

**Additional pension benefit: long service increment**

**Rule B5B provides an Additional Pension Benefit to protect the pension position of a firefighter whose average pensionable pay, as used for the assessment of a pension, would be affected by the phasing out of the Long Service Increment**

**Background**

Before 1 July 2007, a firefighter with at least 15 years' continuous service would have received an additional amount of pensionable pay known as the Long Service Increment ("LSI"). As part of the 2003 pay settlement the NJC agreed that LSI should be phased out. It was frozen at £990 a year from 7 November 2003 and reduced to £495 a year from October 2006 although transitional payments continued until 30 June 2007, following which LSI ceased.

The phasing out of LSI meant that FPS members who had been in receipt of it would have paid pension contributions on something which would not feature in their final year's pay. And those who retired shortly after the phasing out of LSI may have it included in their final pay but at a lower rate than if LSI had continued. Because the FPS is a "final salary" pension scheme this could have an adverse effect on benefits.

Ministers recognised this and agreed that arrangements should be made to allow compensatory adjustments to the average pensionable pay used in the assessment of benefits, or to provide an Additional Pension Benefit ("APB") based on the LSI. Consequently, the Firefighters' Pension Scheme (Amendment) (England) Order 2008 amended Rule G1 to provide for a compensatory adjustment to average pensionable pay and added Rule B5B to provide LSI APBs. The amendments have effect from 1 July 2007. A summary of the action required following these amendments is given on page B5B – Chart 1.

**Eligibility for LSI APB**

In accordance with Rule B5B(1), an LSI APB can be credited to a regular firefighter who –

- was entitled to LSI (or interim or transitional payments connected with long service) in respect of a period including 30 June 2007, and
- on or after 1 October 2007 –
  - retires, or
  - becomes entitled to a deferred pension under Rule B5 (i.e. by opting out of the FPS or leaving employment before being entitled to immediate payment of benefits).

Where an LSI APB is paid, any payments made in respect of LSI must not be included in the average pensionable pay used for working out the main FPS benefits (otherwise the LSI payments would count twice).

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**Rule B5B (continued)**

**Eligibility for LSI APB (continued)**

Consequently, on retirement on or after 1 October 2007, a firefighter who qualifies for a LSI APB has the option of

- a main FPS pension based on average pensionable pay excluding LSI payments (and related transitional payments) plus a LSI APB, or
- a main FPS pension based on average pensionable pay including LSI payments (and related transitional payments) but no LSI APB.

**Method of calculation of LSI APB**

If you are entitled to a LSI APB it will be assessed according to the formula given in Rule B5B(2):

$$\frac{A + (B \times 2)}{60} \times \text{£}990$$

where

A is the number of years (and days) by which your pensionable service up to and including 30 June 2007 exceeds 15 but does not exceed 20, and

B is the number of years (and days) by which your pensionable service up to and including 30 June 2007 exceeds 20.

**Adjustments**

Rule B5D(4) explains that the LSI APB under Rule B5B can be commuted to provide a lump sum on similar terms to those which apply if you choose to commute part of your main FPS pension.

A LSI APB may be subject to a pension sharing or an "earmarking" order on divorce, dissolution of civil partnership or annulment – see Rule B5D(5) and Part IA of the Pension Scheme, and Annexe 14 of the Commentary.

**Pensions Increase**

Up to the point at which a firefighter leaves the FPS, the LSI APB will be index-linked in accordance with Rule B5B(3). This allows for the APB to attract increases equivalent to those which would be payable under Pensions Increase (Review) Orders (assuming a "beginning date" of 1 October 2007).

If, when you leave the FPS, you are entitled to the immediate payment of FPS benefits, the APB plus the indexation allowed under Rule B5B(3) will be paid with the FPS main benefit, regardless of whether or not, at that time, you would qualify to receive payment of "real" Pensions Increase in accordance with the Pensions (Increase) Act 1971. After the date of leaving the APB (including Rule B5B(3) indexation) will be inflation-proofed by subsequent Pensions Increase (Review) Orders.

If, on leaving, you are entitled to a deferred pension under Rule B5, the indexation increase added to your APB under Rule B5B(3) will be frozen at that point. From the date of leaving, the APB (including Rule B5B(3) indexation) will be inflation-proofed by subsequent Pensions Increase (Review) Orders.

