

**Firefighters' Pension Schemes**  
**Impact of some pay allowances becoming pensionable**

**Note by the Government Actuary's Department**

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## Firefighters' Pension Schemes Impact of some pay allowances becoming pensionable

### 1 Executive summary

- 1.1 DCLG have asked us for a broad indication of the impact on scheme costs of pay allowances received in DCP or CPC firefighter roles being classified as pensionable (rather than non-pensionable), and, in particular, the extent to which these costs could be mitigated, if they are able to amend the definition of pensionable pay to make the allowances non-pensionable going forward. Further background on the allowances in question and the amendments to pensionable pay considered are given in section 2.
- 1.2 We have assumed that, if the definition of pensionable pay were to be amended, this would:
- 1.2.1 Remove all the extra costs in respect of future accrual from 2015 ('recoverable future service costs')
- 1.2.2 Remove some of the extra costs in respect of past accrual ('recoverable past service costs')
- 1.2.3 But some of the extra costs in respect of past accrual would still be incurred, due to the allowances being deemed as pensionable pay up to now ('unrecoverable past service costs')
- 1.3 There is a huge amount of uncertainty around the factors which will affect the costs of treating DCP and CPC allowances as pensionable. **The estimates in this note are therefore only intended to give a broad indication of the likely magnitude of the costs and cannot be treated as a definitive assessment of the costs.**
- 1.4 Estimates of the recoverable past service costs and future service costs are shown in table 1 below. It shows estimates on the central set of assumptions and the 'higher' and 'lower' set of assumptions for the proportion of retirees from affected Authorities who benefit from DCP or CPC allowances in the calculation of their pension. These estimates are based on the assumption that 57 stations will operate DCP/CPC arrangements (ie around 6% of members in the affected Authorities will occupy such roles); and that the average pay increase for DCP/CPC allowances is 27%.

**Table 1 - Recoverable past and future service costs (from 2015) – central assumptions and sensitivity to profile of retirees benefitting from DCP/CPC**

	Past service £m capital cost	Past service £m per year*	Future service 2015 £m per year	Future service 2019 £m per year
<b>Central assumptions</b>	£35m	£2½m	£1½m	£1m
<b>Propn of retirees from affected Authorities whose final salary benefits from DCP/CPC</b>				
12%	£75m	£5m	£2m	£1m
6% (central)	£35m	£2½m	£1½m	£1m
2½%	£10m	<£1m	£1m	£1m

\* Capital cost spread over 15 years

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- 1.5 There is a huge amount of uncertainty around the factors which will affect the recoverable past service costs of treating DCP and CPC allowances as pensionable. The biggest area of uncertainty is around the proportion of retirees from affected Authorities who benefit from DCP or CPC allowances in the calculation of their pension. The sensitivity of the estimates to this assumption are shown in table 1. This is discussed in detail in section 3.
- 1.6 The estimate of future service costs from 2019 is not very sensitive to the assumptions used (mainly because there is only an impact from DCP/CPC allowances on CARE pension benefits in respect of service when members are actually earning the allowances, whilst in a final salary scheme, those on DCP/CPC allowances close to retirement will receive an increased pension in respect of all of their service).
- 1.7 However, some members will continue to accrue final salary benefits from 2015. The impact on the cost of accrual for these members will be greater, and as, with past service costs, is sensitive to the assumptions used.
- 1.8 It should be noted that there is insufficient information about how these assumptions might be borne out in practice for us to determine whether we view the 'central' assumptions as best estimate.
- 1.9 Unrecoverable past service costs are relatively small as they relate to members who are already in DCP or CPC roles, of which there are relatively few. Under the central assumptions they are estimated to be around £5m, or just under £½m a year payable for 15 years.
- 1.10 The estimates in this note are very sensitive to the assumptions used, over which there is a high degree of uncertainty. They will depend upon a number of factors, including the number of posts which are created where the DCP and CPC allowances apply; the exact size of the allowances granted; and the types of members who take these posts (eg younger members; those nearer retirement etc).
- 1.11 The sensitivity of the estimates to the key assumptions are discussed in section 3 and should be read as an integral part of the estimates. Sensitivities are shown to:
- 1.11.1 The proportion of retirees from affected Authorities who benefit from DCP or CPC allowances in the calculation of their pension;
- 1.11.2 The number of DCP/CPC roles which will be created; and
- 1.11.3 The average pay increase received for DCP/CPC roles.
- 1.12 The assumptions and data used are discussed in section 4. The assumptions have been discussed and agreed between DCLG and GAD.

