FIREFIGHTER

Pensions Special January 25th 2006

WORKED EXAMPLES

Example 1

A firefighter joined the FPS in 1984 at age 20. The member will reach age 50 in April 2014 and wants to retire at that age.

- The member will have been a member of the FPS for 30 years by that stage and will have accrued a pension worth 40/60ths of final pensionable salary, but payable at age 55, not age 50. The member is retiring five years early (normal retirement age for this firefighter is now age 55, because the member was not aged 50 by April 2013).
- You will know that the Pension scheme states that for the first 20 years you accrue 1/60th for each year of service. For each year of service over 20 years you accrue 2/60ths.
- For the purpose of the example we are using the figure of £30,000 as the notional pensionable pay for April 2014.
- The member will be entitled to a 30 year pension. This can be broken down for the purpose of showing the comparison into service prior to April 2006 and the service after.

Pension under existing provisions for existing members

The calculation is based on the information given above.

Pension earned by service prior to April 2006 (22 years) is:

$\frac{20 + 4}{60} \times £30,000 = £12,000$

Pension earned for service from April 2006 (eight years) to date of retirement is:

$\frac{16}{60} \times £30,000 = £8,000$

Under the existing provisions within the scheme, this member **will receive** a pension of:

£20, 000 (£12,000 + £8,000)

As stated above with the **existing provisions** for existing members the member will get a pension of:

£12,000 + £8,000 = **£20,000**

Pension under proposed provisions for existing members

To *begin with* the calculation is the same if the ODPM proposals come into effect:-

Pension earned by service prior to April 2006 (22 years) is:

$\frac{20 + 4}{60} \times £30,000 = £12,000$

Pension earned for service from April 2006 (eight years) to date of retirement is:

$\frac{16}{60} \times £30,000 = £8,000$

BUT THIS MEMBER WILL **NOT** RECEIVE the £20,000 pension that he/she has earned. However, it appears as though the thinking of the ODPM is that there will be an actuarial reduction *because the member retired before the age of 55.*

The actuarial reduction would be that because the member retired before the age of 55, pension earned after April 2006 (i.e. that part shown in blue above) will be reduced on the basis of 5% for each year between the age at which member retires and the age of **65** (i.e. 65 minus 50 = 15 years)!! This means a reduction of :

£8,000 × (5% x 15) = £6,000

If we allow the new provisions to come into effect the member's pension would be:

£12,000 + £8,000 – £6,000 = **£14,000**

Comment: In this case, the member has chosen to retire at age 50 i.e. the age at which they were entitled to retire at on entry to the service. This member would lose **£6,000 each year** for the rest of his/her life. If the member was to live to 75 they would lose £150,000 (the average price paid for a house by first time buyers)

Example 2

The same firefighter, who joined the FPS in 1984 at age 20. The member will reach age 50 in April 2014 but instead wishes to retire when he/she is 55 (April 2019)

- The member will have been a member of the FPS for 35 years by that stage and will have accrued a pension worth 40/60ths, plus 5/45th of final pensionable salary.
- You will know that the Pension scheme states that for the first 20 years you accrue 1/60th for each year of service. For each year of service over 20 years you accrue 2/60ths.
- Because time has moved on for the purpose of the example we are using the figure of £34,000 as the notional pensionable pay for April 2019.
- The member will be entitled to a 35 year pension. This can be broken down for the purpose of showing the comparison into service prior to April 2006 and the service after.

Pension under existing provisions for existing members

The calculation is based on the information given above.

Pension earned by service prior to April 2006 (22 years) is:

$\frac{20 + 4}{60} \times £34,000 = £13,600$

Because under the existing provisions you cannot earn more than 40/60ths, the pension earned for service from April 2006 (8 years) to date of retirement (April 2019) is:

$\frac{16}{60} \times £34,000 = £9,067$

Under the existing provisions of the scheme this member might be allowed to work until age 55, but the maximum pension he/she can build up is a two thirds pension (40/60), so this member will receive a pension of:

£22,667 (£13,600 + £9,067)

Pension under proposed provisions for existing members

To *begin with* the calculation is the same if the ODPM proposals come into effect:-

Pension earned by service prior to April 2006 (22 years) is:

$\frac{20 + 4}{60} \times £34,000 = £13,600$

Pension earned for service from April 2006 (eight years) to date of retirement is:

$\frac{16}{60} \times £34,000 = £9,067$

Because the member is not now retiring before the age of 55, **there is no** actuarial reduction. However, it appears as though the thinking of the ODPM is to allow members not to hit a glass ceiling at 40/60ths and to allow existing members to continue accruing pension rights until the age of 55. The rate for accrual is proposed to be at 1/45th per year.

By working this extra 5 years the member will therefore earn a further pension of

$\frac{5}{45} \times £34,000 = £3,778$

The member will get a pension of

£26,512 (£13,600 + £9,067 + £3,778)

Comment: The ability to accrue pension beyond 40/60th appears at first glance to be a significant concession to members forced to work longer. However, you should note that the accrual rate proposed for those extra years is at 1/45th per annum instead of 2/60th per annum. If pension continued to accrue at 2/60th per annum, in the example above, then the additional pension would be £5,667 (10/60th x £34,000, rather than £3,778). The total pension would then be £28,041 per annum.

The additional five years service produces a saving to the employer on the following basis. Under the existing arrangements the member can retire at 50 on a pension of £20,000. Instead the member is required to continue working for five additional years at a salary of £34,000. The employer would previously have been required to pay £22,667 per annum in pension plus £34,000 for a replacement firefighter. These proposals means a saving of £22,667 for 5 years, producing an overall saving to the employer of £113,335. Under existing arrangements, this £113,335 would be due to our member as pension.

