FIREFIGHTERS' PENSION COMMITTEE

NOTE OF THE 36th MEETING OF THE FIREFIGHTERS' PENSION COMMITTEE HELD ON 25th AUGUST 2010 AT ELAND HOUSE, BRESSENDEN PLACE, LONDON

(A list of the attendees is attached in Annex A)

1. Introduction

1.1 The Chairman welcomed everyone to the meeting. He introduced Bryn Davies who was an Actuary advising the FBU.

2. Note of the 35th FPC meeting

2.1 The Chairman made reference to a letter that he had received from the FBU. In the letter Andy Dark further clarified that whilst the FBU welcomed the proposal to relax the restriction of the commutation limit for those members who had not accrued 30 years' pensionable service or who were under 55 years of age at retirement, they did not accept that it was appropriate for this change to be introduced to enable FRAs to reduce the size of establishments as a consequence of the impending cutbacks in government spending.

*[**Secretary's Note**: A copy of the FBU letter has been attached to annex B]*

2.2 Des Prichard referred to paragraph 3.8 of the minutes. He asked the minutes to be amended to reflect that the experience in East Sussex suggested that pensioner members died in their 60s and 70s.

2.3 Subject to changes above the note of 35th FPC meeting was agreed.

3. Matters' arising from the 35th FPC meeting –FPC(10)9

3.1 The Chairman introduced paper FPC(10)9 – 'Matters arising from the 35th FPC meeting'.

Mortality Assumptions

3.2 The Chairman explained that statistical data on the death of former firefighters had been annexed to the Matters Arising paper. He said that the data had been collected as part of the 2007 scheme valuation and CLG had selected information from a cross section of authorities. The data appeared to confirm that, in line with experience in other areas, former firefighters employed by FRAs located in the north of

England tended to have a shorter life expectancy when compared to those employed by FRAs located in London and the South East.

3.3 Fred Walker agreed that the data confirmed a well established assumption that people from the North of England generally died younger than those in the South. He referred to the data for the Greater Manchester FRA and highlighted that the age at death for a firefighter was increasing.

3.4 Des Prichard made reference to the actuarial assumptions that GAD had employed to carry out the valuation of the pension schemes. He said that that he had still not been provided with any clear evidence to support the GAD assumption that someone born in 1952 (i.e. would have retired at age 55 years in 2007) would have a life expectancy of 89 for a male and 90 for a female. He said that according to the Office of National Statistics (ONS) and the World Bank someone born in 1952 would have a life expectancy of 72 for a male and 73 for a female. He suggested therefore that the assumption was flawed.

3.5 James Pepler responded by confirming that the actuarial assumptions on life expectancy used by GAD were based on an analysis of the mortality of FPS pensioners and that adjustments had been made to reflect mortality improvements consistent with ONS UK population projections which were published on their official website. He said that the ONS UK population projection mortality improvements were used to carry out valuations on all the public sector pension schemes.~~James Pepler responded by confirming that the actuarial assumptions on life expectancy used by GAD were based on ONS UK population projections which were published on their official website and that adjustments had been made to reflect mortality improvements. He said that the ONS UK population projections were used to carry out valuations on all the public sector pension schemes.~~

3.6 The Chairman explained that as APFO had suggested that the data used for life expectancy was flawed and were challenging the Government Actuary and the actuarial assumptions employed, they should consult an actuary of their own and provide a paper outlining the evidence to support their challenge. Once the paper was received CLG would be prepared to facilitate a meeting to discuss the issue with members and their respective actuaries.

3.7 Fred Walker asked whether APFO had collected data on the average age of death of pensioners who were former firefighters with East Sussex FRA as agreed at the last meeting. Des Prichard responded by confirming that he had written to all FRAs to request the data and was still in the process of collating responses.

Firefighter Pension Schemes Data

3.8 Please refer to section 4 of the note.

4. Firefighter Pension Schemes Data – FPC(10)10

4.1 The Chairman introduced committee paper FPC(10)10 which set out the full range of pension scheme data that was readily available. He said that the majority of the data was collected by CIPFA and CLG. Members were invited to comment.

4.2 Ivan Walker emphasised that the period from 2007 to 2010 was a critical period for the firefighter pension schemes as this was the period in which past and recent reforms to the scheme would translate into real savings. He said that as data for this period was absent it was very difficult to obtain a true picture of what was happening with regards to costs. He asked whether any information was currently being collected as part of the 2011 valuation exercise. He also asked clarification on what data LOGASnet collected.

