



Police & Fire – Commutation Factor Review

Administrator Q&A

Purpose of this note

This note provides some questions and answers to assist Police and Fire scheme managers and their administrators in responding to member queries regarding the change to commutation factor in May 2026. This note relates to commutation factors used when members exchange part of their pension for a lump sum in certain Police Pension Schemes¹ and Firefighters' Pension Schemes².

This note applies only to schemes where commutation factors are reviewed and can change over time: it does not apply to the 2006 and 2015 schemes.

The question and answers are grouped as follows:

- What are commutation factors?
- How did commutation factors change in May 2026?
- What caused commutation factors to change in May 2026?
- Questions about timing and implementation
- Questions about benefits illustrations provided previously
- Who has responsibility in relation to commutation factors?

This note has been prepared by GAD at the request of the responsible authorities of the Police and Firefighters' Pension Schemes.

This note has been prepared for the use of the responsible authorities, scheme managers and scheme administrators of the Police and Firefighters' Pension Schemes. No person or third party is entitled to place any reliance on the contents of this note, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this note.

¹ Police Pension Scheme 1987 in England & Wales and Scotland, and Police Pension Scheme 1988 in Northern Ireland

² Firefighters' Pension Scheme 1992 in England, Wales and Scotland and the Firefighters' Pension Scheme 2007 Northern Ireland



GAD are not lawyers and our advice does not constitute legal advice. Advice in this area should be sought from an appropriately qualified person or source.

Michael Scanlon FIA C.Act
21 May 2026

1. What are commutation factors?

In the Police 1987 scheme / the Firefighters' 1992 scheme, members may choose to give up part of their pension in exchange for a lump sum. The commutation factor determines how much lump sum is provided in exchange for the pension given up.

Worked example (illustrative)

A commutation factor converts pension given up into a one-off lump sum at retirement.

For example, if the commutation factor is 20, giving up £1 a year of pension provides a £20 lump sum.

A member with a £10,000 a year pension at retirement giving up £1,000 a year of pension would provide a £20,000 lump sum and the pension would reduce to £9,000 a year at retirement.

The commutation factors are set so that, on average, the lump sum paid is expected to be equal to the cost of the pension given up, using actuarial assumptions.

