

SUBJECT: PENSION UPDATE

JOINT REPORT OF THE CHIEF FIRE OFFICER, THE FINANCE OFFICER AND PERSONNEL ADVISOR

1 INTRODUCTION

- 1.1 The Independent Public Service Pensions Commission has published its final report on the recommendations to the Government on future pension arrangements for the public sector on 10th March 2011. This report provides an overview of the recommendations made.

2 BACKGROUND

- 2.1 Following the publication of the Independent Public Services Pensions Commission Report led by Lord Hutton, the potential implications for employees of the Authority who are members of the either the Firefighter's Pension Scheme (FPS), the New Firefighter's Pension Scheme (NFPS) or the Local Government Pension Scheme (LGPS) have been considered.
- 2.2 The Report made 27 recommendations of which a number relate to administration, structure, governance and reporting of public sector pension schemes. However some of the recommendations that potentially have specific implications for members of the schemes are outlined below.

3 KEY RECOMMENDATIONS OF THE REPORT

- 3.1 The key recommendations are:
- 3.1.1 A recommendation that will impact on all public sector employees who are members of pension schemes, is to move the final pension from being based on final salary, to a pension based upon career average earnings and known as Career Average Related Earnings (CARE). This measure will potentially have the single biggest impact on employee expectations but would also in terms of the cost to the Exchequer, deliver the biggest cost savings over the lifetime of the pension payment. This measure is also linked to maintaining accrued rights up to the point of any changes to pension schemes. It will be helpful to have some detail about how this would work in practice in order to inform employees, alongside the proposed date of implementation and the confirmation, as indicated in the Report, that those who are in the latter stages of their career will experience little or no change as they have less time to make alternative arrangements.
- 3.1.2 It is proposed that the Normal Pension Age (NPA) in the future is linked to the State Pension Age (SPA) and that any changes are tracked. Announcements have already been made to raise the State Pension Age and this proposal would mean that as and when the SPA rises, then NPA would rise also.

- 3.1.3 The report recommends the introduction of a "cost ceiling" which would place an upper limit on the amount committed by Government to public service pensions over the long-term, with any breach of such ceiling triggering automatic mechanisms designed to bring costs back down.
- 3.1.4 Another key issue outlined in the Report is that which relates to the 'purpose' of an occupational pension and the support it is designed to provide. Lord Hutton states that the individual's occupational pension when taken with the State Pension should provide 2/3rds of the pre-retirement income, and that the principle that a pension should provide adequate levels of retirement income should be made explicit to all public sector employees.
- 3.1.5 The Report recommends that an individual's accrued rights should be maintained and that the effect of any future changes should only impact upon the years after the changes have been made. This means that on retirement, members' benefits which were built-up before the changes are implemented will be calculated based on his/her final salary at the time of actually leaving the pension scheme. Whilst the full detail on how this works in practice has not been forthcoming, it would suggest for example, that a member of the FPS who has 25 years pensionable service would at that date have accrued 30/60ths pension and therefore this right would transfer into any changed or amended scheme.
- 3.1.6 A further recommendation is the introduction of a new formal regulatory framework to ensure the independent review of the governance of public service pension schemes, perhaps by the Pensions Regulator. In addition, the Report considers issues regarding administration and governance, and recommends that the Office for Budget Responsibility (OBR) should provide a regular analysis of the long-term financial impact of public sector pension schemes.
- 3.1.7 The Commission has concluded against the introduction of a cap on pensionable earnings given the associated increase in complexity and the reduction in cash flow to Government revenue caused by the loss of contributions on earnings above any such cap. It has also recommended that member contributions should be on a tiered basis to distinguish between higher and lower earners and the approach to ancillary benefits (i.e. death and ill-health benefits) should generally continue on the same basis as is currently the case.
- 3.1.8 The Report has identified that that the primary driver for the increasing costs of pension schemes is that the general population is living longer, resulting in pensions being paid for a greater portion of the individual's life and that the proportionality between years at work and years in retirement needs to be more balanced. This has led to the Report recommending that individual members of pension schemes should work longer before being able to access their pension.