4.3 The Chairman said that the table attached to paper FPC(10)10 set out the financial and non-financial data that had been collected by LOGASnet. It was possible to break the LOGASnet data down by individual FRA. He confirmed that LOGASnet did not provide data on the age and earnings profile of the scheme membership but that CLG was currently considering methods of collecting this data from FRAs.

4.4 Ivan Walker asked whether LOGASnet collected data on ill-health retirements and, if so, suggested that it would be helpful to include these on the table. The Chairman confirmed that rates of ill-health retirements were collected by LOGASnet for years 2008/09 going forward. He said that this data would be amalgamated with existing ill-health retirements data and would be circulated with the papers for the next meeting. In addition to this, the Chairman agreed to break down the current non-financial data collected by LOGASnet by each FRA.

ACTION: CLG to circulate updated rates of ill-health retirements to include 08/09 and 09/10 with the papers for the next meeting

ACTION: CLG to break down the current non-financial data collected by LOGASNET by each FRA

4.5 Bryn Davies said that as re-employment following retirement had been specifically mentioned as a feature of both schemes it would be useful to obtain data on the extent of this. He also pointed out that there was an absence of data with regard to the effect of commutation on members' behaviour.

4.6 The Chairman said that whilst CLG collects scheme data for its own purposes it was useful to get constructive feedback on the types of other statistical data that was considered useful. It was agreed that

Bryn Davies would set out what additional data he would consider useful.

ACTION: Bryn Davies to provide CLG with a list of any additional data that he would consider useful

4.7 Ged Murphy said that he would send a note around the Finance Managers Network to alert colleagues that CLG would be requesting additional information in due course.

5. Response to the discussion document on Restriction of Pensions Tax Relief

*[**Secretary's Note**: A hard copy of a draft response to the HM Treasury's discussion document on restriction of pensions tax relief was circulated to members. A copy of the final response sent to HMT has been attached to Annex D.]*

5.1 The Chairman referred to his letter on 11th August 2010 advising members about HM Treasury's discussion document on proposals for reforming pensions tax relief [*a copy of the letter has been attached to Annex C*]. He confirmed that CLG had received responses from APFO and Strathclyde FRA. On the basis of these, CLG had drafted a joint response for the FPC to consider. He said that it was his understanding that both APFO and Strathclyde FRA would also be submitting their own responses to the discussion document direct to HM Treasury.

5.2 During his summation of the paper, Andy Boorman pointed out that the current proposals went further than the previous administration's proposals to rein back on pension tax relief for higher earners. It was clear that, in addition to high earners, the proposals would affect both middle and junior roles of the Fire Service and had the potential to affect behaviour of scheme members, especially with regards to career progression. It would be possible for members of both the FPS and NFPS to exceed the Annual Allowance through simple annual rises in pensionable pay, thereby triggering an annual tax charge; this would be further exacerbated by the effects of double accrual rates when members had accrued in excess of 20 years' pensionable service in the FPS. In addition to this, the proposals would place an increased administrative burden on pension administrators with FRAs potentially being given the responsibility for collecting any resultant tax charges.

5.3 James Dalgleish highlighted that the salary and grading structure outlined on page 3 of the draft response did not reflect London Weighting. He suggested that this be clarified.

5.4 Des Prichard said that the proposals could potentially preclude certain promotions within the Fire and Rescue Service and could result in members retiring earlier than otherwise. This would have huge implications for the FRS.

5.5 Andy Boorman referred to section 3 of the HM Treasury discussion document which suggested that changes to the design of Defined Benefit pension schemes could be considered in an effort to manage the impact of the proposed changes on individual members. He said that it was important to point out in any response that the changes required to protect an individual would constitute both substantial and fundamental changes to the core benefit structure of the schemes and were likely to be opposed by both employee and employer representatives as well as the scheme membership.

5.6 Tam Mitchell referred to the 3rd paragraph of the penultimate page of the draft response and asked for the description of firefighters who work the RDS as "*casual workers*" to be removed. It was agreed to amend the definition to reflect that RDS firefighters were part-time workers who worked irregular hours.

5.7 Fred Walker provided an example of a firefighter in the role of Area Manager being offered a promotion to Assistant Chief Fire Officer who could incur a potential tax charge of approximately £270K.

5.8 Sean Starbuck said that there was potential for members who remained in the same role to end up with year on year annual tax charges simply as a consequence of annual pay progression and/or increases in their pensionable service.

5.9 Ivan Walker said that he did not think that it would be appropriate to design the rules of a pension scheme for tax purposes.

