Rule B5 sets out the terms of eligibility for a deferred pension.
Schedule 2 Part VI explains how a deferred pension should be calculated.
Schedule 2 Part VIA explains adjustments for part-time service.

Eligibility for a deferred pension

Rule B5 gives the circumstances of entitlement to a deferred pension.

Early leaver or optant out

The most common situations where eligibility for a deferred pension will be decided are where a firefighter –

- leaves the fire and rescue service before being entitled to any other form of retirement benefit, or
- remains in the fire and rescue service but opts out of the FPS by electing under Rule G3 not to pay pension contributions.

Rule B5(1) and (2) explain that in these circumstances, to be eligible for a deferred pension you must –

- be a regular firefighter, and
- opt out of the FPS, or retire but not for the purpose of transferring to another fire and rescue authority, and
- not be entitled to an ordinary, short service or ill-health pension, and
- be entitled to reckon at least 2 years' pensionable service or, at least 2 years' pensionable and certain other service (described in this guidance as "qualifying" although that expression is not used in Rule B5).

Service which can count as "qualifying" service is –

- a period of earlier fire service before a break in service of one month or less, even though you may have had a refund of contributions in respect of that period which you have not repaid to make the period of service pensionable (see the explanation in Rule F4), and
- the actual length of service in a previous employment in respect of which you have transferred pension rights into the FPS, even though the pensionable service you could count in the FPS as a result counted as a shorter period (see the explanation in Rule F7).

From this must be deducted any period of service covered by an election under G3 not to pay contributions (i.e. where a firefighter has opted out of the FPS) – this cannot count as pensionable or qualifying service. Nor can any period of unpaid additional maternity or adoption leave where a firefighter has had the option to pay contributions in order to count the period as pensionable service, but has chosen not to.

"Qualifying" service can be used to decide eligibility for a deferred pension but must not be used in the calculation.

Even if you do not have the 2 years' pensionable and qualifying service mentioned above but have had pension rights from a personal pension scheme transferred into the FPS you would still be eligible for a deferred pension. This is explained in Rule B5(1)b).

Rule B5 (continued)

Eligibility for a deferred pension (continued)

Termination of ill-health award

Rules B5(3) and K1A(4) explain that you may also be entitled to a deferred pension in circumstances where –

- you originally retired with an ill-health pension, and
- you recovered your health to the extent that you could again have undertaken firefighting duties, but

you did not resume employment as a regular firefighter.

Exclusions

Under Rule B5(5) if a person retires with entitlement to a deferred pension but returns to firefighting and gives notice to the fire and rescue authority to relinquish the deferred pension then entitlement to the deferred pension will cease. Instead the pensionable service upon which it was calculated will count as pensionable service in the new employment (see "Points to Note", Point 4 and the explanation of Rule F4).

Method of calculation of deferred pension

Rule B5(2) and (3) tell you to calculate a deferred pension by using the method given in Schedule 2 Part VI and having regard to B5(3A).

Schedule 2 Part VI gives the basic formula for a deferred pension. The amount of the pension will be -

the lesser of: $\dfrac{40 \times A}{60}$ and $\dfrac{B \times C}{D}$

where -

A is your average pensionable pay

B is your notional retirement pension (see below)

C is the period in years (and days) of your pensionable service

D is the period in years (and days) of your notional service (see below).

Your "notional service" is the period in years and days that you would be able to count if you continued to serve as a firefighter until the earlier of -

- when you could retire with a maximum ordinary pension (disregarding the "age 55" requirement for Chief Fire Officers and Firemasters) - see the explanation of Rule B1, and

- normal pension age (55) or, in the case of Station Manager B or above, age 60. (The use of age 60 for this role is a protected right offered by Rule B5(3A) which was added when "normal pension age" replaced "compulsory retirement age" in the FPS. Firefighters of the rank Assistant Divisional Officer or above had a compulsory retirement age of 60. In some circumstances this may offer a higher level of deferred pension than that allowed by age 55. Consequently Rule B5(3A) is a protected right for those who have the role of Station Manager B or above, being the closest equivalent to the rank of Assistant Divisional Officer or above.)

Rule B5 (continued)

Method of calculation of deferred pension (continued)

Your "notional retirement pension" is -

$$\frac{A \times E}{60} + \frac{2 \times A \times F}{60}$$

where -

A is your average pensionable pay

E is the period in years (and days) of your notional service up to 20 years, and

F is the period in years (and days) by which your notional service exceeds 20 years.

