



Firefighters' Pension Scheme Circular

Circular Number:	FPSC 6/2011	Date Issued:	19 th April 2011
Action:	For information and action		
Title:	<i>Firefighters' Pension Scheme 1992 – Revised Commutation Factors</i>		
Issued by:	Andrew Cornelius Firefighters' Pensions Team. Workforce, Pay and Pensions Division		

Summary:	This circular advises FRAs on the 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. These revised factors should be applied to members who retire on or after 19 th April 2011.
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1. Background

- 1.1 This circular advises FRAs about the 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). The revised commutation factors have been attached at Annex A.
- 1.2 The new factors must be applied to any member who retires on or after 19th April 2011.

2. Potential Tax Implications

- 2.1 FRAs should be aware that as some of revised commutation factors are higher than 20:1 there may be tax implications for some members where the value of their commuted lump sum exceeds the maximum permitted by HMRC (i.e. which is currently set at 25% of the total value of benefits vested).
- 2.2 Where the commuted lump sum exceeds the HMRC 25% limit then the amount of lump sum in excess of the limit may be an unauthorised payment and subject to a tax charge.

For example: using a revised commutation rate of 22 to illustrate the point

Annual (pre-commutation) pension = £10,000. Member elects to commute 25% (£2,500 a year) to generate a lump sum of £2,500 x 22 = **£55,000**. Annual (post commutation) pension = £7,500.

HMRC assess the total value of the benefits as 20 times the pension actually received plus the lump sum actually received i.e. (20 x £7,500) + £55,000 = £150,000 + £55,000 = £205,000

Maximum tax-free lump sum permitted by HMRC is 25% of the total value of benefits vested i.e. 25% x £205,000 = **£51,250**.

For this particular member the commuted lump sum of £55,000 will have exceeded the HMRC limit by £3,750.

- 2.3 In addition to the tax charge incurred by the scheme member the pension scheme may also be liable to pay a Scheme Sanction Charge. More information on the Scheme Sanction Charge can be accessed on the HMRC website via: <http://www.hmrc.gov.uk/manuals>
- 2.4 The increase in factors mean that at certain levels the HMRC limits on Pension Commencement Lump Sums (PCLS) may be exceeded. This is unavoidable due to the fact that the FPS scheme rules provide that any commuted lump sum has to be the actuarial equivalent of the pension being given up. However when considering whether to commute or not members should be made aware where full commutation is likely to incur a tax charge. This will allow them to consider reducing

the amount of pension they wish to commute to ensure they stay within the PCLS limits. Ultimately it is down to the individual member to decide on how much pension, if any, they wish to commute.

3. Software

- 3.1 We will be in touch with Heywoods who are the main fire pension software provider about the new format for the factors. We understand that the necessary software changes will be made to accommodate the new factors. If you use another provider you will need to inform them of the change.

Andrew Cornelius