

FIREFIGHTERS' PENSION COMMITTEE

FIREFIGHTERS' PENSIONS: EMPLOYEE CONTRIBUTIONS

Note by DCLG

Issue

1. At the Committee meeting on 12 January DCLG presented a paper (FPC (11)2) outlining the annual savings that the Firefighters' Pension Schemes for England will be expected to deliver and providing an indication of how this might be achieved. Following discussion of the paper, DCLG were provided an action to demonstrate the effect of potential opt-out rates and the impact of protecting the NFPS.

Background

2. The Government's position, following the Spending Review 2010, is that the Firefighters' Pension Schemes for England are expected to deliver annual savings of £33m-£37m by 2014-15. This paper outlines some indicative tariffs which demonstrate how the savings could be achieved for both the top and bottom of this range. In order to ensure the overall target can be met, Treasury have asked that the Schemes deliver 40% of the savings in 2012-13, 80% in 2013-14 and the full amount in 2014-15.
3. Following representations from the TUC, the Chancellor has extended the date for informal discussion around contribution increases until June 2011. The next step will be statutory consultation so that the new tariffs can begin to take effect from April 2012.
4. The Department has been asked to ensure that the design of contribution increase options to achieve these savings follows the following principles:
 - Protection of low earners;
 - Progressive increases, so those on higher salaries make higher contributions; and
 - Any increase in opt-out is minimised.

NFPS Protection

5. Following these principles and using data provided by fire and rescue authorities on the forecast number of staff in each role to 2014-15, we have profiled two **example** tariffs which both deliver savings of £33m and £37m. The profiles vary the level of protection afforded to the NFPS to reflect the concerns raised at the Committee meeting on 12 January that a 2.5% increase to the NFPS would be too high.

Profile A: Full protection afforded to NFPS

Profile B: No protection for NFPS

6. Sample tariffs for the Committee's consideration, demonstrating how the savings might be achieved based on these two profiles will be provided at the Committee meeting on 13 April. These tariffs are purely indicative and designed to facilitate discussion around the issues only.

Drop out rates

7. An assumption of a 1% opt-out rate was incorporated into the £33m-£37m savings requested by Treasury. The broader economic and financial factors facing scheme members, such as the existing pay freeze and increased cost of living pressures, may increase opt-out rates and encourage members to retire at their earliest opportunity. If a higher drop out rate is realised, the reduction in savings which would have been generated by the increased employee contributions is illustrated below:

£000s	Savings shortfall from £37m				Savings shortfall from £33m			
	1%	5%	10%	20%	1%	5%	10%	20%
Drop out rate								
Savings lost	370	1,850	3,701	7,402	330	1,650	3,300	6,601

8. The level of scheme income will also decrease if members opt out of the schemes. The table below indicates the potential percentage and monetary impact on the total FPS and NFPS income resulting from the loss of employee and employer contributions at each level of employee opt-out rates profiled.

Drop out rate	Impact on fund: £000s				Impact on fund: % of pensionable pay bill			
	1%	5%	10%	20%	1%	5%	10%	20%
Potential reduction in NFPS & FPS income nationally	3,540	17,699	35,397	70,795	0.3%	1.7%	3.4%	6.8%

Conclusion

9. The Committee is invited to note developments and comment.