

Firefighters' Pension Schemes

Purpose of report

For discussion and direction

Summary

The Government is planning to introduce changes to the Firefighters' Pension Scheme (1992) and the New firefighters' Pension Scheme (2006). In the short term it proposes to raise employee contributions by 3.2 per cent over the next three years with the first increase scheduled for April 2012.

In the longer term Government intends to introduce an entirely new Firefighters' Pension Scheme in line with the principles set out by Lord Hutton.

Both of these changes have implications for Fire Authorities.

The paper also considers elements of CLG's current consultation on proposed amendments to the Firefighters' Pension Scheme (1992) and the New Firefighters' Pension Scheme (2006).

Recommendations

Members are asked to consider:

11. Writing to Fire Authorities asking for information to inform members' views in relation to the forthcoming statutory consultation on employee contributions as detailed in Paragraph 9.
12. Issues associated with the introduction of an entirely new firefighters' pension scheme and to agree the line to be taken in discussions through the Fire Pensions Committee.

DCLG Consultation on proposed amendments to the Firefighters' Pension Scheme (1992) and the New Firefighters' Pension Scheme (2006)

Members are asked to consider:

13. The merits of the proposed change to the Firefighters' Pension Scheme (1992) to extend access to full commutation for staff who retire with less than 30 years service.

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14. Whether there is need to make representation to ensure that any implementation of this change is not mandatory and that there is local discretion on a case by case basis to decide how the power is used.

Action

Officers to progress work programme subject to Members' comments.

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Background

1. The Chief Secretary's Statement to Parliament on 19 July 2011 set out the basis upon which the government intends to proceed to implement policies on both employee contributions for the next three years and on taking forward initial scheme specific discussions for long-term pension reform.
2. The Chief Secretary announced that, following discussions between the government and the TUC, scheme specific discussions should take place on taking forward the principles set out in Lord Hutton's report.
3. The basis on which this was to be carried out was set out in a letter to Fire and Rescue Services and other stakeholders from CLG dated 28 July 2011.

Employee contributions

4. At the Spending Review, the Chancellor announced the Government's intention to phase in progressive changes to the level of employee contributions, which will deliver annual savings of £2.8bn for the unfunded schemes, or 3.2 percentage points on average, by 2014-15. The intention was that these contributions would be phased in, with 40% (£1.2 billion) of those savings being delivered in 2012-13, a further 40% (£2.3 billion) delivered in 2013-14, and the remaining elements of the £2.8bn annual savings (20%) delivered in 2014-15.
5. Schemes have begun consultations on proposals to achieve first year savings (2012-13). There has been an initial meeting of Firefighters' Pensions Committee Members with representatives from CLG, LGG, Trades Unions and CFOA on 15 August and the full Committee met on 13 September 2011. Discussions on how to deliver second and third year savings will be part of on-going scheme specific discussions. The statutory consultation on the Firefighters' pension schemes has yet to be issued but is expected shortly and will last for a period of 12 weeks.

Issues

6. Changes to the scheme are being introduced by the government and the impact is on the contributions of individual firefighters and potentially benefit levels. A number of issues are relevant to Fire Authorities:
 - 6.1 **Employer Costs:** there is no immediate impact on employer (tax funded) contributions. The Government's aim in bringing forward proposals on employee contributions is largely to reduce public expenditure.
 - 6.2 **Service impact:** a potential impact of raising employee contributions is that some firefighters take the decision to retire early particularly at officer level thus

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accelerating a loss of personnel from the Service. There are a significant number of staff employed who would be eligible to retire currently, and there may be impacts on service if retirements are accelerated.

6.3 Scheme Viability: Both schemes may be affected if staff opt out of scheme membership and new staff decline to join. The Fire Brigades Union has used the findings of its YouGov Survey to argue that as many as a quarter of firefighters would leave the schemes. There have been proposals to seek to protect the New Scheme from contribution increases, by loading contributions on the 1992 scheme. The impact of such an approach on scheme membership is unknown.

6.4 Other ways of achieving savings: these potentially include a lower commutation factor, limits to the maximum lump sum which can be commuted or changes to the accrual rate. Any such changes would need to be implemented quickly in order to have an impact on the savings within the three year timeframe. However, in practice these are all difficult areas to pursue.

6.5 Industrial relations: whilst potential changes are unpopular with all of the fire service unions, the FBU is currently organising a campaign with the potential to result in industrial action on the issue of pensions, both in terms of the proposed increase in contributions and future scheme changes (see below). A paper on industrial relations is included as a separate item on the agenda.

Role for FSMC

7. The LGG may well wish to make a formal response to the Statutory Consultation; this would in no way replace individual submissions made by individual FRSs.
8. In order to be able to make the most informed response on behalf of FRSs in England the Committee may wish to ascertain the views on likely impact of employee contribution increases on FRSs.

Recommendation:

9. The FSMC is asked to consider writing to Fire Authorities asking for information on:
 - 9.1 The proportion of personnel currently not opting into the New Fire Fighter Pension Scheme (2006) to identify existing and potential future trends
 - 9.2 The proportion of personnel opting out of either of the two schemes to identify existing and potential future trends.
 - 9.3 Views on impact on retirements brought about by employee contributions and any impact on service delivery
 - 9.4 Views on whether loading increases to incentivise staff to move from the old to the current New Firefighters Pension Scheme as a means of reducing total schemes costs are likely to be successful.

