FIRE BRIGADES UNION

11 October 2011

Protecting good quality occupational pensions in the fire and rescue service: the initial approach of the Fire Brigades Union

This paper is provided to outline the position of the Fire Brigades Union on the various proposals we face in relation to the pensions of those working in the fire and rescue service. We are not convinced at all of the need for further changes to public sector pensions, including those in the fire and rescue service. Indeed we believe there are several areas where pension provision within the fire service is in urgent need of improvement.

The FBU presents a series of professional arguments designed to counter many proposals based purely on misguided assumptions and a misunderstanding of the fire service. We do not view the government's proposed changes as 'reform' but rather as an attack on the pension rights of firefighters and other public sector workers.

Scheme specific talks

Following discussions between the TUC and government ministers, it has been agreed that further talks should take place within each public sector scheme. The FBU is concerned that the central talks have so far failed to resolve any of the crucial differences between the two sides and that therefore these scheme specific talks may be severely limited from the start.

However, the FBU has made clear that we wish to avoid conflict within our service and are therefore willing to meet and discuss the various proposals on pensions. However, our own consultation with our members has made clear the depth of anger which these proposals have produced. We therefore hope that these talks with government/s will provide a genuine opportunity for our case to be considered. We are confident that we have extremely strong evidence to support our arguments. It remains to be seen whether there will be any genuine dialogue on the substantial issues.

We believe that our case against the proposed changes is strong on various grounds including:

- Affordability
- Sustainability
- Fairness
- Cost to employees
- Operational and professional grounds
- Retirement age

We would hope that others within the fire service, including fire and rescue employers, chief fire officers and other professionals will support the FBU as we pursue our case.

Devolution

Fire policy, including pensions, is a devolved matter. The FBU seeks genuine dialogue with the appropriate ministers and officials in Scotland, Wales and Northern Ireland and has already begun this process of engagement.

Nevertheless, the FBU also believes that there are strong grounds for a solution which is broadly UK wide. Firefighters across the UK have to work together, operationally and in terms of developing training, development and other standards. The firefighting profession shares the need for developing and sustaining professional standards across the UK and we believe this is best supported by a common framework on pension arrangements as well. For example, the FBU did not and does not support the weakening of the involvement of the devolved administrations in the Firefighters Pensions Committee (FPC).

We hope that ministers, officials and other fire service professionals will support us in this debate during our discussions with Westminster and in the further discussions in Scotland, Wales and Northern Ireland.

Background to these discussions

The Westminster coalition government has made it clear in its intention to introduce an increase in employee contributions from April 2012-14, equivalent to 3.2% above the current rate and to introduce the changes recommended in the Independent Public Service Pension Commission (Hutton) report, released on 11 March 2011.

These proposals give the FBU an opportunity to raise issues and to present evidence at the appropriate juncture. We recently provided an initial outline of this evidence to Ministers in all four parts of the UK. This evidence was described by CLG fire minister Bob Neill, in a letter to the union on 16 September 2011, as “robust” and “expert”. Bob Neill also confirmed in the same letter that he would give it ‘serious consideration’ and that it “will provide a substantive basis for future detailed discussion with my officials and the Government Actuary’s Department”.

In this initial response, the FBU raises concerns in relation to several of these proposals where it feels the issues are either based on information that is and unrealistic and inaccurate both from a financial and practical angle.

The FBU is disappointed that many of the Hutton recommendations lack robust or expert evidence to substantiate them. The union has therefore taken steps to provide information that corroborates our concerns.

In this initial response, the FBU will provide expert analysis from a number of sources with proven expertise in the field.

These documents which are included as part of this initial response include:

1. *A critical analysis of the Independent Public Service Pension Commission report* by Tony Cutler and Barbara Waine, two independent academic researchers who have previously produced papers on public sector pensions for the Centre for Research on Socio Cultural Change (CRESC).
2. *A scoping study: Review of aging and the demands on firefighting* by Richard Graveling and Joanne Crawford on behalf of the Institute of Occupational Medicine IOM.