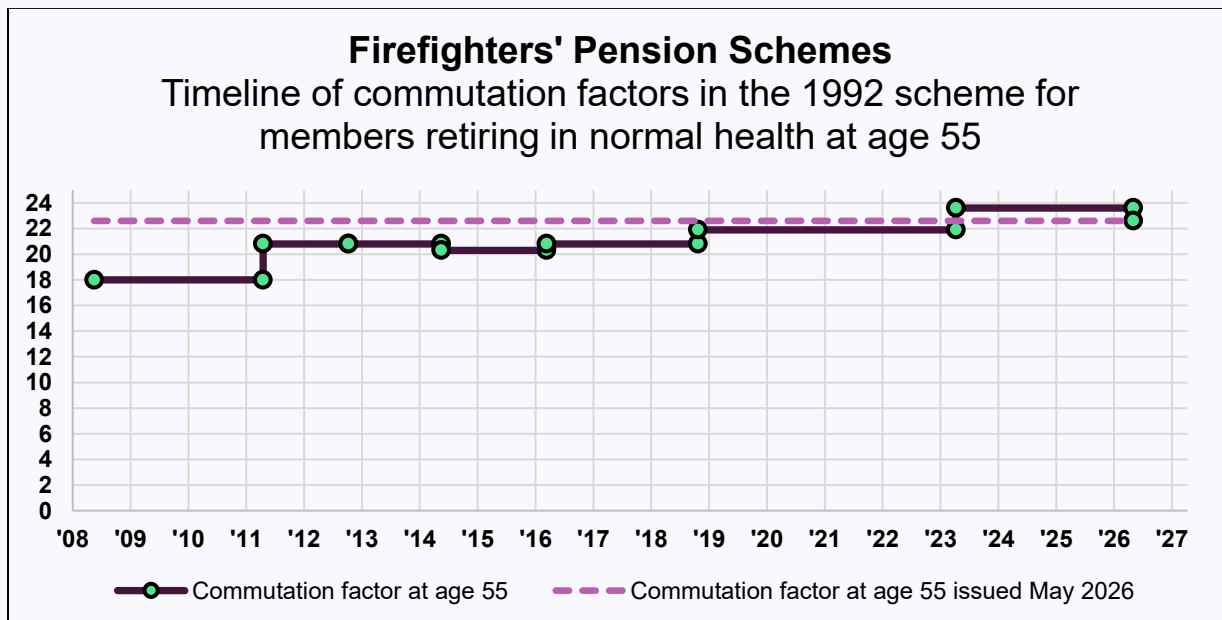
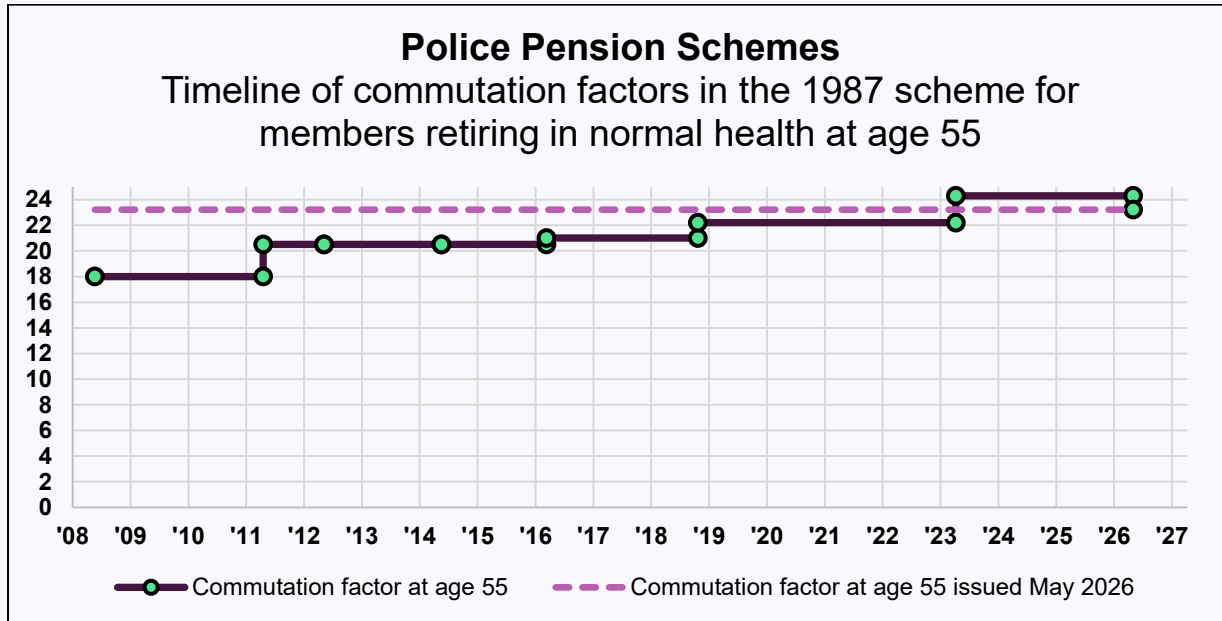
Commutation factors are kept under review to ensure they remain appropriate and meet the principle of actuarial equivalence set out in scheme regulations. Changes to mortality rates or discount rates, for example, can lead to changes in the commutation factors.

Factors vary by age. Older retirees typically receive a lower factor because the pension they have given up is expected to be paid for fewer years.

2. How did commutation factors change in May 2026?

Commutation factors reduced in May 2026, which means that members will receive a smaller lump sum in exchange for the pension given up.

However, the current commutation factors are higher than the factors which applied before 3 April 2023. The charts below show the commutation factor at age 55 for the Police Pension Schemes and the Firefighters' Pension Schemes have changed since 2008. There are broadly similar patterns across other ages.



