

Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006)

Proposed increases to employee contribution rates, effective from 1 April 2012- DCLG consultation

Fire Brigades Union response to the Consultation



November 2011

Introduction

This document provides the response from the Fire Brigades Union (FBU) to the consultation document, *Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006) Proposed increases to employee contribution rates, effective from 1 April 2012*.

The FBU has a proud reputation for its professional approach and represents over 43,000 members currently working in all uniformed roles in the fire and rescue service. This represents, when account is taken of dual-roles, 80% of the uniformed workforce in the UK fire and rescue service. The FBU also represents over 7,500 retired and out of trade members - the vast majority of whom are covered by the pension schemes. The issues addressed in this response are of great concern to all FBU members. They also impact on prospects for the effective and efficient performance of the UK fire service in the future.

Many of the concerns contained in this response have already been raised within our earlier submission '*Protecting good quality occupational pensions in the fire and rescue service: the initial approach of the Fire Brigades Union*'.¹ It is however important that these concerns are reiterated where applicable as part of this separate consultation process.

This submission consists of three elements;

- Part 1: a general outline of the union's opposition to the proposed increases.
- Part 2: answers the five questions posed in the consultation document.
- Part 3: (provided as Appendix A) is a report showing the assumptions and advice supplied by First Actuarial. First Actuarial is a professional consultancy providing actuarial services to pension scheme trustees and employers.

¹ FBU, Protecting good quality occupational pensions in the fire and rescue service: the initial approach of the Fire Brigades Union, (11 October 2011). <http://www.fbu.org.uk/wp-content/uploads/2011/10/FBU-initial-approach-final.pdf>

Part 1 - The FBU position on the contribution rate increases - the rises are unjustified and self-defeating

The FBU does not accept the government's justification for further changes to firefighters' pensions at the present time. Indeed we believe there are several areas where pension provision within the fire and rescue service is in urgent need of improvement.

The FBU has presented financial, professional and operational arguments and evidence designed to counter the government's proposals, which appear to be based on misguided assumptions and a misunderstanding of the needs of a modern fire and rescue service.²

Extensive consultation with our own members has also made clear the depth of opposition and anger these proposals have produced.³ **The FBU and its members do not accept there is any justification for increasing the contribution rates currently paid by firefighters which, at 11% for the Firefighters' Pension Scheme (FPS) and 8.5% for the New Firefighters' Pension Scheme (NFPS), are already amongst the highest paid in the public and private sector.**

We believe that our case against the proposed employee contribution increase is strong on various grounds, including:

- Affordability
- Sustainability
- Fairness
- Cost to employees

The government has proposed to introduce increases in employee contributions from April 2012. The FBU has said on many occasions that we expect the consultation to be real and that the outcome is not pre-determined. The union would expect the government to consider our expert evidence as part of a genuine consultation process.

The Fire Brigades Union is opposed to the proposals to increase firefighters' pension contributions across the various fire and rescue service schemes. These increases are being introduced as a mechanism to raise funds for deficit reduction - an aim which should be treated separately from the objective of ensuring the viability and suitability of occupational pension schemes.

The FBU has substantial reasons to contest the proposed increases in firefighter contributions, which are backed by independent evidence:

- 1) The proposed increases in contributions will not raise the revenue the Treasury expects due to high expected levels of opt out i.e. the number of scheme members who may choose to *withdraw* from the scheme following such changes. High levels of opt out also threaten the future viability of the schemes. In addition, the FBU believes that government plans to significantly reduce central funding for fire service budgets in subsequent years would force

² Tony Cutler and Barbara Waine, A critical analysis of the Independent Public Service Pension Commission report, (2011) <http://www.fbu.org.uk/wp-content/uploads/2011/09/7649-Pensions-Report-Cutler--Waine-Low-RES-PDF.pdf>
First Actuarial, Impact of Government's proposals for members of the FPS and NFPS, (31 August 2011) <http://www.fbu.org.uk/wp-content/uploads/2011/10/First-Actuarial-report-consolidated.pdf>

³ YouGov, FBU pensions members survey, (June 2011)

a reduction in the number of operational staff. This would further compound the impact of opt outs on proposed Treasury initiatives and long term cash flow of the fire schemes.

2) Firefighters already pay extremely high contribution rates as a proportion of salary compared to other public and private sector schemes. The input from our employers (the taxpayer) compares favourably with the private sector schemes. Members of the FPS pay 11% employee contribution rates. This, along with some police contributions, is among the highest in the public sector. Members of the NFPS pay 8.5% of salary, significantly higher than most other schemes.