When an ordinary or short service pension is calculated, the method of calculation is based on a "fast accrual" system of reckoning service. You are credited with 1/60th of average pensionable pay for the first 20 years of pensionable service and 2/60ths ("double-reckoning") of average pensionable pay for pensionable service in excess of 20 years. This enables you to achieve a pension based on 40/60ths of average pensionable pay after only 30 years' service.

When a deferred pension is assessed, the method of calculation is based on a "uniform" accrual system. Each year that you can reckon when you leave the FPS will take account of any double reckoning which you would have achieved, had you stayed a member to compulsory retirement age. If by the time you leave you have worked for, say, only 5 years, each of those 5 years will contain an element of double-reckoning. Even though, in the case of an ordinary pension, double-reckoning would not commence until you had completed 20 years.

For example, if you would have completed 30 years' service by the time you reach normal pension age (had you remained in the FPS), each of the "deferred pension" years you can count at the time of leaving the scheme will count not as 1/60th or 2/60ths of average pensionable pay but as 1.3333/60ths. Then, if you left the FPS before retirement age, the portion of average pensionable pay you would be entitled to count would be as follows -

- with 5 years' service: you would be entitled to 5 x 1.3333/60ths (6.666/60ths)
- with 10 years' service: you would be entitled to 10 x 1.3333/60ths (13.333/60ths)
- with 20 years' service: you would be entitled to 20 x 1.3333/60ths (26.666/60ths)

and so on. This means that the deferred benefit formula on the previous page can be simplified to –

$$\frac{\text{actual pensionable service}}{\substack{\text{notional service to normal pension age (55)*} \\ \text{to a maximum of 30 years' service}}} \times \substack{\text{notional pension at normal} \\ \text{pension age (55)* based on} \\ \text{average pensionable pay at date} \\ \text{of leaving}}$$

*substitute age 60 for age 55 in the case of a person holding the role of Station Manager B or above

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Rule B5 (continued)

Effect of part-time service on calculation of a deferred pension

To assess entitlement to, and the amount of, a deferred pension for a regular firefighter who has had a period of part-time service, you must take account of Rule A7(4) (the reckoning of service for the purposes of awards) and to Rule B13 which directs you to look at Schedule 2 Part VIA.

Rule A7(4) says that any period of part-time service should be treated as whole-time service for the purposes of assessing pensionable service.

This principle would be applied when determining if you have the 2 years' pensionable (and certain other) service needed to qualify for a deferred pension. For example if you had served as a whole-time regular firefighter for one year and as a part-time regular firefighter for one year (say at half-time), Rule A7(4) allows you to count 2 years of pensionable service. So you would meet the service requirement for this type of award.

The same principle of counting all service as whole-time is used at the first stage of calculating your deferred pension. This includes the assessment of your "notional service" even if you were on a part-time contract at the time that you left the service. Part VIA of Schedule 2 also requires that, at the first stage of the assessment, the average pensionable pay should be the average pensionable pay you would have received had you been a whole-time employee of a fire and rescue authority. To all intents and purposes, therefore, the first stage of the pension calculation including the assessment of the "notional pension" treats you as if you had been a whole-time regular firefighter throughout your service. "Method of calculation" above tells you how this is done.

The second stage of the calculation applies a "pro rata" principle to the deferred pension as calculated at the first stage. This is set out in detail in the explanation of Rule B13 (and Schedule 2 Part VIA). Basically, the whole-time pension is multiplied by the total of your whole-time and part-time service (treated pro rata) divided by the whole-time equivalent. This gives an equitable portion of the whole-time pension.

Adjustments to deferred pension

The pension derived from the basic formula taking account of any adjustment under Schedule 2 Part VIA may be subject to the following adjustments –

- a reduction for commutation (see the explanation of Rule B7)
- a reduction for allocation (see the explanation of Rule B9)
- a reduction for an election to uprate widow's and children's benefits – generally firefighters with service before 1 April 1972 and so not likely to affect anyone currently serving (see pages B Gen 1)
- a reduction for National Insurance modification – generally firefighters with service before 1 April 1980 (see pages B Gen 2)
- an addition for Pensions Increase (see Annexe 10)
- a reduction in respect of a pension sharing order on divorce, dissolution of civil partnership, or annulment (see Rule B12 and Annexe 14).

Rule B5 (continued)

Tax

Benefits payable under a pension scheme have to be tested against the "Standard Lifetime Allowance" ("SLA") under tax rules introduced by HM Revenue and Customs ("HMRC") on 6 April 2006. It is the total value of your pension savings, not just those accrued as a member of the FPS, that must be tested against the SLA. The SLA for the tax year 2006/07 is £1,500,000. Your pensions administrator can advise you of the SLA level in the tax year in which your benefits become payable.

