Firefighters' Pensions England
Scheme Advisory Board

Local Government Association

Information

Authority Initiated Early Retirement (AIER)

Introduction

This factsheet has been prepared to give guidance to FRAs on Authority Initiated Early Retirement.

What is it?

The discretion to grant an Authority Initiated Early Retirement (AIER) was first introduced in the Firefighters' Pension Scheme 2006[1] (FPS2006). This ability is also reflected in the Firefighters' Pension Scheme 2015[2] (FPS2015) under the title employer initiated retirement.

The regulations give the employer the ability to award a pension to a firefighter member who is over the age of 55 but under normal retirement age[3] paid without the appropriate early retirement[4] reductions.

In both regulations an employer may only award an early retirement pension payable without reductions where that employer determines that a retirement pension awarded on that basis would assist the economical, effective and efficient management of its functions having taken account of the costs likely to be incurred in the particular case.

How does it work?

If an employer determines that an award under AIER or employer initiated retirement is due, that employer has to pay the difference between the reduced and unreduced post-commutation pension into the FPS notional pension fund for each year the pension is in payment.

Example for an FPS2006 member

Age retirement at 55, on 26 August 2016. For a member who has been in the 2006 scheme since 6 April 2006.

[1] Part 3, Paragraph 6 - http://www.legislation.gov.uk/uksi/2006/3432/schedule/1/part/3/paragraph/6/made
[2] Regulation 62 http://www.legislation.gov.uk/uksi/2014/2848/regulation/62/made
[3] Normal Retirement Age for FPS2006 & FPS2015 is 60
[4] GAD Guidance on early retirement - http://www.fpsregs.org/index.php/gad-guidance/early-retirement

Salary	£35,104
Length of service in 2006 scheme	10 years 142 days
Early retirement factor applied at age 55	0.597

	Reduced Pension	**Unreduced Pension**
Unreduced pension before lump sum	10 years 142 days ÷ 60 x £35,104 = £6078.28	10 years 142 days ÷ 60 x £35,104 = £6078.28
Reduced pension payable at age 55	6,078.28 * 0.597 = £3,628.73 pa	£6078.28
Pension after commutation	3628.73 * 0.75 = £2721.55	£6078.28 * 0.75 = £4558.71
Total annual difference between unreduced and reduced pension (£4558.71 - £2721.55 = **£1,837.16**		

How much does it cost?

As per the FPS2006 regulations [Part 13, Rule 2, Paragraph 10], the cost is the annual cost of the difference between the reduced pension and the unreduced pension, and has to be paid into the pension fund by the Authority from its revenue account. This payment continues until the death of the pensioner.

(10) Where a pension is paid under rule 6 of Part 3 (Authority-initiated early retirement), an amount equal to the difference between the amount of the pension paid and the amount that would have been paid had a pension been payable from the same date under rule 5 of that Part (member-initiated early retirement), shall be transferred to the FPF from any other fund maintained by the authority.

In year 1 the calculation is a simple calculation of the difference calculated at retirement.

In year 2 the FRA would have to repeat the calculation but, as the two pension figures for comparison would both have increased by CPI, the net payment due from the Authority's revenue accounts into the pension fund would also uplift by CPI.

Therefore **the actual cash amount the FRA will have to pay out** is the difference between the pensions as adjusted upward for inflation in each year, for the full lifetime of the pensioner.

The 'cash cost' of this to Authorities in assessing the cost element of any request for an AIER would be based on actuarially calculated life expectancy from age 55, which is currently advised by GAD to be 33.5 years. In the example above, the cash cost in real terms would be **£61544.88** (this being the total of £1837.16 being multiplied 33.5 years).

Home Office Cost Model

The Home Office (formerly DCLG) have previously presented their view that this cost should be calculated on a net present value (NPV) calculation**.** Net present value is a calculation that turns the anticipated full cash outgoings over the expected life of the firefighter into a present value cash sum by significantly discounting the monies.

The uses of NPVs for options appraisal are set out in the Green Book which is HMT guidance to public bodies to appraise the costs of policies, programmes, or action.

The Home Office have previously provided that in their view the current pension commutation[5] factors for FPS1992 comply with the green book discounting guidance, are age related, actuarially neutral, and take into account life expectancy and the discounting effect of money, therefore, creating a net present value.

This factsheet has been prepared by LGA to give some guidance on the rules of the pension scheme using the regulations as they stand at April 2019, however they should be used only as an informal view of the interpretation of the firefighters' pension scheme as only a court can provide a definitive interpretation of legislation. This factsheet should not be interpreted as legal advice

Please address any queries on the content of this factsheet to
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[5] http://www.fpsregs.org/index.php/gad-guidance/commutation