3) Firefighters are hit particularly hard by the proposed increases in contributions, given our schemes. This unfairness is keenly felt by firefighters and may have an adverse effect on their career decisions. (This concern is expanded upon in Appendix A).

4) The FBU believes that the proposal to increase contributions is simply unfair to firefighters. For individual firefighters, the proposed increase in contributions would be imposed on the back of no pay increase for 2009-2010 and the two-year pay freeze imposed from 2010 in the fire and rescue service. With increases in the cost of living running at around 5%, this has already caused considerable financial hardship for FBU members.

The FBU therefore does not accept that there is a case for increasing firefighters' contributions.

Opt-outs

The FBU has presented evidence to illustrate how increasing contributions will be financially self-defeating. It is extremely disappointing that the government has so far failed to register the potential impact of increasing employee contributions on the sustainability of the firefighter schemes. We believe this puts at risk the future viability of the schemes.

The consultation document outlining the proposed contribution increases continues to maintain the assumption that just 1% of firefighters will opt out of their scheme by 2014-15, if the proposed increases are imposed.⁴ In a response to a question at the 39th Firefighters Pension Committee, held on 12 January 2011, the Government Actuary's Department (GAD) highlighted that every 1% opt out costs the firefighter schemes £3.5 million per annum in lost contributions.⁵

The FBU have presented clear evidence that demonstrates that this assumption (1% opt out) is far too low and that in reality a much higher proportion of firefighters are likely to opt out of their pension scheme or even leave the service if the government's pension proposals are implemented. Our view is supported by evidence in the YouGov firefighters' survey commissioned by the union. (Further evidence to demonstrate the effects of future opt outs are contained in Appendix A).

The principal finding of the survey was the large numbers of firefighters who said they would opt out of their pension scheme if increased contributions are imposed. The survey found that more than a quarter (27%) of respondents would be likely or very likely to take this course of action if the

⁴ CLG, Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006): Proposed increases to employee contribution rates, effective from 1 April 2012 – Consultation, 9 September 2011 p.14

⁵ Firefighters Pension Committee, 39th meeting 12 January 2011, note to minutes.

proposal to increase the employee contribution is implemented; and nearly one in eight (12%) respondents said they would be very likely to opt out if contributions are raised.⁶

Although CLG have confirmed the figure to be raised by this employee contribution rise is £33m (for England), the full savings will not be realised in the first two years. It aims to deliver 40% (£13.2m) in 2012-13, then 80% (£26.4m) in 2013-14, and then finally 100% (£33m) in the final year 2014-15. Putting these figures together with the YouGov survey data on opt outs shows that any potential savings from increasing contributions will be wiped out. Indeed our evidence suggests that the proposed contribution increases is likely to result in a reduction in revenue for the firefighters' scheme. In other words the result of this proposed policy is likely to be exactly the opposite of the stated intention of government in making the proposals.

Financial impact of opt-outs on the schemes

If, as GAD confirm, a 1% opt out costs the scheme £3.5 million per annum, then an opt out rate of 12% would cost £42 million per year or £126 million over three years. If the opt out rate was 27%, then the loss in contributions would be £94.5 million per year, or £283.50 million over three years. This is highlighted in the table below:

Year	CLG savings target (£m)	Losses from 12% opt out (£m)	Losses from 27% opt out (£m)
2012-13	13.2	42.0	94.5
2013-14	26.4	42.0	94.5
2014-15	33.0	42.0	94.5
Total	72.6	126.0	283.5

Although government expects that increasing contributions to raise at most £72.6 million, the FBU believes this would be more than wiped out by a 12% opt out, and the scheme would face substantial losses if it was 27%. Using CLG's figures, an opt out rate of 7% or more nullifies the potential savings⁷. Therefore increasing contribution rates is self-defeating.

The FBU has previously put this evidence to government and were disappointed with the response to it. The union therefore asked First Actuarial consultants to examine the potential problems that any contribution increase would have on the present and future cash flow of the schemes.⁸ Unlike a funded scheme, the 'pay as you go' schemes rely on a continuous stream of contributions to pay for current pensions and other benefits liabilities. First Actuarial highlighted the potential problems that any rise in opt out levels could have on the cash flow (a similar point could be made in relation to the impact of job losses on funding streams).

