

DEFINITION OF PENSIONABLE PAY IN THE FIREFIGHTERS' PENSION SCHEME 2015

Issue

1. This paper asks for Committee members' views on the definition of pensionable pay that should be used to determine pension benefits, and employee and employer contribution rates, in the Firefighters' Pension Scheme 2015 (FPS 2015).

Background

2. The issue of what elements of pay should be pensionable in the FPS 2015 was raised in discussions with the FPS 2015 working group, and through responses to the consultation of the FPS 2015 member benefit regulations. The possible options are set out below, and the advantages and disadvantages of each are considered.
3. Unlike a final salary scheme, under a career average arrangement there are fewer pension implications for making elements of pay pensionable. However, it does affect the calculation of death benefits and injury awards which uses pensionable pay at a point in time to calculate benefits.
4. There is no intention to amend the existing definition of pensionable pay in the 1992 or 2006 schemes. These will remain and will be used to calculate a member's final salary link for benefits earned in their current schemes.

Options

Option 1: Keep the definition broadly similar to the definition used in the New Firefighters' Pension Scheme (NFPS), and as recently consulted on

5. The definition of pensionable pay proposed for the FPS 2015, as consulted on, set out that pay received for the performance of the duties of the member's role (including any permanent emoluments or amounts foregone for a non-cash benefit) would be pensionable. It also confirmed that payments for Continuous Professional Development would be pensionable. However, amounts paid on a temporary basis would be excluded.
6. *Advantages:*
 - Provides a legislative framework for determining which elements of pay are pensionable.
 - Is similar to the definition in the NFPS and the FPS (following amendment) and therefore reduces the administrative burden of maintaining separate definitions of pensionable pay for different schemes.

- It is flexible enough to support both current and prospective local pay arrangements.

7. *Disadvantages:*

- Firefighters in some authorities may be accruing different pension amounts based on the same or similar pay arrangements due to the local interpretation of the scheme.

Option 2: make all aspects of a firefighter's pay that is subject to income tax pensionable

8. An argument has been put forward that under a career average revaluation earnings pension scheme, all aspects of pay should be made pensionable, so that pension benefits accrue on an employee's full pay.

9. *Advantages:*

- Easy to administer by employer and pension administrators.
- Easy to explain to employees.
- Is flexible enough to support the introduction of new local pay arrangements, without the need for amendment of the FPS 2015 regulations.
- Ensures consistency between fire and rescue authorities.

10. *Disadvantages:*

- Likely to increase costs to employers, with contributions having to be made on all aspects of a firefighter's remuneration.
- Likely to increase costs to employees, with some employees paying contributions on elements of pay that were not previously pensionable.
- Requires administrators to maintain different pensionable pay amounts for a single employee.

Option 3: list all elements of pay that are pensionable

11. *Advantages:*

- Easier to implement for employers and pension administrators than option 1, and would give a clear indication, through the regulations, of how each aspect of a firefighter's pay should be treated.

12. *Disadvantages:*

- Fire and rescue authorities have different pay arrangements. If the legislation set out which pay elements were to be included then some pay arrangements would be overlooked and become non-pensionable.

- There would be the need to continually review the legislation to suit any new local pay arrangements
- Requires administrators to maintain different pensionable pay amounts for a single employee.

Summary

13. It would be helpful to have the Committee member's views on:

- Their preferred option as set out above.
- If there are any alternative options that should be considered.
- If there are any further advantages or disadvantages of the proposed options.

14. If option 3 is preferred, then we would require employee and employer representatives to come forward on the aspects of pay which should, or should not, be pensionable. The attached Annex sets out initial views as to what aspects of pay might be treated as pensionable and which should not be pensionable. We would welcome Committee member's views on this and the inclusion of other elements that may have been overlooked.

Pensionable Pay elements:

- Salary
- Continual Professional Development
- Flexible duty allowance
- Temporary promotions
- Annual retainer
- Disturbance payment
- Pay received for work activity – including activities as station administration, attendance at meetings, training, community fire safety activities, and cleaning
- Amount foregone in respect of Salary sacrifice arrangements
- Maternity leave pay (subject to rules of FPS 2015)
- Paternity leave pay (subject to rules of FPS 2015)
- Adoption leave pay (subject to rules of FPS 2015)
- Annual leave pay
- Sick leave pay
- Assumed pensionable pay arrangements as defined in the regulations
- Attendance at training centres
- Pay for urban search and rescue duties

Non-Pensionable Pay elements

- Overtime
- Temporary elements for ad-hoc acting up
- Reimbursement of expenditure (e.g. medical charges and expenditure, cost of doctor's statement, cost of spectacles etc)
- Out of pocket allowance
- Reimbursement of fines and costs
- Driving licences
- Car allowances
- Accommodation, rent, fuel and light allowances (including compensatory grant)
- Loss of, or damage to, private property
- Mess manager's allowance
- Provision of uniform and personal protection equipment
- Additional responsibility allowance
- Payments in lieu of untaken leave
- Payments in lieu of lieu days
- Pay in lieu of notice
- Compensation for remuneration lost
- Compensatory payments for sick leave
- Long service bounty payments