

HUMAN RESOURCES COMMITTEE: 11 FEBRUARY 2011

SUBJECT: FIREFIGHTER PENSION SCHEME CONSULTATIONS

JOINT REPORT OF THE CHIEF FIRE OFFICER AND PERSONNEL ADVISOR

1 INTRODUCTION

- 1.1 The Government has issued a consultation document covering changes to the Firefighter's Pension Scheme (FPS) and the New Firefighter's Pension Scheme (NFPS). This report proposes a response for consideration by Members.

2 BACKGROUND

- 2.1 As Members will recall, The Coalition Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long-term and fair to both public sector workers and the taxpayer.
- 2.2 In his interim report, Lord Hutton explained that the value and cost of a public service pension has increased by around a third because of longer life expectancy over the last fifty years, and that these costs had generally fallen to the taxpayer. Lord Hutton therefore recommended that if the Government wished to make short term savings, then raising contribution rates would be the most effective way to achieve that objective. This would also make for a fairer balance between what employees pay and what other taxpayers have to pay.
- 2.3 At the Spending Review the Government accepted Lord Hutton's rationale and announced the intention to increase employee contributions by 3.2% on average by 2014-15.

3 2012-13 CONTRIBUTION INCREASES

- 3.1 The statutory consultation paper proposing increases in the firefighters' pension schemes in England was published on 9 September 2011, and proposed tariffs designed to deliver a 1.28 percentage point increase, on average, across the two firefighters' pension schemes. The Government response to that consultation was published on 29 March 2012.

- 3.2 Ministers, in the light of the statutory consultation responses, decided that it was appropriate, in the specific case of the firefighters' pension schemes, to proceed with an altered contribution rate increase from April 2012. The approach sought to generate an increased yield of 0.64 percentage points from the two firefighters' pension schemes, rather than the originally proposed 1.28 percentage points and was implemented by Statutory Instrument 2012 No. 953 (for the Firefighters' Pension Scheme (1992)) and Statutory Instrument 2012 No. 954 (for the New Firefighters' Pension Scheme (2006)).

4 OPT OUT REVIEW

- 4.1 It was assumed that one per cent of the total salary bill, within the unfunded public service schemes, would opt out by 2014-15. This assumption has been scrutinised by the Office for Budget Responsibility.
- 4.2 A report recently circulated by the Firefighters' Pension Committee, provided information on the number of firefighters that have opted out of their pension schemes during the first six months of 2012-13.
- 4.3 Data received from fire and rescue authorities shows that, over the six month period, April 2012 was the month that had the highest level of opt outs. The rate of opt out dropped in each month between May and August 2012. The rate of total opt outs in September 2012 is a third of the amount that opted out in April.
- 4.4 For each of the schemes, evidence suggests that the increase in contribution rates had an initial impact on members opting out of their pension scheme, but that effect has diminished in the meantime and there does not appear to be an on-going material opt out effect.
- 4.5 Separate qualitative research into firefighters' attitudes to their pension scheme illustrated that older, career firefighters in the 1992 Scheme were strongly in favour of their pension scheme. However, younger 2006 Scheme members were more unsure about continuing in a pension scheme, with some considering whether current contributions could be invested elsewhere. When asked at what level firefighters would opt out, the majority said that real consideration to opting out would be given when contributions increased above 2% with a retirement age of over 56.

5 2013-14 CONTRIBUTION INCREASES CONSULTATION

- 51 The Government also believes that, in line with proposals contained within the Hutton report on public sector pensions, any proposed increases in contributions rates should protect low earners and be progressive, so that high earners pay proportionally higher increases to reflect their more generous pensions. The Government also set out its preferred parameters for scheme design:

- There should be no increase in employee contributions for those earning less than £15,000;
- There should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000;
- High earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15.

5.2 The Government has concluded that there remains a rationale to proceed with contribution increases for 2013-14 to help rebalance costs. However, there is a rationale to provide some protection for 2006 Scheme members who appear to be the workforce section most likely to opt out of their pension scheme.

5.3 In light of the results of the research into contribution increases, the Government is proposing that the employee contribution tariffs from 1 April 2013, should deliver a 1.28 percentage point increase, on average, across the two firefighters' pension schemes during 2013-14. This will lead to a cumulative 1.92 percentage point increase during 2012-13 and 2013-14. The Government will continue to review the effect of contribution rate increases, including on opt outs, before making any final decisions for contribution rate increases.

