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Status	Publication of proposals for (i) New Firefighters' Pension Scheme and (ii) Proposals for Further Amendments to the current Firefighters' Pension Scheme		

Review of Pension Arrangements for Firefighters

Issued by:

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Addressed to:

The Chief Executive of the County Council
The Clerk to Fire and Rescue Authority
**The Commissioner of the London Fire and
Emergency Planning Authority**
The Chief Fire Officer

Please forward to:

Pension and Human Resources Managers
**The Fire and Rescue Authority Service Medical
Advisers/Occupational Health Managers**
**Active members of the Firefighters' Pension
Scheme**

Summary

This circular covers the publication of two Consultation Documents:
(i) Government Proposals for a New Firefighters' Pension Scheme and
(ii) Proposals for Amendments to the Firefighters' Pension Scheme.

The consultation will end on 14 January 2005.

For further information, contact:

See final paragraph of circular

1.0 New Pension Arrangements

- 1.1 Two Consultation Documents dealing with the pension arrangements for firefighters have been published.
- 1.2 The White Paper "Our Fire and Rescue Service", set out the Government's commitment to introduce a new pension scheme more suited to the service of the future which would tackle the high cost and inflexibility of the current scheme and reflect changes in the relevant tax and regulatory framework. In addition, was the commitment to introduce an appropriate pension scheme for Retained Firefighters, who are excluded from the pension provisions of the current scheme.
- 1.3 The cost of the existing pension arrangements is increasing and, year on year, is increasing as a proportion of the budgets of Fire and Rescue Authorities. This cannot be sustained except to the detriment of the service delivered to the public, or through large increases in the pension contributions paid by firefighters. Therefore we must take action to reduce future costs and this can only be done by adjusting the benefits which accrue in future.
- 1.4 A copy of the Press Notice issued by ODPM today is attached for information.

New Pension Scheme

- 1.5 The Consultation Document "**Government Proposals for a New Firefighters' Pension Scheme**" sets out options for a pension scheme for new firefighters both regular and retained. The document makes clear that existing firefighters in the current pension scheme will not be required to move into the new scheme, although they will be able to do so, if they wish.

Existing Pension Scheme

- 1.6 The Consultation Document "**Proposals for Amendments to the Firefighters' Pension Scheme**" sets out proposals for amendments to the existing scheme (the FPS).
- 1.7 The FPS will be kept open when the new scheme is introduced, but only to existing members. New firefighters will be able to join the new scheme; they will not have access to the existing arrangements.
- 1.8 However, amendments will be needed to the existing scheme to reflect tax and regulatory changes that are going to impact on all pension schemes in general, and there are proposals for changes to the ill health and deferred pension age provisions which would bring both the current and new schemes into line with one another.

2.0 Consultation Exercise

2.1 Both Consultation Documents are being published on the ODPM website at www.odpm.gov.uk. Those wishing to comment can either write to the contacts given in the documents or may contact us at this office at the following e-mail address: firepensions@odpm.gsi.gov.uk. The closing date for comments is 14 January 2005.

- **"Government Proposals for a New Firefighters' Pension Scheme"**
 - A small number of paper copies of this document will be sent to Fire and Rescue Authorities.
- **"Proposals for Amendments to the Firefighters' Pension Scheme"**
 - copies of this document are being sent to Fire and Rescue Authorities for issue to all their firefighters via their internal circulation arrangements. It would be helpful if they could be distributed as soon as possible.

3.0 Question and Answer Briefing

3.1 Attached to this circular is a Question and Answer briefing which deals with some of the issues that may arise when people consider the proposals. It will be available on the ODPM website and while it is primarily aimed at helping administrators deal with questions, Fire and Rescue Authorities are asked to bring it to the attention of all firefighters, immediately.

4.0 Enquiries

4.1 Any questions relating to matters raised in this circular should be addressed to:

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Briefing Note

CONSULTATION DOCUMENTS - FUTURE PENSION ARRANGEMENTS FOR FIREFIGHTERS

1. Why is it necessary to make changes to the pension arrangements for firefighters?

All public service pension schemes have to change to meet the Government's new policy framework for pensions. One of the reasons for the changes is the cost of pensions and the Firefighters' Pension Scheme is the most expensive of the public service schemes and each year is taking an increasing proportion of the budgets of Fire and Rescue Authorities. The changes which schemes make may be tailored to the future needs of the service concerned.