4 OTHER RECOMMENDATIONS

- 4.1 The Commission also came to conclusions as follows:

- The Report recognises that in the 'uniformed services' i.e. Armed Forces, Police and Fire & Rescue Services, the specific nature of the job suggests it would not be appropriate to work beyond 60 years of age and therefore the Report recommends that the 'uniformed services' continue with a NPA of 60.
- The existing schemes (FPS, NFPS and LGPS) are known as 'Defined Benefit Schemes' i.e. the contribution is based on benefits that are 'defined' at the outset. Other schemes are described as 'Defined Contribution Schemes' which are based upon the individual's level of contribution and are potentially more volatile for the employee. Lord Hutton recommends that all schemes become 'Defined Benefit Schemes' as soon as practicable.
- The Report discusses 'abatement', recognising that there are many public sector employees who retire and are re-employed subject to abatement. The Report is recommending that abatement ceases and that if people have access to a pension and are re-employed in the public sector, then they should receive the appropriate salary for that job in addition to their pension.
- There are many variations in public sector pension schemes with the majority being unfunded like the FPS and NPFS, and with the LGPS being a 'funded' scheme. The Report recommends that the LGPS remains a 'funded' scheme and that others continue to remain unfunded.
- Consultation on any of the recommendations and proposals in the Report should be on a Scheme-by-Scheme basis and should involve employees and their representatives.
- The Commission recognises some of the recommendations will require legislative amendments, but even allowing for legislative changes the Commission believes it should be possible to introduce amendments to existing schemes and any new schemes before the end of this parliament.
- One comment in the Report indicates that employees in their 50s should be largely unaffected by the proposed changes.
- Some public sector pension schemes are open to non-public sector employees i.e. contractors. The Report recommends that it is inappropriate for non-public sector employees to be able to have access to public sector pension schemes.

5 CONCLUSIONS

- 5.1 Lord Hutton and the Commission have produced an extremely detailed analysis of issues facing public service pension schemes together with a series of considered, practical recommendations for consideration by the Government

who have accepted the recommendations in principal. It remains to be seen however whether all of the recommendations will be implemented in totality.

- 5.2 The Commission has indicated that reforms could be adopted before the end of the current Parliament (that is, by 2015). As the final report acknowledges, a transitional period would be required for existing scheme members, with the terms of such transitional periods potentially differing according to profession (such as for the uniformed services).
- 5.3 To achieve reform in such timeframe would require a great deal of commitment in terms of time and resources. However, the Commission's report certainly provides a clear blueprint for the future of public service pensions and the basis on which reform can be achieved.

6 RISK MANAGEMENT

- 6.1 A risk assessment has been undertaken to ensure that the risk to the Authority has been minimised as far as practicable. The implications of these changes and their potential implementation in April 2012 could mean that the Authority is likely to see an increase in the number of retirements thereafter. The risk to the Authority has therefore been assessed as medium utilising the standard risk matrix based on control measures being in place. The complete risk assessment is available on request from the Chief Fire Officer.

7 FINANCIAL IMPLICATIONS

- 7.1 Although there has been a recommendation to increase contribution rates, it is not yet clear as to whether this will be an increase to employees, employers or shared between both groups. However, it is likely that any changes to existing pension schemes will result in further expenditure for the Authority.

8 EQUALITY AND FAIRNESS IMPLICATIONS

- 8.1 There are no health and safety implications in respect of this report.

9 HEALTH AND SAFETY IMPLICATIONS

- 9.1 There are no health and safety implications in respect of this report.

10 RECOMMENDATIONS

- 10.1 Members are recommended to:
- a) Note and comment upon the content of this report;
 - b) Receive further reports as appropriate.

BACKGROUND PAPERS

PREVENTING PROTECTING RESPONDING

The undermentioned Background Papers refer to the subject matter of the above report:

- Strategic Plan
- The Independent Public Service Pensions Commission Report

