

West Midlands HR Regional Fire Conference

‘Everything’ you need to know about
pensions

Clair Alcock

It's not so much.....



But a bit more.....



A Balancing Act

Schemes and Complexity

Resource

Knowledge gaps

Increased complexity

More schemes

Reduced level of resource



Agenda

- Firefighters' Pension Scheme History
 - Individual Pension Account
 - Transitional Protection
 - Retained Firefighters' - Modified Scheme
 - Benefits Table
 - Commutation case – GAD v Milne
 - Cessation of contracting out
 - Exit Cap Consultation
 - Scheme Advisory Board Update
-

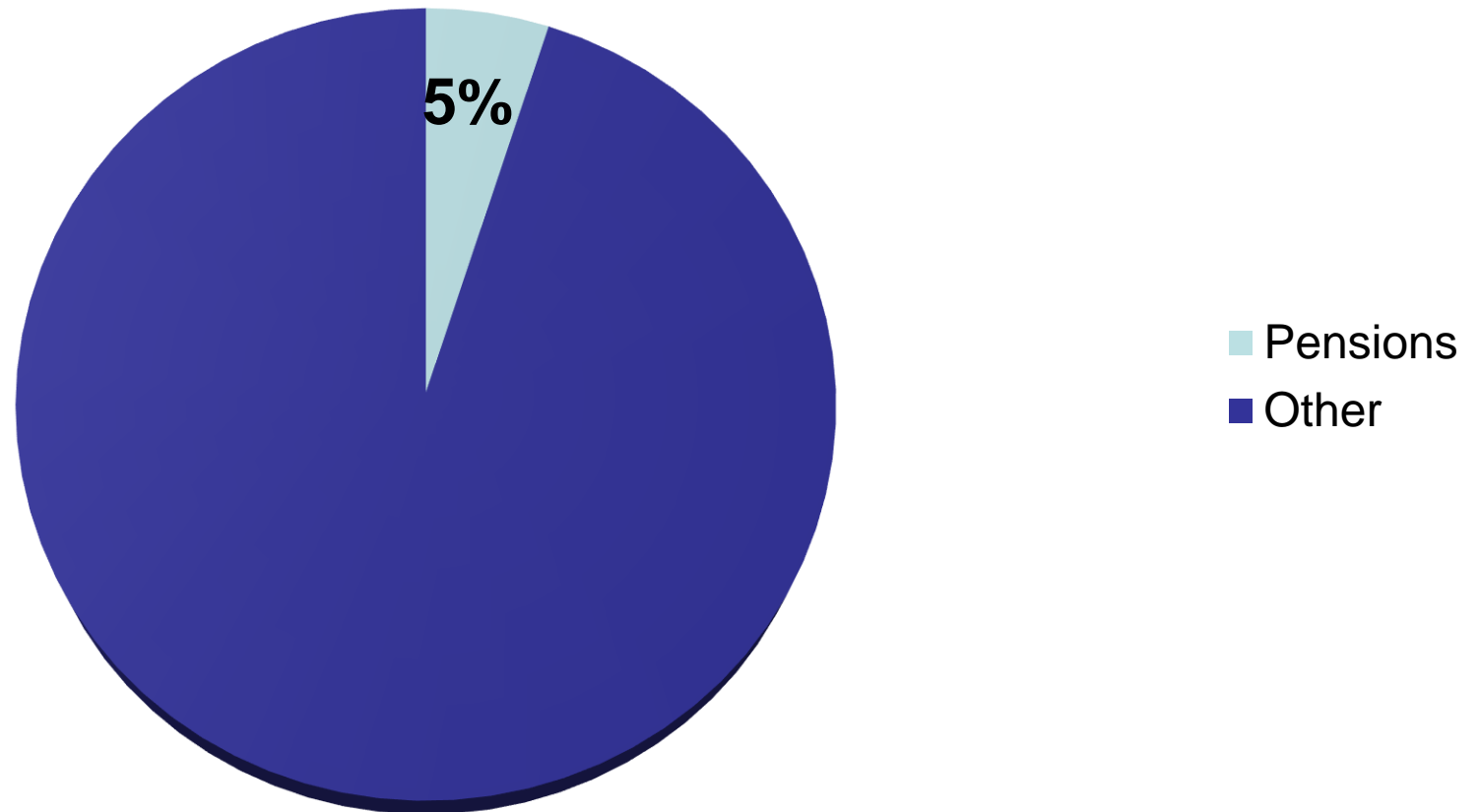
9 years ago



Simple

- Double accrual after 20 years
 - Earliest retirement age 50
 - Final Salary
 - Actuarial commutation factors
 - Injury benefits
 - Built in Ill-health benefits / life cover
 - Pension for dependents
-

