

From: <redacted>
Sent: 31 March 2011 10:45
To: <redacted>
Cc: <redacted>
Subject: Commutation factors

<redacted>

Following the announcement of the new SCAPE discount rate, we are currently reviewing the commutation factors for the PPS. This email sets out our intentions for that review.

We intend to update the factors to allow for:

- the change in the discount rate
- new information affecting other assumptions:
 - baseline mortality reflecting the recent experience of the scheme, as analysed for the 2008 valuation
 - future mortality improvements in line with the ONS 2008-based population projections, as agreed for the 2008 valuation
 - the split between men and women of those likely to retire in the next few years
 - the split between normal and ill-health retirements of those likely to retire in the next few years

We do not intend to undertake a review of the methodology used in calculating the factors. In particular we will continue to assess 'actuarial equivalence' under regulation B7(7) of the PPS regs as the cost to the scheme of providing the pension under the financial assumptions used for the valuation (ie the SCAPE discount rate). One consequence of this approach is that, in broad terms, the cost of the scheme to employers should not be affected by the take up of the option.

We intend to provide factors in the same format as the existing factors. That is, they will depend on age but not sex or health status at retirement.

We will provide these factors as soon as possible to allow for early implementation. This should minimise any backdating necessary. We will then need to work on the legal issues surrounding whether the new factors need to be backdated to the budget announcement of the new SCAPE rate.

We will not initially provide the additional factors for deferred members retiring before age 55 as there are outstanding legal issues surrounding these cases. I will write separately on this.

Please could you confirm that you are happy with how we intend to conduct this review? If not then please call me to discuss.

Regards

<redacted>