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Appendix 1 – Paper by First Actuarial

FIREFIGHTERS' PENSION SCHEME (1992)
NEW FIREFIGTHERS' PENSION SCHEME (2006)

This paper sets out our analysis of the YouGov survey carried out on behalf of the Fire Brigades Union ("FBU") in December 2013, and the possible implications for the Firefighters' Pension Scheme ("FPS").

We also comment on DCLG's consultation document: "Proposed increases to employee contribution rates, effective from 1 April 2014 – consultation", dated November 2013 (referred to in this paper as the "**consultation document**").

The paper is split into the following sections:

Section 1	– Analysis of the 2013 YouGov Survey
Section 2	– Potential impact of opt-outs on cashflow
Section 3	– Comments on DCLG's claim that: "…for every £1 paid by the employee, the taxpayer contributes £5…"
Section 4	– Additional member contributions
Section 5	– Further comments on DCLG's consultation document and alternative tariffs for the 2015 scheme

Appendix A – Career Profiles

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1 ANALYSIS OF THE 2013 YOUGOV SURVEY

- In this Section we briefly summarise the results of a YouGov survey carried out on behalf of FBU in December 2013 which shows that a large number of firefighters say they would be likely or very likely to opt out of the scheme.
- We look at circumstances in which members may be better off opting out of (or not joining) the new scheme.
- We explain how large opt-outs could increase the cost of benefits.

YOUGOV SURVEY DECEMBER 2013

1.1 FBU carried out a YouGov survey in December 2013. The total sample size was 6,267 current FBU members.

1.2 A similar YouGov survey was carried out in 2011 and 2012. The total sample sizes for these surveys were 7,192 and 7,981, respectively. The results of these surveys are shown in brackets in the analysis throughout this paper for comparison.

1.3 The main points of the YouGov survey were:

- 94% (2012: 98%, 2011: 97%) of members opposed the plans for firefighters to work five more years until they are 60.
- 91% (2012: 92%, 2011: 91%) said they opposed plans to increase the current rate of pension contributions.
- 43% (2012: 54%, 2011: 27%) said they would be likely or very likely to opt out of the pension scheme if the contribution rates were increased. At younger ages this figure is higher with up to 67% (2012: 70%, 2011: 41%) of 18 to 29 year olds indicating that they would be likely to opt out of the pension scheme if the proposal to increase member contributions is implemented.
- 62% (2012: 72%, 2011: n/a) said they would be likely or very likely to opt out of the pension scheme if the normal pension age was set at 60.

1.4 Notwithstanding that the results of an anonymous survey are likely to show a higher proportion of members saying that they are likely to opt out of the scheme than would actually do so, the principal finding of the survey is that a large number of firefighters would opt out of their pension scheme if increased contributions (or a higher normal pension age) are imposed.

MEMBERS BETTER OFF OPTING OUT OF THE SCHEME

1.5 It may be in the financial interest of some members to opt out of (or not join) the FPS if the proposed increase in member contributions is implemented.

1.6 *Maximum number of years*

A firefighter who has already reached the maximum number of years' service or is approaching retirement may be better off opting out and paying his member contributions into a personal pension. On reaching the maximum number of years' service, a firefighter's pension will only increase if his salary at or near retirement increases.

Often, close to retirement, a member's salary does not increase (or actually reduces if the member goes part time) close to retirement. The only real benefit of remaining in the scheme in this case is the life cover provided (e.g. a lump sum of twice pensionable pay for FPS and three times pensionable pay for the NFPS). However, it is likely that the firefighter would be able to obtain equivalent life cover from an insurance company for less than the potential increase in member contributions to as much as 17% of pensionable pay.

1.7 *Younger members and flexibility of pension*

At the other extreme, those firefighters just starting their career could be better off opting out of the scheme from the start and instead putting their member contributions into a personal pension of their own. Also, the pension taken at retirement can be tailored to the firefighter's specific needs, such as receiving a higher pension with no attaching spouse's pension if the firefighter is single at retirement and has no dependants. This flexibility would not be possible with the scheme pension.

1.8 *Early retirement for active members under age 57 (or deferred members)*

Active members in the 2015 Scheme who retire before age 57 will have their pension actuarially reduced from State Pension Age rather than from age 60. Similarly, deferred members will have a Normal Pension Age linked to State Pension Age.

So, for example, a 55 year old who retires from active service will have his pension reduced from State Pension Age (which could be age 68). This reduction could be as high as 50.3% (based on a reduction from age 68) compared to a reduction of around 20% (if the calculation was based on a reduction from age 60).

Therefore, a member intending to retire from the fire service before his 57^{th} birthday may be better off not joining the scheme and using his or her member contributions to build up a personal pension more tailored to their preferred retirement age.

1.9 *Additional member contributions forming a "barrier to entry"*

In Section 4 below, we consider the additional contributions that a firefighter will have to make over their entire career if the proposed increases to employee contributions takes place from April 2014. The increase to employee contributions may be seen as a "barrier to entry" for some members.

IMPACT OF OPT-OUTS ON COST OF BENEFITS

1.10 The results of the YouGov survey showed that younger firefighters are more likely to opt-out than older firefighters. As many as 67% (2012: 70%, 2011: 41%) of 18 to 29 year olds indicated that they would be likely to opt out of the pension scheme if the proposal to increase member contributions is implemented. This compares to the average of 43% (2012: 54%, 2011: 27%) across all ages.