If you were to retire during 2006/07, therefore, your pensions administrator would ask you to declare any other pension benefits in payment and would compare these, plus the benefits due under the FPS, with the SLA of £1,500,000. If the value of benefits exceeds this amount you would still be eligible to receive the excess but it would be taxed. The tax is called a "lifetime allowance tax charge". There are two different rates of lifetime allowance tax charge. The charge on the excess value taken as a lump sum is 55% and 25% is the charge on any excess value taken as a pension (in addition to any standard Pay As You Earn tax deductions made from instalments of pension). The lifetime allowance tax charge is paid to HMRC by the pension scheme administrator and recovered from the scheme member by a reduction applied to the benefits (as allowed by Rule B11).

To value your FPS benefits the annual pension is multiplied by 20 and then the lump sum by commutation is added. For example, if you are entitled to a pension of £20,000 and choose not to commute,

   £20,000 x 20 = £400,000.00

If you commute a quarter to provide a pension of, say £15,000 and lump sum of £75,000, your FPS benefits would be valued as –

   (£15,000 x 20) + £75,000 = £375,000.00

As you can see this is considerably less than the SLA and so, unless you had a considerable amount of benefits in pension arrangements other than the FPS your benefits would not be subject to the lifetime allowance tax charge.

If you were a higher earner who claimed Primary Protection or Enhanced Protection when the new tax rules were introduced you should give to your pensions administrator at the time benefits become due a copy of any certification supplied by HMRC which confirms the protection.

Payment

Rule B5(4) defines the date and terms of payment of a deferred pension.

It would normally come into payment on your 60th birthday. However, if before that date you become permanently disabled for engaging in firefighting or performing any of the duties appropriate to your former role as a firefighter, the deferred pension will come into payment earlier.

Rule B5 (continued)

Payment (continued)	The date of payment will depend upon whether the date on which you became permanently disabled can be identified. If it cannot, the payment date will be the date on which your disability was first made known to the fire and rescue authority – (see "Date of disablement" in the explanation of Rule A10). A model medical certificate for this purpose is given at Annexe 7.
	Payment will be made in accordance with Rules L3 and L5.
Example	Examples of the calculation of a deferred pension are given on pages B5-Example 1.
Useful reference source	• FSC 39/1978: effect of contracting out
	• FSC 3/1988: effect of Social Security Act 1986 – qualification period for deferred pension reduced from 5 to 2 years
	• FSC 11/1990: deferred pensions for optants out – various provisions
	• FSC 30/2004: introduction of pension provisions for part-time regular firefighters: counting of service during maternity and adoption leave
	• FPSC 4/2005: early payment of deferred pension, and protection of compulsory retirement age for firefighter in the role of Station Manager B or above, for the purposes of assessing a deferred pension

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Points To Note

1. The pension is called a "deferred pension" because payment is deferred, usually until age 60.

2. The provisions which entitle you to a deferred pension stem from Social Security legislation which was intended to make sure that people who leave a pension scheme before becoming entitled to full retirement benefits get benefits of proportionate value in due course.

3. If you start another job which has a pension scheme, before your deferred pension comes into payment, you may be able to give up your deferred pension entitlement and transfer your pension rights held in the FPS to the new scheme. But you will need to consider very carefully at the time which is the better choice (see the explanation of Rule F9).

4. If you rejoin the FPS before your deferred pension comes into payment, you may either –

   • give up your entitlement to a deferred pension and count the pensionable service upon which it was based towards a single pension in respect of all your past and new service, or

   • keep your entitlement to the deferred pension for your earlier period of service as it is and start to build up separate benefits in respect of your new service.

   When you consider this, you need to work out the preferred option between –

   • having a pension based on your final average pensionable pay for all your service, and

   • having a deferred pension the value of which has kept pace with rises in the Retail Prices Index since you left the FPS on the first occasion plus a pension based on your final average pensionable pay for your later service.

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Rule B5 (continued)

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Points To Note continued

5. If you commute part of your deferred pension, the amount of pension remaining in payment will be increased in line with Pensions Increase as accrued (normally) from the date you left the FPS. Your lump sum will also be increased up to the date it becomes payable. (See Annexe 10 for more details about Pensions Increase.)

6. You may be entitled to a deferred pension –

   • if you have 25 years' service, but you are not eligible for an ordinary pension because you are a Chief Fire Officer and left below age 55 without the consent of your fire and rescue authority;

   • if you retired from the fire and rescue service with an ill-health pension which was stopped under Rule K1A(3) when you recovered your health.

