

FIREFIGHTERS' PENSION COMMITTEE - OPT OUT REPORT

Policy background

1. At Spending Review 2010, the Government announced that employee contributions in public service pension schemes would increase by 3.2%, on average, from 2012. The intention was that the contribution increases would be phased in, with 40% of the increases (i.e. 1.28 percentage points) to be brought in April 2012, a further 40% of the increases (i.e. 1.28 percentage points) to be brought in April 2013, and the remaining 20% (i.e. 0.64 percentage points) to be brought in April 2014.
2. Following consultation on increases to apply in the Firefighters' Pension Schemes in respect of April 2012 only, the Department for Communities and Local Government agreed to proceed with an altered contribution rate from April 2012 to yield 0.64 percentage points, on average. The tariff, as introduced for the two Firefighters' Pension Schemes, is contained at **Annex B**.
3. As part of discussions on scheme reforms, the Government agreed to review the impact of the 2012 increases, including on opt out, before making decisions on how further contribution increases would be applied. At the 44th meeting of the Firefighters' Pension Committee, the Committee agreed to undertake qualitative and quantitative research in respect of the proposed increases.
4. The Committee agreed that there should be a series of focus groups undertaken to assess firefighters' attitudes to their pension schemes, including on contribution increases and the proposed reforms set out in the Proposed Final Agreement. This was commissioned by the Department for Communities and Local Government and the research was undertaken by Research Works Limited and has been separately submitted to the Committee.
5. The Committee also agreed that there should be current and historic data collected from Fire and Rescue Authorities on opt-out rates. This paper sets out the outcome of that data collection process following receipt of the August 2012 data (relates to July 2012)¹. This data will feed into the forthcoming Department for Communities and Local Government consultation on employee contribution increases from April 2013. The Department will continue to collect data from fire and rescue authorities over the coming months to ensure that decisions are made on the most recent data available.

¹ The data collection was undertaken by the Department for Communities and Local Government and is based on data provided by individual fire and rescue authorities, either as part of this exercise or as part of the separate, annual data collection exercise from fire and rescue authorities.

Historic data

6. The Department asked fire and rescue authorities to provide historic information on the number of firefighters that have opted out of their scheme. Only a small handful of fire and rescue authorities were able to provide any data, and there was no consistency in the data that was provided, meaning that it was not possible to undertake any meaningful analysis on the data submitted.
7. The Department has recently begun collecting non financial data, including on optants out, from fire and rescue authorities on an annual basis. This information should, therefore, be treated with **some caution** given that it was collected for a different purpose and may not follow the same definitions on 'opt outs'.

Table 1

	2010/11		2011/12	
	Number of 'opt outs' in year	Proportion of scheme membership	Number of 'opt outs' in year	Proportion of scheme membership
1992 scheme	50	0.2%	66	0.3%
2006 scheme (regular)	39	0.8%	59	1.1%
2006 scheme (retained)	81	1.1%	150	2%
Total	170		275	

Table 2

	As of 2009/10		
	No of scheme members	No of scheme members	Total scheme opt outs
1992 scheme	24,351	24,351	145
2006 scheme (regular)	5,045	5,045	392
2006 scheme (retained)	6,928	6,928	2,833

8. The data in table 2 suggests that the historic level of opt out rates in the 1992 scheme has been very low, with the total number of scheme opt-outs reported as being 145 of current potential membership by March 2010. The participation rate amongst regular firefighters in the 2006 scheme was also high, at 92.8%, with around 1% of 2006 scheme regular membership reported to have 'opted out' of their scheme in each year of 2010/11 and

2011/12. The participation rate amongst retained firefighters in the 2006 scheme is noticeably lower, with high levels of annual optants out.

Table 3 - proportion of paybill opting out in 2010/11

	Paybill information 2010-11 (£)	Total cost of firefighters opting out - 2010-11 (£)	Percentage cost of opt outs
Firefighters 1992	873,447,159	1,700,000	0.2%
Firefighters 2006 - regular, retained and other	185,161,854	1,597,696	0.9%
Total	1,058,609,013	3,297,696	0.3%

Table 4 - proportion of paybill opting out in 2010/11

	Paybill information 2011-12 (£)	Total cost of firefighters opting out 2011-12 (£)	Percentage cost of opt outs
Firefighters 1992	780,807,809	2,244,000	0.3%
Firefighters 2006 - regular, retained and other	198,127,174	2,864,240	1.4%
Total	940,402,348	3,395,004	0.4%

