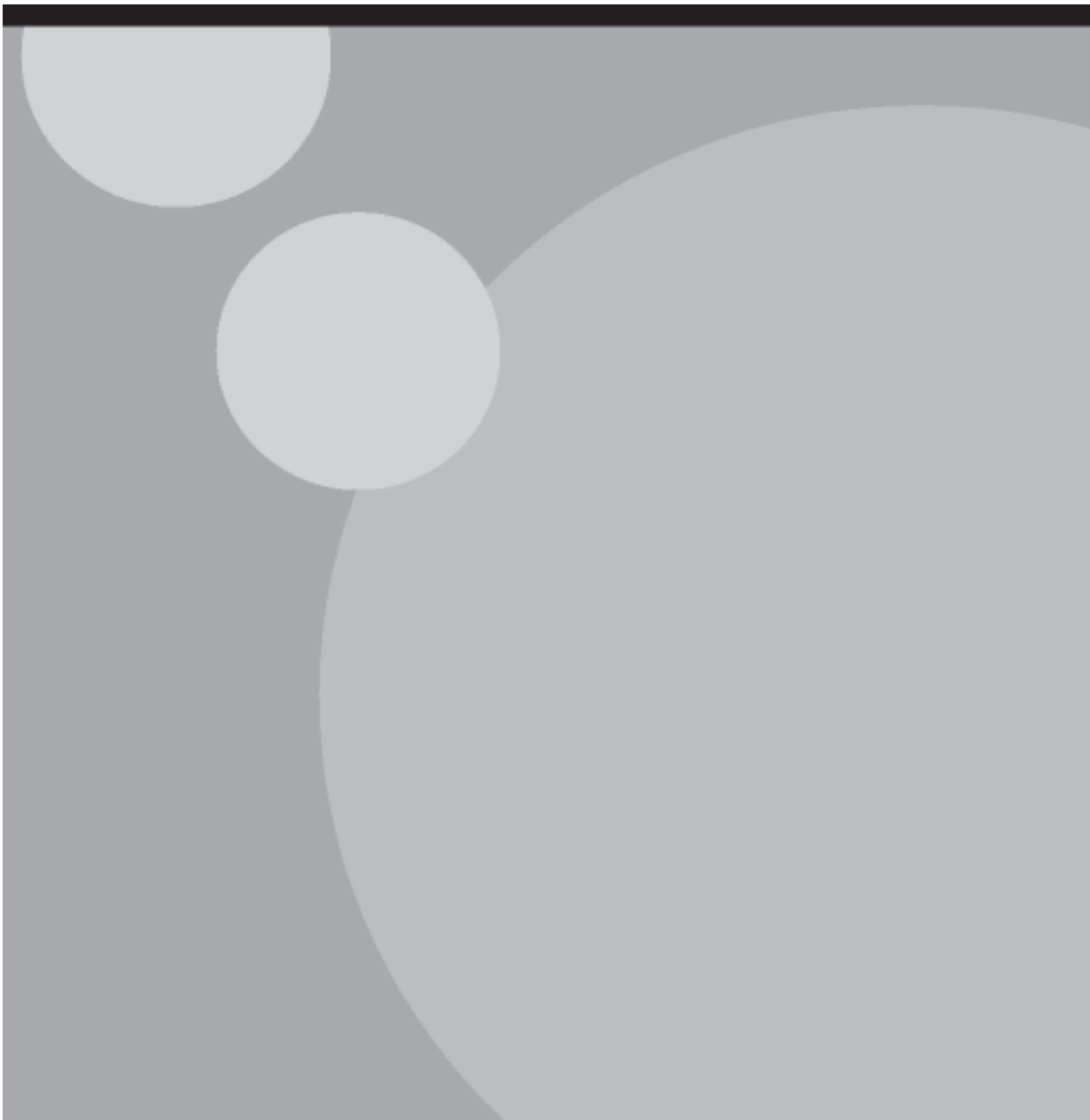




Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006)

Proposed increases to employee contribution rates, effective from 1
April 2012 – Consultation

Summary of Responses





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March 2012
Department for Communities and Local Government

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Introduction

The Government commissioned Lord Hutton of Furness to review public service pension schemes to make them more affordable and sustainable in the long-term. In his interim report¹, Lord Hutton recommended that, if the Government wanted to make short term savings, then raising employee contributions would be the most effective way. The Government accepted Lord Hutton's rationale and announced at Spending Review 2010 the intention to raise employee contributions in public service pension schemes by 3.2 per cent of pensionable pay, on average, to be phased in over a three year period from April 2012.

