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Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006): Proposed increases to employee contribution rates

Purpose of report

For discussion and direction.

Summary

This paper sets out the details of CLG's consultation on proposed increases to employee contribution rates and the initial results of an LGA survey of fire authorities commissioned by FSMC.

Recommendations

Members are asked to consider and comment on the issues raised in this paper and to identify any other issues that individual fire authorities and FSMC might consider in responding to the consultation.

Action

Officers to progress work programme subject to Members' comments.

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

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Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006): Proposed increases to employee contribution rates

Background

- 1 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.
- 2 CLG published a consultation document, *Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006): Proposed increases to employee contribution rates, effective from 1 April 2012 – consultation*, on 9 September 2011. The consultation responses are due by 2 December 2011.
- 3 This consultation seeks views on the following key proposed changes to the firefighters' pension schemes in England:
 - 3.1 Increased levels of employee contribution rates, effective from 1 April 2012
 - 3.2 The introduction of tiered contribution levels, so that higher earners will pay a higher rate of contribution
 - 3.3 Different levels of increase for the Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006)
 - 3.4 The specific handling of contributions for retained and part-time firefighters.
- 4 Schemes have begun consultations on proposals to achieve first year savings (2012-13). The issues have been discussed at successive meetings of the Firefighters' Pensions Committee. Discussions on how to deliver second and third year savings will be part of on-going scheme-specific discussions.
- 5 The subject of this paper is the very specific issues set out in the consultation document. However, it is important to recognise that at the same time discussions are taking place on wider reforms to public sector pensions. The Government has published a reference scheme for the new pension and, in respect of the Firefighters' Pension Schemes, will publish cost ceilings for the new scheme by the end of November 2011. Following representations by Trade Unions and others, the Government announced changes to the proposed reference scheme which have been captured in a Public Service Pensions Command Paper (8214).

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The revisions include protection from change for those who “as of April 2012, have 10 years or less to their pension age”. The Command Paper also includes a commitment to an accrual rate of 1/60ths. Once the proposals for the fire fighters pensions are clearer they will be the subject of future papers to FSMC. It is important to note that the Government remains committed to introducing an increase of 3.2 per cent in employee contributions over the next three years.

- 6 The FSMC commissioned survey, the results of which are outlined below, was undertaken before the changes outlined in the command paper were announced.
- 7 Public Sector Unions, but not the Fire Trade Unions, are set to undertake a day of action on 30 November 2011. The FBU took the decision not to participate in the day of action at its Executive meeting on 18 October. However, the FBU has not ruled out industrial action in the future.

CLG Consultation

- 8 The consultation document sets out the proposed increase in employee contributions for the Firefighters’ Pension Scheme and New Firefighters’ Pension Scheme in England, for 2012-13, with effect from 1 April 2012. The increases proposed for 2012-13. The increases outlined in the consultation document represent 40% of the total increase expected by 2014-15. This is in line with the Chief Secretary’s statement (see paragraph 1 above) that increases in contributions over the three years will be 40%: 40%: 20%. The consultation incorporates the design principles which were announced in the Chief Secretary’s written statement on 19 July and which apply to all public pension schemes. These are:
 - 8.1 There should be no increase in employee contributions for those earning less than £15,000
 - 8.2 There should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis
 - 8.3 High earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis. (see Table 1a)
- 9 The proposals seek to apply a lower rate of increase to the New Firefighters’ Pension Scheme compared to the Firefighters’ Pension Scheme. CLG’s view is that “as the imbalance between employee and employer contributions is less for the New Firefighters’ Pension Scheme, a lower increase for its members

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compared to the Firefighters' Pension Scheme seems more appropriate" (see Table 1b) The proposals would mean that:

- 9.1 A firefighter in the Firefighters' Pension Scheme earning £28,200 would pay an additional 1.3 per cent in contributions – a revised rate of 12.3 per cent (however, with tax relief, the effective increase in the contribution rate is 1.0 per cent).
- 9.2 A firefighter in the New Firefighters' Pension Scheme earning £28,200 would pay an additional 0.6 per cent in contributions – a revised rate of 9.1 per cent (however, with tax relief, the effective increase in the contribution rate is 0.5 per cent).