Time spent on pensions



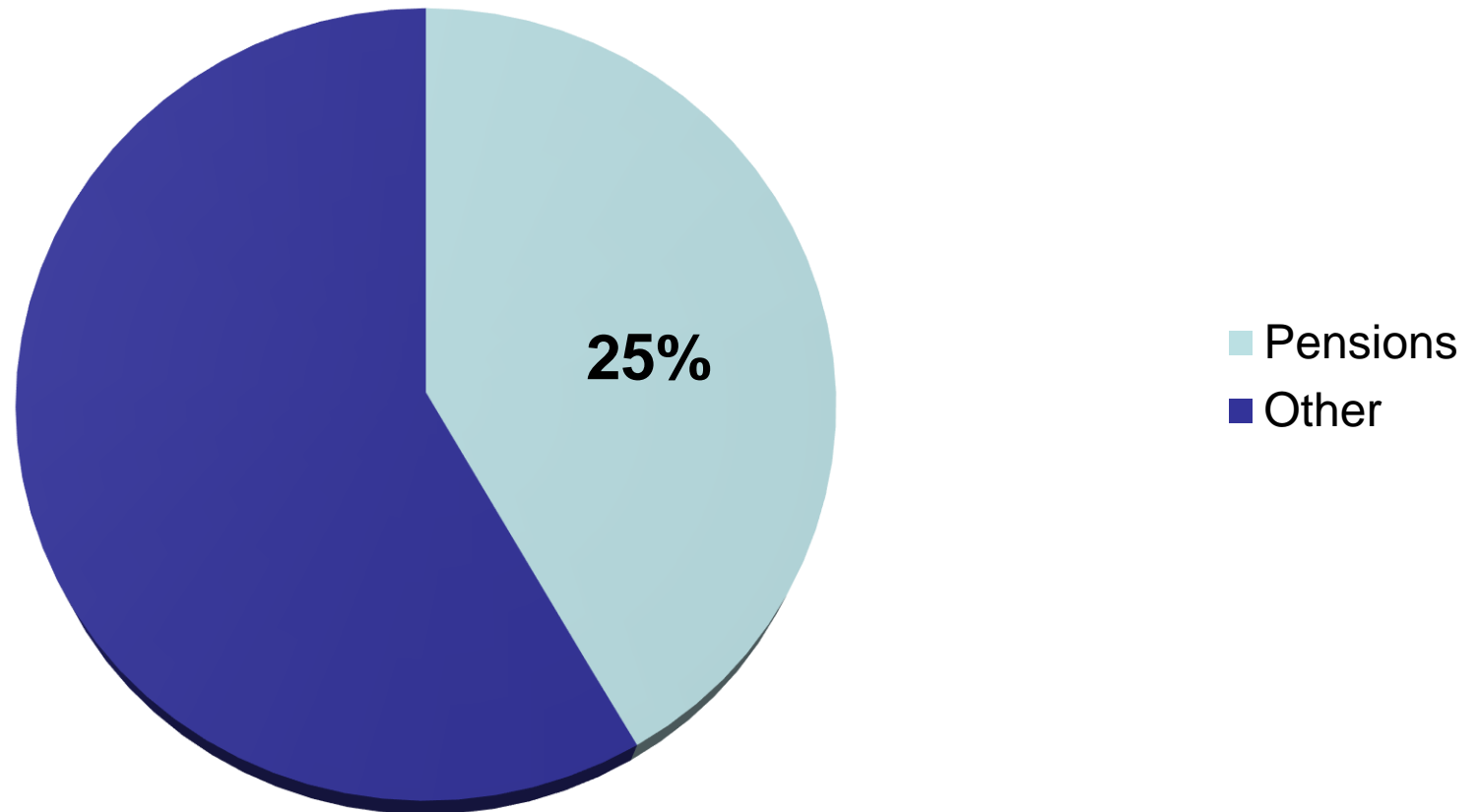
And then in 2006, suddenly there were three



Which introduced

- Options exercise
 - New retirement age for NFPS
 - Pension at 1/60ths over 40 years
 - Early retirement at age 55
 - Firefighters Pension Fund
 - Separate Compensation scheme
-

Time spent on pensions



Which brings us to today



2015 Scheme

- Changes schemes from 'Final Salary' to 'Career Average'
 - New 'Accrual' rate $1/59.7^{\text{th}}$
 - Individual Pension Accounts
 - New 'Normal Pension Age' (for 1992 members) – 60
 - Partial retirement of 2015 benefits from age 55
 - Deferred Pension Age equal to State Pension Age (with a minimum of age 65)
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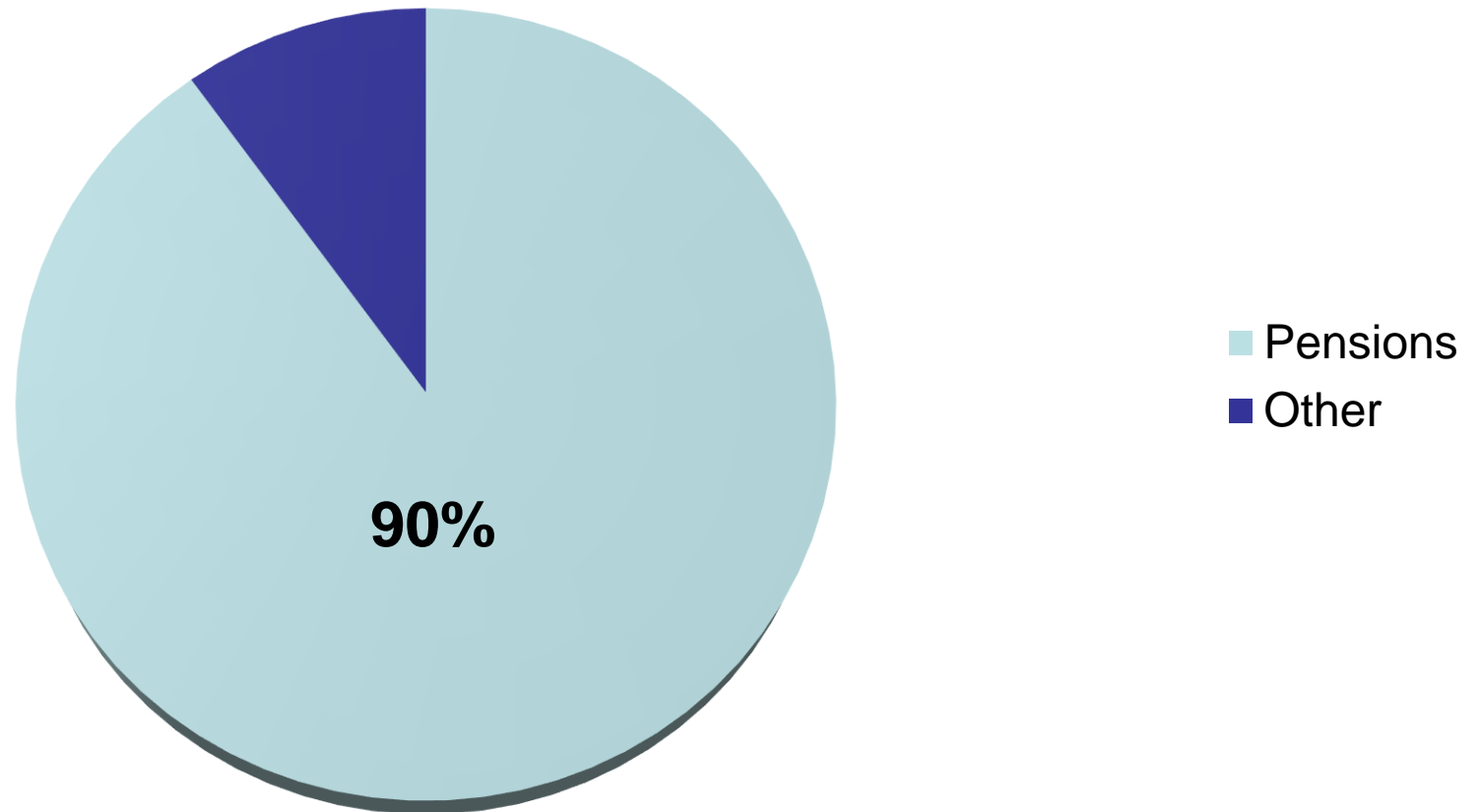
Retained Modified Scheme