On 19 July 2011, the Chief Secretary to the Treasury set out the principles that would apply to increases in contributions for members in unfunded public service pension schemes, and announced that scheme specific consultations should begin on contribution increases for 2012-13. In particular that:

- 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. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis
- high earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis.

On 9 September 2011 the Government launched a 12 week consultation on the proposed changes to increases in employee contributions by 1.28 percentage points from April 2012 for the firefighters' pension schemes in England. This document provides a summary of the views and comments received from individuals, employers and interested representative bodies, together with the Government's response.

¹ Independent Public Service Pensions Commission: Interim Report October 2010 http://www.hm-treasury.gov.uk/d/hutton_pensionsinterim_071010.pdf

Consultation proposals

In September 2011, the Department for Communities and Local Government published a consultation which sought views on the following proposed changes to the firefighters' pension schemes in England:

- increased levels of employee contribution rates, effective from 1 April 2012
- the introduction of tiered contribution levels, so that higher earners will pay a higher rate of contribution
- different levels of increase for the Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006)
- the specific handling of contributions for retained and part time firefighters

The consultation also included proposed tariffs to apply to each scheme, and draft amending orders setting out these proposed changes to the Firefighters' Pension Scheme (1992) and the New Firefighters' Pension Scheme (2006).

The Department invited respondents' views and any evidence on all aspects of the consultation and in particular to the following five questions:

1. Do the proposed tiered contributions meet the objectives set out by the Government in the Spending Review?
2. Are there any consequences of the proposed contribution tiers that you consider have not been addressed?
3. Do you consider that there are equality issues that 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?
4. Is there a tariff which you think will help to further minimise any opt outs from the firefighters' pension schemes?
5. Is the treatment under the proposals of part time workers and retained firefighters clear?

Consultation process

The consultation was open from 9 September 2011 until 2 December 2011. The consultation document was available on the Department's website² and responses could be returned to the Department for Communities and Local Government by email or by post. A document providing answers to frequently asked questions was published alongside the consultation to help scheme members understand the impact of the proposals.

On publication, the Department drew the consultation paper to the attention of members of the Firefighters' Pension Committee, which includes trade unions, the Local Government Association and other key representative bodies. The Department also issued an 'Immediate Bulletin' setting out the consultation proposals. This was sent to the chairs of all fire and rescue authorities, the chief executives of the county councils, the clerks to all fire and rescue authorities, the London Commissioner, and the chief fire officers of all fire and rescue authorities.

A total of 61 responses were received to the consultation, broken down as follows:

Individual scheme members	36
Fire and rescue service authorities	18
Representatives bodies	7

Employer and trade union responses in some cases included summaries or surveys of views expressed by their staff or members. A full list of the organisations that responded is at Annex A.

The Department has considered the comments and evidence provided in each consultation response and, in the next section, offers a summary of the responses to the particular consultation questions.

Some respondents offered comments on aspects of public service pension reform which were outside the scope of this consultation exercise. These responses were not considered as part of this consultation.

² <http://www.communities.gov.uk/publications/fire/firefighterpensioncontributions>

Summary of Responses

Some respondents offered support for elements of the proposals as set out in the consultation, for example, the introduction of tiered contributions.

However, many respondents were critical of the proposals; with some arguing that change was not necessary at all and others feeling that Government had not taken adequate account of the current position of the firefighters' pension schemes and recent reforms.

In addition, a key concern expressed by several respondents was the impact of the proposed changes on numbers of people choosing to join or remain members of the schemes. Some argued that the Government's assumptions on opt out rates were too low.

These issues, and others also raised, are expanded on under the relevant questions.

Question 1: Do the proposed tiered contributions meet the objectives set out by the Government in the Spending Review?

Consultation responses: There were 31 respondents who offered a specific response to this question, or who made comments which have been considered as responding to this question.

Of those responding to this question, more than a third agreed that the proposed tiered contributions met the Government's objectives. Some supported this by saying that a tiered system was the most effective way of ensuring fairness in any changes.

Some of those who supported the principle of tiered contribution rates did question whether Government had taken adequate account of the potential impact on the numbers of people choosing to leave the schemes – the 'opt out rate'. While supporting the principle that higher earners should pay more, some expressed concern that higher earners may, instead, opt out of the scheme which could impact on its sustainability and affordability. The issue of opt out rates is addressed more fully in question two.

