ANNEXE 15

CONCURRENT MEMBERSHIP OF A STAKEHOLDER PENSION SCHEME OR PERSONAL PENSION SCHEME

If you wish to improve your retirement benefits, Rules G5 to G9 of the Firemen's Pension Scheme Order 1992 may permit you to "purchase" extra 60ths of average pensionable pay to add to the pension you will achieve through normal service.

Or you could approach a bank, building society, life assurance company or similar financial institution regarding the payment of Free-Standing Additional Voluntary Contributions ("FSAVCS"). These would be invested in a personal fund which could eventually be used to buy you an annuity.

Both of these options, however, are available only if by taking them up –

- you would not exceed Inland Revenue limits on the amount of contributions you can pay into such pension arrangements (15% of pay), and
- you would not exceed Inland Revenue limits on the total benefits you can take on retirement.

Because the FPS has a high basic contribution (11%) and because benefits are based on fast accrual principles, there is often very little leeway for either of these options to be used as a means of improving income on retirement.

From April 2001, however, a further option has become available. It is not so tightly restricted by Inland Revenue rules. This new option is to pay contributions into a stakeholder or personal pension scheme at the same time as being a member of, and paying contributions to, the FPS. This is called "concurrent membership".

This Annexe explains how the "concurrency" provisions work.

ANNEXE 15
Concurrent membership of a stakeholder or personal pension scheme

Background

Up to 5 April 2001 you could not be a member of the Firefighters' Pension Scheme and, at the same time, pay contributions into a personal pension scheme. With effect from 6 April 2001 this changed.

A new type of pension arrangement called a "stakeholder" pension became available. Stakeholder pensions were initially intended to be a pension arrangement for those who had low to moderate earnings and did not have access to an employer's occupational pension scheme. Shortly before they were introduced, however, it was decided that they should also be available as an additional form of pension for those whose taxable earnings are below a certain limit and who are members of occupational pension schemes. It was also decided that this option should be extended to personal pension schemes – a type of pension arrangement which had been in existence for a number of years.

Consequently, since 6 April 2001, it has been possible for certain members of an occupational pension scheme (e.g. the FPS) also to pay contributions into a stakeholder or personal pension scheme. This is called "concurrent membership".

Can anyone have concurrent membership?

No. To be allowed to pay contributions to a stakeholder or personal pension at the same time as being a member of the FPS your pay in at least one of the previous five tax years (excluding years before 2000/2001) must not exceed a specified remuneration limit. (You are also barred from taking up this option if in any one of the previous five tax years – again excluding years before 2000/2001 – you have been a controlling director of a company.)

What is the remuneration limit?

This has been set at £30,000 for the tax year 2001/2002 but it could be increased for subsequent tax years.

"Remuneration" for this purpose is the taxable pay you receive and which would appear in the tax certificate P60 you are sent at the end of every tax year. It is important that you should note this point because your earnings could be in excess of £30,000 yet you may still be eligible to take up the concurrency option.

To explain – taxable pay is your earnings less pension contribution deductions (and any Gift Aid type deductions made through the payroll). So, if you are paying the basic pension contribution of 11%, you could be earning up to £33,707 a year and still be eligible for "concurrency" (£33,707 less 11% = £29,999.23, i.e. just within the £30,000 remuneration limit).

If you had not been employed for the whole tax year used to test the remuneration limit, the earnings would have to be grossed up. For example, if you had worked for just three months of the year, the earnings for those three months would be multiplied by four to give a hypothetical twelve months' earnings.

How much can I pay?

Subject to your level of earnings being such that you are eligible for the concurrency arrangements, you can pay up to £3,600 a year into a stakeholder or personal pension arrangement. (This is the limit for tax year 2001/2002; it may increase in subsequent years.)

This amount includes any tax relief and so the total contributions paid in may be less.

What about Inland Revenue limits on contributions and benefits?

These do not apply.

The usual 15% contribution limit imposed by Inland Revenue is disregarded and the benefits payable from a concurrent stakeholder or personal pension scheme sit "on top" of other benefits, e.g. from the FPS or a FSAVC arrangement, which are subject to Inland Revenue limits.

