

**New Firefighters' Pension Scheme: treatment of Pension Debits on conversion during Options Exercise**

1. We have received several enquiries on how to treat transfers from the FPS to the NFPS during the Options Exercise where a firefighter member's pension is subject to a pension sharing order.
2. Pension debits are "negative deferred benefits", defined at the time of pension sharing and deducted from the benefits of the firefighter member from the time that they come into payment and paid to the pension credit member from Deferred Pension Age. Deferred Pension Age in the FPS is 60 and 65 in the NFPS (Deferred Pension Age is termed "Normal Benefit Age" in the NFPS).
3. Where a firefighter wishes to transfer from the FPS to the NFPS during the Options Exercise period (i.e., makes an election to transfer not later than 31<sup>st</sup> March 2007) with a pension debit, advice from the Scheme Actuary is that he/she should have their full FPS service converted into NFPS service via the special conversion factors. These full benefits would then be reduced by the equivalent of the pension debit at the time of retirement.
4. The two main factors which affect the equivalent pension debit are the later Deferred Pension Age and the commutation terms in the NFPS. The Scheme Actuary has advised that these can be combined by multiplying the amount of the member's pension debit in the FPS by a factor of 1.4 to give the amount of the member's equivalent pension debit in the NFPS. When the member retires from the NFPS (normally at age 60), the equivalent pension debit will be subject to an early retirement factor because it is being applied five years before the deferred pension age of 65 in the NFPS. The early retirement factor to be applied in these circumstances is currently 0.733 which represents a reduction of approximately 5% for each year. This will counteract nearly all of the increase via conversion. An example is given below.

Example:

Pension Debit (at time of Pension Share) due from FPS at age 60  
= £2,000.00 (per annum)

Pension Debit (at time of Pension Share) due from NFPS at age 65  
= £2,000.00 (per annum) x 1.4 = £2,800.00 (per annum)

Pension Debit to be deducted from NFPS pension (normally at age 60)  
= £2,800.00 (per annum) x 0.733  
= £2,052.40 (per annum)

Notes:

- (1) Pension debit is increased like a deferred pension up until the date when it takes effect.
- (2) The amount of pension debit deducted from the member's pension is reduced by an early retirement factor to account for payment before 65 (in NFPS).

5. The pension debit member remains a pension debit member of the FPS, and their pension is unaffected by the transfer.
6. Where a firefighter elects to transfer from the FPS to the NFPS after the end of the Options Exercise, the transfer should be handled in accordance with the guidance issued in circular FPSC1/2007.

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