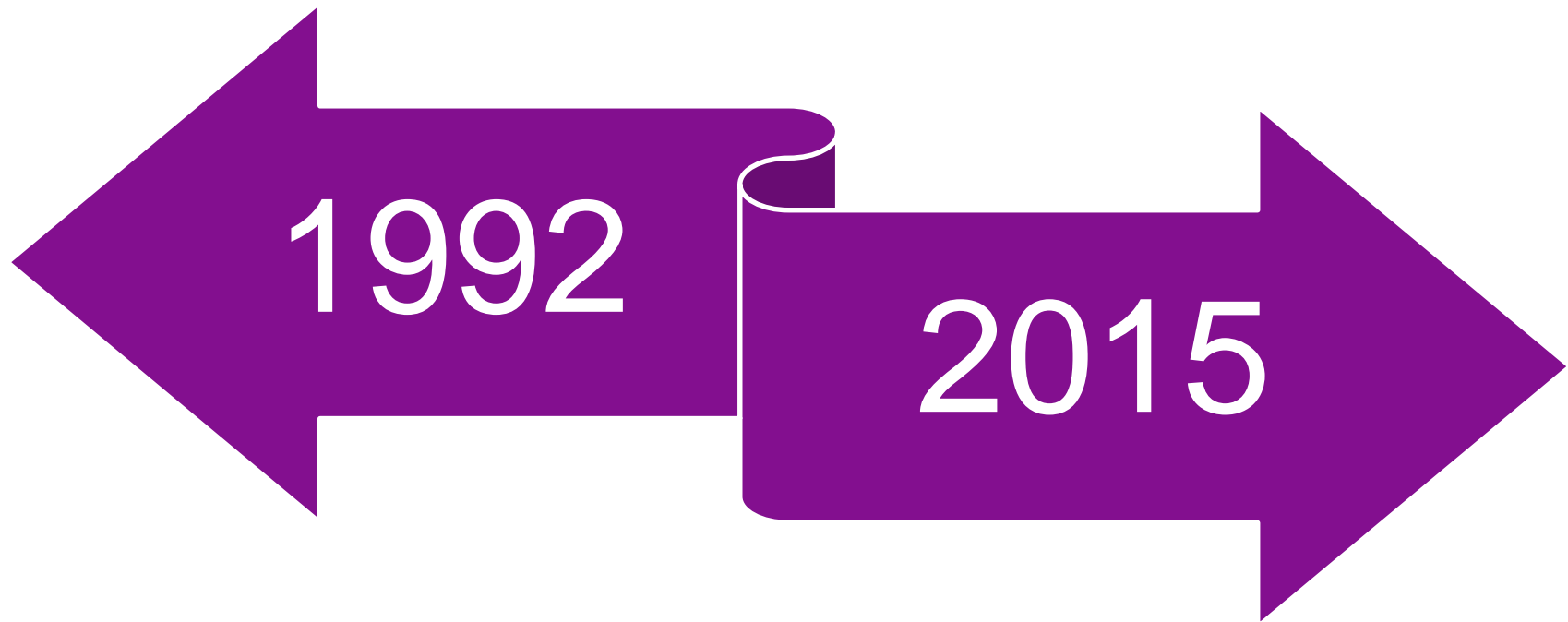


# Transitional Calculations

## Fire Conference 2019: Workshop

# Transition Members



# Introduction

- These slides have been provided to give guidance as to the interpretation of the 1992 regulations and the 2015 regulations for the calculation of 1992 benefits for a member who has benefits built up in the 1992 scheme before transferring to the 2015 scheme.
  - Please note that it is the responsibility of each FRA to apply the rules of the pension scheme in accordance with their interpretation of the scheme and to obtain legal advice where they consider this is necessary.
-

## The transitional protections challenge

- Is it a proportionate means to achieving a legitimate aim?

	ET		ETA		Appeals		
	Judges	Fire	Fire	Judges	Fire	Judges	
Legitimate aim	No	Yes	Yes	No	No	No	
Proportionate means	No	Yes	Needs to be re-tested under UK law	No	No	No	

Appeals Denied

- The case is on the transitional provisions of the 2015 scheme.
  - It is these provisions that allowed certain members by virtue of age to have benefits calculated under the 1992 scheme
  - The primary legislation which restricts the continuing provision of final salary schemes has not been challenged
-

## Remedy

1. How the transitional provisions should be made lawful going forward?
2. How to compensate taper protected and unprotected members who have been subject to those provisions since 1<sup>st</sup> April 2015

UNKNOWN

# Contents

- Two-pot benefits
  - Normal Retirement
  - Two Pensions
  - Deferred Pensions
- One-pot benefits
  - Ill Health
  - Death

