The Fire Brigades Union

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TO: ALL MEMBERS (WALES)

cc: Brigade Secretaries

Dear Brother/Sister

WELSH GOVERNMENT CONSULTS ON FIREFIGHTER PENSIONS OPTIONS: INCLUDING FAIRER FLEXIBLE RETIREMENT OPTIONS

On 14 November the Welsh Government issued its second consultation on the regulations to introduce a new firefighters' pension scheme in Wales from April 2015. This document, which can be accessed via http://wales.gov.uk/consultations, invites responses from all stakeholders before it closes on 16 January 2015. As is normal practice, the FBU will be responding to this consultation. However it is worth noting that this consultation does include a proposal that deviates from the current proposal in England.

It proposes two options for consideration in respect of the actuarial reduction a firefighter would face if they were to retire before age 60.

Option A is the current DCLG proposal with a reduction of around 22% while option B has an actuarial reduction of 9%.

Option B uses the calculation method suggested by the FBU and is the improvement that we have been seeking from DCLG (in regards to this issue). It does not address all our concerns but it is a significant improvement on the current proposal from DCLG.

It does mean that the accrual rate is worsened and means that if a firefighter is able to work until age 60 the DCLG option A delivers a better outcome. However in all other cases option B provides a better outcome.

To illustrate this our actuarial advisors, First Actuarial, have provided a simple table showing a comparison between the Welsh Government proposal (option B) and the DCLG proposal (option A).

Please note however this table is heavily caveated and the figures used are based on a number of assumptions that may change. They should not however change the principle that at ages 55-59 inclusive, option B provides the best outcome.

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	Option A Accrual Rate 1/59.7th		Option B Accrual Rate 1/61.5th	
Age at retirement		Actuarial Reduction	9.0%	Actuarial Reduction
55	£13,059	22%	£14,751	9%
56	£14,110	18.5%	£15,482	7.5%
57	£15,216	14.5%	£16,229	6%
58	£16,434	10%	£16,993	4%
59	£17,751	5%	£17,774	2%
60	£19,132	Nil	£18,573	Nil

(This table uses figures that are based on a firefighter joining the 2015 scheme age 20 joining on a salary of £21,799 before moving onto a competent rate of £29,054 after 5 years. This example uses similar figures that DCLG have used when they say a firefighter retiring at age 60 after 20 years will receives pension of around £19,000. While the figures may change, the case that option B provides a better return at ages 55-59 remains constant).

Partial retirement

Another important consideration is that the 2015 Welsh proposal will also include a ***partial retirement option***. This means that a firefighter in the 2015 scheme can access their 2015 benefits at age 55 (actuarially reduced) and continue in employment. (N.B Please note however that this option does not apply to 1992 or 2006 benefits where a scheme member has to physically retire to access their benefits).

The proposed lower actuarial reduction of 9% makes this a more attractive option rather than the alternative of 21.8%.

An example of how this partial retirement option could work and the impact of lower actuarial reductions:

- Firefighter X accesses partial retirement at age 55.

- Firefighter Y works until age 60 without exercising the partial retirement option.

Using the figures above under option B and choosing to exercise the partial retirement option, Firefighter X opts to partially retire at age 55 and continue working until age 60 without any abatement applied. He/she would have already received £73,755 (5 x £14,751) in pension benefits by the time he/she actually retires at age 60.

Firefighter Y under the previous option (A) continues to work until age 60 without accessing partial retirement gets a better return at age 60 of £19,132.

Although this is a better return per year of £4,981 it will take firefighter Y almost 15 years to match what Firefighter X received in benefits until this time.

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It is also worth considering that in these 5 years Firefighter X has also not made any further pension contributions.

(Again please note these figures are only an indication based on the assumptions in the table).

The FBU welcomes the inclusion of option B in the consultation document and will be responding to indicate that although there are other areas where improvements are necessary, this option is our preference and should be included in the scheme design.

The document outlines that the Welsh Government have no preferred option but that they will take views on both options into consideration. If FBU members are going to respond to this, please look carefully at the points we have raised in relation to the effect of the lower actuarial reductions.

Other areas of concern with this proposal will be dealt with as part of ongoing discussions and will be covered in our formal submission.

Best wishes.

Yours fraternally

M. Wrack

MATT WRACK
GENERAL SECRETARY

MW/sll