



New Firefighters' Pension Scheme 2006 England, Wales and Northern Ireland

Addendum to GAD Guidance for calculating Statutory Cash Equivalent Transfer Values

1 Introduction

- 1.1 This note is addressed to the Home Office, Welsh Government, and Department for Health, Social Services and Public Safety (Northern Ireland) for onward transmission to Fire Authorities who administer the relevant schemes.
- 1.2 This note should be used in conjunction with the following documents:
 - > *"New Firefighters' Pension Scheme 2006: Statutory Cash Equivalent Transfer Values"*, dated 14 February 2012, referred to in this document as "the Guidance Note"
 - > *"Addendum to GAD guidance note "New Firefighters' Pension Scheme 2006: Statutory Cash Equivalent Transfer Values" dated 14 February 2012"*, dated 13 May 2016, referred to in this document as "the First Addendum to the Guidance Note"
- 1.3 This note is the second addendum to the Guidance Note. Its purpose is to update the Guidance Note in respect of the amendments to the 2006 Scheme introduced by The Firefighters' Pension Scheme (England) Amendment Order 2014 (SI 2014 No. 445).
- 1.4 The factors to be used for calculating Cash Equivalent Transfer Values under the Guidance Note are contained in the First Addendum to the Guidance Note.
- 1.5 The Guidance Note applies to all 4 schemes in the United Kingdom. For the avoidance of doubt, this Addendum (and the First Addendum to the Guidance Note) is only to be applied in respect of the 2006 Scheme in England, Wales and Northern Ireland and not in respect of the corresponding scheme in Scotland.
- 1.6 References in this guidance to The New Firefighters' Pension Scheme (England) and the 'The Firefighters' Pension Scheme (England) Amendment Order 2014 (SI 2014 No. 445)', may be taken to include their equivalents in Wales and Northern Ireland.
- 1.7 For the avoidance of doubt all limitations that apply to the Guidance Note, also apply to this addendum.

Update to GAD Statutory Cash Equivalent Transfer Values Guidance

- 1.8 The Firefighters' Pension Scheme (England) Amendment Order 2014 (SI 2014 No. 445) amended the 2006 Scheme to provide those employees who were employed in England as retained firefighters during the period from 1 July 2000 to 5 April 2006 with pension benefits in respect of that period.



- 1.9 Such members are known as Special members in the 2006 Scheme, and have a different benefit structure to other members of the 2006 Scheme. In particular, Special members:
- > accrue benefits at a rate of 1/45ths of Final Pensionable Pay for each year and part year of Pensionable Service
 - > have a normal retirement age of 55 and a normal benefit age of 60.
- 1.10 Accordingly, an addendum to the Guidance Note is required. The remainder of this addendum covers the general method for assessing:
- > **Section 2:** Calculation of a CETV for a special member who ceased purchasing benefits prior to the CETV calculation date
 - > **Section 3:** Calculation of a CETV for a special member who is paying periodic contributions as at the CETV calculation date
- 1.11 Some example calculations are set out in section 4.
- 1.12 This guidance relates only to retained benefits accrued under the 2006 Scheme Regulations. Some firefighters may also have benefits under the Firefighters' Pension Scheme (1992) or the Firefighters' Pension Scheme (2015) which should be dealt with separately in accordance with the appropriate guidance documents for those schemes.
- 1.13 Some members may have a regular firefighter contract in addition to their retained contract. We understand that regular and retained benefits are stored on separate member records. The CETV corresponding to each member record should be calculated separately under the guidance applicable to those benefits. This addendum should only be used to calculate the CETV in respect of the member's retained benefits.
- 1.14 For the avoidance of doubt, the limitations that apply to the original Guidance Note, also apply to this addendum.

Use of this addendum

- 1.15 This addendum has been prepared for the responsible authority and can be relied upon by them. We are content for this note to be released to third parties, provided that:
- > it is released in full;
 - > the advice is not quoted selectively or partially; and
 - > GAD is identified as the source of the note.
- 1.16 Third parties may wish to seek their own actuarial advice where appropriate. GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this note.



Third party reliance

- 1.17 This note should be used as the actuarial guidance required under the regulations cited. Other than for this purpose, no person or third party is entitled to place any reliance on the contents of this note, except to any extent explicitly stated herein.



