



Glyn Morgan  
FOA  
By e-mail

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Dear Glyn

In reply to your e-mail dated 16 December 2005 with attachments dated 11<sup>th</sup> and 14<sup>th</sup> December 2005 with comments on pension protection and on FPC paper (05)18. I will deal with each of the points you have raised in turn.

### **Protection of Pension Benefits**

As you point out, we previously brought forward proposals for protection of pensionable pay following comments and concerns raised by the committee over amendments to the FPS that enabled Fire and Rescue Authorities to offer re-deployment and/or stepping down to firefighters as alternatives to ill-health retirement. Paper FPC(04)02 identified three options for protection including our preferred option of a certificate of protection. Following consultation with the committee on the proposals and in the face of resistance to any proposals for protection by the FBU, it was decided that no further action should be taken for the time being. Given that the FPS provides for any pension to be based on the best of the last three years of service, we took the view that we could come back to the matter once the impact of the September 2004 amendment was clearer.

However, following continued representations, particularly from the FOA, and the acceptance by the FPC that the new pension scheme should include protection in the form of split pensions, we take the view the FPC accepts that protection should be written in to the existing pension scheme. The option of split pensions would not be suited to the current scheme due to double accruals. We shall be bringing forward a draft amendment for consideration in due course.

On the question of extending any protection to cover periods of long-term temporary promotion, we would regard this as, primarily, a conditions of employment issue. Occupations which, by nature, feature periods of employment at fluctuating levels of pay generally are best suited to an average salary pension scheme where the final pension is based on career average pay rather than on final salary. The current FPS is a final salary scheme and the proposals for the NFPS are based on the premise that a "final salary scheme remains the most suitable for the Fire and Rescue Service. To build in protection for purposes other than those currently being considered could call this in to question. It could also perpetuate what would appear to be bad practice by some Authorities. It should also be borne in mind that, as well as providing a pension at the end of a normal working life, the scheme gives protection where a career is cut short by ill-health or death and would take account of pensionable pay at that point.

## **Compensation for death and serious injury**

As reported to the FPC, we have prepared a draft consultation document on some changes to the current compensation arrangements. We are also preparing instructions to our lawyers to draft amendments to remove the current compensation provisions from the FPS into a separate Compensation Scheme in order to comply with the new tax regime effective from April this year. We have already given assurances that existing provisions will be preserved and we are not aware of any other provisions in the new tax rules that will impact on compensatory benefits.

## **Lifetime allowance**

You ask whether the 20:1 valuation factor will remain constant. Our understanding is that it will. The factor has been set by HM Revenue and Customs as part of the simplification of tax rules for pension schemes from April. The Lifetime Allowance (LTA) is the level above which an individual becomes liable for a recovery charge on pension benefits. The LTA has been set at £1.5m for 2006/2007, rising to £1.8m in 2010/2011. The valuation is made by applying the factor of 20:1 to the value of a person's pension at 6 April 2006. Pensions above £75k in year 2006/2007 would therefore be subject to the recovery charge ( $£1.5m \div 20 = £75k$ ).

## **Maximum pension entitlement**

We are currently considering whether there should be an increase in the maximum pensionable service allowable to members of the existing FPS. An option to allow accrual of up to 35 years' service with an accrual rate of a 1/45th for each additional year above 30 years was included in the proposals for the amendments to the FPS. The proposal would, however, result in increased costs to the scheme and we would need to ensure that it would be affordable within the overall cost envelope for the FPS and the NFPS. The proposals for amendment of the existing scheme give protection to those members who, before April 2013 are able to retire with a full pension after 30 years' service or who have reached age 50 with 25 or more years' service. It could be argued, therefore, that there is no need to amend the scheme further until 2013.

Yours sincerely

Martin

**Martin Hill**