

**FIREFIGHTERS' PENSION COMMITTEE**

**NEW FIREFIGHTERS' PENSION SCHEME (NFPS)**

**TRANSITIONAL ARRANGEMENTS**

*Note by DCLG*

**Introduction**

1. Paper FPC(06)5 (NFPS - Transitional arrangements), which was discussed at the 11<sup>th</sup> Meeting on 13<sup>th</sup> February, set out issues relating to the introduction of the new scheme and the handling of the options exercise when members of the FPS will be asked to decide whether they wish to transfer to the NFPS.
2. At the time the FPC(06)5 was issued, it was thought that the closure of the FPS to new entrants would also need to be included in the proposed transitional arrangements order, but this has now been achieved by the Firefighters' Pension Scheme (Amendment) Order 2006 which provided bridging arrangements to facilitate the transition to the new scheme e.g. paragraph 1 (application ) and paragraph 36 (pension contributions).
3. This paper sets out the further intentions of the Department.

**Conversion rates for transferring to the NFPS**

4. We are in discussion with the Scheme Actuary (the Government Actuary's Department (GAD)) about a preferential conversion rate to be used for pension credit where someone transfers their pension benefits from the FPS to the NFPS. This rate will be solely for the options exercise.
5. The proposal is for the exercise to last 3 months. If subsequently, someone seeks to transfer pension credit from the FPS to the NFPS, this would be done under the usual transfer arrangements, which because we intend the NFPS, like the FPS, to be part of the Public Sector Transfer Club should provide a broad equivalence of benefits.
6. GAD has provided the table below setting out the following:  
  
Option 1, which is in line with the Club transfer arrangements; and  
  
Option 2, which takes account of the change from a pension age of 55 to 60.
7. Under Option 1, a firefighter with 10 years service who entered at age 28 would receive a service credit of  $10 \times 125.9\% = 12.59$  years; and a firefighter with 10 years' service who entered at age 35 and above would receive  $10 \times 100.0\% = 10$  years.

Under Option 2, a firefighter with 10 years' service who entered at age 28 would receive a service credit of  $10 \times 166.6\% = 16.66$  years; and a firefighter with 10 years' service who joined at age 35 or above would receive  $10 \times 132.3\% = 13.23$  years.

Table - Options 1 and 2

	NFPS service = x% x FPS service	
Under age 55	Option 1	Option 2
Age at entry		With late retirement factor of 1.323
25 and below	133.3%	176.4%
26	131.0%	173.4%
27	128.6%	170.1%
28	125.9%	166.6%
29	123.1%	162.8%
30	120.0%	158.8%
31	116.7%	154.4%
32	113.0%	149.6%
33	109.1%	144.3%
34	104.8%	138.6%
35 and above	100.0%	132.3%

8. Whilst the NFPS provisions will not permit the transfer of pension credit where service would exceed 40 years by the normal pension age of 60, for this one-off exercise, we are considering whether the Transitional Order should provide for this limit to be exceeded on the basis that the provisions of the NFPS would permit service in excess of 40 years to count if the scheme member works for that period.
9. However, Option 2 would offer large service credits to some FPS members, e.g. to those aged 50 with 25+ years' service or those who would be able to accrue 25 years' service by age 50:
 

Example 1: A member aged 50 with 25 years' service would be entitled under Option 2 To:  $25 \times 132.3\% = 33.075$  years. Plus 10 years to age 60 would give total pensionable service of 43.075 years.

Example 2: A member aged 25 with 7 years' service would be entitled to service credit of  $7 \times 176.4\% = 12.34$  years. Plus 35 years to age 60 would give total pensionable service of 47.34 years.
10. We are therefore considering whether there needs to be a cap to exclude transference of pension credit in some cases. For example it might be set at 45 years by the normal pension age of 60.
11. The intension would not be to stop such firefighters joining the NFPS, but merely disallow them from transferring pension credit from the FPS. In such

cases the only option would be to take a deferred pension under the FPS (payable at age 60) and join the NFPS in respect of future service. Whether such a limitation is included will depend on costs for the employer as well as what may be beneficial for the employee. For example, where a firefighter transfers his/her pension credit from the FPS to the NFPS and the employer under the provisions of the NFPS then offers the firefighter early retirement on full pension from age 55, the employer would be subject to additional costs.

