

Firefighters' Pension Scheme Circular

Circular Number:	FPSC 2/2008 (Amended)	Date Issued:	Original issue 15th February 2008 Re-issued 3 rd March 2008
Action:	To note scheme amendments		
Title:	<i>AMENDMENTS TO THE FIREFIGHTERS' PENSION SCHEME 1992 AND THE NEW FIREFIGHTERS' PENSION SCHEME 2006</i>		
Issued by:	Martin Hill Workforce Pay and Pensions Division		

Summary:	Amendment of the Firefighters' Pension Scheme 1992 and the New Firefighters Pension Scheme 2006 to allow for the pensionability of Long Service Increment and Continual Professional Development payments to be dealt with through Additional Pension Benefit arrangements. Providing also for two pensions (or split pension) arrangements in the 1992 Scheme.
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1. Introduction

- 1.1 Circular 7/2007 announced proposals for the amendment of the Firefighters' Pension Scheme 1992 (FPS) and the New Firefighters' Pension Scheme 2006 (NFPS). The circular included drafts of Amendment Orders and invited comments by 20th September 2007
- 1.2 The principal amendments affecting both schemes are the new Additional Pension Benefit (APB) arrangements for Continual Professional Development (CPD) allowance and for Long Service Increment (LSI). In addition, the FPS is being amended to provide for two pensions (split pensions) to give pension protection where the pensionable pay of a scheme member reduces prior to retirement; the NFPS amendments include a number of corrections identified since the original Order came into force.
- 1.3 As a result of comments received the following changes have been made:

LSI APB	Where a firefighter member retires on or after 1st October 2007, the member will have the option of a pension based on i) average/final pensionable* pay excluding LSI payments (and related transitional payments) plus a LSI APB or ii) average/final pensionable pay including LSI payments (and related transitional payments) but no LSI APB.
LSI APB	To be eligible for the LSI APB, a firefighter must have had entitlement to LSI up to, and including, 30 th June 2007 so that, but for the phasing out of the payment, it would have been included in the average/final pensionable pay.
LSI and CPD APB	For the FPS, where a firefighter retires under Rule B1, APBs will be payable from date of retirement.

- 1.4 Ministers have now approved the amendments to both schemes. The Amendment Orders were laid before Parliament on 7th February 2008 and will come into force on 29th February 2008. The Orders can be viewed at:
http://www.opsi.gov.uk/si/si2008/uksi_20080213_en_1 (NFPS) and
http://www.opsi.gov.uk/si/si2008/uksi_20080214_en_1 (FPS)
- 1.5 The purpose of this circular is to confirm the coming into force of the amendments and to provide more detailed guidance on implementation.

2. Additional Pension Benefit for Continual Professional Development (CPD) Allowance

- 2.1 CPD payments are subject to annual review and would, therefore, normally be regarded as temporary for the purposes of the FPS and NFPS and not pensionable. However, in response to a request from the NJC, Ministers have determined that the payments should be pensionable but under special Additional Pension Benefit (APB) arrangements.
- 2.2 Under these APB arrangements, contributions paid on the allowance by firefighter members under Rule G2(1) of the FPS, or Part 11, rule 3 of the NFPS; and authority contributions paid under Rule G2(3) and (4) or Part 13,

* See FPS Rule G1(3). Average pensionable pay is the aggregate of pensionable pay for the year ending with the relevant date (last day of service) or one of the two preceding years if that yields a higher amount. The equivalent rule in the NFPS for Final pensionable pay is at Part 11, Chapter 1, Rule 2.

rule 2(3), which relate to these payments, will be used to purchase an increased pension, including increased benefits for dependants.

