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Dear Colleague

SCOTTISH FIRE AND RESCUE SERVICE CIRCULAR No 12/2008

FIREFIGHTERS PENSION SCHEME (FPS)

NEW FIREFIGHTERS PENSION SCHEME (NFPS)

Scottish Fire and Rescue Services (SFRS) Circular 10/2008, issued on 5 June 2008, contained, at Annex 3, frequently asked questions concerning Additional Pension Benefits (APB) in respect of Long Service Increment (LSI) and the Continual Professional Development (CPD) Allowance. Some of the questions concerned index linking of the benefits.

Following enquiries from scheme administrators specifically concerning the application of pension increases to pensions that come into payment before age 55 (cases where retirement is not on medical grounds) the Scheme Actuary has been consulted. Their view is that, although the amendments made to the scheme rules provide for index linking, once the pension comes into payment any increases should be in accordance with the Pensions (Increase) Act 1971 and the annual Pensions Increase (Review) Orders. As such, pension increases to any pension in payment may not be applied until age 55.

Again, in the case of a person who retires with a deferred pension, the normal pensions increase rules will apply and any index linking of the APB will apply at the point that any pension comes into payment.

The affected questions/answers are 6, 7, 10, 11 and 12. We have amended Annex 3 of FRS Circular 10/2008 accordingly and a copy is attached below. We will also arrange for the amended note to be placed on our website: www.sppa.gov.uk/fire/circulars.htm .

Yours sincerely

Dorothy Hamilton

Policy Officer

Annex 3 to SFR Circular 2008/10 (Amended June 2008)

Additional Pension Benefits – Questions and Answers

1. Circular SFR Circular 2008/10 contained details of Additional Pension Benefits in respect of Long Service Increment and the Continual Professional Development Allowance.
2. Since issuing the circular we have received a number of enquiries concerning the calculation of the benefits and other related issues. This guidance note includes some of the more frequent questions asked and our response.

Q1: What is an “APB”?

A: “APB” stands for Additional Pension Benefit. It is a mechanism for calculating extra portions of pension that are additional to the main pension benefits (the main pension benefits are based on average pensionable pay¹). APBs are being used in the firefighters’ pension schemes to provide additional pension in respect of the, now defunct, Long Service Increment (LSI) and, the replacement, Continual Professional Development Allowance (CPD).

Q2: Why not just lump LSI and CPD in to Average Pensionable Pay?

A: LSI was phased out from 1st October 2006 and ended completely in June 2007, so a diminishing amount of LSI will feature in average pensionable pay from 1st July 2007 for the averaging period. Firefighters who retire from 1st October 2007 will be entitled to an LSI APB but with the option of having pension based on average pensionable pay, which would include LSI payments up to and including 30th June 2007, if that gives a greater pension. CPD cannot feature in average pensionable pay because it is not a permanent allowance. Without an APB, a firefighter who receives CPD during his/her career but not in the last three years’ of service would receive no benefits from the pension contributions paid on the CPD.

Q3: How is the LSI APB calculated?

A: The LSI APB is a single amount of pension benefit based on the number of years’ pensionable service during which LSI was paid to an individual up to and including 30th June 2007, the date when LSI ended, at a rate of £990.00 per annum. For FPS members, it takes account of double accrual where total pensionable service exceeds 20 years. For example a firefighter receiving LSI on completion of 15 years’ service who receives LSI for a further 10 years will receive an APB based on 15/60ths (5 years at single accrual for years 15 to 20 and 5 at double accrual for years 20 to 25).

Q4: I lost my LSI when I was promoted on the 2nd April 2007. Up until then, I had paid pension contributions on my LSI so why can’t I get any pension benefits for those contributions?

¹ Average Pensionable Pay (referred to as “Final Pensionable Pay” in the NFPS) is often referred to as the “best of the last three years rule”. It is the aggregate of pensionable pay for the year ending with the last day of service or one of the two preceding years if that yields a higher amount.

A: The LSI APB was introduced in recognition of the short phasing out period (1st October 2006 to 30th June 2007) and designed to give some benefits to those who had expected LSI to feature in the calculation of pension. However, there were circumstances in which a firefighter could lose LSI that existed prior to the phasing out. Those circumstances were outside the scope of the new arrangements. Of course, firefighters who retire within three years of losing LSI will benefit from the protection afforded by the average pensionable pay rule.

Q5: What LSI and CPD payments should a firefighter have received during the year commencing on 1st October 2006.

