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The Chief Executives, Fife Council and Dumfries & Galloway Council
Firemasters
Clerks to the Joint Boards

Our ref: FIR/06/01/01

10 February 2006

Dear Sir/Madam

SCOTTISH FIRE SERVICE CIRCULAR 3 /2006

FIREFIGHTERS PENSION SCHEME (FPS)

1. Changes to how lump sum commutation payments can be made from 6 April 2006

Annex A explains the changes being made by the new tax regime that affect when a commuted lump sum payment can be made. Currently under Rule B7(7) FPS members have up to six months to decide if they wish to commute part of their pension entitlement to a tax free lump sum. Although most members make the decision at the time of retirement the facility to make a change after the pension has been put into payment is possible resulting in the reduced pension being put into payment. From April 2006 this will no longer be possible and any decision to commute must be made before the pension comes into payment.

The necessary amendment to Rule B7 will be included in the Order being drafted taking into account changes necessary due to the new tax regime.

Urgent action required by administrators

There may be some members who have retired since 5 October 2005 who have still not decided on whether to commute part of their pension or not and those members due to retire between now and 5 April 2005 who need to be made aware of this change. FRA's need:

(a) to contact urgently former active and deferred members who started taking a pension after 5 October 2005 but who didn't decide to take any lump sum at that time (if there are any in this category), to warn them that if they are planning to commute pension they need to give formal notice by 5 April 2006;

(b) to ensure that any active or deferred members taking a pension between now and 6 April 2006 are warned that they have only until 5 April 2006 to give formal notice of their commutation decision if they wish to avoid tax charges as explained above;

(c) to tell active and deferred members in general that from 6 April 2006 decisions to commute pension to lump sum have to be taken at the time a pension is first awarded;

(d) to amend any scheme literature as soon as possible to minimise the risk of members being misled and maladministration claims. ODPM will arrange for the Commentary on the web site to be amended accordingly.

2. Guidance Notes

A new tax regime for pensions comes into operation on 6 April 2006 ("A-Day") and, in response to concerns, to assist Fire and Rescue Authorities (in particular administrators of the Firefighters' Pension Scheme (FPS)) and scheme members, we have prepared two guidance notes on primary protection. These are based on the best information we have received from HM Revenue and Customs (HMRC) and, therefore, we hope that they will be an accurate guide. The HMRC on-line guide can be found at:

www.hmrc.gov.uk/manuals/rpsmmanual/index.htm

Guidance Note 1/2006 provides technical notes for administrators on the valuation of FPS benefits at 5 April for primary protection purposes.

Guidance Note 2/2006 covers the impact of the new tax regime on high earners in the Firefighters' Pension Scheme.

Yours faithfully

J. Preston.

Jim Preston

Commutation of pension in retirement for lump sums

Background

A number of public service schemes have rules or practice allowing members to commute part of their pension in retirement to provide a lump sum. Under the current tax legislation, such lump sums may be paid tax free. Under the simplified tax regime for registered pension schemes this will not be the case.

Position after A Day

The only lump sum that may be paid in connection with the member becoming entitled to a scheme pension is a pension commencement lump sum (PCLS) – s.166(1)(a) FA04.

To be a PCLS, a lump sum must satisfy the conditions set out in paragraph 1(1) of Schedule 28 to FA04

One condition is that the member must become entitled to the lump sum in connection with the member becoming entitled to a relevant pension (which includes a scheme pension).

S.166(2)(a) provides that a person becomes entitled to a PCLS immediately before becoming entitled to the pension in connection with which it is paid. And a person becomes entitled to a pension when the person **first** acquires an actual right to receive the pension (s.166(3)(b).

HMRC's interpretation of the above is that commutation of a pension to provide a PCLS must be done at the time of entitlement to a pension first arises.

The scheme than has a period of 3 months in which to pay the lump sum derived by the commutation of pension if it is to be a PCLS. The 3 month rule is intended to cater for possible administrative delays in paying a lump sum, not to permit commutation after retirement.

Accordingly, a lump sum paid by commutation of a pension already in payment cannot be a PCLS. It will be an unauthorised payment and the tax charges for unauthorised payments will apply as appropriate.

In addition, the scheme pension payable at 6 April 2006 will be reduced following commutation. This reduction will fall foul of paragraph 2(3)(b) of Schedule 28 which provides that a reduced pension ceases to be a scheme pension. Since the reduction will not fall within any of the excluded categories set out at sub-paragraph (4), the unauthorised payment tax charges will also apply in respect of the reduced pension.