- 2.3 The value of APB to which a firefighter member will be entitled will be determined annually on the anniversary of commencement of CPD payments i.e., on the 1st of July, in accordance with guidance and tables provided by the scheme actuary.
- 2.4 Where a firefighter member in receipt of CPD leaves pensionable service before the end of a CPD year, the APB for that year will be based on the value of contributions from the start of the CPD year up to, and including, the last day of pensionable service. The APB due should be determined by calculating the notional value of the APB for the full CPD year and then proportioned by multiplying the result by the number of days pensionable service in the CPD year divided by 365.
- 2.5 Examples of how the factors will work for CPD payments are set out in Annex 1 and further guidance from the scheme actuaries, including the factor tables, is attached to this circular as a separate document.
- 2.6 The additional benefits will be payable from normal pension age (i.e. age 55) or on retirement under Rule B1 in the FPS; or normal retirement age (i.e. age 60) in the NFPS. In the case of a firefighter member who has resigned or been dismissed; or who makes a contribution election, it will be deferred in accordance with Rule B5 or Part 3, rule 3. If a firefighter member leaves his employment by reason of permanent disablement under Rule A15 or Part 3 rule 2, the APB will come into payment immediately. If the ordinary pension becomes payable under Part 3, rules 5 (pension on member-initiated early retirement) and 6 (pension on authority-initiated early retirement) any APB benefits will be paid at the same time, but with actuarial reduction.
- 2.7 Any election not to make pension contributions under Rule G3 or Part 2, rule 5, will apply also to payment of contributions on CPD payments. It will not be possible for a firefighter member to make an election in respect only of CPD payments.
- 2.8 Rule B7 or Part 3, rule 9 (commutation: general); Rule B8 or Part 3, rule 10 (commutation: small pensions); and other benefits eligible for commutation will also apply to the total of APB.
- 2.9 Any APB will be regarded as part of the firefighter member's pension for the purpose of determining survivors' pensions under Parts C, D and E of the FPS and Part 4 of the NFPS; and pension credit under Part IA of the FPS or Part 6 of the NFPS.
- 2.10 The amount of APB will be index linked to RPI. Increases in RPI are based on comparisons of prices as they are in September compared with those in the September of the previous year. Any increase is applied at the commencement (in April) of the following tax year (the "relevant tax year"). Normally, where a pension comes into payment between the September and the beginning of the next tax year, a proportion of the increase is applied based on the period from pension commencement to the April. Thereafter, a full years' worth of increase is applied annually at the commencement of the tax year. A "CPD Year" runs from 1st July to 30th June, so the APB will be valued on the day after completion i.e., 1st July and the value of that APB will

be index linked. Because of this permanent misalignment between the CPD year and the tax year and because of the relatively small increases that are likely to be involved the scheme actuary has suggested that the APB be re-valued in the following April using a full years' worth of increase (with a balancing adjustment in the APB factors). This should alleviate some of the burden involved in tracking different amounts of APBs earned in different years through to retirement.

Example:

CPD year is 1 July 2005 to 30 June 2006 and APB calculated on 1 July 2006 = £10 per annum. The RPI increase applicable from April 2007 is 3.6%.

Under normal circumstances, a partial increase from 1st July 2006 to April 2007 would apply. Based on the standard PI tables this would result in a 2.7% increase. Therefore at April 2007 the APB would have been worth £10.27p.a. (£10 x 1.027). The suggested approach involves a revaluation in April 2007 by 3.6%, increasing the value of the APB to £10.36. The APB is then re-valued in every subsequent April. Where multiple APBs have been earned, these can be combined for revaluation.

2.11 The diagram below illustrates the relationship between the “CPD Year”, the APB calculation date and the “relevant tax year”.

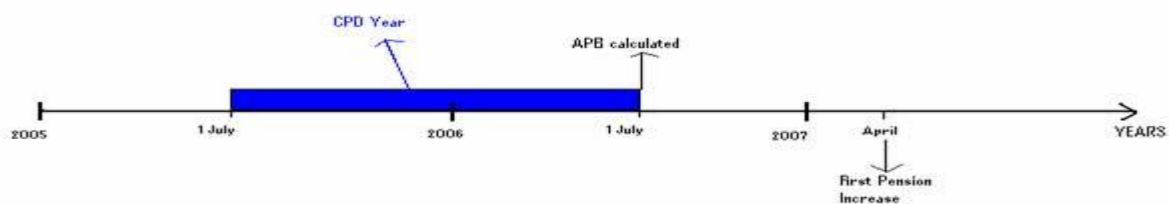


Diagram courtesy of GAD

3. Additional Pension Benefit for Long Service Increment

3.1 Firefighters with 15 years' continuous service have received an increment to their pay known as the Long Service Increment (LSI) and this has been pensionable. As part of the 2003 pay settlement, the NJC agreed that LSI should be phased out. It was frozen at £990 per annum from 7th November 2003, and was reduced to £495 from 1st October 2006 although transitional payments continued until 30th June 2007 when payments ceased. LSI has now been replaced by CPD.