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**Rule B5B (continued)**

<b>Pensions Increase (continued)</b>	<p>The transition from indexation under Rule B5B(3) to indexation under Pensions Increase (Review) Orders should ensure that the APB will receive the same increases as if the Orders had applied from 1 October 2007.</p> <p>Under the Pensions (Increase) Act 1971, you qualify to receive payment of the increases applied under Pensions Increase (Review) Orders if you –</p> <ul style="list-style-type: none"> <li>• have attained age 55, or</li> <li>• retire with an ill-health pension, or</li> <li>• receive early payment of a deferred pension on ill-health grounds and you are medically certified as being incapable of engaging in any regular full-time employment.</li> </ul> <p>Consequently, if you are under age 55 when your APB is paid, you will receive Rule B5B(3) indexation right away, but will have to wait until age 55 to receive any increase in the APB under Pensions Increase (Review) Orders.</p> <p>More information about the principles of Pensions Increase is given in Annexe 10 of the Commentary.</p>
<b>Effect of part-time service</b>	<p>A + B as used in the formula are based on whole-time service. Consequently, for a firefighter who has a period of part-time service, account must be taken 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 and apply pro rating.</p>
<b>Survivors' benefits</b>	<p>In accordance with Rule B5D(5), the LSI APB is regarded as part of your pension for the purpose of determining survivors' benefits under Parts C, D and E of the FPS.</p>
<b>Transfer out of APB</b>	<p>If you leave the FPS and request a transfer of your pension rights to another pension arrangement, the formula for assessing the transfer value including your entitlement to APB is given on page B5B – Supplementary 1. (The formula would also be used if you remain a member of the FPS but your benefits have to be valued for divorce or dissolution of civil partnership purposes.)</p>
<b>Tax</b>	<p>An LSI APB must be taken into account, together with the main FPS benefits, when testing against the Standard Lifetime Allowance when you retire. See "Tax" on the pages relating to the type of main FPS pension to which you are entitled on retirement.</p>

**Additional pension benefit: long service increment****Rule B5B (continued)**

**Tax (continued)** In accordance with Rule B5D(4), the LSI APB must also be taken into account under Rule B8 – "Commutation – small pensions" (although if you were in employment long enough to qualify for the LSI it is unlikely that your pension entitlement under the FPS would be small enough to be considered for commutation on grounds of "triviality").

**Payment** Rule B5D states that the LSI APB will be payable –

- on retirement at normal pension age (55) or under Rule B1,
- immediately if you leave employment on grounds of permanent disablement under Rule A15
- at the same time as a deferred pension under Rule B5 if this is your entitlement on leaving or opting out of the Scheme.

**Examples** Examples of the calculation of LSI APB are given on page B5B – Example 1.

**Useful reference source**

- FPSC 7/2007: proposal for the LSI APB
- FPSC 2/2008 and FPSC 2/2008 (amended): introduction of Rule B5B
- FPS Guidance Note 1/2008 (May 2008) and Amended (June 2008): questions and answers about APBs

**Points To Note**

1. NJC Circular EMP/14/06 explains that the phase-out of LSI was agreed as part of the Pay and Conditions Agreement 2003 because the Equal Opportunities Commission and case law had highlighted the potentially discriminatory effect of incremental scales based on length of service and because it was not appropriate for the new competency based pay structure.
2. At the same time that Rule B5B was introduced, an amendment was made to Rule G1 "Pensionable pay and average pensionable pay" to –
  - ensure that for a firefighter who was entitled to LSI and retired between 1 October 2006 and 30 September 2007, average pensionable pay would be calculated on the basis of LSI at the rate of £990 a year and any reduction in LSI as it was phased out would be disregarded.
  - require that if a firefighter retires on or after 1 October 2007, he or she would be entitled to whichever of the following would provide the greater amount:
    - (a) average pensionable pay for the main FPS benefit would exclude any LSI or LSI-related payment, but the firefighter would receive a LSI APB under Rule B5B
    - (b) average pensionable pay for the main FPS benefit would include any LSI or LSI-related payment, but there would be no entitlement to a LSI APB under Rule B5B.
3. The value of accrued LSI APB should be reported in annual benefit statements.

