

Firefighters' Pension Scheme 1992

Commutation on Retirement

Date: 16 May 2008



Introduction

The attached tables set out the factors for commutation of pension to lump sum in the Firefighters' Pension Scheme (FPS).

The factors apply in accordance with the following rule:

- rule B7 of The Firefighters' Pension Scheme Order 1992 (UK SI 1992/129)

This guidance applies to any pensions commencing on or after 1 October 2007. This guidance supersedes any previous guidance or advice issued by GAD in connection with firefighter pension commutation.

This guidance does not apply to the trivial commutation of pension under rules B8, E5 and E6 of The Firefighters' Pension Scheme Order 1992.

This guidance also does not cover the calculation of the capitalised value of benefits for the purpose of determining death gratuities under rule E4 of The Firefighters' Pension Scheme Order 1992.

If administrators have any questions about how to use this guidance they should in the first instance consult published information on the Firefighter Pensions pages at:

<http://www.communities.gov.uk/fire/working/firefighterpensions/>

If this does not help, administrators may contact the Firefighters' Pensions Teams at DCLG, the Scottish Public Pensions Agency, the Welsh Assembly Government or the Northern Ireland Fire & Rescue Service, as applicable. The Firefighters' Pensions teams will seek input from the scheme actuary if necessary.

Administration

1. The amount of FPS pension that can be commuted is subject to the limits set out in the FPS regulations. In most cases a quarter of the pension can be commuted. An ordinary pension in respect of at least 25 but less than 30 years of service (but not one that is paid on compulsory retirement on account of age or on retirement on or after what would have been the compulsory retirement age for the officer's rank and force) can be commuted to give a maximum lump sum of no more than 2¼ times the full amount of the annual pension (rule B7 of the Firefighters' Pension Scheme Order 1992).
2. Rule B10 of the Firefighters' Pension Scheme Order 1992 describes additional restrictions on the amount of pension that can be commuted in certain circumstances.
3. Restrictions on pension commutation are also imposed by the pension taxation regime under Finance Act 2004. Administrators must ensure that the payment of a lump sum in lieu of pension is compliant with the tax rules as well as with the firefighter pension regulations. The main taxation restriction is that for a lump sum to be authorised under the tax rules it must not exceed 25% of the total value of benefits vested.
4. Use of the attached factors will not in most cases cause the 25% HMRC limit to be breached. However, two scenarios where the limit could potentially be breached are as follows:
 - Allocation in accordance with Firefighters' Pension Scheme Order rule B9
 - Pension commencing before age 55 after a gap since leaving service

These scenarios are discussed in more detail later in this note.

FPS commutation – retiring from active service

5. For a firefighter retiring on pension directly from firefighter service the lump sum payable can be determined as follows:

pension given up × factor from table 1

Equivalently, the pension given up can be determined as follows:

lump sum payable ÷ factor from table 1

6. Example 1 on page 5 illustrates this calculation.

FPS commutation – break between leaving service and pension commencing

7. The commutation lump sum should be calculated as in paragraph 5 above in the following cases:
 - If the pension commences at or above age 55; or

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- If the pension commences on grounds of ill health before age 55 and attracts full pension increases.
8. In other cases where the pension commences before age 55 a special calculation is needed. One scenario where this arises is as follows:
- Firefighter left service at any age with a deferred pension entitlement. They are later awarded early payment of the pension on ill-health grounds but do not meet the stricter criterion to enjoy full pension increases under the Pension Increase Act. The FPS pension comes into payment immediately but pension increases are not payable until 55.
9. In these cases, the lump sum payable should be determined as follows:
- $$\text{pension given up} \times (\text{factor from table 1} + (\text{PI percentage} \times \text{factor from table 2}))$$
- Equivalently, the pension given up can be determined as follows:
- $$\text{lump sum payable} \div (\text{factor from table 1} + (\text{PI percentage} \times \text{factor from table 2}))$$
- The PI percentage is the percentage increase in the pension that is attributable to pension increases announced during the period between leaving service and the pension commencing.
10. Example 2 on page 5 illustrates this calculation.
11. No additional lump sums are payable at age 55 or at any other time. The full value of the pension being given up on commutation has been allowed for in setting the commutation factors. The pension payable from age 55 is the level of pension after commutation multiplied by the PI percentage from date of leaving service up to age 55.

Factors that could breach the HMRC limit

12. As mentioned in paragraph 4, there are two scenarios that may breach the HMRC limit of authorised lump sums being no more than 25% of the total benefit value. The first is allocation – when a member chooses to give up part of their own pension in favour of additional dependant's pension after their death.
13. The second scenario that may breach the limit is on pension commencing before age 55 after a gap since leaving service and where pension increases will not be paid until age 55 (ie as per paragraph 8). Example 3 on page 6 illustrates how this can result in the commuted lump sum exceeding 25% of the total value of benefits.
14. Lump sums above the 25% HMRC limit are taxed at 55% in the hands of the member with the possibility of additional scheme sanction charges on the administrator. Administrators should alert members who are in danger of breaching the HMRC limit to the tax consequences of opting to commute to the maximum extent.