1.11 A high number of opt-outs among 18 to 29 year olds will increase the average age of the scheme, thus increasing the cost of benefits. This will be exacerbated if firefighters who have previously opted out of the scheme choose to join the scheme at a later date, thus further increasing the average age of the membership.

As a broad indication, under the assumptions recommended by GAD, a 1-year increase to the average age of the Reference Scheme would increase the absolute cost by between 0.2% and 0.3% of salaries. So, if the average age increased by 5 years, say, the cost of benefits could increase by around 1% to 1.5% of salaries.

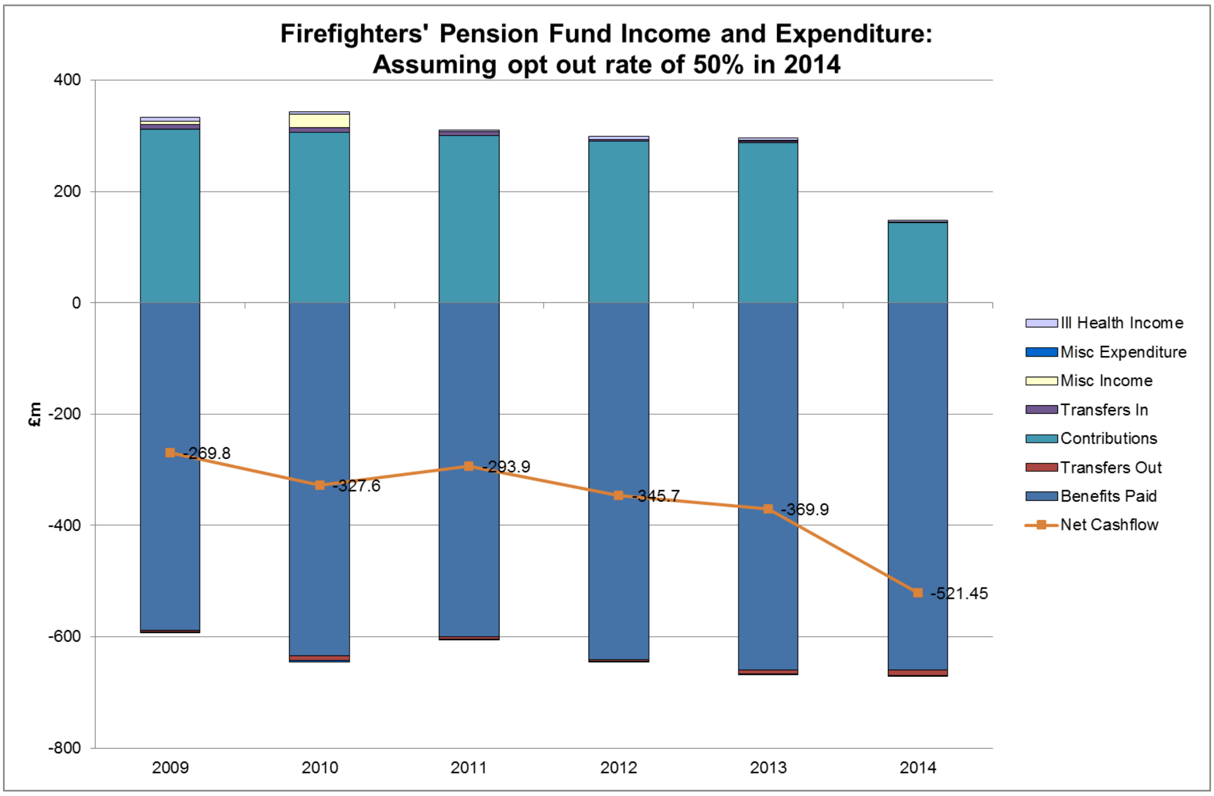
2 POTENTIAL IMPACT OF OPT-OUTS ON CASHFLOW

- In this Section we show the potential negative impact of opt-outs on cashflow for the FPS in England.

1.12 As an unfunded scheme, the FPS relies on contributions to pay for pensions and other benefits. The net cash flow of the scheme in England in 2012/2013 was £370 million (negative).

1.13 The chart below shows the potential impact on the scheme's cashflow position in 2014. Data was taken from "Statistical Release: Firefighters' Pension Income and Expenditure, 2011-12 & 2012-13", dated 31 July 2013. The net cash flow positions shown for 2009 to 2012 are based on data from previous Statistical Releases.

1.14 This information has then been used to project the cash flow for the scheme to 2014 based on an assumed opt-out rate of 50%.



1.15 The chart above has been based on the following assumptions:

- The opt-out rate of 50%. That is, total contributions (employer and employee) received in 2014 decrease by 50% compared to those received in 2013.
- Transfers-out increase by 50% (due to members leaving the scheme and subsequently requesting a transfer out of the scheme).
- Transfers-in decrease by 50% (due to less members in the scheme requesting a transfer in).
- Ill-Health income decreases by 50% (due to less active members in the scheme retiring on ill-health grounds).
- Benefits paid out of the scheme remain constant (because the number of pensioners receiving a benefit will not be affected by opt-outs).
- Miscellaneous income and expenditure remain constant.