7. If an "earmarking" order has been issued by a court on divorce, dissolution of a civil partnership, annulment, or judicial separation (see Annexe 14) the pension or lump sum by commutation (see Rule B7) may need to be reduced in accordance with the order.

8. Pension provisions for part-time regular firefighters were introduced on 13 September 2004.

9. The reference to a transfer of pension rights from a personal pension scheme giving entitlement to a deferred pension was added to the FPS with effect from 6 April 2006. It mirrors the requirements of Section 71(1)(b) of the Pension Schemes Act 1993.

Example of assessment of deferred pension

Example A

A firefighter chooses to leave the fire and rescue service at age 34. At the date she leaves she has 14 years 200 days of service and her average pensionable pay is £26,000. Had she remained in service until normal pension age (55) she would have completed 35 years' service.

Formula: $\dfrac{\text{actual pensionable service}}{\substack{\text{notional service to normal pension age (55)}\\ \text{to a maximum of 30 years' service}}}$ x $\substack{\text{notional pension at normal pension age}\\ \text{(55) based on average pensionable pay at}\\ \text{date of leaving}}$

Firefighter's deferred pension will be:

$$\frac{14\ 200/365}{30} \times \frac{40}{60} \times £26,000.00 = \frac{14.5479}{30} \times \frac{40}{60} \times 26,000.00$$

= £8,405.45 a year

Example B

A firefighter chooses to leave the fire and rescue service at age 43. At the date he leaves he has 14 years 200 days of service and his average pensionable pay is £30,240. Had he remained in service to normal pension age (55) he would have completed 26 years 199 days of service.

Formula: $\dfrac{\text{actual pensionable service}}{\substack{\text{notional service to normal pension age (55)}\\ \text{to a maximum of 30 years' service}}}$ x $\substack{\text{notional pension at normal pension age}\\ \text{(55) based on average pensionable pay at}\\ \text{date of leaving}}$

Firefighter's deferred pension will be:

$$\frac{14\ 200/365}{26\ 199/365} \times \left[\frac{20 + 2 \times 6\ 199/365}{60}\right] \times £30,240.00 = \frac{14.5479}{26.5452} \times \frac{33.0904}{60} \times £30,240.00$$

= £9,140.01 a year

Note: Pensions as calculated above may be subject to reductions for –

- Commutation – see Rule B7
- Allocation – see Rule B9
- Widow's pension uprating (where service before 1.4.1972) – see pages B Gen 1
- National Insurance modification (where service before 1.4.1980) – see pages B Gen 2
- Pension sharing orders on divorce/dissolution of civil partnership: see Rule B12 and Annexe 14

More examples follow . . .

Example of assessment of deferred pension (continued)

Example C

A firefighter chooses to leave the fire and service at age 26. At the date she leaves she has 1 year 200 days of service. She transferred previous pension rights into the FPS when she joined the service. The transferred service counted as 2 years in the previous pension scheme but counts as only one year in the FPS. She would have been able to complete 30 years' service had she remained in service until normal pension age. Her average pensionable pay at date of leaving is £16,500.

She has insufficient service in the FPS for a deferred pension (a minimum of 2 years is needed) but, when testing eligibility for the pension, she is allowed to take into account the difference between the length of service in her previous pension scheme and the one year's service credit she was allowed to count on transfer. In total this is 2 years 200 days. This allows her to qualify for a deferred pension. However, in the calculation, she can count only the service which counts as pensionable in the FPS (1 year 200 days).

Formula: $\dfrac{\text{actual pensionable service}}{\substack{\text{notional service to normal pension age (55)}\\ \text{to a maximum of 30 years' service}}}$ x   notional pension at normal pension age (55) based on average pensionable pay at date of leaving

Firefighter's deferred pension will be:

$$\frac{1\ 200/365}{30} \times \frac{40}{60} \times £16,500.00 \;=\; \frac{1.5479}{30} \times \frac{40}{60} \times £16,500.00$$

$$= £567.56 \text{ a year}$$

Note: Pensions as calculated above may be subject to reductions for –

- Commutation – see Rule B7
- Allocation – see Rule B9
- Widow's pension uprating (where service before 1.4.1972) – see pages B Gen 1
- National Insurance modification (where service before 1.4.1980) – see pages B Gen 2
- Pension sharing orders on divorce/dissolution of civil partnership: see Rule B12 and Annexe 14

More examples follow . . .

