

FIREFIGHTERS' PENSION COMMITTEE**COMPREHENSIVE SPENDING REVIEW****NOTE ON CHANGE TO EMPLOYEES CONTRIBUTION RATE.****Note by DCLG**

1.1 At the 37th meeting of the Committee on 2nd November there was discussion of the decision, announced by the Government in the Spending Review, to implement progressive changes to the level of employee contributions, leading to an additional total saving of £1.8 billion a year by 2014-15 in the unfunded PAYG schemes, equivalent to three percentage points on average, and for the increase to be phased in from April 2012.

1.2 In advance of the necessary statutory consultation, it was agreed that the Department would provide further information about the possible impact of the proposal on the two Firefighters' Pension Schemes for discussion at the meeting on 17th November.

1.3 The Department is awaiting further guidance from HM Treasury on the application of the decision to the two schemes but, in the meantime, the following information will inform discussion around the overall challenge which has been set by the Spending Review announcement.

2. Membership

2.1 At 2009/10:

FPS: 26,239
NFPS: 11,238, of whom 4,654 are regular and 6,584 are RDS

3. Contributions income

3.1 Total pensionable pay 2010/11

FPS	£831.310m
NFPS	£181.650m
 Total	 £1,012.960m

4. Contribution rates

4.1 The following tables sets out the current contribution rates in the two schemes and also indicates the proportion of pension costs (as assessed at the 2007 valuation)

paid by the employee. From this it will be seen that members of the NFPS already pay a significantly greater part of the cost than FPS colleagues.

Existing Contribution Rates				
	Employee	Employer*	Total rates at 2007 valuation	Proportion of cost met by employee
Firefighters' Pension Scheme 1992	11%	26.5%	37.7%	29.17%
New Firefighters' Pension Scheme 2006	8.5%	14.2%	23.7%	35.86%

*Employers pay a contribution of 21.3% (FPS) and 11% (NFPS) plus an ill-health charge (based on the 2004 review assessment of the value of the ill health contribution) so the figure in this column shows the overall cost to the employer.

5. Protection for low paid workers

5.1 The Government have emphasised that there should be some protection for low paid workers. It is not yet totally clear in this context what is meant by low paid. A range of £18-21,000 has been suggested in discussions between public service schemes but until we have further guidance on this from HM Treasury it remains unanswered.

5.2 The lowest paid workers entitled to membership of the FPS/NFPS are trainees (£21,157) and development firefighters (£22,038) and it may be that whatever limit is agreed that these members could be excluded from any increase.

6. Tiered contributions

6.1 In addition to exempting certain groups, and to achieve whatever additional income from members is expected as part of the £1.8bn total, it would be possible to introduce variable rates linked to pay bands. The following groupings would be possible:

Role	Pay ⁺	Numbers	
		FPS	NFPS*
Firefighter (competent), crew & watch manager	£28k ⁺	23,600	4,654 (regular) 6,580 (RDS)
Station manager	£40k ⁺	2,580	
Group manager	£46k ⁺	675	
Area manager	£53k ⁺	200	
Brigade manager	£75k ⁺	160	

⁺We have used the upper pay boundaries on the assumption that with flat pay scales the majority will be on the maximum. If average pay is lower than this then the yield

from tiers will be lower, if average pay is higher because of the effect of pensionable allowances, then the yield will be higher.

*We have assumed that most members of the NFPS will be in firefighter, crew or watch manager roles given the age of the Scheme.

7. Possible increases in contribution rates

7.1 The following tables set out for illustrative purposes only the estimated yield from possible increases in employees' contributions assuming no members opt-out of the scheme:

Increase in yield spread evenly across membership		
Firefighters' Pension Scheme 1992	0.5%	£4.2m
	1%	£8.3m
New Firefighters' Pension Scheme 2006	0.5%	£0.9m
	1%	£1.8m

Increase in yield from tiered contributions			
Role	Pay range	%	Yield
Station Officers	£40k	0.5%	£0.51m
		1%	£1.03m
		2%	£2.06m
Group Managers	£46k	0.5%	£0.16m
		1%	£0.31m
		2%	£0.62m
Area Managers	£53k	0.5%	£0.05m
		1%	£0.11m
		2%	£0.21m
Brigade Managers	£75k+	0.5%	£0.06m
		1%	£0.12m
		2%	£0.24m

7.2 If the target additional yield in each of the three years was set at is £10.1m, this might be achieved by increasing:

In the first year:

all members of the FPS by 1% to 12%	£8.3m
station officers & group managers by additional 1% to 13%	£1.34m
area & brigade managers by additional 2% to 14%	<u>£0.45m</u>
Total	£10.09m
proportion of total payroll	1.0%

7.3 In the second year:

all members of the FPS by 1%, i.e.13% basic & 14% station officers & group managers, and 15% for area & brigade managers	£8.3m
area & brigade managers by additional 1% to 16%	<u>£0.23m</u>

	Total	£8.53m
	Running total	£18.62m
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	proportion of total payroll	1.8%
7.4	In the third year:	
	all members of the FPS by 1%, i.e. 14%, 15% & 17%	£8.3m
	all members of the NFPS by 1% to 9.5%, and introduce tiered contributions	£2.0m
	Total	£10.1m
	Running total	£28.72m
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	proportion of total payroll	2.8%

This calculation assumes that the FPS/NFPS split will remain the same between now and 2012/13. Retirements from FPS and the effect of any recruitment freeze will be the most significant impacts, as would the effect of retained firefighters moving to their new scheme with an 11% contribution rate.

7.5 The yield over the three year period would be less than we expect to be required to deliver so some adjustments may be necessary. In addition, there are two pressure points which will impact on our ability to deliver:

- as firefighters retire, any recruits would be members of the NFPS so that contributions income will be declining; and
- if the numbers of firefighters reduces because there is either no recruitment or only limited recruitment.

7.6 We have asked HM Treasury for clarification of how schemes will be expected to deal with the consequence of falling membership.

8. Conclusion

The Committee is invited to discuss the following informal propositions in this paper:

- take the opportunity of the reform process to balance the contributions between the two schemes;
- consider an exemption for trainee and development firefighters from any increase in contributions;
- introduce tiered contributions and comment on possible banding; and
- increase contributions over the three years from 2012/13.