- Accrual rate $1/45^{\text{th}}$
 - Normal Pension Age 55
 - Deferred Pension Age 60
 - Commutation factors reflecting 1992 scheme at 1 April 2012
 - Death Grant (in service) 2 x pensionable pay
 - Option to purchase additional $1/45^{\text{th}}$
-

Governance

- Local Pension Boards to secure compliance
 - Increased documentation and policies
 - Training of Boards
 - Introduction of The Pensions Regulator
 - Record breaches not just report
 - Managing risks and internal controls
-

Time spent on pensions



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Individual Pension Accounts

- Each year the member builds up a slice of pension ($1/59.7^{\text{th}}$) based on their salary in that year
- Each slice is increased in line with the revaluation rate until retirement
- At retirement, the slices built up each year are added together to calculate the total pension
- Early retirement reductions applied if benefits are taken before age 60



Example: CARE Pension (Year 1)

- Pension = 1/59.7th of your pay
- Earnings = £29,850

$$\mathbf{£29,850 \div 59.7 = £500}$$

- **£500** added to account on 31 March.



Example: CARE Pension (Year 2)

- Opening balance **£515 (1st April 2016)**
Index adjustment AWE applied (3%) to £500
 - Year 2 accrued pension
£30,500 ÷ 59.7 = £510.89
 - Closing Balance, Year 2
£510.89 + £515 = £1,025.89
-

Example: CARE Pension (Year 3)

- Opening balance **£1,046.41 (1st April 2017)**
Index adjustment AWE applied (2%) to £1,025.89
 - Year 3 accrued pension
£32,000 ÷ 59.7 = £536.01
 - Closing Balance, Year 3
£536.01 + £1046.41 = £1,582.42
-

CARE Account - Example

Date from	Date to	Account Balance	Reval rate	Opening Balance	Actual Pay	Pension Build Up	Closing Balance
01/04/2015	31/03/2016	£0.00		£0.00	£29,850	£500	£500
01/04/2016	31/03/2017	£500	3%	£515	£30,500	£510.89	£1025.89
01/04/2017	31/03/2018	£1025.89	2%	£1046.41	£32,000	£536.01	£1,582.42
01/04/2018	31/03/2019	£1,582.42	4%	£1645.72	£32,700	£547.74	£2,193.45
01/04/2019	31/03/2020	£2,193.45	1%	£2215.39	£33,600	£562.81	£2,778.20
01/04/2020	31/03/2021	£2,778.20	1%	£2805.99	£35,000	£586.26	£3,392.25
01/04/2021	31/03/2022	£3,392.25	3%	£3494.02	£35,900	£601.34	£4,095.36
01/04/2022	01/04/2023	£4,095.36	2%	£4177.26	£36,500	£611.39	£4,788.65

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A changed membership

protected

tapered

unprotected



Primary legislation

- Section 18 of the 2013 act

<http://www.legislation.gov.uk/ukpga/2013/25/section/18>

- Paragraph 5&6 provides for full protection of members, or those who were eligible to be members [18 (5a)] on satisfaction of a 'prescribed condition' - *(for example, the attainment of normal pension age under the existing scheme or another specified age) before a specified date.*
 - Paragraph 7 goes onto give additional 4 years 'transitional' protection for those meeting the specified condition.
-

Secondary legislation

- SI 2014/2848 - Schedule 2
 - <http://www.legislation.gov.uk/ukxi/2014/2848/schedule/2/made>
 - Part 2 - Rules 12, 13 & 14 Define full protection of 1992 and NFPS
 - Part 3 - Rules 18, 19 & 20 define tapered protection
-

How is Protection Determined

- **1992 Scheme members**
 - Active 1992 scheme members who at 1st April 2015 are 48 and over

 - **2006 Scheme members**
 - Active 2006 scheme members who at 1st April 2015 are 53 and over
-

How is Protection Determined

- **Modified Retained Firefighters**
 - Retained firefighters who have elected for modified benefits in the 2006 scheme, have a Normal Retirement Age of 55.
 - Therefore these special members in the 2006 scheme will have protections on the 1992 scheme basis.
-

Tapered protection

- **1992 scheme** members or **Special Retained Modified members** who on 1 April 2012 are aged between 41 and 45 years
 - **NFPS scheme** members who on 1st April 2012 are aged between 46 and 50 years
-

2015 Early Retirement Reductions

	55	56	57	58	59
2015 scheme (Scotland)	9.5%	7.9%	6.1%	4.4%	2.1%
2015 scheme (Wales)	9.2%	7.6%	5.9%	4%	2%
2015 scheme (England)	21.7%	17.9%	13.8%	9.4%	4.8%

What are the options?