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### 2 Introduction

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2.1 This note is addressed to the Department for Communities and Local Government (DCLG).

#### Background

2.2 We understand that, following the High Court Judgement *Norman v Cheshire Fire & Rescue Service [2011]* (the Norman Judgement), there is a possibility that certain pay allowances previously considered non-pensionable in the Firefighters' Pension Schemes (the Schemes) will now (and retrospectively, to a date not yet determined) be treated as pensionable. If this were to transpire, these changes to pensionable pay would result in extra costs for the Schemes, both in relation to accrued final salary benefits, and to future accrual.

2.3 DCLG are investigating the possibility of amending the definition of pensionable pay such that these pay allowances are no longer pensionable. For the purposes of this note we assume that this change, if made, would be effective immediately.

2.4 DCLG have asked us for a broad indication of the impact on scheme costs of these allowances actually being pensionable (rather than non-pensionable), and, in particular, the extent to which these costs could be mitigated, if they are able to amend the definition of pensionable pay as described above.

2.5 We have assumed that, if the definition of pensionable pay were to be amended, this would:

2.5.1 Remove all the extra costs in respect of future accrual from 2015 ('recoverable future service costs')

2.5.2 Remove some of the extra costs in respect of past accrual ('recoverable past service costs')

2.5.3 But some of the extra costs in respect of past accrual would still be incurred, due to the allowances being deemed as pensionable pay up to now ('unrecoverable past service costs')

2.6 We believe that this represents the intention of the change in pensionable pay definition, but we understand that it is still not clear whether it will be possible to achieve exactly the above effects through a change in the definition of pensionable pay. Note that the sum of 2.5.1 to 2.5.3 represent the total costs of the allowances being (and having been) pensionable rather than non-pensionable. The sum of 2.5.1 and 2.5.2 represent the 'recoverable' costs – ie those that would not be incurred if the definition of pensionable pay were amended appropriately. For the purpose of this note, we take 'extra costs' to mean the increase to scheme costs borne by the employer/Government. DCLG should take legal advice on these aspects.

2.7 DCLG have asked us to consider the following pay arrangements which may be affected by this:

- Close Proximity Call stations (CPC)
- National Grey Book day crewing terms (day crewing)

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### Limitations

- 2.8 The eventual costs that could transpire as a result of the Norman Judgement are very uncertain. They will depend upon a number of factors, including the number of posts which are created where the DCP and CPC allowances apply; the exact size of the allowances granted; and the types of members who take these posts (eg younger members; those nearer retirement etc).
- 2.9 There is further uncertainty as to which costs would be recoverable, particularly in relation to how many people would benefit from protection from a reduction in pensionable pay under the 'two pension provision' (discussed in section 4).
- 2.10 The estimates in these documents are very sensitive to the assumptions used on the above points. **The estimates in this note are therefore only intended to give a broad indication of the likely magnitude of the costs and cannot be treated as a definitive assessment of the costs.**
- 2.11 Given the inherent uncertainties, our calculations have also been carried out using approximate methods.

