

Potential options: Employee contribution rates in the Firefighters' Pension Scheme 2015

Issue

1. This paper seeks the Committee members' views on potential options for how contribution rates in the Firefighters' Pension Scheme 2015 (FPS 2015) could be structured, ahead of the formal consultation process.

Background

2. The Proposed Final Agreement set out that employee contributions from April 2015 would average 13.2%, with protection for new entrants. The Department has confirmed that 13.2% should be the employee contribution yield delivered across all of the Firefighters' Pension Schemes, not just the FPS 2015. However, over the long term contribution rates in the FPS 2015 will need to average 13.2%.
3. Members of the Firefighters' Pension Scheme 1992 (FPS 1992) who transfer to the FPS 2015 are likely to see a decrease in the contributions that they pay, whereas members of the New Firefighters' Pension Scheme 2006 (NFPS 2006) who transfer to the new scheme are likely to see an increase in their contributions.
4. This paper seeks views on whether there should be transitional arrangements for particular groups of firefighters who transfer to the new scheme, what pay basis contributions should be set, the level of the tiered bands and how tiered bands are to be updated.

Consideration 1 – Any forms of transitional arrangements for existing members?

5. Members of the FPS 2015 will form three groups: i) entirely new members ii) members who have transferred from the FPS 1992 and iii) members who have transferred from the NFPS 2006. The Department would welcome views on two alternative options for setting contribution rates for these members as set out below.
 - Option 1: Members, irrespective of whether they are new or existing pension scheme members, to pay an equivalent rate depending on their level of pensionable pay. An example of how the contribution rates may apply between 2015-16 and 2018-19 is provided at **Annex A** (with tiered bands based on Full Time Equivalent pay).
 - Option 2: Recent evidence suggests that members of the NFPS 2006 are more likely to opt out of their pension scheme. As set out above, these members are likely to see an increase in their contributions on transfer to the FPS 2015. There may therefore be some merit in providing limited transitional arrangements over the first three years for these members. This would mean that members who transfer from the FPS 1992 to the FPS 2015, and new members to the FPS 2015, would pay higher contributions to compensate for the protection provided to

former NFPS 2006 members. An example of how this may look (based on FTE pay) is at **Annex B**.

6. The Committee will wish to note that all rates shown in the accompanying annexes are indicative and subject to final verification that the schemes will deliver 13.2% on average.

Consideration 2 – should contributions be based on full time equivalent (FTE) or actual pay?

7. In the existing firefighters' pension schemes, contribution rates are determined by a member's full time equivalent pay. However, for the reformed schemes, some other public service pension schemes are considering setting contribution rates based on a member's actual pay. **Annex C** provides a long term projection of how contribution rates in the FPS 2015 may apply based on a FTE salary band and compares these with the long term projections based on actual salary band.
8. This information should be treated with some caution. If the preference was to base rates on a person's actual salary then further analysis would need to be undertaken to determine the rates to apply over the next four years. By using actual salary, rather than FTE, bands the contribution rates in the lower two tiered bands have to be increased in order to deliver the overall average of 13.2%. This is because the numbers falling into these lower bands increases.
9. Similarly if, over the long term, there was an increase in the number of retained or part-time firefighters, then contribution rates may need to be increased to compensate for more firefighters falling within the lower tiered bands.

Consideration 3 – tiered bandings to apply

10. The attached annexes show contribution rates based on four tiers: tier 1: £0 - £25K; tier 2: £25K - £50K; tier 3: £50K - £100K; tier 4: over £100K. There has been suggestion that the bottom band should be increased to £0 - £27K to afford some contribution protection for trainee and firefighters in development based in London. *Does the Committee agree with this approach?*
11. The Committee's views are also sought on whether there should be more or less than four tiered bands. For example, should the 'over £100K' band be amalgamated with the '£50K - £100K' band?

Consideration 4 – uprating of the tiered bands

12. The Government's position is that the tiered contribution bands should either be automatically uprated each year in line with an appropriate and independent metric, to be determined by schemes and subject to HM Treasury approval, or set out in regulations covering the four year valuation period.
13. Previous discussions with the 2015 scheme working group have considered whether the uprating should be linked to average weekly earnings (the measure used to revalue active scheme member benefits) or the Consumer Prices Index. However, if the level of firefighters' pensionable pay increases to a lesser or

greater extent than either of these measures then this could lead to a contribution rate that is under or above the required average.

14. The Department also considered whether the uprating of tiered bands could be linked to the pay awards for firefighters, but as this would not be an independent metric it would not comply with the requirements of the Public Service Pensions Act 2013.
15. The Department proposes that the actual tiered bands are set for each of the next four years. **Annex D** provides information on current pay rates and the general tiered pay rates to apply if pay was increased between 1% to 4%.
16. The Department's initial view is that tiered bandings should be increased by approximately 1% each year. *Does the Committee agree with this approach? Is there an alternative method that can be applied?*