

# **X FIRE AND RESCUE AUTHORITY**

**The Firefighters' Pension Scheme 1992**

**The New Firefighters' Pension Scheme 2006**

## **YOUR CHOICE**

**These notes look at some of the pros and cons of the two Schemes to help you decide whether to stay a member of the FPS or to move to the NFPS**

**January 2007**



# **Your choice**

You've opened the Information Pack given to you by the Fire and Rescue Authority and found a booklet giving you information about the New Firefighters' Pension Scheme ("NFPS") which has just come into operation and a chart comparing it with the Firefighters' Pension Scheme ("FPS"), to which you currently belong. There's a variety of forms, too. One of them asks you to acknowledge that you have received the Pack and to say whether you wish to remain a member of the FPS or would like to join the NFPS.

That form must be returned to the Authority whatever your decision.

What's your decision going to be?

Your first reaction may be to say you'll stick with the FPS. It's generally recognised to be an excellent scheme. But there may be some features of the NFPS that could be of value to you, depending upon your wishes and circumstances.

These notes pull together various issues you may wish to consider before you make your decision. The person(s) responsible for the Options Exercise within the Authority (see contact details in the Pack) can give you further information if anything in the notes or guides is unclear, but they cannot advise you or make the decision for you. You may wish to consult your trade union or professional association or perhaps seek the guidance of a suitably qualified independent financial adviser (some advisers may charge for this service).

Please take the time to read these notes. Even if you decide to stay a member of the FPS for the time being, you will keep the option to move to the NFPS at a later date. These notes could alert you to circumstances where you may consider making such a move. However, if you choose to join the NFPS, there is no option to revert to membership of the FPS.

## **Contributions and pensionable pay**

Probably the first thing that you'll notice is that the contribution rate for the NFPS – 8.5% of pensionable pay – is less than the current contribution rate for the FPS – 11%. If the amount of take-home pay is important to you, then the NFPS may look more attractive in this respect. However contribution rates can change, for example if the cost of a pension scheme increases and there is a need to offset costs which would otherwise have to be met by the employing Authority and borne by council tax payers. The lower contribution rate for the NFPS reflects the fact that it has a slower accrual rate than the FPS. You would have to pay contributions in the NFPS for a longer period than you would have to pay in the FPS to receive a similar benefit.

Pensionable pay is similar in both Schemes – it is pay determined in relation to the duties of the role. Temporary elements of pay generally do not count.

Both the FPS and NFPS have an "earnings cap" for pension purposes. During 2006/07 this is £108,600.

## **Retirement age and pension accrual rates**

Normal retirement age in the FPS is age 55 although you can retire at or after age 50 provided you have at least 25 years' pensionable service. (A Chief Fire Officer needs the Authority's consent to retire before age 55.) Your pension would be based on your length of service. There would be no reduction to reflect early payment.

Normal retirement age in the NFPS is higher, at age 60. You could retire earlier, from age 55, if the Authority decide that your retirement would be in the interests of the Service. In these circumstances your pension would be based on service accrued to the date of leaving. There would be no reduction for early payment. Or you could decide you would like to take early retirement and elect to draw your pension between age 55 and 60. Again your pension would be based on your service accrued to date of leaving but in this case there would be a reduction applied to reflect early payment.

Consequently, if a lower retirement age is important to you, the FPS offers this.

The FPS also has a "fast accrual" rate – after the first 20 years of service each year counts double for pension purposes. So you have a pension of 40/60ths of final pay after 30 years' service. The NFPS has a uniform, single accrual rate – you would require 40 years of service to receive a pension of 40/60ths of final pay. Consequently the FPS gives the opportunity to build a pension more quickly. This makes the Scheme attractive to many. But if you are unlikely to reach 20 years' service in the FPS by retirement age, the accrual rate for a retirement pension is the same as in the NFPS.

There can also be a downside to the FPS accrual principles for some longer-serving firefighters. Once they have built up 30 years' pensionable service they have the maximum service allowed under the FPS. If they joined the Service early, say at age 18, they will have maximum service at age 48 but will not be eligible at that age to retire. They would be required to continue paying contributions to their last day of service if they want to draw their pension before age 60 (the age at which a deferred pension would be paid to someone who elects to stop paying contributions while still serving). The NFPS with its slower accrual rate means this is less likely to happen. And there is no limit on the service which can accrue in this way. If, therefore, a firefighter subject to the NFPS joins at age 18 the pension at age 60 would be based on 42/60ths of final pay.