10 The proposed changes in employee contributions will be tiered by pay band. Proposed changes have been published for 2012-13. Indicative increases are set out in Tables 1a and 1b.

Table 1a: FPS: proposed change to contribution rates in 2012-13 and indicative cumulative change by 2014-15

Salary Band	Proposed change in 2012-13	Expected cumulative change by 2014-15	(%) Revised contribution 2014-15
FPS			
Up to and including £15,000	0.0%	0.0%	11.0%
More than £15,000 and up to and including £21,000	0.6%	1.5%	12.5%
More than £21,000 and up to and including £30,000	1.3%	3.2%	14.2%
More than £30,000 and up to and including £40,000	1.4%	3.5%	14.5%
More than £40,000 and up to and including £50,000	1.6%	4.0%	15.0%
More than £50,000 and up to and including £60,000	1.8%	4.5%	15.5%
More than £60,000 and up to and including £100,000	2.0%	5.0%	16.0%
More than £100,000 and up to and including £120,000	2.1%	5.5%	16.5%
More than £120,000	2.3%	6.0%	17.0%

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Table 1b: NFPS: proposed change to contribution rates in 2012-13 and indicative cumulative change by 2014-15

Salary Band	2012-13	Cumulative % increase by 2014-15	(%) Revised contribution 2014-15
NFPS			
Up to and including £15,000	0.0%	0.0%	8.5%
More than £15,000 and up to and including £21,000	0.6%	1.5%	10.0%
More than £21,000 and up to and including £30,000	0.6%	1.5%	10.0%
More than £30,000 and up to and including £40,000	0.8%	2.0%	10.5%
More than £40,000 and up to and including £50,000	0.9%	2.2%	10.7%
More than £50,000 and up to and including £60,000	1.0%	2.4%	10.9%
More than £60,000 and up to and including £100,000	1.1%	2.6%	11.1%
More than £100,000 and up to and including £120,000	1.2%	3.0%	11.5%
More than £120,000	1.3%	3.2%	11.7%

Retained firefighters

11 CLG is proposing that the rate of contributions paid by retained firefighters is based on their reference pay. The rate is then applied to their actual pensionable pay. A retained firefighters' reference pay is the whole-time equivalent pensionable pay for that period of a regular firefighter employed in a similar role and with an equivalent qualifying service.

Firefighters pension schemes: some context and some questions

12 Figures for 2010/11 show that the Firefighters pension schemes were approximately £300 million in deficit. The scheme projections are that this deficit will continue to grow in the short and medium term. The scheme is unfunded and is effectively underwritten by the Government.

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- 13 The 3.2 per cent increase in contributions for the period to 2014-15 will amount to about £32 million in additional income for the schemes.
- 14 The Government's Actuary Department (GAD) has previously stated that a 1% drop-out rate costs the scheme £3.5 million. On this basis a drop out rate of around 9% would lead to a cost to the scheme of £31.5 million which is equivalent to the additional income that the Government is seeking to raise through increasing the firefighters' employee contributions by 3.2%.
- 15 The Government's assumption is that 1% of firefighters will leave the scheme as a result of the proposed changes. A YouGov survey undertaken by the FBU found that 27% of firefighters would consider leaving the scheme if the proposed changes to the pension scheme were adopted. The increase in contributions will come at a time of pay constraint and rising levels of inflation. From tables 1a and 1b above it can also be seen that relatively high levels of increased contributions apply from relatively low salary levels (in proposals for the LGPS scheme contribution increase do not reach 3.5 per cent until salaries are over £80,000)
- 16 From the perspective of the fire authorities the issues are whether the changes will have an operational impact and allied to that, whether the proposed pension changes will achieve their stated aims. The survey commissioned by FSMC has sought to provide information to help answer these questions.