12. Our view is that any transfer of pension credit should be effective from the date that the transfer becomes operative. This would avoid the need for any refund of contributions.
13. Unless the FPC has particular concerns about Option 2, we would want to pursue this with GAD and to seek a view from HM Treasury.

#### **Contractual retirement age**

14. The introduction of the NFPS raises the issue of the contractual retirement age. This is the age up to which a firefighter may have been contracted to work. It is assumed that FRAs have considered this in relation to firefighters recruited since 6 April. However, the issue is relevant also to any firefighter who transfers into the NFPS with its normal retirement (pension) age of 60.
15. It is a matter for the Employers to consider whether they would wish to offer a revision in the contractual age for serving firefighters who choose to move to the NFPS. Of course, employers may already be considering contracts of service in response to age discrimination legislation.
16. This issue would not be part of the transitional arrangements order.

#### **Entrants to the Fire and Rescue Service after 6 April 2006**

17. Regular firefighters who have joined since 6 April have been placed in the FPS for a bridging period. They are paying the contribution rate of 8.5% and when the NFPS is in operation they will be transferred to the NFPS. This period will be transferred on a day-for-day basis i.e. it will not be based on the conversion rate used for firefighters in service prior to 6 April 2006. The Transitional Order will set out the arrangements.
18. No action on the part of the firefighter will be necessary.
19. FRAs were advised in FPC 7 /2006 that during the bridging period it may be better not to accept a transfer value for new recruits until they are moved into the NFPS. FRA pension/HR practitioners have commented that they do not see this as a problem as there are not normally time limits for making transfers and, if there are, the sending scheme administrators should have a discretion to extend the limit. However, if a delay is not be possible, we have suggested that the transfer value is accepted into the FPS, but that when the transfer to the NFPS is arranged it should be recalculated for the NFPS based on the transfer

amount paid by the exporting scheme using NFPS transfer factors, not those for the options exercise.

20. This will be covered in the transitional order.

#### **Death Benefits within the bridging period**

21. Where a serving FPS member dies before the start of the options period, we propose that survivor benefits should be based on whichever scheme provides the more favourable terms or based on the NFPS where the firefighter has indicated that his/her intention is to transfer to the NFPS (e.g. if a registration of unmarried partner form has been completed). Transfer will be assumed to have occurred at the date of death.
22. If it is the NFPS, then the scheme member will be deemed to have transferred on the same terms and conditions as are being offered to serving members of the FPS and death benefits will be based on the NFPS provisions. This will mean that the value of benefits will be paid initially in line with the FPS until the NFPS order comes into operation when a revision will be required.
23. For new entrants since 6 April 2006 who are temporarily in the FPS, the proposal is that benefits would be based on those in the NFPS, although initial benefits may have to reflect the FPS rate until the NFPS order comes into operation.
24. We are seeking HM Revenue and Customs views on the proposals for death in service benefits to ensure that they are acceptable.

#### **Retained Duty System (RDS) firefighters**

25. New entrant RDS firefighters joining since 6 April 2006 have not been able to join the NFPS even for the bridging period, but from the date NFPS Order comes into operation they will be treated as members of the NFPS, with the ability to opt out if they do not wish to be members. To enable service to accrue from 6 April it will be necessary for RDS members to pay the missing contributions. The Transitional Order will provide for this.
26. Where a new RDS firefighter having joined the service after 6 April 2006 dies prior to the start of the options exercise, he/she should be eligible for benefits to be paid under the NFPS. This may amount to no more than the lump sum death grant. Payment of benefits would have to wait until the NFPS Order is made. Unpaid contributions would be deducted from any benefit payable.
27. The Employment Tribunal has still to reconsider the issue of pre-6 April 2006 RDS members and whether they should have access to the FPS. Should they do so and the member has already joined the NFPS, he/she would have the option of transferring any service accrued to the FPS. The rate for this transfer would need to be discussed with GAD. Similarly, if the RDS member wished to transfer any pre-April 2006 service from the FPS to the NFPS this would need to be offered. These matters will be considered once the Tribunal case

has been settled and any statutory order(s) will be prepared following discussion.

28. The case has no implications for new entrants since 6 April 2006 and they would not have the option to join the FPS.

#### **Optants Out of the FPS**

28. Those that have opted out of the FPS will have the opportunity to join the NFPS and transfer any deferred FPS benefits into the NFPS on Club transfer terms.

#### **Conclusion**

29. The FPC is invited to comment.

*June 2006*