Fire Services Management Committee
11 March 2013

Item 2

Fire pensions update

Purpose of report

For discussion and direction.

Summary

This paper sets out issues relating to the fire pensions valuation.

Recommendation

Members are asked to note the update on the valuation of the fire pension scheme and in particular the potential implications for employer contributions and the costs associated with retained firefighter pensions.

Action

Officers will take action as directed.

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Background

1. In line with the reform of public sector pensions ushered in by the Hutton Review, the 1992 and 2006 Fire Pension Schemes will be superseded by a new scheme which will come into effect in 2015.

2. Those firefighters that are within 10 years of pensionable age will be protected from the changes and will continue to accrue pension rights under the terms of the 1992 scheme.

3. Under the terms of the 2015 scheme employer contributions are expected to be 13.8 per cent. The current level of contributions are 26.5 per cent in the 1992 scheme (including 5% ill health) and 11 per cent in the 2006 scheme.

4. The actual contribution rate in the 2015 scheme will be determined by the outcome of the 2012 fire pension valuation which is currently underway based on March 2012 data.

The Fire Pension Valuation

5. The government has determined that from 2012 public pension schemes will be valued every 4 years.

6. The 2012 valuation will look at a range of factors that affect the cost of the scheme. These will include changes to salary levels, changes in the inflation measure, financial assumptions, estimations of past contribution shortfalls and other items such as the impact of the retained firefighter pension issue.

7. The full list of factors will not be known until the principles of the valuation are announced by the Treasury, which is expected to be in July 2013. The sector will be working through the Fire Pensions Committee to help identify and influence the principles of the review.

8. The outcome of the review will set the employer contribution rate for the 2015 scheme and will also set the employer contribution rate for those firefighters continuing in the 1992 scheme under the transition arrangements. At present, taken together, it is not possible to say whether employers will be paying higher or lower contribution rates in the early years of the new scheme.

9. Over time and certainly by 2020 the vast majority of firefighters will be in the new scheme and we would expect employers contribution rates to fall towards the target 13.8 per cent if other factors in the valuation do not present substantial additional costs. For example, we know that salaries have not been growing at the rate forecast at the time of the last valuation. We also know that the change from Retail Price Index to Consumer Price Index will reduce the costs of the pension scheme. Other factors are likely to increase

costs such as the Treasury's financial assumptions. If these savings and additional costs cancel each other out, and this is not certain, then we would expect employers' contribution to fall to the expected rate (13.8 per cent).

10. In the medium to long term this represents a considerable saving to employers who might currently be paying 26.5 per cent. A key question is whether these savings can be kept within the service. This is an important question which will have to be discussed with government.

11. However, one other factor that has to be taken into consideration is the "cash flow"—how much the pension scheme receives from employee and employer contributions and how much is paid out to retired firefighters on an annual basis. Every year more is paid out than is received through contributions and the government pays the balance as a top up grant. It is likely that this annual "deficit" will continue for many years.

12. To date FSMC has been pressing government to accept the financial responsibility for the costs associated with retained firefighters gaining retrospective access to the pension scheme. We can now see that this is one issue within the broader reform and valuation of the scheme. FSMC will want to continue to review its position as more information on the valuation of the fire pension scheme is known.

Next Steps

13. Officers will continue to work with the DCLG to prepare for the pension valuation and will continue to explore options for savings from reduced employer contributions being retained by Fire and Rescue Authorities.