Example Calculations

This section provides examples of the calculations described in this note.

Example 1 – FPS: retiring from active service

date of birth: 22 December 1952
date pension commences: 22 December 2007
total pension payable: £20,000 pa

age on day pension commences: 55 years

maximum pension that can be commuted: £5,000 pa

lump sum payable: = pension given up × factor from table 1
 = 5,000 × 18
 = **£90,000**

Example 2 – FPS: pension commencing on ill health grounds without PI after a gap since leaving service

date of birth: 30 June 1965
pension at leaving service: £8,000 pa
date pension commences: 15 October 2010
accrued PI when pension commences: 5%

age on day pension commences: 45 years 3 months

maximum pension that can be commuted: £2,000 pa

lump sum payable:
= pension given up × (factor from table 1 + (PI percentage × factor from table 2))
= 2,000 × (19 + (5% × 12.6))
= **£39,260**

Example 3 – FPS: HMRC limit breached on pension commencing on ill health grounds without PI after a gap since leaving service

date of birth: 30 June 1965
pension at leaving service: £8,000 pa
date pension commences: 15 October 2010
accrued PI when pension commences: 30%

age on day pension commences: 45 years 3 months

maximum pension that can be commuted under FPS regs: £2,000 pa

lump sum payable:
= pension given up \times (factor from table 1 + (PI percentage \times factor from table 2))
= $2,000 \times (19 + (30\% \times 12.6))$
= £45,560

total HMRC value of benefits = $\text{£}6,000 \times 20 + \text{£}45,560$
= £165,560

lump sum proportion: = $\text{£}45,560 / \text{£}165,560$
= **27.5% of total value**

maximum pension that can be commuted within 25% HMRC limit = £1,811.18 pa

lump sum payable:
= pension given up \times (factor from table 1 + (PI percentage \times factor from table 2))
= $1,811.18 \times (19 + (30\% \times 12.6))$
= £41,258.68

total HMRC value of benefits = $(8,000 - 1,811.18) \times 20 + 41,258.68$
= £165,035.08

lump sum proportion: = $\text{£}41,258.68 / \text{£}165,035.08$
= **25% of total value**

**Table 1: FPS factors for commutation of pension to lump sum
Males and Females**

Years	Age in years and completed months on day pension commences											
	0	1	2	3	4	5	6	7	8	9	10	11
49 and below	19	19	19	19	19	19	19	19	19	19	19	19
50	19	18.98	18.97	18.95	18.93	18.92	18.9	18.88	18.87	18.85	18.83	18.82
51	18.8	18.78	18.77	18.75	18.73	18.72	18.7	18.68	18.67	18.65	18.63	18.62
52	18.6	18.58	18.57	18.55	18.53	18.52	18.5	18.48	18.47	18.45	18.43	18.42
53	18.4	18.38	18.37	18.35	18.33	18.32	18.3	18.28	18.27	18.25	18.23	18.22
54	18.2	18.18	18.17	18.15	18.13	18.12	18.1	18.08	18.07	18.05	18.03	18.02
55	18	17.97	17.93	17.9	17.87	17.83	17.8	17.77	17.73	17.7	17.67	17.63
56	17.6	17.57	17.53	17.5	17.47	17.43	17.4	17.37	17.33	17.3	17.27	17.23
57	17.2	17.17	17.13	17.1	17.07	17.03	17	16.97	16.93	16.9	16.87	16.83
58	16.8	16.77	16.73	16.7	16.67	16.63	16.6	16.57	16.53	16.5	16.47	16.43
59	16.4	16.37	16.33	16.3	16.27	16.23	16.2	16.17	16.13	16.1	16.07	16.03
60	16	15.97	15.93	15.9	15.87	15.83	15.8	15.77	15.73	15.7	15.67	15.63
61	15.6	15.57	15.53	15.5	15.47	15.43	15.4	15.37	15.33	15.3	15.27	15.23
62	15.2	15.17	15.13	15.1	15.07	15.03	15	14.97	14.93	14.9	14.87	14.83
63	14.8	14.77	14.73	14.7	14.67	14.63	14.6	14.57	14.53	14.5	14.47	14.43
64	14.4	14.37	14.33	14.3	14.27	14.23	14.2	14.17	14.13	14.1	14.07	14.03
65	14											

Table 2: FPS additional factors in respect of accrued pension increases for use in commutation before age 55 after a gap since leaving service

Males and Females

Age in completed years on day pension commences	Factor
21	5.5
22	5.7
23	5.9
24	6.1
25	6.3
26	6.5
27	6.8
28	7
29	7.3
30	7.5
31	7.8
32	8.1
33	8.3
34	8.6
35	8.9
36	9.2
37	9.6
38	9.9
39	10.3
40	10.6
41	11
42	11.4
43	11.8
44	12.2
45	12.6
46	13.1
47	13.5
48	14
49	14.5
50	15
51	15.5
52	16
53	16.6
54	17.2