2. What is going to happen to the pensions of members of the existing pension scheme, the FPS?

The existing scheme will remain open for members in service before 1 April 2006, except that the new regulatory framework for pensions generally will make some changes unavoidable and other changes will result from proposals set out in the Consultation Document "Proposals for Amendments to the Firefighters Pension Scheme".

There will be no requirement on members of the existing scheme to join the proposed new scheme. However, the new scheme is expected to include improvements on the FPS which may be attractive to some. If people want to transfer to the new scheme they will be able to do so. The terms of such a transfer have not been decided yet and remain subject to further consultation. No one would be expected to reach a decision about transferring without first having full details of what this might mean for them.

3. What does the change in pension age from age 50 to 55 mean for existing firefighters?

As part of the new tax and regulatory regime affecting all pension schemes from April 2006, there will be a requirement for a minimum pension age of at least 55 for new members unless they retire before April 2010 or receive ill health pensions. New entrants would not be expected to retire on pension before 2010 unless they left on ill health grounds and the Government proposes to apply the minimum pension age of 55 to new entrant firefighters from April 2006.

Schemes will have some discretion as to when the change is made for existing members. Under the existing pension scheme for firefighters, a member with 25 years' service may retire at age 50, and there is no actuarial reduction to reflect the fact that the pension is being paid earlier than age 55. Ministers have concluded that the existing scheme should be amended to raise the minimum pension age to 55 with effect from 2006. BUT those who retire before April 2013 aged 50+ with 25 or more years' service will be exempt from this change.

Ministers have accepted that firefighters who are in the final stages of their career in 2003, when the proposal to raise the minimum pension age to 55 was announced, should be exempt on the basis that some of them would already be far advanced in making preparations for a second career.

4. Under the proposals would a firefighter with 25 years or more service still be able to retire and take immediate payment of pension on reaching age 50?

Yes, provided the scheme member has 25 or more years' service and will be aged 50 before April 2013.

5. What happens if a firefighter who is a member of the existing scheme does not reach age 50 before 2013?

The minimum pension age will be raised to age 55 from April 2006. After April 2013, a firefighter with 25 years' service at age 50 would be able to request payment of pension on ordinary retirement based on service up to April 2006. The pension would be paid without actuarial reduction. Payment of that part of the pension based on service earned after April 2006 would be payable from age 55.

The firefighter would therefore not be able to retire on a full pension before age 55.

6. What will happen if a firefighter who is a member of the existing scheme becomes entitled to an ill-health pension after April 2006?

Any pension will be calculated on the basis of benefits accrued before April 2006 according to the existing rules, and thereafter on any new arrangements. The details of how this would be done are still being considered.

7. What would happen under the proposals if a member of the existing scheme left before becoming entitled to take their pension?

Under the current arrangements if a firefighter leaves the service early with a deferred pension this becomes payable at age 60. The proposals is that from April 2006 the deferred pension age for firefighters should be raised to age 65 in respect of future service. This means that a deferred pension based on service accrued up to this date could be paid at age 60, but the part of the pension based on service after April 2006 would not be payable until age 65.

8. What is going to happen about pension arrangements for Retained Firefighters?

We are proposing that firefighters on the retained duty system should be eligible to join the new pension scheme on the same basis as other firefighters who have part-time contracts.

It is expected that members of the new pension scheme will be able to purchase increased benefits and this would be available to retained duty members. Detailed arrangements will be considered as we develop the new pension scheme.

9. Will recruits have to join the new scheme?

The existing pension scheme will be closed from 31 March 2006.

Anyone joining the service after that date will be eligible to join the new scheme on entry and have service earned from that day count towards their pension. They will be able to opt out and make their own pension arrangements, if they wish, just as members of the existing scheme can do. They will NOT be able to join the existing scheme.

10. What will be the cost of the new arrangements for firefighters?

The full cost of the existing Firefighters' Pension Scheme is currently estimated to be 37.5% of pensionable pay: the contribution rate for members is 11% of pensionable pay. If the changes outlined in "Proposals for Amendments to the Firefighters' Pension Scheme" are made the cost will be reduced to between 34 and 35% and it will be possible to allow the contribution rate of 11% to be maintained for the time being.