5.10 The Chairman concluded by saying that the draft response would be amended to reflect the discussion and would be submitted to HM Treasury on behalf of the FPC. Members would be copied into the final response.

ACTION: CLG to amend draft response to reflect points raised in discussion and would submit to HM Treasury on behalf of the FPC. Members would be copied into the final response.

*[**Secretary's Note**: A final response on behalf of the FPC was submitted to the HM Treasury on Friday 27th August. A copy of the response was also forwarded to members and is at Appendix D]*

6. Firefighter Pensions: Options for the future/Cap & Share - FPC(10)3 & 4

6.1 The Chairman said that following on from the discussion at previous meetings, it would be useful to have an additional FPC meeting towards the end of October/start of November so that the options identified in committee papers FPC(10)3 & 4 could be put into the context of the framework of the Hutton Review. He said that it was likely that all public sector pension schemes would be required to discuss future options as a follow on from Hutton's interim report. He welcomed comments which would be recorded as non-attributable.

6.2 During the discussion the following views were expressed:

- It would not be appropriate to discuss future options for the pension schemes until the Hutton Commission had published its interim report due in September;

- It was essential to discuss future options so that at the next phase of the Hutton Review the FPC are well placed to set out in detail the future options that were being considered in order to ensure the future sustainability of both firefighter pension schemes;

- It was important for the FPC to be able to demonstrate that it was being proactive at looking at ways of keeping both schemes affordable. This may go some way in reducing the risk of having major changes imposed on the schemes;

- Whilst some members would be content to look at each future option in principal they would not be willing to commit to any agreement in detail prior to knowing the outcome of the Hutton Review;

- Since both committee papers were issued, CPI as a means of index linking had been imposed on public sector pension schemes. This was expected to reduce the cost of schemes.

- The increase of 3.1% to underlying employer cost of the FPS does not take account of the savings made from the change from RPI to CPI as means of index linking pensions. GAD's assumptions should be amended to reflect this;

- Savings from the move from using RPI to CPI as means of index linking public sector pensions have already been banked as savings in the budget and, therefore, future savings would have to be in addition to this change;

- The proposal to change the current rules on pensions tax relief would need to be considered;

- Until such times that FRAs were fully aware of the effects of the impending Spending Review on the pension schemes it would not be possible for any representative organisations to commit to a definitive position;

- The Committee could look at a '*pick and mix'* means to cutting costs rather than considering the costs associated with one particular element of the benefit structure;

- It was suggested that members would prefer to pay additional contributions in order to preserve existing scheme benefits;

- Increases in employee pension contributions might drive members out of scheme membership and would, in effect, reduce pension income. This could result in a rise in the overall costs of the pension schemes;

- The effect of past and recent reforms to the pension schemes on the costs for the period of 2007-10 was missing. There was a need to collect up-to-date data in order to determine what savings have been made;

- The FPS was the most out of kilter of all the public sector pension schemes with regards to the amount that the employer puts into the scheme. Whilst it was agreed that the outcome of the Hutton Commission's interim report would need to be known before the future options could be discussed in finer detail, there was value at this stage in discussing and putting a cost to each option;

- Prior to considering any option of increasing minimum retirement age it was important to obtain evidence on the suitability of firefighters to continue in employment up to 55 years of age;

- The experience within Greater Manchester FRA was that firefighters who joined later were willing and able to continue in employment up to age 55 years of age;

- When designing the rules of the NFPS in 2006 it was accepted that a normal retirement age of 60 years fitted with the future model of the Fire and Rescue Service ;

- There was still no evidence to suggest that those who were joining the service now would be fit enough to continue as operational firefighters until they attained 60 years of age.

6.3 It was agreed that members would identify, and submit to CLG in time for the next meeting, the types of data required in order to discuss the future options in more detail at the next meeting.

ACTION: Members to identify, and submit to CLG in time for the next meeting, the types of data required in order to discuss the future options in more detail

*[**Secretary's Note**: An ad hoc FPC meeting has been arranged for Tuesday 2nd November at 11am, Eland House]*

7. Any Other Business

7.1 There were no other items of business raised.

8. Dates of Future Meetings

2 November 2010 **(11am)**
17 November 2010 **(11am)**
2 February 2011 **(11am)**
4 May 2011 **(11am)**
9 August 2011 **(11am)**