### Estimates provided

- 2.12 As agreed with DCLG, section 3 of this note provide estimates, as at 2015, of:
- 2.12.1 Recoverable future service costs, expressed as an ongoing cost in £ per year
- 2.12.2 Recoverable past service costs, expressed as a single lump sum, and also expressed as a cost in £ per year to be paid over 15 years
- 2.12.3 Unrecoverable past service costs, expressed as a single lump sum, and also expressed as a cost in £ per year to be paid over 15 years
- 2.13 The sensitivity of the estimates to the assumptions is shown in section 3, and forms an integral part of the estimates given the uncertainty around the assumptions used.
- 2.14 The data and assumptions used are summarised in section 4 to this note.

### Scope

- 2.15 This note has been prepared for the use of DCLG in the knowledge that it will be shared with HM Treasury and the Firefighters' Pension Committee (FPC). It must not be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.
- 2.16 Other than DCLG, no person or third party is entitled to place any reliance on the contents of this report and GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this note.
- 2.17 In carrying out this work I have followed our normal quality control principles for work conducted on public service pension matters.<sup>1</sup>

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<sup>1</sup> GAD seeks to achieve a high standard in all our work. Please go to our [website](#) for details of the standards we apply.

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### 3 Estimates of impact of allowances becoming pensionable

3.1 We have made broad estimates of the costs set out in paragraphs 2.13.1 to 2.13.3 on the assumptions set out in section 4. We have also shown the sensitivity of the estimates to the key assumptions. These should be read as an integral part of the estimates given the uncertainty underlying the assumptions. As noted in section 1, **the estimates in this note are only intended to give a broad indication of the likely magnitude of the costs and cannot be treated as a definitive assessment of the costs.**

#### Recoverable costs

##### *Recoverable past service costs*

- 3.2 Recoverable past service costs are those costs relating to the accrued service of current active members who are expected to retire at some point in the future with some increase from DCP or CPC allowances in their final pensionable pay (under the current definition). These costs have the potential to be very large.
- 3.3 Recoverable past service costs have been estimated on a 'central' set of assumptions, and also on alternative sets of assumptions to demonstrate the sensitivity of the results to those assumptions. It should be noted that there is insufficient information about how these assumptions might be borne out in practice for us to determine whether we view the 'central' assumptions as best estimate.
- 3.4 Table 2 shows the estimated recoverable past service costs on the central assumptions. It also shows the sensitivity of the estimates to the proportion of retirees from affected Authorities who benefit from DCP or CPC allowances in the calculation of their pension.
- 3.5 The costs are shown as:
- a single capital cost – ie the estimated increase in past service liability; and
  - broadly translated to a cost per year, assuming that the additional past service liability would not be paid for as a one off lump sum, but instead dealt with by way of an additional contributions payable by the employer over 15 years (and increasing each year in line with salary increases).

**Table 2 – Recoverable past service costs (from 2015) – central assumptions and sensitivity to profile of retirees benefitting from DCP/CPC**

	Past service £m capital cost	Past service £m per year
<b>Central assumptions</b>	£35m	£2½m
<b>Proportion of retirees from affected Authorities who benefit from DCP/CPC</b>		
12%	£75m	£5m
6% (central)	£35m	£2½m
2½%	£10m	<£1m

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### ***Recoverable past service costs - Important points to note***

