Pensions Update

**Purpose**

For discussion and direction

**Summary**

On 24 May 2012, DCLG published a Proposed Final Agreement on the scheme design for the Firefighters’ Pension Scheme in England to be introduced from April 2015. The employer contribution of the firefighters' pension scheme 2015 will be determined by the valuation of the scheme, which is ongoing. This report sets out the issues in relation to the valuation.

On 18 December 2013, the Department for Communities and Local Government (DCLG) published a consultation document titled ‘Consultation on the regulations to introduce a new Firefighters Pension Scheme from April 2015’. The consultation is for a 12 week period and ends on 12 March 2014. This report contains a draft response to the regulation consultation.

The introduction of the 2015 pension scheme will be accompanied by the requirement for new local and national governance arrangements.

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| **Recommendation**  Members are asked to note and comment on the issues raised in this paper and in particular to consider the recommendation not to respond to the consultation on firefighters’ pension regulations 2015 at this time  **Action**  Officers will take actions as directed. |

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**Pensions Update**

**Background**

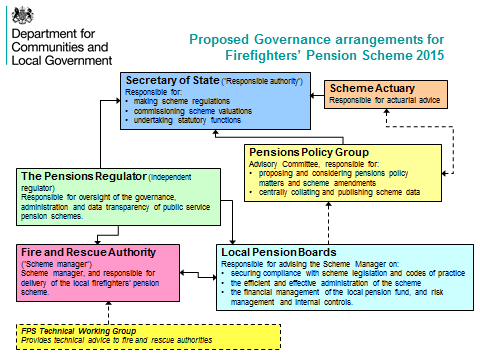
1. On 24 May 2012, DCLG published a Proposed Final Agreement on the scheme design for the Firefighters’ Pension Scheme in England to be introduced from April 2015. The employers’ contribution rate in the new scheme will be determined by the 2012 Scheme Valuation which is ongoing and is expected to report later this year.
2. The introduction of the 2015 pension scheme will be accompanied by the requirement for new local and national governance arrangements.
3. The consultation on the regulations to introduce a new Firefighters’ Pension Scheme from April 2015 ends on the 12 March 2014.

**Firefighters’ Pension Scheme Valuation and employers contributions**

1. Proposed Final Agreement on the scheme design for the Firefighters’ Pension Scheme in England to be introduced from April 2015 implies an employer contribution rate of 13.8 per cent. However, the actual employer contribution rate will be determined by the outcome of the 2012 valuation which is ongoing.
2. From 2015, members will accrue benefits in one of three schemes – the FPS; the NFPS; or the post-2015 scheme. Therefore employer contributions from 2015 will depend upon the cost of accrual in each of these three schemes. The majority of members will accrue benefits in the post-2015 scheme, but many older members will have some form of protection which allows them to continue accruing benefits in the scheme they were in prior to 2015. DCLG intends to set employer contribution rates for the 1992 scheme, the 2006 scheme and the 2015 scheme, and ill health charges, such that the average of those contributions over 2015-19 is expected to be equal to the employer contribution rate calculated in the 2012 valuation.
3. In its Draft Directions for the 2012 valuation of the firefighters’ pension schemes HM Treasury has decided to use to value of the scheme liabilities at the time of the last valuation in 2007 as the notional level of assets at that time in the unfunded firefighters’ pension scheme. The notional level of assets is £13.5 billion (this figure was recently revised down by £300 million due to actuarial error). The level of the assets is important as it represents the baseline that will inform the ongoing evaluation. The impact of the lower level of assets at 2007 will not be known until the 2012 valuation is complete.
4. Changes that have occurred between the 2007 and 2012 valuations, such as the move to uprating pensions based on CPI rather than RPI, the level of salary increases, changes in financial assumptions, the actual level of employer and employee contributions and the retrospective admittance of retained firefighters to the pension scheme, will all have an impact on whether the scheme is in notional surplus or deficit. The key question here is whether past contributions were sufficient to meet current estimates of the value of promises already made. These changes to past service costs will have an impact on employer contribution rates from 2015. We can be fairly confident about the direction of some of these factors, but not the overall impact. The change from RPI to CPI will reduce the costs, as will the lower salary increases of recent years. In contrast the change in the financial assumptions, namely the lowering of the discount rate, will have increased the cost of meeting the pension promises already made. The decision to retrospectively admit retained firefighters to the pension scheme will also have increased the costs.
5. In terms of future service costs it is important to remember that a significant proportion of the workforce, around one-third, will continue to accrue benefits under the 1992 scheme. The employer contribution cost in respect of these employees will be much higher than the 13.8 per cent anticipated for the 2015 scheme.
6. **Overall, in the medium term (over the next 5 years), fire and rescue authorities should not expect any decrease in pension contribution rates and might even see employer contribution rates rise. It will be important for fire and rescue authorities to reflect this in their medium term financial planning.**
7. The potential cost to fire and rescue authorities of the retrospective admittance of retained firefighters to the pension scheme, is relatively small when compared to the scale of some of the other changes, such as the impact of the change to the discount rate. However, the LGA and the fire sector are right to continue to press government to accept its responsibility for this cost.

