388	116,789	21,898
27	31,022	69,800	27,348	69,800	27,229	139,600	124,089	23,267
28	32,847	73,906	28,957	73,906	28,830	147,811	131,388	24,635
29	34,672	78,012	30,566	78,012	30,432	156,023	138,687	26,004
30	36,497	173,359	27,372	167,885	27,372	164,235	145,987	27,372

Chief Inspector (promoted before 1994)

Average pensionable pay £ 55,550

(£ 52,641 (part year from December 07) + £ 2,106 London Weighting + £1,122 CRTP)

CI <94	Gross Pen	Maximum Lump Sum up to 50	Residual Pension up to 50	Maximum Lump Sum 53rd birthday	Residual Pension 53rd birthday	Maximum Lump sum 55th birthday	Maximum Lump Sum 60th birthday	Residual Pension After 55
Yrs								
25	27,775	62,493	24,486	62,493	24,378	124,987	111,100	20,831
26	29,627	66,660	26,118	66,660	26,004	133,319	118,506	22,220
27	31,478	70,826	27,751	70,826	27,629	141,652	125,913	23,609
28	33,330	74,992	29,383	74,992	29,254	149,984	133,319	24,997
29	35,182	79,158	31,015	79,158	30,879	158,317	140,726	26,386
30	37,033	175,908	27,775	170,353	27,775	166,649	148,133	27,775

- These tables show approximate figures for officers on top rates of pay for ages under 50 and also at ages 53, 55 and 60, retiring on ordinary pension on 31 August 2008. These figures should not be used as an indication of entitlement, but only as a guide.
- From 1 October 2007 commutation factors for both men and women were increased significantly and have been standardised, therefore removing the difference in lump sums for men and women of the same age.
- Average pensionable pay consists of basic pay plus London Weighting, currently £2,106 pa, the latest increase effective from 1 July 2007 and where applicable, the Competency Related Threshold payments (£1,122 pa), effective from 1 September 2007. Basic pay, London Weighting and Competency Related Threshold Payments have all been increased by 2.5%, however, the application date for basic pay is December 07, which in effect reduces the salary element increase to 1.9 %.
- Pensions are calculated on a daily basis, thus the figures will be different for any date of retirement other than 31 August 2008. The commutation figures are given for officers aged 50 (or under) next birthday, commuting the maximum permitted amount of pension. The age factors used to calculate the lump sums reduce every month after the age of 50, although this does not necessarily result in a reduced lump sum.
- Officers' retiring on ordinary pension with less than 30 years' service should note that the pension will not come into payment (or be commutable) until the age of 50.
- Officers' may retire on the eve of their 55th birthday, regardless of length of service and receive immediate payment of their pension with the maximum lump sum, but also, as the result of the Age Discrimination legislation which came into force on 1 October 2006, officers' can choose to remain serving until the age of 60, without seeking an extension of service and should they wish to retire in the interim, they will also receive immediate payment of their pension with maximum commutation. Officers' have to request extensions of service to continue after the age of 60. It is important to get advice on the best time to leave after the age of 55 if maximising the lump sum is important, as for officers' with certain circumstances it may not be financially advantageous to remain serving.
- For more information on ordinary, ill-health, injury, short-service and other pension matters, contact Glenda Whitley (0208 464 2322 extn 6) at the Federation office at Bromley.

COMMUTATION TABLES – men and women

Years	Age in years and completed months on day pension commences											
	0	1	2	3	4	5	6	7	8	9	10	11
49 and below	19	19	19	19	19	19	19	19	19	19	19	19
50	19	18.98	18.97	18.95	18.93	18.92	18.9	18.88	18.87	18.85	18.83	18.82
51	18.8	18.78	18.77	18.75	18.73	18.72	18.7	18.68	18.67	18.65	18.63	18.62
52	18.6	18.58	18.57	18.55	18.53	18.52	18.5	18.48	18.47	18.45	18.43	18.42
53	18.4	18.38	18.37	18.35	18.33	18.32	18.3	18.28	18.27	18.25	18.23	18.22
54	18.2	18.18	18.17	18.15	18.13	18.12	18.1	18.08	18.07	18.05	18.03	18.02
55	18	17.97	17.93	17.9	17.87	17.83	17.8	17.77	17.73	17.7	17.67	17.63
56	17.6	17.57	17.53	17.5	17.47	17.43	17.4	17.37	17.33	17.3	17.27	17.23
57	17.2	17.17	17.13	17.1	17.07	17.03	17	16.97	16.93	16.9	16.87	16.83
58	16.8	16.77	16.73	16.7	16.67	16.63	16.6	16.57	16.53	16.5	16.47	16.43
59	16.4	16.37	16.33	16.3	16.27	16.23	16.2	16.17	16.13	16.1	16.07	16.03
60	16	15.97	15.93	15.9	15.87	15.83	15.8	15.77	15.73	15.7	15.67	15.63
61	15.6	15.57	15.53	15.5	15.47	15.43	15.4	15.37	15.33	15.3	15.27	15.23
62	15.2	15.17	15.13	15.1	15.07	15.03	15	14.97	14.93	14.9	14.87	14.83
63	14.8	14.77	14.73	14.7	14.67	14.63	14.6	14.57	14.53	14.5	14.47	14.43
64	14.4	14.37	14.33	14.3	14.27	14.23	14.2	14.17	14.13	14.1	14.07	14.03
65	14											

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