# Double Accrual Guarantee

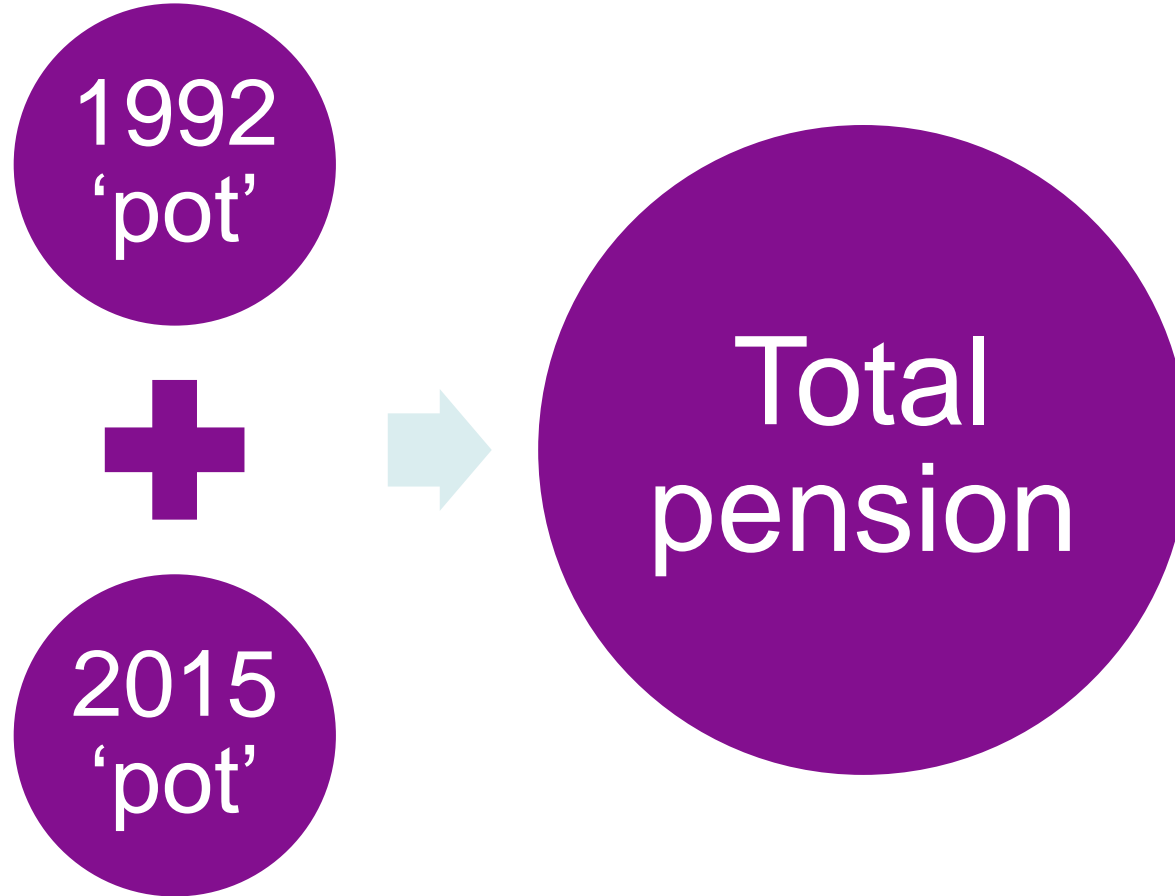
- Recognises the expectation to double accrual for members in the 'old' 1992 Fire scheme.
  - Pro Rata's the expected benefit
-



# Final Salary Link

- Means the pay used for calculation of 1992 benefits is the pay at retirement, not at date of transition.
  - Unless it's higher at any other point!!
-

# Two pot



# Two Pot

1992  
'pot'

Paid under 1992  
scheme regulations

2015  
'pot'

Paid under 2015  
scheme regulations

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## Benefits accrued pre 1 April 2015? (or pre taper date)

- The pension built up before transfer to the 2015 scheme is fully protected and is calculated on **final salary** at retirement.
  - The pension is paid in addition to the benefits earned under the 2015 scheme. (Two-Pot)
-

## Part 2A Schedule 2 – Ordinary retirement

$$(A \div 60) \times (B \div C) \times APP$$

- A = maximum 60<sup>th</sup>s member could have accrued had there been no change to the 1992 scheme.
  - B = 1992 service up to 31 March 2015, or taper date.
  - C = Calendar Years service in 1992 & 2015
  - APP = Final Pensionable Salary
-

# The member

- A firefighter who joins the scheme at 1 April 1999 has 16 years service as at 31 March 2015
  - The firefighter then builds up a further 9 years of service in the 2015 scheme to age 55.
  - Total service = 25 years
  - So if they had not been moved into the 2015 scheme, they would have had an expectation to 1992 pension calculated on 30/60ths
-

## An example...

- $(A \div 60) \times (B \div C) \times FS$

- $A = 30$

- $B = 16$  years in 1992 scheme

- $C = 25$

- $FS = \text{£}20000$



$$(30 \div 60) \times (16 \div 25) \times \text{£}20,000 = \text{£}6,400$$

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# You may be familiar with this

As published in Annex A of the Guidance for Firefighters issued by [DCLG](#)

