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Dear Sir/Madam

## **SCOTTISH FIRE SERVICE CIRCULAR 15/2005**

### **FIREFIGHTERS PENSION SCHEME (FPS)**

This circular advises on:

The outcome of the consultation exercise on pension changes for firefighters, the framework for the new scheme (Annex A) and provides a Q&A briefing on issues which are likely to concern existing members (Annex B).

**These items should be brought to the attention of pension and human resources managers, Medical/Occupational health managers and active members of the FPS.**

#### **A. CONSULTATION EXERCISE**

In October 2004 two UK wide consultations were issued by the Office of the Deputy Prime Minister outlining proposals for a New Firefighters' Pension Scheme and proposals for Amendments to the Firefighters' Pension Scheme. (Scottish Fire Service Circulars 6/2004 and 12/2004 gave guidance on the proposals.) The consultation exercise closed on 14 January 2005. This circular publishes the outcome of the exercise; a response to the comments made by respondents to the consultation exercise; and provides a Q&A briefing on what the changes may mean for existing firefighters.

#### **RESPONSE TO CONSULTATION**

Attached are the following:

- (i) Government Proposals for a New Firefighters' Pension Scheme – Government Response to the Consultation; and
- (ii) Proposals for Amendments to the Firefighters' Pension Scheme – Government Response to the Consultation.

Scottish Ministers intend to maintain a UK approach to the Government proposals whilst remaining aware of any specific Scottish issue that arise out of the next stage of the consultation process. Annex

A of this circular sets out the framework for the new scheme and Annex B sets out a question and answer briefing dealing with issues of particular concern to existing scheme members.

## **DEVELOPMENT OF PROPOSALS FOR A NEW SCHEME**

The Firefighters' Pensions Committee (FPC), which is chaired by ODPM, and which includes representatives from both the employers (LGA), managers (CFOA), employees (FBU, RFU, APFO and FOA) and representatives from both the Executive's Fire Division and this Agency, will be meeting over a 16 week period to discuss in detail how the new scheme will be drafted. The Committee will also be discussing proposed changes to the existing scheme. The FPC met on 12 September to start discussions.

Copies of the minutes of FPC meetings and papers circulated to Committee members can be found on the ODPM website [www.odpm.gov.uk/firepensions](http://www.odpm.gov.uk/firepensions). All papers pertaining to discussions about the new scheme and changes to the current scheme will be placed on the website. A link into this website will also be provided on the SPPA website

The new scheme will be open to all firefighters regardless of the terms of their contract. For example, those firefighters on the Retained Duty System are not eligible to join the existing scheme, but will be able to join the new scheme. Once the new scheme has been approved by Ministers, existing firefighters will have the opportunity to consider whether they want to join it or stay in the existing scheme. The FPC will discuss the basis for such transfers.

Yours faithfully



Jim Preston

**FRAMEWORK FOR NEW FIREFIGHTERS' PENSION SCHEME**

<b>New Scheme</b>	
<b>Eligibility</b>	<p>Firefighters (i.e. persons employed by a Fire and Rescue Authority who are appointed on terms under which they may be required to engage in fire fighting).</p> <p>Membership will be automatic for all firefighters appointed after the scheme comes into effect unless an election is made to opt out.</p> <p>Members of the existing scheme can elect to join the new scheme.</p> <p>On entry a member may be excluded from the ill health provisions of the pension scheme if he/she is considered to be at greater risk of early retirement on health grounds. He/she would pay a reduced contribution rate.</p>
<b>Type of Scheme</b>	Final salary scheme. Contracted-out of the State Second Pension arrangements.
<b>Funded or Unfunded</b>	Unfunded.
<b>Cost of scheme benefits</b>	Between 19% and 24% of pensionable pay.
<b>Employees' contributions</b>	Between 6.5% and 8% of pensionable pay. Scheme members excluded from the ill health provisions would pay a lower contribution rate.
<b>Inflation proofing</b>	In line with Retail Prices Index.
<b>Pensionable Pay</b>	<p>Based on core pay and permanent emoluments. It would exclude overtime, flexible duty allowance, pay in lieu of leave, and any performance-related allowance subject to review.</p> <p>Average pensionable pay will be used in the assessment of awards. This is normally the pensionable pay averaged over the year up to and including the last day of service. The pensionable pay averaged over one or the two previous years will be substituted if greater.</p> <p>In cases, where a scheme member may have changed roles which involved a reduction in pay, the two periods before and after that change may be treated separately for pension purposes if the two awards would produce a higher overall pension than one award based on all service and average pensionable pay as defined above.</p>
<b>Pensionable service</b>	This will be service as a member of the scheme plus any "purchased" service or service transferred into the scheme. In the case of a part-time firefighter, eligibility for benefits will be based on the whole-time equivalent length of service but the assessment of benefits will be based on the pro rata length.