**New local and national governance arrangements**

1. The government’s reforms of public sector pensions, includes requirements for more formal governance arrangements at both local and national level. Reforms to the governance and administration of public service schemes are intended to bring administration practices broadly in line with those applicable in the private sector. A considerable amount of work will be needed by fire and rescue services and pensions administrators before the scheme comes into effect on the 1 April 2015.



1. The key changes include the establishment of a pensions’ regulator and local pensions boards. The local boards will have a key role in securing the effective administration of the scheme.
2. Local pension boards must have an equal number of persons appointed to represent employees and employers on the board. There can also be other board members representing different interests e.g. a representative of the responsible authority/scheme manager as well as/or independent board members.
3. The new governance arrangements will potentially see a more active role for elected members in the oversight of the firefighters’ pension schemes. The Government has stated that it will consult on governance arrangements for pension boards and scheme advisory boards in due course. Fire and Rescue Authorities will be the scheme managers for the pension schemes and will be responsible for nominations to the Local Pension Boards. However, elected members should begin to discuss these issues at an early stage as the timescales to ensure that they are in place in time for the new scheme will be relatively short.

**Consultation on the regulations to introduce a new Firefighters Pension Scheme from April 2015**

1. On 18 December 2013, the Department for Communities and Local Government (DCLG) published a consultation document titled ‘Consultation on the regulations to introduce a new Firefighters Pension Scheme from April 2015’. The consultation ends on 12 March 2014. The overall pension scheme design is set out in **appendix A** and a comparison of the 1992, 2006 and 2015 schemes is set out in **appendix B,**
2. The regulations are important, but it is difficult to assess their impact in isolation. The big issues for the sector are likely to relate to the forthcoming consultation on the financing and governance. Some of the finance related issues will have implications for the draft regulations.
3. Fire and rescue authorities have expressed concern that the consultation on finance and governance is not being consulted on at the same time as the consultation on the regulations that translate the pension scheme design into legislation. **It is recommended that FSMC advises DCLG that given the inter connectivity between the draft regulations, finance and governance that it will be providing an overarching response once the remaining consultations are published.**
4. There are major administrative tasks for all FRSs in gearing up to implement the 2015 scheme and the sector needs to be aware this is complex and will have significant impacts on finance and pension administrators in particular.

**Next steps**

1. Members are asked to note and comment on the issues raised in this paper and in particular to consider the recommendation not to respond to the consultation on firefighters’ pension regulations 2015 at this time.