Schemes which currently have a rule permitting commutation of a pension in payment may therefore wish to amend their rules to provide that, from 6 April 2006, notice of commutation must be given before the member's intended date of taking their scheme pension.

HMRC do not consider there is a case for transitionally protecting the option to commute in retirement. Such an option has never been allowed under HMRC's requirements for discretionary approval where lump sum benefits must normally be paid only once and at the time of retirement - it is a relic of the era when statutory schemes did not have to meet any HMRC requirements or conditions to qualify for tax reliefs.

HMRC has considered whether a degree of protection (for commutation by pre-A Day pensioners before 6 July 2006) is afforded by paragraph 2 of the Pipeline Lump Sums draft regulations (which are available on the HMRC website at www.hmrc.gov.uk/pensionschemes/draftregs.htm.

Our view is that where a valid notice to commute part of the member's pension is received before 6 April 2006, an entitlement arises to a lump sum at that time so paragraph 2 will apply. Provided the lump sum is paid before 6 July 2006, the lump sum will be a PCLS. And the resulting reduction in the scheme pension will not fall foul of paragraph 2(3)(b) of Schedule 28 as the member will only have been entitled to the reduced pension at 6 April 2006.

But where the notice is not received until on or after 6 April 2006 the lump sum will fall outside the lump sum payments covered by the regulations because it is not a lump sum to which the member became entitled before 6 April 2006 as required by paragraph 2(1)(c). This is because the member is entitled to all their benefits in pension form at 5 April 2006. And the reduced pension will also be an unauthorised payment.

So, with regard to members who retire before 6 April 2006 and have not already given notice of commutation, they will need to give notice before 6 April to avoid giving rise to unauthorised payments and consequent tax charges.

FPS Guidance Note 1/2006

INTRODUCTION OF NEW TAX RULES FOR PENSION SCHEMES

VALUATION OF FIREFIGHTERS' PENSION SCHEME BENEFITS AT 5 APRIL 2006 FOR PRIMARY PROTECTION PURPOSES:

TECHNICAL NOTES FOR ADMINISTRATORS

The valuation at 5 April 2006 for purposes of Primary Protection must take into account <u>all</u> pension rights held by the firefighter and so account must be taken not only of accrued benefits under the Firefighters' Pension Scheme ("FPS") but also pension rights held in any other pension arrangement, e.g. deferred benefits in some other occupational pension scheme, personal or stakeholder pensions, Additional Voluntary Contributions attached to a previous pension scheme, or Free Standing Additional Voluntary Contributions.

It will be the firefighter's responsibility to obtain this information and add it to the FPS valuation when seeking Primary Protection.

These notes concentrate on how the benefits should be valued under the FPS. The notes are based on clarification given by Her Majesty's Revenue and Customs ("HMRC") to the Firefighters' Pension Team, ODPM.

The references below to sections and schedules are to those contained in the Finance Act 2004.

Valuation formula

The valuation is made under Part 2 of Schedule 36 and should be carried out in accordance with section 212. Section 212 gives the formula for the valuation as –

(RVF x ARP) + LS

where –

RVF is the relevant valuation factor

ARP is the annual rate of pension to which the member would, on the valuation assumptions, be entitled under the arrangement on the date if, on the date, the member acquired an actual (rather than a prospective) right to receive a pension in respect of the rights, and

LS is the amount of any lump sum to which the member would, on the valuation assumptions, be entitled under the arrangement on the date (otherwise than by way of commutation of pension) if, on the date, the member acquired an actual (rather than a prospective) right to payment of a lump sum in respect of the rights.

Relevant valuation factor

This is given in section 276 and is "20" for this purpose.

Annual rate of pension

Pensionable service and average pensionable pay are needed to assess the pension.

Firstly, how should service be used in the calculation? The FPS is an end-loaded fast accrual scheme, which allows – on age retirement – benefits to be based on 1/60th of average pensionable pay for each of the first 20 years of service, 2/60ths for each year thereafter, to a maximum of 40/60ths. But if benefits have to be assessed where entitlement to immediate payment of an award does not exist, "uniform accrual principles" are normally used; this is how a deferred pension would be assessed – each year of service attracting part of the double reckoning potential.

Which method is correct for valuing benefits for Primary Protection purposes?