Communities and Local Government
September 2010

Annex A

Attendees

Martin Hill (Chairman)	DCLG
Andy Boorman	DCLG
Anthony Mooney (Secretary)	DCLG
James Pepler	GAD
Fred Walker	LGA
Ged Murphy	LGA
James Dalgleish	LGA
Jenny Coltman	SPPA
Gillian McMaster	DHSSPSNI
John Enos	CoSLA
Sean Starbuck	FBU
Tam Mitchell	FBU
Ivan Walker	Thompsons Solicitors
Bryn Davies	FBU Actuary
Ian Hayton	CFOA
Des Prichard	APFO
Glyn Morgan	FOA
Craig Thomson	FOA
John Barton	RFU

Apologies

Eunice Heaney	Pensions Consultant
Brian Wallace	CoSLA
Dr Will Davies	ALAMA

FIRE BRIGADES UNION

GENERAL SECRETARY : MATT WRACK

Established 1918

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Please quote this reference on all replies

24th August 2010

Mr. M. Hill
Firefighters' Pension Team
WPP Division
Department for Communities and Local Government
5/F6, Eland House
Bressenden Place
London SW1E 6DU

Dear Martin,

EARLY RETIREMENT AND COMMUTATION CAP

At the meeting of the Firefighters Pensions Committee held on 28 July 2010, a discussion took place on FPC Paper (10) 8 *"Early Retirement and Commutation Cap under Rule B7(4)"* .This discussion is recorded under Paragraph 6 of the *Note* of that meeting.

The note of the meeting at Paragraph 6.33 is accurate in that I did say a change to the commutation factor for those retiring in the circumstances described would be for the benefit of the members of the scheme, and for that reason we would support the change sought. It would be remiss of me, however, if I was not to make clear that the FBU does not believe that it is appropriate for this change to be carried in order to *"give authorities greater discretion over payment of commuted lump sums to enable them to manage more effectively the reduction in establishments which they are planning as a consequence of the current fiscal challenges."*

Whilst the FBU fiercely would uphold the right of members of the Scheme to retire having completed 25 years service, and do support the position that the commuted lump sum should not be restricted to the present factor of 2.25, the FBU remains implacably opposed to the reduction of fire service establishments, particularly where the driver for such reductions is based purely on fiscal reasons.

I would appreciate it if you could bring this clarification to the attention of the next meeting of the FPC.

My thanks for your assistance on this matter.

Yours sincerely,

ANDY DARK
Assistant General Secretary

AD/JW

Annex C

11th August 2010

Members
Firefighters' Pension Committee

Our Ref:
Your Ref:

Dear Committee

HM TREASURY DISCUSSION DOCUMENT ON RESTRICTION OF PENSIONS TAX RELIEF

Committee members may be aware that HM Treasury have recently issued a discussion document with proposals for reforming pensions tax relief. The document may be found at:
http://www.hm-treasury.gov.uk/consult_pensionsrelief.htm

The document is part of an informal consultation over the summer to assist HMT in the preparation of draft legislation in the autumn which will be the subject of formal consultation.

The paper was not discussed in draft by HMT with officials in other Departments and it is clear that there is some unease at the likely impact on behaviour if the proposals are implemented.

Our initial analysis is that the proposed Annual Allowance (AA) of between £30,000 and £45,000, together with a valuation factor within the range of 15 and 20:1 could result in greater numbers of the Firefighters' Pension Scheme and (to a lesser extent) the New Firefighters' Pension Scheme members finding that their year on year benefit accrual exceeds the AA than would be the case under the current system. The effect is likely to impact mostly on those in roles above regular firefighter in circumstances where there is a substantial increase in the member's pensionable pay and the effect could be compounded where the member has reached double accrual in the FPS i.e., after twenty years' service

Benefit growth (also termed as pension savings by HMT) is measured by comparing a "closing" value of accrued pension at the end of a Pension Input Period (normally, but not necessarily, a financial year) with the "opening" value at the beginning. A valuation factor is applied to the amount of the increase in order to test against the AA. For example:

> *At start of PIP member's annual pensionable pay £50,000.00 and pensionable service 38/60ths.*
> *Opening value therefore = £31,666.66 (£50,000.00 x 38/60)*
>
> *At end of PIP (assumes no pay growth), service 40/60ths.*
> *Closing value therefore = £33,333.33 (£50,000.00 x 40/60)*

Increase in benefits = £1,666.67

If a factor of 15 were applied, the increase would be valued at £25,000.00
If a factor of 20 were applied, the increase would be valued at £33,333.40 (i.e., in excess of an AA of £30,000.00 by £3,333.40).

