

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

Item No. 6

HUMAN RESOURCES COMMITTEE: 1ST FEBRUARY 2021

SUBJECT: PENSION SCHEME MEMBERSHIP UPDATE

JOINT REPORT OF THE CHIEF FIRE OFFICER / CHIEF EXECUTIVE (CLERK TO THE AUTHORITY), THE FINANCE DIRECTOR AND THE PERSONNEL ADVISOR TO THE AUTHORITY

1. INTRODUCTION

- 1.1 The purpose of this report is to provide members with an update on current and recent trends in pension scheme membership in the TWFRS workforce.

2. BACKGROUND – THE PENSION SCHEMES AND AUTO ENROLMENT

- 2.1 All employees of TWFRS are contractually and statutorily entitled to be members of either a Firefighters Pension Schemes (Fire Pension) or the Local Government Pension Scheme (LGPS), depending on whether they have operational sector competence or not. Employees in Control and all staff in corporate, professional, administrative, support and technical roles are eligible to join the LGPS; all other (operationally sector competent) employees are eligible to join the Fire Pension.
- 2.2 There are 4 different schemes within the Fire Pension (1992, 2006, 2015 and Modified Scheme) which different employees are contributing members of, depending on their length of service and age. Since 1 April 2014, the LGPS has been a Career Average Rebased Earnings (CARE) Scheme, although some employees will also have LGPS service in the predecessor, final salary schemes. Fire Pension and LGPS both require the employee and the employer to make contributions; the employer contributions vary from time to time depending on the scheme and fund valuations and the employer contributions vary depending on the scheme and the employee's salary level. In Fire Pensions the employee contributions vary between 8.5% and 17%; in the LGPS the employee contributions vary between 5.5% and 12.5%.
- 2.3 There is the strong likelihood of future changes to the schemes as part of the remedies arising from the recent age discrimination litigation involving a range of public sector pension schemes.

- 2.4 Since the late 1980s employees have had the right to opt out of their occupational pension scheme and make their own pension arrangements – or none. At the time there was no requirement for employers to offer an occupational pension scheme at all, or make any employer contributions.
- 2.5 Automatic enrolment is a Government initiative to help more people save for later life through a pension scheme at work. It requires employers to automatically enrol their eligible workers into a pension scheme and to contribute to it. Automatic enrolment was rolled out in stages across all employers between October 2012 and February 2018. From February 2018 all employers are required to offer a workplace pension to eligible workers. For the purpose of automatic enrolment workers are put into three different categories depending on how much they earn and their age. The categories are eligible jobholders, non-eligible jobholders and entitled workers.
- 2.6 New employees who are eligible to join the Fire Pension or LGPS are entered into the scheme when they start (if under age 75 and have a contract of employment for three months or more) as part of the contract of employment. If they subsequently opt out the employer is required to re-enrol them, under Automatic enrolment legislation, into the scheme approximately every three years on a set re-enrolment date, if they are an eligible jobholder. In TWFRS, the last auto enrolment (re-enrolment) exercise took place in July 2019.
- 2.7 Employees who are either contractually or automatically enrolled into a pension scheme maintain the right to opt out of their occupational pension scheme and make their own pension arrangements – or none.

3. CURRENT AND RECENT MEMBERSHIP TRENDS

- 3.1 The current number of employees who have opted out of a pension are detailed below by pay grade/role and pension:

Role	Heads	Pension	
Firefighter	35	FIRE	44
Crew Manager	7		
Watch Manager	2		
Control FF	3	LGPS	21
Control CM	1		
S1	8		
S3	2		
S4	2		
S5	2		
S6	1		
SO1	1		

SO2	1		
	65		

- 3.2 The 44 Opt Outs from Fire Pension, represents a 7.37% opt out rate (by headcount). The 21 Opt Outs from LGPS represents an 8.86% opt out rate (by headcount).
- 3.3 For LGPS eligible staff, the highest number of opt outs by grade is 8, in Scale 1, which are part time cleaners/valetors. It should be noted some studies that show low earners may better off accessing benefits in retirement as opposed to pension. So of the 21 LGPS who have opted out, over a third may actually be better off in doing so, although as an employer we have no data on which to make that assessment.
- 3.4 The current number of employees who have opted out of a pension are detailed below by gender and terms and conditions.