3. A report on the impact of the governments' proposal for members of the firefighters' pension scheme and the new firefighters' pension scheme; by Rob Hammond of First Actuarial consultants.

This response, which is separated into sections dealing with specific issues contained in the recommendations, also makes reference to other documentation (not included in this initial response) namely:

- A survey of FBU members carried out by YouGov plc,
- An FBU survey of redeployment opportunities in the UK fire service
- Various minutes from the Firefighters Pension Committee

The FBU has a proud reputation for its professional approach and represents over 43,000 members who currently work in the fire service and over 7,500 retired and out of trade members. In presenting this initial response and the associated documentation the FBU hopes to engage in discussions and influence the outcomes on an issue that is extremely important, not only to Fire Brigades Union members, but to the effective and efficient performance of the UK fire service in the future.

Contribution rates

The Fire Brigades Union is opposed in principle to the proposals to increase employee pension contributions across the various public sector schemes. This measure is being introduced as a mechanism to raise funds for deficit reduction – an aim which should be treated separately from the objective of ensuring the viability and suitability of occupational pension schemes.

The FBU has substantial reasons to contest the proposed increases in firefighter contributions, which are backed by independent evidence:
1) The proposed increases in contributions will not raise the revenue the Treasury expects due to high levels of opt out. High levels of opt out also threaten the future viability of the schemes.
2) Firefighters are hit particularly hard by the proposed increases in contributions, given our schemes. This unfairness is keenly felt by firefighters and may have an adverse effect on their career decisions.
3) Firefighters already pay extremely high contribution rates as a proportion of salary compared to other public and private sector schemes. The input from our employers (the taxpayer) compares favourably with the private sector schemes.

The FBU therefore does not accept that there is a case for increasing firefighter contributions at the present juncture.

<u>Increasing contributions is financially self-defeating</u>

The government has failed to register the potential impact of increasing employee contributions on the sustainability of the firefighter schemes and is putting at risk their viability. Members of the Firefighters' Pension Scheme (FPS) pay 11% employee contribution rates, which along with some police are the highest in the public sector. Members of the New Firefighters' Pension Scheme (NFPS) pay 8.5% of salary. Our control members in the Local Government Pension Scheme (LGPS) pay at least 6.5%.

CLG's recent consultation document on contribution increases makes the assumption that just 1% of firefighters will opt out of their scheme by 2014-15, if the proposed increases are imposed.[1] In a minuted response to a question at the 39th Firefighters Pension Committee, held on 12 January 2011, the Government Actuary's Department (GAD) highlighted that every 1% opt out costs the firefighter schemes £3.5 million per annum in lost contributions.[2]

The FBU believes that a significant proportion of firefighters will opt out of their pension scheme or even leave the service if the government's pension proposals are implemented. Our view is supported by evidence in the YouGov firefighters' survey commissioned by the union.

The principal finding of the survey is the large numbers of firefighters who said they would opt out of their pension scheme if increased contributions are imposed. The survey found that more than a quarter (27%) of respondents would be likely or very likely to opt out of the scheme if the proposal to increase the employee contribution is implemented; and nearly one in eight (12%) respondents said they would be very likely to opt out if contributions are raised.[3]

Although CLG have confirmed the figure to be raised by this employee contribution rise is £33m (for England), the full savings will not be realised in the first two years. It aims to deliver 40% (£13.2m) in 2012, then 80% (£26.4m) in 2013, and then finally 100% (£33m) in the final year 2014. Putting these figures together with the YouGov survey data on opt outs shows that any potential savings from increasing contributions will be wiped out, and is likely to result in a reduction in revenue for the firefighters' scheme.