A further example:

At end of PIP member's annual pensionable pay increased to £51,500.00, service 40/60ths.
Closing value therefore = £34,333.33 (£51,500.00 x 40/60)

Increase in benefits = £2,666.34

If a factor of 15 were applied, the increase would be valued at £39,995.10
If a factor of 20 were applied, the increase would be valued at £53,326.80

These examples highlight that members could find that relatively modest increases in pensionable pay could, depending on the valuation factor and AA adopted, result in the AA being exceeded and a charge being imposed on the member. The examples also illustrate the effect of fast accrual on benefits in schemes such as the FPS.

The document seeks comment on options for managing the impact on individual scheme members, primarily through changes to scheme benefit structures, but possibly through protection in "hard cases" where there is a one-off "spike" in an individual's benefits.

As well as potential impact on scheme members the document describes some of the implications for scheme administrators i.e., Fire and Rescue Authorities, and seeks comments on them (summarised in paragraph 5.1). These include obligations to provide details relating to benefit growth and the AA in annual statements to members; additional returns to HM Revenue and Customs; recovery and pay-over of tax charges.

HMT have asked for written submissions on the discussion document by 27th August which means that, if the Committee wants to provide a collective response, the Secretariat will need to have put together a draft for agreement at the meeting on 25th August. Accordingly, if members consider that a collective reply would be appropriate, I should be grateful if you could let me have comments by 20th August so that we can put together a draft for consideration by the Committee at the meeting. If there is no agreement, or any additional point which one of the representative bodies wishes to make, separate submissions to HMT will be more appropriate.

Yours sincerely

Martin Hill

Martin Hill

Annex D

FIREFIGHTERS' PENSION ARRANGEMENTS:
RESPONSE TO HM TREASURY DISCUSSION DOCUMENT ON RESTRICTION OF PENSIONS TAX RELIEF

These comments have been prepared following discussion of the proposals in the Firefighters' Pensions Committee, which is chaired by the Department for Communities and Local Government and includes representatives of the Fire and Rescue Service employers and of the employees entitled to membership of the firefighter pension schemes.

The comments focus on the perverse impact that the proposals would have on

- the retention of staff who have reached the minimum pension age of the schemes;
- the disincentive for members to progress through the ranks and the resultant adverse affect on the efficient management of the service;
- the considerable additional administrative burden on Fire and Rescue Authorities.

1. Background to Schemes and context of comments

1.1 The Secretary of State for Communities and Local Government is the regulator of the firefighter pension schemes. The schemes are statutory, pay-as-you-go, schemes. Any amendments to the schemes are subject to full public consultation and can only be made with the agreement of Parliament.

1.2 There are two firefighter pension schemes. The Firefighter's Pension Scheme 1992 (FPS) closed to new members in April 2006. A New FPS (NFPS) was introduced for new members from April 2006.

1.3 Both schemes are final salary schemes. The old scheme features a normal retirement age of 55 although members may retire from age 50 where the member has 25 or more years of pensionable service. It is a 60ths scheme with full benefits achieved after 30 years pensionable service. The final 10 years of service are at fast (double) accrual giving a maximum of 40/60ths. Members may commute up to one quarter of their pension for a lump sum which is calculated using age related factors of between 15 and 19 pounds for every pound of pension surrendered.

1.4 The new scheme features a normal retirement age of 60. It is also a 60ths scheme with full benefits achieved after 45 years of pensionable service. There is no fast accrual. Members may commute up to one quarter of their pension for a lump sum which is calculated at a fixed rate of 12 pounds for every pound of pension.

1.5 Both schemes are administered locally by the 46 Fire and Rescue Authorities (FRAs) in England. The old scheme has a membership of approximately 26.5k. The new scheme has a membership of approximately 11k.

2. Comments on discussion document

2.1 A policy objective stated in the document is to raise the same revenue that would have flowed from the previous Government's proposals for limiting tax relief on pension savings by individuals earning in excess of £130,000. In order to do this an Annual Allowance (AA) set at a much lower rate than currently will be introduced with the expectation that it will discourage (pension) savings above a certain level. The proposed method for valuing defined benefit contributions is to apply a flat rate factor to benefit growth to test against the Annual Allowance. Provisional analysis suggests that a factor of between 15 and 20, and an AA of between £30,000 and £45,000 (down from £255,000 at present) will deliver the yield necessary to meet the Government's fiscal objective.

2.2 Whilst it might be right and necessary to limit the amount of tax relief available to individuals who are in a position to increase their pension savings year on year to high levels and that the stated aim of fairness between defined benefit (DB) and defined contribution (DC) schemes is understandable, it is difficult to see how the "one-size-fits-all" approach can be justified.

