

Draft proposals: 2014-15 contribution increases for the firefighters' pension scheme**Issue**

1. This paper seeks the Firefighters' Pensions Committee's views on draft proposals to implement contribution increases from April 2014 in the Firefighters' Pension Schemes, ahead of the formal consultation process.

Background

2. From April 2012, contribution increases for the Firefighters' Pension Schemes sought to deliver savings of 0.64 percentage points. This was a reduction from the previous proposed increases of 1.28 percentage points. From April 2013 savings of 1.28 percentage points were delivered. To date, firefighters have seen, on average, the lowest contribution increases out of the schemes delivering increases in contributions.
3. The Government remains committed to securing, in full, the Spending Review savings (a total of 3.2 percentage points) from contribution increases and will consult formally on implementation in due course.

Opt out review

4. At its 49th meeting, the Firefighters' Pension Committee unanimously reaffirmed its commitment to the opt out review and that the most up to date data collected on behalf of the Committee during 2013-14, should be fed into the Government before final decisions are taken on future employee contribution rates from 2014-15.
5. At the Committee, information was provided on the opt outs and non-joiners from April 2013. Although it was recognised that not so many returns had been received from authorities compared with at the same point last year, the number of opt outs was lower compared with 2012-13. Similar to 2012-13, a higher proportion of firefighters have opted out of the NFPS compared with those who have opted out of the FPS. Of those who opted out, the vast majority earned under £40K.
6. Final numbers of optants out during the period will be included in the Government consultation on employee contribution rates and will inform final decisions.

Design parameters

7. The Government is maintaining the original central design parameters for contribution increases to all public service pension schemes. Namely that:
 - there should be no increase in employee contributions for those earning less than £15,000 on a full-time equivalent basis
 - there should be no more than a 1.5 percentage point increase in total, by 2014-15, for members earning up to £21,000, and
 - high earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15.

Methodology, data and assumptions

8. Similar methodology for calculating the tariffs for 2014-15 has been adopted as used for the 2013-14 increases. The Committee should note that:
 - the latest estimated paybill for 2013-14 and 2014-15, as provided by fire and rescue authorities in September 2013, has been used in the calculation. The overall yield generated is based on those paybill estimates.
 - Scheme membership in each role has been calculated using estimates of staff numbers during 2014-15 provided by authorities.

Proposed draft tariff

9. The proposed draft tariff is set out in the Annex. The proposed tariffs deliver a total additional yield across both schemes of 1.28 percentage points in 2014-15, and a cumulative increase of 3.2 percentage points from 2012.
10. The proposed tariffs apply the same contribution rate increases in each salary band for both the FPS and NFPS as those which applied from April 2013. The Government proposes to maintain some, limited protection for 2006 scheme members.
11. The proposed tariffs would see a firefighter earning £28,800 in the FPS paying contributions of 14.2% (before tax relief) of pensionable pay and a firefighter in the NFPS paying contributions of 10.4%. Although no final decision has been taken on contribution rates in the 2015 scheme, Brandon Lewis' letter of 19 June to the Fire Brigades Union estimated that the average yield from the 2015 scheme might be 12.6%.

Alternative tariff

12. If the proposed tariffs were implemented from April 2014 then FPS members who transferred to the 2015 scheme are likely to see a decrease in their contributions, whereas NFPS members who transferred to the 2015 scheme could face an increase of around two percentage points.
13. Therefore, an alternative proposal is to increase the contributions that NFPS members will pay from April 2014, in order to ease the transition from moving from the NFPS to the 2015 scheme. For example, setting the contribution rate for a firefighter member of the NFPS at 11.1% (rather than the proposed 10.4%) could see the contribution rate of a firefighter in the FPS decrease marginally by around 0.2 to 0.3 percentage points in order to deliver the overall cumulative increase of 3.2% across both schemes.
14. However, the contribution rate of 12.6% for the 2015 scheme has been calculated based on the assumption that employee contribution rates in the 1992, 2006 and 2015 schemes would average 13.2% across all three schemes. As the FPS has more membership, and around 65% of that membership will remain in the 1992 scheme as at 1 April 2015, then any decrease to the proposed contribution rates in that scheme could lead to an increase to the employee contribution rate to apply in the 2015 scheme.

DRAFT EMPLOYEE CONTRIBUTION TARIFFS**Firefighters' Pension Scheme 1992**

	Current rate	Proposed increase	Cumulative increase since 2012	Contribution Rate from April 2014
£0 - £15k	11.0%	0.0%	0.0%	11.0%
£15k -£21k	11.9%	0.3%	1.2%	12.2%
£21k - £30k	12.9%	1.3%	3.2%	14.2%
£30k - £40k	13.2%	1.5%	3.7%	14.7%
£40k - £50k	13.5%	1.7%	4.2%	15.2%
£50k - £60k	13.7%	1.8%	4.5%	15.5%
£60k - £100k	14.1%	1.9%	5.0%	16.0%
£100k-£120k	14.5%	2.0%	5.5%	16.5%
£120k+	15.0%	2.0%	6.0%	17.0%

New Firefighters' Pension Scheme 2006

	Current rate	Proposed increase	Cumulative increase since 2012	Contribution Rate from April 2014
£0k - £15k	8.5%	0.0%	0.0%	8.5%
£15k - £21k	9.1%	0.3%	0.9%	9.4%
£21k - £30k	9.6%	0.8%	1.9%	10.4%
£30k - £40k	9.9%	1.0%	2.4%	10.9%
£40k - £50k	10.1%	1.1%	2.7%	11.2%
£50k - £60k	10.2%	1.1%	2.8%	11.3%
£60k - £100k	10.5%	1.2%	3.2%	11.7%
£100k-120k	10.8%	1.3%	3.6%	12.1%
£120k+	11.1%	1.4%	4.0%	12.5%