Section 2: Calculation of a CETV for a special member who ceased purchasing benefits prior to the CETV calculation date

- 2.1 This section is applicable to any special member who, as at the CETV calculation date, has fully purchased the benefits on their record.
- 2.2 The full service credit or pension benefits stored on the member's record should be valued in the CETV. For the avoidance of doubt, where any member has been awarded a pro-rated service credit following a default on periodic contributions, it is the pro-rated benefits that should be valued.

Calculation of CETV in respect of special benefits

- 2.3 The CETV calculation for the member's special benefits should be completed using the approach set out in the Guidance Note. However, special member factors contained in tables **B1** and **B2** of the First Addendum to the Guidance Note should be used in the CETV calculation in place of standard member factors contained in tables **A1**, **A2** and **A3**.

Members with a combination of standard and special benefits

- 2.4 It is possible for a special member to have a combination of Standard and Special benefits within the 2006 Scheme. This situation may occur when either:
- > the member elects to purchase Special member deferred benefits, but also chooses not to convert any Standard 2006 scheme benefits accrued in respect of Post April 2006 service, or
 - > an active firefighter member elects to convert Standard 2006 benefits, but subsequently defaults on the periodic payments required to complete this purchase, with the default occurring prior to the CETV calculation date
- 2.5 In either of the situations set out in paragraph 2.4, the CETVs of the member's Standard and Special benefits should be calculated separately, based on the respective Standard and Special factors in force as at the calculation date.
- 2.6 The member's total 2006 scheme CETV should then be calculated as the sum of the CETV in respect of their Standard 2006 scheme benefits and the CETV in respect of their Special member benefits
- 2.7 No example CETV calculations are included in this addendum for members covered by this section. However, example calculations can be found in the Guidance Note. Please note that all examples in the Guidance Note relate to standard members (and do not use the factors introduced by the First Addendum to the Guidance Note).



Section 3: Calculation of a CETV for a special member who is paying periodic contributions as at the CETV calculation date

Special members who are purchasing or converting benefits through periodic contributions

- 3.1 Firefighters and ex-firefighters who elect to purchase Special benefits are required to pay backdated employee contributions. They may choose to purchase this either as an immediate lump sum payment or as a series of monthly contributions ('periodic payments') spread over 10 years, ie requiring 120 periodic payments in total. Pensioner members do not have the option to pay through periodic contributions.
- 3.2 DCLG has previously confirmed that benefits in respect of any member who elected to pay through periodic contributions, but has not completed these payments prior to the CETV calculation date should be pro-rated prior to the calculation of their CETV.
- 3.3 The pro-rating approach should be applied to both transfer out CETVs and CETVs for divorce.
- 3.4 For the avoidance of doubt, this approach is not suitable for calculating the CETV in respect of a member who has ceased paying periodic contributions following a default on their payments. Any such members should be valued using the approach set out in section 2 of this addendum.
- 3.5 We understand that following a transfer out of the 2006 scheme, a special member will lose their entitlement to continue their purchase of special benefits, and, as such, their periodic contributions should cease once the transfer has been completed.
- 3.6 There may be alternative legal interpretations of the benefit structure to be valued for members who are still making periodic payments as at the CETV calculation date. If for any reason it is not appropriate for the member's CETV to be calculated in line with methodology outlined in paragraphs 3.2 to 3.5, the case should be referred to GAD for further consideration.

Calculation of CETV for member who has elected to purchase special benefits

- 3.7 To calculate special service to be valued for any member who has elected to purchase special service but not elected to convert standard service, the following formula should be used:

$$\text{Accrued special service} = (SPS * PC / 120) + ASP$$

Where:

- SPS* total special service the member elected to purchase in their original option
PC the number of periodic contributions that have been paid as at the CETV calculation date
ASP additional special service accrued between the option election date and the CETV calculation date



- 3.8 The accrued special service calculated in paragraph 3.7 should be valued using the approach set out in the Guidance Note. However, the special member factors contained in tables **B1** and **B2** should be used in the calculation instead of the standard member factors contained in tables **A1**, **A2** and **A3**.
- 3.9 If the member also has additional standard benefits these should be valued separately and the member's total 2006 scheme CETV will be the sum of the CETV in respect of their Standard 2006 scheme benefits and the CETV in respect of their Special member benefits.
- 3.10 To illustrate the pro-rating approach, an example calculation (example 1) is included in section 4.