Total continuous pensionable service upon retirement in the 1992 and 2015 scheme	Multiplier applied to earned 1992 service to recognise expectation to double accrual	Fraction that years of earned 1992 service is converted to
30	1.333	1/45th
29	1.310	1/45.789th
28	1.286	1/46.667th
27	1.259	1/47.647th
26	1.231	1/48.75th
25	1.200	1/50th
24	1.167	1/51.429th
23	1.130	1/53.077th
22	1.091	1/55th
21	1.048	1/57.273th
20 or less	1.000	1/60th



- Using this table, produces the same results as using the formula
  - $16 \text{ years} / 50 * \text{£}20,000 = \text{£}6,400$
- or
- $16 * 1.200 = 19.20/60\text{ths} * \text{£}20000 = \text{£}6,400$
-

# Your Turn

- **The member:**

- A firefighter joins the scheme on 20th June 1993
- Date of birth 15th November 1970
- Tapers into the 2015 scheme on 21st December 2015
- APP = £30,000.00



# Answer

- $(A \div 60) \times (B \div C) \times FS$

- $A = 40$

- $B = 22 \text{ years } 184 \text{ days}$

- $C = 30$

- $FS = \text{£}30000$



$$(40 \div 60) \times (22 \frac{184}{365} \div 30) \times \text{£}30,000 = \text{£}15,002.74$$

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# Ordinary retirement

- [\[A3\(7\)\]](#) of the 1992 regulations confirms a transitional member with continuity of service should be awarded a pension payable under amended [B1A].
  - [\[B1A\(1\)\]](#) confirms that where a transitional member is retiring from the scheme the pension is calculated in accordance with [Part 2A of schedule 2](#)
-

# Split Pensions

- A member has an entitlement to two pensions under [Part B, Rule B5A](#) of the 1992 regulations and is often known as a split pension.
  - We have recently published a [factsheet](#) on the entitlement to two pensions.
  - The split pension effectively pro-rata's the expected benefit, calculated on two different salaries.
  - The pension can only be split once.
-

## Part B – Rule B5A– Two Pensions

- Part 1 (Para 3)  $A \times (B \div C) \times (D \div 60)$
  - Part 2 (Para 4)  $E \times (F \div C) \times (D \div 60)$
-

## First Pension

- $A \times (B \div C) \times (D \div 60)$

Where

- A = Average pensionable pay at higher rate
  - B = Service at higher rate
  - C = Total Service in 1992 scheme
  - D = 60ths that would be used in single award
-

## Second Pension

- $E \times (F \div C) \times (D \div 60)$

Where

- C & D have the same meanings
  - E = Final pay at retirement
  - F = Service at lower pay
-



# Adjusted value of D for transition member

- Where the member is a transition member, the value of D must be adjusted using the formula in Part 2A of the 1992 scheme,
  - $A \div 60 \times (B \div C)$
-

# The member

- Rob joins the FPS on 17 April 1990, and will attain 30 years of service on 16<sup>th</sup> April 2020.
  - Rob's date of birth is 16<sup>th</sup> April 1969 so qualified as a tapered member and moved into the 2015 scheme on 30<sup>th</sup> September 2018.
  - Rob had a drop of pay on 15 October 2011 from £25,000 to £20,000
-

## Part B – Rule B5A– Two Pensions

- A = £25,000
  - B = 21 years 181 days
  - C = 28 years 166 days
  - D = (Adjusted value) A × (B ÷ C)  
 $40 \times (28 \frac{166}{365} \div 30) = 37 \text{ years } 343 \text{ days}$
  - E = £20,000
  - F = 6 years 350 days
-



## An example...

- **Part 1  $A \times (B \div C) \times (D \div 60)$**
  - $\text{£}25,000 \times (21^{181}/_{365} \div 28^{166}/_{365}) \times (37^{343}/_{365} \div 60)$
  - **£11,942.16**
  - **PI Date = 15 October 2011 @ 1.1337**
  - **£11,942.16  $\times$  1.1337 = £13,538.83**
-



## An example...

- **Part 2  $E \times (F \div C) \times (D \div 60)$**
  - $\text{£}20,000 \times (6^{350/365} / 28^{166/365}) * \times (37^{343/365} \div 60)$
  - **£3,092.85**
-

## An example...



- **Total Pension**
  - Part One and Part Two = Total Pension Award
  - **£13,538.83 + £3,092.85 = £16,631.68**
-