Summary data for April 2012 to July 2012

9. The following sets out some key notes on the data collected²:

- 44 responses were received in April, May and June from fire and rescue authorities in England. 42 responses were received in July.
- The Firefighters' Pension Scheme 1992 (the 1992 Scheme) is a closed pension scheme, so any new recruits are only eligible to join the New Firefighters' Pension Scheme 2006 (the 2006 Scheme)
- Retained firefighters are only eligible to join the New Firefighters' Pension Scheme 2006
- Regular firefighters may also have a separate contract to work as a retained firefighter. FRAs will automatically enrol retained firefighters into the 2006 Scheme, irrespective of whether they are a member of a firefighters' pension scheme for their primary employment.

² Fuller notes on the collection methodology, and data collection process is contained in Annex C.

Table 5 - Number of Firefighters that have chosen to opt out

	1992 Scheme (annualised rate)	2006 Scheme – regular (annualised rate)	2006 Scheme - retained & other (annualised rate)	Total (annualised rate)
April	12 (144)	20 (240)	10 (120)	42 (504)
May	9 (108)	13 (156)	4 (48)	26 (312)
June	5 (60)	8 (96)	5 (60)	18 (216)
July	4 (48)	7 (84)	3 (36)	14 (168)
Totals	30 (90)	48 (144)	22 (66)	100 (300)

10. The data received from fire and rescue authorities shows that, over the four month period, April was the month that had the highest level of optant outs. The rate of optants out has dropped in each month, with the rate of optants out in each scheme in July being a third of the amount that opted out in April. This would suggest that there was likely to have been an ‘opt out’ effect from the increase in April 2012 but that that effect has diminished in the meantime.

Table 6 - Number of Firefighters that have chosen not to join the scheme

	2006 scheme – regular	2006 Scheme - retained and other	Total
April	3	7	10
May	3	13	16
June	5	20	25
July	2	11	13
Totals	13	51	64

11. Fire and rescue authorities also reported on the number of firefighters that chose not to join the scheme - it should be noted that any firefighter that had less than 3 month’s pensionable service in that scheme was assessed to be a ‘non-joiner’. It is difficult to draw any meaningful conclusion from this data in respect of levels of opt outs as there are, effectively, recruitment freezes in place across England and therefore does not reflect normal conditions. It should also be noted that 4 of the 13 regular firefighters that chose not to join the scheme were aged over 50, and therefore can be assumed to have been retired, with a pension, and re-engaged.

Table 7 - Number of Firefighters that have chosen to opt out **or** not join

	1992 Scheme (annualised rate)	2006 Scheme – regular	2006 Scheme - retained & other	Total	No of authorities with zero opt-outs/non-joiners
April	12 (144)	23 (276)	17 (204)	52 (624)	27
May	9 (108)	16 (192)	17 (204)	42 (504)	26
June	5 (60)	13 (156)	25 (300)	43 (516)	23
July	4 (48)	9 (108)	14 (168)	27 (324)	26
Totals	30 (90)	61 (183)	73 (219)	164 (492)	

12. In comparison with the annual opt out rates of 1992 scheme members as reported in Table 1 (50 in 2010/11 and 66 in 2011/12), the rate of optants out was uncharacteristically high in April and May on an annualised basis. However, in June and July those rates fall back to similar rates reported in Table 1. For regular firefighters in the 2006 scheme, optant outs and new joiners reported between April and July were significantly higher than in 2010/11 (39) and 2011/12 (59). For retained firefighters in the 2006 scheme, the opt out and non-joiner rate was significantly higher between April and June than in 2010/11 (81) and 2011/12 (150). In July, those rates came more into line with the 2011/12 rate. However, if you strip out the effect of 'non-joiners', the rates for retained firefighters are similar to, or significantly lower than, previous years. Over the 4 month period, on an annualised basis the number of optants out and non-joiners was significantly up on previous years. However, if you strip out the effect of non-joiners, the number of optants out across all schemes were only slightly up on 2011/12 rates, but significantly up in comparison with 2010/11 rates. In each month, at least half of fire and rescue authorities reported zero levels of opt outs or non-joiners.