FSMC commissioned survey of fire authorities

- 17 At its meeting on 16 September, FSMC commissioned a survey of fire authorities to ask the following broad questions.
- 17.1 The proportion of personnel currently not opting into the New Fire Fighter Pension Scheme (2006) to identify existing and potential future trends
- 17.2 The proportion of personnel opting out of either of the two schemes to identify existing and potential future trends
- 17.3 Views on impact on retirements brought about by employee contributions and any impact on service delivery
- 17.4 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.

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18 Following FSMC's meeting the Chairman wrote to all fire authorities outlining the information requirements and this was followed up with a more detailed survey template.

Emerging survey findings

- 19 The survey has provided factual information which gives a good indication of participation by firefighters in the pension schemes. It also provides information on the perceptions of fire authorities of the potential impact of the proposed changes to employee contributions.
- 20 The results below are based on returns from 26 fire authorities, which is a response rate around 60 per cent. An online survey of Directors of Finance in fire authorities was conducted by the LGA's Research and Information Team during October and early November 2011. Tables setting out the emerging survey findings can be found in **Appendix 1**.
- 21 The proportion of serving whole time fire fighters in the pension scheme is high at 99 per cent. 81 per cent of whole time firefighters are in the 1992 Scheme. A lower proportion, just 57% of retained staff are in the pension scheme and these are all in the 2006 scheme. (Table 1)
- 22 The proportion of whole time station managers and above in the scheme, at 91%, reflects the general high level of participation of firefighters in the schemes. All of the whole time senior managers are in the 1992 scheme. Just over half (52%) of retained station managers and above are in the 2006 pension scheme. (Table 2)
- 23 In the 2010/11 financial year, the proportion of new whole time recruits that are joining the new pension scheme was running at 88% and this is relatively unchanged over the last three years. This implies that 12% of new whole time recruits are not joining the scheme (Table 3)
- 24 In contrast, a lower proportion of retained recruits join the pension scheme on offer to them (2006 scheme). However, this proportion appears to be increasing slowly but steadily over recent years, with 86% joining the 2006 scheme in 2010/11. (Table 4)
- 25 Looking at new firefighter participation in the schemes overall, it would seem that, notwithstanding any changes outlined in the consultation proposals, over time we are likely to see a small decline in the numbers of whole time firefighters in the scheme from the current very high levels of participation.
- 26 Respondents were asked what proportion of their staff are currently able to retire, or would be able to retire by September 2014. Currently the proportion of

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firefighters that are in a position to retire by 2014 is just over one in ten (12%). However, this increases to over a third (37%) for station managers and above. It is in this latter group where the impact of any changes to employee contributions might be most evident. (Table 5)

Perceived impact of proposed changes

- 27 Responses to the survey indicate that the impact of the proposed changes is very uncertain. Two-fifths (39%) think the proposed changes to the schemes will lead to a small increase in the turnover rates. Some, around 22% of respondents, state that the impact could be significant.
- 28 The majority perception of fire authorities who responded is that the expected changes in turnover will have a small or moderate impact on service provision (64%) and a further 14% expecting there to be no impact on the service as a result of the proposed pension changes.
- 29 Just over half (55%) of fire authorities thought that the proposed larger increases in employee contributions for the 1992 scheme could lead to personnel leaving the scheme altogether. Only a small proportion (9%) considered that the proposed changes would lead to firefighters moving to the 2006 scheme. The remainder (36%) did not know.

Initial conclusions

- 30 It is important to reiterate that the survey has captured the responses of around 60 % of fire authorities. Because this is a sample, it will not tell us the exact national picture. However, this is a good response rate, and so it is likely that responses are broadly representative, and that the results are therefore indicative of the picture nationally.
- 31 The responses appear to indicate that nearly all current whole time firefighters and just over half of retained fire fighters are in one of the two pension schemes. However, if the current rate of new whole time firefighters joining the pension scheme is maintained then over time we will see a small decline in whole time firefighters in the scheme.
- 32 The perceptions expressed in the majority of responses indicate that the impact of the changes set out in CLG's consultation could be small, but there are a wide range of views from "no change" to "a mass exodus of experienced fire fighters as and when the changes come through".
- 33 The risk of people dropping out of the pension scheme and potentially out of the service as a result of the proposed changes is one to which fire authorities will

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want to be alive to. A very significant proportion of station mangers and above are, or will be, in a position to retire by 2014/15. It is also important to note that this group, because of the tiered structure of the changes will be paying at least an additional 4.5% in contributions over the three years to 2014/15. The proposed changes could prompt a number of these members of staff to leave the service and this could have an impact on service delivery if workforce planning has not taken this risk into account.