- 3.6 There is a huge amount of uncertainty around the factors which will affect the recoverable past service costs of treating DCP and CPC allowances as pensionable. The biggest area of uncertainty is around the proportion of retirees from affected Authorities who benefit from DCP or CPC allowances in the calculation of their pension.
- 3.7 Under the 'central' assumption for the number of DCP/CPC posts (ie 57 stations have such arrangements), these posts make up around 6% of the total posts at the affected Authorities.
- 3.8 DCLG have asked us to adopt a central assumption that 6% of retirees from affected Authorities benefit from DCP or CPC allowances in the calculation of their pension.
- 3.9 Assuming that the average career of a firefighter is around 25 years, the central assumption is broadly equivalent to assuming that around 12% ( $3 \div 25$ ) of the active membership as a whole would be within three years of retirement (and that they all hold those posts for all three years up to retirement). Ie assuming that the profile of members in DCP/CPC roles is similar to the profile of the active membership as a whole. As DCP/CPC roles are assumed to make up around 6% of total posts in affected Authorities, this is equivalent to assuming that 6% of retirees from affected Authorities benefit from DCP or CPC allowances in the calculation of their pension.
- 3.10 The higher assumption that 12% of retirees from affected Authorities benefit from DCP or CPC allowances in the calculation of their pension is equivalent to assuming that 25% of members in DCP roles are within three years of retirement (and that they all hold those posts for all three years up to retirement). This assumption represents a scenario where a larger proportion of DCP/CPC roles are filled by members within three years of retirement than is the case in the active membership as a whole. This might be the case if, for example, members close to retirement were attracted to such roles as a means of boosting their pension.
- 3.11 The lower assumption that 2½% of retirees from affected Authorities benefit from DCP or CPC allowances in the calculation of their pension is equivalent to assuming that 5% of members in DCP roles are within three years of retirement (and that they all hold those posts for all three years up to retirement). This assumption represents a scenario where a smaller proportion of DCP/CPC roles are filled by members within three years of retirement than is the case in the active membership as a whole. This might be the case if, for example, members close to retirement were not attracted to the shift patterns required of the roles.
- 3.12 Depending upon how the behaviour of members who could take on DCP/CPC roles develops over time, the actual proportion of DCP/CPC roles filled by members within three years of retirement could be higher or lower than the 5% to 25% range illustrated in table 2.
- 3.13 The estimates in Table 2 assume that all members in DCP/CPC roles who are within three years of retirement hold those roles for all three years up to retirement (see paragraph 3.9). The estimates would be higher if we assumed that there was some turnover in the DCP/CPC roles of members within three years of retirement (as this would, all else being equal, lead to more retirees having been in DCP/CPC roles within three years of retirement, and hence benefitting from DCP or CPC allowances in the calculation of their pension).



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- 3.14 For example under the central assumption that 12% of members in DCP/CPC roles are within three years of retirement:
- 3.14.1 Assuming (as in the central estimate) that all members in DCP/CPC roles who are within three years of retirement hold those roles for all three years up to retirement, around 4% of DCP members would retire each year (ie one third of those members within three years of retirement).
- 3.14.2 At the other extreme, assuming all the 12% move onto the duty system exactly one year before they retire, then all those 12% will retire each year (and get replaced by a new batch, assuming the 12% proportion is maintained).
- 3.15 It would be three times as many retirements from DCP/CPC under the latter example (and hence broadly three times the cost), but in both cases it is assumed that there are 12% of DCP/CPC members within three years of retirement. The sensitivity of the estimates to this assumption is discussed in section 3.
- 3.16 **In particular costs could be up to three times higher than those shown in the table above.** For example if the assumptions used were as in the central estimate, except that it was assumed that all members in DCP/CPC roles joined them just one year from retirement (rather than being in these roles for a full three years up to retirement, as in the central estimate), then 18% (rather than 6%) of retirees would be assumed to see their pensions increase due to DCP/CPC allowances, and **the estimated recoverable past service cost would be a lump sum of £105m (or £7½m a year payable for 15 years).**
- 3.17 The estimates in Table 2 ignore the impact of the 'two pension' provision on costs (see section 4). In particular, if the two pension provision were to apply, it would not just be people occupying DCP/CPC roles within three years of retirement who would get a higher pension. Some members who occupied DCP/CPC roles earlier in their career would get a higher pension due to the impact of DCP/CPC allowances. However, in these cases the increase in pension would be lower than the full DCP/CPC allowance, and would diminish the younger a member was when they left the DCP/CPC role. The impact of this on costs is very difficult to estimate with any certainty, but it would lead to an increase in costs to some degree.
- 3.18 The worst case scenario for the proportion of retirees who would benefit from DCP/CPC allowances in their pension would be that **all** retirees from affected Authorities would benefit (assuming that members would not move between Authorities in order to boost their pension through a DCP/CPC role – this could further increase costs). We estimate that around 35% of the active membership are from affected Authorities. Under this scenario, **the estimated recoverable past service cost would be a lump sum of £650m (or £45m a year payable for 15 years).**
- 3.19 Such a scenario seems unlikely to occur in practice. It would require either:
- 3.19.1 Two-thirds of DCP/CPC roles to be occupied by members within three years of retirement, and for all of those members to join just one year before retirement; or
- 3.19.2 All DCP/CPC roles to be occupied by members within three years of retirement, and for all of those members to join around one-and-a-half years before retirement.



