

## **Split Pensions Case Study**

### **Cheshire Fire & Rescue Service**

Split pensions were introduced in 2007 following a change in the regulations. The regulations allow retiring members to treat what is essentially the same pension in different ways. They allow retiring members who had a period of pensionable acting-up to have their pension entitlement calculated at the point the acting up ceased, as well as having the remainder of their pension calculated to the point of retirement. This is beneficial because it ensures that benefits can be assessed on the highest level of pay in a firefighting career.

In early 2019 at a North West fire pensions group meeting discussions took place regarding the calculation of split pensions. Shortly afterwards a query was raised by the Fire Brigades Union on behalf of some of their members regarding their entitlement to a split pension.

At that time it became evident that there was limited awareness and understanding of split pensions in respect of eligibility and after checking records there was a concern that some retired members may not have been made aware of their eligibility or had not taken advantage of the split pension option at the point of retirement. The FBU held the same concern and it was agreed that the Service would work closely with the FBU to identify and resolve any cases where the correct pension had not been paid.

Three initial cases were identified and following notification of this, CFRS commissioned the third party pension provider to carry out a detailed exercise to review the calculations and pension entitlements for all retirees since April 2007 when the regulations were amended. Although this was a very complex and detailed exercise and took approximately six months to complete, it provided the necessary information to identify any cases and enabled the Service to ensure that all members entitled to a split pension were in receipt of the correct pension entitlement.

At the same time to identify how cases may have been overlooked, CFRS reviewed its own internal processes and associated documentation. This was to ensure that going forward all information relevant to split pension eligibility was explicit and obvious to XPS and the appropriate checks and balances were in place to prevent any future instances in relation to split pensions.

During the period of review the Pension Scheme Manager kept the FBU apprised of progress and in turn the FBU ensured that their members were aware that the review had been commissioned and in progress. During the period of the review the initial three cases that had been identified were resolved.

Upon conclusion of the detailed exercise a further three individuals who could have taken advantage of the split pension out of a total 352 retirees were identified. Of the

three, two individuals were in scope to incur tax charges as a result of the time that had elapsed since their retirement.

Having identified these cases, the Pension Scheme Manager briefed the FBU and the three retirees in scope were contacted immediately. Within weeks their pensions were reinstated and they were paid arrears of pension, arrears of lump sum and the Service picked up the unauthorised tax charges. All three individuals who had not been aware of their split pension eligibility stated their appreciation and acknowledged the way in which the Service and the FBU had worked so effectively together to identify, review, and resolve the issue.

With a total of six retirees not being offered a split pension at the point of retirement, consideration was given as to whether this constituted a breach of the pension regulations. Both the FBU and the Service were in agreement that it did constitute a breach but in order to evaluate the extent of the breach the Scheme Manager undertook a breach assessment using the Pension Regulator's Breach Assessment Traffic Light Framework.

After presenting this for discussion with the FBU and the local Pension Board, the recommendation put forward by the Service was that it did not constitute a "material" breach. This was based on the small number of people affected, the prompt action taken to resolve the issues, and the changes made to prevent a future occurrence. It was also considered that this was a discreet issue pertaining only to notification of split pension eligibility, and therefore there was no evidence to suggest that the Scheme was in breach of any other legal requirements.

Having reviewed internal processes the Service then commissioned an internal audit through MIAA to review the in-house pensions administration and governance. A specific request was made within the terms of reference of this audit to review the way in which split pensions were administered and recorded. The outcome of the audit provided substantial reassurance and some further recommendations were put in place to ensure that all future retirees in scope for a split pension were easily identified. To date there have been no further cases which has provided the necessary reassurance to the FBU, the Pension Board and in-house pensions team.

Although for the reasons stated above the decision was taken not to report the breach to the Pensions Ombudsman, the development of this case study was suggested by the FBU as it would raise awareness of split pensions to other Services. It was also a means of showcasing an example of good partnership working between the Service and the FBU to resolve an issue that needed addressing quickly, compassionately, and accurately.

By heightening awareness of the need to ensure records are complete to enable proper scrutiny of split pension eligibility, the Service in partnership with the FBU has been able to re-establish reassurance with members in respect of this issue.