1.16 The table below shows the potential impact on net cashflow in 2013/2014 for opt-out rates varying between 10% and 70%:

£m		Assumed opt-out rate in 2013/14						
	Actual 2012/2013	10%	20%	30%	40%	50%	60%	70%
Net cashflow	-£370	-£400	-£431	-£461	-£491	-£521	-£552	-£582
Reduction in net cashflow	-	-£30	-£61	-£91	-£121	-£151	-£182	-£212

1.17 The YouGov survey showed that 43% (2012: 54%, 2011: 27%) of respondents would be likely or very likely to opt out if the contribution rates are increased. This could worsen the net cash flow position by around £130 million, taking net cashflow to around
£500 million (negative). This is ultimately a direct cost to the tax payer.

1.18 The YouGov survey showed that 62% (2012: 72%, 2011: n/a) of respondents would be likely or very likely to opt out if the normal pension age is set at 60. This could worsen the net cash flow position by around £190 million, taking net cashflow to around £560 million (negative). This is ultimately a direct cost to the tax payer.

3 COMMENTS ON DCLG'S CLAIM THAT: "FOR EVERY £1 PAID BY THE EMPLOYEE, THE TAXPAYER CONTRIBUTES £5"

- In this Section we question the rationale put forward by DCLG for increasing employee contributions is to ensure a fairer balance between what firefighters pay and what taxpayers pay.
- Paragraph 2.12 of the consultation document in relation to the proposed increases to employee contribution rates effective from 1 April 2014, says:

  "…Currently, for every £1 paid into the [FPS] by the employee, the taxpayer contributes £5. The tax payer funding is through two routes: the contributions paid by individual fire and rescue authorities…and through the Government "top-up" grant…[which] in 2012-13 alone was £370 million…with a further £187 million paid by employers. Firefighters contributed £106 million during this period…"
- We also show how the "£5 for £1" ratio could increase if employee contributions are increased.

1.19 Before commenting on the statement above, it is worth explaining where these figures come from. The table below summarises the information contained in the "Fire & Rescue Services Statistical Release", dated 31 July 2013, which shows the income and expenditure in 2011-12 and 2012-13 in England.

1.20 The figures quoted in the consultation document are highlighted in green below. The amount paid by employers (£187 million) plus the Government "top-up" grant (£370 million) sums to £557 million, which is around 5 times the amount paid by employees (£106 million).

Income (£m)			**Expenditure (£m)**		**"Top-up" (£m)**
Employee contributions:		106.0	Pension outgoings:		
Employer contributions:		187.3	• Commutation payments	152.7	Difference
• Normal retirement	182.1		• Recurring payments	506.4	between income
• Ill-health retirement	5.2		Other:	7.3	and expenditure
Total		**293.3**		**666.4**	**373.1**

Source: "Statistical Release: income and expenditure, 2011-12 & 2012-13, England", dated 31 July 2013:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225855/Firefighters__pensions_2012-13.pdf

CONTRIBUTION PROGRESSION OVER THE LAST 5 YEARS

1.21 The table below shows that contributions made by employers (excluding ill-health retirement) has steadily fallen over the last 5 years, with the contribution made in 2012-13 (£182.1 million) being more than 10% lower than the contributions paid in 2008-09 (£203.5 million).

1.22 Over the same period, employee contributions have remained broadly at the same level (around £106 million), which means that firefighters have been contributing a greater proportion of the cost of the scheme, relative to contributions paid by employers.

(£m)	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**Change over 5 years**
Employee	108.7	107.5	106.0	102.9	106.0	Down 2%
Employer	203.5	198.5	194.7	188.0	182.1	Down 11%
Ill-health	6.5	4.3	3.7	4.8	5.2	Down 20%
Other income	13.9	32.9	6.2	2.7	0.6	Down 96%
"Top-up" grant	255.6	301.9	293.8	345.8	373.1	Up 46%
Total	**588.3**	**644.9**	**604.5**	**644.2**	**666.4**	**Up 13%**

SCHEME MEMBERSHIP PROGRESSION OVER THE LAST 3 YEARS

1.23 The table below shows that the number of active members has steadily declined over the 3 years from 2010 to 2013, down 4% overall. The number of pensioners has steadily increased over the same period, up 2% overall.

FPS membership (at start of year)	2010 – 2011 [Source: A]	2011 – 2012 [Source: B]	2012 – 2013 [Source: C]	Change over 3 years
Actives				
• 1992 Scheme	24,729	23,580	22,195	Down 10%
• 2006 Scheme (retained)	4,835	5,033	5,702	Up 18%
• 2006 Scheme (non -retained)	7,233	7,361	7,548	Up 4%
Total	**36,797**	**35,974**	**35,445**	**Down 4%**
Pensioners				
• 1992 Scheme	37,330	37,498	37,929	Up 2%
• 2006 Scheme (retained)	56	77	133	Up 138%
Total	**37,386**	**37,575**	**38,062**	**Up 2%**

Sources:

A. *"Statistical Release: FPS membership data , England 2010-11", 30 March 2012:* *https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/15514/firefighters_membership_data.pdf*

B. *"Statistical Release: FPS membership data , England 2011-12", 29 November 2012:* *https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/15587/Nov2012_release_word__2_.pdf*

C. *"Statistical Release: FPS membership data , England 2012-13", 29 November 2013:* *https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/262000/Firefighters_Pension_Membership_201213.pdf*

PROJECTING THE "£5 FOR £1" RATIO INTO THE FUTURE

1.24 Future opt-outs, perhaps resulting from higher employee contributions and/or fewer recruitments in future, will only serve to worsen "£5 for £1" ratio further.