Table 8 - Number of and paybill percentage of firefighters opting out between April to July 2012-13

	Percentage of membership opted out (annualised)*	Percentage of pensionable paybill opted out*
1992 scheme	0.1% (0.3%)	0.1% (0.3%)
2006 scheme – regular	0.9% (2.7%)	0.9% (2.7%)
2006 scheme – retained	0.3% (0.9%)	
Weighted total	0.3% (0.9%)	0.3% (0.9%)

* Excludes those not joining the scheme

13. The data shows that the percentage of members opting out of the 1992 scheme remains consistent with the annualised rate of 0.3% from 2011/12 (table 1). The percentage of retained members opting out of the 2006 scheme is significantly lower than reported for 2011/12 (2%), and lower

than 2010/11 (1.1%). However, the number of regular opt outs of the 2006 scheme is running significantly higher than previous years, although we can see, from table 5, that this rate is likely come down over the next couple of months.

Gender, age and salary bands

14. The Department also collected data in respect of gender, age, and salary bands of members that either opted out, or did not join the pension scheme.

Gender

15. As at 31 March 2012, 4.3 per cent of firefighters were women. The key findings in relation to gender are:

- 88% of optants out were male
- 95% of non joiners were male

Age

16. The key findings in relation to age are:

- 90% of opt outs were aged 40 or under
- 31% of non joiners were aged 30 or under, 34% were aged between 31 and 40 and 25% aged between 41 and 50.
- 10% of firefighters who opted out of the 1992 scheme were aged 30 or under, 77% were aged between 31 and 40 and 13% were aged between 41 and 50.
- 48% of regular firefighters who opted out of the 2006 scheme were aged 30 or under, 48% were aged between 31 and 40 and 4% were aged over 41.
- 36% of retained firefighters who opted out of the 2006 scheme were aged 30 or under, 45% were aged between 31 and 40 and 18% were aged over 41.

Salary

17. The key findings in relation to salary are:

- 66% of firefighters that opted out of their pension scheme earned under £30K
- 33% were in the salary band £40K - £50K
- 91% of non-joiners earned under £30K
- 60% of firefighters who opted out of the 1992 scheme earned under £30K and 37% between £30K and £40K
- 60% of regular firefighters who opted out of the 2006 scheme earned under £30K and 40% between £30K and £40K

- The majority of retained firefighters who opted out of the 2006 scheme earned a FTE salary of under £30K

18. Further data on gender, age and salary bands is at **Annex A**.

Conclusion

19. In terms of the schemes combined, the data suggests that the increase in contribution rates had an initial impact on members opting out of their pension scheme, but there does not appear to be an ongoing material effect. However, there does appear to be an effect in relation to regular members of the 2006 scheme, where there has been initial evidence of an increase in opt-outs.

DCLG
September 2012

DETAILED MEMBERSHIP DATA**Gender***Table 9 - Number of opt outs by gender*

	1992 Scheme		2006 Scheme - regular		2006 Scheme - retained and other		Totals	
	Male	Female	Male	Female	Male	Female	Male	Female
April	11	1	15	5	9	1	35	7
May	8	1	12	1	4	0	24	2
June	4	1	8	0	5	0	17	1
July	3	1	6	1	3	0	12	2
Totals	26	4	41	7	21	1	88	12

Table 10 - Number of non joiners by gender

	2006 Scheme - regular		2006 Scheme - retained and other		Totals	
	Male	Female	Male	Female	Male	Female
April	3	0	7	0	10	0
May	3	0	11	2	14	2
June	5	0	20	0	25	0
July	2	0	10	1	12	1
Totals	13	0	48	3	61	3

Table 11 – Number of optant outs and non joiners by pension scheme

	Gender Distribution of opt outs by scheme (April to July)		Gender distribution of non joiners (April to July)	
	Male	Female	Male	Female
1992 Scheme	87%	13%	0%	0%
2006 Scheme - regular	85%	15%	100%	0%
2006 Scheme - retained and other	95%	5%	94%	6%
Totals	88%	12%	95%	5%

Age

Table 12 - opt outs by age

	18-30	31-40	41-50	51-55	56-60	Totals
April	16	21	5	0	0	42
May	6	17	3	0	0	26
June	7	10	1	0	0	18
July	5	8	1	0	0	14
Totals	34	56	10	0	0	100

Table 13 – non joiners by age

	18-30	31-40	41-50	51-55	56-60	Totals
April	2	6	2	0	0	10
May	5	5	3	3	0	16
June	8	9	7	1	0	25
July	5	2	4	0	2	13
Totals	20	22	16	4	2	64

Table 14 – opt outs by pension scheme, duty system, and age

	18-30	31-40	41-50	51-55	56-60	Totals
1992 Scheme	3	23	4	0	0	30
2006 Scheme - regular	23	23	2	0	0	48
2006 Scheme - retained and other	8	10	4	0	0	22
Totals	34	56	10	0	0	100