2.3 The proposals are likely to impact on a wide range of firefighter pension scheme members particularly if an AA at the lower end of the range and a factor at the higher end is adopted. The previous proposals were targeted on high earners, particularly those who benefited from tax relief at up to 50%, with the intention of tapering down the amount of relief that could be achieved. Those affected by the new proposals, however, will inevitably include basic rate tax-payers who have only one source of pension savings i.e., membership of a Defined Benefits scheme for which they pay a set rate of pension contributions, and who have little or no option to increase their pension savings from another source.

2.4 From a scheme regulator's perspective, any amendment to the tax rules should ensure that members of the scheme are encouraged to remain in the scheme rather than opt out; close any loopholes whereby members can take advantage of a pension scheme; make the administrative process as simple as possible so as to avoid any increase in administration costs; and should be understandable to members and administrators.

2.5 Whilst the proposals for valuing pension savings and applying the AA are reasonably straightforward, the connection with pension savings seems tenuous. The drastic reduction in the AA is likely to catch one-off increases, or "spikes", in pensionable income and the process proposed appears to be nothing more than a means of imposing punitive tax charges rather than a means of controlling excess and reining back on tax relief.

2.6 The discussion document states (at 3.1) that "The group of individuals who can save more than an AA in the range of £30,000 to £45,000 in a year are concentrated among the highest earners. Few individuals on moderate incomes can save at this level, certainly not consistently, year on year".

2.7 Whilst we would agree that it is likely to be only the top earners in the Fire and Rescue Service that will be affected year on year, others are likely to be affected.

2.8 The term "benefit accrual", rather than "pension savings" better suits DB schemes. The FPS is a 60ths scheme and features fast accrual. Even modest increases in pensionable pay, when combined with annual accrual of 1 or 2/60ths, could result in the AA being exceeded.

2.9 The discussion document makes no mention of fast accrual in schemes such as the fire and police schemes and contains no mention of special treatment or exemptions so it is assumed that the same process will apply. This will mean that FPS members in the final third of their pensionable service i.e., from 20 years onwards, are likely to breach the AA more regularly, simply through continued scheme membership.

2.10 We would appreciate clarification on how double accrual in the FPS is to be treated in relation to valuation for testing against the AA. Could single accrual be assumed for valuation purposes? Alternatively, could "smoothing" be applied to increases for those who have reached double accrual (for the FPS this would mean applying $1/45^{th}$ in the valuation as opposed to $1/60^{th}$ for the first 20 years and $2/60^{th}$ thereafter)?

2.11 For ease of reference, the salary and grading structure for uniformed personnel within the fire and rescue service, based on the highest (competent) salary for each role, is as follows:

Firefighter	£28,199
Crew Manager	£31.263
Watch Manager	£34,961
Station Manager	£40,109 plus 20% flexible duty allowance*
Group Manager	£46,428 plus 20% flexible duty allowance*
Area Manager	£53,934 plus 20% flexible duty allowance*
Brigade Management	£56,000 - £200,000

*pensionable flexible duty supplement for on call rota in addition to core hours.

Breakdown of membership by salary band:

Salary band:	
Firefighter, Crew Manager, Watch Manager	91% or 34,125
Station Manager, Group Manager, Area Manager	8% or 3,000
Assistant, Deputy and Chief Fire Officer	1% or 375

2.12 Some examples:

> *At start of Pension Input Period member's annual pensionable pay £30,000.00 and pensionable service 20/60ths.*
> *Opening value therefore = £10,000.00 (£30,000.00 x 20/60)*
>
> *At end of PIP, annual pensionable pay £33,000 and pensionable service 22/60ths.*

Closing value therefore = £12,100.00 (£33,000 x 22/60)

Increase in benefits = £2,100.00

If a factor of 15 were applied, the increase would be valued at £31,500.00 (e.g., in excess of an AA of £30,000.00)
If a factor of 20 were applied, the increase would be valued at £42,000.00 (i.e., in excess of an AA of £40,000.00)

At start of Pension Input Period member's annual pensionable pay £50,000.00 and pensionable service 38/60ths.
Opening value therefore = £31,666.66 (£50,000.00 x 38/60)

At end of PIP (assumes no pay growth), service 40/60ths.
Closing value therefore = £33,333.33 (£50,000.00 x 40/60)

Increase in benefits = £1,666.67

If a factor of 15 were applied, the increase would be valued at £25,000.00
If a factor of 20 were applied, the increase would be valued at £33,333.40 (i.e., in excess of an AA of £30,000.00).

