

Circular Number:	FPSC 5/2008	Date Issued:	21 May 2008
Action:			
Title:	<i>FIREFIGHTERS' PENSION SCHEME 1992 – COMMUTATION FACTORS</i>		
Issued by:	Martin Hill Workforce Pay and Pensions Division		

Summary:	<p>This circular advises:-</p> <p>(i) revised commutation factors prepared by the Government Actuary for the purpose of calculating lump sums payable under Rule B7 of the Firefighters' Pension Scheme 1992 from 1st October 2007; and</p> <p>(ii) guidance from the Government Actuary on trivial commutation under Rules B8 and E5 of the Firefighters' Pension Scheme 1992 and Part 3, rule 10, and Part 5, rule 5 of the New Firefighters' Pension Scheme 2006; and capitalisation for death gratuities under Rule E4 of the 1992 Scheme</p>
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1. Background

1.1 This circular advises about:-

(i) revised commutation factors prepared by the Government Actuary for the purposes of calculating the lump sums payable to persons who commute part of their firefighter's pension under Rule B7 of the Firefighters' Pension Scheme 1992 (FPS); and

(ii) guidance from the Government Actuary about trivial commutation under Rules B8 and E5 of the FPS and Part 3, rule 10 and Part 5, rule 5 of the New Firefighters' Pension Scheme 2006 (NFPS); and capitalisation for death gratuities under Rule E4 of the FPS.

2. Revised Commutation Factors

2.1 The current age-related factors were drawn up by the Government Actuary in 1998. No change has been made by the Government Actuary until now.

2.2 The new factors, with explanatory notes, are set out in the attached Guidance Note prepared by the Government Actuary.

2.3 The new factors will apply to any pensions commencing on or after 1st October 2007.

2.4 It should be noted that the new factors will be gender neutral and age related.

2.5 They are higher than both the existing male and female factors, so the amount of lump sum which may be obtained by commutation in the FPS is increased.

2.6 The new factors vary with attained months of age rather than age next birthday. This increases the number of steps in the factors and so reduces the size of the steps. This avoids the situation, which could arise under the previous arrangements, whereby a lump sum could be substantially smaller if retirement is delayed by one day.

2.7 Application of the new factors is in terms of completed years and months on the day before pension commences (so an member retiring the day before a birthday would automatically enjoy the higher factor relating to the previous whole month of age). There is no longer in effect a requirement to retire at least two days before the next birthday.

3. Backdating of PPS factors

3.1 The effect of the new factors is backdated to 1 October 2007. This means that the new factors apply to any member of the FPS who retired with an immediate pension on that date or later (i.e. whose last day of service was 30 September 2007 or later) or whose deferred pension came into payment on that date or later. This will require the payment of interest in some cases.

4. Action to be taken

Implementation of the new factors going forward

- 4.1 The new factors must be applied to any member who retires or has retired on or after 1 October 2007, so the backdating arrangements described in the paragraphs which follow must take into account any member who retires between now and the date on which all the practical steps necessary to implement the new factors are brought into effect.

Identification of members entitled to backdated payments

- 4.3 Administrators must, as a matter of priority, identify any member who retired on or after 1 October 2007, or whose deferred pension came into payment on or after that date, and who commuted some of his or her annual pension for a lump sum under the Firefighters' Pension Scheme 1992. In all such cases the lump sum to which the member is entitled must be recalculated using the new factors and guidance, based on the terms of the member's original notice of commutation.
- 4.4 Such members will, given the higher new factors, be entitled to an additional payment. Authorities will need to write to the members concerned to explain the reason for the additional payment. The default position is that the member is given more lump sum, but he or she will be given an opportunity to return the money and request additional annual pension instead if he or she does so within one month of the date of the notification, or such longer period as the authority may in their discretion allow in exceptional circumstances.
- 4.5 The additional amounts must be paid to members as soon as can be arranged, subject to the following considerations:
- interest must be paid on any payment made three months or more after the entitlement arose;
 - members who retired with less than 30 years service and who commuted to give a maximum lump sum of $2\frac{1}{4}$ times the annual pension before commutation cannot receive any additional lump sum payment, but must instead receive the extra money to which they are entitled in the form of additional annual pension;
 - some members who retired with less than 30 years service who did not commute to give a maximum lump sum might nevertheless be taken over the maximum by the additional payment – in which case they will receive an additional lump sum payment up to the maximum and the rest as additional annual pension.

Payment of interest

- 4.6 Interest should be paid in line with an authority's usual practice in relation to backdated payments.
- 4.7 Interest on backdated payments should be calculated at the fixed rate of 5% per year, compounded with yearly rests.

5. Members who have died since 1 October 2007

- 5.1 There may be cases where a former member has died after retiring or having a deferred pension come into payment on or after 1 October 2007. In such cases, the additional lump sum payment and interest should be calculated in the same way as in any other case, but the payment should be made to the former member's legal personal representative (i.e. his or her estate).
- 5.2 Any additional payments under these arrangements in respect of former member's who have died have no effect on the level of any adult or child survivor's pension.

6. Special Top-up Arrangements

- 6.1 Under the firefighter pension financing arrangements, CLG reimburses fire and rescue authorities' pension funds using a Central Government top-up grant, to cover any deficits incurred. This will now include the additional expenditure needed to increase lump sums in the light of revised commutation factors. CLG will be making payments in July based on deficits that exclude this additional expenditure. However, revised top up grant figures will be collected in October on the FPF1 form and additional payments to cover 2007/08 and 2008/09 may be made in December to ensure that FRAs do not incur cash flow problems. Further guidance will be issued at the time.

7. Software

- 7.1 We have been in touch with the main fire pensions software provider about the new format for the factors. We understand that the necessary software changes will be made to accommodate the new factors.

8. Trivial Commutation and Capitalisation for Death Gratuities

- 8.1 Guidance from the Government Actuary is attached also to trivial commutation of pensions under rule B8 and E5 of the FPS and Part 3, rule 10 and Part 4, rule 5 of the NFPS; and the calculation of the capitalised value of benefits under Rule E4 of the FPS.

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