1. Retire at original eligible age of 52 and 1 month with 30 years service 31st January 2025
 - a. Defer 2015 pension to SPA (no reductions)
 - b. Receive 2015 pension at age 55 with deferred reductions applied from SPA

 2. Retire at age 55
 - a. Defer 2015 pension to SPA (no reductions)
 - b. Receive 2015 pension at age 55 with active reductions applied from age 60

 3. Retire at age 60 (no reductions)
-

	Pension	Lump Sum	Net Pension after Commutation
Pre Reform	£24,000	£127,800	£18,000
Option 1a (Original retirement age, defer 2015 benefits to SPA)	£22,062.88	£103, 698.93	£16,547.16
Option 1b (2015 benefits taken at age 55)	£19,281.87	£95,355.91	£14,461.40
Option 2a (Retire at age 55, defer 2015 benefits to SPA)	£24,424.69	£110,784.35	£18,318.52
Option 2b (Retire at age 55, active reductions applied to 2015 benefits)	£22,625.44	£105,386.61	£16,969.08
Option 3 (Retire at age 60)	£27,439.76	£119,829.58	£20,579.82

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Retained Modified Scheme

- Prior to 1st April 2006 no pension provision for RDS firefighters
 - From 6th April 2006 could join 2006 Scheme (NFPS)
 - Now firefighters have option to buy pension for RDS employment between 1st July 2000 and 5th April 2006
-

The Regulations

- Benefits reflect 1992 (in part!)
 - Incorporated within the 2006 scheme
 - New 'Modified' part of the 2006 scheme
 - Effectively a separate scheme, benefits different to 1992 & 2006
-

The Benefits in Summary

- Accrual rate $1/45^{\text{th}}$
 - Normal Pension Age 55
 - Deferred Pension Age 60
 - Commutation factors reflecting 1992 scheme at 1 April 2012
 - Death Grant (in service) 2 x pensionable pay
 - Option to purchase additional $1/45^{\text{th}}$
-

The Benefits in summary

- Option to convert 2006 scheme to service in the modified scheme
 - Option of transferring in external pension benefits
 - Ill Health retirement benefits in accordance with the 2006 Scheme
 - Abatement of pensions upon re-employment
-

Special Members

- Special Firefighter Members
 - Special Deferred Members
 - Special Pensioner Members
-

Special firefighter members

- Current serving firefighter
 - Could be member of 1992 and or 2006, or neither!
 - Normal Pension Age is 55
-

Special deferred members

- Not currently employed as firefighter
 - Entitled to a deferred benefit only under Modified Scheme
 - Deferred Normal Pension Date (NRD) is age 60
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Special pensioner members

- Entitled to immediate pension payments
 - Age 55 or more
 - Or a special deferred member aged over 60 or entitled to ill health benefits
 - Eligible to receive backdated payment of pension, plus interest
-

Comparison of benefits

	Modified Scheme	2006 NFPS
Accrual Rate	1/45 th	1/60 th
Normal Retirement Date	55	60
Deferred NRD	60	65
Dependants Benefits	Yes	Yes
Death Grant - active member	2 x pay	3 x pay
Lump Sum Option	Commutation Factors	1:12

Transfers In

- Transfer in from external pension provider not available to members who had opportunity to transfer in previously when they joined NFPS 2006
 - For those joining the scheme for the first time, they have a 12 month period to transfer in other pensions.
-

How is a pension calculated?

- Special Pensionable service $\frac{1}{45}$ * Final pensionable pay
 - Lump sum $\frac{1}{4}$ * pension multiplied by commutation factor
-

Survivor benefits

- **Death Grant – (Part 5 of the 2006 regs)**
 - The death grant for a special firefighter member is calculated as two times pensionable pay
 - There is no change on the death grant for a special pensioner member, they are entitled to a death grant under Part 5, Rule 2 Post retirement death grant

 - **Survivors Pension – (Part 6 of the 2006 regs)**
 - A survivors pension to an active member is half of the higher tier ill health pension, the amended regulations clarifies this applies equally to special firefighter members.
 - For a special deferred or special pensioner member, the pension is paid as half of the pension to which the deceased was entitled. As per [Part 4, Rule 2, paragraphs, 1b, 2 & 3](#)
-

Deadlines

- All elections must have been made by 30 September 2015
 - Periodical contributions must have started within three months of date of election
 - Lump sum payments must be made within 6 months of date of election
-

Some answers – where to go

- [Retained modified communications](#)
 - [Retained Modified FAQs and queries](#)
 - [How to calculate lump sum](#)
 - [Webinar FAQ](#)
 - [Informal Tax Guide](#)
-

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Benefits Table

Feature	FPS 1992	FPS 2006	FPS 2015	Modified
Basis of pension	Final salary	Final salary	(CARE)	Final salary
Accrual rate	40/60ths 1/60 th (2/60 th after 20 years)	1/60 th	1/59.7 th	1/45 th
Benefit / Membership Cap	40/60 th	45 years	None	30 years
Revaluation rate	n/a	n/a	Average Weekly Earnings	n/a

Benefits Table

Feature	FPS 1992	FPS 2006	FPS 2015	Modified
Contribution rate	Tiered 2015/16: 11.0% - 17.0%	Tiered 2015/16: 8.5% - 12.5%	Tiered 2015: 10.0% - 14.5%	Tiered 2015/16: 11.0% - 17.0%
Normal pension age	55	60	60 – subject to regular review	55
Deferred retirement age	60	65	Linked to State Pension Age	60
Lump sum option	Age related commutation factors	Commute £1 of pension for £12 lump sum	Commute £1 of pension for £12 lump sum	Age related commutation factors