This saving to the employer also means that the firefighter is effectively working five years for **ONE THIRD** of his/her pay!

In the example above, it would take the retired firefighter 30 tears to recoup the pension lost. He/she would have to claim a pension until the age of 85 to make any net gain from the change. According to national statistics for 2002 life expectancy for males in the UK is 76.

Example 3

A firefighter joined at 18 in 1982. His/her normal retirement age will be age 55 (he/she is not aged 50 by April 2013). He/she decides to retire in April 2014 at age 50.

- Again, let's say that by April 2014 his/her pensionable pay is £30,000.

Pension under existing provisions for existing members	**Pension under proposed provisions for existing members**
Pension earned by service prior to April 2006 (24 years) is: $\frac{20+8}{60}$ × £30,000 = £14,000 Pension earned by service after April 2006 (8 years) is subject to the 40/60ths maximum: $\frac{12}{60}$ × £30,000 = £6,000 Under the existing provisions within the scheme, this member **will receive** a pension of: **£20, 000** (£14,000 + £6,000)	Pension earned by service prior to April 2006 (24 years) is: $\frac{20+8}{60}$ × £30,000 = £14,000 Pension earned by service after April 2006 (8 years) is subject to the 40/60ths maximum: $\frac{12}{60}$ × £30,000 = £6,000 But, this part of his/her pension is subject to an actuarial reduction. Count back from 65, not age 55, to see how many years early the pension is being taken i.e. 15 years. This part of the pension is therefore reduced by 75%, or £4,500 per annum. Total pension is therefore: £14,000 + £6,000 - £4,500 = **£15,500**

Comment: This member would lose ***£4,500 each year*** for the rest of his/her life If the member was to live to 75 he/she would lose £112,500, ignoring the effect of inflation.

Example 4

The same firefighter as in example 3 decides to work on until age 55. By that stage (2019) he/she will have been a member of the FPS for 37 years.

- Let's say his/her pay has increased in line with inflation and in round figures is now £34,000.

Pension under existing provisions for existing members	**Pension under proposed provisions for existing members**
Pension earned by service prior to April 2006 (24 years) is: $\frac{20+8}{60}$ × £34,000 = £15,867 Pension earned by service after April 2006 but before 2014 is still subject to the 40/60ths maximum: $\frac{12}{60}$ × £34,000 = £6,800 Under the existing provisions within the scheme, this member **will receive** a pension of: **£22,667** (£15,867 + £6,800)	Pension earned by service prior to April 2006 (24 years) is: $\frac{20+8}{60}$ × £34,000 = £15,867 Pension earned by service after April 2006 but before 2014 is still subject to the 40/60ths maximum: $\frac{12}{60}$ × £34,000 = £6,800 But, this time the pension is not being drawn early. Therefore no early retirement reduction is made. He/she can build up five more years' pension after age 50: the years between 18 and 20 are still 'dead', but the years between 50 and 55 are not. Pension earned after April 2014 (five years) is accrued in 1/45ths (equivalent of 1.33/60th not 2/60ths). $\frac{5}{45}$ × £34,000 = £3,778 Total pension is therefore: £15,867 + £6,800 + £3,778 = **£26,445**

Comment: Bear in mind that part of this increase is due to the fact that his/her pay increases from £30,000 to £34,000 over the last five years of their career. If that effect is taken out of the equation then the pension would be £23,333.

Example 5 *Ill-Health retirement*

A firefighter joined the FPS at age 20 in March 1984. The member is required to retire on ill-health grounds in March 2006 (i.e. before any changes to the pension arrangements) just as he has completed 22 years. His ill-health pension is shown in the left hand column.

The member has a friend who also joined at age 20 in October 1984. The friend is required to retire on ill-health grounds in October 2006 (i.e. after the changes to the pension arrangements) just as she has completed 22 years. Her ill-health pension is shown in the right hand column.

HOWEVER UNDER THE PROPOSED TWO TIER ILL-HEALTH SCHEME, IF THE EMPLOYER SAYS THAT YOU CAN DO SOME KIND OF LABOUR FOR 30 HOURS PER WEEK YOU WILL GET NO ENHANCEMENT. IT IS DIFFICULT THEREFORE TO ENVISAGE A SITUATION WHERE THE EMPLOYER WILL NOT SAY THAT THE MEMBER WOULD MEET THE REQUIREMENT FOR AN ENHANCEMENT.

Their pay is £25,850 (for the sake of the comparative example – we will ignore the July pay rise).

Pension under existing provisions for existing members	**Pension under proposed provisions for existing members**
The current enhancement for existing members for ill-health is 7/60ths. The ill-health pension is based on normal pension accrual plus the enhancement:- $\frac{20+4}{60} \times \frac{7}{60}$ × £25,850 = £13,366 pa	Because there will probably be no enhancement, the ill-health pension is based on normal pension only:- $\frac{20+4}{60}$ × £25,850 = £10,340 pa But let's say that the Brigade doesn't act true to form and gives an enhanced ill-health pension: $\frac{20+4}{60} \times \frac{7}{60}$ × £25,850 = £13,366 pa

Comment: It is not a widely held belief, bearing in mind the current trend towards ill-health retirements that Brigades would take up the offer of paying an enhanced pension.

HANDS OFF OUR PENSIONS ✗