The table below shows the potential impact on net cash flow in 2011/2012 for opt out rates varying between 10% and 50%:

⁶ YouGov, 2011

⁷ Clearly other combinations, including an escalating opt out rate from a lower starting point over the three years would achieve that same result.

⁸ First Actuarial, 2011 p.38

£ million	Assumed opt-out rate in 2011/2012					
	2010/2011	10%	20%	30%	40%	50%
Net cashflow	- 296	- 327	- 358	- 390	- 421	- 452
Reduction in net cashflow	-	- 31	- 62	- 94	- 125	- 156

Appendix A shows that in certain cases, it may be in the financial interest of some members to opt out of the scheme, if the proposed increases in member contributions are implemented.

Since this issue has been raised, the FBU has received a substantial number of calls and messages from around the UK from members, indicating that they plan to contact their local administrators to find out how to opt out. The FBU has issued advice urging members not to take any decision on their future pension membership until a more detailed picture is available.⁹

Increased contributions hit firefighters particularly hard

The proposed increases for 2012 cannot be taken in isolation. They must be considered in the context of proposals for the three years 2012-2014. It is in this context (of three consecutive increases) that scheme members may consider opting out of the schemes. The proposed increase would mean in real terms an increase in member contributions of around £2,000 for wholetime firefighters in the FPS and around £930 in the NFPS by 2014/15. For firefighters in the NFPS working the retained duty system earning £10,000 pensionable pay, this would equate to over £330 in additional pension contributions over the three year period.

In addition to these proposals, tiered contributions based on salary bands are to be imposed.¹⁰ This will have the added impact of raising pension contributions even further for one-third of all wholetime and retained firefighters, i.e. those who are above the competent firefighter pay band in middle manager roles.¹¹

Firefighters working in London would immediately find themselves placed into a higher pensionable pay band because of the allowance they receive for the higher costs associated with working and living in London. The first two pensionable pay bands do not apply to members of either the FPS or the NFPS and are largely irrelevant as the protection arrangements do not cover any firefighters on any duty system.

In addition, the FBU believes that these tiered contributions will have a large impact on the willingness of firefighters to apply for promotion to middle manager roles. In the YouGov survey, 62% of respondents indicated that they may consider not taking promotion in the future if the proposals become a reality. This will have a dramatic effect on the effectiveness and efficiency of the fire service, including on individual firefighters' decisions on promotion (see Appendix A).

The FBU is opposed to the short term increases in employee contribution rates. But the prospect of long term increases in employee contribution rates are just as destructive. The early reference

⁹ FBU, Hands Off Our Pensions – Opt Out Enquiries [420MW], September 9, 2011

¹⁰ CLG, Consultation, 9 September 2011 p.13, p.14

¹¹ CIPFA, Fire and rescue service statistics (2010) indicate approximately 54,000 wholetime and retained firefighters in the UK, of whom over 18,000 are classified above the competent firefighter role.

scheme design proposals indicate that average member contributions should be assumed to be 3.2% above their current weighted average level.

First Actuarial figures indicate that a ‘high-flying’ firefighter aged 40 in the FPS would end up paying additional contributions of £54,000 until retirement at 60 if the government’s overall proposals are implemented. Even a ‘typical’ firefighter would pay over £18,000 more over the course of their career - while those firefighters who do not take promotion would pay over £15,000 more. Similarly, a young firefighter aged 20 in the NFPS will be expected to make over £26,000 extra contributions over their career if these proposals are implemented. ‘High flyers’ can expect to pay over £40,000 in additional contributions.¹² The FBU firmly believe that this will have an impact on an individual’s decision to opt out of the scheme or to take up future promotions and must be addressed.

Fairness

The FBU believes that the proposal to increase contributions is simply unfair to firefighters. For individual firefighters, the proposed increase in contributions would be imposed on the back of no pay increase as a result of the pay freeze imposed from 2010 in the fire and rescue service. With the increase in the cost of living running at approximately 5%, this has already caused considerable financial hardship for firefighters and their families.

The issue of fairness is completely missing from the government’s approach. For example the Hutton review did not make clear how fairness is to be measured between taxpayer, private sector and the public sector. The FBU asked independent pensions experts Tony Cutler and Barbara Waine to examine firefighters’ pension schemes in light of the Hutton review. Their report provided some important comparators to allow firefighters to judge whether government claims about fairness are justified.