## An example...

- **Compare two pensions to a single pension**

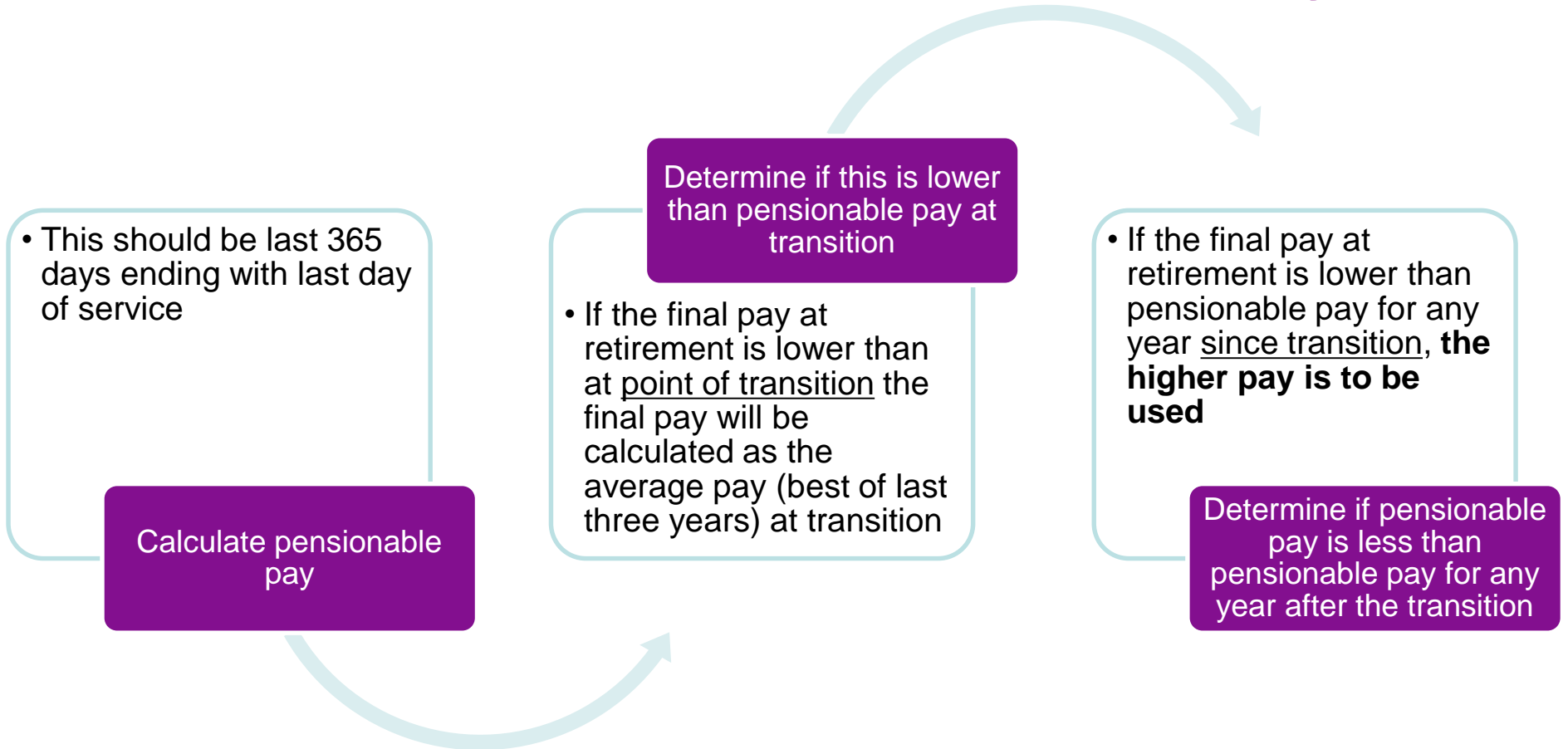
- Two Pension Award = £16,631.68

- Single Award = £12,646.58

$$(40 \div 60) \times (28^{166}/_{365} \div 30) \times £20,000$$

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# Transition Members – Final Pay





## Part 4 of Schedule 2 - Deferred.

- $B * C / D$

Where

- B = Notional Pension
  - C = Period in years of pensionable service
  - D = Period in years of notional service
-

## For the purposes of determining C & D

- Regulation [\[34\(3\)\]](#)\* of the transitional 2015 regulations ensures that for the purposes of ill health and deferred calculations, a transition members 2015 service is not included in the calculation of pensionable service referenced as ‘C’.

(3) In determining whether T qualifies under the 1992 Scheme for retirement benefits (other than an award on ill-health retirement or to a deferred pension), T’s pensionable service under the 1992 Scheme terminates when T’s pensionable service under this scheme terminates.

- [Paragraph 3 of Part 4](#), notes that a persons notional service (D) is the period in years they would have been entitled to reckon on a maximum pension.
-

# The member

- Ben is an unprotected member who joins the FPS on 1<sup>st</sup> December 1997.
  - Ben was born on 30<sup>th</sup> March 1972 and will retire on his 55<sup>th</sup> birthday (29<sup>th</sup> March 2027) having completed 29 years 119 days.
  - Ben leaves employment on 31<sup>st</sup> March 2016, his final salary was £42,000.00
-