There was broad support for the principle of offering protection for low paid members. However, some respondents expressed the view that the proposed low pay thresholds of £15,000 and £21,000 would have very limited impact on the firefighter workforce.

Some respondents suggested that the proposals for 2012-13 should not be considered in isolation from proposed increases for the following two years, or broader pension reforms.

More than half of those offering a response to this question disagreed with the proposed tiered contributions. In most cases, those respondents disagreed with the principle of any increase in contributions. Some expressed the view that the Fire Service had already addressed any pension shortfall with the

introduction of New Firefighters' Pension Scheme in 2006. Others argued that the proposals had not taken into account that firefighters already pay one of the highest contribution rates in public sector pension schemes and it is unfair to make them pay more.

Government response:

Since the statutory consultation on contribution increases closed, the Department has considered the responses and evidence received and has continued to listen to representations made in ongoing discussions with trade unions and employers.

From the responses received, the Government concludes that it is appropriate to proceed on the basis of tiered contribution rates. It is also clear the reforms in 2006 have not adequately addressed the cost of the schemes due to increases in longevity, the cost of which has mainly fallen on taxpayers.

However, Ministers, in the light of the statutory consultation responses, have decided that it is appropriate, in the specific case of the firefighters' pension scheme, to proceed with an altered contribution rate increase from April 2012. This approach now seeks 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. The new proposed tariff is set out at Annex B.

Question 2: Are there any consequences of the proposed contribution tiers that you consider have not been addressed?

Consultation responses: There were 39 respondents who offered a specific response to this question, or made comments which have been considered as responding to this question.

Of those who responded, many argued that the main consequences of these proposals would be an increase in the rate of members deciding to opt out of the pension schemes. Some argued that higher contribution rates would act as a disincentive for new recruits to join the scheme. Some argued that this would put the sustainability and affordability of the pension schemes at risk.

In this context, many respondents expressed the view that the Government's assumed opt out rate of 1 per cent is too low. Some offered estimates of their own, mainly based on employee surveys. Estimates on opt out rates ranged from 2 per cent to 55 per cent. A representative body's own survey³ of fire and rescue authorities' finance directors showed 88 per cent of new whole time recruits were joining the New Firefighters' Pension Scheme (2006) which, the representative body say, may imply that 12 per cent of new whole time recruits were already opting not to join a service pension scheme. Any increase in members opting out would be in addition to this.

³ Conducted in October/November 2011 with 70 per cent response rate

Several respondents suggested that higher contribution rates for higher earners could discourage members from going for promotion or advancement within the service. Some also suggested that the prospect of increases may encourage current members who have the option to retire in 2014-15 to do so, particularly because many such members are likely to be higher earners. Respondents argued that these actions would have a significant impact on succession and workforce planning for the service in the future.

Some respondents were concerned that the proposed contribution tiers do not take account of the impact of London weighting. This would mean that a member working in London would pay a higher contribution rate than a colleague of the same role in other parts of country. This, they argued, was unfair.

Other respondents suggested that there would be an administrative impact of imposing the new proposed tiers. This would be further complicated because the proposed tiers do not correspond to the current pay and role structure.

Government response: The firefighters' pension schemes will continue to offer a pension that is among the very best, providing a guaranteed pension level for all employees, and there will remain a strong economic rationale for members to remain in the scheme.

The Government does understand the pressures being experienced on household incomes. This is why the proposals seek to ensure that the proposed increases are spread fairly both in relation to income and the value of benefits staff receive. Increases will be phased in over a three year period from April 2012, and be progressive, and there will be protection from increases for lower earners.

As set out above, Ministers, in the light of the statutory consultation responses, have decided that it is appropriate, in the specific case of the firefighters' pension scheme, to proceed with an altered contribution rate increase from April 2012. This approach now seeks 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. 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.

The Government has considered the views expressed about the impact of the proposed contribution rates on scheme members working in London. While the Government acknowledges that those working in London may have a higher contribution rate than those outside of the capital, this reflects their higher salary levels which will in turn be reflected in their final pension benefits. In view of this, the Government has concluded that it is right that the proposed contribution tiers apply equally across England and are based on pensionable pay levels.