3. What caused commutation factors to change?

On 19 May 2026, HM Treasury announced³ that the “SCAPE discount rate” to be used as part of the ongoing 2024 valuation will be increased from CPI + 1.7% p.a. to CPI + 2.0% p.a. This will lead to lower employer contribution rates. As the commutation factors reflect the cost to the employer of the pension given up in exchange for a lump sum, the commutation factors have also reduced.

The SCAPE discount rate is based on the expected long-term GDP growth figures, published by the OBR in July 2025. The OBR expects GDP to grow more quickly than previously (i.e. growth of 2.0% above CPI inflation each year, compared with 1.7% above CPI inflation previously). As GDP is expected to grow faster, future pension payments are expected to be more affordable relative to the size of the economy, so the assessed cost of providing the pension is lower. That reduces the lump sum offered for giving up the same amount of pension (i.e. lower commutation factors).

The commutation factors also reflect updated mortality assumptions and the passage of time, but these changes have a much smaller impact than the change in the SCAPE discount rate.

At the previous review of commutation factors in April 2023, OBR’s expected long-term GDP growth figures had decreased (to CPI + 1.7% p.a., compared with CPI + 2.4% previously), and this led to increased employer contribution rates and increased commutation factors.

³ [Written statements - Written questions, answers and statements - UK Parliament](#)

4. Questions about timing

Why did the commutation factors change now?

On 19 May 2026, HM Treasury announced a change to the “SCAPE discount rate”.

As a result of this change, the Government Actuary’s Department carried out a review of the commutation factors and issued a revised table of commutation factors on 21 May 2026.

The revised factors come into force immediately.

Why do the revised factors come into force immediately?

The scheme regulations require the lump sum to be the actuarial equivalent of the pension given up at the date of retirement, calculated from tables prepared by the Scheme actuary.

The Government Actuary’s Department reviews the commutation factors as and when they judge necessary to maintain the actuarial equivalence required under the regulations. The revised commutation factors issued on 21 May 2026 ensure that the lump sum to be paid are the actuarial equivalent of the pension given up at the date of his retirement.

The previous tables issued on 3 April 2023 will no longer provide actuarial equivalence, because of the changes since April 2023 (in particular, the change to the SCAPE discount rate announced on 19 May 2026).

In March 2009, the High Court found that the commutation factors come into effect on the date when they are prepared⁴.

Is this consistent with the previous review, in 2023?

Yes. The timeline in 2023 was as follows:

- Thursday 30 March 2023: HM Treasury announced a reduction of the SCAPE discount rate from 2.4% p.a. above CPI to 1.7% p.a. above CPI
- Monday 3 April 2023: The Government Actuary’s Department issues updated commutation factors
- The revised commutation factors had immediate effect

⁴ [Police Federation of England and Wales & Ors, R \(on the application of\) v The Secretary for the Home Department & Anor \[2009\] EWHC 488 \(Admin\) \(17 March 2009\) paragraph 126.](#)

5. Questions about benefit illustrations

I used the retirement calculator before 21 May 2026 to obtain an illustration of my retirement benefits. Why is the commutation factor used to calculate my lump sum different to the one used in that calculator?

As noted in the calculator:

“This calculator uses the commutation factors currently in effect. However, commutation factors are reviewed periodically and the amount of cash lump sum available at your actual retirement will depend on the commutation factors in effect at that time.”

I received a retirement quotation / Annual Benefit Statement / Remediable Service Statement before 21 May 2026. Why is the commutation factor used to calculate my lump sum different to the one used in that document?

Administrators are best placed to comment on retirement quotations / Annual Benefit Statements / Remediable Service Statements.

6. Who has responsibility in relation to commutation factors?

- HM Treasury: sets the SCAPE discount rate using a published methodology.
- Responsible authorities [Home Office / Ministry of Housing, Communities and Local Government / the Welsh Ministers / the Scottish Ministers / the Department of Justice (Northern Ireland) / the Department of Health, Social Services and Public Safety (Northern Ireland)]: responsible for scheme regulations, which require that the lump sum is the actuarial equivalent of the pension given up
- The Government Actuary's Department (as Scheme Actuary): required by the regulations to set commutation factors
- Scheme managers / administrators: lead member communications and implement updated factors once issued.