The cost of the new scheme outlined in "Government Proposals for a New Firefighters' Pension Scheme" are estimated to be between 19 and 24% depending on the benefits package adopted: the contribution rate for members would be between 7 and 8%.

11. Are firefighters being treated differently to other public sector workers?

No. The Government have introduced a new pension taxation regime which is being applied to all pension schemes from April 2006. Alongside this there is a general policy framework for public service pensions, including changes such as higher pension ages, that is being applied through reviews of all the main public service pension schemes. That involves new pension terms for new entrants during 2006, or earlier, with more limited changes to existing schemes. The details of how this should impact on each scheme is a matter for decision by the responsible Minister.

Other government departments such as HM Treasury may need to be consulted where appropriate, for example because of the financial implications.

12. Why is it necessary to introduce new pension scheme arrangements for firefighters?

The Government is consulting on two separate proposals: the first in relation to a new pension scheme for persons joining the Fire and Rescue Service as firefighters from April 2006; and the second on amendments to the Firefighters' Pension Scheme (FPS).

As was recognised by the Independent Review of the Fire and Rescue Service in December 2002, the FPS is inflexible and cannot be adapted satisfactorily for the future needs of a Fire and Rescue Service with a more diverse workforce and flexible working patterns. It is also expensive and now costs an estimated 37.5% of pensionable pay. In addition, all pension schemes will need to make changes to reflect new legal requirements, for example on pensions taxation.

For public services, it is also the Government's policy to modernise pensions so they are more suitable for the 21st century. That includes improvements in some benefits valued by management and members and higher pension ages, as part of the Government's more general policy to encourage longer working lifetimes and ensure that pension schemes remain affordable.

Fundamental changes are therefore necessary, which can only be achieved through a new pension scheme.

The Government believes the new pension scheme needs to:

- aid recruitment and retention;
- be affordable;
- be flexible so that it can respond to the changing requirements of the Service;
- facilitate not hinder diversity; and
- bring firefighters' pensions more into line with the pensions of other members of the Fire and Rescue Service and new arrangements being worked up for other public sector employees.

13. What changes are the Government requiring all pension schemes to make?

The Government's taxation proposals will have a direct impact on all pension schemes and set out general limits within which schemes must operate if they are to continue to offer pensions that enjoy special tax reliefs. The main aspects of those limits are as follows:

- Scheme members will be able to accumulate a lifetime allowance for tax-privileged pension savings of £1.5m from April 2006 and rising to £1.8m in 2010;
- To value the lifetime allowance a single valuation factor for defined benefit schemes (such as the FPS) will be used of £20 for every £1 of pension;
- A recovery charge of 25% on funds in excess of the lifetime allowance will be made;
- Commutation of up to 25% of the value of the pension benefits will be permitted;
- The minimum age for taking benefits will rise from age 50 to 55 by 2010, although with protections for existing scheme members;
- Pension scheme members will be able to draw pension and continue to be employed; and
- People will be able to join any type and any number of pension schemes at any time.

Pension schemes will also need to take account of other changes in the legal framework, including legislation on age discrimination.

14. What changes will be made to the existing Firefighters' Pension Scheme (FPS)?

To align arrangements with the new legal requirements for pensions and the Government's policy on public services, it is proposed:

- the minimum pension age for firefighters will be age 55 from April 2006.
- the deferred pension age will be age 65 from April 2006.

However, provided the scheme member retires before April 2013 aged 50 or older with 25 or more years' service, he/she will be exempt from this change.

For any member of the FPS due to retire after April 2013, any pension benefits based upon service before April 2006 will be protected. This means that their pension will be calculated upon service before 2006, based upon the current rules in the FPS, and service from April 2006 based upon the rules as amended.

The ill-health pension arrangements agreed for the proposed new pension scheme will be reflected in the FPS from April 2006. It is proposed that the existing arrangements which provide an enhanced pension in all cases should be replaced by an arrangement which would only provide an enhancement to the pension of a person who was unable to take alternative regular employment.

These changes should enable the cost of the scheme to be reduced from the current estimated 37.5% of pensionable pay to between 34 and 35% and consequently to allow the contribution rate of 11% to be maintained for the time being.

From April 2006 the FPS will be closed to new members.