3.2 The phasing out of LSI means that firefighter members who have been in receipt of the increment will have paid contributions on an element of pay which will not form part of their final salary or, in the case of those who have retired since 1 October 2006, a smaller element than they had expected.

3.3 Ministers have recognised that with the phasing out of LSI some firefighter members will receive less pension than they had expected. They have agreed that arrangements should be made so that a compensatory adjustment can be made to average/final pensionable pay to disregard the reduction in actual

pensionable pay up to, and including 30th September 2007 and for those firefighter members who were entitled to LSI (or the transitional payments) up to and including 30th June 2007 and who retire on or after 1st October 2007 to be credited with an APB (note that the method for determining this benefit will differ from the APB derived from CPD). The conditions under which the LSI APB will come into payment are the same as those for the CPD APB described in paragraphs 2.6 to 2.9 above. The APB is index-linked in line with the RPI.

3.4 A firefighter member who retires on or after 1st October 2007 has the option of taking a pension calculated based on average/final pensionable pay including LSI payments up to and including 30th June 2007 rather than pension plus the LSI APB if more beneficial.

3.5 The following amendments are being made to the schemes:

- (i) FPS: average pensionable pay (Rule G1) for any firefighter member who retires between 1 October 2006 and 30 September 2007 with entitlement to Long Service Increment;
NFPS: final pensionable pay (rule 2 of Part 11, chapter 1) for any firefighter member who retires between 1 October 2006 and 30 September 2007 with entitlement to Long Service Increment

should be calculated on the basis of LSI at a rate of £990 per annum, and the reduction in LSI should be disregarded.

- (ii) Subject to paragraph (iv) below, any LSI payments received by a firefighter member retiring on or after 1 October 2007 should be disregarded for the purpose of calculating average pensionable pay (Rule G1 of the FPS); or final pensionable pay (rule 2 of Part 11, chapter 1 of the NFPS).

- (iii) Subject to paragraph (iv) below, a firefighter member who retires on or after 1 October 2007 and had entitlement to LSI up to, and including, 30th June 2007 will be entitled to Additional Pension Benefit. The amount of the benefit will be:

$$\frac{A + (B \times 2)}{60} \times \text{£}990$$

Where:

A = number of years pensionable service up to 30th June 2007 that exceeds 15 but does not exceed 20 years; and

B = number of years pensionable service up to 30th June 2007 that exceeds 20 years but does not exceed 30.

- (iv) A firefighter member who retires on or after 1st October 2007 has the option of taking a pension calculated based on average/final pensionable pay including LSI payments up to and including 30th June 2007 rather than pension plus the LSI APB.

3.6 Examples of how the arrangements will work for LSI APB payments are set out in Annex 2.

- 3.7 Pensions for those who have retired since 30th September 2006 may need to be recalculated to ensure that the unreduced rate of LSI is reflected in average/final pensionable pay calculations.

Summary of retrospective action required:

Retirement date	Action required
Before 1 st October 2006	None. LSI was still in payment at full rate (where there was entitlement). Pension will have been based on the average/final pensionable pay applicable at date of retirement.
From 1 st October 2006 and up to, and including, 30 th September 2007.	Where there was entitlement to LSI payments during the period, pensions that have come into payment should be checked to ensure that the rate of LSI (or LSI plus transitional payments) used in the pension calculation was at the unreduced rate of £990 per annum.
1 st October 2007 or later	Where there was entitlement to LSI payments up to and including 30 th June 2007, there is entitlement to an APB for the period of LSI entitlement. The APB will be separate from the main pension. The main pension will be calculated with LSI payments excluded for the purposes of determining average/final pensionable pay. The person retiring can, if they wish, opt not to take an APB for LSI, in which case, LSI at the rate of £990 per annum up to and including 30 th June 2007 should be included in pensionable pay for the purposes of determining average/final pensionable pay.

4. Benefit statements

- 4.1 The value of accrued CPD and LSI APBs should be reported each year on benefit statements. Administrators who use the AXISE pensions software provided by Heywood will be notified how the APBs are to be reflected within the software.