If, as GAD confirm, a 1% opt out costs the scheme £3.5 million per annum, then an opt out rate of 12% would cost £42 million per year or £126 million over three years. If the opt out rate was 27%, then the loss in contributions would be £94.5 million per year, or £283.50 million over three years. This is highlighted in the table below:

Year	CLG savings target (£m)	Losses from 12% opt out (£m)	Losses from 27% opt out (£m)
2012-13	13.2	42.0	94.5
2013-14	26.4	42.0	94.5
2014-15	33.0	42.0	94.5
Total	72.6	126.0	283.5

Although CLG expects that increasing contributions will raise at most £72.6 million, the FBU believes this would be more than wiped out by a 12% opt out, and the scheme would face substantial losses if it was 27%. Using CLG's figures, an opt out rate of 7% or more nullifies the potential savings. Therefore increasing contribution rates is self-defeating.

The FBU has previously put this evidence to CLG. We were disappointed with the dismissive response to it from CLG. The union therefore asked First Actuarial consultants to look at the potential problems that any rise would have on the present and future cash flow of the scheme.[4] Unlike a funded scheme, the

[1] CLG, Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006): Proposed increases to employee contribution rates, effective from 1 April 2012 – Consultation, 9 September 2011 p.14
[2] Firefighters Pension Committee, 39th meeting 12 January 2011, note to minutes.
[3] FBU, YouGov poll – nearly half of firefighters will consider leaving the service if pensions proposals are pushed through, 29 June 2011
[4] First Actuarial, Report to FBU: Impact of Government's proposals for members of the FPS and NFPS, 31 August 2011 p.38

pay as you go method relies on a continuous stream of contributions to pay for pensions and other benefits. The First Actuarial report highlights the potential problems that any rise in opt out levels could have on the cash flow (and a similar point could be made in relation to the impact of job losses on funding streams). The table below shows the potential impact on net cash flow in 2011/2012 for opt out rates varying between 10% and 50%:

£ million	Assumed opt-out rate in 2011/2012					
	2010/2011	10%	20%	30%	40%	50%
Net cashflow	- 296	- 327	- 358	- 390	- 421	- 452
Reduction in net cashflow	-	- 31	- 62	- 94	- 125	- 156

The First Actuarial report found that it may be in the financial interest of some members to opt out of the scheme if the proposed increase in member contributions is implemented. The report stated[5]:
"5.6 For example, a firefighter who has already reached the maximum number of years' service or is approaching retirement may be better off opting out and paying his member contributions into a personal pension…
"5.7 Often, close to retirement, a member's salary does not increase (or actually reduces if the member goes part time). Therefore, the only real benefit of remaining in the scheme is the life cover provided... However, it is likely that the firefighter would be able to obtain equivalent life cover from an insurance company...
"5.8 At the other extreme, those firefighters just starting their career could be better off opting out of the scheme from the start and instead putting their member contributions into a personal pension of their own."

In addition to this, the FBU has received a substantial number of calls and messages from around the UK from members who are indicating that they are contacting their local administrators to find out how they could opt out. The FBU has been forced to issue an all members circular advising members not to take any decision on their future pension membership until a more detailed picture is available.[6]

<u>Increased contributions hit firefighters particularly hard</u>

The FBU firmly rejects the proposal to increase the employee contributions by 3.2% over the period 2012-14. The proposed increase would mean in real terms an increase in member contributions of around £2,000 for wholetime firefighters in the FPS and the NFPS. For firefighters working the retained duty system earning £10,000 pensionable pay, this would equate to over £600 in additional pension contributions over the three year period. For members in the LGPS this would amount to around £1,900 in extra contributions.

In addition to these proposals, tiered contributions based on salary bands are to be imposed.[7]

[5] First Actuarial 2011 p.35
[6] FBU, Hands Off Our Pensions – Opt Out Enquiries [420MW], September 9, 2011
[7] CLG, Consultation, 9 September 2011 p.13, p.14