1.25 As the trend identified in membership above continues, DCLG's rationale would mean active members would have to pay more and more towards the cost of the FPS in order to meet the increasing size of the pensioner payroll. This is clearly unsustainable.

1.26 For example, projecting forward the trend identified in FPS membership over the last 3 years for the next 6 years (i.e. active membership down by 8% and pensioners up by 4%), and allowing for the proposed increases to employee contributions, the income and expenditure and the required "top up" grant in 2018/19 could look as follows:

Income (£m)			Expenditure (£m)		"Top-up" (£m)
Employee contributions:		111.0	Pension outgoings:		
Employer contributions:		160.2	• Commutation payments	152.7	Difference
• Normal retirement	155.0		• Recurring payments	618.2	between income
• Ill-health retirement	5.2		Other:	7.3	and expenditure
Total		**271.2**		**778.2**	**507.0**

1.27 The above assumes ill-health income, commutation and other outgoings remain constant from 2012/13. Pension increases are assumed to be 2.7% a year, in line with current annual increases in the Consumer Price Index.

1.28 The ratio above can be seen to have increased to £6 for £1 (£507 million plus £160.2 million, divided by £111 million). This ratio would be higher if more members opt out.

UNFUNDED SCHEMES

1.29 Paragraph 2.12 of the consultation document includes the following statement:

> **"…The [FPS] are unfunded schemes which means that current scheme income (through employee and employer contributions) pays for current scheme expenditure, with the difference between the two topped up by a Government grant…"**

1.30 Like most public sector schemes, the FPS operates as an unfunded scheme and the above statement is true. However, it is not appropriate to compare the amount paid out by the scheme (which is mainly made up of pensions paid to members who have already retired) against the contributions paid by current active members who haven't yet retired.

1.31 A reduction in firefighters over time will only serve to worsen this position as fewer and fewer active members remain to support more and more pensioners, and it would be unfair to expect the remaining active members to pay higher employee contributions to pay for the pensions of those already retired. In funded schemes, pension deficits are met solely by the employer.

1.32 Furthermore, if this was an appropriate comparison, then in the NHS Pension Scheme ("NHSPS") where contribution income exceeds expenditure by around £2 billion a year[1], using this comparison would imply that employee contributions in the NHSPS should actually reduce – such a reduction has certainly not been proposed by the Government.

COST OF FUTURE SERVICE BENEFITS

1.33 A much fairer comparison is to look at the cost of the pension benefits building up for active members against the contributions paid towards those benefits.

1.34 The table below shows that firefighters pay the highest share of the cost than any other public sector pension scheme.

1.35 For example, the proposed average employee contribution rate expressed as a ratio of the "Gross cost ceiling" (which represents the total cost of the 2015 schemes), for the FPS is 49%, compared to, say, the ratio in the Principal Civil Service Pension Scheme ("PCSPS") where members pay as little as 25% towards the cost of their benefits.

Scheme	Proposed average employee contribution rate from April 2014* (A)	Gross cost ceiling (B)	Ratio = [(A) / (B)]
NHSPS – health	9.8%	21.9%	45%
PCSPS – civil service	5.6%	22.5%	25%
TPS – teachers	9.6%	21.7%	44%
LGPS – local govt	6.5%	20.4%	32%
FPS – fire	13.2%	27.0%	49%

**This assumes that the proposed employee contribution rates that will apply from April 2015 will be the same as the rates proposed to apply from April 2014.*

[1] "NHS Pension Scheme: Government response", dated March 2013 (paragraph 2.15, page 8): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/157752/NHSPS-April-2013-regs-gov-response.pdf

4 ADDITIONAL MEMBER CONTRIBUTIONS

- In this Section we show the additional contributions members may have to pay as a result of the proposed increases to member contribution rates from April 2014.
- We also compare the increase in contributions over a career of moving from (i) the FPS 1992 scheme to the 2015 scheme, and from (ii) the NFPS 2006 scheme to the 2015 scheme.

ADDITIONAL CONTRIBUTIONS

1.36 The impact of the proposed increases to member contributions will be that firefighters will have to make significant additional contributions over their entire career. The three career profiles used in the figures below are shown in Appendix A.

Additional contributions from April 2014

1.37 The two tables below show the addition contributions to be paid by a member of the FPS and the NFPS from April 2014, comparing future proposed contributions to the current 2013 rates.

FPS

FPS	**Age 40 now**		
Retirement age	**50**	**55**	**60**
No promotion	£3,740	£5,609	£7,479
"Typical" career	£5,009	£7,652	£10,326
"High-flyer"	£8,273	£13,225	£18,177

1.38 For example, a firefighter currently aged 40 in the FPS who has a "high-flyer" career profile, may have to pay an additional £18,177 over the next 20 years until retirement at age 60.

NFPS

NFPS	**Age 20 now**			**Age 40 now**		
Retirement age	**50**	**55**	**60**	**50**	**55**	**60**
No promotion	£6,746	£7,896	£9,047	£2,301	£3,452	£4,603
"Typical" career	£8,748	£10,509	£12,292	£3,340	£5,101	£6,884
"High-flyer"	£11,618	£14,644	£17,670	£5,221	£8,247	£11,273

1.39 For example, a firefighter currently aged 20 in the NFPS who has a "high-flyer" career profile, may have to pay an additional £17,670 over the next 40 years until retirement at age 60.

