



Office of the
Deputy Prime Minister

Creating sustainable communities

Proposals for amendments to the Firefighters' Pension Scheme

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Foreword



By Phil Hope, MP

In the White paper *Our Fire and Rescue Service* we noted that the current pension scheme is part of the structure which reinforces inflexibility in the service. We have already addressed some of these faults in the Firemen's Pension Scheme (Amendment) Order 2004 which amends the definition of the term 'firefighter' to allow a wider range of those employed in the service to remain in the pension scheme and also allows for membership by part-time regular firefighters which should encourage more flexible working patterns.

We need to make some further changes to reflect the changes in the relevant tax and regulatory framework for pensions, as well as to provide some limit to the cost of the scheme which has increased substantially over the last ten years. This paper sets out our proposals for change and we would welcome comments on the proposals.

We recognise that many firefighters who are in the final stages of their service will already be making their plans and therefore we do not propose to make any changes for those firefighters who can retire before 2013.

A handwritten signature in black ink that reads "Phil Hope". The signature is written in a cursive, flowing style.

Parliamentary Under-Secretary of State

1. INTRODUCTION

- 1.1. In the White Paper *Our Fire and Rescue Service* the Government committed itself to introducing new pension arrangements for firefighters more suited to the Fire and Rescue Service of the future.
- 1.2. This document has been released on a UK wide basis as it would be the intention of the devolved administrations in Scotland, Northern Ireland and Wales to mirror these proposals.
- 1.3. The Government is issuing a consultation document concerning the arrangements for new firefighters: that is those joining after a date no later than 1 April 2006, when the new scheme proposals have been finalised.
- 1.4. The deficiencies of the current pension scheme, which in its main provisions dates from 1948, have been recognised for many years. A review published in 1998 recommended a new scheme which would have met some of the concerns and reduced future costs. However the pensions and employment environment which existed in 1998 has changed fundamentally and a more radical approach is now needed.
- 1.5. Since 1948 the job of a firefighter has changed substantially. Improved equipment and risk management have reduced day-to-day dangers and the life expectancy of a firefighter is now no different to that of people in other occupations.
- 1.6. Whilst the new pension scheme will be available to members of the existing pension scheme who elect to transfer because they wish to take advantage of benefits available under the scheme or the reduced cost of contributions, the Government has decided that, subject

to some changes, the Firefighters' Pension Scheme 1992 (FPS) should continue to operate for current members, although closed to new members once the proposed new scheme comes into operation.

- 1.7. Transfer arrangements will be considered as details of the new scheme design are developed but we envisage that members of the 1992 Scheme should be able either to transfer into the new scheme or to freeze their pension rights in the FPS and join the new scheme for future service only: in the latter case, accrued rights under the FPS would be protected.
- 1.8. A number of changes are proposed to the 1992 Scheme to reflect some of the changes in the tax and regulatory framework for pensions generally where this is considered to be beneficial to the interests of the Fire and Rescue Service. These proposals are outlined in this paper and are subject to the normal consultation arrangements for firefighters' pension issues.

2. CHANGES TO THE FIREFIGHTERS' PENSION SCHEME 1992 (FPS)

- 2.1. The Government have decided that the regime for all pension schemes should change. From April 2006 a new entrant to a pension scheme will have a minimum age for taking pension benefits of 55 rather than 50; and also, the age for taking deferred pensions for new entrants to public service schemes will become age 65 rather than 60.
- 2.2. It is inevitable that these changes will be reflected in the new pension arrangements for firefighters and the Government have considered also the extent to which members of the FPS should be expected to see changes to the existing Scheme. Members of other public service

schemes, including many in the Local Government Pension Scheme (LGPS), are likely to see their normal pension age raised from 60 to 65. The deferred pension age for members of the Police and Armed Forces Pension Schemes will be raised to age 65.

- 2.3. The Government believes that whilst it would be wrong to impose these changes on people who are already preparing for retirement, there is a case for making such changes for others, although, in practical terms, these should have a more modest effect on firefighters than on members of most other public service pension schemes. The Government proposes two changes.
- 2.4. Under the current pension arrangements, a firefighter with 25 years' or more service may retire at age 50, and there is no actuarial reduction to reflect the fact that he/she has retired at this point; and a full pension may be paid to a person with 30 years' service. Ministers have considered whether the minimum pension age should be raised to age 55 for all members of the FPS and have concluded that the scheme should be amended to raise the minimum pension age to age 55 with effect from 2006. Those who retire before April 2013 aged 50 or older with 25 or more years service will be exempt from this change.
- 2.5. The reason for exempting those who can retire before 2013 either with a full pension after 30 years' service or from age 50 with 25 or more years' service is to provide some stability in pension arrangements for those who are most likely to be actively planning for retirement. Since the Government's intention to raise the minimum age for taking benefits was first announced in 2003, it is reasonable to set ten years from then.