The definition of "ARP" in section 212 indicates that for the valuation at 5 April 2006 the pension has to be worked out as if the firefighter had entitlement to receive it at that date – note the reference to "actual (rather than prospective) right to receive a pension". This means that the fast accrual 1/60th and 2/60th principles are used as for an age retirement pension (e.g. as under Rule B2 of the FPS Order 1992). Do not use uniform accrual deferred pension principles (nor apply ill-health enhancement!).

Secondly, how is average pensionable pay assessed? Rule G1(2) of the FPS Order 1992 applies a limit to pensionable pay for anyone who joined the FPS after 31 May 1989; this is the "earnings cap" as required under the Income and Corporation Taxes Act 1988. For tax year 2005/2006, the earnings cap is set at £105,600.

Consequently, for a firefighter –

- who joined the FPS on or after 1 June 1989, and

- whose pay for duties in relation to his/her role exceeds £105,600 a year

pensionable pay and average pensionable pay for working out FPS benefits must not exceed £105,600.

As will be seen from the Examples later in these notes, even with maximum service this would not bring the firefighter up to the required level of pension value to be eligible to seek Primary Protection based on FPS benefits alone.

What about those who joined the FPS before 1 June 1989?

As an administrator you may be aware that for those who are members of "tax approved" pension schemes and whose pay has exceeded the earnings cap, tax rules require that the pay used in the pension assessment should be an average of the last <u>three</u> years' pensionable pay (or the earnings cap if greater). However, HMRC have clarified that the FPS 1992 is not an "approved" scheme, even though it complies with many of the rules applicable to such a scheme. Although HM Treasury required that the "earnings cap" should be put into the FPS for those who joined on or after 1 June 1989, the requirement that pensionable pay should be averaged over the last three years prior to retirement does not apply, even if pensionable pay has exceeded £105,600.

Therefore, when working out the average pensionable pay to use in the assessment of pension as at 5 April 2006 you will average the pensionable pay received for the period 6 April 2005 to 5 April 2006, not the period 6 April 2003 to 5 April 2006. Or, if it would have been higher, the average pensionable pay for the period 6 April 2004 to 5 April 2005, or 6 April 2003 to 5 April 2004 could be substituted.

Lump sum

The definition says that this is the lump sum to which the member would be entitled "otherwise than by way of commutation of pension". The FPS offers a lump sum only by commutation and so "LS" in the formula will be "0".

In this respect the valuation of benefits at 5 April 2006 differs from the method used when benefits come into payment. Then, account must be taken of any election to commute. The pension to be multiplied against the relevant valuation factor will be the portion left after commutation and the lump sum from commutation will be added on as "LS".

Examples

A firefighter joined the FPS after 31 May 1989 and transferred pension rights from his previous occupational scheme. He has 30 years' service on 5 April 2006. His pay for the past three years has been £108,000, then £114,000, and finally £120,000.

Using fast accrual principles his service would give him a pension based on 40/60 x average pensionable pay. However, his pensionable pay has been limited to the earnings cap since he joined the FPS. Average pensionable pay for the period 6 April 2005 to 5 April 2006 would be £105,600. Consequently the valuation of FPS benefits for Primary Protection would be:

(40/60 x £105,600) x 20 + 0 = £1,408,000

To be able to claim Primary Protection the firefighter must have benefits valued in excess of £1,500,000 at 5 April 2006. His FPS benefits are below this level.

A firefighter joined the FPS before 1 June 1989. He has 28 years' service. His average pensionable pay for the period 6 April 2005 to 5 April 2006 is £130,000. This is higher than for the two previous years.

Using fast accrual principles, his service would give him a pension based on 36/60 x average pensionable pay. Consequently the valuation of FPS benefits for Primary Protection would be:

(36/60 x £130,000) x 20 + 0 = £1,560,000

Because this value is in excess of £1,500,000 he can seek Primary Protection.

INTRODUCTION OF NEW TAX RULES FOR PENSION SCHEMES

EFFECT ON HIGHER EARNERS IN THE FIREFIGHTERS' PENSION SCHEME GUIDANCE FOR SCHEME MEMBERS

The Firefighters' Pension Scheme, like many other pension schemes, is constructed to comply with tax rules made by Her Majesty's Revenue and Customs ("HMRC").

With effect from 6 April 2006 ("A-Day"), a new set of tax rules will be introduced. The current Firefighters' Pension Scheme will have to be amended to ensure compliance with these new rules and the new Firefighters' Pension Scheme will have to be built around them.

Amendments will be publicised and issued for consultation as the redrafting takes place.