Additional contributions from April 2012

1.40 The two tables below show the addition contributions to be paid by a member of the FPS and the NFPS from April 2014, comparing future proposed contributions to the 2011 rates, i.e. the contribution rates in force before the increases that came into effect from April 2012.

FPS

FPS	**Age 40 now**		
Retirement age	**50**	**55**	**60**
No promotion	£9,205	£13,808	£18,410
"Typical" career	£12,357	£18,874	£25,472
"High-flyer"	£20,548	£32,928	£45,307

1.41 For example, a firefighter currently aged 40 in the FPS who has a "high-flyer" career profile, may have to pay an additional £45,307 over the next 20 years until retirement at age 60.

NFPS

NFPS	**Age 20 now**			**Age 40 now**		
Retirement age	**50**	**55**	**60**	**50**	**55**	**60**
No promotion	£16,022	£18,754	£21,487	£5,466	£8,198	£10,931
"Typical" career	£20,947	£25,174	£29,454	£8,015	£12,243	£16,523
"High-flyer"	£28,397	£36,099	£43,802	£13,019	£20,722	£28,424

1.42 For example, a firefighter currently aged 20 in the NFPS who has a "high-flyer" career profile, may have to pay an additional £43,802 over the next 40 years until retirement at age 60.

COMPARISON WITH THE 2015 SCHEME

1.43 It is also worth comparing the contributions paid over a career under the contribution rates proposed to apply from April 2014, in the following schemes:

(i) FPS 1992 scheme versus the 2015 scheme, and

(ii) NFPS 2006 scheme versus the 2015 scheme.

1.44 In the FPS 1992 scheme, I have assumed a 30-year career from age 20 to age 50. In both the NFPS 2006 scheme and the 2015 scheme, I have assumed a 40-year career from age 20 to age 60.

(i) FPS 1992 scheme versus the 2015 scheme

	FPS 1992 (To age 50)	**2015 scheme (To age 60)**	**Difference**
No promotion	£119,738	£144,289	**£24,551**
"Typical" career	£134,426	£162,999	**£28,573**
"High-flyer"	£169,028	£217,742	**£48,714**

1.45 For example, a firefighter who has a "high-flyer" career profile, may have to pay an additional £48,714 in the 2015 scheme over a 40-year career compared to a 30-year career in the FPS 1992 scheme.

1.46 So, whilst the 2015 scheme has a lower contribution rate than the FPS 1992 scheme, members will find that having to work a longer career will mean that they have to pay significantly higher contributions over the course of their career.

(ii) NFPS 2006 scheme versus the 2015 scheme

	NFPS 2006 (To age 60)	**2015 scheme (To age 60)**	**Difference**
No promotion	£117,612	£144,289	**£26,677**
"Typical" career	£138,004	£162,999	**£24,995**
"High-flyer"	£186,698	£217,742	**£31,044**

1.47 For example, a firefighter who has a "high-flyer" career profile, may have to pay an additional £31,044 in the 2015 scheme over a 40-year career compared to a 40-year career in the NFPS 2006 scheme.

1.48 So, NFPS 2006 members who transfer to the 2015 scheme will see a significant increase in contributions that they have to pay over the course of their career.

NOTES ON THE ABOVE FIGURES

1.49 The above figures are based on the actual increases to contribution rates for both the FPS and NFPS introduced in April 2013, and assume that the proposed contribution rates for 2014 will be applied.

1.50 From April 2015, we have assumed that the contribution rates proposed to apply from April 2014 will continue to apply from April 2015 onwards. This is shown in the table below.

	Pensionable Pay	Contributions						
		Actual			Actual		Proposed	
		2011/12	Increase 2012/13	2012/13	Increase 2013/14	2013/14	Increase 2014/15	2014/15
FPS	Up to £14,999	**11.0%**	0.0%	**11.0%**	0.0%	**11.0%**	0.0%	**11.0%**
FPS	£15,000 to £21,000	**11.0%**	0.6%	**11.6%**	0.3%	**11.9%**	0.3%	**12.2%**
FPS	£21,001 to £30,000	**11.0%**	0.6%	**11.6%**	1.3%	**12.9%**	1.3%	**14.2%**
FPS	£30,001 to £40,000	**11.0%**	0.7%	**11.7%**	1.5%	**13.2%**	1.5%	**14.7%**
FPS	£40,001 to £50,000	**11.0%**	0.8%	**11.8%**	1.7%	**13.5%**	1.7%	**15.2%**
FPS	£50,001 to £60,000	**11.0%**	0.9%	**11.9%**	1.8%	**13.7%**	1.8%	**15.5%**
FPS	£60,001 to £100,000	**11.0%**	1.2%	**12.2%**	1.9%	**14.1%**	1.9%	**16.0%**
FPS	£100,001 to £120,000	**11.0%**	1.5%	**12.5%**	2.0%	**14.5%**	2.0%	**16.5%**
FPS	£120,000 and above	**11.0%**	2.0%	**13.0%**	2.0%	**15.0%**	2.0%	**17.0%**
NFPS	Up to £14,999	**8.5%**	0.0%	**8.5%**	0.0%	**8.5%**	0.0%	**8.5%**
NFPS	£15,000 to £21,000	**8.5%**	0.3%	**8.8%**	0.3%	**9.1%**	0.3%	**9.4%**
NFPS	£21,001 to £30,000	**8.5%**	0.3%	**8.8%**	0.8%	**9.6%**	0.8%	**10.4%**
NFPS	£30,001 to £40,000	**8.5%**	0.4%	**8.9%**	1.0%	**9.9%**	1.0%	**10.9%**
NFPS	£40,001 to £50,000	**8.5%**	0.5%	**9.0%**	1.1%	**10.1%**	1.1%	**11.2%**
NFPS	£50,001 to £60,000	**8.5%**	0.6%	**9.1%**	1.1%	**10.2%**	1.1%	**11.3%**
NFPS	£60,001 to £100,000	**8.5%**	0.8%	**9.3%**	1.2%	**10.5%**	1.2%	**11.7%**
NFPS	£100,001 to £120,000	**8.5%**	1.0%	**9.5%**	1.3%	**10.8%**	1.3%	**12.1%**
NFPS	£120,000 and above	**8.5%**	1.2%	**9.7%**	1.4%	**11.1%**	1.4%	**12.5%**