Benefits Table

Feature	FPS 1992	FPS 2006	FPS 2015	Modified
Ill-health provision	Banded on the length of service	Lower tier: 1/60 th accrued membership Higher tier: basic plus enhancement	Lower tier: 1/59.7 th accrued membership Higher tier: basic plus enhancement	Lower tier: 1/60 th accrued membership Higher tier: basic plus enhancement
Indexation of pension in payment	Consumer Price Index (CPI)	CPI	CPI	CPI
Cohabiting partner pension	No	Yes	Yes	Yes

Benefits Table

Feature	FPS 1992	FPS 2006	FPS 2015	Modified
Death in Service Death Grant	2 x pensionable pay	3 x pensionable pay	3 x pensionable pay	2 x pensionable pay
Death Grant where member dies within 5 years of retirement	No	Yes	Yes	Yes
Widow(er)s pension ceases on re-marriage	Yes	No	No	No

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GAD v Milne

- May 2015 - Ombudsman Instruction¹ for GAD to review commutation factors as they should have applied for retirements in the period 1st December 2004 to 21st August 2006
- July 2015 – GAD Guidance² issued with two tables of revised factors as if they had been reviewed at 1st December 2001 to 1 December 2004

1. <https://www.pensions-ombudsman.org.uk/determinations/2015/po-1327/firefighters-pension-scheme/>

2. <https://www.gov.uk/government/publications/firefighters-pension-scheme-additional-payments-in-respect-of-past-commutations>

GAD v Milne

- July 2015 – Government expectation for administrators to complete majority of calculations by December 2015 and have made majority of payments by April 2016.
 - September 2015 – Bulk calculator issued by GAD
 - October 2015 – DCLG instructed to wait for further advice on discharge and payment mechanism
-

GAD v Milne

- November 2015 – DCLG advise that no necessity for discharge forms
 - November 2015 – Template letters issued by LGA
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Cessation of Contracting-Out

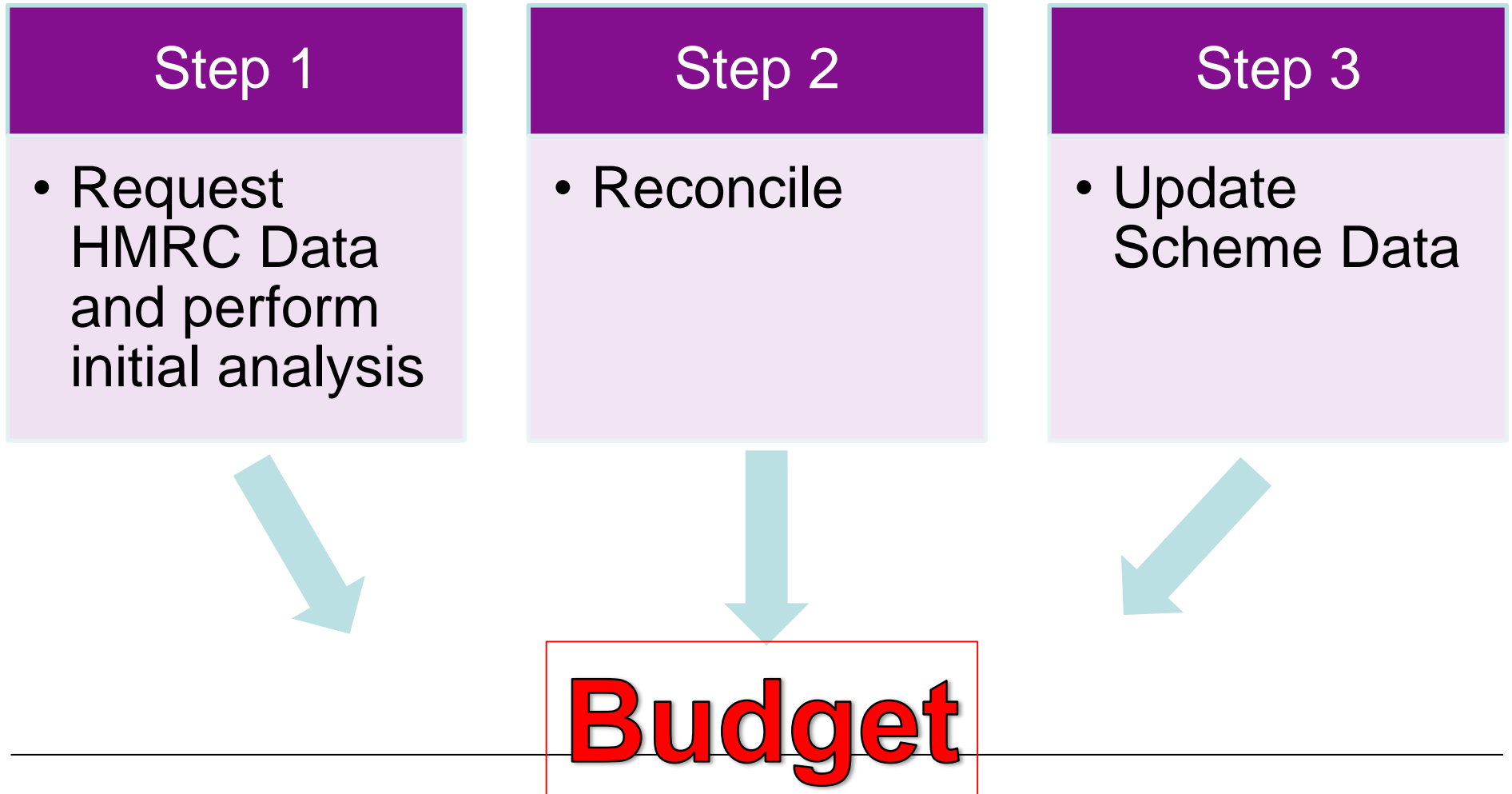
- Reconciliation exercise
- Scheme Costs: Indexation and Equalisation
- Higher NI Contributions