	Firefighters' Pension Scheme		New Firefighters' Pension Scheme	
Pensionable pay band	Proposed additional rate 2012-13 (%)	Revised contribution 2012-13 (%)	Proposed additional rate 2012-13 (%)	Revised contribution 2012-13 (%)
Up to and including £15,000	0.0	11.0	0.0	8.5
More than £15,000 and up to and including £21,000	0.6	11.6	0.6	9.1
More than £21,000 and up to and including £30,000	1.3	12.3	0.6	9.1
More than £30,000 and up to and including £40,000	1.4	12.4	0.8	9.3
More than £40,000 and up to and including £50,000	1.6	12.6	0.9	9.4
More than £50,000 and up to and including £60,000	1.8	12.8	1.0	9.5
More than £60,000 and up to and including £100,000	2.0	13.0	1.1	9.6
More than £100,000 and up to and including £120,000	2.1	13.1	1.2	9.7
More than £120,000	2.3	13.3	1.3	9.8

This will have the added impact of raising pension contributions even further for one-third of all wholetime and retained firefighters, who are above the competent firefighter pay band.[8] This means that the vast majority of firefighters are being asked to pay between £2,000 and £7,000 additional contributions over the next three years.

The FBU believes that these tiered contributions will have a large impact on the willingness of firefighters to apply for promotion. In the YouGov survey, 62% of respondents indicated that they may consider not taking promotion in the future if the proposals become a reality.

Again, figures provided by First Actuarial show why individual firefighters might take that decision. For example, an Area Manager in development in the FPS who moves in 2012/13 to competent Area Manager (A) would receive a salary increase of £1,475 (£49,167 to £50,642), but will face an increase in contributions from 12.6% to 12.8%. This is equivalent to an extra £287 in contributions, resulting in an increase in take-home pay of only £713 after tax.[9]

Another example, is a Station Manager (A) in the FPS who moves to Station Manager (B) in 2014 or later would receive a salary increase of £2,653 but could face an increase in pension contributions from 14% to 16.2% (under the proposed tiered contribution structure). This is equivalent to an extra £1,254 in pension contributions, resulting in an increase in take-home pay of only £1,119 after tax.

The FBU is opposed to the short term increases in employee contribution rates. But just as worrying is the prospect of facing a long term increase in employee contribution rates. The reference scheme design proposals indicate that average member contributions should be assumed to be 3.2% above their current weighted average level.

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[8] CIPFA, Fire and rescue service statistics (2010) indicate approximately 54,000 wholetime and retained firefighters in the UK, of whom over 18,000 are classified above the competent firefighter role.
[9] First Actuarial, 2011 p.32

First Actuarial figures indicate that a 'high-flying' firefighter aged 40 in the FPS would end up paying additional contributions of £54,000 until retirement at 60 if the government's overall proposals are implemented. Even a typical firefighter would pay over £18,000 more over the course of their career – while those remaining as competent firefighters would pay over £15,000 more. Similarly, a young firefighter aged 20 in the NFPS will be expected to make over £26,000 extra contributions over their career if these proposals are implemented. High flyers can expect to pay over £40,000 in additional contributions. [10]

Fairness

The FBU believes that the proposal to increase contributions is simply unfair to firefighters. For individual firefighters, the proposed increase in contributions would be imposed on the back of no pay increase for 2009-2010 and the two-year pay freeze imposed from 2010 in the fire and rescue service. With the cost of living running at around 5%, this has already caused considerable financial hardship for FBU members.

A conception of fairness is missing from the government's approach. For example the Hutton review did not make clear how fairness is to be measured between taxpayer, private sector and the public sector. The FBU asked independent pensions experts Tony Cutler and Barbara Waine to examine firefighters' pension schemes in light of the Hutton review. Their report provided some important comparators to allow firefighters to judge whether government claims about fairness are justified.