Consequently if you wish to serve as short a period as possible for maximum pension, the FPS would probably be your preferred Scheme. If, however, you intend to be in the Service for longer than 30 years, the NFPS with its lower contribution and accrual rate, together with the option to count more than 40/60ths in the pension calculation, has its advantages.

## **Final pay for pension purposes**

Your pension as an FPS member is based on your pensionable pay averaged, normally, over your last year of service. If one of the two previous years would produce a higher average pay figure, this can be substituted for the final year's pay. This is useful if you have had a temporary promotion in one of the two years before your final year. But nothing can be done to protect a higher level of pay earlier in your career.

This is where the NFPS is more flexible – it has a "split pension" option. If you have a reduction in pay, pension rights based on the pre-reduction pay can be assessed and protected. You would start a new pension record based on the lower rate of pay. Then, when you finally retire, you would receive both a pension based on service and pay after the "split", and a pension based on service and higher pay before the split. (If your pay after the split has increased substantially by the time you retire you have the option to combine the periods of service and take a single pension based on that improved pay.)

This form of protection has its advantages if, say, you move to a lower-paid role or lose flexible duty system supplement before your final three years of service, or perhaps move between authorities and wish to protect benefits that have accrued during a period where you were receiving London Weighting allowance.

## **Lump sum by commutation**

Both the FPS and NFPS allow commutation, i.e. the option to convert part of your annual pension to a single payment of a tax-free lump sum. In the FPS you can convert up to one quarter of the pension provided you have reached normal pension age, or have 30 years' service, or are retiring on grounds of ill-health. In other circumstances the portion which can be commuted is a smaller amount. In the NFPS the sum which can be commuted is one quarter in all circumstances.

Commutation is not compulsory; both the FPS and NFPS offer you a pension without any lump sum if you prefer.

The factors used to work out the lump sum under the FPS vary according to the age and gender of the firefighter. Under the NFPS there is a single factor regardless of age or gender. (The older the person at the time of commutation, the better the deal.) However, the FPS factors are currently more generous than the NFPS factors. Commutation factors do change from time to time and even though FPS factors are more generous at present, this does not mean that they will stay that way.

Consequently, as regards commutation, both Schemes have their advantages and disadvantages.

## **Early leaver benefits**

Deferred benefits are based on service and average pensionable pay at date of leaving. They would be put into payment at age 60 under the FPS. Under the NFPS they would normally be put into payment at age 65 but, at the request of the former firefighter, could be put into payment at age 55 or over, subject to a reduction for early payment. Both Schemes allow the deferred pension to be put into early payment on health grounds but the test for the FPS pension to be paid is based on whether or not you are permanently unfit to carry out the duties of your role whereas the test for the NFPS pension is whether or not you are permanently unfit for any regular employment.

## **Ill-health retirement**

Both the NFPS and the FPS have a two-tier ill-health pension arrangement and they operate on similar principles. The lower-tier pension – equivalent to a deferred pension – would be put into payment if you are permanently disabled for performing the duties of your role; the higher-tier pension – based on an "enhancement" of service – would be put into payment if you are permanently disabled for any regular employment.

## **GROUP A: Your choice - Final**

The higher-tier pension in the FPS may be more generous than that offered by the NFPS but in the FPS it is based on a banded type of enhancement which can have a "cliff-edge" effect. The enhancement offered by the NFPS is based on a principle of accrual which takes account of past and future service and is more equitable across the board.

### **Death grant**

The NFPS is more generous than the FPS in this respect.

Firstly, if you were to die in service, the NFPS death grant is three times your pensionable pay at the date of death; the FPS offers twice pensionable pay at the date of death.

Also, the NFPS allows the Authority total discretion as to the recipient of the death grant and they may take account of a nomination made by the Scheme member. In the FPS the recipient must be the spouse or civil partner of the firefighter or, in the absence of such a person, his/her legal personal representatives.

This means that NFPS members can complete a "nomination form" for their pension file indicating which person or persons they would like the death grant to be paid to. The Authority would take this into account when deciding the recipients and normally the payment would be made in accordance with the firefighter's wishes. But because the NFPS rules state that the Authority have discretion as to the recipient, the payment would not normally be subject to inheritance tax under current tax rules. This is not the case with the FPS death grant.