15. Why is it necessary to change the ill-health benefit?

The level of early retirement for ill-health reasons in the Fire and Rescue Service remains at more than 60% the highest of any public service pension scheme. Only a proportion of these are for work related reasons. This is one of the reasons that the scheme is the most expensive public service scheme. The cost of ill-health retirements is reflected in the costs of the scheme which are currently 37.5% of pensionable pay. Making the proposed changes would reduce costs by around 2%.

16. What will be the key elements of the new pension scheme?

Decisions have not yet been taken but consultation is on:

- Membership for regular and retained firefighters;
- A final salary scheme;
- A normal pension age of 65, although alternative options include age 60 and possibly allowing members to take their pension at age 55, at the discretion of the employer;
- A deferred pension age of 65;
- Uniform accrual at either 1/80th for each year and a fixed lump sum of either 3 or 4 x pension; or 1/60th for each year with an option to commute part of the pension into a lump sum of perhaps up to 2.25 times the pension;
- Death grant of 3 x pay;
- Widows'/widowers'/unmarried partners' pensions at maximum of 25% of the firefighter's pensionable pay;
- Children's benefits to be a percentage of the member's pension;
- Ill-health pension to be enhanced when scheme member is unable to take regular employment.
- An employee contribution of between 7% and 8% depending on the final benefit package.

17. Will members of the FPS be able to transfer to the new scheme?

The proposals include changes which may be attractive to some existing firefighters, for example partner pensions, payment of spouses' and partners' pensions for life, improved death grant and a lower contribution rate. It is intended that members of the FPS should be able to transfer into the new scheme, but it will be a matter of individual choice. The terms of such a transfer have not been decided yet and remain subject to further consultation. No one would be expected to reach a decision about transferring without first having full details of what this would mean for them.

18. Why were stakeholders interests not involved in the review of the pension arrangements which underpin the proposals set out in the Consultation Documents?

The proposals for the new scheme contain a wide range of options – for example on the normal pension age – on which we are consulting widely. The review was designed to prepare proposals for the basic structure of a scheme that was acceptable within the limits of public service pensions policy, and which would be affordable to the employer. These are matters for the Government and employers in the first instance.

Employee organisations were invited to draw the attention of the review to any particular issues, which they wished to be considered. None has done so.

19. What influence can employee representatives now have on the final outcome?

Decisions on the key issues have not yet been taken. The consultation documents invite comments on a number of issues including the key one of the normal pension age. All responses will be carefully considered before Ministers make a final decision on the framework of the new scheme and changes to the existing scheme; and Ministers will make a response commenting on points raised. Thereafter officials will develop the details of the new scheme and the changes to the existing scheme, working as necessary with stakeholders.

Any new pension scheme will be made by order under Section 34 of the Fire and Rescue Services Act 2004. This section requires the Secretary of State to "consult any persons he considers appropriate" before making or amending any pension scheme. This means that any pension scheme order will be subject to consultation. The normal arrangements for this will be through the Pensions Committee on which the employer and employee organisations are represented. In addition, the draft scheme will be made available more generally, including being published on the ODPM website.

20. Why do the proposals not include provision for death and injury compensation benefits?

Inland Revenue rules no longer allow benefits compensating for death and injury due to service, such as minimum income guarantees, to be included in tax privileged

pension schemes. This means we cannot include such arrangements in any new pension scheme.

We have made it clear that we will introduce a separate scheme to cover the relevant arrangements currently included in the Firefighters' Pension Scheme and paragraph 13 of the Scheme of Conditions of Service (5th Edition). We have kept the Pensions Committee informed of developments. However, we need to look at the details to ensure that they will be consistent with the future needs of the Fire and Rescue Service. We will be publishing our proposals shortly for consultation.

21. When will proposals for the financing of pensions be published?

We made clear in the 2004/05 National Framework for the Fire and Rescue Service that we would be publishing detailed proposals in early 2005.

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13 October 2004

CONSULTATION ON FIRE & RESCUE PENSIONS

Options for new pension arrangements for firefighters, aimed at tackling the high cost and inflexibility of the current scheme and reflecting changes in the relevant tax and regulatory framework, were published today (13th October).

Two consultation papers were issued by the Office of the Deputy Prime Minister, one dealing with the existing scheme and the other with a new scheme for those joining from 2006.