	Grey Book	Control	Green Book	Total
Female	10.5%	12.0%	8.5%	9.5%
Male	7.0%	14.3%	8.0%	7.2%

- 3.5 This analysis shows that females have a higher opt out rate, and this is widest in Grey Book roles.
- 3.6 To offer analysis of recent trends, the below shows opt out rates for December 2015, 2017 and 2020.
- 16.12.2015 – 8.06% (75 people)
16.12.2017 – 8.95% (76 people)
16.12.2020 – 7.79% (65 people)
- 3.7 The number of opt outs is relatively consistent, and the opt out rate in 2020 is lower than 2015 and 2017. This would demonstrate that there is no increasing trend in opt outs.

4. AUTO ENROLMENT

- 4.1 Auto enrolment is where employees are automatically enrolled into a pension scheme if they meet specific criteria, for example earning levels and if they have not opted out in the previous 12 months.
- 4.2 The last auto enrolment exercise carried out by Tyne and Wear was on the 17 July 2019. Details of the number of employee enrolled, opted back out are detailed below;

	FIRE PENSION	LGPS	TOTAL
Auto Enrolled	47	16	63
Opt back out	38	8	46
Remained in scheme	9	8	17
Opt Out Rate	80.85%	50.00%	73.02%

- 4.3 Of the 63 employees who were auto enrolled, 17 employees remained in a pension scheme, a retention rate of 27%.
- 4.4 The analysis shows that no employees have opted in to either scheme except as part of an auto-enrolment exercise, which illustrates the value of the auto enrolment process.
- 4.5 As 46 employees opted back out of the scheme, and having previously opted more than 12 months prior, this information was used to influence the understanding how to budget for pension contributions in the salary budgets. The assumption being that the employees have continually opted out and do not want to be in a pension scheme.
- 4.6 The information gathered as part of this analysis will be used to influence the communications that the Service published for employees before the next auto-enrolment exercise in July 2022, with the objective of building on our previous success and trying to reduce the rate of repeated opt-out by enabling employees to plan better for the reduction to their net pay.

5. FEEDBACK FROM THE TRADE UNIONS

- 5.1 The unions were asked for informal feedback to contribute to this report; their perceptions and experience largely mirror the findings of our own analysis. The FBU in particular state that opt out tends to be associated with changes to the scheme, whereby staff perceive that the value of the scheme is being diminished, and also when individuals experience financial difficulties.
- 5.2 All the unions expressed concerns about the potential impact of further changes to all public sector pension schemes in 2022 as a result of the remedies arising from the recent age discrimination litigation.
- 5.3 The pensions team do note, that while a small number (2 to 3) of members opted out of the Fire Pension scheme in April 2015 as the new scheme was introduced, there was no large scale opt out. No members of the LGPS opted out in April 2014 in response to the changes to the LGPS scheme. Whilst membership benefits have seemingly reduced and contributions increased in some cases, public sector pension schemes are still perceived as a significant benefit, which the Service promotes to potential applicants.

- 5.4 Further, the unpopularity of the 50:50 version of the LGPS (where the employee pays half the normal contributions and accrues pensionable service at half the normal rate) does not support the perception of affordability issues.
- 5.5 However, any changes to the provision of pension, and there apparent benefit, clearly present a major challenge for all public sector organisations, and Fire and Rescue Services in particular due to the extreme complexity of the implications for Fire Pensions.

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 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 low utilising the standard risk matrix based on control measures being in place.

7. FINANCIAL IMPLICATIONS

- 7.1 There are no direct financial implications arising from this report. The annual revenue budget makes provision for membership of Pension Schemes for staff, therefore any changes to pension scheme membership will impact only on the levels of expenditure against the current budgets. Any increase in pension scheme membership would reduce the level of underspends against the Employee related budgets

8. EQUALITY AND FAIRNESS IMPLICATIONS

- 8.1 There are no immediate equality and fairness implications in respect of this report, although gender differentials in opt-out rates may lead to disadvantages on a life span basis.

9. HEALTH AND SAFETY IMPLICATIONS

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

10. RECOMMENDATIONS

- 10.1 The Committee is recommended to:
- a) Note the contents of this report
 - b) Receive further reports as appropriate.

BACKGROUND PAPERS

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