Table 15 – Non joiners by pension scheme, duty system, and age

	18-30	31-40	41-50	51-55	56-60	Totals
1992 Scheme	0	0	0	0	0	0
2006 Scheme – regular	3	2	4	3	1	13
2006 Scheme - retained	17	20	12	1	1	51
Totals	20	22	16	4	2	64

Table 16 - Opt outs by Full Time Equivalent (FTE) salary band

	Under £30K	£30K- £40K	£40K- £50K	£50K- £60K	Over £60K	Totals
1992 Scheme	18	11	1	0	0	30
2006 Scheme - regular	29	19	0	0	0	48
2006 Scheme - retained and other	19	3	0	0	0	22
Totals	66	33	1	0	0	100

Table 17 – non joiners by Full Time Equivalent (FTE) salary band

	Under £30K	£30K- £40K	£40K- £50K	£50K- £60K	Over £60K	Totals
1992 Scheme	0	0	0	0	0	0
2006 Scheme - regular	8	5	0	0	0	13
2006 Scheme - retained and other	50	1	0	0	0	51
Totals	58	6	0	0	0	64

Employee contribution tariffs for the firefighters' pension schemes from 1 April 2012

Firefighters' Pension Scheme 1992

Pensionable pay band	Increase 2012-13 (%)	Increase net of tax relief (%)*	Total contribution rate 2012-13 (%)
Up to and including £15,000	0.0	0.00	11.0
More than £15,000 and up to and including £30,000	0.6	0.48	11.6
More than £30,000 and up to and including £40,000	0.7	0.56	11.7
More than £40,000 and up to and including £50,000	0.8	0.64 (basic rate) 0.48 (higher rate)	11.8
More than £50,000 and up to and including £60,000	0.9	0.54	11.9
More than £60,000 and up to and including £100,000	1.2	0.72	12.2
More than £100,000 and up to and including £120,000	1.5	*	12.5
More than £120,000	2.0	*	13.0

New Firefighters' Pension Scheme 2006

Pensionable pay band	Increase 2012-13 (%)	Increase net of tax relief (%)*	Total contribution rate 2012-13 (%)
Up to and including £15,000	0.0	0.00	8.5
More than £15,000 and up to and including £30,000	0.3	0.24	8.8
More than £30,000 and up to and including £40,000	0.4	0.32	8.9
More than £40,000 and up to and including £50,000	0.5	0.40 (basic rate) 0.30 (higher rate)	9.0
More than £50,000 and up to and including £60,000	0.6	0.36	9.1
More than £60,000 and up to and including £100,000	0.8	0.48	9.3
More than £100,000 and up to and including £120,000	1.0	*	9.5
More than £120,000	1.2	*	9.7

* The specific rate of tax relief depends on the members' personal circumstances.

Notes on calculations

Notes for tables 3 and 4

- Average cost of a firefighter opting out of the 1992 scheme is assumed to be £34,000, calculated by dividing the total paybill in 2010/11 and 2011/12 with average membership numbers.
- Average cost of a firefighter opting out of the 2006 scheme is assumed to be £28K.

Notes for table 8

- Assumes that the number of scheme members during the first quarter was 33,810 of which 21,561 were members of the 1992 Scheme, 5,088 were regular firefighter members of the 2006 scheme, and 7,161 were retained firefighter members of the 2006 scheme (based on information provided by fire and rescue authorities as part of this data collection exercise during May, June and July).
- April's data has been estimated based on reported scheme membership at the beginning of May.
- Where this information has not been provided by authorities then scheme membership data at the start of 2012-13 has been taken from the annual data collection exercise, but excludes those fire and rescue authorities that did not provide a response to this exercise.
- Pay bill data has been taken from the unaudited annual 2011-12 data collection exercise. The pay bill includes actual salaries provided to retained firefighters rather than the full time equivalent (FTE) salary.
- The data collection exercise asked fire and rescue authorities to select a FTE salary band for those firefighters that left, or chose, not to join the scheme rather than provide actual salaries. We have assumed that those regular scheme members earning between £18-30K are competent firefighters earning £28.2K. For other salary bands earnings have been assumed at the mid point.
- For retained firefighters, we have used the valuation data at 31 March 2011 to calculate an average salary for retained firefighters per authority.
- The pay bill total disregards the pay costs for those fire and rescue authorities that are yet to provide a response to this exercise.