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# Firefighters' Pension Scheme 2015

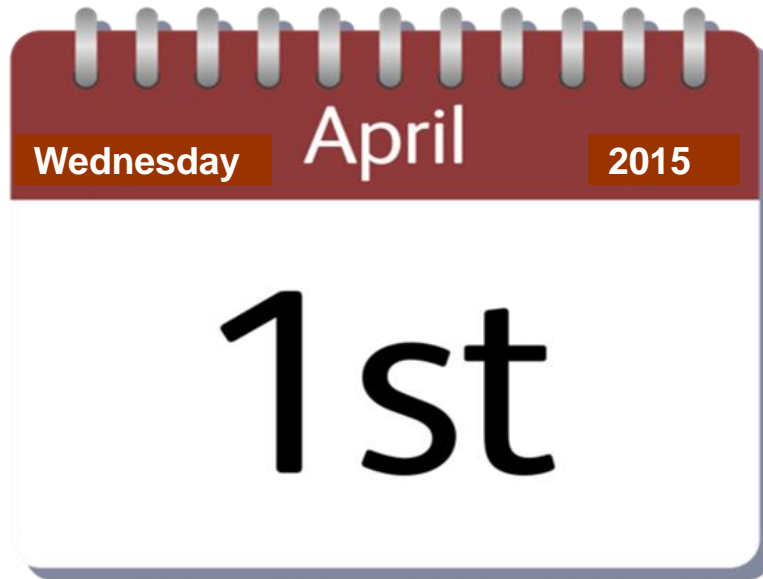
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# Introduction



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# What will we look at today?

- Background
- Look at the 2015 Scheme
  - The facts (and the fiction!)
  - What is changing
  - What remains the same
- How you may be affected
- Protections



# Scheme naming structure

- Fire 'Old' Scheme
    - 1992 Scheme or FPS 1992
  - Fire 'New' Scheme (NFPS)
    - 2006 Scheme or FPS 2006
  - Fire 2015 Scheme
    - 2015 Scheme or FPS 2015
  - Modified 2006 Scheme
-

# Why is my scheme changing?

- Hutton report published March 2011
  - People living longer
  - Increasing cost of pension provision
  - Recommendations for public sector pension reform:
    - Affordable
    - Sustainable
    - Fair
  - As a result, all public service schemes are being or have already been reformed.
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# Membership categories

1. Fully Protected – Stay in current Scheme
  2. Tapered – Some protection – don't start accruing 'CARE' until a date determined by a tapered table
  3. No Protection – Benefits accrue in 2015 scheme from 1<sup>st</sup> April
  4. Modified 2006 Scheme
-

# What type of scheme is FPS 2015?

- Occupational
- Un-Funded
- Defined benefit
  - Benefits set out in law
- One of several Public Service pension schemes



## The Facts – What's new?

- Change from 'Final Salary' to 'Career Average'
  - New 'Accrual' rate  $1/59.7^{\text{th}}$
  - Individual Pension Accounts
  - New 'Normal Pension Age' (for 1992 members) – 60
  - Partial retirement of 2015 benefits from age 55
  - Deferred Pension Age equal to State Pension Age (with a minimum of age 65)
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# The Facts – What's not changing?

- Guaranteed defined benefit scheme
  - Tax free contributions
  - Option to take tax free cash lump sum
  - Index-linked pensions
  - Built in Ill-health benefits / life cover
  - Pension for dependents
  - Employer pays contributions
  - Still great value for money
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# FPS 2015 summary

- Pension based on 1/59.7<sup>th</sup> of pay.
  - Normal Pension Age (NPA) of age 60.
  - Individual CARE Pension Account.
  - Active pension account revalued in line with Average Weekly Earnings (AWE) index.
  - Deferred and pensioner benefits revalued in line with Consumer Price Index (CPI).
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## FPS 2015 continued...