## An example....

$$B \times C \div D$$

$$B = 38 \frac{238}{365} \div 60 \times \text{£}42,000 = \text{£}27,056.44$$

$$C = 17 \text{ years } 121 \text{ days}$$

$$D = 29 \text{ years } 119 \text{ days}$$

$$(27,056.44) \times (17 \frac{121}{365} \div 29 \frac{119}{365}) =$$

**£15,990.19**

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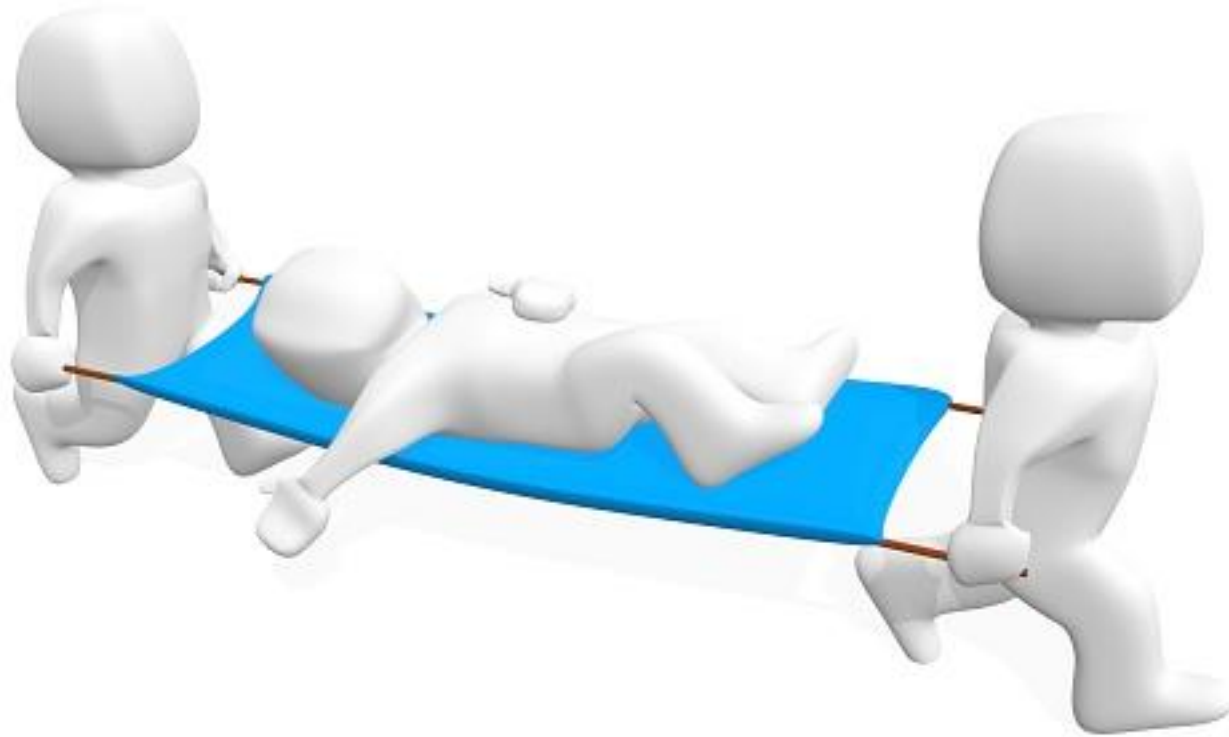
# Deferred Retirement

- [\[B1B\]](#) of the 1992 regulations confirms, that where a person does not meet B1A (ie they are not retiring), a deferred pension is paid under rule B5 (Deferred Pension)

B1B.—(1) A person to whom rule B1A does not apply and to whom paragraph (6) of rule A3 does apply is entitled to a deferred pension under rule B5 (deferred pension).

- [Rule B5](#) confirms that a deferred pension is calculated in accordance with Part 4 of schedule 2, (deferred pension)
-

# One Pot III Health & Death

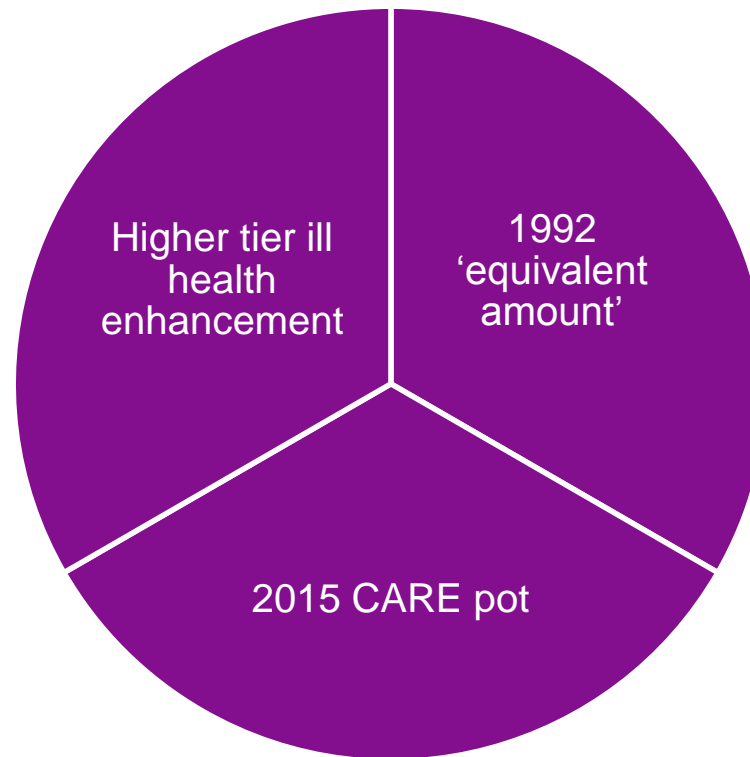


# What does one pot mean?

- Benefits all accessed from the 2015 scheme.
- Death benefits - Rule 78
- Ill Health – Rule 65 (amended by transitional regs and amendment regs)

