

Reduction of pension at State pensionable age

Schedule 2 Part VII explains how an ordinary, short service, ill-health or deferred pension may have to be reduced at State pensionable age.

- Note** This section has been added at the end of Part B because it will apply only to those firefighters who have service before 1 April 1980. If you did not first become a firefighter until after that date, you can ignore this section
- Annexe 8 gives details of the effect of the State scheme on the FPS.
- Application** There are two types of reduction or “National Insurance modification” which can apply to your retirement benefits –
- (a) that which relates to the State basic (flat rate) retirement pension: this reduction applies if, as a regular firefighter, you had service before 1 April 1980 in respect of which under the FPS you paid a standard rate of pension contribution less 6p a week (1s 2d a week before decimalisation)
 - (b) that which relates to the State Graduated Pension Scheme: this reduction applies if, as a regular firefighter, you can count service between 3 April 1961 and 6 April 1975 inclusive in respect of which you were “participating” in the State Graduated Pension Scheme.
- In practice, (a) applies to all firefighters with service before 1 April 1980, but (b) applies to very few firefighters because, even if they were serving between the relevant dates, most will have “non-participating” service only.
- Both types of modification apply to ordinary, short service, ill-health and deferred pensions.
- Effect: NI modification in respect of State Basic Retirement Pension** Your pension will be reduced by £1.70 for each year of pensionable service (including service which counts because it has been transferred from some previous pension arrangement) before 1 April 1980. The total deduction must not be greater than £51.00 a year.
- This reduction will be made at State pensionable age (65 for men, 60 to 65 for women) and will continue for so long as your pension is in payment.
- Effect: NI modification in respect of State Graduated Retirement Pension** The “participating” employment in respect of which this form of National Insurance modification will apply can be –
- (a) service transferred in from some other pension arrangement, or
 - (b) service as a regular firefighter.
- In case (a), your pension will be reduced by the amount by which your benefits in your previous scheme would have been reduced. This would have been notified to your fire and rescue authority with the transfer details.
- In case (b), your pension will be reduced by the amount of pension to which you will be entitled under the State Graduated Pension Scheme in respect of that period of service.

B Gen 2

Reduction of pension at State pensionable age

| |
|----------------------------|
| B Gen 2 (continued) |
|----------------------------|

Effect: NI modification in respect of State Graduated Retirement Pension (continued)

The annual amount of reduction relevant to a particular case is calculated by working out the Graduated Retirement Pension. This depends upon the number of units of graduated contributions paid between April 1961 and April 1975 and the value of a unit at the time the Graduated Retirement Pension becomes payable.

To work out the number of units, all your graduated contributions are added together and divided by:

- 7.5 in the case of a man
- 9 in the case of a woman

rounding up any half units. The maximum number of units which can count is 72 for a woman, and 86 for a man. (From 6 April 2010 women will have units calculated on the same basis as men.) The annual rate of Graduated Pension is the number of units multiplied by the unit value in force when you retire.

This reduction will be made at State pensionable age (65 for men, 60 to 65 for women) and will continue for so long as your pension is in payment.

Pensions Increase

If, by the time you attain State pensionable age, your pension has been increased by Pensions Increase, you should note that National Insurance modification will be deducted from the rate of your FPS pension before any increases were added. After the deduction for modification, Pensions Increase will be added back on. This will have the effect of making your revised rate of pension equal to a sum reduced by National Insurance modification and the value of Pensions Increase on that modification.

Example

An example of National Insurance modification is given on page B Gen 2-Example 1.

Useful reference source

- FSC 8/1980: explains end of National Insurance modification.

| |
|-----------------------|
| Points To Note |
|-----------------------|

1. This required reduction to pension goes back as far as 5 July 1948 when a National Insurance Act introduced a basic State flat rate pension of thirty-six shillings a week for workers who had paid sufficient National Insurance contributions. Like other workers, firefighters had to pay contributions for this State pension even though they were already contributing towards benefits under the Firemen's Pension Scheme 1948. Steps were taken to avoid a certain degree of duplication - FPS contributions were reduced ("modified"). However, when State pension became payable the level of benefits payable under the FPS were also to be reduced ("modified"). The reduction to pension was set at £1.14s (£1.70) a year for each year of service. This figure never changed even though the value of the basic State pension increased.