Calculation of CETV for member who has elected to purchase special benefits and convert benefits from standard to special

- 3.11 To calculate the special and standard service to be valued for any member who has elected to purchase special service and elected to convert standard service to special service under Rule 17 of Part 12 of the Order, the following formulae should be used:

$$\text{Accrued special service} = (SPS * PC / 120) + (SDS * PC / 120) + ASP$$

$$\text{Accrued standard service} = SDS * (1 - (PC / 120))$$

Where:

- SPS* total special service the member elected to purchase in their original option
SDS total standard service the member elected to convert as part of their original option
PC the number of periodic contributions that have been paid as at the CETV calculation date
ASP additional special service accrued between the option election date and the CETV calculation date

- 3.12 The accrued special service and accrued standard service calculated in paragraph 3.11 should be valued using the approach set out in the Guidance Note. Special member factors contained in tables **B1** and **B2** should be used to value the member's special benefits, and standard member factors contained in tables **A1**, **A2** and **A3** should be used to value the member's standard benefits. (In all cases, the factor tables are from the First Addendum to the Guidance Note.)
- 3.13 The member's total 2006 scheme CETV should then be calculated as the sum of the CETV in respect of their Standard 2006 scheme benefits and the CETV in respect of their Special member benefits.
- 3.14 To illustrate the pro-rating approach, an example calculation (example 2) is included in section 4.



Calculation of CETV for member who has elected to purchase special benefits and elected to convert benefits from special to standard

3.15 To calculate the standard service to be valued for any member who has elected to purchase special service and elected to convert benefits from special to standard under Rule 16 of Part 12 of the Order, the following formulae should be used:

$$\text{Accrued standard service} = (SPC * PC / 120) + ASD$$

Where:

- SPC* total standard service credit to be awarded in respect of special service the member elected to purchase and convert as part of their original option, and any additional standard service purchased.
- PC* the number of periodic contributions that have been paid as at the CETV calculation date
- ASD* additional standard service accrued between member's date of joining the NFPS and the CETV calculation date

3.16 No additional special benefits should be valued in respect of this member.

3.17 The accrued standard service calculated in paragraph 3.12 should be valued using the approach set out in the Guidance Note. For the avoidance of doubt, standard factors contained in tables **A1**, **A2** and **A3** of the First Addendum to the Guidance Note should be used to value the member's standard benefits.

3.18 To illustrate the pro-rating approach an example calculation (example 3) is included in section 4.

CETV for transfer out – statement of entitlement

3.19 Once a statement of entitlement request is received from the member under Rule 3 of Chapter 2 of the Order, an initial CETV quote should be prepared as directed by this guidance, and provided to the member. This communication should inform the member that if they wish to confirm their intention to transfer out they must cease paying periodic contributions as at that date.

3.20 If the member responds to the statement of entitlement discussed in 3.19 by confirming that they wish to transfer out:

- > no recalculation of the CETV will be required if no periodic contributions have been paid between the CETV guarantee date and the date the member's response is received, and the transfer out should be processed based on the statement of entitlement quote provided.
- > the CETV should be recalculated if any periodic contributions have been paid between the CETV guarantee date and the date on which the response is received.

3.21 DCLG has previously confirmed that, if necessary under this scenario, a second statement of entitlement quote can be provided to the member.



Section 4: Example calculations

Example 1

Pro-rating of benefits for an active member who has elected to purchase special benefits and has no additional standard benefits

For simplicity, in the example below the member's retained service is assumed to be 100% of whole time equivalent service for each year worked. In practice this may not be the case. When using this guidance administrators must ensure that the member's service and pensionable pay are calculated in line with the scheme rules.