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### **Recoverable past service costs - Other sensitivities**

3.20 As well as the assumed proportion of retirees who benefit from DCP/CPC allowances in their pension, two other assumptions over which there is uncertainty are the total number of stations where DCP or CPC arrangements will be put in place, and the average increase to pensionable pay through DCP or CPC allowances. Table 3 shows the sensitivity of our estimates to these assumptions.

**Table 3 – Recoverable past service costs (from 2015) – other sensitivities**

	Past service £m lump sum	Past service £m per year
<b>Central assumptions</b> <i>57 stations; 27% average pay allowance</i>	£35m	£2½m
<b>Assumed number of DCP/CPC posts higher/lower</b>		
Higher (70 stations)	£45m	£3m
Lower (44 stations)	£25m	£2m
<b>DCP/CPC allowance higher/lower</b>		
Higher (34%)	£45m	£3m
Lower (20%)	£25m	£2m

3.21 Varying the assumed number of DCP/CPC posts or assumed average size of DCP/CPC allowances has a broadly proportional effect on the estimates. The table above illustrates the effects of using the following assumptions:

3.21.1 The assumed number of DCP/CPC posts which come into existence being higher or lower – ie 70 or 44 stations are created in total, compared to the main assumption of 57 stations.

3.21.2 The assumed average level of DCP/CPC allowances (as a percentage of pay) being higher or lower – ie 34% or 20% compared to the main assumption of 27%.

3.22 The assumptions used are discussed in more detail in section 4.

3.23 It should also be noted that, if the definition of pensionable pay is not changed, extra contribution income (from both employees and employers) would be expected to be received between 2012 and 2015. **The additional employee contributions would offset the past service costs set out in tables 2 and 3, but would be expected to be less than £3m over the three years so would not have a material impact on the estimates shown.**

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### ***Recoverable future service costs***

- 3.24 All future service costs from 2015 would be recoverable if the change to pensionable pay definition was made immediately as set out in section 2. Future service costs arise from employers paying contributions on a higher overall salary roll. **In the short term (broadly over 2015 to 2019) future costs would be higher due to employers paying a higher SCR in respect of protected members (assuming that this is how employer contribution rates from 2015 are set).** Future service costs are estimated to be smaller than past service costs, although they would be payable for all future years.
- 3.25 As with the past service cost estimates, there is a large amount of uncertainty around the factors which will affect the recoverable future service costs.

### ***Costs from 2019***

- 3.26 From around 2019, we would expect almost all active members to be accruing benefits in the reformed CARE scheme. The estimates use the transitional provisions for protected members set out in the Heads of Agreement and assume that, on average, active members of the FPS retire at age 52. Under the main assumptions the estimated recoverable future service costs from 2019 are around £1m a year.
- 3.27 In a CARE scheme the profile of the membership taking DCP/CPC posts has little impact on the costs of future accrual. This is because in a CARE scheme an increase in pensionable pay close retirement only impacts on accrual from the point of that increase – ie previously accrued benefits are unaffected. Therefore on the 'higher' and 'lower' assumptions for the profile of members in DCP or CPC posts, the estimated recoverable future service costs from 2019 are broadly the same as under the central assumptions.
- 3.28 Varying the assumed number of DCP/CPC posts created or the assumed average size of the DCP/CPC allowance both have a broadly proportional effect on the estimates. In both cases, on the 'higher' assumptions, the estimated recoverable future service costs from 2019 onwards are closer to £1¼m a year; and closer to £¾m a year on the 'lower' assumptions.