5.4 Consistent with these policy principles, the proposed employee contribution rates to apply from 1st April 2013 are:

Pensionable Pay Band	FPS	NFPS
Up to and including £15,000	11.0%	8.5%
More than £15,000 and up to an including £21,000	11.9%	9.1%
More than £21,000 and up to an including £30,000	12.9%	9.6%
More than £30,000 and up to an including £40,000	13.2%	9.9%
More than £40,000 and up to an including £50,000	13.5%	10.1%
More than £50,000 and up to an including £60,000	13.7%	10.2%
More than £60,000 and up to an including £100,000	14.1%	10.5%
More than £100,000 and up to an including £120,000	14.5%	10.8%
More than £120,00	15.0%	11.1%

5.5 The Government has invited views on these proposals and, in particular, asks four questions relevant to the consultation, each of which is considered below:

Question 1

Do the proposed tiered contributions meet the design parameters as set out by Government?

The proposed tiered contributions do meet the objectives set out by Government. Unfortunately, the methodology adopted by the Government, i.e. an across the board rise in contributions, does not recognise the fact that the Firefighters' Pension Scheme already has one of the highest contribution rates in the public sector (the New Firefighters' Pension Scheme rates are also high when compared to other schemes). There must, therefore be a concern that if such a rise were introduced it would have the effect of causing a further measurable number of non joiners and existing employees to withdraw from the pension schemes, especially the NFPS, thereby reducing the overall amount the Treasury could expect to raise rather than increasing it as the proposals suggest.

Question 2

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

The tiers as proposed are based upon simple salary bands which do not align with the current role structure detailed within the Terms and Conditions of Employment (Grey Book). This will not only increase the administration of the Schemes but could also mean that persons of equal role could be paying a different contribution rate which does not seem to treat employees equally.

The proposals may affect promotions as employees may be reluctant to move beyond the role of Watch Manager as the pension increase has a greater impact at Station Manager level and above. Indeed higher management roles may be significantly compromised by these proposals.

Question 3

Do you consider that there are equality issues, which the Department hasn't considered in the published (partial) Equality Statement which 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?

Age – Younger 2006 scheme members may be disproportionately affected- those joining the new scheme will pay more across their career and may be discouraged by the increased cost of their pension.

Question 4

Is there a tariff which you think will help to further minimise any opt outs from the firefighters' pensions' schemes, but will deliver the cumulative 1.92 percentage point increase across 2012-13 and 2012-14?

There must be some recognition of the high contribution rates already in place in the firefighters' pension schemes and this must be reflected in revised proposals.

A fair way to achieve savings would be to base the rises on existing contribution rates so that those paying less than 11% now, would in fact be shouldering more of the burden. This methodology, although resulting in some increase in the contribution rates of firefighter schemes, would be more acceptable to firefighters rather than the crude and simplistic way the proposals are currently formed.

6 CONCLUSION

- 6.1 The Chief Fire Officer is of the opinion that the various proposed changes to the pension schemes are both complex and highly sensitive with the potential to impact detrimentally on industrial relations.
- 6.2 Changes to pensionable pay, abatement rules and especially proposed increases in contribution are very sensitive issues. To this end it is considered essential that the government, through a process of exhaustive and meaningful consultation, seeks to find a mutually acceptable solution with regard to this issue.

7 RISK MANAGEMENT

- 7.1 A risk assessment has been undertaken to ensure that the risk to the Authority has been minimised as far as practicable. The assessment has considered an appropriate balance between risk and control; the realisation of efficiencies; the most appropriate use of limited resources; and a comprehensive evaluation of the benefits. The risk to the authority has 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.

8 FINANCIAL IMPLICATIONS

- 8.1 All financial implications are included within the body of this report however Members should note that if all the proposals are enacted there could well be an increase in contributions by this Authority which cannot yet be determined.

9 EQUALITY AND FAIRNESS IMPLICATIONS

- 9.1 There are equality and fairness implications pertaining to younger 2006 members should the proposals be accepted as this could be determined as indirect discrimination on the grounds of age.

10 HEALTH AND SAFETY IMPLICATIONS

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

11 RECOMMENDATIONS

- 11.1 Members are recommended to:

- a) Note the content of this report;
- b) Approve that the Chief Fire Officer submits a response to the consultation in line with the comments contained in this report;
- c) Receive further reports as appropriate.

BACKGROUND PAPERS

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

- Firefighters' Pension Scheme 1992 and the New Firefighters' Pension Scheme 2006: Proposed increases to employee contribution rates, effective from 1 April 2013 - consultation