

RULE F6B

Calculation of amount of restitution payment

Rule F6B explains the method of calculation of restitution payments which may be claimed and credited to the FPS for those firefighters who were mis-sold personal pensions.

Nature of restitution payment

Rule F6B(1) requires a fire and rescue authority to calculate a restitution payment for a person to whom Rule F6A applies (a firefighter seeking restitution of service where incorrect advice caused him or her to leave, or not to join, the FPS).

The restitution payment must be a sum sufficient to create or restore the position of the firefighter to what it would have been had he or she –

- not opted out of the FPS (this includes failure to join the FPS) and, where relevant,
- not been induced to transfer earlier pension rights out of the FPS in favour of a personal pension plan.

Method of calculation

The restitution payment needed to re-instate service lost by opting out of the FPS is assessed by working out the sum that would have to be paid as a transfer value, including the capitalised value of Pensions Increase, at the date the firefighter gives notice under Rule F6A(2) – request for acceptance of transfer value – to achieve the number of years and days lost.

The restitution payment needed to re-instate service lost by the payment of a transfer value to a personal pension plan is assessed as the greater of –

- the transfer value actually paid out plus interest at a rate approved by the Government Actuary as from the date the transfer value was paid to the date it is assumed the restitution payment would be made to the fire and rescue authority, or
- the cash equivalent transfer value which would be payable by the fire and rescue authority in respect of the transferred service, had it not been earlier transferred; this is calculated using the methods and assumptions notified by the Government Actuary for transfer value assessments which would be applicable immediately after the date it is assumed the restitution payment would be made to the fire and rescue authority.

Example

Examples based on guidance provided by the Government Actuary's Department are given on pages F6B-Example 1.

Useful reference source

- FSC 1/1995: Pension mis-selling
- FSC 8/1997: Pension mis-selling
- FSC 9/1997: Pension mis-selling
- FSC 2/1998: Pension mis-selling
- FSC 2/2000: FSAVC mis-selling

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Rule F6B (continued)

Points To Note

1. See also the explanation of Rule F6A.

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Examples of the calculation of restitution payments based on guidance provided by the Government Actuary's Department

In cases where a firefighter has opted out of the FPS for a period of service whilst still employed with the fire and rescue service, and has transferred his/her occupational pension benefits to an outside scheme, the most suitable method recommended for calculating the cost of buying back or re-instating the person's pensionable service for the opted-out period is as shown below:

The reinstatement cost is to be calculated in two parts, one part relating to the period of opted-out service, and the other part relating to any transferred-out service which should be transferred back to the FPS. If both parts apply, the two figures should be added together to produce the total re-instatement cost

A. Opted-out service

The reinstatement charge is calculated as the incoming transfer value that would be needed to secure a service credit equal to the period of opted-out service, calculated on the standard transfer-in basis for transfer payments received from other occupational pension schemes.

The factors to be used are in given in tables provided in FSC 9/1995 "Police and Fire Pension Schemes Non-Club Incoming Transfer Values" and "Adjustments for Market Conditions".

The formula is:

$$(\text{transfer in cost per year} \times \text{total years}) - (\text{GMP adjustment}) \times (\text{AMC})$$

where –

$$\text{transfer-in cost per year} = \frac{\text{pensionable salary at date of reinstatement}}{45} \times (\text{pension factor} + 1/2 \text{ of spouse's pension factor})$$

$$\text{total years} = \text{number of years and days of opted-out service}$$

$$\text{GMP adjustment} = \text{Guaranteed Minimum Pension} \times \text{GMP factor}$$

$$\text{AMC} = \text{figure for adjustment for market conditions based on the yield of FT Actuaries index-linked stocks at date of reinstatement}$$

B. Transferred-out service

Of the two formulas below, the one which produces the higher figure should be used.

Formula 1: transfer value originally paid x interest factor. Interest is assessed at the rate of 1.1% a month, based on the number of months and part months between the payment of the transfer value and the payment of the re-instatement cost.