- Can buy Added Pension.
  - Partial retirement (of 2015 scheme benefits) possible from age 55.
  - Employer initiated early retirement.
  - Commute pension to lump sum at rate of 12:1.
  - Ill Health cover.
  - Death in service benefits.
  - Family/Dependants benefits.
-

# How does CARE work?

- Each year the member builds up a slice of pension ( $1/59.7^{\text{th}}$ ) based on their salary in that year
- Each slice is increased in line with the revaluation rate until retirement
- At retirement, the slices built up each year are added together to calculate the total pension
- Early retirement reductions applied if benefits are taken before age 60



## Example: CARE Pension (Year 1)

- Pension = 1/59.7th of your pay
- Earnings = £25,000

$$\text{£}25,000 \div 59.7 = \text{£}418.76$$



- **£418.76** added to account on 31 March.
  - **Plus** uprate by AWE index e.g. = 2.5%  
£10.47 (i.e. 1.025 of £418.76), added in April
  - **£429.23 total pension earned in Year 1**
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## Example: CARE Pension (Year 2)

- Opening balance **£429.23**
  - Year 2 accrued pension  
**£25,500 ÷ 59.7 = £427.14**
  - Net pension  
**£427.14 + £429.23 = £856.37**
  - Closing Balance, Year 2  
**£856.37 x 1.025 = £877.77**
-

# New Contribution Rates

- 4 contribution rates / pay bands
- Retained / Volunteer firefighter, contribution based on reference pay
- Part time firefighters' contribution based on whole time equivalent pay
- Calculated as at 1 April, adjusted mid year on material change



# Contribution Rates

Salary bands	FPS 1992	FPS 2006	FPS 2015
Up to £15,150	11%	8.5%	<b>10%</b>
£15,150 to £21,210	12.2%	9.4%	<b>10%</b>
£21,210 to £27,000	14.2%	10.4%	<b>10%</b>
£27,000 to £30,300	14.2%	10.4%	12.2%
£30,300 to £40,400	14.7%	10.9%	12.2%
£40,400 to £50,000	15.2%	11.2%	12.2%
£50,000 to £50,500	15.5%	11.3%	<b>13.5%</b>
£50,500 to £60,600	15.5%	11.3%	<b>13.5%</b>
£60,600 to £101,000	16%	11.7%	<b>13.5%</b>
£101,000 to £121,200	16.5%	12.1%	<b>13.5%</b>
£121,200 to £142,500	17%	12.5%	<b>13.5%</b>
Over £142,500	17%	12.5%	14.5%



# Changes to Pensionable Pay

- Pay for temporary promotion will not be pensionable under the 2015 scheme
  - Such pay is currently pensionable and provides a discretionary APB benefit
  - If this change will affect you, please speak to your FRA
-

# Assumed Pensionable Pay (APP)

## Any loss/reduction of pay due to:

- Sickness / Injury
- Paid (contractual) Maternity / Adoption / Parental Leave
- Authorised absence, < 5 years, where scheme manager has agreed to the inclusion of APP
- Reserve Forces special leave differs

**APP equivalent to expected normal pay**

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# Assumed Pensionable Pay (APP)

## For any unpaid periods of:

- Sickness / Injury,
- Maternity / Adoption / Parental Leave,
- Trade Dispute

## Member can elect to pay contributions

- Reserve Forces special leave differs
-

# Assumed Pensionable Pay (APP)

**For retained or volunteer firefighters:**

- Average pay received in last 365 days of service will be used.



# Added Pension Contributions

- Additional pension can be purchased under the 2015 scheme in line with GAD guidance (as yet unavailable).
  - Scheme members with existing pre 2015 contracts will continue with that contract.
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# How do the changes affect you?

## There are 4 membership categories

1. Fully Protected – Stay in current Scheme.
  2. Tapered – Some protection – don't start accruing 'CARE' until a date determined by a tapered table.
  3. No Protection – Benefits accrue in 2015 scheme from 1<sup>st</sup> April.
  4. Modified 2006 Scheme.
-

## Group 1 – Fully Protected

Within 10 years of current Normal Pension Age (NPA) as at 1<sup>st</sup> April 2012

- FPS 1992 members aged 45 or over as at 1<sup>st</sup> April 2012.
- FPS 2006 members aged 50 or more on 1<sup>st</sup> April 2012.

**Remain in current scheme – No change!**

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## Group 2 – Tapered Protection

- FPS 1992 members between 41 and 45 on 1<sup>st</sup> April 2012.
  - FPS 2006 members between 46 and 50 on 1<sup>st</sup> April 2012.
  - Phased move to the FPS 2015
  - Taper date depends on age.
-



# Taper Dates (Example 1992)

Date of birth from	Date of birth to	Date of end of protection
02.09.1970	01.10.1970	05.04.2016
02.10.1970	01.11.1970	13.02.2016
02.11.1970	01.12.1970	20.12.2015
02.12.1970	01.01.1971	29.10.2015
02.01.1971	01.02.1971	05.09.2015
02.02.1971	01.03.1971	12.07.2015
02.03.1971	01.04.1971	24.05.2015

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# Taper Dates (Example 2006)