Members on promotion will receive a salary increase which may move them onto a higher contribution band. The Government has considered the impact of promotions in firefighter roles, based on current national pay scales, and does not believe that a firefighter would be worse off under the proposals if they took promotion. These members will continue to receive higher pension benefits following promotion.

The Government actively considered linking contribution bands to roles and national pay scales, and this was discussed extensively at the Firefighters' Pension Committee and with trade unions and employers. However, following those discussions, the Government concluded that the most practical and pragmatic option was one which linked contribution rates to pensionable pay and pension benefits that the member would receive, rather than their role.

With regards to the points raised on an increased administrative burden from fire and rescue authorities, tiered contributions are common to the Local Government Pension Scheme, which is administered by local authorities and is based on pensionable pay bands, not roles. Some of these local authorities also administer the two Firefighters' Pension Schemes. There will need to be adjustments made to the software used to administer the schemes but it is not currently clear, from the responses received, that the practical implementation of the proposals would create a burden on fire and rescue authorities of a level that should cause Government to alter its proposals.

Question 3: Do you consider that there are equality issues that 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?

Consultation responses: There were 22 respondents who offered a specific response to this question, or made comments which have been considered as responding to this question.

Some respondents were disappointed that the Government had not completed and published a full Impact Assessment to see if any equality issues were revealed.

Several respondents put forward views of which individual group(s) they thought might be disproportionately affected by the proposed changes and the possible consequences, for example:

- older members, more likely to be senior in role and higher earners, could be disproportionately affected by having to pay higher contribution rates and having less time to adjust their personal financial plans
- younger members could be affected, paying more across their career for a similar level of benefits enjoyed by older members
- part time workers could be affected with one representative body arguing that under current system two scheme members with the same salary,

regardless of hours worked, would pay the same contributions for a similar pension. Under the new proposals, a part time worker could be required to pay a higher rate of contribution compared with a whole time worker on the same pay, yet their pension benefits would be similar

- single parent families or single earning families could be affected by the changes because many may struggle to meet higher contributions

Government response: The Government has considered whether there are equalities issues that will mean that any group will be disproportionately affected by the proposals and has taken account of the comments and views expressed in response to this consultation.

Having had due regard to the potential impact on any specific group, the Government has concluded that both the tariffs consulted on, and the revised tariffs contained in the Annex B, represent a reasonable and proportionate means of achieving its objectives. In particular, the Government is clear that the tiered contribution rates are consistent with its objective to ensure that the increase is progressive and protects the lower paid and that higher earners will contribute more towards their pensions.

In addition, the Government has carefully considered the views expressed on the position of part time workers, relative to full time workers with the same level of income. The Government remains of the view that the use of 'full time equivalent' salary is fair and will ensure that the same level of contributions are set relative to the amount staff earn per hour.

Question 4: Is there a tariff which you think will help to further minimise any opt outs from the firefighters' pension scheme?

Consultation responses: There were 20 respondents who offered a specific response to this question, or made comments which have been considered as responding to this question.

Of those who responded, some suggested that the proposals should take account of the fact that members currently have to contend with pay freezes and other financial pressures. In view of this, there may be advantages to 'back loading' the increases – so that 20 per cent of the increases would be accrued in the first year, and 40 per cent accrued in each of the following years. While this would reverse the current proposal, respondents argued it would still meet the Government's policy objectives and could prove to be a more attractive option.

Other suggestions focussed on minimising the risk of opt outs from specific groups of members, for example, the Department should consider:

- lower or no increases to members of New Firefighters' Pension Scheme (2006) to encourage more members from the more expensive Firefighters' Pension Scheme (1992) to transfer to the newer scheme. This could also encourage fewer members of the new scheme to opt-out

- lowering the contributions rates for higher earners to help minimise senior staff opting out
- lowering the increase in contribution rates for members earning more than £15,000 but less than £30,000 to help minimise opt outs in the lower paid groups
- developing a separate contribution tariff that takes account of London weighting to help minimise opt outs from members in London who might otherwise perceive unfairness

Government response: Ministers, in the light of the statutory consultation responses, have decided that it is appropriate, in the specific case of the firefighters' pension scheme, to proceed with an altered contribution rate increase from April 2012. This approach now seeks 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. The altered levels of contributions will help reduce the risk of opt outs from the firefighters' pension schemes.

