

RULE B1

Ordinary pension

**Rule B1 sets out the terms of eligibility for an ordinary pension.
Schedule 2 Part 1 explains how an ordinary pension should be calculated.
Schedule 2 Part VIA explains adjustments for part-time service.**

Eligibility for an ordinary pension

Rule B1(1) explains that in order to be entitled to immediate payment of an ordinary pension, i.e. the standard age retirement pension, you must –

- be a regular firefighter
- retire
- have attained age 50
- be entitled to reckon at least 25 years' pensionable service, and
- not be entitled to an ill-health award under Rule B3.

Exclusions

Even if you satisfy the above conditions, Rule B1(2) prevents payment of an ordinary pension if –

- you have elected to opt out of the Scheme and that election still has effect, or
- you are leaving (“retiring”) to take up employment with another fire and rescue authority (see “Points To Note”, Point 1), or
- you are a Chief Fire Officer, and
 - you have not attained age 55, and
 - do not have your fire and rescue authority’s permission to retire.

Method of calculation

Rule B1(3) tells you to calculate an ordinary pension by using the method given in Schedule 2 Part I.

Schedule 2 Part I gives the basic formula for an ordinary pension as –

$$\frac{30 \times A}{60} + \frac{2 \times A \times B}{60}$$

where

A is your average pensionable pay, and

B is the period in years (and days) by which your years of pensionable service exceed 25 years. B must never be more than 5 years.

Each day in excess of a completed year counts as 1/365 of a year, even in a leap year (see the explanation of Rule A7).

Although this is the correct method of assessment for an ordinary pension according to Part I of Schedule 2, the formula given in Part II of Schedule 2 for assessing a short service pension (see the explanation of Rule B2) is used by many people instead. Although not technically correct, there is no problem with this. It is a simpler formula to remember (see below) and will always give the same answer as the formula in Part I of Schedule 2.

Rule B1 (continued)

Method of calculation (continued)

This simplified formula for assessment of an ordinary pension is –

- 1/60 of average pensionable pay for the first 20 years of pensionable service, plus
- 2/60 of average pensionable pay for pensionable service in excess of 20 years, but
- to a maximum of 40/60 of average pensionable pay.

Again, each day in excess of a completed year counts as 1/365 of a year, even in a leap year (see the explanation of Rule A7).

Effect of part-time service

To assess entitlement to, and the amount of, an ordinary pension for a regular firefighter who has had a period of part-time service, you must take account of Rule A7(4) (the reckoning of service for the purposes of awards) and to Rule B13 which directs you to look at Schedule 2 Part VIA.

Rule A7(4) says that any period of part-time service should be treated as whole-time service for the purposes of assessing pensionable service.

This principle would be applied when determining if you have the 25 years' pensionable service needed to qualify for an ordinary pension. For example if you had served as a whole-time regular firefighter for 20 years and as a part-time regular firefighter for 6 years (say at half-time), Rule A7(4) allows you to count 26 years of pensionable service. So you would meet the service requirement for this type of award.

The same principle of counting all service as whole-time is used at the first stage of calculating your ordinary pension. Schedule 2 Part VIA also requires that, at the first stage of the assessment, the average pensionable pay should be the average pensionable pay you would have received had you been a whole-time employee of a fire and rescue authority. To all intents and purposes, therefore, the first stage of the pension calculation treats you as if you had been a whole-time regular firefighter throughout your service. "Method of calculation" above tells you how this is done.

The second stage of the calculation applies a "pro rata" principle to the ordinary pension as calculated at the first stage. This is set out in detail in the explanation of Rule B13 (and Schedule 2 Part VIA). Basically, the whole-time pension is multiplied by the total of your whole-time and part-time service (treated pro rata) divided by the whole-time equivalent. This gives an equitable portion of the whole-time pension.

Adjustments

The pension derived from the basic formula (whichever formula is used), taking account of any adjustment under Schedule 2 Part VIA may be subject to the following adjustments –

Rule B1 (continued)

**Adjustments
(continued)**

- a reduction for commutation (see the explanation of Rule B7)
- a reduction for allocation (see the explanation of Rule B9)
- a reduction for an election to uprate widow's and children's benefits – generally firefighters with service before 1 April 1972 and so not likely to affect anyone currently serving (see pages B Gen 1)
- a reduction for National Insurance modification – generally firefighters with service before 1 April 1980 (see pages B Gen 2)
- an addition for Pensions Increase (see Annexe 10)
- a reduction in respect of a pension sharing order issued on divorce, dissolution of civil partnership, or annulment (see Rule B12 and Annexe 14).

