



SCOTTISH PUBLIC PENSIONS AGENCY

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Dear Colleague

SCOTTISH FIRE AND RESCUE SERVICE CIRCULAR No 14/2008

FIREFIGHTERS PENSIONS SCHEME (FPS)

NEW FIREFIGHTERS PENSION SCHEME (NFPS)

1. Background

1.1 This circular advises about:-

(i) revised commutation factors prepared by the Government Actuary for the purposes of calculating the lump sums payable to persons who commute part of their firefighter's pension under Rule B7 of the Firefighters' Pension Scheme 1992 (FPS); and

(ii) guidance from the Government Actuary about trivial commutation under Rules B8 and E5 of the FPS and Part 3, rule 10 and Part 5, rule 5 of the New Firefighters' Pension Scheme 2006 (NFPS); and capitalisation for death gratuities under Rule E4 of the FPS.

2. Revised Commutation Factors

2.1 The current age-related factors were drawn up by the Government Actuary in 1998. No change has been made by the Government Actuary until now.



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- 2.2 The new factors, with explanatory notes, are set out in the attached Guidance Note prepared by the Government Actuary.
- 2.3 The new factors will apply to any pensions commencing on or after 9 September 2008
- 2.4 It should be noted that the new factors will be gender neutral and age related.
- 2.5 They are higher than both the existing male and female factors, so the amount of lump sum which may be obtained by commutation in the FPS is increased.
- 2.6 The new factors vary with attained months of age rather than age next birthday. This increases the number of steps in the factors and so reduces the size of the steps. This avoids the situation, which could arise under the previous arrangements, whereby a lump sum could be substantially smaller if retirement is delayed by one day.
- 2.7 Application of the new factors is in terms of completed years and months on the day before pension commences (so any member retiring the day before a birthday would automatically enjoy the higher factor relating to the previous whole month of age). There is no longer in effect a requirement to retire at least two days before the next birthday.
- 2.8 The worked example below illustrates how the revised commutation factors should be applied in cases where an individual's pension does not commence on their birthday. The worked example highlights that when determining the relevant commutation factor for any particular case, FRAs will need to establish the age of the individual in whole years and calendar months at the date that their pension commences e.g. if an individual's 50th birthday was 18th July 2007, then on 18th August 2007 they would be aged 50 years and 1 month.

Example – FPS: retiring from active service

Date of birth:		10 October 1954
Date pension commences:	13 May 2008	
Total pension payable:	£20,000 pa	
Age on day pension commences:		53 years 7 months

Maximum pension that can be commuted: £5,000 pa

Lump sum payable	= pension given up x factor from table 1
	= 5,000 x 18.28
	= £91,400



3. Backdating of FPS factors

- 3.1 The effect of the new factors is backdated to 1 October 2007. This means that the new factors apply to any member of the FPS who retired with an immediate pension on that date or later (i.e. whose last day of service was 1 October 2007 or later) or whose deferred pension came into payment on that date or later. This will require the payment of interest in some cases.
- 3.2 Authorities will already be aware that these factors were introduced in the rest of the UK for FPS members in May 2008 but with an identical backdating date of 1 October 2007.

4. Action to be taken

Implementation of the new factors going forward

- 4.1 The new factors must be applied to any member who retires or has retired on or after 1 October 2007, so the backdating arrangements described in the paragraphs which follow must take into account any member who retires between now and the date on which all the practical steps necessary to implement the new factors are brought into effect.

Identification of members entitled to backdated payments

- 4.3 Administrators must identify any member who retired on or after 1 October 2007, or whose deferred pension came into payment on or after that date, and who commuted some of his or her annual pension for a lump sum under the Firefighters' Pension Scheme 1992. In all such cases the lump sum to which the member is entitled must be recalculated using the new factors and guidance, based on the terms of the member's original notice of commutation.
- 4.4 As a matter of priority administrators must identify those members who retired from 1 October 2007 onwards. Any backdated payments under these arrangements are authorised payments for the purposes of the Finance Act 2004, provided that they are made within 12 months of the date on which the officer retired. They do not constitute a new benefit crystallisation event.
- 4.5 Hence those qualifying members who are approaching the anniversary of their retirement **must** be dealt with before the twelve month time limit to avoid any potential tax charge.
- 4.6 Such members will, given the higher new factors, be entitled to an additional payment. Authorities will need to write to the members concerned to explain the reason for the additional payment. The default position is that the member is given more lump sum, but he or she will be given an opportunity to

return the money and request additional annual pension instead if he or she does so within one month of the date of the notification, or such longer period as the authority may in their discretion allow in exceptional circumstances.

- 4.7 Subject to paragraph 4.4 the additional amounts must be paid to members as soon as can be arranged, subject to the following considerations:
- interest must be paid on any payment made three months or more after the entitlement arose;
 - members who retired with less than 30 years service and who commuted to give a maximum lump sum of 2¼ times the annual pension before commutation cannot receive any additional lump sum payment, but must instead receive the extra money to which they are entitled in the form of additional annual pension;
 - some members who retired with less than 30 years service who did not commute to give a maximum lump sum might nevertheless be taken over the maximum by the additional payment – in which case they will receive an additional lump sum payment up to the maximum and the rest as additional annual pension.

Payment of interest

- 4.8 Interest should be paid in line with an authority's usual practice in relation to backdated payments.
- 4.9 Interest on backdated payments should be calculated at the fixed rate of 5% per year, compounded with yearly rests.

5. Members who have died since 1 October 2007

- 5.1 There may be cases where a former member has died after retiring or having a deferred pension come into payment on or after 1 October 2007. In such cases, the additional lump sum payment and interest should be calculated in the same way as in any other case, but the payment should be made to the former member's legal personal representative (i.e. his or her estate).
- 5.2 Any additional payments under these arrangements in respect of former members who have died have no effect on the level of any adult or child survivor's pension.

6. Funding Arrangements

- 6.1 The additional funding will be paid to local authorities as a redetermination of revenue support grant in the last two weeks of March 2009 following approval

by the Scottish Parliament of the Local Government Finance (Scotland) Order 2009.

7. Software

- 7.1 We have been in touch with Heywoods who are the main fire pensions software provider about the new format for the factors. The necessary software changes will be made to accommodate the new factors.

8. Trivial Commutation and Capitalisation for Death Gratuities

- 8.1 Attached also is guidance from the Government Actuary on trivial commutation of pensions under rule B8 and E5 of the FPS and Part 3, rule 10 and Part 4, rule 5 of the NFPS; and the calculation of the capitalised value of benefits under Rule E4 of the FPS.

Yours sincerely

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Policy Officer