5. Two (Split) Pensions in the FPS

- 5.1 The FPS is a final salary pension scheme which means that if a firefighter member changes role, or becomes entitled to a different rate of pay in his existing role, with a reduction in pay it may impact adversely on pensionable pay at the point of retirement. An example of this would be the case of a firefighter member in receipt of a flexible duty allowance who moved to a post which did not attract the allowance.

- 5.2 The NFPS allows for any reduction in pensionable pay by providing, in Part 3, rule 7, for two pensions, or split awards, to be paid if this is more favourable to

the firefighter member. Where a split pension is awarded the last day of service for the calculation of the first pension will be the last day on the higher rate of pay. The second pension is based on their pay and service after the reduction.

- 5.3 The same approach has been adopted for the FPS, with a modification because pension builds up in the Scheme at the rate of one 60th of average pensionable pay for the first 20 years of service, and at two 60th of APP thereafter. The modification would provide that where total pensionable service exceeds 20 years, the benefit of this double accrual is shared proportionately between the two pensions in a similar way to deferred pensions.
- 5.4 The new FPS provision is made in Part B (Personal Awards) to provide for the payment of two pensions to a firefighter member who
- on taking up a different role within the authority; or
 - becoming entitled to a different rate of pay in his existing role
- suffers a reduction in the amount of his pensionable pay such that the amount to be taken into account in the calculation of the pension to which he will be entitled at normal pension age is less than it would otherwise have been.
- 5.5 The pension will be calculated as follows:
Pension 1: $A \times B/C \times D/60 = \text{First Pension}$
Pension 2: $E \times F/C \times D/60 = \text{Second Pension}$
A = average pensionable pay for the year ending with the person's last day of service on the higher rate of pay;
B = the person's pensionable service up to the last day of service on the higher rate of pay;
C = is the person's total pensionable service;
D = the total number of 60th to which the person would be entitled in the calculation of a single award (see paragraph 4.6 below);
E = average pensionable pay for the year ending with the person's last day of service;
F = the person's pensionable service for the period commencing with the first day of service at the lower rate of pay and ending with the last day of service.
- 5.6 A firefighter member who is entitled to two pensions under this provision will be able, by written notice to the employing authority, to instruct the authority to make a single award calculated in accordance with Rules B1, B3 and B5, as applicable.
- 5.7 If the person makes a contribution election under Rule G3, he will be entitled to a single pension calculated as if it were a deferred pension under Rule B5.
- 5.8 The pensions will become payable on the date on which a pension would have been payable to the member under Rules B1, B3 and B5.
- 5.9 The amendment has retrospective effect from 1st April 2007.

6. CONCLUSION

- 6.1 The new arrangements may now be implemented by Fire and Rescue Authorities.

Martin Hill

EXAMPLES OF CPD - ADDITIONAL PENSION BENEFIT VALUED ON 1ST JULY 2008

	Date of Birth	Date of Joining	Scheme	Retirement Date	Age	CPD (£) ¹	Contribution ² (£)	Cost ³ of an Additional Pension of £1 pa	Additional Pension (£pa)
Firefighter ⁴ (fe)male	20/06/1959	20/06/1979	FPS	20/06/2009	49	500	187.50	19.60	9.57
Firefighter (fe)male	20/06/1977	20/06/1999	FPS	20/06/2029	31	500	187.50	11.60	16.16
Firefighter (fe)male	20/06/1962	20/06/1982	FPS	20/06/2012	46	500	187.50	18.30	10.25
Firefighter (fe)male	20/06/1967	20/06/1987	FPS	20/06/2017	41	500	187.50	16.00	11.72
Firefighter (fe)male	20/06/1985	20/06/2005	FPS	20/06/2035	23	500	187.50	8.80	21.31
Firefighter (fe)male	20/06/1982	20/06/2004	FPS	20/06/2034	26	500	187.50	9.80	19.13
Firefighter (fe)male	20/06/1976	20/06/1996	FPS	20/06/2026	32	500	187.50	12.00	15.62
Firefighter (fe)male	20/06/1976	20/06/07 NFPS	NFPS	20/06/2036	32	500	113.50	9.80	11.58
Retained firefighter (fe)male	20/06/1976	20/06/07 NFPS	NFPS	20/06/2036	32	500	113.50	9.80	11.58

¹ a CPD payment of £500 is assumed

² total pension contributions in FPS of 37.5% (11% payable by firefighter) and NFPS of 22.7% (8.5% payable by firefighter) are assumed

³ the cost of an APB of £1 pa depends on the age of the member at the time the contribution is paid; and the age at which APB is payable
- the later the age, the greater the benefit.