In the meantime, you may have heard about steps that higher earners can take to protect their accrued pension rights if the introduction of the new tax rules would have an adverse effect. The purpose of these notes is to explain what this protection is so that you can consider whether or not you should apply for it. It is important to emphasise, however, that while the ODPM and your pensions administrator can provide general information they cannot give advice or act for you. These notes explain a small part of a very complex subject and contain a number of generalisations. If, having read the notes, you think you could be affected, the HMRC website gives details of the steps you need to take. Or you may wish to talk to an independent financial adviser for guidance. (Your employer, trade union, or professional association may be able to tell you how to find a suitable adviser.)

Limits on benefits from 6 April 2006

You may be aware of some of the tax limits which currently apply to a "defined benefit" scheme like the Firefighters' Pension Scheme. For example, a pension cannot be greater than two-thirds of final pay, members cannot pay more than 15% of pay by way of contributions, and someone who joined the Scheme on or after 1 June 1989 is not allowed to pay contributions, or have benefits assessed, on pay above the "earnings cap" – currently £105,600.

On A-Day the new tax regime will set a new range of limits. Some are based on new principles and may be more generous than current requirements. This does not mean, however, that a pension scheme has to change all of its rules to allow the maximum benefits permitted under the new regime. As long as its benefit structure lies within the limits allowed by HMRC it will be an "approved" scheme.

One limit which is new, and on which these notes concentrate, is the "lifetime allowance".

The lifetime allowance

The lifetime allowance is a figure against which the total value of all your pension savings are tested when they come into payment. Unlike current tax limits, you will be allowed to exceed the lifetime allowance, but the "penalty" is that you would have to pay tax on the excess.

Note that it is the total value of your pension savings, not just those accrued as a member of the Firefighters' Pension Scheme, that must be tested against the lifetime allowance. As part of the administrative process of putting your benefits into payment, your pensions administrator will ask you to declare what other pension arrangements you have and to what extent they use up part of the lifetime allowance.

How much is the lifetime allowance?

HMRC have set the lifetime allowance at the following levels for the next five tax years:

Tax Year	Lifetime Allowance
2006/07	£1,500,000
2007/08	£1,600,000
2008/09	£1,650,000
2009/10	£1,750,000
2010/11	£1,800,000

So if you were to retire, say, during tax year 2006/07, the value of your accrued pension rights would have to be assessed against a lifetime allowance of £1,500,000. If the value of benefits exceeds this amount, you would still be eligible to receive the excess but it would be taxed. The tax is called a “lifetime allowance tax charge".

How much is the lifetime allowance tax charge?

There are two different rates of lifetime allowance tax charge.

The charge on the excess value taken as a lump sum is 55%, and 25% is the charge on any excess value taken as a pension (remembering that standard PAYE deductions will also be made from instalments of pension). The lifetime allowance tax charge will be paid to HMRC by the pension scheme administrator and recovered from the scheme member by a reduction applied to the benefits

How is the value of benefits worked out?

The formula for valuing benefits is fairly straightforward – the annual pension is multiplied by 20 and then the lump sum is added on.

For example, a member of a scheme which gives a fixed amount of lump sum equivalent to three times the pension may receive a pension of £50,000 and a lump sum of £150,000 in the tax year 2006/07. To test against the lifetime allowance this would be valued as:

(£50,000 x 20) + £150,000 = £1,150,000

How would benefits under the Firefighters' Pension Scheme be valued?

As you are aware, there is no automatic lump sum for firefighters – they must elect to commute a portion of pension to provide a lump sum. And the amount of lump sum provided by commutation will depend upon commutation factors.

HMRC have advised that, for testing benefits under the Firefighters' Pension Scheme against the lifetime allowance –

- benefits should be calculated in accordance with standard "fast accrual" principles
- the amount of lump sum derived from commutation must be assessed before the benefits are valued.

The "fast accrual" principles of the Firefighters' Pension allow double reckoning of each year of pensionable service after the first 20, i.e.

each year of service to 20 years	⇨	reckons as 1/60th
each year of service after 20 years	⇨	reckons as 2/60ths
30 years or more	⇨	reckons as 40/60ths (maximum permissible under current tax rules)

and the following table sets out the commutation factors to be used according to the age and sex of the firefighter –

Age next birthday when pension becomes payable	Capital sum for each £100 of pension commuted	
	Men	Women
under 50		
50	1500	1725
51	1500	1725
52	1500	1725
53	1490	1705
54	1480	1685
55	1465	1660
56	1450	1625
57	1425	1600
58	1390	1575
59	1355	1550
60	1320	1520
61	1300	1500
62	1270	1470
63	1230	1430
64	1190	1400
65	1150	1360
	1110	1320

Example of valuation of a firefighters' benefits

Let's assume a firefighter retires at age 50 with 30 years' service and average pensionable pay of £84,000 during tax year 2006/07.

