



**RISK ALERT**  
**Commutation Factors**

**KEY MESSAGE**  
Commutation Factors should be kept under regular review. When this does not happen, factors typically appear unlikely to offer fair value for members.

**What are Risk Alerts?**

A series of email alerts drawing members' attention to specific issues where the IFoA asks members to think carefully about the consequences of actions they are taking.

The information in the Risk Alert is non mandatory guidance which we publish to protect the public interest.

**This Alert is relevant for the following members**

Actuaries advising Trustees of Defined Benefit (DB) Schemes; and  
Actuaries advising sponsors of DB schemes.

**Subject matter**

This Risk Alert recognises that responsibility for setting commutation factors may lie with different stakeholders in a pension scheme. Members may find the 2006 publication from the profession's [Member Options Working Party](#) provides helpful information on this topic.

In general, an actuary's advice to the client has always included discussion of, or recommendations for, appropriate commutation factors. The continuing improvements in longevity and falls in yields over the last decade have emphasised the importance to trustees, sponsors and particularly members of keeping commutation factors current.

Typically, it is the Scheme Actuary who advises on factors, but this is not always the case. The note is therefore relevant for all actuaries who have a role in providing advice to the decision maker on factors.

## Considerations for actuaries

1. Consider the frequency of providing advice about commutation factors. Actuaries should be aware of trends in market conditions that could affect commutation factors.
2. Consider the timing of advice about commutation factors. For example, where the Technical Provisions include an allowance for commutation that is based on current factors Scheme Actuaries should consider including commutation factor advice as part of their initial funding valuation advice, rather than defer advice until after the conclusion of the valuation.
3. Communicate clearly to the client the consequences of changing, or retaining, commutation factors.
4. Consider the consistency of commutation factors with Cash Equivalent Transfer Values, particularly for members close to retirement age.
5. Record advice provided, particularly if the client decides to use alternative commutation factors.
6. Consider the impact of the Pensions Technical Actuarial Standard when providing advice on commutation factors.

### Further support

Actuaries who have specific professional questions or concerns should contact the [Professional Support Service](#).



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