⁴ gender neutral

LSI EXAMPLES

Example 1

Firefighter member age 53 retires under Rule B1 of the FPS, with a last day of service of 31st August 2007, having completed 30 years service.

Awarded LSI after 15 years' service.

LSI ceased with effect from 1st July 2007.

Pensionable pay less LSI at date of retirement is £27,010.00

Retirement was prior to 1st October 2007 therefore not eligible for LSI APB. Pension therefore based on average pensionable payⁱ.

Actual pensionable pay for period 1st September 2006 to 31st August 2007:

1.9.06 to 30.9.06

Pay = £28,000.00 (includes LSI @ £990 p.a.)

Pay for period therefore $£28,000.00 \times \frac{30}{365} = £2,301.37$

1.10.06 to 30.6.07

Pay = £27,505.00 (LSI reduced to £495 p.a.)

Pay for period therefore $£27,505.00 \times \frac{273}{365} = £20,572.23$

1.7.07 to 31.8.07

Pay = £27,010.00 (LSI ceased from 1.7.07)

Pay for period therefore $£27,010.00 \times \frac{62}{365} = £4,588.00$

NJC LSI transitional payments 1.10.06 to 30.6.07

Pay for period therefore $£41.25 \times 9 \text{ months} = £371.25$

Total pensionable pay = £27,832 .85.

Amendment to the FPS provides for the reduction in LSI and the transitional payments to be disregarded for calculation of average pensionable pay. Pension therefore based on £28,000.00 (unless either of the preceding years yields a higher amount).

Pension = $£28,000.00 \times \frac{20 + (2 \times 10)}{60} = \mathbf{£18,666.67}$

Example 2

Firefighter member age 53 retires under Rule B1 of the FPS, with a last day of service of 30th November 2007, having completed 30 years service.

Awarded LSI after 15 years' service.

LSI ceased with effect from 1st July 2007.

Pensionable pay, less LSI, at date of retirement is £27,010.00

Retirement was after 30th September 2007 therefore eligible for a pension based on average pensionable pay without LSI payments plus an LSI APB or a pension based on average pensionable pay including LSI payments but no LSI APB if that yields a greater amount.

Pension would either be

Pension based on pensionable pay for period 1st December 2006 to 30th November 2007 plus an LSI APB for the period 1st December 1992 (date achieved 15 years' service) to 30th June 2007 :

1.12.06 to 30.11.07

Pay = £27,010.00

This would be the average pensionable pay used for calculation of pension (unless either of the preceding years yields a higher amount).

$$\text{Pension} = £27,010 \times \frac{20 + (2 \times 10)}{60} = £18,006.67$$

Plus

$$\text{LSI APB} = £990 \times \frac{5 + (2 \times 9.58)}{60} = £398.64$$

Total pensions therefore = **£18,405.31**

or

Pensionable pay for period 1st December 2006 to 30th November 2007:

1.12.06 to 30.6.07

Pay = £28,000.00 (disregards reduction in LSI and NJC transitional payments)

$$\text{Pay for period therefore } £28,000.00 \times \frac{212}{365} = £16,263.01$$

1.7.07 to 30.11.07

Pay = £27,010.00 (LSI ceased from 1.7.07)

$$\text{Pay for period therefore } £27,010.00 \times \frac{153}{365} = £11,322.00$$

Total pensionable pay = £27,585.01

This would be the average pensionable pay used for calculation of pension (unless either of the preceding years yields a higher amount).

$$\text{Pension} = £27,585.01 \times \frac{20 + (2 \times 10)}{60} = \mathbf{£18,390.00}$$

In this example, therefore, a pension based on average pensionable pay less LSI, plus an LSI APB would give the greater pension.

Example 3

Firefighter member age 53 retires under Rule B1 of the FPS, with a last day of service of 30th April 2008, having completed 30 years service.

Awarded LSI after 15 years' service.

LSI ceased with effect from 1st July 2007.