1.51 For the 2015 scheme, paragraph 4.7 of the consultation document sets out indicative rates that will apply from April 2015 in the 2015 scheme. These are shown below.

Tier	Pensionable Pay	2015/16	2016/17	2017/18
Tier 1	Up to £27,000	12.0%	-	-
Tier 2	£27,000 to £50,000	12.6%	-	-
Tier 3	£50,000 to £100,000	13.0%	-	-
Tier 4	Over £100,000	13.5%	-	-
Average yield		**12.6%**	**12.7%**	**12.8%**

5 FURTHER COMMENTS AND ALTERNATIVE TARIFFS

- In this Section I comment on alternative tariffs for the 2015 scheme, including commentary on a paper entitled "FPC(13)8 – employee contributions from 2014" which was tabled at the 50th FPC meeting held on 16th October 2013.
- I also provide further comments on the consultation document, including limitations of the opt-out analysis carried out for the consultation.

ALTERNATIVE TARIFFS FOR THE 2015 SCHEME

1.52 Paragraph 4.10 of the consultation document refers to alternative approaches being considered by DCLG on the rates to apply in the 2015 scheme, which it says will be discussed with unions and employers and included in a further Government consultation.

1.53 This includes a single contribution rate per tier to apply throughout the period April 2015 to March 2019, or providing further protections to 2006 scheme members who transfer to the 2015 scheme.

1.54 Protections for 2006 scheme members who transfer to the 2015 scheme should be done without increasing the contribution rates for members of either the 1992 scheme or the 2015 scheme, otherwise questions around equality and fairness would need to be addressed.

1.55 Earlier this year, a paper entitled "FPC(13)8 – employee contributions from 2014" was tabled at the 50th FPC meeting held on 16th October 2013. My comments on that paper are summarised below.

- **Paragraph 2 says that "…To date, firefighters have seen, on average, the lowest contribution increases out of the schemes delivering increases in contributions…".** This statement is true, but doesn't mention that the contribution rate was already starting from a higher level for firefighters compared to other public sector schemes. Nor does it mention that the reason why FPS contribution rates didn't increase as much as other schemes in April 2012 was because of the fear of opt outs and the knock-on effect on contribution income if opt outs are significant.

- **Paragraph 5 says that "…of those who opted out, the vast majority earned under £40k…"** This is worrying as the majority of firefighters earn below £40k, and this clearly shows that the current contribution rate is already too high. A further increase in April 2014 will just make this worse.

- **Paragraph 11 says that "…a firefighter earning £28,800 in the FPS [will pay] 14.2% …and a firefighter in the NFPS [will pay] 10.4%...Although no final decision has been taken on contribution rates in the 2015 schemes, Brandon Lewis' letter of 19 June to the FBU estimates [it might be] 12.6%..."** Paragraph 12 suggests that 12.6% will apply from April 2015 for firefighters who transfer to the 2015 scheme, so FPS members will see a decrease in contributions (from 14.2% to 12.6%) whereas NFPS members will see an increase (from 10.4% to 12.6%). This will not be the case for firefighters remaining in the FPS or NFPS after April 2015 (i.e. those closer to retirement).

- **Paragraph 13 outlines an "alternative tariff" where the NFPS rate is set at 11.1% from April 2014 (instead of 10.4%) so that the FPS rate could be set at around 13.9% or 14.0% from April 2014 (instead of 14.2%).** However, paragraph 14 goes on to say that any reduction in the FPS rates from April 2014 could lead to an increase to the employee contribution rate to apply in the 2015 scheme, i.e. higher than 12.6%.

- **Overall comment:** My overall comment on employee contribution rates for the NFPS, FPS and 2015 scheme, is that the target average rate of 13.2% across all three schemes (as mentioned in paragraph 14) is simply too high.

  The ratio of average employee contributions to taxpayers contributions from April 2015 would be 49% (13.2% divided by 27%, where 27% is the Cost Ceiling for the Firefighters' Pension Scheme). This is high compared to other public sector schemes. For example, in the Principal Civil Service Pension Scheme, the ratio of average employee to taxpayers contributions from April 2015 is expected to be between 25% and 30%.