At end of PIP member's annual pensionable pay increased to £51,500.00, service 40/60ths.
Closing value therefore = £34,333.33 (£51,500.00 x 40/60)

Increase in benefits = £2,666.34

If a factor of 15 were applied, the increase would be valued at £39,995.10
If a factor of 20 were applied, the increase would be valued at £53,326.80

2.13 As can be seen, benefit accrual of £30,000 in one year could be achieved through a reasonably modest increase in pensionable pay, particularly if a factor of 20:1 is used in valuation. The effect is exacerbated when double accrual applies.

2.14 Those moving on promotion from Area Manager level in to the Brigade Management Group, are likely to incur a tax charge that is significantly in excess of the value of the increase in pay. For example, an increase of £20k in pensionable pay is not uncommon because the person may become entitled to a flexible duty allowance if he is required to be on call. An example of a possible outcome is as follows:

At start of Pension Input Period member's annual pensionable pay £53,934.00 and pensionable service 36/60ths.
Opening value therefore = £32,360.40 (£53,934.00 x 36/60)

At end of PIP annual pensionable pay £74,000.00, service 38/60ths.
Closing value therefore = £46,866.67(£74,000.00 x 38/60)

Increase in benefits = £14,506.27

If a factor of 15 were applied, the increase would be valued at £217,594.05
If a factor of 20 were applied, the increase would be valued at £290,125.40.

If the AA were set at £40,000 the excess would be either £177,594.05 with a resultant tax charge of £71,037.62 or excess of £250,125.40 with a tax charge of £100,050.16.

2.15 Those at the rank of Assistant, Deputy and Chief Fire Officer would breach a £30,000 limit in each of their last 10 years with a multiplier in the range of 15 to 20 regardless of any increase in pensionable pay during the period.

2.16 As previously mentioned, those members of the FPS who are most likely to be affected by the proposals will be experienced, longer serving firefighters, earning £31k+ per annum. The Fire and Rescue Service rely on this group to progress through the ranks and provide the necessary leadership. Concerns have been expressed by senior representatives of the service that if the proposals were implemented there would be a significant negative impact on service delivery to the public due to unfilled posts, from middle through to senior management, caused by the tax implications for individuals of accepting such promotion opportunities.

2.17 Furthermore, many of the members who are likely to be affected are probably of an age, and have sufficient service, to be able to retire with immediate payment of benefits. It would be damaging to the service if a consequence of the proposed tax reform was a mass exodus of middle and senior members.

2.18 A further concern is that if the limits start to affect those FPS/NFPS members whose earnings are not excessive, they may decide that pension scheme membership is not for them. It is questionable whether they would use other methods of saving for retirement which could result in an increased demand for welfare benefits in the longer term.

2.19 A person who contributes to a defined contribution arrangement may have some personal leeway in holding back contributions if it looks likely that tax limits will be reached; a FPS/NFPS scheme member does not have that option. If an increase in remuneration satisfies the scheme definition of pensionable pay then they automatically pay the relevant contributions and are "caught". The only alternative would be to keep opting in and out of the scheme (and if they are members of the closed FPS they would not be allowed back in). Administrators would not be able to cope with this and is another illustration of the problems of setting a one-size-fits-all approach for the various types of pension scheme.

2.20 Section 3 of the discussion document considers how the impact on individuals might be managed. It is suggested that the sponsoring employers of DB schemes might consider making changes to scheme design including

> *1 cap accrual – redesign benefit basis to minimise the risk of breaching the AA in anyone year, for example by capping pensionable pay increases;*
>
> *2 smooth accrual – smooth benefit accrual so that any large one-off increase is delivered over a number of years, to avoid breaching the AA in that scheme in anyone year. For example, increase pensionable pay slowly over a number of years, or introduce an overriding rule to limit accrual such that the AA is not likely to be exceeded and any excess is carried over;*
>
> *3 offer members an alternative to future DB accrual – offer the option of opting-out of employer's DB scheme altogether and taking an alternative in its*

place, for example, a cash allowance (some of which could be put into a DC plan); and

4 remove spiky benefits – redesign or withdraw benefit elements that cause spikes in accrual, for example, enhanced early retirement terms, ill health service top-ups, top-ups at retirement based on a service qualifier or in the event of redundancy. For example, incentives to retire early could be paid in cash rather than through the pension scheme. Ill health benefits could be replaced by Permanent Health Insurance.