Date of birth from	Date of birth to	Date of end of protection
02.09.1965	01.10.1965	05.04.2016
02.10.1965	01.11.1965	13.02.2016
02.11.1965	01.12.1965	20.12.2015
02.12.1965	01.01.1966	29.10.2015
02.01.1966	01.02.1966	05.09.2015
02.02.1966	01.03.1966	12.07.2015
02.03.1966	01.04.1966	24.05.2015

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## **Group 3 – No protection**

- All other members will move to the 2015 Scheme from 1st April 2015.
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## **Group 4 - Modified 2006 Scheme**

- The Modified Scheme is for retained members with service between July 2000 and March 2006.
  - Modified Scheme subject to same reforms.
  - Those not protected will move to 2015 scheme from April 2015 or taper date.
  - Normal Retirement Age of 55, therefore these special members in the 2006 scheme will have protections on the 1992 scheme basis.
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## What about the benefits accrued pre 1 April 2015? (or pre taper date)

- The pension that you have built up before you transfer to the 2015 scheme is fully protected and will be calculated on your **final salary** at retirement (if you stay in the 2015 scheme)
  - This will be paid in addition to the benefits earned under the 2015 scheme.
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# Your retirement benefits

## Includes:

- New CARE Scheme pension
- Previous Final Salary pension
- Any transferred in membership
- Any commuted lump sum



# When can I retire?

- Normal Pension Age (NPA) – 60.
  - Age 60+ you can immediately take 2015 benefits.
  - Retiring before NPA – 2015 benefits will be reduced.
  - Benefits accrued in 1992 & 2006 schemes **retain existing NPA** for benefits accrued under those schemes.
  - If you meet current scheme eligibility to retire, you can receive existing scheme benefits.
-

# Partial Retirement

- 2015 scheme allows members to take pension at age 55 without actually leaving their employment;
    - a reduction will apply,
    - could continue to build up more pension.
  - But, the 1992 and 2006 schemes require a member to fully retire in order to access benefits.
-



# Employer Initiated Retirement

- Where an active member, age 55 or over, but has not attained normal pension age;
    - is dismissed,
    - or terminated by mutual consent, on grounds of business efficiency.
  - Pension can be paid without early payment reduction.
-

# Double Accrual Guarantee

- Recognises the expectation to double accrual for members in the 'old' 1992 Fire scheme.
  - The formula  $(A \div 60) \times (B \div C) \times FS$
  - Pro Rata's the expected accrual
-

# Options for Lump Sum

- Options same in 2015 Scheme as in 2006 Scheme.
  - Optional lump sum at retirement.
  - Up to 25% of pension can be commuted.
  - Subject to HMRC limits
  - £12 for every £1 commuted.
- 



# Lump Sum Options - 1992 Scheme

- Can commute  $\frac{1}{4}$  of pension into lump sum.
- Pension converted using age related commutation factors.

**Or**

- Lump sum to not exceed  $2\frac{1}{4}$  x pension (for those members with 25 years service after age 50)
-

# 1992 Transitional Members - Lump Sum Options

- 1992 portion of benefits is commuted in line with 1992 scheme rules
  - And
  - 2015 portion of benefits is commuted at 12:1 ratio
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# Tax Charges on Lump Sums

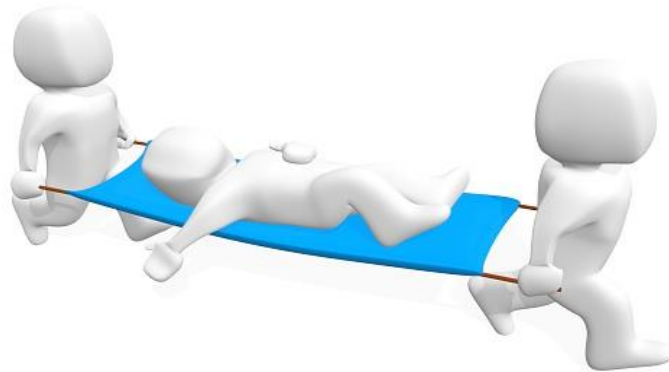
- Commutation factors introduced for members retiring after 20 April 2011, brought about potential tax charges for members with a commutation factor higher than 20:1.
  - This commutation factor meant the value of the commuted lump sum exceeded the maximum permitted by HMRC (currently set at 25% of total value of vested benefits).
  - Lump sums subject to a 40% tax charge for the element of lump sum in excess of the 25% limit.
-

# Deferred Benefits

- Benefits deferred if member leaves before entitlement to immediate payment.
  - Normal Pension Age is individual's State Pension Age (minimum of age 65.)
  - Can be taken early from age 55 with reduction.
  - Can be paid on Ill Health grounds.
-

## III Health Retirement

- No change to fitness or capability tests / regimes.
  - A matter for employers
- On-going discussions nationally in regard to how to manage fitness/medical incapability.