<b>Purchase of additional service</b>	Scheme members will be allowed to purchase additional service by a lump sum payment (made within the first 12 months of service) or by the payment of additional contributions up to normal pension age. The purchase would be restricted to an overall limit (i.e. including other service) of 40 years by normal pension age.
<b>Eligibility for benefits</b>	2 years' service are normally required to qualify for benefits but if a member reaches State pension age he/she would be eligible for benefits regardless of length of service.
<b>Assessment of pension</b>	The pension would be based on the formula: $1/60 \times \text{service} \times \text{average pensionable pay}$
<b>Optional lump sum</b>	A lump sum can be provided by commutation of the pension. Up to one quarter of the pension can be commuted. The commutation factors will be £12 lump sum for each £1 commuted. This would give a maximum lump sum of four times the pension remaining after commutation.
<b>Normal pension age</b>	Normal pension age of 60.
<b>Minimum pension age</b>	Age 55 If retirement before normal pension age is at the member's request, the cost of early payment would be met by the member via an actuarial reduction of benefits. If retirement before normal pension age is a requirement of the Fire and Rescue Authority based on management needs, the cost of early payment (i.e. the actuarial reduction that would otherwise apply) would be met by the Fire and Rescue Authority.
<b>Early leavers (i.e. those who choose to leave before pension becomes payable)</b>	If the member has less than 2 years' service a refund can be paid, or accrued pension rights transferred to some other pension arrangement. If the member has 2 or more years' service a deferred pension applies. This is based on length of service and average pensionable pay at the date of leaving. A deferred pension will normally be paid at age 65 but may be paid earlier: <ul style="list-style-type: none"> <li>• at age 55 at the member's request but with an actuarial reduction to reflect the cost of early payment</li> <li>• at any age, without reduction, on grounds of permanent ill health.</li> </ul> The accrued benefits on which a deferred pension is based could, instead, be paid as a transfer value to another pension arrangement on the request of the member.

<b>Ill-health retirement</b>	<p>There will be a two tier system of ill health award.</p> <p><b>Higher tier pension:</b> will be paid where the scheme member is unable to work again. The pension will be enhanced. A moderating factor will be introduced into the calculation to ensure a smooth incremental enhancement and to avoid perverse incentives as in the existing scheme.</p> <p><b>Lower tier:</b> will be paid where the scheme member is able to take other `regular` work. “Regular” will be defined. The pension will be based on actual pensionable service. No enhancement given.</p>
<b>Review of ill health pensions</b>	<p>Ill health pensions would be subject to review by the Fire and Rescue Authority.</p> <p><b>Higher tier pension</b> - if the condition has improved so that the former scheme member could seek regular employment the enhancement would be removed and a pension based on actual pensionable the service would be substituted.</p> <p><b>Lower tier ill health pension</b> – if the condition improved so that the former scheme member could return to a role as firefighter, payment of the lower tier ill-health pension would cease. It would be replaced by a deferred pension which would not be put into payment until the earliest date at which a deferred pension can be paid. On cancelling payment of a lower-tier pension, the Fire and Rescue Authority would have to consider re-employing the person.</p>
<b>Death grant</b>	<p>A death grant will be payable in respect of serving members only. It will be equivalent to 3 x pensionable pay.</p>
<b>Pension guarantee</b>	<p>If the former scheme member dies within 5 years of the pension first becoming payable, a sum equivalent to the difference between 5 x pension and payments made will be paid (to the estate).</p>
<b>Widow(er)s’ and partners’ pensions.</b>	<p><b>Eligibility</b>  Payment would be made to:</p> <ul style="list-style-type: none"> <li>• a widow or widower (i.e. a person legally married to the scheme member at the date of death)</li> <li>• a civil partner (i.e. a person who had formed a civil partnership with the scheme member and the partnership had not ended before the date of death).</li> <li>• Unmarried partner (i.e. a person who together with the scheme member had completed and registered a joint declaration of partnership and who completes an acceptable claim form following the member’s death).</li> </ul> <p><b>Amount of pension:</b>  In the case of a serving firefighter, the pension would be one half of the notional pension that would have been paid to the scheme member had he/she been entitled to a higher tier ill- health pension at the date of death. In the case of a retired firefighter, the pension would be one half of the former member’s pension.</p>

