



FIRE BRIGADES UNION BRIEFING

Generosity of Schemes -Myth-buster

25 October 2013

Over recent weeks, the Westminster government has been making statements about the generosity of the firefighters' pension scheme. The statements have always used the best possible scenario and not considered the reality of the situation.

The FBU, after taking advice from First Actuarial, has provided the following myth buster. This myth-buster provides a reality check to various statements made.

MYTH 1: "The firefighters' pension scheme is one of the most generous pension schemes in the public sector. A firefighter who earns £29,000 and retires after a full career aged 60, will get £19,000 a year pension, rising to £26,000 with the state pension..."¹

BUSTED: To get £19,000 a year pension in the 2015 scheme, a firefighter would have to work 40 years and retire at age 60. If, as the Williams report suggests, most firefighters will not achieve the retirement age of 60, and instead s/he has to retire at age 55, the pension would only be around £17,000 based on 35 years' service.

Worst case scenario: The current Heads of Agreement document proposes that if this person retired at age 55 this pension would also be actuarially reduced by around 40% therefore would only be around £10,000 a year. The improved conditional offer for early retirement contained in Brandon Lewis's letter of 19 June 2013 would still see a reduction of 21.8% at age 55, so the pension would reduce to around £13,500 a year. Either way, the pension payable to many firefighters will be far less than £19,000 a year.

Furthermore, the state pension is not paid until you reach State Pension Age. So, if a firefighter retires at age 55, s/he will have to wait another 10-13 years before getting the additional £7,000.

What contributions are paid by the employee?

When considering if the FPS is one of the most generous pension schemes in the public sector, you should look at the ratio of the proposed average employee contribution rate from April 2014 to the gross cost ceiling (i.e. the theoretical cost of the 2015 schemes).² 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.

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

¹ <https://www.gov.uk/government/news/fire-minister-brandon-lewis-responds-to-the-fbu-call-for-more-strike-action>

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205837/Public_Service_Pensions_-_good_pensions_that_last._Command_paper.pdf

The table shows that the Firefighters Pension Scheme (FPS) is expected to have the highest ratio of average employee contribution rate to the total cost of the scheme, with members of the FPS contributing 49% of the total cost compared to as little as 25% in the civil service pension scheme (PCSPS). This suggests the FPS is far from being the most generous public sector pension scheme.

Reviewing the MPs Pension Scheme (which Brandon Lewis may be a member of!), the Independent Public Service Pensions Authority proposed that MPs should meet 40% of the cost of their pensions, which it claims is “in line with the share that would be typically be met by members in the new public service schemes to be introduced from 2015)”. More information on the reform of MPs pension scheme can be found here: <http://www.parliament.uk/briefing-papers/SN06283>

MYTH 2: “an equivalent private pension pot would be worth over half a million pounds...”³

BUSTED: Based on current annuity rates, to provide a pension of £19,000 a year could require a private pension pot of over £500,000. However, public sector pension schemes, like private sector occupational pension schemes, help keep down the costs of pension provision by “pooling” members’ funds and providing pensions in an efficient way that doesn’t require the purchase of a costly annuity with an insurance company at retirement. Annuities offered by insurance companies build in allowances for insurance company profits. Therefore, the actual reserves that a private sector occupational pension scheme would hold to provide a pension of £19,000 a year could well be lower than £500,000.

MYTH 3: “and require firefighters to contribute twice as much...”⁴

BUSTED: Building up a private pension pot of around £500,000 over a full career of 40 years would require a total contribution rate of around 15%, based on a firefighter earning around £21,000 on joining the Scheme and earning around £29,000 at retirement. This assumes conservative investment returns before retirement of 6% pa before age 50 reducing to 0.5% pa at age 60, in line with Statutory Money Purchase Illustrations (“SMPI”).

The statement that firefighters would need to contribute “twice as much” is clearly exaggerated, with firefighters possibly being asked to contribute around 12.6% on average in the 2015 scheme. Furthermore, in a private sector occupational pension scheme, the employer would also typically contribute an equal amount to the employee or in some cases twice as much (ratio 1:1 or 2:1 employer: employee). So, if the total cost is 15% a year, then employees would typically only pay 7.5% or 5% to build up an equivalent pension.

MYTH 4: “The firefighter pension age of 60 was introduced in 2006 and matches the police and armed forces...”