B Gen 2

Reduction of pension at State pensionable age

B Gen 2 (continued)

Points To Note continued

2. Those serving as firefighters in 1948 when modification was introduced had the same level of reduction of contributions as those appointed later, but their benefits were reduced by less than the standard £1.70. These reduced amounts are not given here – all pensions subject to this lower level of reduction will have been modified by now – but if you want to check the figures they can be found in the table in paragraph 1(2) of Schedule 2 Part VII of the Firemen's Pension Scheme Order 1992.
3. It is very rare for a firefighter to have a period of “participating” employment. Most firefighters would not have been required to “participate” in the State Graduated Pension Scheme because their earnings would have been such that their benefits under the FPS would be as good as the level of pension offered by the Graduated Scheme. Their employment would be classed as “non-participating”. The most likely scenario where National Insurance modification would apply in respect of “participating” employment would be where a person left the FPS without entitlement to benefits. In these circumstances the fire authority would have to “buy” the firefighter back into the Graduated Pension Scheme. Once the payment had been made, that person would be treated as “participating” in the Graduated Pension Scheme for the period formerly covered by the FPS. If the person then returned to firefighting and the earlier period of service was allowed to reckon again as pensionable service, it would still retain its status as “participating” service. National Insurance modification at State pensionable age would have to reflect this.
4. As explained above, pensionable service between 1961 and 1975 will normally be classed as “non-participating” service for a firefighter. “Non-participating” service is sometimes also referred to as “contracted-out” service, an expression nowadays more commonly used in the context of the State Earnings Related Pension Scheme (SERPS) which ran from 6 April 1978 to 5 April 2002 and the State Second Pension (S2P) which commenced on 6 April 2002. SERPS and S2P, like the Graduated Pension Scheme, are “second-tier” elements of the State pension scheme, i.e. paid in addition to the basic State pension. The terms of contracting-out of the State Graduated Scheme had some similarities with the terms of contracting-out of SERPS in its early days, inasmuch as the occupational pension scheme had to guarantee a particular level of occupational pension scheme benefit to the contracted-out member. In the FPS this Graduated Pension Scheme guaranteed level is referred to as a “secured portion”. It is important to note that if a firefighter has both “participating” and “non-participating” service, the National Insurance modification in respect of the “participating” employment must not be applied to the extent that it would reduce the secured portion guaranteed in respect of “non-participating” employment. However, the situation where this could arise is uncommon. It is unlikely to arise unless the firefighter lost the unsecured portion of his pension under Rules K1 or K5.
5. If you count pensionable service in respect of previous employment, some of which was “participating” and some “non-participating”, only the “participating” period will count towards National Insurance modification in respect of the Graduated Pension Scheme.
6. Your fire and rescue authority may rely on a certificate from your previous employer's pension scheme to ensure that the appropriate amount is deducted in respect of any Graduated Pension Scheme National Insurance modification where pension rights have been transferred into the FPS.

B Gen 2

Reduction of pension at State pensionable age

B Gen 2 (continued)

Points To Note continued

7. If National Insurance modification would have applied to your retirement benefits under the FPS but you transfer to some other pension arrangement before being eligible to receive payment of those benefits, then National Insurance modification will form part of the transfer value calculation.
8. Your basic contributions are still modified by 1p a week. This modification was introduced into the FPS in 1948 and reflected the introduction of the State Injury award provisions at the same time as the Basic Pension provisions. This modification continued when the other modification ceased in 1980. Although an injury pension may be reduced by certain DWP benefits, there is no injury “modification” applied to other retirement benefits.
9. More information about the State pension scheme can be found at Annex 8.

Reduction of pension at State pensionable age

Example of National Insurance modification

Example A

A female firefighter retires at age 59 with an ordinary pension of £15,000 a year. She has 3 years 27 days of service before 1 April 1980. Her State pensionable age is 60. Between receiving her pension and attaining age 60, no Pensions Increase has become due.

Her pension will be reduced by National Insurance modification in respect of the State basic retirement pension.

Formula: Annual rate of pension before State pensionable age

less

Modification: pensionable service before 1.4.1980 x £1.70 to a maximum of £51.00

Firefighter's modified pension will be:

Annual pension = £15,000.00 a year

less

Modification: $3 \frac{27}{365} \times £1.70 = \underline{\underline{£ 5.23}}$ a year

Pension from State pensionable age = £14,994.77 a year

Example B

A male firefighter retires at age 50 with an ordinary pension of £15,000 a year. He has 12 years 197 days of service before 1 April 1980. By the time he attains State pensionable age (65) his basic ordinary pension has increased by 82.04%.

His pension before the application of Pensions Increase must be reduced by National Insurance modification in respect of the State basic retirement pension.

Formula: Annual rate of pension before State pensionable age

less

Modification: pensionable service before 1.4.1980 x £1.70 to a maximum of £51.00

Firefighter's modified pension will be:

Annual pension (before Pensions Increase) = £15,000.00 a year

less

Modification: $12 \frac{197}{365} \times £1.70 = \underline{\underline{£ 21.32}}$ a year

Pension from State pensionable age = £14,978.68 a year

The modified pension will then have Pensions Increase applied:

£14,978.68 x 1.8204

= £27,267.19 a year