Tax

Benefits payable under a pension scheme have to be tested against the "Standard Lifetime Allowance" ("SLA") under tax rules introduced by HM Revenue and Customs ("HMRC") on 6 April 2006. It is the total value of your pension savings, not just those accrued as a member of the FPS, that must be tested against the SLA. The SLA for the tax year 2006/07 is £1,500,000. Your pensions administrator can advise you of the SLA level in the tax year in which your benefits become payable.

If you were to retire during 2006/07, therefore, your pensions administrator would ask you to declare any other pension benefits in payment and would compare these, plus the benefits due under the FPS, with the SLA 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". 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 (in addition to any standard Pay As You Earn tax deductions made from instalments of pension). The lifetime allowance tax charge is paid to HMRC by the pension scheme administrator and recovered from the scheme member by a reduction applied to the benefits (as allowed by Rule B11).

To value your FPS benefits the annual pension is multiplied by 20 and then the lump sum by commutation is added. For example, if you are entitled to a pension of £20,000 and choose not to commute,

$$£20,000 \times 20 = £400,000.00$$

If you commute a quarter to provide a pension of, say £15,000 and lump sum of £75,000, your FPS benefits would be valued as –

$$(£15,000 \times 20) + £75,000 = £375,000.00$$

Rule B1 (continued)

Tax (continued) As you can see this is considerably less than the SLA and so, unless you had a considerable amount of benefits in pension arrangements other than the FPS, your benefits would not be subject to the lifetime allowance tax charge.

If you were a higher earner who claimed Primary Protection or Enhanced Protection when the new tax rules were introduced you should give to your pensions administrator at the time benefits become due a copy of any certification supplied by HMRC which confirms the protection.

Payment Payment will normally commence from the day you retire. It will be made in accordance with Rules L3 and L5.

Example Examples of the calculation of an ordinary pension are given on page B1-Example 1.

Useful reference source • FSC 30/2004: introduction of pension provisions for part-time regular firefighters

Points To Note

1. If you are thinking of transferring to other employment –
 - if your ordinary pension comes into payment before a transfer value is paid, it prevents payment of a transfer value (Rule F9(4))
 - if a transfer value is paid before an ordinary pension, it prevents payment of an ordinary pension (Rule F9(9))
2. If you retire before you are eligible for an ordinary or short service pension (see Rule B2) and not on grounds of permanent ill-health, you are likely to be entitled to a deferred pension under Rule B5.
3. If you have been a whole-time regular firefighter throughout your service, an ordinary pension will be at least 30/60ths (1/2) of your average pensionable pay because you must complete 25 years to qualify.
4. A maximum ordinary pension of 40/60ths (2/3rds) of average pensionable pay would be earned at 30 years' service. If you serve longer you cannot earn any more 60ths but your potential pension could continue to get bigger if your average pensionable pay continues to increase.

Rule B1 (continued)

Points To Note continued

5. Pensions Increase will not normally be put into payment on an ordinary pension until you attain age 55. (An exception would be where, after retiring on an ordinary pension, you subsequently suffered a breakdown in health to the extent that you would no longer be fit for regular full-time work of any kind.)
6. In deciding when to retire you will need to consider how your pension would be affected by –
 - likely future pay increases or promotions
 - the limit of 30 years' pensionable service in the pension calculation
 - how much you may commute
 - your age in relation to the commutation factors
 - likely future increases in the Retail Prices Index (on which annual Pensions Increase is based)
 - when you will qualify for Pensions Increase.
7. If an "earmarking" order has been issued by a court on divorce, dissolution of a civil partnership, annulment, or judicial separation (see Annexe 14) the pension or lump sum by commutation (see Rule B7) may need to be reduced in accordance with the order.
8. Pension provisions for part-time regular firefighters were introduced on 13 September 2004.

Examples of assessment of an ordinary pension

Example A

A firefighter retires at age 50 after 30 years of service. His average pensionable pay (APP) is £24,000. He is eligible for an ordinary pension because he is aged 50 and has at least 25 years' service.