Members of the FPS pay 11% employee contribution rates, which along with some police contributions are among the highest in the public sector. Cutler and Waine revealed that this contribution rate “is over double the private sector weighted average member contribution in DB (defined benefit) schemes in 2009 of 5.2 per cent. Thus FPS scheme members are making member contributions well in excess of norms in private sector schemes”.¹³

The clear view of firefighters is that contribution increases are unfair and unsustainable. Imposing increased contributions will increase likely opt outs. High levels of opt out, alongside job losses, put the schemes at risk. Imposing increased contributions will affect the promotion decisions of firefighters and thus impact on the service provided. Additionally, these contribution increases will be imposed in the context of a pay freeze in the fire and rescue service. The FBU urges the government to think again and withdraw its proposal to increase firefighter contributions.

¹² First Actuarial, 2011 p.31-32

¹³ Cutler and Waine, Pension Schemes in the Fire Service and the Independent Public Service Pensions Commission, 2011 p.12

Additional opposition to tiered contributions

The government has accepted recommendation 7 from the Independent Public Service Pensions Commission (Hutton report), which proposed replacing final salary schemes with Career Average Revalued Earnings Schemes (CARE), as a basis for negotiation. The FBU believes that the proposal to introduce CARE alongside imposing tiered contributions would have a double impact on those in middle manager roles. This has been exacerbated in the employee contribution consultation document, when first year employee contribution rates have been hiked even further than originally anticipated.

While CARE schemes, according to the Hutton report, represent the quickest way of ending the in-built bias against those public service employees whose pay stays at lower levels over their career there is no strong argument for the double impact mentioned above.

Neither the Hutton report nor the current consultation document recognises the impact that this may have on individuals deciding to take future promotion. Again, this was identified in the results of the YouGov survey 2011, in which 62% of firefighters indicated that the pension changes were likely to affect their decision to apply for future promotion. (Further evidence of the impact is in Appendix A.) The FBU urges the government to take cognisance of this information and remove the proposed tiered contributions.

To demonstrate the potential impact on ambitions for promotion, First Actuarial provided examples of individuals receiving promotion, moving to a higher contribution band and ultimately what this will mean to their take home pay. It shows a perverse example where an individual receives promotion but actually receives a *decrease* in take home pay after the increased contribution rate is applied.

In addition to these extra contributions, firefighters also face substantial losses to their expected benefits. First Actuarial compared the impact of the CARE scheme reference scheme on member benefits for three stylised career profiles ('no promotion', 'typical career' and 'high-flyer') for both the FPS and NFPS. It is extremely important that this consultation exercise takes full cognisance of the evidence that the FBU have previously provided on the potential CARE benefit reductions. It is only when both elements are considered together can the real effect of the double impact of a combination of CARE and tiered contributions be recognised.

Conclusion

In concluding the FBU believes that:

- The proposed increases in contributions will not raise the revenue the Treasury expects due to high levels of opt outs.
- Government plans to significantly reduce central funding for the fire service budgets in future years would reduce the number of operational staff. This would further compound the impact of opt outs on proposed Treasury initiatives and on long term cash flow of the fire schemes.
- Firefighters already pay extremely high contribution rates as a proportion of salary compared to other public and private sector schemes.
- The FBU has presented evidence to illustrate that increasing contributions will be financially self-defeating.

- The protection for low paid workers does not apply to members of either the FPS or the NFPS irrespective of the duty system they work.
- The proposal to introduce these tiered contributions will have a large impact on the willingness of firefighters to apply for promotion to middle manager roles. This will have a dramatic effect on the effectiveness and efficiency of the fire service.
- The government has not recognised the impact of scheme members facing a long term increases in employee contribution rates and reduction in benefits and how this will affect their decisions.
- Although it is not a feature of this consultation document the FBU feel that it is appropriate that the issue of an employee cost cap is addressed. In recognition of many of the issues raised in this response the FBU feel that the employee contribution rates should be capped at the current rate.

The FBU remains firmly opposed to government proposals to increase employee contributions. There is no case for increasing employee contributions in the FPS or NFPS. These proposals are unfair and will not deliver the savings claimed. We therefore urge the government to think again and withdraw its proposals to increase firefighter contributions.

Part 2 - FBU response on 5 specific questions contained in the consultation document

1. Do the proposed tiered contributions meet the objectives set out by the Government in the Spending Review?

Tiered contributions in the fire service schemes must be considered in the context of the current contribution rates. These are already among the highest in the public or private sector. The argument for tiered contributions is that higher earners should pay more. However, in the FPS, this means that contributions would rise to as much as 17%.