A: Our understanding is that, with effect from 1st October 2006 the LSI element of pay was halved from £990 per annum to £495 per annum ending on 30th June 2007. In recognition of the delay in implementing the CPD arrangements, the NJC approved additional pensionable payments totalling £371.25. These payments were to be made in two instalments of i) £165 paid in January 2007 and ii) £206.25 paid in June 2007. Where a firefighter retired or ceased entitlement to LSI before 30th June 2007, the additional payments were paid pro-rata. CPD “proper” commenced from 1st July 2007 for those who qualified, with rates of allowance varying between Fire and Rescue Authorities (FRAs). For APB purposes we are treating the payments made between 1st October 2006 and 30th June 2007 as “interim or transitional payments connected with long service”.

Q6: The APBs are index linked. How does this work for the LSI APB?

A: Entitlement to an LSI APB commenced on 1st October 2007 for those in service on that date. Therefore, theoretically, every firefighter who was entitled to LSI up to, and including, the 30th June 2007, should have an LSI APB calculated on 1st October 2007. The value of the LSI APB is index linked in accordance with the pension scheme rules until retirement and, when the APB comes into payment with the main pension, then becomes subject to the Pensions Increase Act.

Q7: If I retire before reaching age 55 in the FPS (and not on medical grounds) will my LSI APB payments be index linked immediately even though my main pension payments will not be until I reach 55?

A: The LSI APB will be index linked but where a person retires from the FRS before reaching normal pension age (and not on medical grounds) the value of the APB will be “frozen” at the level reached at the point of retirement. When the pension comes into payment, the value of the APB will be index linked but in accordance with the Pensions Increase Act. Therefore, increases will not be applied to the LSI APB or the main pension in payment until the person reaches age 55.

Q8: Am I able to commute my LSI APB for a lump sum?

A: Yes, normal commutation rules will apply to the LSI APB.

Q9: How is the CPD APB calculated?

A: The CPD APB is an amount of pension purchased by the pension contributions made by the employee and the employer on an individuals’ CPD allowance. For the FPS, the contribution total rate is 37.5% (of which 11% is from the employee) and for the NFPS the total rate is 22.7% (of which 8.5% is from the employee). The contributions purchase pension, with the cost of each £1 of pension being determined by factors in tables provided by the Scheme Actuary. The amount of pension purchased is formally valued on the day following the end of the CPD period i.e., 1st July, and added to an APB pension “pot”. For each subsequent year in which a firefighter qualifies for

CPD an additional amount of pension is added to the “pot”. When the firefighter retires, the total of the pension “pot” is paid at the same time as the main pension.

Q10: How does index linking work for the CPD APB?

A: The CPD APB valued on 1st July is index linked and any increase applied in the following April in accordance with the scheme rules. A full years’ increase (rather than pro-rata July to April) is applied for simplicity (the Actuarial factors were adjusted accordingly). This allows the amounts of pension for individual years to be rolled forward and revalued as a single total.

Q11: If I retire before reaching age 55 in the FPS (and not on medical grounds) will my CPD APB payments be index linked even though my main pension will not be until I reach 55?

A: The CPD APB “pot” (there may well be several CPD APBs rolled together at the time of retirement) will be index linked by reference to the rules of the pension scheme up to the date of the person’s retirement. Where a person retires from the FRS before reaching normal pension age (and not on medical grounds) the value of the pot will be “frozen” at the level reached at the point of retirement. When the pension comes into payment the value of the pot will be index linked but in accordance with the Pensions Increase Act. Therefore, increases will not be applied to the CPD APB pot or the main pension in payment until the person reaches age 55.

Q12: Am I able to commute my CPD APB for a lump sum?

A: Yes, normal commutation rules will apply to the CPD APB.

Q13: How are APBs treated for transfers out of the pension scheme?

The formula for calculating a transfer out that includes an APB either from CPD contributions or from LSI is:

$$[(CP + APB_{pen}) \times F_p + (SUR + APB_{sur}) \times F_{sur} - NI \times F_{ni} - (PRE\ GMP + 0.45 \times POST\ GMP) \times F_{gmp}] \times AMC$$

Where:

CP = personal pension

APB_{pen} = additional pension purchased through contributions on CPD payments and any LSI APB

SUR = pension that would be payable on the death of the member to their spouse/survivor

APB_{sur} = additional survivor’s pension purchased through contributions on CPD payments and from any LSI APB

NI = national insurance modification

PRE GMP = GMP accrued before 6.4.88

POST GMP = GMP accrued after 6.4.88

F_p = factor for personal pension

F_{sur} = factor for spouse/survivor, according to status

F_{ni} = factor for national insurance modification

F_{gmp} = factor for GMP

AMC = Adjustment for market conditions

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