Local Government Association

Fire Commission
17 February 2012

Item 3

Pensions update

Purpose of report

For discussion and direction.

Summary

This paper provides an update on current pension issues, including the Government's Heads of Agreement on the new pension scheme which will come into effect from 2015, and the issue of retained firefighters' pensions.

Recommendation

Members are asked to consider and comment on the issues set out in the paper.

Action

Officers to take forward Members' recommendations.

Contact officer: Eamon Lally
Position: Senior Adviser, LGA
Phone no: 020 7664 3132
E-mail: eamon.lally@local.gov.uk

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Background

1. Over the last five months DCLG has been negotiating with the fire unions over the terms of a new fire pension scheme that will come into effect in 2015. The LGA has been supporting these discussions.

2. These discussions have been one strand of the wider public sector pension reform which the Government instituted in July 2011 as a means of implementing the Hutton recommendations.

3. In a written ministerial statement, on 9 February 2012, the Government announced its final position (Heads of Agreement) on the main elements of 2015 scheme design, which unions have agreed to take to their Executives. (See paragraphs 5 to 7 below and **Appendix A** for the full text of the Heads of Agreement).

4. Separately DCLG has been negotiating a settlement with the Fire Brigades Union (FBU) on retained firefighters' pensions, in line with the outcome of the Employment Tribunal (case number: 6100000/21). We understand that these negotiations are at an advanced stage and that DCLG will be bringing forward a consultation shortly. There are potential cost implications for fire authorities associated with this development which are discussed in paragraphs 10 to 15 below. A letter to Bob Neill MP from Cllr Brian Coleman in relation to the retained firefighter pension issue is attached as **Appendix B**.

Pension Reform: The New Firefighters 2015 Pension Scheme

5. In his written ministerial statement the Minister for Fire, Bob Neill MP, has set out the Government's final position on main elements of the 2015 scheme design:

   5.1 A pension scheme design based on career average revalued earnings.

   5.2 A provisional accrual rate of 1/58.7th of pensionable earnings each year, subject to further agreement on the outstanding issues set out in Annex B.

5.3 There will be no cap on how much pension can be accrued.

5.4 A revaluation rate of active members' benefits in line with average weekly earnings.

5.5 Pensions in payment and deferred benefits to increase in line with prices Index (currently CPI).

5.6 Average member contributions of 13.2% from April 2015, with some protection for new entrants.

5.7 Flexible retirement from the scheme's minimum pension age of 55, built around the scheme's normal pension age of 60.

5.8 The Normal Pension Age will be subject to regular review.

5.9 Ill-health retirement benefits and all other ancillary benefits to be based on the arrangements in the 2006 scheme.

5.10 There is a comprehensive accrued rights protection guarantee including:

5.10.1 All benefits accrued under final salary arrangements will be linked to the members' final salary.

5.10.2 Full recognition of a members' expectation to double accrual for service accrued under the Firefighters' Pension Scheme 1992.

5.10.3 Members to be able to access their 1992 scheme benefits when they retire at that scheme's ordinary pension age (i.e. from age 50 with 25 or more years pensionable service).

5.10.4 Members will continue to have access to an actuarially assessed commutation factor for benefits accrued under the 1992 scheme.

5.11 There will be statutory based transitional protections so that:

5.11.1 All active scheme members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age will

see neither change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age.

5.11.2 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.

6. A feature of the new scheme is the employer cost cap. The Government has introduced the employer cost cap following recommendations from Lord Hutton. Only changes to scheme costs, such as increased longevity, will be covered by the cap. Other changes to financial costs, such as changes to the discount rate, will fall outside the cap and will be met by employers. The employer cost cap will be set following a full actuarial valuation. The cap and floor will be symmetrical and will be set as 2% above and below the employer contribution rate calculated ahead of the introduction of the new 2015 scheme.

7. The employers' contribution rate will not be known until after the actuarial valuation. The cost ceiling published at the beginning of December 2011 implies an employer contribution rate of 13.8 per cent.

8. As stated in the ministerial statement, this is the Government's final position on the main elements of the 2015 scheme design. However the Government is expecting on-going discussions on the detailed elements of the scheme design. There are a number of issues that have been identified for further specific discussion including:

   8.1 The contribution rates and structure in the new firefighters' pension scheme, and the distribution of years 2 and 3 of planned increases in the current schemes.

   8.2 A detailed timetable, terms of reference, and process for reviewing the Normal Pension Age.

9. The position achieved to date should provide a basis for continuing discussion between DCLG, the LGA and the fire unions on these remaining issues. However, the FBU Executive Council released a statement on 9 February 2012 saying that they "believe these proposals to be unacceptable". The LGA will continue to assist the parties in their discussions.

Retained Firefighters' Pensions: Key Issues

10. The negotiations between DCLG and the Fire Brigades Union, discussed in paragraph 4 above, are likely to result in all retained firefighters with service between 1 July 2000 and 5 April 2006 inclusive being eligible for special membership of the NFPS.

11. It is not possible to accurately calculate the additional scheme liability because the settlement details have not been concluded and retained firefighters will have a choice as to whether they buy back past service. However, the financial liability could be large and fire authorities with retained firefighter staff would have recognised the Tribunal judgement as leading to a potential financial risk.

12. Once the order discussed above is in force retained firefighters will be able to backdate service under the terms of an options exercise. The scheme liability could begin to emerge in 2012-13 financial year.

13. If there is an employer liability arising from the Tribunal judgement, the LGA's view is that it is imperative that this liability is managed over the long-term. Options to achieve this would include adjustments to employer contribution rates and capitalisation.

14. In discussions that took place between DCLG and LGA in 2009, which were led by Cllr Fred Walker (the then FSMC pensions lead) the favoured approach was to deal with the liability within a future valuation of the scheme. The valuation that the Government's Actuarial Department were undertaking at that time was put on hold and is now due to take place in 2014. DCLG have now reopened discussion on this issue reflecting the time that has elapsed since those early discussions and the political and economic changes that have taken place.

15. We have asked DCLG to provide further information, through the Government's Actuarial Department (GAD), on the potential costs to the scheme.