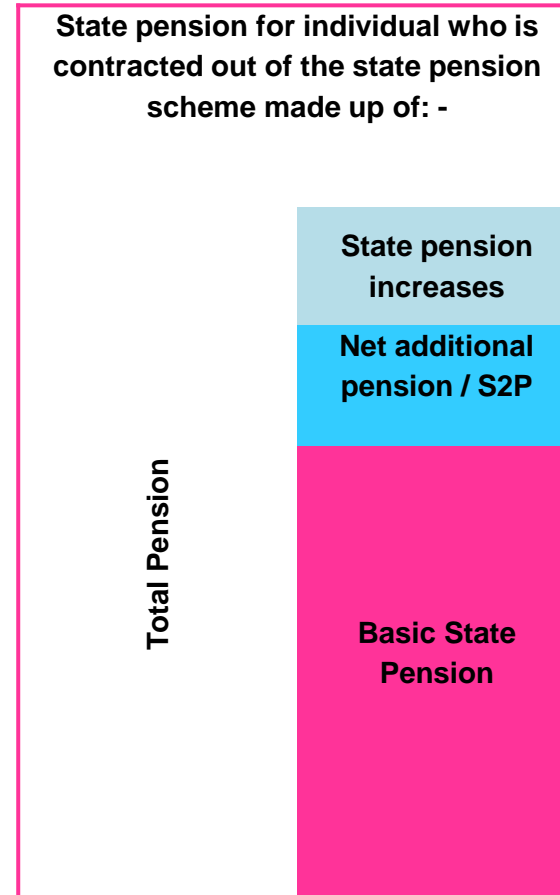
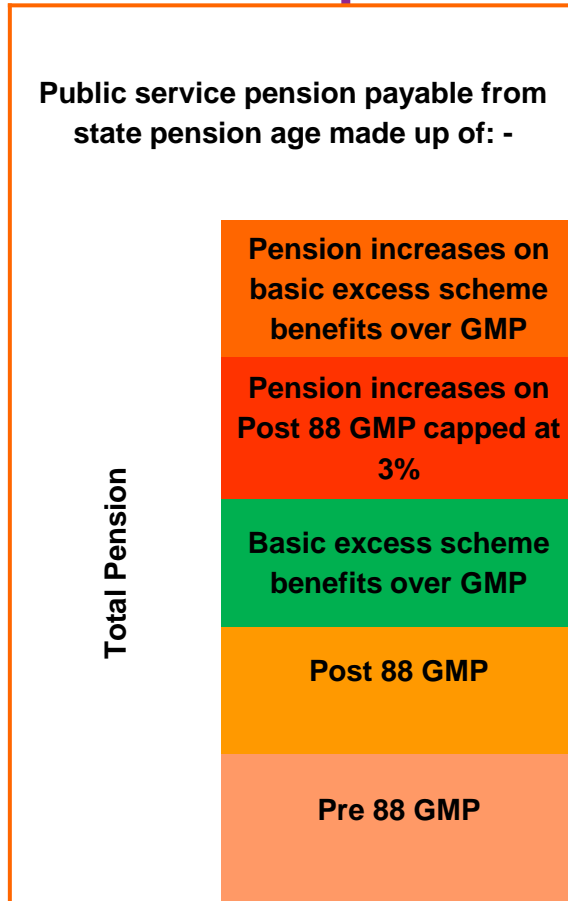
Reconciliation

- New state pension to be introduced from 6 April 2016
 - Based on ‘foundation amount’
 - Foundation amount based on HMRC records of contracted out service and contributions
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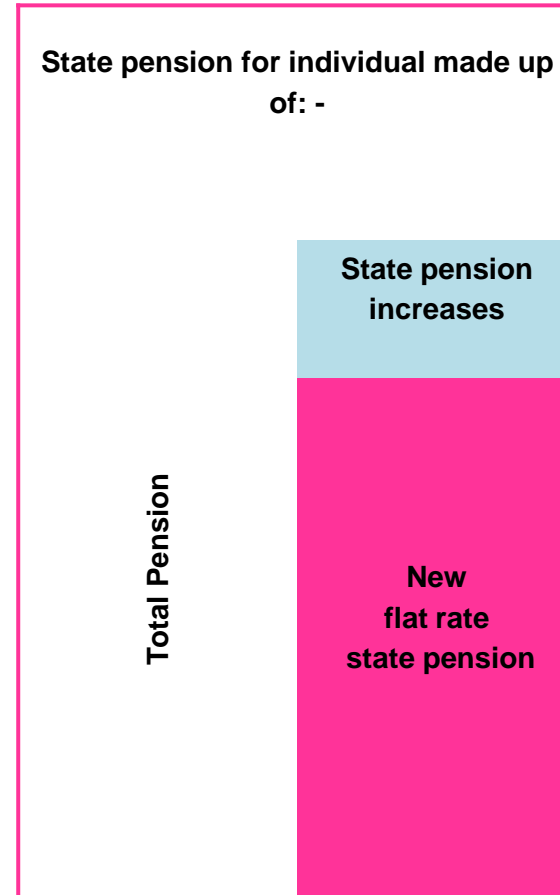
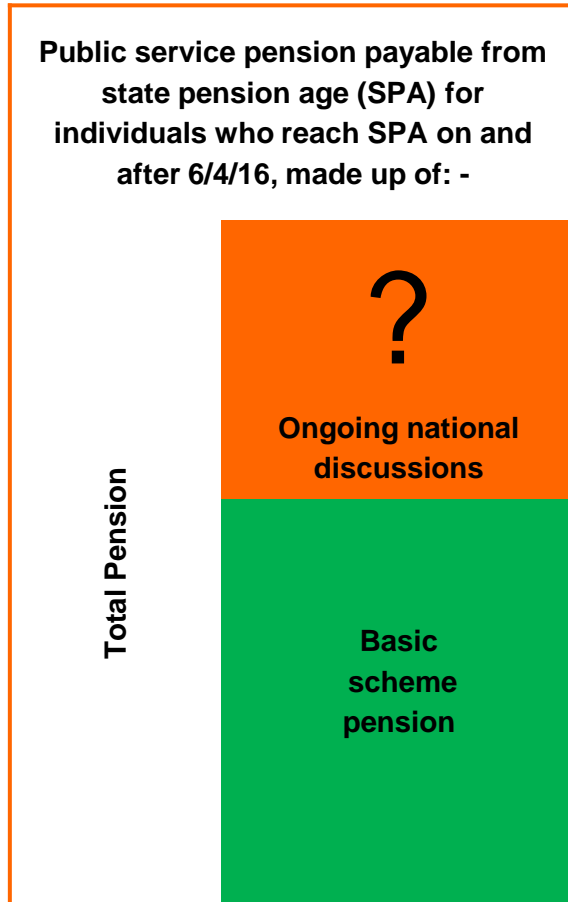
Reconciliation



