



DEFEND CONTROL JOBS
AN INJURY TO ONE IS AN INJURY TO ALL

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TO: ALL MEMBERS

Dear Brother/ Sister

FURTHER DETAILS ON THE HUTTON REVIEW ON PENSIONS

Members will be aware that the Independent Public Service Pensions Commission: Final Report was published and made available from 10th March 2011. Head Office circular 2011HOC0117MW was issued later the same day, outlining the main concerns for FBU members and informing them that a more detailed assessment of the full Hutton report would be taking place.

We have been looking at the report in more detail and can now give a clearer overview of what the proposals, if accepted by Government, could mean.

Members should recognise that, in the document, Hutton makes the assumption that the Government has already accepted that Consumer Prices Index (CPI) will be used as the measure of inflation instead of Retail Price Index (RPI) as well as the fact that there will be an imminent rise in employee contributions of an average of 3% across public sector pensions and also that a discount rate review is underway. The FBU is already challenging the increase in employee contributions; the use of CPI for uprating; and has taken part in the consultation process around the discount rate.

The Hutton report focuses on 27 separate recommendations to Government which impact on all public sector pension schemes including the three firefighter pension schemes.

Within these recommendations is a proposal that all existing public service pension scheme members are moved, as soon as possible and within this term of Parliament, into new schemes that adhere to a common framework. It does not recommend a single public sector pension scheme but that different schemes should continue to apply for different groups of workers. It recommends that the Local Government Pension Scheme remains as a fully funded scheme and that all schemes must be based on the common framework.

This recommended common framework for each scheme would be based upon the following;

- that the Government should continue to provide defined benefit pension schemes as the core design,

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- that final salary pension schemes are replaced by career average re-valued schemes,
- that the normal pension age should in future be in line with the State Pension age i.e. is therefore increased where necessary to age 65 and that this link is maintained with the future proposed uplifting of the state pension age,
- the only exception to the above is that the normal pension age should be lower for the uniformed services and it is recommended that this should be set at age 60, where this normal retirement age is currently below this level,
- the introduction of tiered contribution rates to reflect the different characteristics for higher earners,
- that within each scheme framework there should be a fixed cost ceiling to limit the risk to employers and a default mechanism put in place to adjust scheme benefits or employee contribution rates so that they stay within the fixed cost ceiling should no agreement on this be reached.

The report does propose that all accrued benefits should be protected and suggests several examples whereby this could be achieved

The report also has several recommendations, which focus upon the governance of the new schemes including the introduction of more independent oversight, more transparent data availability (including regular benefit statements without being requested) and more cooperation/collaboration between scheme administrations and funding boards.

It also suggests that every public pension scheme should have a properly constituted, trained and competent Pension Board, with member nominees, and be responsible for meeting good standards of governance including effective and efficient administration.

The final part of the report outlines that there will have to be amendments to legislation to cover issues including;

- scheme responsibility,
- regulatory framework,
- governance structures,
- protection of member benefits,
- transitional provisions.

The report outlines how all this change will be delivered and suggests that consultation should be centrally coordinated. However more detailed specific scheme by scheme consultation involving employees and their representatives will take place with a view to implementation by 2015.

Within the recommendations there are proposals designed to encourage more flexible retirements, which include staged retirement options, removing abatement entirely and amending or removing accrual limits.

Although the report makes many recommendations, it still lacks vital details on areas of extreme importance. For example, it proposes to introduce career average schemes and remove accrual caps, but does not give any details on potential accrual rates which are currently set at 1/60ths in all three firefighter schemes (with double accrual, 2/60ths, after 20 years service in the FPS). Without this information it is impossible to show the full impact upon the firefighters pension schemes.

The Union has already started to look at potential cost implications for members from these proposals both for active and retired members and have used an independent actuary to provide some information. This information will show cost and benefit comparisons between using CPI and RPI for indexation and revaluing; changing from a final salary scheme to a career average scheme; the potential impact upon FPS commutation; and the additional costs should a 3% employee contribution levy be applied. Worked examples should be available very shortly but members must recognise that these are based upon the current accrual rates and changing future accrual rates could dramatically affect these figures.

The Hutton report is only the start of a concerted attack on public sector pensions and the wider implications are not yet known. The devil is in the detail and as yet these details are not available. The FBU will be fully involved in any consultations that result from this report but the first step is to attempt to convince Government not to accept these recommendations. You can be assured that the FBU will be raising our opposition to the attacks contained within this report and will be continuing to fight against detrimental changes to members' pension schemes.

Members will be updated on the situation as it develops and this attack on pension schemes must be discussed at Branch meetings.

If you needed another reminder of why we are marching for the alternative on **Saturday 26th March 2011** the Hutton report is it.

Best wishes.

Yours fraternally

A handwritten signature in black ink that reads "M. Wrack". The signature is written in a cursive, slightly slanted style.

MATT WRACK
GENERAL SECRETARY

MW/sll