BUSTED: The FBU has been campaigning against a pension age of 60 since the introduction of the New Firefighters Pension Scheme (NFPS) in 2006 and at no time has accepted 60 as an appropriate pension age for firefighters. The Williams review commissioned by DCLG: *Normal Pension Age for Firefighters: A review for the Firefighters’ Pension Committee* published in December 2012, suggests that in the worst case scenario, 85% of firefighters would be unfit for duty at age 55, increasing to 92% at age 60. This challenges whether a pension age of 60 is appropriate.⁵

There are no re deployment opportunities for firefighters who are unable to maintain their fitness.

³ <https://www.gov.uk/government/news/fire-minister-brandon-lewis-responds-to-the-fbu-call-for-more-strike-action>

⁴ <https://www.gov.uk/government/news/fire-minister-brandon-lewis-responds-to-the-fbu-call-for-more-strike-action>

⁵ <http://www.fbu.org.uk/wp-content/uploads/2013/01/NPA-Review-12-Jan-2013.pdf>

MYTH 5: “The FBU agreed not to strike in Scotland based on principles almost entirely the same as our offer, so their decision for further industrial action in England makes no sense...”⁶

BUSTED: The Scottish government has made proposals that include improvements around issues of fitness capability, the threat of “no job, no pension” and pensions for retirement from age 55. Scottish FBU members have not agreed that these government proposals satisfy the issues in the trade dispute, but have that the improvements were sufficient to avoid strike action at this time. FBU officials met with the UK-wide national employers on 21 October to discuss their proposal which was different to the Scottish proposal. At this meeting we sought to confirm whether or not the national employers were in a position to give a firm guarantee that firefighters who, through no fault of their own, are unable to maintain their operational fitness levels, would not be faced with dismissal without access to an unreduced pension. We have been entirely clear with the employers and with you throughout these discussions that we require such a clear and robust guarantee.

This discussion confirmed the employers’ view that **no such guarantee** could be given on behalf of fire and rescue authorities. There were two aspects to this. Firstly, each individual employer would be likely to adopt their own approach to this issue and, secondly, the employers’ were concerned as to whether the pension scheme regulations would even allow such an agreement to be made. The employers informed us that they have taken initial legal advice on this matter.

In these discussions and the recent ones with officials of CLG present, the employers have confirmed that there is a risk that firefighters who might not achieve the necessary fitness standards might be left facing dismissal on capability grounds (no job, no pension). These discussions have been useful for this clarification at least since this is a matter on which our concerns have been very publicly dismissed as scaremongering at both a national and local level.

Although this is a key issue, there are other matters that remain unresolved. FBU officials have reiterated that the proposals set out for firefighters in England and Wales remain “unacceptable”.

MYTH 6: “The cost of granting an authority-initiated early retirement pension, e.g. an unreduced early retirement pension at age 55 will be in the region of £100,000...”

BUSTED: Using the example where a firefighter joins the 2015 scheme at age 20 and retires at age 55 on a pension of around £17,000 a year, if the pension is reduced by 21.8% in line the improved conditional offer for early retirement contained in Brandon Lewis’s letter of 19 June 2013, the pension would reduce to around £13,500 a year.

The cost of removing this reduction for an authority-initiated early retirement would be in the region of £87,500 at the point of retirement, i.e. around 25 times £3,500 (£17,000 less £13,500). However, the early retirement reduction factor of 21.8% actually generates a “profit” or “saving” because it has been calculated to give equal value to the value of a deferred pension from age 60, rather than to give equal value of an active pension from age 60. So, instead of allowing for the fact that retiring early at age 55 is effectively “giving up” 5 years of revaluation in line with Average Weekly Earnings (AWE), it only allows for giving up 5 years of revaluation in line with Consumer Prices Index (CPI). Because AWE is expected to be higher than CPI in the long-term, a “cost-neutral” early retirement reduction factor at age 55 would be more like 12.7%, so a “cost-neutral” reduced pension at age 55 would be around £14,841 (i.e. $£17,000 \times (1 - 12.7\%) = £14,841$). So, the real cost of granting an authority-initiated early retirement pension at age 55 is actually in the region of £35,000, i.e. around 25 times £1,341 (£14,841 less £13,500).

⁶ <https://www.gov.uk/government/news/fire-minister-brandon-lewis-responds-to-the-fbu-call-for-more-strike-action>