With 30 years' service the pension based on fast accrual principles would be:

40/60 x £84,000 = £56,000 a year

If the firefighter chooses not to commute any part of the pension, the valuation of pension rights for the lifetime allowance would be:

£56,000 x 20 = £1,120,000

This is within the lifetime allowance for 2006/07 (£1,500,000) and so no tax charges would apply.

At what point is the lifetime allowance likely to be exceeded?

This is difficult to predict because it will depend upon length of service, average pensionable pay, whether or not the firefighter elects to commute, whether the firefighter has other pension benefits outside of the FPS and the relevant commutation factor. However, in a case where a firefighter has completed 30 years' service, and does not commute, an average pensionable pay of £112,500 would result in a valuation of £1,500,000 (the 2006/07 lifetime allowance) as follows:

40/60 x £112,500 x 20 = £1,500,000

If the firefighter is male, aged 50, has a commutation factor of 1500 for each £100 of pension (i.e. a factor of 15 for each £1), and chooses to commute one quarter of his pension, the valuation would be as follows:

pension before commutation: 40/60 x £112,500 = £ 75,000

pension after commutation: £75,000 x 3/4 = £ 56,250

lump sum from commutation: £75,000/4 x 1500/100 = £281,250

This arrangement of benefits would be valued as:

(£56,250 x 20) + £281,250 = £1,406,250

As you can see, if a firefighter chooses to commute a portion of pension, the use of a commutation factor which is less than 20 for each £1, results in a lower valuation figure. This means that the average pensionable pay could be higher before the lifetime allowance is exceeded. And the older the firefighter at retirement, the lower the commutation factor – so an even higher average pensionable pay could be used before reaching the limit.

As a general rule-of-thumb principle, however, consider that average pensionable pay of £112,500 could bring you up to the lifetime allowance limit for 2006/07 if you have 30 or more years' service.

The value of my benefits may already exceed the lifetime allowance of £1,500,000. What can I do to protect my pension rights?

There is no limit on the benefits themselves but the excess over the lifetime allowance will be subject to tax charges. However, HMRC will allow a form of Transitional Protection for those who are members of a pension scheme immediately before A-Day and whose benefits exceed £1,500,000.

There are two forms of protection that can be sought – Enhanced Protection and Primary Protection.

Enhanced Protection

Enhanced Protection can be sought by anyone, regardless of the level of their accrued benefits immediately before A-Day. This form of protection, however, requires that benefits after A-Day should have limited growth. It may mean leaving the pension scheme to ensure this. This is not something which would be monitored by the administrators of the pension scheme. If a person who claims this form of protection loses the protection because of the growth in benefits, the onus is on that person to notify HMRC within 90 days or face a financial penalty of £3,000. It is not expected that those who wish to stay subject to a defined benefits scheme like the Firefighters' Pension Scheme would seek Enhanced Protection.

Primary Protection

This is the form of protection that is most likely to be sought by high earners in the Firefighters' Pension Scheme. To claim this form of protection, however, the value of a person's pension rights must be greater than £1,500,000 on 5 April 2006.

To value a serving firefighter's pension rights for this purpose, the assumptions used are –

- the service for assessment of pension will be assessed on fast accrual principles as if, on 5 April 2006, the firefighter qualified for immediate payment of benefits on age grounds;
- the average pensionable pay will be assessed as if the last day of service were 5 April 2006
- there is **no** commutation of pension to provide a lump sum[1].

If, for example, you are a firefighter with 28 years' service at 5 April 2006 with average pensionable pay of £116,000 and no other pension rights, the valuation to test if you can seek Primary Protection would be –

$$[20/60 + (8 \times 2/60) \times £116{,}000] \times 20 = £1{,}392{,}000$$

This is less than £1,500,000 and so you would not be able to seek Primary Protection.

If, however, your average pensionable pay for the same period was £140,000, the valuation would be –

[1] Note that this is a different principle from that which would be used when testing your benefits against the lifetime allowance when you retire. Then, account would be taken of the amount you wish to commute. The pension figure used in the valuation would be the pension after commutation, and the lump sum by commutation would be added on at the end of the formula. See the example on the previous page.