Members of the FPS pay 11% employee contribution rates, which along with some police are the highest in the public sector. Cutler and Waine revealed that this contribution rate "is over double the private sector weighted average member contribution in DB (defined benefit) schemes in 2009 of 5.2 per cent. Thus FPS scheme members are making member contributions well in excess of norms in private sector schemes".[11]

The government has raised the issue of fairness between employee and employer contributions, with the employer in our case described as the taxpayer. Of course firefighters are also taxpayers, but the issue can be examined on its merits. Cutler and Waine pointed out that the FPS scheme operates with an employer to employee contribution ratio of 2.2: 1. The NFPS scheme operates with a ratio of 1.4: 1. They also highlighted figures from the private sector in 2009, when employer contributions to defined benefit schemes were consistently in excess of three times employee contributions (>3: 1).[12]

The clear view of firefighters is that contribution increases are unfair and unsustainable. Imposing increased contributions will increase likely opt outs. High levels of opt out, alongside job losses, put the schemes at risk. Imposing increased contributions will affect the promotion decisions of firefighters and thus impact on the service provided. Contribution increases will be imposed in the context of a pay freeze in the fire and rescue service. The FBU urges the government to think again and withdraw its proposal to increase firefighter contributions.

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[10] First Actuarial, 2011 p.31-32

[11] Cutler and Waine, Pension Schemes in the Fire Service and the Independent Public Service Pensions Commission, 2011 p.12

[12] Cutler and Waine, 2011 p.14

Retirement age

The Fire Brigades Union completely rejects the recommendation contained in the Hutton report that the normal pension age (NPA) for firefighters should increase to 60 under a new fire service scheme, post-2015. Indeed we believe that the normal pension age for those who have joined the service since 2006 should be reduced from 60 to 55.

The normal pension age in the FPS is 55 (although FPS members may retire before that in certain circumstances). In the NFPS, the NPA is 60. Recommendation 14 of the final Hutton report states that the government should “consider” setting a new NPA of 60 for all firefighters post-2015.[13]

Hutton’s recommendation

The FBU believes that Hutton made a fundamental error with this recommendation. He recognised that the fire service would need to be treated differently due to the physical and operational demands of the service. Hence his recommendation for an NPA to be “considered” rather than the state retirement age. However, he completely neglected to explore whether there had been any evidence to support the change brought in after 2006, i.e. to raise NPA to 60.

The truth is that no evidence was ever presented at the time and the change was never accepted by the FBU. It was merely implemented unilaterally by government. The error in introducing the NPA of 60 was a gross case of policy based on prejudice rather than evidence. It was therefore fundamentally flawed from the start. Hutton has merely exacerbated this error by suggesting that it should be replicated.

In 2006, it was strongly argued by pensions officials at CLG that firefighters who were no longer able to reach or maintain operational fitness could be redeployed into suitable roles, which did not have an operational requirement. It was argued that this would mitigate any rise in ill-health retirements. The FBU objected to this at the time, stating that it was not based on evidence from within the service.

The FBU argued that this approach would simply lead to increasing pressures for firefighters to be dismissed under capability procedures. This concern was vindicated by the subsequent case in London, when firefighters’ pensions were removed despite the employer being unable to identify any alternative work. The subsequent court case broadly confirmed the long-held FBU view that an occupational pension scheme must be designed around the pension and that redeployment opportunities must be real rather than hypothetical.

In a recent survey (2011), the FBU has received information from 41 fire authorities regarding their redeployment opportunities. Only seven fire authorities confirmed that they have any potential redeployment opportunities that fulfilled the required criteria. In these seven examples, the number of redeployment opportunities available is so low (1 to 3 is the most common band) that they undermine the assumptions made in 2006.

Costs of increasing normal pension age

The FBU is concerned that any rise in the normal pension age will inevitably result in an increase in ill-health retirements. This would completely undermine the long process of reducing ill-health retirements

[13] Hutton, Independent Public Service Pensions Commission: Final Report, 10 March 2011 p.14

and the consequential cost savings to the scheme that have resulted from these efforts. This view is confirmed by others examining the issue.

On 19 December 2005, GAD were questioned on the projections for an increase in the normal pension age in the NFPS from 55 to 60 and confirmed its assumption that "any increase in retirement ages will result in a corresponding increase in ill-health retirements".