Example of assessment of deferred pension (continued)

Example D

A firefighter retired on grounds of ill-health before 1 April 2006 at age 44 having completed 20 years 335 days of service. He would have been able to complete 30 years of service by normal pension age. His average pensionable pay was £15,000. He subsequently recovers his health sufficiently to be able to undertake the duties of his former role but declines the offer of re-employment with his fire and rescue authority.

His ill-health pension is terminated and he is awarded a deferred pension

His ill-health pension was calculated as:

$$\frac{7}{60} + \frac{20}{60} + \frac{2 \times 335/365}{60} \times £15,000.00 = \frac{28.8356}{60} \times £15,000.00$$

$$= £7,208.90 \text{ a year}$$

In this example it is assumed that the firefighter did not commute a portion of his ill-health pension to provide a lump sum. The effect, if he had, is illustrated in Example H on pages B7-Example 2. On termination of the ill-health pension the deferred pension is calculated as follows.

Formula: $\dfrac{\text{actual pensionable service}}{\substack{\text{notional service to normal pension age (55)} \\ \text{to a maximum of 30 years' service}}}$ x notional pension at normal pension age (55) based on average pensionable pay at date of leaving

Firefighter's deferred pension will be:

$$= £6,972.60 \text{ a year}$$

If he retired after 1 April 2006 with entitlement to a lower tier ill-health award, the lower tier ill-health pension would be calculated on similar principles to those used to assess the deferred pension shown above. This would, in effect, be suspended and put back into payment at age 60 (or earlier on ill-health grounds subject to the conditions for payment on ill-health grounds being satisfied).

If he was entitled to a higher tier award, the lower tier pension would, again, be calculated on deferred pension principles similar to those shown above. The higher tier ill-health pension would be the difference between the lower tier and an enhanced pension shown in the above example. Both pensions would be terminated and the lower tier pension (assessed on deferred pension principles) would be reinstated at age 60 (or earlier, on health grounds).

Note: Pensions as calculated above may be subject to reductions for –

- Commutation – see Rule B7 (see Example H on pages B7-Example 2 in respect of above)
- Allocation – see Rule B9
- Widow's pension uprating (where service before 1.4.1972) – see pages B Gen 1
- National Insurance modification (where service before 1.4.1980) – see pages B Gen 2
- Pension sharing orders on divorce/dissolution of civil partnership: see Rule B12 and Annexe 14

More examples follow . . .

Example of assessment of deferred pension (continued)

Example E

A firefighter (Station Manager B) leaves the fire and rescue service at age 54. At the date he leaves he has 18 years' pensionable service. His average pensionable pay is £32,000. If he were in a role lower than Station Manager B, the deferred pension would use the normal pension age of 55 in the formula

Formula: $\dfrac{\text{actual pensionable service}}{\text{notional service to normal pension age (55)}}$ x notional pension at normal pension age (55) based on average pensionable pay at

to a maximum of 30 years' service date of leaving

This would give a deferred pension of:

$\dfrac{18}{19}$ x $\dfrac{19}{60}$ x £32,000.00 = £9,600.00 a year

However, because he holds the role of Station Manager B, age 60 is used instead of the normal pension age of 55. This gives a deferred pension of:

$\dfrac{18}{24}$ x $\dfrac{28}{60}$ x £32,000.00 = £11,200.00 a year

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Example F

Assume the firefighter in Example A has served 7 years 200 days as a whole-time regular firefighter and 7 years as a part-time (half-time) regular firefighter. Rule A7(4) allows the total 14 years 200 days to count in full at the first stage of the assessment. Schedule 2 Part VIA allows the use of whole-time equivalent average pensionable pay. Therefore, the first stage of the assessment would produce the same deferred pension as in Example A, i.e. £8,405.45 a year.

Assessment following formula given in Schedule 2 Part VIA

Formula: $\dfrac{A \times (B + C)}{D}$

where A = £8,405.45
B = 7.5479
C = 1/2 x 7 = 3.5
D = 14.5479

Firefighter's deferred pension will be:

$\dfrac{£8,405.45 \times (7.5479 + 3.5)}{14.5479}$

= £6,383.23 a year

Note: Pensions as calculated above may be subject to reductions for –

- Commutation – see Rule B7
- Allocation – see Rule B9
- Widow's pension uprating (where service before 1.4.1972) – see pages B Gen 1
- National Insurance modification (where service before 1.4.1980) – see pages B Gen 2
- Pension sharing orders on divorce/dissolution of civil partnership: see Rule B12 and Annexe 14