

Additional pension benefit: continual professional development

Rule B5C provides an Additional Pension Benefit based on Continual Professional Development payments received by a firefighter.

Background

The National Joint Council for Local Authority Fire and Rescue Services ("NJC") agreed, with effect from 1 July 2007, a scheme to recognise and reward experienced employees who are able to demonstrate continual professional development over and above that required at "competent" level at each of the national standards. These Continual Professional Development ("CPD") payments are subject to annual review and therefore temporary. Variable payments of this nature do not sit easily in a "final salary" pension scheme like the FPS where it is in a member's interest that pensionable pay should be at its highest in the final year of service.

In response to a request from the NJC that these payments should be pensionable, Ministers determined that the payments should be pensionable but under special Additional Pension Benefit ("APB") arrangements. Under these arrangements, pension contributions would be paid on CPD payments but, instead of CPD payments counting towards average pensionable pay as used in the assessment of the main FPS benefits, the contributions on CPD payments would be used to "buy" an amount of APB. The APB would be paid in addition to the main FPS benefit to which the firefighter would be entitled on retirement

Payment of contributions on CPD payment

With effect from 1 July 2007, Rule G1(1) was amended to include in the definition of pensionable pay "the amount (if any) paid to him in respect of his continual professional development". Consequently, if you receive CPD payments, you will pay contributions on them at the standard rate applicable at the time of payment (11% at the time of writing). Employer's contributions must also be paid by the fire and rescue authority at the relevant rate for the financial year in which the payments are made (26.5% at the time of writing).

From the same date, an amendment was made to Rule G3 to prevent a firefighter from electing not to pay contributions on CPD payments unless he/she also elected not to pay basic pension contributions on the main elements of pensionable pay. Giving an election not to pay contributions under Rule G3 is, in effect, giving notice to opt out of the FPS. So you cannot opt out of the CPD APB arrangements for so long as you remain a member of the FPS.

Eligibility for CPD APB

Rule B5C(1) states that a regular firefighter who receives CPD payments "in any CPD year" – beginning with the year commencing 1 July 2007 – shall be credited with APB in respect of that year.

A "CPD" year is defined in Rule B5C(5) as a period of 12 months, beginning with a 1 July, in which a firefighter receives CPD payments.

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Rule B5C (continued)

Method of calculation of CPD APB

Rule B5C(2) says that the amount of the APB due in respect of a CPD year is to be determined on 1 July immediately following that year, in accordance with guidance and factors provided by the Scheme Actuary.

Guidance and factors were provided by the Government Actuary's Department (GAD) on 15 February 2008 and were attached as an Annex to FPSC 2/2008 (Amended). The table of factors relevant to the FPS is reproduced on pages B5C – Chart 1. Guidance is also given in the main body of FPSC 2/2008.

The factors are applicable for the CPD year commencing on 1 July 2007. (They may be revised for future years but, for example purposes in this section of the Commentary, it is assumed that they will not be amended in the immediate future.)

The same factors are applicable to male and to female firefighters.

They vary with age; contributions paid on CPD payments at a younger age secure a larger additional benefit than those paid at a higher age because, other things being equal, there is a longer interval to retirement.

To illustrate the assessment of a CPD APB consider the case of a firefighter who first begins to receive CPD payments with effect from 1 July 2010. During the period 1 July 2010 to 30 June 2011 ("CPD Year 1") he receives a total of £500 in CPD payments.

His APB for CPD Year 1 has to be assessed on 1 July 2011.

Firstly, the contributions paid on his CPD payments of £500 during that year are totalled. Assuming the employee's basic contribution rate was 11% and the employer's contribution rate was 26.5%, total pension contributions of £187.50 (37.5% x £500) will have been paid.

Secondly, the actuarial factor relevant to the firefighter's age on 1 July 2011 is applied. The factors show how much it costs to provide £1 of APB from the total contributions. If we assume the firefighter is age 46 on 1 July 2011, you can see from the factors on page B5C-Chart 1, that the relevant factor is 18.3. This means that contributions of £18.30 are needed to provide an APB of £1.

Total contributions are £187.50 and so the APB will be $£187.50/18.3 = £10.25$.

