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Review of Pension Arrangements for Firefighters

Issued by:

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Addressed to:

The Chief Executive of the County Council
The Clerk to Fire and Rescue Authority
**The Commissioner of the London Fire and
Emergency Authority**
The Chief Fire Officer

Please forward to:

Pension and Human Resources Managers
**The Fire and Rescue Authority's Medical
Advisers/Occupational Health Managers**
**Active members of the Firefighters' Pension
Scheme**

Summary

This circular provides further Q&A briefing to supplement that provided with FSC 44 – 2004 which notified publication of two consultation documents relevant to future pension arrangements for firefighters.

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1.0 New Pension Arrangements for Firefighters: Question and Answers Briefing

- 1.1 On 13 October, Ministers published proposals for (i) amendments to the Firefighters' Pension Scheme and (ii) a new Firefighters' Pension Scheme. A briefing note was issued dealing with some of the questions which it was thought that consultees were most likely to ask. Since publication, a number of further questions have been raised with us, mostly by members of the existing Firefighters' Pension Scheme (FPS) who are concerned about the impact of the proposals on their own entitlements. We have therefore prepared further Q&A briefing to deal with these questions.
- 1.2 Briefing Note 2 is attached to this circular. It will be available on the ODPM website and while it will help administrators deal with questions, Fire and Rescue Authorities are asked to bring it to the attention of all firefighters, immediately.

2.0 Enquiries

- 2.1 Any questions relating to matters raised in this circular should be addressed to:

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Briefing Note 2

CONSULTATION DOCUMENTS – FUTURE PENSION ARRANGEMENTS FOR FIREFIGHTERS

In the Briefing Note issued with Fire Service Circular 44 – 2004 on 13 October 2004, we dealt with some of the questions which might be raised when people consider the proposals outlined in the Consultation Documents “Government Proposals for a New Firefighters’ Pension Scheme” and “Proposals for amendments to the Firefighters’ Pension Scheme”. Since publication, firefighters have raised with us a number of questions relating to the impact of the proposed changes to the existing scheme on their own plans to retire and the following additional briefing may be helpful:

- 1. I joined the Service in 1985 which means that in April 2013 I will have 28 years’ service but I will not be 50 until October 2014; will I have to work until I am 55 in October 2019 before I can draw my pension and retire?**

You will be able to retire any time after you attain age 50 in 2014 and before age 55 because you will have more than 25 years’ service. However you will only be able to draw your pension in respect of service for the 21 years up to April 2006, the balance of your pension will come into payment when you are 55.

If you were to die before age 55, your widow(er) would be entitled to benefits based on the full pension entitlement.

In considering responses to the consultation after 14 January 2005, Ministers will wish to consider whether a person should be able to take the second part of the pension at the same time as the first part with an actuarial reduction. The reduction in the amount of the pension would reflect the fact that it is being paid early, but it would be cost neutral to the pension scheme.

- 2. If I retire before I am 55 and my pension is paid in two parts: for service up to 2006 and for service after 2006, when will I be able to take my commuted lump sum? If it is not paid until I am 55, I will be disadvantaged as its value decreases after age 52.**

The commuted lump sum will be paid in two instalments as each part of the pension comes into payment.

It should be noted that under the terms of the Firefighters’ Pension Scheme (FPS), commutation reflects not only the value of the pension at the time the pension comes into payment, but the factors reflect age and gender. Furthermore, the factors can be varied at any time, for example to reflect changes in life expectancy, and there is no guarantee that the current factors will not be varied before 2013.

3. Why cannot I take the two parts of my pension when the first part is due to come into payment?

It is proposed that the minimum pension age for members of the FPS should be increased in April 2006 from 50 to 55. Ministers have agreed that there should be a transitional period between 2006 and April 2013 during which those who will be aged 50 or older and retire with more than 25 years' service will be exempt from the change. One of the reasons for making the change is to reduce the cost of pensions and this will enable the contribution rate of 11% currently paid by firefighters to be maintained rather than increased.

In considering responses to the consultation after 14 January 2005, Ministers will wish to consider whether a person should be able to take the second part of the pension at the same time as the first part with an actuarial reduction. The reduction in the amount of the pension would reflect the fact that it is being paid early, but it would be cost neutral to the pension scheme.

4. Why are these changes necessary since I joined the service with the expectation that I would be able to retire with a full pension at age 50?

The Government is changing the regime for all public service pension schemes. There are a number of reasons for this, including demographic and other changes which are resulting in an increase in the numbers of pensioners in proportion to active workers, with the consequent need for the working lives of people to be extended.

The proposals to amend the current FPS will help the Fire and Rescue Service ensure that the existing scheme can still be financed during the transition to the greater changes included in the proposals for a new pension scheme.

