

RULE G5

Purchase of increased benefits

Rule G5, together with Rules G6, G7, G8 and Schedule 8 explain how a firefighter who will be unable to complete sufficient service for a maximum pension by compulsory retirement age, can “purchase” additional benefits.

Eligibility for “purchase”

To be eligible for the “purchase” option, Rule G5(2) requires that you must be a regular firefighter –

- (a) paying basic pension contributions under Rule G2 (i.e. not an optant-out)
- (b) whose normal pension age (55) is at least 9 years after the date on which you became (or last became) a regular firefighter, and
- (c) who would be entitled to reckon less than 30 years’ pensionable service at normal pension age.

(Before 21 November 2005 the references in G5(2) were to "retirement date" rather than "normal pension age". And "retirement date" meant the date at which a firefighter could be required to retire, i.e. "compulsory retirement age". This was age 55 for all ranks up to and including Station Officer, age 60 for all ranks above.)

Exclusions

Rule G5(2)(b) excludes a firefighter to whom Part IV of Schedule 11 applies. Because Part IV of Schedule 11 applies to firefighters serving on 10 July 1956 this exclusion will not apply to any currently serving firefighter.

The nature of the purchase

Rule G5(1) tells you that what you would be purchasing, if you take up this option, is additional 60ths of average pensionable pay which will improve your FPS benefits. Your pension is based on 60ths of pensionable pay. The purchased 60ths would be added to those you accrue through your service, and also taken into account, at the relevant rate, in the assessment of widow(er)’s, civil partner’s and children’s benefits – see the explanation of Rule G8.

In other words, making the payment will not increase your length of service but will directly increase the benefits receivable. You must be clear about this distinction. Because you are not purchasing “service” as such, your election would not, amongst other things –

- affect double reckoning nor the qualifying period for double reckoning (“double-reckoning” means after 20 years’ service has been completed being able to count each year of service in the assessment of your pension as 2/60ths of final pay rather than 1/60th),
- allow you to retire earlier than you otherwise would have done (e.g. it would not count towards the 25 years’ service needed to qualify for optional retirement at age 50),

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Rule G5 (continued)

The nature of the purchase (continued)

- allow you to qualify for a benefit to which you would not otherwise be entitled nor to have a basic award calculated differently (e.g. it would not affect the period required for entitlement to an ill-health pension nor would it be included in the period used to establish entitlement to the compensatory 60ths paid on ill-health retirement).

Tax

Before 6 April 2006, tax rules stated that if you had benefits from previous pension schemes, when testing your eligibility to purchase additional 60ths, apart from testing whether you would be able to achieve 30 years' pensionable service at retirement date, your fire and rescue authority must also apply a test required by tax rules. This generally required that the benefits you could achieve from the FPS, plus any "retained benefits" must not exceed 2/3rds of your final pay. "Retained benefits" are benefits from previous pension schemes. If, however, you were a new entrant to the FPS and your earnings in the first year of your membership were less than 1/4 of the "earnings cap" on pensionable pay (see the explanation of Rule G1), no retained benefits needed to be taken into account.

With effect from 6 April 2006 new tax rules came into effect; they allowed greater scope for the accumulation of pension rights. The "2/3rds of final pay" limit no longer applies but, on becoming entitled to draw benefits, the value of total benefits (from all pension schemes) must be tested against a Standard Lifetime Allowance set by HM Revenue and Customs (£1,500,000 for tax year 2006/07). Even if the value of total benefits exceeds the Lifetime Allowance they may still be paid although any excess would be subject to tax charges. How the test is applied is shown in the explanation of the various types of retirement benefit in Part B of this Commentary. See also "Points To Note", Points 4 and 5 for other effects of the introduction of the new tax regime.

Useful reference source

- FSC 5/1987: this circular accompanied the introduction of the "purchase" option into the Firemen's Pension Scheme Order 1973

Points To Note

1. This explanation of the application of Rule G5 should be read in conjunction with the explanation of Rules G6, G7 and G8.
2. The 30 year limit means that the option to purchase additional benefits will be open only to those who first became a firefighter over the age of 25 without any transfer of previous pension rights into the FPS.

Rule G5 (continued)

Points To Note continued

3. Before 21 November 2005, the limits in Rule G5(2) would be tested against "compulsory retirement age" rather than "normal pension age". A firefighter who was below the rank of Assistant Divisional Officer would have to consider the implications of his/her compulsory retirement age changing from 55 to 60 if subsequently promoted to Assistant Divisional Officer or above. Normal service to compulsory retirement age may then give that person the opportunity to achieve 30 years – and therefore maximum benefits – without need to purchase extra 60ths. For example, if you were a Station Officer who could achieve only 27 years' service by age 55 your pension would be based on 34/60ths of pensionable pay. You could choose to elect to purchase the 6/60ths needed for the equivalent of 30 years' worth of pension (i.e. the maximum 40/60ths of pensionable pay). However, if you were promoted to Assistant Divisional Officer, you would have the opportunity, through normal service, to achieve maximum pension. Your election to pay additional contributions would nevertheless have to continue in force (see the explanation of Rule G6 "Effective date of election and terms"). Since the change to "normal pension age" this is no longer an issue for those who elect to purchase additional benefits after 20 November 2005.
4. Unlike most other occupational pension schemes, the FPS does not currently offer an additional voluntary contribution (AVC) arrangement for its members as an alternative to the "purchase" provisions described above. A firefighter could, however, approach a financial company or similar institution regarding the payment of Free-Standing Additional Voluntary Contributions (FSAVCs) to improve retirement benefits. Before 6 April 2006 this had to be done with caution because the fast-accrual nature of the FPS meant that tax limits applicable at the time could easily be breached. If you would like to know more about AVCs and FSAVCs in relation to the FPS at that time, the following are useful sources of information – FSC 12/1988, FSC 4/1990, FSC 2/1991, FSC 2/2000. On and after 6 April 2006 the new tax regime allowed more scope for building pensions.
5. On 6 April 2001, concurrent membership of the FPS and a personal pension or a stakeholder pension became an option, for those whose earnings were below a certain limit, to increase income on retirement – see Annexe 15. On and after 6 April 2006 the new tax regime made this option available to all scheme members regardless of the level of earnings.