## III Health Retirement - Protection

- Protected members will continue to have full provisions for ill health as per the scheme they are a member of at 31<sup>st</sup> March 2015, i.e 1992 or 2006 schemes.
  - Tapered members will be subject to ill health rules of the scheme they were a member of at the 31<sup>st</sup> March 2015 **up until** their tapered protection date.
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# Ill Health Retirement - Enhancement

## Lower tier ill health

- Immediate pension calculated as for ordinary retirement without addition to pensionable service, or reduction for early payment.

## Higher tier ill health

- Enhancement based on lower tier ill health pension x service to NPA x 2%.
-

## III Health Retirement – Other

- Members who;
    - Do not have protection, or
    - Protection has expired, or
    - Previous membership of the 1992 or 2006 Scheme without transitional protection due to > 5 year gap in membership.
  - Will have ill health upper tier enhancement calculated in accordance with the 2015 Scheme.
  - Accrued benefits in their previous scheme will form part of the lower tier pension.
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# Death Benefits

## Death in Service lump sum

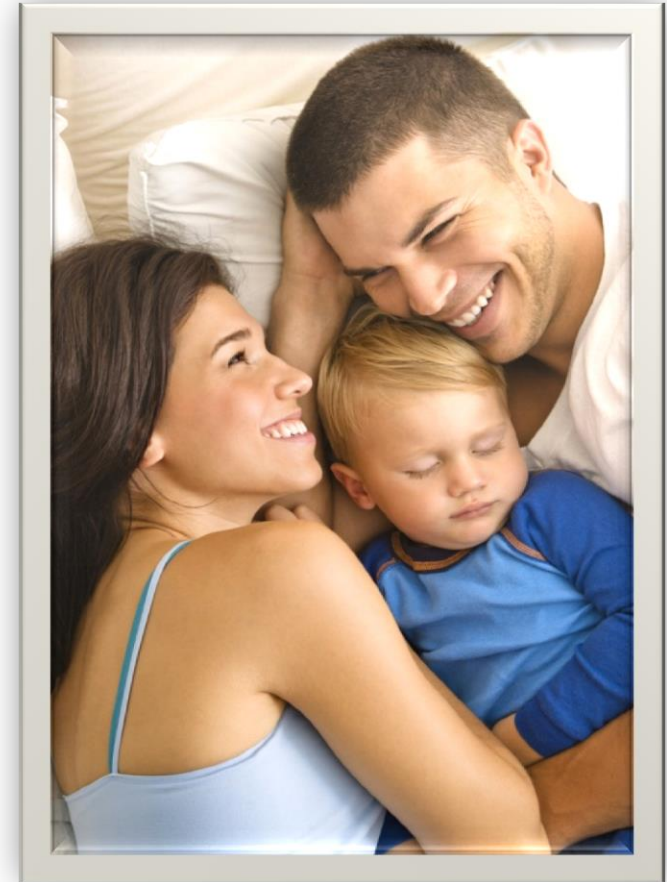
- 3 x FINAL PAY

## Death on pension

- 5 years \* pension LESS pension already paid
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# Pensions for Survivors

- Spouse
- Civil Partner
- Co-habiting partner
  - Conditions apply
- Wide age disparity clause
- Children's pension
  - For any eligible children



# Allocation

- An active member or deferred member may elect to allocate up to a third of the amount of annual pension (other than an ill health award) to a beneficiary.
  - The beneficiary must be a spouse, civil partner, or cohabiting partner.
  - The member must give the scheme manager written notice of an election.
-

# Cost Cap

- Scheme designed within cost parameters.
  - 2% above or below may result in scheme changes.
  - Normal Pension Age subject to regular review.
  - Valuation in future years will be done to assess if costs as expected.
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# Transfers to Money Purchase

- From 6th April 2015 no transfers will be allowed from unfunded public service schemes into defined contribution arrangements.
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# Disclaimer

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  - The information is subject to change due to various factors including, but not limited to, changes to rules and regulations introduced by the Government Actuary's Department, HMRC and/or the Department for Communities and Local Government. Changes can happen at short notice and may be implemented prior to the Council issuing any future revised documentation.
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# Questions?