$[20/60 + (8 \times 2/60) \times £140,000] \times 20 = £1,680,000$

Being greater than £1,500,000 you **can** seek Primary Protection from HMRC.

What does it mean to be given Primary Protection?

If HMRC accept your notification, the proportion of the value of your pension rights which exceeds the £1,500,000 lifetime allowance for tax year 2006/07 will be protected from tax charges and will be used to increase the lifetime allowance for future years. This is called the Primary Protection factor.

For example, if the value of a person's pension at 5 April 2006 was valued at £3m, the Primary Protection factor would be 1:

$$\frac{£3,000,000 - £1,500,000}{£1,500,000} = 1$$

If this person retires in 2010/11 when the standard lifetime allowance is £1,800,000, before the value of pension rights are tested the standard lifetime allowance must be increased by the Primary Protection factor –

$$£1,800,000 + (£1,800,000 \times 1) = £3,600,000$$

If the value of pension rights is less than this, there will be no tax charges; if the pension rights are greater, tax charges will be assessed on the excess.

Looking back to the example of the firefighter whose pension rights were valued at £1,680,000 at 5 April 2006, the Primary Protection factor would be –

$$\frac{£1,680,000 - £1,500,000}{£1,500,000} = 0.12$$

If the firefighter retires in 2008/09 the standard lifetime allowance will be £1,650,000. Before the value of pension rights are tested against this, the allowance must be increased by the Primary Protection factor –

$$£1,650,000 + (£1,650,000 \times 0.12) = £1,848,000$$

If the value of pension rights is less than this, there will be no tax charge; if the pension rights are greater, a tax charge will be assessed on the excess.

How do I claim Primary Protection?

HMRC will produce a special form and guidance notes which can be downloaded from their website from A-Day. To claim Primary Protection the relevant parts of the form must be completed to notify HMRC that you intend to rely on this form of protection. On receipt of the form, HMRC will process it and issue you with a certificate; it will have a unique reference number and give details of the protection. Your pension administrator will ask for sight of this form before processing your benefits on retirement.

The notification must reach HMRC by 5 April 2009. Clearly the valuation of your benefits as at 5 April 2006 must be 100% accurate if you are seeking Primary Protection. It may be that you have a pay award pending or are looking to promotion before that date (but be aware that HMRC will not approve any artificial inflation of benefits designed to take unfair advantage of the protection options). Consequently it is advisable to wait at least until 5 April 2006 to have your benefits valued. Your pension administrator will be able to produce the valuation for you, but cannot advise on any particular course of action.

Is there anything else I need to consider?

Remember that it is the value of **all** pension rights that have to be taken into account when making a comparison with the lifetime allowance and when considering whether you should seek Transitional Protection at A-Day.

If you have pension rights in addition to those you are accruing in the Firefighters' Pension Scheme, you will have to obtain a valuation of those pension rights from the administrator of the relevant pension arrangement and add it to your Firefighters' Pension Scheme valuation. This could include previous pension rights in an occupational or personal pension scheme not transferred in to the Firefighters' Pension Scheme, or a stakeholder pension, or an Additional Voluntary Contributions or Free-Standing Additional Voluntary Contributions arrangement. It would not include your accrued entitlement to benefits from the State pension scheme.

In the exceptional circumstances that you may already be in receipt of a pension under the Firefighters' Pension Scheme and have again become an active member, the benefits already payable (or which would be payable but for the application of an abatement policy) will have to be valued, too. The method of valuation for these benefits would be to multiply the annual pension, plus any Pensions Increase on the benefits, by a factor of 25. No account would be taken of any lump sum paid.

Currently, a firefighter planning the best date on which to retire will take into account such issues as length of service, dates of pay awards, and commutation factors. In future, the commencement of a new tax year may be important, too. For example, a firefighter whose total benefits are valued at £1,700,000 at the beginning of April 2009 may decide to wait until 6 April 2009 to retire. On that day the lifetime allowance will increase from £1,650,000 to £1,750,000 and so no tax charges would be due.

Where can I find HMRC guidance?

The process of introducing the new tax regime is called "Simplification" and you will have to follow references to "Simplification" on the HMRC site to find the relevant forms and guidance notes. The relevant part of the site can be found at:

www.hmrc.gov.uk/pensionschemes/pts.htm

Some of the guidance and legislation is still under development. You will see that it is quite complex as it has to provide for a wide range of types of pension scheme. Although the form on which to apply for protection will not be available until A-Day, you can see a draft version of the form and explanatory notes by clicking on "Draft versions of the main forms" and then "Protection of Existing Rights".