Indexation of public service pension & payment of state pension before 6 April 2016



Indexation of public service pension & payment of state pension on and after 6 April 2016?



Equalisation

- From 6 April 16 public service schemes for those who reach state pension age after 5 April 2016 are no longer equal, due to ending of contracting out

Options under consideration?

- One off conversion?
- Jack and Jill approach?
- Something else?
- Recommendation to Minister for approval

Higher NI Costs

- Employers and Employees pay lower national insurance contributions for members of contracted out schemes
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What this means

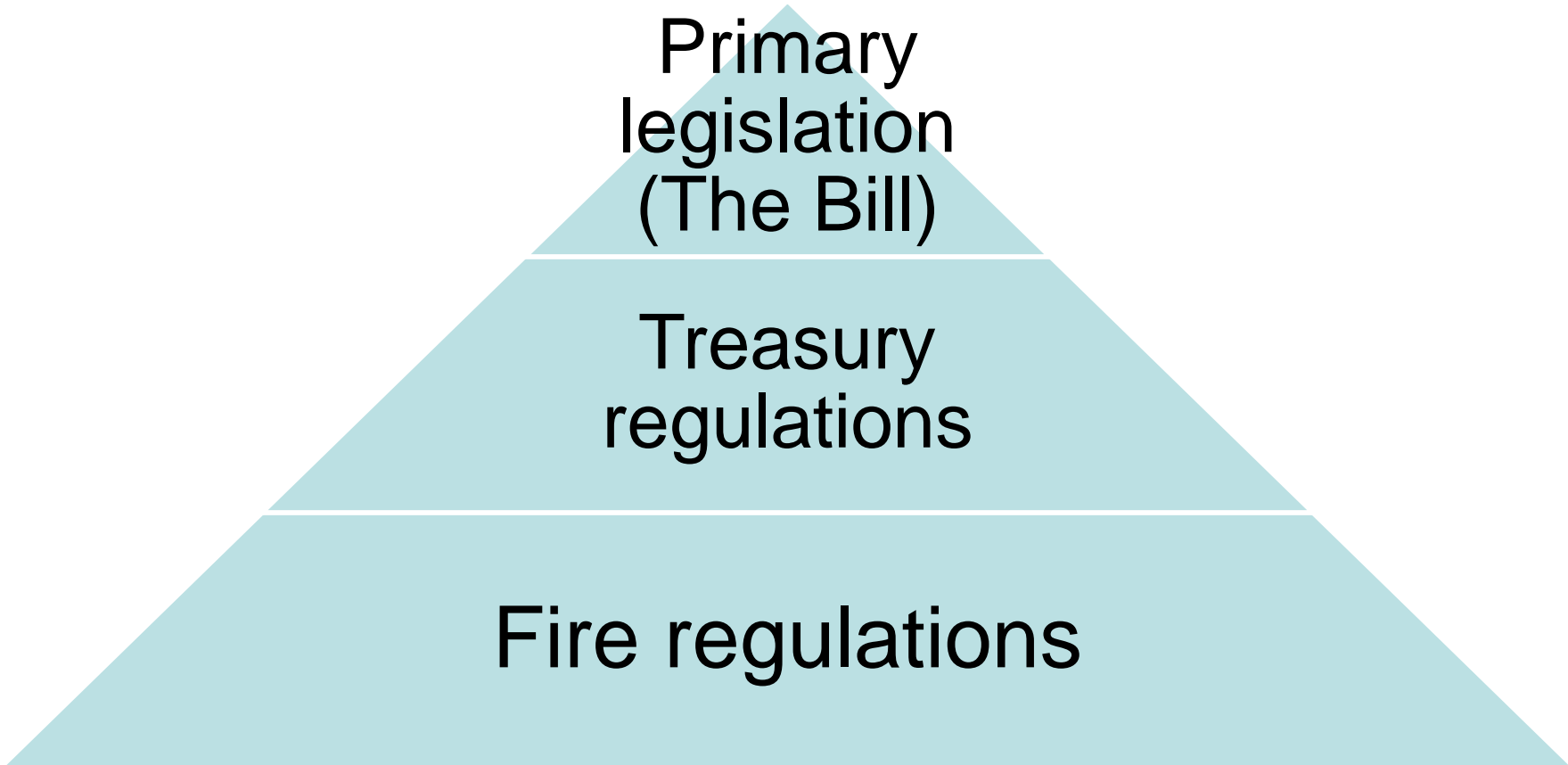
From April 2016, you and your employees will pay the standard rate of National Insurance contributions instead of the contracted-out rate. For employers, the standard rate of National Insurance is 13.8% of all earnings above the secondary threshold for all employees, you will no longer get the 3.4% National Insurance rebate (on a proportion of earnings).