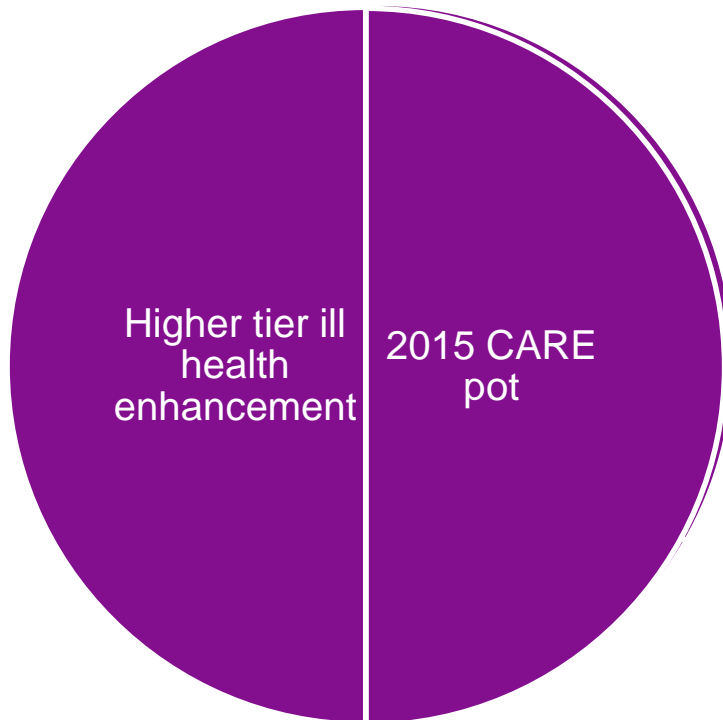
- (c) in regulation 65 (entitlement to lower tier ill-health pension and to higher tier ill-health pension), after paragraph (3) insert—
- “(4) Where an active member (A) is entitled to a lower tier ill-health pension and paragraph 22 (transition member who has not reached normal pension age under the NFPS) or paragraph 24 (transition member who has not reached normal pension age under the 1992 Scheme) of Schedule 2 to these Regulations applies in relation to A—
- (a) if paragraph 22 applies in relation to A, A is also entitled to an amount equivalent to the annual amount of a lower tier ill-health pension that would, if the member were entitled to payment of a lower tier ill-health pension under rule 2(2) of the NFPS, be payable to the member under the NFPS;
  - (b) if paragraph 24 applies in relation to A, A is also entitled to an amount equivalent to the annual amount of a lower tier ill-health pension that would, if the member were entitled to payment of a lower tier ill-health pension under rule B3 (ill-health awards) of the 1992 Scheme, be payable to the member under the 1992 Scheme.
-

## All paid from 2015 scheme

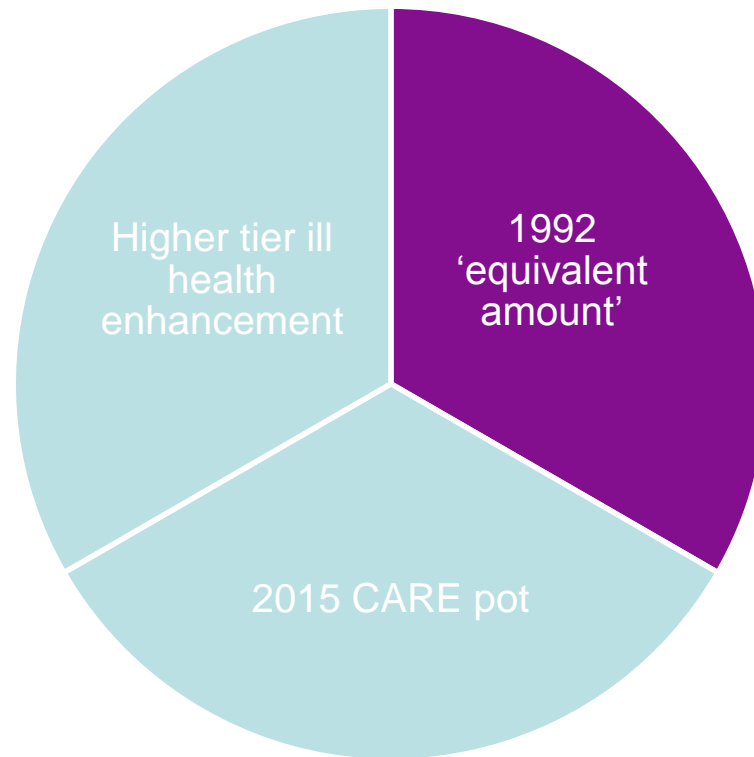




## Member reaches normal retirement age (i.e first of 30 years service or age 55 in 1992 scheme)



# Equivalent amount



## Equivalent Amount

- [\[65\(4b\)\]](#) confirms the equivalent amount is calculated under rule B3 of the 1992 regulations (ill health awards).
  - [Rule B3](#) confirms that ill health pension is calculated in accordance with Paragraph 2 of Part 3, schedule 2
  - Ill health therefore calculated in line with Part 4 of Schedule 2, deferred pension.
-

