

Firefighters' Pension Scheme 1992

Underpins on Cash Equivalent Transfer Values

The calculation of a statutory CETV (ie non-Club transfer value) is generally the same as the calculation of a Club transfer value. However, if the member has received a transfer in from another scheme, then an underpin should be applied to the statutory CETV. The same underpin also applies to the calculation of cash equivalents for divorce purposes for non-pensioner members.

From now onwards the underpin applied in the Firefighters' Pension Scheme 1992 should be calculated using the following formula:

$$\text{Underpin} = \text{TV}_{\text{ActSer}} + \text{TV}_{\text{in}}$$

$\text{TV}_{\text{ActSer}}$ the transfer value based on actual service
 TV_{in} the value of transferred in service

The transfer value based on actual service, $\text{TV}_{\text{ActSer}}$, is the CETV amount that would now be payable if the officer had not brought the transfer in.

The value of transferred in service, TV_{in} , is the amount of the previous transfer value received by the fire authority, if the transfer in was a statutory CETV or a Club transfer. However, if the transfer in was part of a bulk transfer into the FPS, TV_{in} is the CETV that would otherwise have been available from the member's previous scheme at the date of transfer

If more than one transfer in has been received, TV_{in} should be the sum of the specified figures for all the transfers received. There is no need to perform the underpin check in respect of transfers in from the corresponding FPS schemes in other parts of the UK.

If the underpin calculated above is greater than the normal transfer value calculation, then the transfer value should be increased so that it equals the underpin.

An example of the application of the underpin is attached.

Example of underpin calculation

The following information is needed for this calculation:

Member age	40
Marital status	married
Gender	male
Final Pensionable Pay	£36,000
Reckonable service	10 years
of which: actual service in FPS	5 years
service credit from previous CETV in	5 years
Previous CETV in received by Fire Authority	£50,000
Yield for determining AMC	<2%

The normal formula to calculate the CETV is:

$$[\text{deferred pension} \times F_p + \text{spouse pension} \times F_{\text{sur}}] \times \text{AMC}$$

where: deferred pension = $10/25 \times (20 + 2 \times 5)/60 \times 36,000 = £7,200$ pa
 spouse pension = $0.5 \times 7,200 = £3,600$ pa
 $F_p = 5.52$, $F_{\text{sur}} = 2.44$, $\text{AMC} = 1.43$

Substituting these values into the formula we get:

$$\text{TV} = [(7,200 \times 5.52) + (3,600 \times 2.44)] \times 1.43 = 69,395$$

For the underpin calculation, first a transfer value needs to be calculated for the current period of service in PPS. The calculation inputs are:

deferred pension = $5/20 \times (20)/60 \times 36,000 = £3,000$ pa
 spouse pension = $0.5 \times 3,000 = £1,500$ pa
 F_p , F_{sur} and AMC are unchanged.

Substituting these values into the transfer value formula, we get:

$$\text{TV}_{\text{ActSer}} = [(3,000 \times 5.52) + (1,500 \times 2.44)] \times 1.43 = 28,915$$

The underpin formula and value is:

$$\begin{aligned} \text{Underpin} &= \text{TV}_{\text{ActSer}} + \text{TV}_{\text{in}} \\ &= 28,915 + 50,000 = 78,915 \end{aligned}$$

The underpin value is higher than the normal statutory CETV calculation of £69,395. Therefore the CETV in this example is **£78,915**.

Firefighters' Pension Scheme 1992

Note on the dates to be used in the calculation of the pension credit on pension sharing on divorce

Introduction

This note clarifies the use of the transfer day and the valuation day in the calculation of pension credit and the application of pensions increases in pension sharing on divorce. It should be read in conjunction with Annexe 14d ("Guidance supplied by the Government Actuary's Department") of the Commentary on the Firefighters' Pension Scheme 1992.

Legislation

Pension sharing on divorce was introduced by the Welfare Reform and Pensions Act 1999 (the 1999 Act) and consequential regulations. The 1999 Act defines two dates:

- Transfer day: the day the pension sharing order takes effect. This may also be known as the effective date.
- Valuation day: a day chosen by the scheme within the 4 month implementation period. This may also be known as the implementation date. The implementation period starts on the transfer day or, if later, on the day the pension scheme has the prescribed information needed to implement the pension sharing order.

The 1999 Act says that schemes should recalculate the cash equivalent of the benefits subject to the pension sharing order at the valuation day in order to discharge their liabilities. This ensures that, where the liability to the ex-spouse is to be discharged by way of a transfer to another scheme, no interest is lost between transfer day and valuation day. However, for unfunded public sector schemes, the 1999 Act says that the liability to the ex-spouse can be met by providing the ex-spouse with pension credit benefits of the appropriate value within the public sector scheme. These pension credit benefits are conferred as at the transfer day, and pension debits also apply from the transfer day.

The arrangements for the public sector to discharge the liability to the ex spouse within the scheme mean that a recalculation of the cash equivalent at the valuation day adds unnecessary complexity. Effectively the recalculation of the cash equivalent adds interest between the transfer day and the valuation day, which must then be removed in order to confer the pension credit rights at the transfer date.

Calculation method

For future cases, to avoid administrative complexity, the calculation date following the issue of a pension sharing order by the Court should be taken to be the transfer day rather than the valuation day. The calculation includes all benefits payable after the transfer day, and the pension credit rights start at the transfer day. Any back-payments due would be authorised payments under the Finance Act 2004.

Applying pensions increases to pension credit benefits

Section 8(2A) of the Pension Increases Act 1971, as amended by the 1999 Act, says that pension increases should be applied to pension credit benefits from the transfer date. This is consistent with conferring the pension credit rights at the transfer date.