The 1.4% National Insurance rebate for those employees in contracted-out schemes will also end. This means employees will pay the standard rate of National Insurance instead of a lower rate. Most people who are contracted-out will be able to receive a higher State Pension than under the current system.

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Exit Cap Consultation



Primary
legislation
(The Bill)

Treasury
regulations

Fire regulations

Exit Cap Consultation

Fire regulations

- Employer cost of authority initiated early retirement
 - 1992 scheme commutation discretion
-

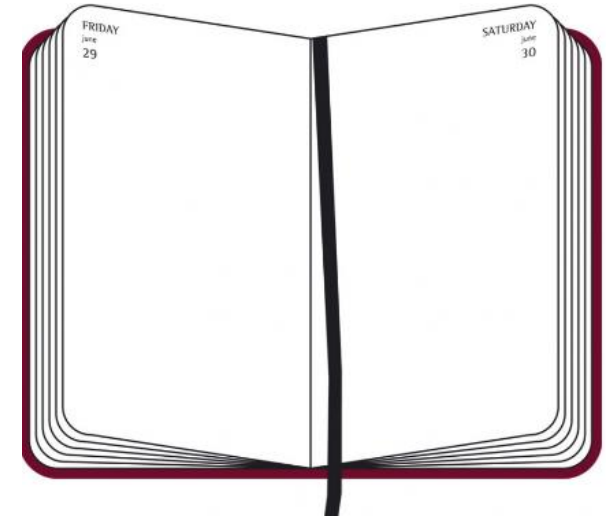
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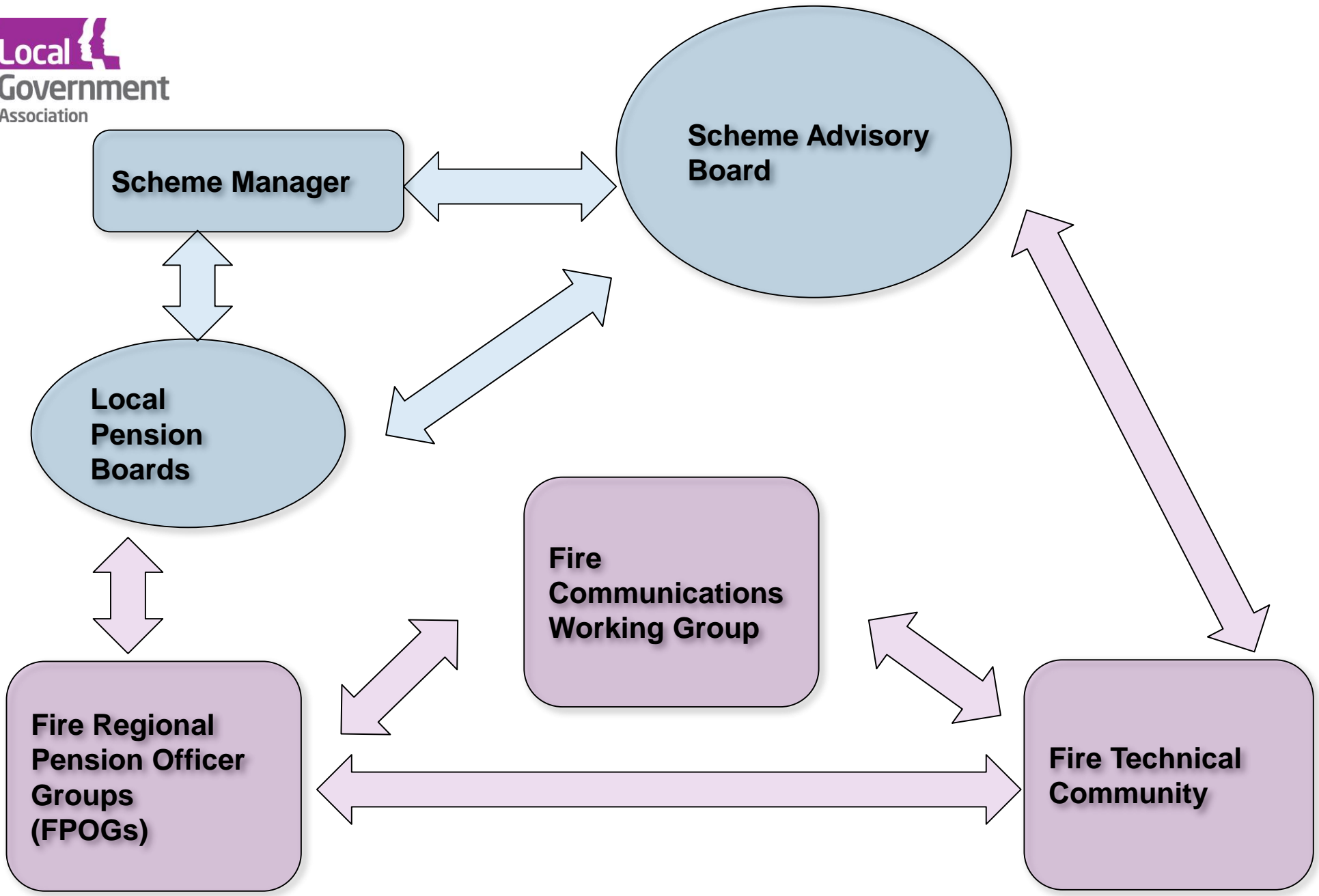
Scheme Advisory Board

- The 7 employer and 7 employee nominations have now been made to the Secretary of State in order to be formally appointed.
 - DCLG have formed an interview panel and interviews for the chair will commence shortly.
 - The employer and employee nominated representatives of the board have met in interim form.
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Dates for your diaries?

- 3rd December 2015 - Valuation
 - Early 2016- Pensionable Pay workshop
 - 16th February 2016 - Fire Technical Group
 - 11th October 2016 – Fire AGM
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Any questions



Thank you for listening

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