- 34 The survey of fire authorities indicates that there is very little expectation among fire authorities that the proposed lower increases in contributions in the 2006 scheme will incentivise firefighters to move from the 1992 scheme to the 2006 scheme. This adds to the risk for fire authorities, if it means that those leaving the 1992 scheme are not anchored to the service via the pension scheme.
- 35 The purpose of the pension reforms outlined in the consultation document is essentially to reduce public spending. The proposals will only achieve their policy aims if the income generated from higher contribution rates is more than the cost to the scheme that results from an increased drop-out rate. The Government's and Trade Unions' estimates of the drop-out rate associated with this reforms vary substantially. A drop-out rate above 9 per cent would potentially wipe out any additional income from raised contribution rates.
- 36 The survey commissioned by FSMC shows that 12 per cent of new whole time firefighters are already choosing not to join a scheme. It also shows that a significant proportion, over a third, of serving firefighters at station manager rank and above are in a position to retire.
- 37 A combination of the factors outlined above would indicate that there is a potential risk to be borne by fire authorities as a result of the Government's intention to raise employee contribution rates. Fire authorities might want to argue that the Government should be cautious in introducing any changes.
- 38 An option for government could be to reverse the loading of the increases in employee contributions from the current 40:40:20, so that there is a smaller increase in the first year, perhaps 20%. This would give government and fire authorities better information on the actual impact of the changes. This would also provide an opportunity for discussion on what alternatives there may be to achieving the overall 3.2% objective and the level of flexibility that could be achieved.

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Next steps

39 FSMC might want to write to the Fire Minister outlining the findings of the survey and highlighting the conclusions above.

Recommendations

40 Members are asked to consider and comment on the issues raised in this paper and to identify any other issues that individual fire authorities and FSMC might consider in responding to the consultation.

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Appendix 1

Survey Findings: Tables

Table 1: The proportion of eligible firefighters in a scheme

Proportion of eligible FF in a scheme			
	1992	2006	Either
Whole time	81%	18%	99%
Retained	-	57%	57%
All	58%	29%	87%

Table 2: The proportion of station managers and above in a scheme

Proportion of eligible Station Managers and above in a scheme			
	1992	2006	Either
Whole time	91%	0%	91%
Retained	-	52%	52%
All	90%	1%	91%

Table 3: Whole time recruits joining the scheme

Whole time recruits joining a scheme			
	2008/09	2009/10	2010/11
2006 scheme	86%	83%	88%

Table 4: Retained recruits joining the scheme

Retained recruits joining 2006			
	2008/09	2009/10	2010/11
	74%	74%	86%

Table 5: Proportion of staff able to retire

Proportion able to retire		
	30/09/2011	30/09/2014
Fire fighters	5%	12%
Station manager and	16%	37%

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Appendix 2

Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006) Proposed increases to employee contribution rates, effective from 1 April 2012 – consultation questions

CLG's consultation has posed a number of specific questions

Question 1

Do the proposed tiered contributions meet the objectives set out by the Government in the Spending Review?

Question 2

Are there any consequences of the proposed contribution tiers that you consider have not been addressed?

Question 3

Do you consider that there are equality issues that will result in any individual groups being disproportionately affected by the proposed contribution tiers? If so, what do you consider to be the nature and scale of that disproportionate effect?

Question 4

Is there a tariff which you think will help to further minimise any opt outs from the firefighters' pension schemes?

Question 5

Is the treatment under the proposals of part time workers and retained firefighters clear?