2.21 The changes suggested here are fundamental changes to the core benefit structure of schemes. Such amendments would be opposed by the employee and employer representatives and the membership. Even if amendments could be limited, or targeted in a way that offered protection to certain groups whose benefit accrual was vulnerable to the new tax regime whilst preserving the core benefits for all other members, it is questionable whether such action is appropriate even taking account of the suggestion in the document that such "capping, or smoothing of accrual… would not generally be considered to fall foul of any anti-avoidance regime".

2.22 The firefighter schemes, like all public sector schemes, are currently under review. We could not countenance any major programme of scheme amendment, even if it was believed to be desirable, in advance of the outcome of the Hutton review and, as previously mentioned, schemes are statutory schemes with any amendments to the schemes being subject to public consultation and only made with the approval of Parliament.

2.23 Even if the FPS/NFPS benefits were regulated to prevent excess, there is nothing to prevent a member simultaneously paying into a stakeholder arrangement or personal pension.

2.24 With regard to information and reporting requirements likely to arise from the proposals, one of the main stumbling blocks for FPS/NFPS administrators testing Annual Allowance (AA) and Lifetime Allowance (LTA), and for HMRC collecting tax charges, is the right of scheme members to have other pension arrangements. The FPS/NFPS limits can be tested but scheme administrators have no idea whether or not the person has other pension arrangements when AA testing and has to rely on the person's honesty via the completion of declarations for LTA testing.

2.25 To achieve the restrictions proposed in the discussion paper, it would be difficult for FRAs to decide on a "tolerance" factor to be built into systems to identify those who are likely to exceed the AA limit in order that administrators could concentrate on assessment and issue of statements in those cases only. There could be a number of scheme members who may not reach the limits in the FPS/NFPS but who have other pension cover which would cause them to exceed the limits.

2.26 For example, a significant group of NFPS members are firefighters who work the Retained Duty System (RDS). RDS firefighters are part-time workers but work irregular hours. They are paid an annual retainer to ensure their availability at agreed times plus payment for attendance at incidents and training etc. The pensionable pay of these members in any year will fluctuate depending on the number of calls they respond to; in addition RDS members may have good occupational or private pension savings elsewhere, normally from their primary employment outside of the service. Yet their RDS earnings would be unlikely to trigger a limit warning. No statement would be issued under a tolerance trigger for this type of member. The thrust of the discussion document would suggest that statements would need to be issued to all members, placing a significant additional burden on administrators who sit within local authorities.

2.27 The document suggests that the primary and enhanced protections allowed on Simplification should be withdrawn. Whilst it would appear wrong to renege on this agreement, those who have the protections are within the salary range that the latest tax proposals wish to target. It would allow for simpler administration if a layer of exemption is removed. In practice, however, there are very few members of the FPS who have these protections (possibly no more than 24 nationally and none in the NFPS). Consequently, in the case of these schemes little would be gained administratively by removing the protection. If, however, it is decided that the protection should go, it would be more equitable to have a phased rather than a cliff-edge removal.

2.28 The exemption for the final year of membership should continue. There is, after all, the LTA test conducted at that time to check the overall total of pension benefits. If it is to be dropped, an exemption should be made for ill-health "enhancement" as allowed by the FPS/NFPS. For firefighters, major changes have been made in this area. If a firefighter is deemed to be seriously ill enough to warrant the ill-health enhancement under current rules (i.e. not capable of employment for at least 30 hours per week) it would be wrong for payment of the enhancement to give rise to an extra tax charge. The discussion document suggests ill-health compensation could be paid outside the pension scheme arrangements. Again this may be feasible within the private sector but local authorities do not have powers to make such payments.

2.29 The reduction in AA may inadvertently catch those who pay additional contributions for unpaid leave or maternity/adoption leave (and possibly paternity leave in future) in the tax year following that in which the leave was taken. For example, if a firefighter's maternity leave ended at the end of one pension input period but contributions weren't collected until the start of the following period, with a lower AA and higher factors there is a possibility that a tax charge would arise. This could give rise to challenge under equality rules.

2.30 Under current scheme rules, members can purchase additional benefits, or restore lost benefits, up to scheme limits. The accruing increase in benefits may be caught by a lower AA. This was considered at the time "Simplification" rules were introduced. The guidance for FRAs was that the additional 60ths or service should be credited on an annual pro rata basis as paid for to avoid a large surge in pension accrual at the time the purchase contract was completed or terminated. This type of arrangement will be needed under the new process.

2.31 We trust that these comments and observations will be useful.

Firefighters' Pensions Committee
Communities and Local Government