



**Firefighters' Pension Scheme 1992
Firefighters' Pension Scheme (Northern Ireland) 2007
Commutation on Retirement**

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Introduction

Rule B7 of the Firefighters' Pension Scheme Order 1992 (SI 1992/129) and article 18 of the Firefighters' Pension Scheme Order (Northern Ireland) 2007 (SR 2007/144) state that a member entitled to an ordinary, short service, ill health or deferred pension may commute a portion of their pension for a lump sum. The lump sum is the actuarial equivalent of the commuted portion at the date of retirement, calculated from tables prepared by the Government Actuary.

Rules N11 (in Scotland) and IA2 (in England and Wales) of the Firefighters' Pension Scheme Order 1992 (SI 1992/129) and article 75 of the Firefighters' Pension Scheme Order (Northern Ireland) 2007 (SR 2007/144) state that certain pension credit members may commute a portion of their pension for a lump sum. The lump sum is the actuarial equivalent of the commuted portion at a specified age.

The purpose of this note is to provide to administrators the tables for commutation of pension to lump sum in the Firefighters' Pension Scheme (FPS) in England, Wales, Scotland and Northern Ireland.

This guidance supersedes the commutation guidance issued by GAD dated 19 April 2011 and any previous guidance or advice issued by GAD in connection with firefighter pension credit commutation and is effective with immediate effect.

If administrators for English authorities 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/firerescueservice/firefighterpensions/>

If this does not help, administrators for English authorities may contact the Firefighters' Pensions Teams at DCLG.

Administrators for other authorities should contact the Scottish Public Pensions Agency, the Welsh Government or the Department of Health, Social Services and Public Safety Northern Ireland, as applicable.

The Firefighters' Pensions teams will seek input from the scheme actuary if necessary.

Limitations

This note should not be used for any purpose other than to determine the commutation factor that should be applied to the amount of pension commuted to provide a lump sum. For example:

- This guidance does not apply to the trivial commutation of pension under rules B8, E5 and E6 of The Firefighters' Pension Scheme Order 1992 or articles 19, 40 and 41 of the Firefighters' Pension Scheme Order (Northern Ireland) 2007.
- 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 or article 39 of the Firefighters' Pension Scheme Order (Northern Ireland) 2007.

This note should be considered in its entirety, not as individual sections which if considered in isolation, may be misleading. Conclusions reached by a review of some sections on their own may be incorrect.

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This note only covers the actuarial principles around the calculation and application of commutation factors. Any legal advice in this area should be sought from an appropriately qualified person or source.

This note does not provide advice on whether a member should commute any part of their pension.

Third parties should not rely on this guidance, but should separately seek their own actuarial advice where appropriate.

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. However, an ordinary pension in respect of at least 25 but less than 30 years of service (unless the member retires at, or after, age 55) or an eligible pension credit can be commuted to give a maximum lump sum of no more than 2¼ times the full amount of the annual pension (rules B7, IA(2) or N11 of the Firefighters' Pension Scheme Order 1992 / article 18 of the Firefighters' Pension Scheme Order (Northern Ireland) 2007).
2. Rule B10 of the Firefighters' Pension Scheme Order 1992 (or article 21 of the Firefighters' Pension Scheme Order (Northern Ireland) 2007) 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 crystallised.
4. There are some scenarios where the 25% HMRC limit could potentially be breached.
 - A member with a commutation factor above 20 commutes 25% of their pension. This can be avoided by commuting a lower proportion of pension.
 - Allocation in accordance with Firefighters' Pension Scheme Order 1992 rule B9 / article 20 of the Firefighters' Pension Scheme Order (Northern Ireland) 2007.
 - Pension commencing before age 55 after a gap since leaving service

Please refer to HMRC guidance if such cases arise.

FPS commutation – retiring from active service or on pension credit

5. For a firefighter retiring on pension directly from firefighter service or a pension credit member, 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. Note that the factor for retirements at age 49 and below should only be used for retirements under rule A15 (article 11 in Northern Ireland) since retirements under other rules are not possible until age 50.
7. Rule IA2(4) in England and Wales and article 75(4) in Northern Ireland state that the lump sum for a pension credit member is “the actuarial equivalent of the commuted portion at the normal benefit age”. Normal benefit age is defined in Schedule 1 of the legislation as

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age 60. GAD's understanding is, therefore, that the factor for 60 years 0 months (i.e. 18.9) should be used for all pension credit members of English, Welsh and Northern Irish fire authority pension schemes. Authorities may wish to take legal advice on this point.

8. Rule N11(5) in Scotland states that the lump sum is "the actuarial equivalent of the commuted portion of the pension at the later of a) the day on which the pension sharing order takes effect; and b) the day on which the pension credit member attains age 60." The appropriate factor for the age of the pension credit member on that date should be selected for such members of Scottish fire authority pension schemes.
9. The example on page 5 illustrates the commutation calculation.