  Over time, as the number of firefighters in the 2015 scheme increase and the number in the 1992 scheme decrease, the average rate across all three schemes will naturally fall below 13.2%. Will this mean that contributions will have to increase again to compensate?

LIMITATIONS OF THE OPT-OUT ANALYSIS

1.56 Paragraphs 7 and 8 of Annex A of the consultation document which sets out the "Opt Out Report: April to September 2013-14" identify two categories of firefighter that have been omitted from the opt-out analysis. These are:

- "…Firefighters who chose to leave the scheme within 3 months receive a refund of their employee contributions and therefore have been classed as 'non-joiners' rather than optant outs…"

- "…The information on joiners and non-joiners excludes those firefighters who have been subject to their fire and rescue authorities' automatic re-enrolment process. This is where …firefighters who have previously opted out or not joined their pension scheme have been re-enrolled back into the scheme, but have chosen not to remain a member…"

1.57 It could be argued that these two categories of firefighter described above should be included in the opt-out analysis. For example, firefighters who choose to leave the scheme within 3 months could well have done so because of the high contribution rates forming an "entry barrier" to joining the scheme. Equally, those who have previously opted out and chosen to opt out again could be due to the high contribution rates.

1.58 Allowing for these categories would increase the number of recorded opt outs and increase the observed percentage cost of opt outs. This may change Government's view on the "knock-on" effect that higher contribution rates has had on opt-outs.

APPENDIX A CAREER PROFILES

“No promotion” Career Progression

Firefighter: No promotion			
Years of Service	**Age over period**	**Role**	**Salary**
1	20 to 21	(Firefighter) Trainee	£21,583
2	21 to 22	(Firefighter) Development	£22,481
3	22 to 23	(Firefighter) Development	£22,481
4	23 to 24	(Firefighter) Competent	£28,766
5	24 to 25	(Firefighter) Competent	£28,766
6	25 to 26	(Firefighter) Competent	£28,766
7	26 to 27	(Firefighter) Competent	£28,766
8	27 to 28	(Firefighter) Competent	£28,766
9	28 to 29	(Firefighter) Competent	£28,766
10	29 to 30	(Firefighter) Competent	£28,766
11	30 to 31	(Firefighter) Competent	£28,766
12	31 to 32	(Firefighter) Competent	£28,766
13	32 to 33	(Firefighter) Competent	£28,766
14	33 to 34	(Firefighter) Competent	£28,766
15	34 to 35	(Firefighter) Competent	£28,766
16	35 to 36	(Firefighter) Competent	£28,766
17	36 to 37	(Firefighter) Competent	£28,766
18	37 to 38	(Firefighter) Competent	£28,766
19	38 to 39	(Firefighter) Competent	£28,766
20	39 to 40	(Firefighter) Competent	£28,766
21	40 to 41	(Firefighter) Competent	£28,766
22	41 to 42	(Firefighter) Competent	£28,766
23	42 to 43	(Firefighter) Competent	£28,766
24	43 to 44	(Firefighter) Competent	£28,766
25	44 to 45	(Firefighter) Competent	£28,766
26	45 to 46	(Firefighter) Competent	£28,766
27	46 to 47	(Firefighter) Competent	£28,766
28	47 to 48	(Firefighter) Competent	£28,766
29	48 to 49	(Firefighter) Competent	£28,766
30	49 to 50	(Firefighter) Competent	£28,766
31	50 to 51	(Firefighter) Competent	£28,766
32	51 to 52	(Firefighter) Competent	£28,766
33	52 to 53	(Firefighter) Competent	£28,766
34	53 to 54	(Firefighter) Competent	£28,766
35	54 to 55	(Firefighter) Competent	£28,766
36	55 to 56	(Firefighter) Competent	£28,766
37	56 to 57	(Firefighter) Competent	£28,766
38	57 to 58	(Firefighter) Competent	£28,766
39	58 to 59	(Firefighter) Competent	£28,766
40	59 to 60	(Firefighter) Competent	£28,766
41	60 to 61	(Firefighter) Competent	£28,766
42	61 to 62	(Firefighter) Competent	£28,766
43	62 to 63	(Firefighter) Competent	£28,766
44	63 to 64	(Firefighter) Competent	£28,766
45	64 to 65	(Firefighter) Competent	£28,766
46	65 to 66	(Firefighter) Competent	£28,766
47	66 to 67	(Firefighter) Competent	£28,766
48	67 to 68	(Firefighter) Competent	£28,766