GAD also confirmed that they had "projected a best fit line onto the graph of ill-health retirements in the existing FPS and extended this up to age 60". They also advised that "it would not be until after the first recruits of the NFPS have completed their careers that a determination could be made on whether GAD's assumptions are correct or incorrect".

It would be extremely risky to wait until ill-health retirements begin to increase in 35 years or so. Pension policy should be based on evidence and the evidence clearly suggests the likelihood of increasing numbers of ill-health retirements, if the normal pension age is increased. The FBU is convinced that if there is a rise in ill-health retirements, then there will be a consequential rise in scheme cost.

To try to cost this, the FBU asked First Actuarial consultants to provide an assessment of the potential impact of any rise in ill-health retirements on the schemes.[14] First Actuarial found that ill-health retirements dramatically increase with age.

The assumption for ill-health retirements following the 2007 valuation is 5%. Using the costs outlined in the 2007 valuation and projecting these to reflect the proposed reference scheme, an increase in ill-health retirement by only 10% to 15% will nullify any savings that might be delivered by increasing the NPA from 55 to 60. An increase by 20% will actually make the proposal to increase the NPA from 55 to 60 more expensive than the current scheme arrangements. This is broadly similar across both the FPS and the NFPS.

The report highlights that if ill-health rates of 20% or higher are reached, the reference scheme using an NPA of 60 is more expensive than using an NPA of 50 (32.2% compared to 32%) based on a uniform distribution of ages. At rates of only 10%, the costs of an NPA of 60 would be similar to those of an NPA of 55 (29.8% compared to 30.7%).

<u>Occupational health issues</u>

All the financial costs outlined in the report by First Actuarial are based on assumptions around the ability of firefighters to maintain operational fitness beyond age 55. This also clearly lies behind the suggestion with the Hutton report – even though Hutton had no evidence whatsoever to support such a claim.

In order to obtain robust and expert analysis on this, the FBU asked Dr Richard Graveling and Dr Joanne Crawford from the Institute of Occupational Medicine to conduct a review of the literature on aging and the demands of firefighting.[15]

The report confirms that a wide variety of health conditions have a clear association with age with the prevalence of these conditions increasing with increasing age. Although there is no hard data to show

[14] First Actuarial 2011 p.12-16
[15] Institute of Occupational Medicine, Scoping Study: Review of aging and the demands of firefighting, August 2011

that osteoarthritis and diabetes are more common in firefighters than in older members of any population, the authors recognise that there is an added risk in professions such as firefighting, due to the nature of the work. The report indicates that there is a lack of specific data on the impact of aging on firefighters especially among female firefighters.

The additional recovery time required by aging firefighters is highlighted and the authors agree that "older firefighters of either gender will find the demands of being a firefighter more taxing than will their younger counterparts; both in terms of the physical work demands and of the extent of any heat strain experienced".

The authors recognise that "the entry requirements for UK firefighters are based, at least in part, on the assumption that these reflect an anticipated deterioration in performance up to a certain age, it must be assumed that, beyond that age, an increasing proportion of firefighters will find operational demands more challenging".

To summarise, Graveling and Crawford agree that: "Some firefighters will be capable of continuing to meet the operational demands of being a firefighter beyond the current retirement age. However, an increasing number will suffer from health problems which will impair this ability, including (amongst many) musculoskeletal disorders (especially of the back); osteoarthritis and diabetes. In addition, age-related deterioration in physical fitness, muscle strength and heat tolerance will mean an increasing number will find it difficult to meet the acute challenges of firefighting, resulting either in a degradation in operational performance (older firefighters performing allotted tasks more slowly) or an increase in risk of acute injury such as severe fatigue or heat-related illness (where self-pacing is either not possible or not practiced). It could be argued that imposing a blanket age limit will unnecessarily restrict some firefighters who could safely remain in service. However, until some reliable and fair means is identified of determining who those individuals are, raising the current limit will place more firefighters at risk than is currently the case."

In conclusion, there is no evidence to deviate from the view in the 1996 Haisman report.[16] This research concluded that raising the limit above 55 years would result in fewer firefighters being able to meet the physical requirements of firefighters' duties and that there is, therefore, no case for raising the limit.