The following information is needed for this calculation:

A. Member date of birth	30 June 1966
B. Calculation date	30 June 2016
C. Member age as at calculation date	50
D. Gender	Male
E. Date of retained option election	30 June 2015
F. Special service member elected to purchase as part of retained option (SPS)	12 years
G. Total periodic contributions required	120
H. Periodic contributions made as at CETV calculation date (PC)	12
I. Special service accrued since joining Modified Section (ASP)	1 year

Calculation of benefits to be valued

The formula to calculate benefits to be valued, taken from paragraph 3.7 of this addendum, is as follows:

$$\text{Accrued special service} = (\text{SPS} * \text{PC} / 120) + \text{ASP}$$

Substituting the data set out above into this formula, the special service to be valued is:

$$= (12 * 12 / 120) + 1$$

$$= 2.2 \text{ years}$$

The CETV of the benefits relating to this special service should then be calculated in line with the approach set out in the Guidance Note, however, using factors taken from table **B1** of the First Addendum to the Guidance Note.



Example 2

Pro-rating of benefits for a deferred member who has elected to purchase special benefits and convert benefits from standard to special

For simplicity, in the example below the member's retained service is assumed to be 100% of whole time equivalent service for each year worked. In practice this may not be the case. When using this guidance administrators must ensure that the member's service and pensionable pay are calculated in line with the scheme rules.

The following information is needed for this calculation:

A. Member date of birth	30 June 1966
B. Calculation date	30 June 2016
C. Member age as at calculation date	50
D. Gender	Female
E. Date of retained option election	30 June 2015
F. Date of deferral	31 December 2015
G. Special service member elected to purchase as part of retained option (SPS)	4 years
H. Standard service member elected to convert as part of retained option (SDS)	8 years
I. Total periodic contributions required	120
J. Periodic contributions made as at CETV calculation date (PC)	12
K. Special service accrued since joining Modified Section (ASP)	0.5 years

Calculation of benefits to be valued

The formula to calculate benefits to be valued, taken from paragraph 3.11 of this addendum, is as follows:

$$\text{Accrued special service} = (\text{SPS} * \text{PC} / 120) + (\text{SDS} * \text{PC} / 120) + \text{ASP}$$

Substituting the data set out above into this formula, the special service to be valued is:

$$\begin{aligned} &= (4 * 12 / 120) + (8 * 12 / 120) + 0.5 \\ &= 1.7 \text{ years} \end{aligned}$$

The CETV of the benefits relating to this special service should then be calculated in line with the approach set out in the Guidance Note, however, using factors taken from table **B2** of the First Addendum to the Guidance Note.

$$\text{Accrued standard service} = \text{SDS} * (1 - (\text{PC} / 120))$$

Substituting the data set out above into this formula, the standard service to be valued is:

$$\begin{aligned} &= 8 * (1 - (12 / 120)) \\ &= 7.2 \text{ years} \end{aligned}$$



The CETV of the benefits relating to this standard service should then be calculated in line with the approach set out in the Guidance Note, using factors taken from table **A2** of the First Addendum to the Guidance Note.

The total 2006 scheme CETV will be the sum of the standard and special CETVs calculated above.



Example 3

Pro-rating of benefits for an active member who has elected to purchase special benefits and convert from special to standard

For simplicity, in the example below the member's retained service is assumed to be 100% of whole time equivalent service for each year worked. In practice this may not be the case. When using this guidance administrators must ensure that the member's service and pensionable pay are calculated in line with the scheme rules.

The following information is needed for this calculation:

A. Member date of birth	30 June 1966
B. Calculation date	30 June 2016
C. Member age as at calculation date	50
D. Gender	Male
E. Date of retained option election	30 June 2015
F. Standard service credit to be awarded as part of retained option (SPC)	4 years
G. Total periodic contributions required	120
H. Periodic contributions made as at CETV calculation date (PC)	12
I. Date of joining NFPS	30 June 2006
J. Standard service accrued since joining NFPS (ASD)	9 years

Calculation of benefits to be valued

The formula to calculate benefits to be valued, taken from paragraph 3.15 of this addendum, is as follows:

$$\text{Accrued standard service} = (\text{SPC} * \text{PC} / 120) + \text{ASD}$$

Substituting the data set out above into this formula, the standard service to be valued is:

$$= (4 * 12 / 120) + 9$$

$$= 9.4 \text{ years}$$

The CETV of the benefits relating to this special service should then be calculated in line with the approach set out in the Guidance Note. For the avoidance of doubt, factors taken from table **A1** of the First Addendum to the Guidance Note should be used.