So even if, for example, you have already taken up the option to purchase increased benefits under Rules G5 to G7 of the Firemen's Pension Scheme Order 1992 and are paying contributions of 15% of pay, you would still be eligible to pay contributions into a concurrent stakeholder or personal pension scheme.

And if you weren't eligible to purchase increased benefits under Rules G5 to G7 because you could build up a 40/60ths of final pay pension through normal service up to compulsory retirement age, you could still take up the concurrency option.

How do I arrange a concurrent stakeholder or personal pension?

You would have to make the arrangements yourself with a stakeholder or personal pension provider, e.g. a bank, building society, life assurance company, or similar. Your fire authority cannot offer these arrangements. Consequently, contributions would not be deducted from your pay. Instead you would have to make arrangements to pay contributions to the provider, for example by a standing order or direct debit mandate from your bank or building society. The provider would claim any basic rate tax relief from the Inland Revenue and credit it to your pension arrangement. Any higher rate tax relief would have to be claimed by you through your annual tax return.

How do concurrent stakeholder and personal pensions work?

The FPS pension is a "final salary" type of pension scheme, i.e. for each year of membership you get a proportion of final pay.

Stakeholder and personal pensions work on "money purchase" principles, i.e. you have your own pension "fund" into which you pay your contributions and which gets credited with any tax relief you are due on those contributions. The money in the fund gets invested and investment returns are added.

When you are eligible and ready to take benefits from the scheme, the money which has built up in your "fund" is used to purchase you an annuity (pension).

How do concurrent stakeholder and personal pensions work (continued)?

Annuities are subject to annuity rates which in turn are affected by interest rates. When interest rates rise, the company selling annuities is able to obtain a greater income from each pound in your personal fund and, therefore, can provide a higher pension. Conversely, a fall in interest rates reduces the amount of pension which can be purchased. Consequently there is a degree of uncertainty attached to a money purchase type pension arrangement which does not feature in final salary schemes like the FPS.

If you wish, up to 25% of the "fund" can be taken as a tax free lump sum.

The company you choose would deduct charges, etc. from your "fund". It is important that you should select your pension scheme provider carefully to ensure that you pick one with a reasonable charging structure and which can demonstrate good investment performance, etc.

For this reason you may find it helpful to seek the assistance of a qualified and registered independent financial adviser who can guide you towards a suitable company and product.

It may be that you had a personal or stakeholder pension before you became a firefighter. You would need to check with the company that provided the pension as to whether you may continue with it as a concurrent arrangement. (For example, this may not be possible with some older personal pension schemes.)

When and how do I get paid benefits from a concurrent arrangement?

You can draw benefits from a concurrent stakeholder or personal pension scheme at any time between age 50 (or earlier on ill-health grounds) and age 75 regardless of whether or not you have retired from the fire service and are drawing your FPS pension.

You need not buy your annuity from the same company with which you invested your contributions. The annuity can be one that best fits your personal circumstances. For example you can decide whether you would like the annuity to provide widow(er)'s benefits and indicate what type of inflation-proofing you prefer.

Are there any differences between stakeholder and personal pension schemes which I should consider?

When stakeholder pensions were introduced, the government insisted that they should satisfy minimum standards of charging. This is not a requirement for personal pension schemes (although, to compete in the market, some may have adopted similar principles).

Also, although this Annexe explains how concurrent pension arrangements may provide additional income in retirement, you could, if you wished, use a stakeholder pension to provide a pension for a spouse or child. The spouse or child would have the £3,600 contribution limit in their own right but there is nothing to prevent someone else paying the contributions. Again, if this is an option in which you are interested, you may find it helpful to discuss it with an independent financial adviser.

Relevant legislation

- The Personal Pension Schemes (Concurrent Membership) Order 2000 [SI 2000/2318]
- Section 632B of The Income and Corporation Taxes Act 1988 (remuneration limit)
- Regulation 39 of The Income Tax (Employments) Regulations 1993 [SI 1993/744] (explanation of “remuneration”)