Other outstanding issues

There are a number of other outstanding issues where the Fire Brigades Union has concerns. These have not been addressed adequately in the proposals so far, but there is sufficient for us to register some of our arguments.

Maintain final salary and opposing tiering

Recommendation 7 from the Hutton final report proposed that a new career average revalued earnings (CARE) scheme should be adopted for general use in the public service schemes. In addition to this, recommendation 9 proposed the differing characteristics of higher and lower earners should be addressed through tiered contribution rates.[17]

[16] Haisman M. Age Limit for Serving Firefighters. London, Home Office Fire Research and Development Group, 1996

[17] Hutton Final Report, 2011 p.10, p.12, p.160

Hutton suggested that high earners benefit much more than low earners from a final salary scheme. These two recommendations were accepted by the government and the Treasury's reference scheme design outlines a move from final salary schemes to CARE schemes.

Two vital components are still not clarified:

- The future accrual rates - which are vital to future assumptions for both cost and benefits
- Revaluation rate – although the Hutton final report suggests uprating in line with average earnings and the reference design suggests earning revaluation of past CARE service for active members, there is no detail on how this will be implemented.

The FBU believes that the introduction of CARE alongside imposing tiered contributions would have the double impact effect on higher earners. This has been exacerbated in the consultation document, issued on 9 September 2011, when first year employee contribution rates have been hiked even further than originally anticipated.

Neither the Hutton report nor the increased employee contributions consultation document recognised the impact that this may have on individuals deciding to take future promotion. We would remind Ministers and Officials of the results of the YouGov survey 2011, in which 62% of firefighters indicated that the pension changes were likely to affect their decision to apply for future promotion.

Tiered contributions

Further evidence of the extent of these impacts has been provided by the First Actuarial report. First Actuarial figures indicate that a 'high-flying' firefighter aged 40 in the FPS would end up paying additional contributions of £54,000 until retirement at 60 if the government's overall proposals are implemented. A firefighter following a typical career path would pay over £18,000 more in the course of their career – while those who remain as a competent firefighter would pay over £15,000 more. Similarly, a young firefighter aged 20 in the NFPS will be expected to make over £26,000 extra contributions over their career if these proposals are implemented. High flyers can expect to pay over £40,000 in additional contributions.[18]

To demonstrate the potential impact on ambitions for promotion the First Actuarial report gives examples of individuals receiving promotion, moving to a higher contribution band and ultimately what this will mean to their take home pay. It shows a perverse example where an individual receives promotion but actually receives a decrease in take home pay after the increased contribution rate is applied.

A further example is an Area Manager in development in the FPS who moves to competent Area Manager (A) in 2013/14. This firefighter would receive a salary increase of £1,475 (£49,167 to £50,642) but could face an increase in contributions from 12.6% to 16.6%. This is equivalent to an extra £2,212 in contributions, and actually results in a decrease in take-home pay of £490 after tax.[19]

In addition to these extra contributions, firefighters also face substantial losses to their expected benefits. The First Actuarial report compares the impact of the CARE scheme reference scheme on member benefits for three stylised career profiles ("no promotion", "typical career" and "high-flyer") for both the Firefighters' Pension Scheme (FPS) and New Firefighters' Pension Scheme (NFPS).

[18] First Actuarial 2011 p.31-32
[19] First Actuarial 2011 p.32

CARE benefits reduction under FPS

A member in the FPS currently aged 40, retiring at the age of 50 who did not take promotion would currently expect to receive a pension of £18,799 annually. Under the CARE scheme, and assuming an accrual rate of 1/60th, this would fall to £11,431. (For a worse accrual rate of 1/80th, this would drop by a further £500 per annum).

A member in the FPS currently aged 40, retiring at the age of 50 who had been through the typical career path would currently expect to receive a pension of £21,885 annually. Under the CARE scheme (assuming an accrual rate of 1/60th), this would fall to £13,313.