Both schemes would continue to be operated on a final salary basis and would bring firefighters' pensions more into line with other public service pension schemes.

For existing firefighters, the key changes proposed to the current arrangements include raising the pension age from 50 to 55 years, and the reform of benefits paid on ill-health retirement from 2006. Those due to retire on or before April 2013 will be unaffected by the new pension age.

A new recruit from April 2006 would get a brand-new scheme offering more flexibility, a choice of retirement age, partner pensions, increased death benefits and an end to compulsory retirement. Existing firefighters have the option of switching to the new arrangements. Members who do so could save more than £1,000 (36%) p.a. compared with contributions to the current scheme.

Special pension provisions for retained firefighters are also on offer for the first time.

The current arrangements are the most expensive in the public sector. The new scheme remains generous but will be more affordable, both for firefighters and the taxpayers that fund them, according to Fire & Rescue Service Minister Phil Hope:

"The independent review of the Fire and Rescue Service in December 2002 warned that the Firefighters Pension Scheme was inflexible, costly and not suited to the future needs of the service.

"The White Paper, 'Our Fire and Rescue Service', set out the Government's commitment to introduce a new pension scheme compatible with a more diverse workforce and flexible working patterns and reflecting the new legal requirements, for example, on pensions taxation.

" The nature of the work has changed since the current scheme was first established in 1948 and we need a new arrangement to reflect today's Fire and Rescue Service, with its increased focus on prevention.

" All public sector pension schemes are facing change. It is clearly not fair to expect the taxpayer to continue to fund packages that are so much more generous than those on offer in their own workplace. For this reason, we are addressing practices that are no longer viable like ill-health benefits that give firefighters enhanced pensions even if they are fit to work in most jobs outside the fire-service

"The proposals outlined today are in line with our aim of developing a modern Fire and Rescue Service which meets the needs of the community it serves, its workforce and taxpayers on an affordable and sustainable basis."

The Local Government Association welcomed the changes. Val Shawcross, chair of the fire modernisation task group, said:

"The LGA has been working with the ODPM on the development of these consultation documents on Fire and Rescue Service pensions and recognises the urgency with which we must work to ensure proper and reasonable arrangements should be made for the future. All consultees are urged to respond to the issues specified in the documents as well as any other aspect that raises a concern."

Copies of the consultation document on the new scheme will be sent to all fire and rescue authorities and stakeholders. They will also get a copy of the leaflet outlining the changes to the existing scheme that will be circulated to all firefighters. The closing date for response is 14th January.

The Minister made the announcement in a written statement to the House of Commons.

Notes to Editors

The published consultation documents are available on the ODPM website - www.odpm.gov.uk

Existing fire fighters

Firefighters can retire at 50 with 25 or more years' service. A full pension is earned with 30 years service and gives a pension of 40 X 60ths of salary. The proposed changes to the existing scheme are required by the new pensions framework applying to all public sector workers and would bring the age up to 55. Pension entitlement would remain the same. Firefighters who would be able to retire before April 2013 would be exempt from the change.

The new scheme from April 2006

The consultation proposes a normal pension age of 65 but offers alternative options of 60 and 55.

Changes are also proposed to how employees take their pensions with a half-final salary option plus a fixed lump sum worth three or four times pension; or a commuted

lump sum. The current scheme operates on a two thirds of final salary basis with the option to turn some of it into a lump sum.

Employees joining the new scheme would have to work for 40 years to get a full pension. Currently, firefighters only have to work for 30 years because after the first 20, each year of work counts as two years towards pension entitlement.

The consultation on the new scheme will also propose extending the availability of survivor benefits - e.g. to unmarried partners - and improving the death grant. It also will propose that partners get the pension, whether or not they (re-) marry.

For both schemes

Ill-health pensions would only be enhanced if the scheme member were unable to take regular employment.

Costs

The current arrangements are the most expensive in the public sector costing 37.5% of salary. Firefighters contribute 11%, leaving local authorities to make up the difference.

The new scheme will cost between 19% and 24%, depending on the benefits package adopted, with firefighters contributing a third - making it less costly for both taxpayers and the employee.

The cost of the new scheme to the average firefighter would be between £1,600 pa and £2,000 pa, compared with the £2,750 they would pay under the current arrangements.

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