“Typical” Career Progression

Firefighter: "Typical"			
Years of Service	**Age over period**	**Role**	**Salary**
1	20 to 21	(Firefighter) Trainee	£21,583
2	21 to 22	(Firefighter) Development	£22,481
3	22 to 23	(Firefighter) Development	£22,481
4	23 to 24	(Firefighter) Competent	£28,766
5	24 to 25	(Firefighter) Competent	£28,766
6	25 to 26	(Firefighter) Competent	£28,766
7	26 to 27	(Firefighter) Competent	£28,766
8	27 to 28	(Firefighter) Competent	£28,766
9	28 to 29	(Firefighter) Competent	£28,766
10	29 to 30	(Crew Manager) Development	£30,574
11	30 to 31	(Crew Manager) Competent	£31,892
12	31 to 32	(Crew Manager) Competent	£31,892
13	32 to 33	(Crew Manager) Competent	£31,892
14	33 to 34	(Crew Manager) Competent	£31,892
15	34 to 35	(Crew Manager) Competent	£31,892
16	35 to 36	(Crew Manager) Competent	£31,892
17	36 to 37	(Crew Manager) Competent	£31,892
18	37 to 38	(Crew Manager) Competent	£31,892
19	38 to 39	(Crew Manager) Competent	£31,892
20	39 to 40	(Crew Manager) Competent	£31,892
21	40 to 41	(Watch Manager) Development	£32,582
22	41 to 42	(Watch Manager) Competent A	£33,487
23	42 to 43	(Watch Manager) Competent A	£33,487
24	43 to 44	(Watch Manager) Competent A	£33,487
25	44 to 45	(Watch Manager) Competent A	£33,487
26	45 to 46	(Watch Manager) Competent A	£33,487
27	46 to 47	(Watch Manager) Competent A	£33,487
28	47 to 48	(Watch Manager) Competent A	£33,487
29	48 to 49	(Watch Manager) Competent A	£33,487
30	49 to 50	(Watch Manager) Competent A	£33,487
31	50 to 51	(Watch Manager) Competent A	£33,487
32	51 to 52	(Watch Manager) Competent B	£35,664
33	52 to 53	(Watch Manager) Competent B	£35,664
34	53 to 54	(Watch Manager) Competent B	£35,664
35	54 to 55	(Watch Manager) Competent B	£35,664
36	55 to 56	(Watch Manager) Competent B	£35,664
37	56 to 57	(Watch Manager) Competent B	£35,664
38	57 to 58	(Watch Manager) Competent B	£35,664
39	58 to 59	(Watch Manager) Competent B	£35,664
40	59 to 60	(Watch Manager) Competent B	£35,664
41	60 to 61	(Watch Manager) Competent B	£35,664
42	61 to 62	(Watch Manager) Competent B	£35,664
43	62 to 63	(Watch Manager) Competent B	£35,664
44	63 to 64	(Watch Manager) Competent B	£35,664
45	64 to 65	(Watch Manager) Competent B	£35,664
46	65 to 66	(Watch Manager) Competent B	£35,664
47	66 to 67	(Watch Manager) Competent B	£35,664
48	67 to 68	(Watch Manager) Competent B	£35,664

Firefighter: "High-Flyer"			
Years of Service	**Age over period**	**Role**	**Salary**
1	20 to 21	(Firefighter) Trainee	£21,583
2	21 to 22	(Firefighter) Development	£22,481
3	22 to 23	(Firefighter) Development	£22,481
4	23 to 24	(Firefighter) Competent	£28,766
5	24 to 25	(Firefighter) Competent	£28,766
6	25 to 26	(Crew Manager) Development	£30,574
7	26 to 27	(Crew Manager) Competent	£31,892
8	27 to 28	(Crew Manager) Competent	£31,892
9	28 to 29	(Watch Manager) Development	£32,582
10	29 to 30	(Watch Manager) Competent A	£33,487
11	30 to 31	(Watch Manager) Competent A	£33,487
12	31 to 32	(Watch Manager) Competent A	£33,487
13	32 to 33	(Watch Manager) Competent B	£35,664
14	33 to 34	(Watch Manager) Competent B	£35,664
15	34 to 35	(Station Manager) Development	£37,096
16	35 to 36	(Station Manager) Competent A	£38,209
17	36 to 37	(Station Manager) Competent A	£38,209
18	37 to 38	(Station Manager) Competent A	£38,209
19	38 to 39	(Station Manager) Competent B	£40,915
20	39 to 40	(Station Manager) Competent B	£40,915
21	40 to 41	(Group Manager) Development	£42,723
22	41 to 42	(Group Manager) Competent A	£44,005
23	42 to 43	(Group Manager) Competent A	£44,005
24	43 to 44	(Group Manager) Competent A	£44,005
25	44 to 45	(Group Manager) Competent B	£47,361
26	45 to 46	(Group Manager) Competent B	£47,361
27	46 to 47	(Area Manager) Development	£50,156
28	47 to 48	(Area Manager) Competent A	£51,660
29	48 to 49	(Area Manager) Competent A	£51,660
30	49 to 50	(Area Manager) Competent A	£51,660
31	50 to 51	(Area Manager) Competent B	£55,018
32	51 to 52	(Area Manager) Competent B	£55,018
33	52 to 53	(Area Manager) Competent B	£55,018
34	53 to 54	(Area Manager) Competent B	£55,018
35	54 to 55	(Area Manager) Competent B	£55,018
36	55 to 56	(Area Manager) Competent B	£55,018
37	56 to 57	(Area Manager) Competent B	£55,018
38	57 to 58	(Area Manager) Competent B	£55,018
39	58 to 59	(Area Manager) Competent B	£55,018
40	59 to 60	(Area Manager) Competent B	£55,018
41	60 to 61	(Area Manager) Competent B	£55,018
42	61 to 62	(Area Manager) Competent B	£55,018
43	62 to 63	(Area Manager) Competent B	£55,018
44	63 to 64	(Area Manager) Competent B	£55,018
45	64 to 65	(Area Manager) Competent B	£55,018
46	65 to 66	(Area Manager) Competent B	£55,018
47	66 to 67	(Area Manager) Competent B	£55,018
48	67 to 68	(Area Manager) Competent B	£55,018

"High-Flyer" Career Progression