**Additional pension benefit: long service increment****Summary of action required on introduction of Rule B5B**

Rule B5B was added to the Firefighter's Pension Scheme by the Firefighters' Pension Scheme (Amendment) (England) Order 2008 which came into force on 29 February 2008 and had effect from 1 July 2007. FPSC 2/2008 included the following table which sets out the action required according to the date of a firefighter's retirement.

<b>Retirement date</b>	<b>Action required</b>
Before 1 October 2006	None. LSI was still in payment at full rate (where there was entitlement). Pension will have been based on the average pensionable pay applicable at date of retirement.
From 1 October 2006 and up to, and including, 30 September 2007	Where there was entitlement to LSI payments during the period, pensions that have come into payment should be checked to ensure that the rate of LSI (or LSI plus transitional payments) used in the pension calculation was at the unreduced rate of £990 per annum.
1 October 2007 or later	<p>Where there was entitlement to LSI payments up to and including 30 June 2007, there is entitlement to an APB for the period of LSI entitlement. The APB will be separate from the main pension. The main pension will be calculated with LSI payments excluded for the purposes of determining average pensionable pay.</p> <p>The person retiring can, if they wish, opt not to take an APB for LSI, in which case, LSI at the rate of £990 per annum up to and including 30 June 2007 should be included in pensionable pay for the purposes of determining average pensionable pay.</p>

**Additional pension benefit: long service increment**

**Formula for assessing transfer value including LSI APB**

The formula for calculating a transfer value which includes a LSI APB 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 = your personal pension (i.e. main FPS pension)
- APB<sub>pen</sub> = LSI APB (plus any CPD APB to which you may be entitled – see Rule B5C)
- SUR = the pension that would be payable on your death to your spouse or civil partner, based on your main FPS pension entitlement
- APB<sub>sur</sub> = the pension that would be payable on your death to your spouse or civil partner, based on your LSI APB (and any CPD APB) entitlement
- NI = National Insurance modification
- PRE GMP = GMP accrued before 6.4.1988
- POST GMP = GMP accrued after 6.4.1988
  
- F<sub>p</sub> = factor for personal pension
- F<sub>sur</sub> = factor for spouse or civil partner, according to status
- F<sub>ni</sub> = factor for National Insurance modification
- F<sub>gmp</sub> = factor for GMP
- AMC = Adjustment for market conditions

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**Examples of assessment of LSI APB**

**Example A**

*A regular firefighter aged 53 retires with an ordinary pension (Rule B1) with a last day of service of 30 November 2007, having completed 30 years' pensionable service at that date (he joined on 1 December 1977). He had become entitled to LSI on 1 December 1992 after 15 years' service. The LSI payment ceased with effect from 1 July 2007. Average pensionable pay less LSI would be £27,010.00; average pensionable pay including LSI would be £27,585.01.*

Because the firefighter retired on or after 1 October 2007 he is entitled to –

- (a) a Rule B1 pension based on average pensionable pay excluding LSI payments, plus an LSI APB, or
- (b) a Rule B1 pension based on average pensionable pay including LSI payments, but no LSI APB.

**Option (a)**

The Rule B1 pension would be assessed as:

$$\frac{20 + (2 \times 10)}{60} \times £27,010.00 = £18,006.67 \text{ a year}$$

Formula for the LSI APB:

$$\frac{A + (B \times 2)}{60} \times £990$$

where

A is the number of years (and days) by which pensionable service up to and including 30 June 2007 exceeds 15 but does not exceed 20 (in this example it would be 5 years), and

B is the number of years (and days) by which pensionable service up to and including 30 June 2007 exceeds 20 (in this example it would be 9 years 212 days) .

The LSI APB would be:

$$\frac{5 + (2 \times 9 \frac{212}{365})}{60} \times £990 = £398.67 \text{ a year}$$

Total pensions under Option (a) would be £18,006.67 + £398.67 = £18,405.34 a year

**Option (b)**

The Rule B1 pension would be assessed as:

$$\frac{20 + (2 \times 10)}{60} \times £27,585.01 = £18,390.01 \text{ a year}$$

Consequently, this firefighter would be better off with Option (a). The sum of the Rule B1 pension based on average pensionable pay excluding LSI, plus a LSI APB, would be greater than a Rule B1 pension based on average pensionable pay including LSI and no APB.