Pensionable pay, less LSI, at date of retirement is £27,010.00

Retirement was after 30th September 2007 therefore eligible for a pension based on average pensionable pay without LSI payments plus an LSI APB or a pension based on average pensionable pay including LSI payments but no LSI APB if that yields a greater amount.

Pension would either be

Pension based on pensionable pay for period 1st May 2007 to 30th April 2008 plus an LSI APB for the period 1st May 1993 (date achieved 15 years' service) to 30th June 2007 :

1.5.07 to 30.4.08

Pay = £27,010.00

This would be the average pensionable pay used for calculation of pension (unless either of the preceding years yields a higher amount).

$$\text{Pension} = £27,010 \times \frac{20 + (2 \times 10)}{60} = £18,006.67$$

Plus

$$\text{LSI APB} = £990 \times \frac{5 + (2 \times 9.17)}{60} = £385.11$$

Total pensions therefore = **£18,391.78**

or

Pensionable pay for period 1st May 2007 to 30th April 2008:

1.5.07 to 30.6.07

Pay = £28,000.00 (disregards reduction in LSI and NJC transitional payments)

$$\text{Pay for period therefore } £28,000.00 \times \frac{61}{365} = £4,679.45$$

1.7.07 to 30.4.08

Pay = £27,010.00 (LSI ceased from 1.7.07)

$$\text{Pay for period therefore } £27,010.00 \times \frac{304}{365} = £22,496.00$$

Total pensionable pay = £27,175.45

This would be the average pensionable pay used for calculation of pension (unless either of the preceding years yields a higher amount).

$$\text{Pension} = £27,175.45 \times \frac{20 + (2 \times 10)}{60} = \mathbf{£18,116.97}$$

In this example, therefore, a pension based on average pensionable pay less LSI, plus an LSI APB would give the greater pension.

Example 4

The firefighter in Example 3 was on temporary promotion from 1st May 2006 until 31st March 2007. Pensionable pay up to 31st March 2007 was £30,000.00 including LSI. The average pensionable pay used in the pension calculations is therefore based on the year preceding the year ending on the relevant date (30th April 2008) i.e., 1st May 2006 to 30th April 2007:

Pension would either be

Pension based on pensionable pay for the period 1st May 2006 to 30th April 2007 plus an LSI APB for the period 1st May 1993 (date achieved 15 years' service) to 30th June 2007:

1.5.06 to 31.3.07

$$\text{Pay} = \text{£}29,010.00 \times \frac{335}{365} = \text{£}26,625.62$$

1.4.07 to 30.4.07

$$\text{Pay} = \text{£}27,010.00 \times \frac{30}{365} = \text{£}2,220.00$$

$$\text{Pension} = \text{£}28,845.62 \times \frac{40}{60} = \text{£}19,230.41$$

$$\text{Plus LSI APB} = \text{£}990 \times \frac{5 + (2 \times 9.17)}{60} = \text{£}385.11$$

Total pensions therefore = **£19,615.52**

or

Pensionable pay for period 1st May 2006 to 30th April 2007

1.5.06 to 31.3.07

$$\begin{aligned} \text{Pay} &= \text{£}30,000.00 \text{ (disregards reduction in LSI and NJC transitional payments)} \\ \text{Pay for period therefore} &= \text{£}30,000.00 \times \frac{335}{365} = \text{£}27,534.25 \end{aligned}$$

1.4.07 to 30.4.07

$$\begin{aligned} \text{Pay} &= \text{£}28,000.00 \text{ (disregards reduction in LSI and NJC transitional payments)} \\ \text{Pay for period therefore} &= \text{£}28,000.00 \times \frac{30}{365} = \text{£}2,301.37 \end{aligned}$$

Total pensionable pay = £29,835.62

This would be the average pensionable pay used for the calculation as it is the best of the last three years' pensionable pay.

$$\text{Pension therefore would be } \text{£}29,835.62 \times \frac{20 + (2 \times 10)}{60} = \text{£}19,890.41$$

In this example, therefore, a pension based on average pensionable pay including LSI payments but with no LSI APB would give the firefighter a greater pension.

ⁱ See FPS Rule G1(3). Average pensionable pay is the aggregate of pensionable pay for the year ending with the relevant date (last day of service) or one of the two preceding years if that yields a higher amount.