Formula 2: the cash equivalent transfer value (CETV) payable in respect of transferred-out service using salary at the time of re-instatement. This can be considered the CETV payable in respect of the transferred-out service if the firefighter were to leave the FPS on the day after being reinstated.

An example of the reinstatement cost for a male firefighter who opted out of the FPS and had earlier pension rights accrued in the FPS paid to a personal pension plan is given on the next page.

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Examples of the calculation of restitution payment (continued)

Example of calculation for a male firefighter who opted out of FPS and transferred out previously accrued service

Personal data:

Date of birth:	18.06.1963	Marital status:	Married
Date of commencement in FPS:	01.09.1986	Date of opting-out:	01.09.1990
Pensionable pay at date of opting-out:	£18,600 pa	Date of re-instatement:	01.09.1996
Age at re-instatement:	33	Pensionable pay at date of re-instatement:	£24,500 pa
GMP (hypothetical):	£220.54	Date transfer value paid to personal pension:	31.03.1991
Transfer value paid at 31.03.1991:	£8,650	GMP factor:	1.84
AMC (hypothetical):	1.16		

Table of interest factors (1.1% per month interest)

The time period is measured as the number of months between the payment of the transfer value and the payment of the re-instatement cost. Part months should be counted as complete months

No. of months	No. of years									
	0	1	2	3	4	5	6	7	8	9
0	-	1.14	1.30	1.48	1.69	1.93	2.20	2.51	2.86	3.26
1	1.03	1.15	1.31	1.50	1.71	1.95	2.22	2.53	2.89	3.30
2	1.03	1.17	1.33	1.52	1.73	1.97	2.25	2.56	2.92	3.33
3	1.03	1.18	1.34	1.53	1.75	1.99	2.27	2.59	2.95	3.37
4	1.04	1.19	1.36	1.55	1.77	2.01	2.30	2.62	2.99	3.41
5	1.06	1.20	1.37	1.57	1.79	2.04	2.32	2.65	3.02	3.44
6	1.07	1.22	1.39	1.58	1.81	2.06	2.35	2.68	3.05	3.48
7	1.08	1.23	1.40	1.60	1.83	2.08	2.37	2.71	3.09	3.52
8	1.09	1.24	1.42	1.62	1.85	2.10	2.40	2.74	3.12	3.56
9	1.10	1.26	1.43	1.64	1.87	2.13	2.43	2.77	3.15	3.60
10	1.12	1.27	1.45	1.65	1.89	2.15	2.45	2.80	3.19	3.64
11	1.13	1.29	1.47	1.67	1.91	2.17	2.48	2.83	3.22	3.68

Other factors

See factors used for Rule F7

Calculation of re-instatement cost in respect of opted-out service

$$\text{transfer-in cost per year} = \frac{\pounds 24,500}{45} \times (12.08 + 1/2 \text{ of } 4.22) = \pounds 544.44 \times 14.19 = \pounds 7,725.60$$

$$\text{transfer-in for total years} = 6 \times \pounds 7,725.60 = \pounds 46,353.60$$

$$\text{GMP adjustment} = \pounds 46,353.60 - (\pounds 220.54 \times 1.84) = \pounds 45,947.81$$

$$\text{AMC application} = \pounds 45,947.81 \times 1.16 = \pounds 53,299.46$$

$$\text{Total re-instatement cost of opted-out service} = \pounds 53,299.46$$

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Examples of the calculation of restitution payment (continued)

Calculation of re-instatement cost in respect of transferred-out service

Greater of:

(a) $£8,650 \times 2.06$ (interest factor for 5 years 6 months, i.e. for period 31.3.1991 to 1.9.1996) = £17,819.00

or

(b) $4/60 \times £24,500 \times (4.17 + 1.93/2)$ = £8,395.32

less GMP adjustment: $£220.54 \times 1.84$ = £ 405.79

AMC application $£7,989.53 \times 1.16$ = £9,267.85

Greater is (a)

Total re-instatement cost of transferred-out service = £17,819.00

Total re-instatement cost in respect of opted-out and transferred-out service

$£53,299.46 + £17,819.00$ = £71,118.46