A member in the FPS currently aged 40, retiring at the age of 50 who is a high-flyer would currently expect to receive a pension of £33,761 annually. Under the CARE scheme (assuming an accrual rate of 1/60th), this would fall to £20,240.[20]

CARE benefits reduction under NFPS

Firefighters in the NFPS would also face a significant cut in their benefits, if the CARE scheme is implemented.

A newly joined member in the NFPS currently aged 20, retiring at the age of 55 who did not take promotion would currently expect to receive a pension of £16,449 annually. Under the CARE scheme, and assuming an accrual rate of 1/60th, this would fall to £14,849. (For a worse accrual rate of 1/80th, this would drop by a further £3,700 per annum).

A newly joined member in the NFPS currently aged 20, retiring at the age of 55 who followed a typical career path would currently expect to receive a pension of £20,394 annually. Under the CARE scheme, and assuming an accrual rate of 1/60th, this would fall to £16,370.

A newly joined member in the NFPS currently aged 20, retiring at the age of 55, without applying an early retirement factor, who is a high flyer would currently expect to receive a pension of £31,462 annually. Under the CARE scheme, and assuming an accrual rate of 1/60th, this would fall to £20,400.[21]

Whether members of the FPS or NFPS, and whatever career scenario is chosen, all firefighters would no longer meet the Turner requirements for benchmark replacement rates. At present most firefighters would receive at least 60% of their final salary in pension benefits when they retire. Under these proposals, benefits fall to less than 50% - and as low as 30% with the worst accrual rates. The evidence highlights that CARE schemes do not deliver these same replacement rates even where the present accrual rates are maintained

An important point should be made with regard to accrual rates. Given the potential for accrual rates to be worsened substantially, this could dramatically increase the number of people who would reconsider their promotion options and also increase the opt out rates highlighted earlier in this submission.

[20] First Actuarial 2011 p.20-22
[21] First Actuarial 2011 p.23-25

Emergency fire control staff

The FBU believes that the position of emergency fire control staff is unique and is somewhat different to many others within the LGPS, due to the demands of fire service operations. We believe access to the main fire service scheme should be granted to emergency fire control staff.

During discussions in 2006, the previous government accepted the argument that emergency fire control staff should be granted access to the NFPS subject to this change not increasing overall costs. These discussions subsequently stalled on the issue of cost.

The FBU believes that this measure could be achieved without increasing costs. To provide evidence the FBU requested that First Actuarial look at a costing comparison between the NFPS and the LGPS.

First Actuarial found that “the cost of a NPA 60 benefit calculated on the GAD assumptions would be similar to the cost of a NPA 65 benefit calculated on the LGPS assumptions”. Furthermore, higher member contributions in the NFPS would mean that the actual cost to taxpayers of providing benefits to firefighters in control via the NFPS rather than the LGPS would actually be lower.

As with other members of the fire service, emergency control staff workers have an operational commitment which requires an individual to maintain their mental fitness, especially as the role includes an enormous element of stress. The FBU believe that this must be considered before any decision to increase the retirement age is taken.

The FBU has highlighted the benefits in granting access for emergency fire control staff to the main fire service pension scheme in various forums. We believe that such a step could also resolve other challenges facing the fire service in coming years. The FBU propose that this discussion is continued and that all the evidence is considered before any decision is made.

Change to commutation rates

HM Treasury outlined a change to lump sums as part of the reference scheme design. The FBU is opposed to this recommendation.

The First Actuarial report highlights that where a lower factor is used, the assumption that the number of people who commute pension to lump sum is not evidenced. There are no figures for people in the NFPS to substantiate any assumptions as they haven’t retired yet. The FBU believe that lowering the commutation rate will have effect of less people taking pension in lump sum so making the scheme more expensive.[22]

Other elements in the proposed reference scheme design, such as ancillary benefits, rejoining schemes and transferring benefits will need to be looked at in depth when more detail is available.

[22] First Actuarial 2011 p.17