Future scheme changes

10. Scheme specific discussions are taking place through the Fire Pensions Committee which next meets on 13 September 2011.
11. The government has stated that it wants to take forward public sector pension reform based on the principles set out in Lord Hutton's report. The four principles contained in the Commission's final report published in March 2011 are:
 - 11.1 Affordable and sustainable
 - 11.2 Adequate and fair
 - 11.3 Supporting productivity
 - 11.4 Transparent and simple.
12. Hutton translated these principles into a number of recommendations and these have broadly been adopted into a Reference Scheme Design for public service pensions, which is being developed by the Treasury.
13. The Government is committed to retaining a form of defined benefit pension in the public sector
14. The Government will set a cost ceiling on new schemes. These will be established by the treasury with advice from the Government Actuary's Department 'based on consistent and transparent assumptions and valuation methodology'¹
15. In the proposed new scheme there is also an implicit cap on employer contributions. The reference scheme design states that average member contributions should be assumed to be 3.2 per cent above their current level. This means that the employers' contribution is equal to the cost ceiling of the scheme minus the current level of employee contributions increased by 3.2 per cent:

$$\text{employer contributions} = \text{scheme ceiling cost} - [\text{current employee contributions with 3.2 per increase}]$$

The Treasury is set to announce scheme ceiling costs by 1 October 2011.

¹ Letter to Brendan Barber, TUC General Secretary from Danny Alexander MP, Chief Secretary to the Treasury

16. The Treasury has also asked that scheme specific talks provide initial proposals for reformed schemes in headline terms by the end of October 2011. The timetable for the adoption and enactment of the new schemes is set out in Table 1.

Table 1 Timetable for implementation of the new pension scheme

Date	Activity
1 October 2011	Treasury announces scheme cost ceilings for Firefighters Pension Schemes
31 October 2011	Initial proposals for reformed schemes to Treasury
Dec 2011	Final new scheme proposals (to be agreed by Treasury)
2012/13 parliamentary session	Relevant legislation enacted
2015	New schemes introduced

Key issues

17. There are a number of issues associated with future scheme changes:

17.1 **Employer contributions:** The likely impact on employer contributions arising from the adoption of a new scheme

17.2 **New Scheme initial proposals:** the new scheme will have a cost ceiling and an implied employer ceiling. The Treasury is proposing that there is flexibility within these ceilings to develop a scheme. In practice the design flexibility is around establishing the level of employee contributions and corresponding level of scheme benefits.

17.3 **Industrial relations:** The unions are unhappy with a number of elements of the new reference scheme, including the proposal to raise the pensionable age for all firefighters to 60 and the development of career average schemes. The FBU in particular has begun an information campaign for its members with a view to support for industrial action should they feel it necessary.

Role for FSMC

18. Fire Authorities have an interest in ensuring that the firefighters' pension scheme is affordable and viable in the long-term. The government is keen

that the FSMC, through its membership of the Firefighters Pension Scheme contributes to and helps to guide discussions on the future of the scheme.

Recommendation

19. Members are asked to consider issues associated with the introduction of a new firefighters' pension scheme and to agree the line to be taken in discussions through the Fire Pensions Committee.

DCLG Consultation on proposed amendments to the Firefighters' Pension Scheme (1992) and the New Firefighters' Pension Scheme (2006)

20. On 3 August 2011, CLG published a consultation document setting out a range of proposed changes to the two extant firefighter pension schemes. The Consultation ends on 26 October 2011. Changes to the schemes are expected to take effect from 1 April 2012.

21. The proposed changes are not related to the separate discussions which are now taking place on a scheme by scheme basis to consider both how to raise 3.2% on employee contributions over the next three years and to implement the Hutton recommendations on public sector pension reform.

22. The consultation covers:

- Remove Rule A14 – Compulsory retirement on the grounds of efficiency
- Commutation – discretion to permit the maximum payment (1992 scheme only)
- Change references to Retail price Index to Consumer Price index (1992 and 2006 schemes)
- Definition of pensionable pay and average pensionable pay (1992 Scheme)
- Exemption from payment of pension contributions for scheme members with 30 years service before the age of 50
- Review of Medical Opinion (Medical Appeals)
- Appeals on non-medical issues
- Abatement of pensions
- Pension Tax and Other amendments

23. The majority of these issues are technical, or in the example of changing the reference to Retail Price Index from Consumer Price Index, do not have a direct impact on FRAs. Fire Authorities will receive advice from local personnel on these issues. However, the issue of commutation and the discretion to permit the maximum payment for those who retire with less than 30 years service (1992 scheme only) raises an issue about the transfer of costs from the pension scheme to individual Fire and Rescue Services is one that FSMC might want to consider.

24. The proposed change would extend access to full commutation for staff who retire with less than 30 years service. Currently staff with between 25 and 30 years service can only commute 12.5% of their pension into a lump sum. The proposed changes would increase this to 25%. CLG are proposing that the FRSs be given the discretion to introduce local schemes which could allow up to 25%, but that the cost be borne by the FRS itself and not the pension fund. If these costs should properly be borne within the pension scheme then their transfer to individual FRSs is undesirable.
25. The objective of the change is effectively to introduce a financial incentive for people to retire earlier which would assist in downsizing at a time when there is the potential for fire fighter redundancies. Another route to enabling staff reductions to take place is through the introduction of the proposed compensation regulations.
26. However, the potential cost for Fire and Rescue Services associated with this change could be very high if applied to senior staff.

Recommendation

27. FSMC is asked to consider:

- 27.1 The merits of the proposed change to the Firefighters' Pension Scheme (1992) to extend access to full commutation for staff who retire with less than 30 years service and any potential cost associated with this.
- 27.2 Whether there is need to make representation to ensure that any implementation of this change is not mandatory and that there is local discretion on a case by case basis to decide how the power is used.