Assessment following formula given in Schedule 2 Part I

Formula: $\frac{30}{60} + \frac{2}{60} \times \text{service in excess of 25 years} \times \text{APP}$

Firefighter's ordinary pension will be:

$$\frac{30}{60} + \frac{2}{60} \times 5 \times £24,000.00 = \frac{40}{60} \times £24,000.00$$

= £16,000.00 a year

Assessment following simplified formula

Formula: $\frac{20}{60} + \frac{2}{60} \times \text{service in excess of 20 years} \times \text{APP}$

Firefighter's ordinary pension will be:

$$\frac{20}{60} + \frac{2}{60} \times 10 \times £24,000.00 = \frac{40}{60} \times £24,000.00$$

= £16,000.00 a year

Example B

A firefighter retires at age 50 after 25 years 17 days of service. Her average pensionable pay (APP) is £21,000. She is eligible for an ordinary pension because she is aged 50 and has at least 25 years' service.

Assessment following formula given in Schedule 2 Part I

Formula: $\frac{30}{60} + \frac{2}{60} \times \text{service in excess of 25 years} \times \text{APP}$

Firefighter's ordinary pension will be:

$$\frac{30}{60} + \frac{2}{60} \times \frac{17}{365} \times £21,000 = \frac{30}{60} + \frac{34}{365} \times £21,000 = \frac{30.0932}{60} \times £21,000$$

= £10,532.62 a year

Assessment following simplified formula

Formula: $\frac{20}{60} + \frac{2}{60} \times \text{service in excess of 20 years} \times \text{APP}$

Firefighter's ordinary pension will be:

$$\frac{20}{60} + \frac{2}{60} \times \frac{5 \times 17}{365} \times £21,000 = \frac{20}{60} + \frac{10 \times 34}{365} \times £21,000.00 = \frac{30.0932}{60} \times £21,000$$

= £10,532.62 a year

Note: Pensions as calculated above may be subject to reductions for –

- Commutation – see Rule B7 (see Examples A & B on pages B7-Example 2 in respect of above)
- Allocation – see Rule B9
- Widow's pension uprating (where service before 1.4.1972) – see pages B Gen 1
- National Insurance modification (where service before 1.4.1980) – see pages B Gen 2
- Pension sharing orders on divorce/dissolution of civil partnership: see Rule B12 and Annexe 14

More examples follow . . .

Examples of assessment of an ordinary pension (continued)

Example C

A firefighter retires at age 56 after 26 years of service. His average pensionable pay (APP) is £30,720. He is eligible for an ordinary pension because he has attained age 50 and has at least 25 years' service.

Assessment following formula given in Schedule 2 Part I

Formula: $\frac{30}{60} + \frac{2}{60} \times \text{service in excess of 25 years} \times \text{APP}$

Firefighter's ordinary pension will be:

$$\frac{30}{60} + \frac{2 \times 1}{60} \times £30,720.00 = \frac{32}{60} \times £30,720.00$$

$$= £16,384.00 \text{ a year}$$

Assessment following simplified formula

Formula: $\frac{20}{60} + \frac{2}{60} \times \text{service in excess of 20 years} \times \text{APP}$

Firefighter's ordinary pension will be:

$$\frac{20}{60} + \frac{2 \times 6}{60} \times £30,720.00 = \frac{32}{60} \times £30,720.00$$

$$= £16,384.00 \text{ a year}$$

Example D

Assume the firefighter in Example C had served 20 years at whole-time, 6 years at part-time (half-time). He is eligible for an ordinary pension because Rule A7(4) allows him to count the whole period of service (26 years) as whole-time pensionable service. 26 years counts as his pensionable service in the first stage of the assessment of the ordinary pension and Schedule 2 Part VIA allows the use of whole-time equivalent average pensionable pay (£30,720). Therefore the first stage of the assessment would produce the same ordinary pension as in Example C, i.e. £16,384 a year.

Assessment following formula given in Schedule 2 Part VIA

Formula: $\frac{A \times (B + C)}{D}$

where A = £16,384
B = 20
C = $1/2 \times 6 = 3$
D = 26

Firefighter's ordinary pension will be:

$$\frac{£16,384 \times (20 + 3)}{26}$$

$$= £14,493.54 \text{ a year}$$

Note: Pensions as calculated above may be subject to reductions for –

- Commutation – see Rule B7 (see Examples G1 and G2 on pages B7-Example 2 in respect of above)
- Allocation – see Rule B9
- Widow's pension uprating (where service before 1.4.1972) – see pages B Gen 1
- National Insurance modification (where service before 1.4.1980) – see pages B Gen 2
- Pension sharing orders on divorce/dissolution of civil partnership: see Rule B12 and Annexe 14