

SUBJECT: FIREFIGHTERS' PENSION SCHEMES – HEADS OF AGREEMENT

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

1 INTRODUCTION

- 1.1 The Heads of Agreement sets out the parameters to govern scheme design for the Firefighters' Pension Scheme in England to be introduced from April 2015 ('the 2015 scheme').
- 1.2 This sets out the Government's final position on the main elements of scheme design, provided that agreement can be reached on the core parameters, which unions have agreed to take to their Executives following discussions. To that end, further work continue, and Union Executives are in a process of consulting their members.

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 A key 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. The Heads of Agreement essentially now provides the detail with regard to migrating to a fully revised pension scheme for firefighters. The full document is attached at Appendix A for the information of Members.

3 ACCRUED RIGHTS PROTECTION GUARENTEE

- 3.1 There will be full protection for the accrued rights of existing scheme members:
 - All benefits accrued under final salary arrangements will be linked to the members' final salary, in accordance with the rules of the members' current schemes, when they leave the reformed scheme;

- Full recognition of a members' expectation to double accrual for service accrued under the Firefighters' Pension Scheme 1992 ('the 1992 scheme'), so that a members' full continuous pensionable service upon retirement will be used to calculate an averaged accrual rate to be applied to service accrued under the 1992 scheme;
- Members to be able to access their 1992 scheme benefits when they retire at that scheme's ordinary pension age (i.e. from age 50 with 25 or more years pensionable service), subject to abatement rules for that scheme. Pensionable service for the purpose of calculating the ordinary pension age will include any continuous pensionable service accrued under both the 1992 scheme and the 2015 scheme;
- Members will continue to have access to an actuarially assessed commutation factor for benefits accrued under the 1992 scheme.

3.2 There also will be transitional protections for qualifying, existing members:

- All active scheme members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by the member remaining in their current scheme until they retire;
- There will be a further 4 years of tapered protection for scheme members. Members who are up to 14 years from their current Normal Pension Age, as of 1 April 2012, will have limited protection so that on average for every month of age they are beyond 10 years of their Normal Pension Age, they gain about 53 days of protection. The last day of protected service for any member will be 31 March 2022.

3.3 The main parameters of the new scheme are set out below:

- A pension scheme design based on career average revalued earnings;
- A provisional accrual rate of 1/58.7th of pensionable earnings each year, subject to further agreement on the outstanding issues;
- There will be no cap on how much pension can be accrued;
- A revaluation rate of active members' benefits in line with average weekly earnings;
- Pensions in payment and deferred benefits to increase in line with Prices Index (currently Consumer Prices Index);
- Average member contributions of 13.2% from April 2015, with some protection for new entrants. However, the Government will review the impact of the proposed 2012-13 contribution changes, including the effect of membership opt-outs, before taking final decisions on how future increases will be delivered in 2013-14 and 2014-15, and in the new scheme;
- Flexible retirement from the scheme's minimum pension age of 55, built around the scheme's normal pension age of 60, with members able to take their pension from minimum pension age as follows:
 - For all active members who are aged 57 or more at retirement, 2015 scheme benefits taken before Normal Pension Age will be

actuarially reduced with reference to the 2015 scheme's Normal Pension Age, rather than the deferred pension age;

- All other members will have their 2015 scheme benefits actuarially reduced on a cost neutral basis from the scheme's deferred pension age;
- The Normal Pension Age will be subject to regular review;
- authority initiated early retirement for members of the 2015 scheme, from age 55, to be in accordance with the arrangements set out in Part 3, Rule 6 of the New Firefighters' Pension Scheme 2006
- Abatement to continue;
- Optional lump sum by commutation at a rate of £12 for every £1 of pension foregone.

4 CONCLUSION

4.1 This document provides some clarity on the reforms that could be adopted before the end of the current Parliament (that is, by 2015). As the Government's final position it represents major changes to firefighters' pension schemes in line with other local government schemes and the 'Hutton' Report.

4.2 To achieve reform in such timeframe would require a great deal of commitment in terms of time and resources. However, there remains some fundamental differences between this position and that of the representative bodies which could lead to further industrial action.

5 RISK MANAGEMENT

5.1 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 could mean that the Authority is likely to see an increase in the number of retirements thereafter. In addition, there is an increase in potential industrial action occurring as the Fire Brigades Union remains opposed to any pension changes. The risk to the Authority has therefore been assessed as high 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.

6 FINANCIAL IMPLICATIONS

6.1 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.

7 EQUALITY AND FAIRNESS IMPLICATIONS

7.1 There are no equality and fairness implications in respect of this report.

8 HEALTH AND SAFETY IMPLICATIONS

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

9 RECOMMENDATIONS

9.1 Members are recommended to:

- a) Note and comment upon the content of this report;
- b) Receive further reports as appropriate.

BACKGROUND PAPERS

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

- Strategic Plan
- Heads of Agreement – February 2012