### ***Costs in 2015***

- 3.29 In 2015, there will be some protected members accruing final salary benefits. This increases the estimated recoverable future service costs in 2015, with these costs expected to fall to the long-term levels discussed above by around 2019. Under the central assumptions, recoverable future service costs are estimated to be around £1½m a year in 2015 (falling to around £1m a year by around 2019).
- 3.30 Due to some final salary benefits being accrued, the estimated recoverable future service costs in 2015 are sensitive to the same assumptions as past service costs. Under each of the 'higher' assumptions illustrated for past service costs, future service costs are estimated to be around £2m a year in 2015. Under each of the 'lower' assumptions, future service costs are estimated to be around £1m a year in 2015. In all cases costs tend towards those set out in paragraphs 3.27 and 3.28 by around 2019.

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- 3.31 As noted in paragraphs 3.13 to 3.15, costs could be significantly higher if there was considerable turnover amongst staff in DCP/CPC roles who are close to retirement. This would impact on future service costs in respect of final salary accrual (but not CARE accrual). Under the example given in paragraph 3.14.2, **estimated future service costs from 2015 would be three times higher than set out in paragraphs 3.29 and 3.30**, but would still fall to the same level as stated above from 2019.
- 3.32 Under the scenario discussed in paragraph 3.18, where every retiree from affected Authorities would benefit from DCP/CPC allowances in their final pensionable pay, **estimated future service costs from 2015 are around £10m a year**, but would still fall to the same level of around £1m a year from 2019.

#### **Unrecoverable past service costs**

- 3.33 The unrecoverable past service costs have been estimated by considering the total past service costs and splitting these approximately between those which are recoverable and those which are unrecoverable. In the case of DCP and CPC arrangements, the majority of the past service costs are recoverable, as they relate to arrangements that have not yet been brought into place (and hence an appropriate change in the definition of pensionable pay enacted now would avoid allowances in respect of these arrangements ever being pensionable).
- 3.34 Under the central assumptions, unrecoverable past service costs are estimated to be around £5m, or a little under £½m a year if paid over 15 years. Under some of the 'higher' variant assumptions, estimated costs increase towards £9m; under some of the lower variant assumptions, estimated costs decrease below £5m.
- 3.35 Under the scenario discussed in paragraph 3.18, where every retiree from affected Authorities would benefit from DCP/CPC allowances in their final pensionable pay, estimated unrecoverable past service costs are around £25 million.

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#### **4 Assumptions and data**