If the firefighter continues to receive CPD payments from 1 July 2011 to 30 June 2012 ("CPD Year 2") a similar calculation will take place. The actuarial factor used, however, will be that which is relevant to the firefighter's age on 1 July 2012.

Similar assessments would continue to apply in subsequent years, with the factors changing each year to reflect the firefighters' age each following 1 July.

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Rule B5C (continued)

Method of calculation of CPD APB (continued) If a firefighter leaves or retires part way through a CPD year, a notional APB is worked out as if the CPD had been paid in full and the assessment were being made at the following 1 July. Then the notional APB is pro rated, i.e. multiplied by the number of days served during the CPD year and divided by 365.

Adjustments Rule B5D(4) explains that the CPD APB 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 CPD 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 The APB calculated for each individual CPD year will be index-linked in accordance with Rule B5C(3). This, in effect, allows for the APB to attract an increase equivalent to that of the full rate due under the Pensions Increase (Review) Order at the April immediately following the end of the CPD year. For example, if you are entitled to a CPD APB in respect of a CPD year from 1 July 2010 to 30 June 2011, the APB for that year would attract an amount of increase equivalent to the full amount set out in the Pensions Increase (Review) Order 2012. It will also attract the full amount for all subsequent years.

Allowing the first year's increase to be at the full amount is in accordance with GAD guidance. It is more generous than would normally be allowed. For example, if the APB as calculated at 1 July 2011 were a main FPS pension calculated on average pensionable pay for the period 1 July 2010 to 30 June 2011, the first Pensions Increase applied under the 2012 Order would be pro rated to 75% of the full increase.

Index-linking allows the APB to keep pace with inflation, and the increases due under Rule B5C(3) accrued up to the date of leaving will be included when your FPS main benefit and the CPD APB are put into payment. Index-linking after the date of leaving will be applied under subsequent Pensions Increase (Review) Orders in accordance with the Pensions (Increase) Act 1971. So, if after that date, you –

- have retired and attained age 55,
- retire with an ill-health pension at any age, or
- receive early payment of a deferred pension on health grounds and you are medically certified as being incapable of engaging in any regular full-time employment

payments of your APB (plus indexation under Rule B5C(3)) will attract and include Pensions Increase under the (Review) Orders, just like your main FPS pension.

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Rule B5C (continued)

Pensions Increase (continued)	<p>If you are below age 55 and receiving payments of your APB, although you will receive payment of the indexation under Rule B5C(3), Pensions Increases under (Review) Orders will not be payable until your 55th birthday. Then all the Increases under the Order accrued up to that date will become due.</p> <p>More information about the principles of Pensions Increase is given in Annexe 10 of the Commentary.</p>
Effect of part-time service	<p>Any part-time service during a CPD year will be reflected in the payment and contributions. There is no need for any adjustment in the assessment of the CPD APB.</p>
Survivors' benefits	<p>In accordance with Rule B5D(5), the CPD 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>
Transfer out of APB	<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 B5C – 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>
Tax	<p>A CPD 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 pension to which you are entitled on retirement.</p> <p>In accordance with Rule B5D(4), the CPD APB must also be taken into account under Rule B8 – "Commutation – small pensions".</p>
Payment	<p>Rule B5D states that the CPD APB will be payable –</p> <ul style="list-style-type: none"> • on retirement at normal pension age (55) or under Rule B1 (ordinary pension), • 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.

Additional pension benefit: continual professional development**Rule B5C (continued)**

Example An example of the calculation of a CPD APB is given on page B5C – Example 1.

Useful reference source

- FPSC 7/2007: proposal for the CPD APB
- FPSC 2/2008 and FPSC 2/2008 (amended): introduction of Rule B5C; Annex containing GAD guidance and factors
- FPS Guidance Note 1/2008 (May 2008) and Amended (June 2008): questions and answers about APBs

Points To Note

1. At the same time that Rule B5B was introduced, an amendment was made to Rule G1 "Pensionable pay and average pensionable pay" to –
 - make CPD payments pensionable, and
 - ensure that any CPD APB should not be included in the assessment of average pensionable pay.
2. The value of a Scheme member's accrued CPD APB should be reported in annual benefit statements.