<p><b>Children's Pensions</b></p>	<p><b>Eligibility:</b>  Payment would be made to -</p> <ul style="list-style-type: none"> <li>• a child of the scheme member, including a child born after the member's death if the mother was pregnant with that child at the time of death</li> <li>• a step-child of the scheme member;</li> <li>• an adopted child of the scheme member</li> <li>• any other child substantially dependant on the member and either related to the member, or the child of the member's spouse, civil partner or unmarried partner.</li> </ul> <p><b>Amount:</b>  In the case of a serving firefighter, for each child the pension would be one quarter of the notional pension that would have been paid to the scheme member had he/she been entitled to a higher tier ill-health pension at the date of death; this would be subject to a total limit of one of half of that pension.  In the case of a retired firefighter, for each child the pension would be one quarter of the former member's pension. This would be subject to a total limit one half of the former member's pension. Age limits will apply</p>
<p><b>Allocation of pension</b></p>	<p>At the request of the scheme member it will be possible to allocate part of his/her pension to a dependant.</p>
<p><b>Disputes and Appeals</b></p>	<p>Internal Dispute Resolution Procedures as required under Section 50 of the Pensions Act 1995 will give rights of appeal against the amount of award or the (dis)allowance of award. There will also be a medical appeal route.</p>

## **Annex B**

### Briefing Note

Response to proposals for new pension arrangements for firefighters.

#### **1. Will members of the existing pension scheme have to join the new scheme?**

No. The existing pension scheme will remain in operation for those who are already members. However, members of the existing scheme will have the opportunity to join the new scheme, if they wish, but it will be for individuals to decide what they want to do. The existing scheme will close to new members when the new scheme comes into operation.

#### **2. If existing scheme members transfer to the employment of another Fire and Rescue Authority (FRA) after the new scheme comes into operation, will they have to join the new scheme.**

No. A scheme member employed by a Scottish FRA, who transfers to another Scottish FRA, will retain entitlement to membership of the existing scheme. It is intended that a scheme member transferring to an FRA in England, Wales or Northern Ireland should be able to transfer and maintain membership of the current scheme and normal transfer procedures will apply.

#### **3. When will the new scheme come into operation?**

The proposal is that the new scheme should come into operation in April 2006. This is a tight deadline and it is more probable that it will come into operation later in the year, either on 1 July or 1 October.

#### **4. How is the new scheme going to be drafted?**

The Framework document (see Annex A) sets out the basis for the new scheme. The Firefighters' Pensions Committee (FPC) will be considering in detail the full provisions of the new scheme. From these discussions a final Blueprint will be prepared and this will form the instructions for the Legal Draftsperson. The ODPM draft will be considered by both the Executive and this agency and any Scottish specific amendments will be made before it is issued for consultation and a copy will be placed on the SPPA website. Copies of all papers to be discussed by the FPC will be placed on the ODPM website, [www.odpm.gov.uk/firepensions](http://www.odpm.gov.uk/firepensions) including the draft Blueprint and a link to this site will also be placed on the SPPA website.