Unlike the FPS, the NFPS also offers a death grant after retirement if the pension has been in payment for less than 5 years. The death grant would be the difference between 5 years' worth of pension and any payment already made (including the lump sum) at the date of death.

### **Widow's or widower's pension**

Both the FPS and the NFPS provide a pension for the surviving spouse of a firefighter who dies in service or after retirement. In the case of death in service the pension is half of the upper tier ill-health pension to which the firefighter would have been entitled at the date of death. This means that the surviving spouse's pension reflects the ill-health pension rules of the relevant Scheme. As already mentioned in these notes, the accrual rate of the FPS is faster and the ill-health enhancement may be more generous. Consequently, depending upon the service accrued at date of death, the FPS may offer a higher level of spouse's pension for death in service.

In the case of death after retirement, both Schemes provide half of the firefighter's pension as a surviving spouse's pension but the NFPS rules are not as generous as the FPS rules. The spouse's half pension in the case of the FPS is half of the firefighter's uncommuted pension – even if he/she had taken a lump sum. In the case of the NFPS the spouse's half pension is half of the pension after any commutation. (But no account is taken of any reduction to the pension for early retirement.)

Whether death is before or after retirement, the NFPS applies a reduction to the spouse's pension if the widow or widower is younger than the firefighter by more than 12 years. The pension would be reduced by 2.5% for each year, or part year, that the spouse is younger than the firefighter, to a maximum of 50%. This reduction does not apply in the FPS.

Consequently, the FPS will normally offer a higher level of spouse's pension particularly if there is a substantial age difference between spouse and firefighter.

Both Schemes top up the surviving spouse's pension for the first 13 weeks following death, to the level of firefighter's pay (death in service) or pension (death after retirement).

### **Surviving civil partner's pension**

This is based on similar principles to those used for working out a spouse's pension but in the FPS account is taken of service after 5 April 1988 only. In the NFPS account is taken of all service. Consequently a FPS member with service before 6 April 1988, who has a civil partner and who joins the NFPS with a transfer of service from the FPS may have cover for a greater civil partner's pension than that available under the FPS.

### **Surviving nominated partner**

This provision is in the NFPS only. If you are not married but in a relationship with someone you would be free to marry or with whom you could form a civil partnership you can nominate that person for a pension which would be assessed on similar principles to that which would be paid to a surviving spouse or civil partner. This would be subject to you having been, at the time of death, in an exclusive, committed, long-term relationship for, normally, two years and your nominated partner having been financially dependent upon you, or the two of you being financially interdependent.

This would be worth considering if you are in such a relationship.

### **Continuity of spouse's or partner's pension**

Under the FPS a surviving spouse's or civil partner's pension would cease on remarriage. Under the NFPS these pensions, and those payable to nominated partners, are payable for life.

### **Children's pensions**

Like the spouse's and partner's pensions, children's pensions in both Schemes are based on a percentage of the firefighter's pension (death after retirement) or notional higher tier ill-health pension (death in service). Consequently account needs to be taken of the accrual rate and ill-health enhancements in the two Schemes. However the NFPS offers a higher percentage than the FPS and greater cover if the child is an orphan.

If there is a surviving parent, in the FPS one child would receive 18.75% of the firefighter's pension, 2 or more children would receive 37.5% between them. In the NFPS one child would receive 25% of the firefighter's pension, 2 or more children would receive 50% between them.

If there is no surviving parent, in the FPS one child would receive 25% of the firefighter's pension, two or more children would receive 50% between them. The NFPS would additionally pay the equivalent of a surviving spouse's pension to the child or (between) the children.

### **What else?**

Look at the Comparison Chart included in the pack. This gives details about each of the Schemes and compares them. The notes above, however, advise you of the key features and suggest what you may need to think about in the context of your own circumstances and career prospects. Generally the FPS caters for those who will spend 25 to 30 years in the Service and who wish to maximise personal benefits payable at an early retirement age. The NFPS retirement age and accrual rate is slower, but its contribution rate is lower and it could potentially offer a higher pension for someone who works to the later normal retirement age. It also offers a higher death grant and the option of benefits for a nominated partner.

Circumstances may change – career prospects, relationships, health, etc. If you choose to remain with the FPS for now, you can still elect to join the NFPS at a later date. After 31 March 2007, however, you will not have the opportunity to backdate membership to 6 April 2006 or to transfer accrued FPS pension rights over on the special "Options Exercise" terms.

Think it through carefully.