**Appendix A**

**Overall Firefighters’ Pension Scheme design**

The main elements of the scheme design were set out in the Proposed Final Agreement and these are the main parameters for forming the basis of the statutory consultation on member benefits as set out below:

•A pension scheme based on career average revalued earnings

•An accrual rate of 1/58.7th of pensionable earnings each year

•There will be no cap on how much pension can be accrued

•A revaluation rate of active members’ benefits in line with average weekly earnings

•Pensions in payment and deferred benefits to increase in line with the Prices Index (currently the Consumer Prices Index)

•Flexible retirement from the scheme’s minimum pension age of 55 built around the scheme’s Normal Pension Age of 60, with members being able to take their 2015 scheme benefits as follows:

- for all active members who are aged 57 or more at retirement, 2015 scheme benefits taken before Normal Pension Age will be actuarially reduced with reference to the 2015 scheme’s Normal Pension Age, rather than the deferred pension age.

- all other members will have their 2015 scheme benefits actuarially reduced on a cost neutral basis from the scheme’s deferred pension age

•Authority initiated early retirement for members of the 2015 scheme from age 55 to be in accordance with the arrangements set out in Part 3, Rule 6 of the New Firefighters’ Pension Scheme 2006

•Late retirement factors for members retiring from active service to be actuarially neutral from the Normal Pension Age

•A deferred pension age equal to the individual’s State Pension Age

•Optional lump sum by commutation at a rate of £12 for every £1 per annum of pension foregone in accordance with HMRC limits and regulations

•Ill-health retirement benefits to be based on those contained in the New Firefighters’ Pension Scheme 2006

•All other ancillary benefits to be based on those contained in the New Firefighters’ Pension Scheme 2006

•Members rejoining after a period of deferment of less than 5 years can link new service with previous service, as if they had always been an active member

•Members transferring between public service schemes would be treated as having continuous active service

There will be transitional protection in respect of:

•All accrued rights are protected and those past benefits will be linked to final salary when members leave the Firefighters’ Pension Scheme 2015.

•All active members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age will see no change in when they can retire, nor any decrease in the amount of pension they receive at the current Normal Pension Age. This means members will remain in their existing schemes and not transfer to the Firefighters’ Pension Scheme 2015.

•There will be a further 4 years of tapered protection for scheme members. This means that members who are up to 14 years from their current Normal Pension Age, as of 1 April 2012, will have limited protection so that on average for every month of age they are beyond 10 years of their Normal Pension Age, they gain about 53 days of protection, before they transfer to the Firefighters’ Pension Scheme 2015.

**Appendix B**: Comparison between the proposed 2015 scheme and the 1992 and 2006 schemes

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| **Feature** | **FPS 1992** | **FPS 2006** | | **FPS 2015** |
| **Basis of pension** | Final Salary | Final Salary | | Career Average Revalued Earnings (CARE) |
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| **Accrual rate** | 1/60th / 2/60ths | 1/60th | | 1/58.7ths |
| **Membership cap** | 40 years |  | | none |
| Revaluation rate | Benefits based on final salary | Benefits based on final salary | | Average weekly earnings |
| Contribution rate | Tiered  (2012: 11-13%  2013: 11-15%) | Tiered  (2012: 8.5-9.7%  2013: 8.5-11.1%) | | Tiered  Average of 13.2% (Consultation document indicates average 12.6% in 2015, 12.7% in 2016, 12.8% in 2017) |
| Normal pension age | 55 | 60 | | 60 - subject to regular review |
| **Late retirement** |  |  | | Factors to make late retirement actuarially neutral *(an increase)* |
| **Deferred retirement age** | 60 | 65 | | Linked to state pension age |
| **Lump sum option** | Age related conversion factors | Trade £1 of pension for £12 lump sum | | Trade £1 of pension for £12 lump sum |
| **Ill-health provision** |  | Lower Tier: 1/60th accrued membership  Higher Tier: basic plus enhancement | | As per 2006 scheme |
| **Indexation of pension in payment** | CPI (Retail Price Index for pre-2011 increases) | | CPI (Retail Price Index for pre 2011 increases) | CPI |