This may have the effect of producing a higher level of opt-outs among higher earners. This is addressed in Appendix A.

Due to the age and service profile of higher earners within the service, tiered contributions are also likely to result in a significant number of rapid retirements.

2. Are there any consequences of the proposed contributions tiers that you consider have not been addressed?

The FBU have previously highlighted several areas where the proposal to impose tiered contributions will have consequences that have not been addressed. To provide additional information to assist in answering this question the FBU have considered the potential impact of tiered contributions in the following areas:

- Protection for low earners
- Potential effect on cash flow for the schemes as a result of possible opt-outs
- Aspirations for promotion
- Justification for tiered contribution structure in a CARE scheme

Protection for low earners

There are no members of the FPS or the NFPS irrespective of the duty system they work who have a full-time equivalent pay of less than £21,000, so the protection offered in this consultation document is irrelevant for firefighters.

Potential effect on cash flow for the schemes as a result of possible opt-outs

The FBU has raised major concerns about the potential effects of opt outs on the cash flow of both the FPS and NFPS and has feels that this has not been addressed (see Appendix A). These cash flow figures clearly demonstrate the potential income and expenditure concerns that the FBU have been raising in various forums and must not be overlooked. This concern has not been addressed.

Aspirations for promotion

The FBU have raised concerns that the proposed rise in contributions will have a detrimental effect on the aspirations of firefighters for promotion. In the recent YouGov survey carried out on behalf of the FBU, 62% of respondents said the proposed contribution increases would affect their decision to apply for promotion. (A further working example is provided in Appendix A). This concern has not been addressed.

Justification for tiered contribution structure in a CARE scheme

The government has accepted recommendation 7 contained in the Independent Public Service Pensions Commission (Hutton report) as a basis for negotiation. This means that Career Average Revaluation Earnings (CARE) should be adopted for general use in the public service schemes thereby replacing final salary schemes. The report also recommends that tiered contributions are introduced (recommendation 9). Although this consultation document does not focus on the introduction of CARE schemes, firefighters are aware of government's intentions and again this will affect any future decision they make. The FBU have not been convinced that there is any justification for stand alone tiered contributions and would have significantly more concern if tiered contributions were later to be combined with a CARE scheme design. (This issue is further examined in Appendix A).

3. Do you consider that there are equality issues that will result in any individual groups being disproportionately affected by the proposed contribution tiers? If so, what do you consider to be the nature and scale of that disproportionate effect?

The FBU highlighted three areas that we felt needed to be considered;

- Equality between lower earners and higher earners
- Equality between members of the FPS and the NFPS
- Equality between current members and new entrants from April 2015

Equality between lower earners and higher earners

Tiered contributions are intended to ensure that higher earners pay more than lower earners, to compensate for the fact that they are expected to receive higher benefits. The FBU remains unconvinced that the proposed tiered contributions are justified, considering the high initial contributions and the range of tiering proposed. (Further information is provided in Appendix A).

Equality between members of the FPS and the NFPS

The FBU is concerned that the proposed tiered contribution structure created an imbalance between the cost incurred by the employee and employer between the two schemes. (This concern is discussed in Appendix A).

Equality between current members and new entrants from April 2015

The FBU is concerned that new entrants to the proposed 2015 scheme would be expected to pay for the retention of any benefits members had built up in the pre 2015 schemes. The consultation document does not provide the information necessary to give a more detailed finding on this issue. The FBU will be seeking further clarification on this matter.

4. Is there a tariff which you think will help minimise any opt outs from the firefighters' pension schemes?

The FBU believe that there is no case for increasing contributions. The union has provided a substantial amount of evidence which demonstrates that the proposal for increasing contributions will result in a significant increase in the number of firefighters deciding to either opt-out of the scheme or not to join the scheme. This will produce a detrimental effect upon the future cash flow. In addition these proposals will not deliver the savings expected by Treasury. If the concerns highlighted by respondents to the YouGov survey around attitudes to future promotions become reality, it will also impact upon the efficiency and effectiveness of the fire service in the future.

5. Is the treatment under the proposals of part time workers and retained firefighters clear?

The treatment outlined in the document is clear. However the FBU must reiterate that the protection offered to workers earning less than £21,000 is not extended to part-time workers and retained firefighters as the protection is based upon pay rates that reflect their wholetime equivalent, even though in many cases they are receiving the same salaries as other low-paid workers who may be protected.