RULE B5C**Additional pension benefit: continual professional development****GAD factors as issued February 2008 for members of the Firefighters' Pension Scheme 1992**

Age last birthday on relevant date (1)	Factor for additional CPD benefit of £1 p.a. (2)	Age last birthday on relevant date (1)	Factor for additional CPD benefit of £1 p.a. (2)
20	8.0	40	15.5
21	8.3	41	16.0
22	8.5	42	16.4
23	8.8	43	16.9
24	9.1	44	17.4
25	9.4	45	17.8
26	9.8	46	18.3
27	10.1	47	18.7
28	10.4	48	19.1
29	10.8	49	19.6
30	11.2	50	20.1
31	11.6	51	20.5
32	12.0	52	21.0
33	12.4	53	21.6
34	12.8	54	22.2
35	13.3	55	22.4
36	13.7	56	22.0
37	14.2	57	21.7
38	14.6	58	21.3
39	15.1	59	20.9

GAD Example

A firefighter member of the FPS is age 50 on 1 July. The relevant factor from column (2) of the Table is 20.1. His CPD payment attracts pension contributions of £150. The additional benefit is calculated as $£150 / 20.1 = £7.46$ p.a.

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Formula for assessing transfer value including CPD APB

The formula for calculating a transfer value which includes a CPD 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_{pen} = CPD APB (plus any LSI APB to which you may be entitled – see Rule B5B)
- SUR = the pension that would be payable on your death to your spouse or civil partner, based on your main FPS pension entitlement
- APB_{sur} = the pension that would be payable on your death to your spouse or civil partner, based on your CPD APB (and any LSI APB) entitlement
- NI = National Insurance modification
- PRE GMP = GMP accrued before 6.4.1988
- POST GMP = GMP accrued after 6.4.1988

- F_p = factor for personal pension
- F_{sur} = factor for spouse or civil partner, according to status
- F_{ni} = factor for National Insurance modification
- F_{gmp} = factor for GMP
- AMC = Adjustment for market conditions

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Examples of assessment of CPD APB

Example A

A regular firefighter receives CPD payments from 1 July 2008 to 31 October 2013 – which is his last day of service. The total percentage of employee's and employer's contributions throughout this period is 37.5%.

CPD payments and contributions

"Total contributions" = 37.5% of "CPD paid":

CPD Year	Period	CPD paid	Total contributions
1	1.7.2008 to 30.6.2009	£400	£150
2	1.7.2009 to 30.6.2010	£500	£187.50
3	1.7.2010 to 30.6.2011	£550	£206.25
4	1.7.2011 to 30.6.2012	£600	£225.00
5	1.7.2012 to 30.6.2013	£650 (notional full amount)	£243.75 (notional full amount)

APB assessment without index-linking under Rule B5C(3)

"APB p.a." = "Total contributions" divided by "Factor":

CPD Year	Total contributions	Age	Factor	APB p.a.
1	£150	35	13.3	£11.28
2	£187.50	36	13.7	£13.69
3	£206.25	37	14.2	£14.52
4	£225.00	38	14.6	£15.41
5	£243.75 (notional full amount)	39	15.1	$£16.14 \times \frac{123}{365} = £ 5.44$
Total APB without index-linking under Rule B5C(3)				£60.34

APB assessment with index-linking under Rule B5C(3)

Assuming for example purposes, that the annual Pensions Increase Review Orders 2010 to 2013 give the percentages shown below, the APB would be indexed under Rule B5C(3) as follows:

CPD Year	APB	PI 2010 3%	PI 2011 4%	PI 2012 3.5%	PI 2013 2%	APB p.a. payable at 1.11.2003
1	£11.28	£11.62	£12.08	£12.50	£12.75	£12.75
2	£13.69	-	£14.24	£14.74	£15.03	£15.03
3	£14.52	-	-	£15.03	£15.33	£15.33
4	£15.41	-	-	-	£15.72	£15.72
5	£5.44	-	-	-	-	£5.44
Total APB with index-linking under Rule B5C(3)						£64.27

From this point on, the total figure of £64.27 a year can be increased by subsequent annual Pensions Increase (Review) Orders; there is no need to work out the increase due on each individual part of the APB. For example, with effect from the next Pensions Increase date (April 2014) the £64.27 can be increased by the full PI figure contained in the Pensions Increase (Review) Order 2014.