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- 4.1 The assumptions have been discussed and agreed between DCLG and GAD, based on available data provided by DCLG. This note only considers the impact of DCP and CPC arrangements and hence the assumptions set out below are in respect of these arrangements only.
- 4.2 It has been agreed with DCLG that we will assume that:
- 4.3 12 stations operating DCP or CPC are already in existence, and 15 Authorities will introduce either DCP or CPC at 3 stations each between now and 2015 – ie in total 57 stations will operate either a DCP or CPC system, of which 45 have yet to be introduced. This assumption has been agreed based on data provided by DCLG and discussions between DCLG and GAD. We have shown the sensitivity of our estimates to this assumption by assuming a total of 70 and 44 stations will operate either a DCP or CPC system.
- 4.4 Each station will have 14 staff, with a structure of 1 watch manager; 3 crew managers and 10 firefighters, with current pay of £33,155; £31,576; and £28,481 respectively. This assumption was agreed with DCLG based on data regarding known systems. We have rolled forward these pay bands to 2015 using the average pay award assumptions from 2012 to 2015 used by authorities in their OBR cashflow forecasts. Under this assumption there will be around 800 DCP/CPC posts compared to a total active membership assumed to be around 37,000 (based on 2011 data).
- 4.5 On average, salaries for anyone on either DCP or CPC will increase by 27%. We have shown the sensitivity of our estimates to this assumption by assuming an increase of 34% and 20%. This assumption was agreed by DCLG.
- 4.6 The assumption over which there is greatest uncertainty is the proportion of retirees from affected Authorities who benefit from DCP or CPC allowances in the calculation of their pension. This assumption was agreed by DCLG. Please also see section 3 for discussion of this assumption.
- 4.7 There is a provision in the Regulations (of both the FPS and NFPS) which allows, under certain conditions, for a member's pension to be calculated in two parts when their pensionable pay drops (the 'two pensions provision'). This provision might allow members' pensions to be calculated on their pensionable salary including DCP/CPC allowances for service up to the point of the change in the definition of pensionable pay (with their pension in respect of service after that calculated on their revised pensionable salary).
- 4.8 As agreed with DCLG, we have not allowed for this in our estimates of the recoverable past and future service costs. The impact of this provision on the costs is very uncertain. Making an allowance for this would increase our estimates of the past and future service costs to some degree.
- 4.9 This provision would also impact upon the proportion of past service costs which are assumed to be unrecoverable. This is because any costs arising due to a member who is already in a DCP/CPC post, who subsequently retires with a higher pension due to the 'two pension provision' would be unrecoverable. Due to the relatively small number of members who already have had DCP or CPC roles, the effect of this is on our estimates is small. Our calculations have therefore made an approximate allowance for this.

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- 4.10 The proportion of past service costs which are unrecoverable has been estimated approximately assuming that 12% of members currently in DCP or CPC roles are within three years of retirement; and that they have all held these posts since the DCP/CPC roles were created. If there has been some turnover in existing DCP or CPC roles, than unrecoverable past service costs will be higher than this.
- 4.11 Due to the level of uncertainty around the factors which will affect the pension costs of DCP and CPC allowances being pensionable, as reflected in the assumptions above, it would not be appropriate to carry out detailed calculations. We have therefore carried out simplified approximate calculations. We believe these methods to be suitable given the nature of these estimates, which are only intended to give a broad indication of the magnitude of the costs.
- 4.12 In order to carry out our calculations, we required intermediate steps of estimating the payroll and active past service liability. We estimated the payroll in 2015 underlying the OBR forecasts to be around £940m. We estimated the active liability in 2015 by performing an approximate roll-forward of the liability calculated in the 2007 valuation of the Firefighters' Scheme. This roll-forward made a very approximate allowance for the change in active membership between 2007 and 2015, and the expected change in assumptions from the 2007 valuation to the 2015 valuation. In particular the estimates assume that benefits will increase in line with CPI, and use a discount rate of 3% net of CPI. Our roll forward does not make any allowance for the possible impact of the retained settlement. Our estimated active past service liability as at 2015 is just under £7bn. Note that these estimates are approximate and are not suitable for any other purpose other than as an intermediate step in the estimates given in this note.
- 4.13 We have assumed that, in 2015, 33% of the membership will have some form or transitional protection (ie will still be accruing final salary benefits). This includes member who have tapered protection in 2015. This is broadly the same assumption as used in the 2015 scheme reform costings.
- 4.14 Overall we believe these calculation approximations do not unduly impact on the indications of the broad magnitude of costs provided in this note.
- 4.15 As discussed above, the following data items are used in the calculations or to inform the assumptions:
- 4.15.1 Data on the number and structure of DCP/CPC arrangements being considered, as provided by DCLG.
- 4.15.2 Salary roll information in 2015 as derived from the 'OBR response (October 2012) document provided by DCLG.
- 4.15.3 Information on the active membership as at 31 March 2007 provided for the 2007 valuation.
- 4.15.4 The 2007 data was checked as part of the 2007 valuation process. The data items listed in paragraphs 4.15.1 and 4.15.2 cannot be independently verified by us. Any material inaccuracies in the data used could have a material impact on the estimates in this note.



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