## Part 4 of Schedule 2, deferred pension.

- $B \times C \div D$

Where

- B = Notional Pension
  - C = Period in years of pensionable service
  - D = Period in years of notional service
-

# The member

- John joined the scheme on 1<sup>st</sup> October 1998 and retires from ill-health on 27<sup>th</sup> October 2016.
  - John was born on 28<sup>th</sup> August 1973 and would have reached age 55 (27<sup>th</sup> August 2028) before completing 30 years.
  - John transitioned into the 2015 scheme on 1<sup>st</sup> April 2015, after having completed 16 years 182 days service.
  - At 27<sup>th</sup> October 2016, John would have 16 years 304 days service until age 60
-

# Equivalent Amount

$$B \times C \div D$$

$$B = 39 \left( \frac{297}{365} \right) \div 60 \times \text{£}40,000 = \text{£}26542.47$$

$$C = 16 \text{ years } 182 \text{ days}$$

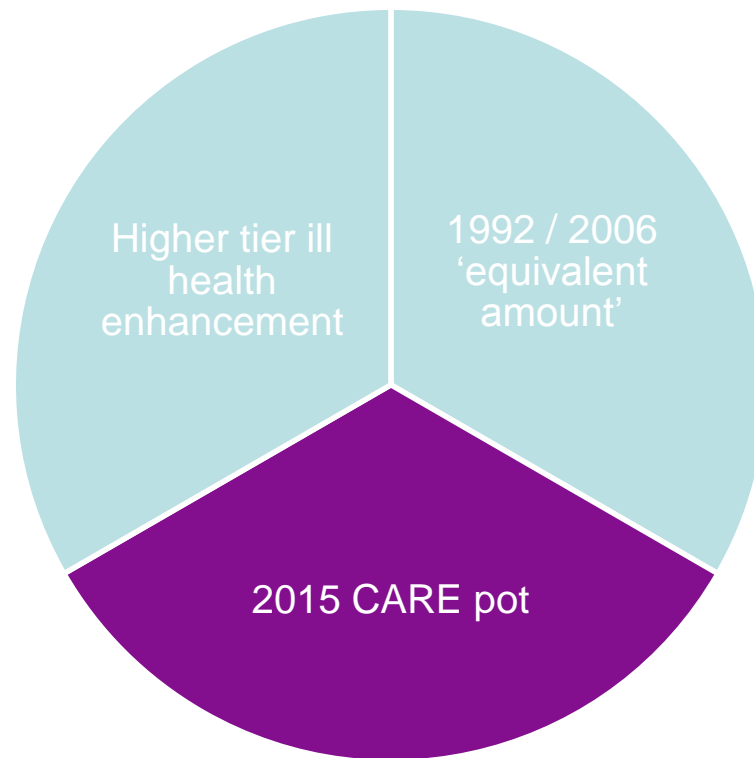
$$D = 29 \text{ years } 331 \text{ days}$$

$$(26,542.47) \times \left( 16 \frac{182}{365} \div 29 \frac{331}{365} \right) =$$

**£14,642.61**

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# 2015 CARE Pot



# CARE Pot

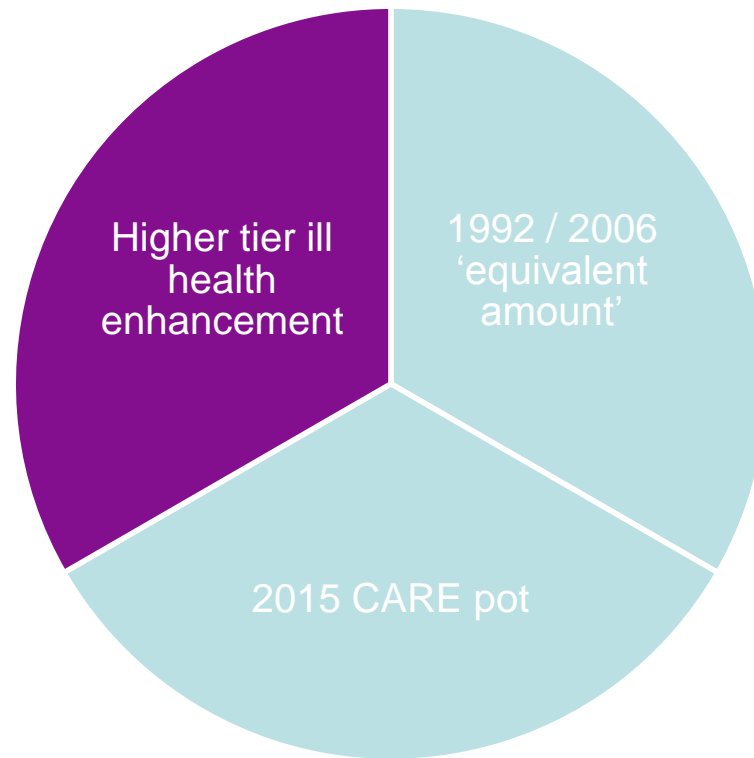
Date from	Date to	Account Balance	Reval rate	Opening Balance	Actual Pay	Pension Build Up	Closing Balance
01/04/2015	31/03/2016	£0.00		£0.00	£38,000	£636.52	£636.52
01/04/2016	27/10/2016	£636.52	3%	£655.61	£23,333 <sup>1</sup>	£390.84	<b>£1046.45</b>