In view of the level of pension benefits that high earners receive under a final salary scheme, and the higher levels of tax relief that they receive on pension contributions than lower earners, the Government is not persuaded that high earners are a higher risk of opting out of the scheme than other groups of scheme members. 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. Interested parties will have the opportunity to provide evidence and views to the Government.

Question 5: Is the treatment under the proposals of part time workers and retained firefighters clear?

Consultation responses: There were 22 respondents who offered a specific response to this question, or made comments which have been considered as responding to this question.

Of those who responded, the majority agreed that the treatment under the proposals of part time workers and retained firefighters was clear. Several respondents supported their agreement by stating the proposals were pragmatic, well described, clear and equitable and reasonable. Some respondents found the worked examples provided in the consultation document were helpful.

A small number of respondents questioned the relevance and applicability of whole time equivalent salaries for retained duty staff.

Government response: As indicated above, the Government remains of the view that the proposed treatment of part time workers and retained firefighters is fair and clear. In addition, the proposals are consistent with the approaches adopted in other public service pension schemes.

Next steps

The Department for Communities and Local Government is grateful for responses received to the consultation and has given careful consideration to the issues raised and comments made. Ministers have concluded that the case for change still stands but that it is appropriate, in the specific case of the firefighters' pension scheme and in consideration of the responses to the statutory consultation exercise, to proceed with an altered contribution rate increase from April 2012. The revised tariff is set out at Annex B.

No comments were received on the draft amending Orders which were included in the consultation.

Annex A

List of respondents

There were a total of 61 responses received.

There were 36 responses received from individual members of the fire service pension schemes.

There were 18 responses received from fire and rescue service employers:

1. Bedfordshire and Luton Fire and Rescue Service
2. Cheshire Fire and Rescue Service
3. Cumbria Fire and Rescue Service
4. Derbyshire Fire and Rescue Service
5. Dorset Fire and Rescue Service
6. Gloucestershire Fire and Rescue Service
7. Greater Manchester Fire and Rescue Service
8. Hertfordshire Fire and Rescue Service
9. Leicestershire Fire and Rescue Service
10. London Fire and Emergency Planning Authority (authority charged with running the London Fire Brigade)
11. Nottinghamshire Fire and Rescue Service
12. Oxfordshire Fire and Rescue Service
13. Shropshire and Wrekin Fire and Rescue Service
14. Staffordshire Fire and Rescue Service
15. Warwickshire Fire and Rescue Service
16. West Midlands Fire and Rescue Service
17. West Yorkshire Fire and Rescue Service
18. Tyne and Wear Fire and Rescue Service

There were 7 responses received from representative bodies:

1. Association of Principle Fire Officers
2. Chief Fire Officers Association
3. Fire Brigades Union
4. Fire Officers' Association
5. Local Government Association
6. Prospect
7. Retained Firefighters Union

Annex B

Revised Tariffs

The following set out the employee contribution tariffs to apply to the firefighters' pension schemes from 1 April 2012.

Firefighters' Pension Scheme 1992

Pensionable pay band	Increase 2012-13 (%)	Increase net of tax relief (%)*	Total contribution rate 2012-13 (%)
Up to and including £15,000	0.0	0.00	11.0
More than £15,000 and up to and including £30,000	0.6	0.48	11.6
More than £30,000 and up to and including £40,000	0.7	0.56	11.7
More than £40,000 and up to and including £50,000	0.8	0.64 (basic rate) 0.48 (higher rate)	11.8
More than £50,000 and up to and including £60,000	0.9	0.54	11.9
More than £60,000 and up to and including £100,000	1.2	0.72	12.2
More than £100,000 and up to and including £120,000	1.5	*	12.5
More than £120,000	2.0	*	13.0

New Firefighters' Pension Scheme 2006

Pensionable pay band	Increase 2012-13 (%)	Increase net of tax relief (%)*	Total contribution rate 2012-13 (%)
Up to and including £15,000	0.0	0.00	8.5
More than £15,000 and up to and including £30,000	0.3	0.24	8.8
More than £30,000 and up to and including £40,000	0.4	0.32	8.9
More than £40,000 and up to and including £50,000	0.5	0.40 (basic rate) 0.30 (higher rate)	9.0
More than £50,000 and up to and including £60,000	0.6	0.36	9.1
More than £60,000 and up to and including £100,000	0.8	0.48	9.3
More than £100,000 and up to and including £120,000	1.0	*	9.5
More than £120,000	1.2	*	9.7

* The specific rate of tax relief depends on the members' personal circumstances.