

## **FIREFIGHTERS' PENSION COMMITTEE**

### **NOTE OF THE 37<sup>th</sup> MEETING OF THE FIREFIGHTERS' PENSION COMMITTEE HELD ON 2<sup>nd</sup> NOVEMBER 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 explained that this was a special meeting called in order to seek the views of partners within the Fire and Rescue Service in order to inform DCLG's submission to the Independent Public Service Pensions Commission (Hutton Commission) in regard to the pension requirements of firefighters, taking into account the outcome of the Comprehensive Spending Review and Lord Hutton's interim report. Four key principles have been identified by Lord Hutton against which proposals for change needed to be measured: (i) recruitment and retention; (ii) adequacy and fairness; (iii) affordability and sustainability; and (iv) financing and funding.
- 1.2 The Chairman introduced committee paper FPC(10)11 – 'The CSR and Lord Hutton's interim report: Implications for the firefighter pension arrangements'. He said the paper outlined a number of points that the Government made in the light of Lord Hutton's recommendations. Members were invited to express their views and discuss. In order to encourage open and frank discussion the note of the meeting would be non-attributable.

The main points raised during the discussion were:

- The proposed increase in employee contributions was probably the main concern of members. Any increase in employee contribution rates would be subject to consultation and require an amendment to both schemes;
- There was an expectation that an increase in the employee contributions from April 2012 would begin contributing to the required £1.8bn savings from all public sector pension schemes by the end of 2014/15;
- It was important to find the right balance between increasing employee contribution rates between the FPS and the NFPS and also between high and lower earners;
- A reduction in the overall scheme membership may in reality mean that employee contribution rates would need to be increased more

than 3% in order to generate the required income but more guidance on this was awaited from HM Treasury;

- Firefighters represent the lowest paid operational employees within the FRS but would not be classified as low paid in the wider economy;
- Reference was made to affording protection to the low paid. It was acknowledged that competent firefighters earned more than £28k per annum;
- Although the 3% increase in employee pension contributions was to contribute towards the £1.8bn savings by 2014/15, firefighter pension schemes would still have to deal with future reforms that would follow on from Lord Hutton's final report to be published by April 2011;
- At 37.5% of pensionable pay the 1992 FPS was the most costly public service scheme whereas the LGPS at approximately 20% was the least costly. However, members of both the FPS and NFPS pay amongst the highest contribution rates for all public service pension schemes;
- The introduction of 'Cap and Share' arrangements for the FPS and NFPS would have to be postponed pending Lord Hutton's recommendations for longer term reforms to public service pensions;
- The savings associated with the movement from using RPI to CPI as a means of index linking pensions would not contribute to the £1.8bn savings required by HM Treasury;
- It was suggested that public service pensions in their current form were unsustainable. However, the recommendation that all employee contributions should be increased by 3% was a very blunt tool. It was important to acknowledge that the employee contribution rates for both the firefighter pension schemes appeared disproportionately high when compared to the lower levels of employee contribution rates in the other major public sector schemes such as the NHS, Teachers, and Civil Service etc. A more sophisticated method of applying a fair increase in contribution rates across the public service schemes would be helpful. It was suggested that this point should be fed back to the Hutton Commission;
- There was a more fair balance between employer and employee contribution rates in the NFPS compared to that of the FPS. A more marginal increase in the NFPS employee contribution rates could therefore be warranted;

- A larger increase in the employee contribution rates for the FPS would help address the large disparity between the employer and employee contribution rates which currently stand at 26.5% and 11% respectively;
- There needed to be a means of assessing the level of pension benefits relative to the employee contribution rate for each of the public service schemes. This could be used to implement a fair way of generating the £1.8bn savings from all the schemes;
- The employee contribution rates of 11% in the FPS and 8.5% in the NFPS were comparable to other public service schemes where the employee contribution rates are lower but have higher retirement ages and where the benefit packages are not as valuable;
- It was hard to justify the provision of a full pension for employees in the FRS from age 50 years when the State retirement age was increasing and they were still capable of full-time work. A pension scheme should provide a pension when a person ceases to work and not when they change employment;
- The implementation of tiered contribution rates would not generate significant income;
- If the pension benefits of the NFPS and the LGPS were similar firefighters should not be expected to pay higher contribution rates;
- Members of both the FPS and NFPS should be able to retain current pension benefits if they were prepared to pay higher contribution rates.
- No increases should be applied to the employer contribution rates in order for members to retain current pension benefits;
- There were occupations within local government that were very physically demanding (reference was made to 'ditch diggers'). Employees within these occupations were covered by the LGPS which had a pension age of 65 years;
- New recruits to the FRS were now generally aged between 25 and 40 years. Requiring these employees to work longer would increase the likelihood of suffering injury and might, therefore, increase costs associated with ill-health pensions and injury awards;
- Firefighters retire because of the pension scheme, not because of fitness;

- Was there an opportunity to consider reducing the costs associated with survivor benefits in order to achieve savings?

