

## **Fire Pensions Update**

### **Purpose of report**

For discussion and direction.

### **Summary**

This report provides an update on fire pensions issues including retained firefighter pension liabilities; and the proposals for employee contributions from April 2013 in the light of the interim results of the opt-out study conducted in 2012/13.

### **Recommendations**

Members are asked to:

1. consider the latest iteration of the government's position on retained firefighter pensions and to discuss the potential next steps set out in **paragraph 8**; and
2. note the information on opt-outs arising from the April 2012 increase in employee contribution rates, and the proposed increases in employee contribution rates for 2013/14 set out in **paragraphs 16 to 23**.

### **Action**

Officers will take action as directed.

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## **Fire Pensions Update**

### **Retained Firefighter Pensions**

1. Members will be aware that the Employment Tribunal decision to grant retrospective access to the firefighter pension scheme creates potentially large non-employee scheme liabilities. The LGA's Fire Services Management Committee's legal advice emphatically assigns the responsibility for the potential scheme liability to the government. Cllr Maurice Heaster wrote to the then Minister Bob Neill MP setting out the fire authorities' position. This letter is at [Appendix A](#).
2. The Minister for Fire Brandon Lewis MP has now responded to Cllr Heaster's letter and this is at [Appendix B](#). The Minister's response addresses the mechanism for funding the firefighter's pension scheme up to 2006. The premise of the Minister's letter is that it is not possible to use the funding mechanism before 2006 as precedence for deciding the allocation of costs associated with the Employment Tribunal Decision. The Minister references the recent treasury publication, *Actuarial valuations of public service pension schemes* in setting out what the existing process is for dealing with scheme deficits.
3. *Actuarial valuations of public service pension schemes* says that in cases deficits arise in unfunded pension schemes (the notional pot of assets, as measured at the valuation, is insufficient to pay for the benefits that have been accrued) then this is normally done by variations in contribution rates. The spreading period over which the deficit is addressed is 15 years.
4. Details of the valuation of the firefighters' pension scheme have not been announced, but the valuation will take place in advance of the establishment of the new firefighters' pension scheme in 2015. The retained firefighters issue will be one factor that influences the valuation, but the valuation will look more broadly to establish the level of scheme deficit. The valuation will determine the employer contribution rate which will be set within the parameters of the cap in employer contributions set out in the proposals for the new scheme.
5. The Minister states that "the government would need a compelling reason why this particular scheme deficit should be handled differently to deficits that have arisen in other schemes following the introduction of notional funds. It is this last point that we are still considering"
6. The letter does not comment on the fact that fire authorities were not party to the decision to exclude retained firefighters from the pension scheme. Nor does the letter acknowledge the potential large impact that passing this government cost onto local authorities will have.
7. We have been given no indication of the timescale for a final decision from government.

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8. Our next steps include:
  - 8.1. Gathering further information on the potential impact of fire authorities having to bear the scheme liability, particularly in the context of the settlement for 2013-15 and expected further cuts in the next CSR.
  - 8.2. Continue to press the Minister and Treasury for a more sustainable solution, in the first instance by responding to the Minister's letter.
9. Further legal advice might be required, but it might be more helpful when the government finalises its position. The categorical nature of FSAC's current legal advice leaves the way open for judicial review should the government proceed with its current course.
10. The Fire Commission is asked to consider options for further action.

**Fire pensions employee contribution increases: opt-out analysis**

11. At the Spending Review 2010, the Government announced that employee contributions in public service pension schemes would increase by 3.2%, on average, from 2012. The intention was that the contribution increases would be phased in, with 40% of the increases (i.e. 1.28 percentage points) to be brought in April 2012, a further 40% of the increases (i.e. 1.28 percentage points) to be brought in April 2013, and the remaining 20% (i.e. 0.64 percentage points) to be brought in April 2014.
12. Following successful lobbying by the Fire Services Management Committee the first year increase in employee contributions was reduced to 0.64% (representing 20 per cent of the total three year increase). FSAC took this view because of concern that front-loaded increases would lead potentially to an exodus from the scheme.
13. The Government agreed to review the impact of the 2012 increases, including on opt out, before making decisions on how further contribution increases would be applied.
14. An analysis on opt-outs and non-joiners in the period since April 2012 has been undertaken. The findings indicate that the largest impact has been in opt-outs by wholetime firefighters from the 2006 scheme. These have increased to around 2.8 per cent (annualised) in 2012/13 up from 1.1 per cent in 2011/12.
15. The data shows that the increase in contribution rates is having the biggest effect on newer firefighters and those in the lower pay bands.

**2013/14 increase in contribution rates**

16. The government has now published a consultation on the 2013/14 employee contributions rate. The closing date for the consultation is 25 January 2013.
17. The headline is that the government will increase employee contribution rates in line with the spending review 2010 announcement.

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18. The consultation states that “for each of the schemes, the data suggests that the increase in contribution rates had an initial impact on members opting out of their pension scheme, but that effect has diminished in the meantime and there does not appear to be an ongoing material opt-out effect”.
19. The consultation document goes on to say that “younger 2006 Scheme members were more ambivalent about continuing in a pension scheme, with some considering whether current contributions could be invested elsewhere. When asked at what level firefighters would opt out, the majority said that real consideration to opting out would be given when contributions increased above 2% with a retirement age of over 56.”
20. With the increase in contributions over the next two years and changes to the pension scheme from 2015 which will see the normal pension age rise to 60, the conditions are being created when firefighters are more likely to opt-out or not join the scheme.
21. The increase in 2013-14 employee contribution rates across the pension scheme will be 1.28 %.
22. The government provided protection for lower paid firefighters at the time of the April 2012 increase and these still apply. They are:
  - 22.1 there should be no increase in employee contributions for those earning less than £15,000 on a full-time equivalent basis;
  - 22.2 there should be no more than a 1.5 percentage point increase in total, by 2014-15, for members earning up to £21,000; and
  - 22.3 high earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15.
23. The government states in the consultation document that it “will continue to review the effect of contribution rate increases, including on opt outs, before making any final decisions for contribution rate increases”.

**Next steps**

24. Members are asked to consider the issues raised in connection with the 2013-14 contribution and whether a collective response to the consultation is required.