#### **5. What is happening about changes to the existing scheme?**

A number of changes will be made to the existing scheme. These include:

- raising the minimum pension age from age 50 to 55 and the deferred pension age from 60 to 65;
- relaxing the rules on tax relief on all pension contributions (currently limited to 15% of earnings);
- introduction of a lifetime allowance for tax-privileged pension savings - this would be £1.5 million in the tax year 2006/07, rising each year to £1.8 million in tax year 2010/11;
- amendments which introduce pensions for civil partners.
- amendments to the ill health retirement benefits to bring them into line with the proposals for the new scheme. There will two tiers:

- ◆ the lower tier will be for those who are permanently disabled for the duties of their role but who are fit enough to undertake other regular employment. A pension would be paid on retirement, but without any enhancement.
- ◆ the higher tier will be for those who are permanently disabled for the duties of their role and for any other regular employment; a pension would be paid on retirement with enhancement of service. The enhancements for existing scheme members would be line with current principles.

## **6. Who is going to be able to retire at age 50 under the existing scheme?**

From April 2006, tax provisions are changing so that the earliest age at which someone may retire from an occupational pension scheme with immediate payment of pension will be age 55 (except where retirement is on grounds of permanent ill-health in which case payment can be made at any age). Pension schemes have some discretion over the date on which this change must become effective. In the consultation document, `Proposals for Amendments to the Firefighters' Pension Scheme` it was proposed that existing members who can retire before April 2013 either with a full pension after 30 years' service or with 25 or more years' service from age 50 would not be affected by any change in the minimum pension age for the scheme. This remains the case.

## **7. Why after 2013 should those who work for more than 30 years have to make pension contributions with no additional benefits?**

During the consultation exercise, concerns were raised by scheme members who:

- would achieve maximum pensionable service of 30 years before age 55, or
- had transferred service in from other pension schemes with the aim of retiring before age 55 and would now be prevented from retiring at that earlier date.

These concerns are addressed in Section 2 of the response document. This identifies three options which will be discussed further with the FPC. The Government initially set April 2013 as the date up to which the current minimum pension age could be protected for longer-serving members. However, this date is being kept under review and may be subject to change.

## **8. What is happening about injury benefits?**

A consultation exercise will be taking place this autumn, again on a UK wide basis, on the proposed Firefighters' Compensation Scheme which will bring together the provisions for injury benefits from the Firefighters' Pension Scheme and the death benefits from the Grey Book. We are obliged to separate these provisions from the pension scheme because such provisions can no longer be included in a pension scheme, and the Grey Book payments must be placed upon a proper statutory basis.

In the case of injury (including death resulting from injury), the principles of no fault compensation will be maintained as will the intention to compensate injured firefighters for loss of earnings. It is intended that the compensation should continue to be on loss of earnings principle and that it should apply, as at present, in respect of those who are members of the pension scheme (current or new) and also those who have chosen to opt out.

## **9. What is going to happen about pension arrangements for firefighters on Retained Duty System?**

This is covered in Section 16 of the response document on the new scheme. The proposal is that Retained Duty Firefighters will be able to join the new pension scheme. If they are already members



of a Personal Pension Scheme set up by the FRA they will be able to stay in that scheme. The FRA will not have to close such schemes for existing members. If the Personal Pension Scheme member would rather switch to the new scheme, he/she may do so. Full details about the options will be available nearer the time the new scheme comes into operation.

**10. What would happen if a member of the existing scheme were to opt out of that scheme: would he/she be able to rejoin the existing scheme at a later date?**

Once the new scheme has become operational the current FPS will be closed to new members. A former member of the existing scheme who wishes to rejoin will have to:

- apply for membership before the new FPS comes into operation; and
- satisfy the conditions of Rule G3 of the current FPS (e.g. give notice before age 45 and, if the FRA so resolve, undergo a medical examination at his or her own expense to demonstrate good health).