In response to this point it was explained that this option would affect the benefit structure of the pension scheme and would be relevant to the second stage of Lord Hutton's review when he looked at the long term options;

- There were some risks with a position where members of the pension scheme decided the benefits package that his/her spouse would be entitled to;
- What would happen when the pension schemes become unaffordable for current members?

In response to this question it was suggested that a possible way forward would be to provide a core set of pension benefits for a basic employee contribution rate. Additional non-core 'add-ons' could be provided at local employer discretion. This would provide a 'pick n mix' of pension benefits where each member could choose the benefits package that best suited them within the context of affordability and their personal circumstances. This would also chime with the current Government's localism agenda.

- Changing the benefit structures of a pension scheme would provide long term savings. However, changes in the value of 'death in service' lump sums and commutation lump sums would start to generate immediate savings as accrued rights would need to be protected;
- It was suggested that the assumption that 1% of the current membership of public service pension schemes would opt-out of scheme membership if employee contribution rates were increased by 3% was a severe underestimate. Higher opt-out rates would affect the overall income generated;

The reduced income would be further exacerbated by other pressures such as a reduced workforce etc.

- The dynamics of the membership of the NFPS was very different to that of the FPS. Many of the retained members of the NFPS had primary employments outside the FRS and, therefore, there would be a higher likelihood that these members would opt-out of scheme membership if employee contribution rates were increased;
- Lord Hutton's interim report noted that the savings generated from the change from the FPS to the NFPS were higher than similar changes in other public service pension schemes;

- It would be helpful to see what the savings of 3% of pensionable pay equated to in cash terms and how these savings could be achieved through a marginal increase in NFPS employee contribution rates. Increases in FPS employee contribution rates could be more substantial along with the application of an increased tariff for high earners;
- In terms of number of employees, the FRS is a small service. Therefore, in the interests of fairness the additional income generated from increased employee contribution rates to the firefighter pension schemes should reflect a smaller proportion of the £1.8bn. There is nothing to prevent stakeholders from suggesting what appropriate pension contribution rates should be for members of the other public service pension schemes;
- The introduction of tiered contribution rates for higher earning members of the FPS and NFPS at a time when tax reforms were being introduced to restrict the annual pension tax relief for high earners could have the combined effect of substantially reducing take home pay or increasing those electing to opt out;
- If the longer terms plans for public service pension schemes will be 'Career Average' then there would not be much benefit in considering the introduction of tiered contribution rates;
- The introduction of tiered contributions rates would be useful in demonstrating a recognition that firefighters had a good pension scheme which also had high earning members. This may help prevent major reforms being imposed;
- The provision of a pension age of 50 years is out of kilter with the other public service pension schemes which generally had a retirement age of 65 years. The argument should be to justify the retention of the terms of the NFPS with a pension age of 60 years and provide some form of incentive to encourage members to move from FPS to NFPS;
- When the 'Options' exercise for the NFPS was carried out in 2007 many members in the FPS were precluded from transferring into the NFPS because the application of the preferential conversion rates to their FPS service resulted in them exceeding the pensionable service cap;
- The movement of FPS members to the NFPS would reduce the overall cost of public service pensions which would have the effect of reducing the £1.8bn required savings;
- If the direction of travel was towards having a single public service pension scheme for all public service employees then the movement from two pension schemes to one pension scheme for

firefighters might be more credible. The ability to do this would depend on how attractive HM Treasury would allow the terms of transfer from FPS to NFPS to be;

- The introduction of a fixed commutation rate to the FPS may discriminate against younger members i.e. if a 65 year old retiree was offered 12:1 commutation rate then a younger member should be offered a better rate.

### **3. Dates of Future Meetings**

17 November 2010 (11am)

**12 January 2011 (11am) – Note new date**

2 February 2011 (11am)

4 May 2011 (11am)

9 August 2011 (11am)

3 November 2011 (11am)

***DCLG***

***November 2010***

## Annex A

### Attendees

Martin Hill (Chairman)	DCLG
Terry Crossley	DCLG
Andy Boorman	DCLG
Anthony Mooney (Secretary)	DCLG
James Pepler	GAD
Fred Walker	LGA
Ged Murphy	LGA
James Preston	SPPA
Jenny Coltman	SPPA
Gillian McMaster	DHSSPSNI
Erika Beattie	NIFRS
Terry McGonigal	NIFRS
Brian Wallace	CoSLA
Paul Woolstenholmes	FBU
Tam Mitchell	FBU
Ivan Walker	Thompsons Solicitors
Ian Hayton	CFOA
Des Prichard	APFO
Paul Fuller	APFO
Glyn Morgan	FOA
John Barton	RFU
Tristan Ashby	RFU
Dr Will Davies	ALAMA

### Apologies

Eunice Heaney	Pensions Consultant
James Dalglish	LGA
John Enos	CoSLA
Sean Starbuck	FBU
Craig Thomson	FOA