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1. Annual salary is £40,000



# Enhancement



# 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 2% of lower tier ill health pension x service to NPA.
-

# Ill Health Retirement - Enhancement

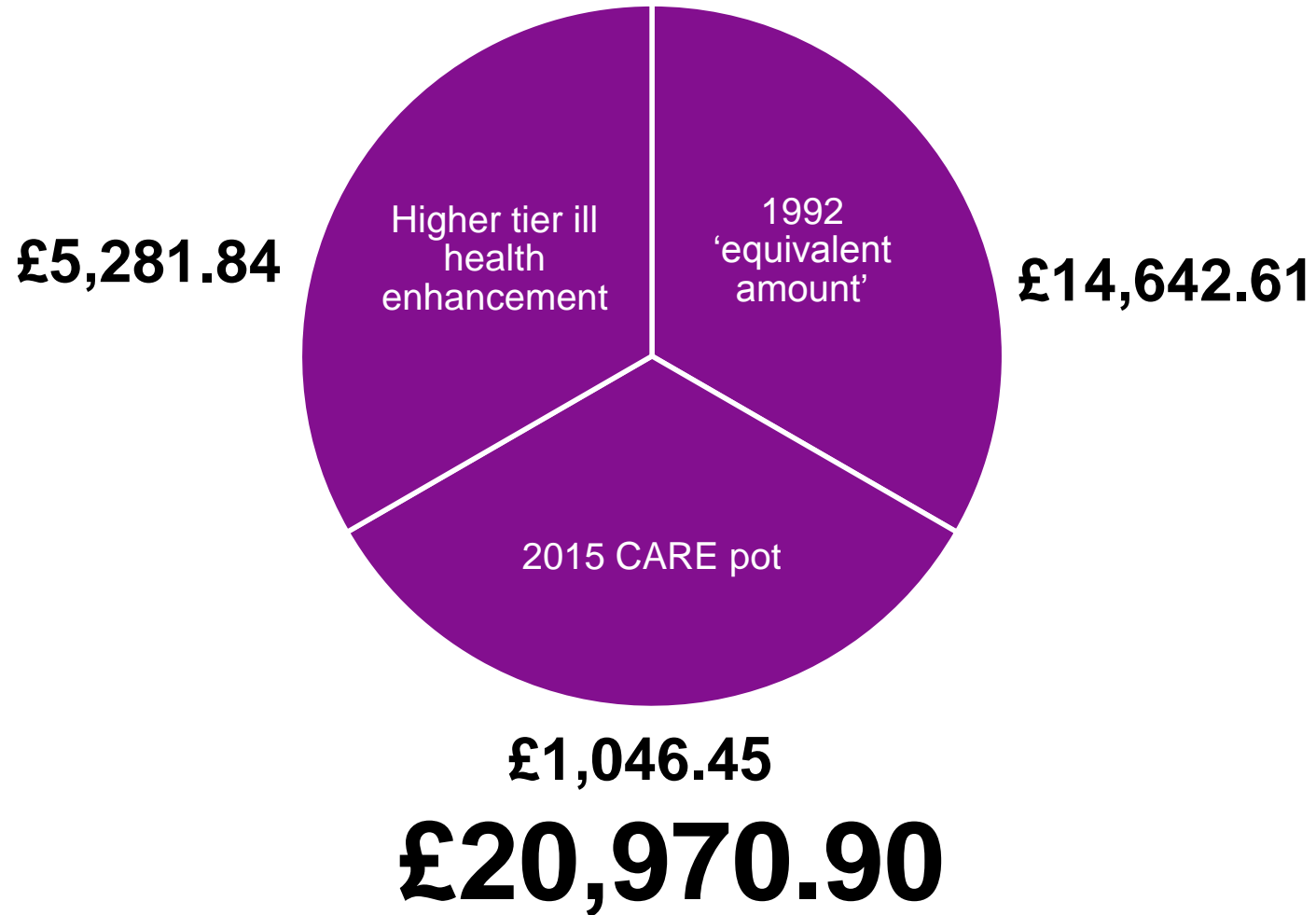
## Lower tier ill health

- No Enhancement
- $£14,642.61 + £1046.45 = £15,689.06$

## Higher tier ill health

- Enhancement based on lower tier ill health pension x service to NPA x 2%
  - $(£15,689.06 \times 16^{204/365}) \times 2\% = £5,281.84$
-

## Total Ill Health Pension – One Pot



## At Normal Pension Age



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**£20,970.90**

# Disclaimer

- **The information contained in these slides are the authors interpretation of the current regulations.**
  - **Readers should take their own legal advice on the interpretation of any particular piece of legislation.**
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# Thank you for listening

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