More examples follow . . .

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**Examples of assessment of LSI APB**

**Example B**

*A regular firefighter aged 53 retires with an ordinary pension (Rule B1) with a last day of service of 30 April 2008, having completed 30 years' pensionable service at that date (he joined on 1 May 1978). He had become entitled to LSI on 1 May 1993 after 15 years' service. The LSI payment ceased with effect from 1 July 2007. Average pensionable pay less LSI would be £27,010.00; average pensionable pay including LSI would be £27,175.45.*

Because the firefighter retired on or after 1 October 2007 he is entitled to –

- (a) a Rule B1 pension based on average pensionable pay excluding LSI payments, plus an LSI APB, or
- (b) a Rule B1 pension based on average pensionable pay including LSI payments, but no LSI APB.

**Option (a)**

The Rule B1 pension would be assessed as:

$$\frac{20 + (2 \times 10)}{60} \times £27,010.00 = £18,006.67 \text{ a year}$$

Formula for the LSI APB:

$$\frac{A + (B \times 2)}{60} \times £990$$

where

A is the number of years (and days) by which pensionable service up to and including 30 June 2007 exceeds 15 but does not exceed 20 (in this example it would be 5 years), and

B is the number of years (and days) by which pensionable service up to and including 30 June 2007 exceeds 20 (in this example it would be 9 years 61 days).

The LSI APB would be:

$$\frac{5 + (2 \times 9 \frac{61}{365})}{60} \times £990 = £385.02 \text{ a year}$$

Total pensions under Option (a) would be £18,006.67 + £385.02 = £18,391.69 a year

**Option (b)**

The Rule B1 pension would be assessed as:

$$\frac{20 + (2 \times 10)}{60} \times £27,175.45 = £18,116.97 \text{ a year}$$

Consequently, this firefighter would be better off with Option (a). The sum of the Rule B1 pension based on average pensionable pay excluding LSI, plus a LSI APB, would be greater than a Rule B1 pension based on average pensionable pay including LSI and no APB.

Another example follows . . .

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**Examples of assessment of LSI APB**

**Example C**

*The firefighter in Example B had a period of temporary promotion in his penultimate year of service. Average pensionable pay for the period 1 May 2006 to 30 April 2007 would be greater than average pensionable pay for the period 1 May 2007 to 30 April 2008 and so is used instead in the pension assessment (under the "best-of-the-last-3-years" rule – see Rule G1(7)). Average pensionable pay less LSI would be £28,845.62; average pensionable pay including LSI would be £29,835.62.*

Because the firefighter retired on or after 1 October 2007 he is entitled to –

- (a) a Rule B1 pension based on average pensionable pay excluding LSI payments, plus an LSI APB, or
- (b) a Rule B1 pension based on average pensionable pay including LSI payments, but no LSI APB.

**Option (a)**

The Rule B1 pension would be assessed as:

$$\frac{20 + (2 \times 10)}{60} \times £28,845.62 = £19,230.41 \text{ a year}$$

Formula for the LSI APB:

$$\frac{A + (B \times 2)}{60} \times £990$$

where

A is the number of years (and days) by which pensionable service up to and including 30 June 2007 exceeds 15 but does not exceed 20 (in this example it would be 5 years), and

B is the number of years (and days) by which pensionable service up to and including 30 June 2007 exceeds 20 (in this example it would be 9 years 61 days).

The LSI APB would be:

$$\frac{5 + (2 \times 9 \frac{61}{365})}{60} \times £990 = £385.02 \text{ a year}$$

Total pensions under Option (a) would be £19,230.41 + £385.02 = £19,615.43 a year

**Option (b)**

The Rule B1 pension would be assessed as:

$$\frac{20 + (2 \times 10)}{60} \times £29,835.62 = £19,890.41 \text{ a year}$$

Consequently, this firefighter would be better off with Option (b). The Rule B1 pension based on average pensionable pay including LSI, would be greater than the sum of the Rule B1 pension based on an average pensionable pay excluding LSI, plus a LSI APB.