

Guidance for proportioning Voluntary Scheme Pays (VSP) in the Firefighters' Pension Schemes.

Foreword

1. This edited version of the guidance for proportioning VSP in the Firefighters Pension Scheme, has been edited to clarify that it is not the responsibility of the FRA or the administrator on behalf of the FRA to calculate the tax charge due.
2. The member should inform the FRA of the amount of tax charge that they wish the FRA to settle.
3. Whilst the main principle of proportionment across the Final Salary and CARE pension savings remains the same, the formula has been adjusted to show how this would apply where the amount of tax charge has been notified by the member on the [VSP election form](#)
4. The edited version also corrects errors on rounding in the example provided.

Background

5. Where VSP is accepted, it is a legal requirement that any “consequential adjustment to be made to the entitlement of the member to benefits under the scheme [is to be made] on a basis that is just and reasonable having regard to normal actuarial practice.”
6. Mandatory Scheme Pays (MSP) deductions are made in accordance with actuarial guidance issued by the Secretary of State. This should also be applied to VSP.
7. GAD guidance on scheme pays factors for the 1992 scheme, 2006 scheme and 2015 scheme can be found on the [khub](#).

How should the scheme pays debit be calculated where a member has both Final Salary and CARE scheme pensions

8. The deduction to pension should be proportioned across the value of the Final Salary and Career Average ‘pension savings.’

Pension Savings

9. For defined benefit schemes like the Firefighter Pension Schemes, the pension savings is the measurement of the increase in pension during the pension input period (PIP) multiplied by a flat factor of 16

Example

Annual pension at 6th April 2016 = £35,000

Annual Pension at 5th April 2017 = £38,000

Pension Savings = £38,000 - £35,000 = £3,000 * 16 = £48,000

Formula

10. The formula to use for calculating the scheme pays debit in each scheme is

Final Salary Scheme Pays Deduction

$$(A \div C) \times D \div E$$

Career Average Scheme Pays Deduction

$$(B \div C) \times D \div F$$

Where:

A = Final Salary Pension Savings

B = Career Average Pension Savings

C = Total Pension Savings [A + B]

D = Tax Charge as declared by the member

E = Final salary scheme pays factor

F = Career Average scheme pays factor

Scenario

11. In 2016/2017, the member had total pension savings of £218,716.32 (C), across both the final salary (1992 scheme) and the CARE scheme (2015 scheme).

This was calculated from £192,529.60 (A) pension savings in the 1992 scheme plus £26,186.72 (B) in the 2015 scheme.

The member requested the scheme to satisfy the tax charge of £71,622.46 (D).

To calculate the scheme pays debit from each of the 1992 scheme and the 2015 scheme in order to satisfy the charge, the administrator needs to apportion the tax charge to each scheme and apply the relevant scheme pays factor, using the formula as set out in paragraph 6 above.

Final Salary Scheme Pays Deduction $(A \div C) \times D \div E$

Career Average Scheme Pays Deduction $(B \div C) \times D \div E$

Example Calculation

Final Salary Scheme Pays Deduction $(A \div C) \times D \div E$

$$(A \div C) \quad \text{£}192,529.60 \div \text{£}218,716.32 = 0.880271$$

$$(A \div C) \times D \quad 0.880271 * \text{£}71,622.46 = \text{£}63,047.17$$

$$(A \div C) \times D \div E \quad \text{£}63,047.17 \div 12.58 = \text{£}5011.70$$

$$(\text{£}192,529.60 \div \text{£}218,716.32) \times \text{£}71,622.46 \div 12.58 = \text{£}5011.70$$

Career Average Scheme Pays Deduction $(B \div C) \times D \div F$

$$(B \div C) \quad \text{£}26,186.72 \div \text{£}218,716.32 = 0.119729$$

$$(B \div C) \times D \quad 0.119729 * \text{£}71,622.46 = \text{£}8575.30$$

$$(B \div C) \times D \div F \quad \text{£}8575.30 \div 8.42 = \text{£}1018.44$$

$$(\text{£}26,186.72 \div \text{£}218,716.32) \times \text{£}71,622.46 \div 8.42 = \text{£}1018.44$$

Where:

$$A = \text{£}192,529.60$$

$$B = \text{£}26,186.72$$

$$C = \text{£}218,716.32$$

$$D = \text{£}71,622.46$$

$$E = 12.58$$

$$F = 8.42$$

Final Note

12. This note was prepared on 23 January 2018 for Fire Authorities consideration by the Local Government Association. The operation of Voluntary Scheme Pays is a policy decision by each Fire Authority.

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