FPS commutation – break between leaving service and pension commencing

10. For a firefighter retiring with a break between leaving service and pension commencing the commutation lump sum should be calculated as in paragraphs 5 and 6 above in the following cases:
 - If the pension commences at or above age 55; or
 - If the pension commences on grounds of ill health before age 55 and attracts full pension increases.
11. In other cases where the pension commences before age 55 a special calculation is needed. If any cases arise, please refer to the Firefighters' Pension Team at DCLG, the SPPA, the Welsh Government or the Department of Health, Social Services and Public Safety Northern Ireland (as applicable) for onward transmission to GAD.

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Example Calculations

This section provides an example of the calculations described in this note.

Example – FPS: retiring from active service

Date of birth: 22 December 1961

Date pension commences: 22 December 2011

Pensionable Service: 25 years (excluding doubling)

Total pension payable: £20,000 pa

Age on day pension commences: 50 years

Commutation Factor = 22.4 (from table 1)

The member retires at age 50 with 25 years' service, so the maximum lump sum he can commute according to the FPS rules is two and a quarter times the full amount of the pension.

Maximum lump sum = $2.25 \times 20,000$
= £45,000

Pension after commutation = $20,000 - 45,000 / 22.4$
= £17,991 pa

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

| Years | Age in years and completed months on relevant day | | | | | | | | | | | |
|-----------------|---------------------------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| Below 50 | 23.4 | | | | | | | | | | | |
| 50 | 22.4 | 22.3 | 22.3 | 22.3 | 22.3 | 22.2 | 22.2 | 22.2 | 22.2 | 22.1 | 22.1 | 22.1 |
| 51 | 22.1 | 22.0 | 22.0 | 22.0 | 22.0 | 21.9 | 21.9 | 21.9 | 21.9 | 21.8 | 21.8 | 21.8 |
| 52 | 21.8 | 21.7 | 21.7 | 21.7 | 21.7 | 21.6 | 21.6 | 21.6 | 21.6 | 21.5 | 21.5 | 21.5 |
| 53 | 21.5 | 21.4 | 21.4 | 21.4 | 21.3 | 21.3 | 21.3 | 21.3 | 21.2 | 21.2 | 21.2 | 21.1 |
| 54 | 21.1 | 21.1 | 21.1 | 21.0 | 21.0 | 21.0 | 21.0 | 20.9 | 20.9 | 20.9 | 20.9 | 20.8 |
| 55 | 20.8 | 20.8 | 20.8 | 20.7 | 20.7 | 20.7 | 20.6 | 20.6 | 20.6 | 20.5 | 20.5 | 20.5 |
| 56 | 20.4 | 20.4 | 20.4 | 20.4 | 20.3 | 20.3 | 20.3 | 20.2 | 20.2 | 20.2 | 20.1 | 20.1 |
| 57 | 20.1 | 20.0 | 20.0 | 20.0 | 19.9 | 19.9 | 19.9 | 19.8 | 19.8 | 19.8 | 19.7 | 19.7 |
| 58 | 19.7 | 19.6 | 19.6 | 19.6 | 19.5 | 19.5 | 19.5 | 19.4 | 19.4 | 19.4 | 19.3 | 19.3 |
| 59 | 19.3 | 19.2 | 19.2 | 19.2 | 19.1 | 19.1 | 19.1 | 19.0 | 19.0 | 19.0 | 18.9 | 18.9 |
| 60 | 18.9 | 18.8 | 18.8 | 18.7 | 18.7 | 18.7 | 18.6 | 18.6 | 18.6 | 18.5 | 18.5 | 18.5 |
| 61 | 18.4 | 18.4 | 18.4 | 18.3 | 18.3 | 18.2 | 18.2 | 18.2 | 18.1 | 18.1 | 18.1 | 18.0 |
| 62 | 18.0 | 18.0 | 17.9 | 17.9 | 17.8 | 17.8 | 17.8 | 17.7 | 17.7 | 17.7 | 17.6 | 17.6 |
| 63 | 17.5 | 17.5 | 17.5 | 17.4 | 17.4 | 17.4 | 17.3 | 17.3 | 17.2 | 17.2 | 17.2 | 17.1 |
| 64 | 17.1 | 17.1 | 17.0 | 17.0 | 16.9 | 16.9 | 16.9 | 16.8 | 16.8 | 16.8 | 16.7 | 16.7 |
| 65 | 16.6 | | | | | | | | | | | |

The relevant day is the day that the pension commences for contributing members of the scheme. Administrators should refer to the guidance above on the relevant day for pension credit members.