5. When I joined the Service, I transferred into the FPS the value of my pension from my previous employment because I thought it would enable me to retire with a full pension soon after my 50th birthday; it will be unfair if I now have to work until I am 55. I would have had better value from my previous pension scheme if I had left it untouched and it had been paid as deferred pension at age 60 or 65.

Provided that you transferred the value of your previous pension into the FPS before April 2006 it will form part of your service at that date. This means that when the first part of your pension comes into payment you will have the benefit of the increased value of your pension. You will still be able to retire after you have accrued full pension benefits provided you are aged 50 years or over. The second part of your pension will be paid at age 55.

- 6. I believe that as a result of the changes I will have to work for more than 30 years before I can draw my full pension at age 55; would I be better advised to opt out of the FPS and to rejoin at a later stage and so ensure that I only pay contributions for 30 years?**

The answers to the previous questions should reassure you but if you still think that it might benefit you to opt out this would be a matter for you to decide on the basis of independent advice. You should be aware that if you were to opt out now you would need to rejoin before April 2006 when the FPS will be closed to new members. However under Rule G3 of the FPS a person who has elected not to pay employee contributions and thereby leave the scheme cannot rejoin the scheme after their 45th birthday, and also to rejoin the fire and rescue authority has the discretion to seek confirmation of the applicant's good health. If you are not allowed to rejoin the FPS, any pension to which you may be entitled would be paid as a deferred pension at age 60.

- 7. Do I have to retire and take my pension after April 2013 when I have completed 30 years' service or may I continue until I am aged 55 or more? Alternatively, as I will not have completed 30 years' service at age 55 may I continue in service and choose when I retire?**

You will not have to retire as we are intending to abolish the compulsory retirement age, which is currently age 55 for most firefighters, but it is likely that you will have to satisfy the fire and rescue authority that you are fit to continue in your role.

However we have no current plans to increase the pension benefits to reflect additional years or alternatively to reduce the contribution rate once a person is entitled to the maximum years of pensionable service that can be taken into account when calculating benefits. Ministers may wish to consider these possibilities when taking their final decisions on the matters outlined in "Proposals for amendments to the Firefighters' Pension Scheme" but will need to have regard to the cost impact on the scheme: it was made clear in the consultation that if the proposed changes were made the savings delivered would enable the current employee pension contribution rate of 11% to be held for the time being. In addition it should be noted that payment of contributions ensures you're your pension benefits reflect earnings growth and the potential to get higher death in service lump sums.

- 8. I shall be 50 with more than 25 years' service before April 2013, but will not have completed 30 years for full pension benefits until after that date, will I have to wait until I am 55 before I can take my full pension?**

Although the consultation document implies that you will have to wait until you are 55 to draw your full pension, it is not the intention that scheme members who are aged 50 with 25 or more years' service in April 2013 should be adversely affected if they choose to continue working. Whenever you retire after April 2013 you will be able to take all the pension benefits you have accrued and will not have to wait until you are 55 for any part of them.

9. I shall be aged 50 with 30 years service before April 2013 but may not wish to retire, will I have to go on working until I am 55 before I can take my pension?

No. As you will be aged 50 with more than 25 years' service you will be able to take your full pension when you retire, even if that is before you are 55.

10. The consultation documents refer to the fact that separate proposals for injury benefits are being formulated, is there any indication as to what these will be?

The existing arrangements have to change because Inland Revenue rules do not allow death and injury benefits which are not part of the pension scheme to be included in the scheme rules.

Ministers have made clear that any new scheme should give statutory backing to the compensation arrangements which were previously included in paragraph IX.13 of the Conditions of Service (the Grey Book).

Proposals which are expected to be available for consultation early in the New Year, will also include injury benefit arrangements along the lines of those currently in the FPS which reflect loss of earnings capacity linked to length of service, but with some changes to ensure that compensation is more proportionate between the different categories than at present. Any improvements in the benefits, for example extending the spouses' injury benefits to unmarried partners, would need to be offset by other savings and therefore to be cost neutral.

11. I am a retained firefighter who is a member of a personal pension plan arranged by my fire and rescue authority, will I be able to transfer the value of this pension into the new pension scheme?

The arrangements agreed by fire and rescue authorities are non-statutory and ODPM was not a party to setting them up. It will be for authorities and firefighters who are members of such schemes to discuss with the providers how these arrangements might be managed after April 2006 when the new pension scheme is established. It might be that such pension arrangements should continue to be provided as stakeholder pensions or as free standing AVCs (additional voluntary contributions).

12. I am a retained firefighter, will I be able to purchase increased benefits and improve my pension?

We expect that the new pension scheme will provide for the purchase of additional benefits in the same way as the FPS does. We shall also consider whether additional, or alternative, arrangements will need to be offered either through stakeholder or other money purchase arrangements.