- 2.6. In addition, under the FPS the pension age for firefighters who leave the service early with a deferred pension is 60, in line with the normal pension age for other public service schemes. We would therefore propose that the deferred pension age for firefighters in the FPS should be raised to age 65 from April 2006, in respect of future service.

Comments are invited on these issues.

3. OTHER CHANGES

- 3.1. We are already consulting through the Pensions Committee, whose membership includes representatives of the staff and employers' organisations, on changes to reflect the move from ranks to roles and to repeal the provision relating to compulsory retirement age, but these will not impact on the main benefits available under the FPS. The intention is to make these changes once they have been discussed with the Pensions Committee.
- 3.2. In addition we may wish to change the rules for ill-health awards in the FPS to replicate provisions made in the new pension scheme. We will consider this when decisions are made for the new scheme. Any changes would be made subject to safeguarding rights accrued before any changes are introduced. In the following paragraphs we set out the proposals outlined in the consultation on the new pension arrangements.

Ill-health awards

- 3.3. In the consultation paper on proposals for the new scheme we have noted that a firefighter who is permanently disabled from performing the duties of a firefighter is currently entitled to an ill-health pension which is enhanced by an amount dependent on length

of service. Enhancements are limited to the extent that a person's pension cannot exceed 40/60th of average pensionable pay. Because the enhancements do not accrue smoothly, the present arrangements act as a perverse incentive to retire at certain points of service, e.g. after 26 years' service.

- 3.4. The level of ill-health retirements in the Fire and Rescue Service, at over 60%, remains higher than in any other area of public service. The majority of early retirements are not related to injuries incurred from responding to emergencies or from other work causes: they are unconnected with work. Although there have been reductions in recent years and further changes to the FPS, which became effective on 13 September, should reduce the level still further, numbers may remain unacceptably high. It not only results in the loss of skilled and experienced staff but is also a drain on resources, which is wasteful and limits the money available for core activities.
- 3.5. The approach we would propose is to provide for two tiers. The first providing an immediate unenhanced pension and payable to those who can take alternative regular employment. Such persons may not be able to earn at the same level as in the Fire and Rescue Service and the pension would serve as a cushion between what was earned as a firefighter and the potentially lower paid job outside the Service.
- 3.6. For those permanently disabled from taking regular employment there would be a system of enhancements to compensate for the loss of earnings capacity. Enhancement could be in line with that currently provided for in the FPS, and also the Local Government Pension Scheme, i.e. by reference to length of membership: such enhancement would be limited by what could be accrued

by the member had he/she not retired on health grounds by the normal pension age, and limited to the maximum service that can be earned in the scheme.

- 3.7. However, as noted by the Review of Ill Health Retirement in the Public Sector (July 2000), such a scale of enhancements provides perverse incentives to go at certain points. A smooth scale of enhancements could avoid this. If pensionable service were enhanced by half the prospective service to normal pension age this could assist those who fall ill early in their careers as well as making it financially advantageous for a person to be rehabilitated and remain in the pension scheme.

Comments are invited on this issue.

Injury benefits

- 3.8. Under Inland Revenue rules, injury benefits, which are based on a minimum income guarantee, will have to be removed to a separate scheme as part of the process of modernisation. Separate proposals for an injury benefits scheme are currently being formulated. The Government have already indicated that any scheme will bring together the death and injury awards provided for in the Conditions of Service and the Firefighters' Pension Scheme.

4. COSTS OF PENSIONS AND FINANCING

- 4.1. The cost of the existing scheme is now estimated to be 37.5% of pensionable pay over the career of a typical firefighter. This represents an increase of nearly 8% in cost over the estimate of 34.75% which informed the 1998 review and is largely attributable to the increase in life expectancy. The scheme therefore remains the most expensive public service scheme and the employers are contributing more than the two-thirds of costs generally expected.

- 4.2. Changes to the FPS outlined above should deliver savings of about 3.25% of pensionable pay and restore overall costs to about the 1998 level. If these changes are made, we would see no immediate need to increase the employee contribution rate but we would need to keep this under review.
- 4.3. We are publishing proposals for consultation on the arrangements for financing firefighter pensions but these make no difference to the administration and management of pension arrangements.
- 4.4. The proposed changes are intended to reduce the volatility in pension expenditure that results from significant fluctuations in the numbers of firefighters retiring from each authority each year, which can have a significant impact on the budgets of fire and rescue authorities with a consequent impact on council tax precept increases. It will also make it easier for authorities to assess and budget for the costs of pensions building up in the future.

5. PROPOSALS FOR CHANGE TO THE FIREFIGHTERS' PENSION SCHEME (FPS)

- 5.1. A separate consultation paper has been issued on the proposals for a new pension scheme and extracts from this are attached. At Appendix 1 is the Executive Summary which outlines the proposals and at Appendix 2 the section of the document dealing with responses and comments.
- 5.2. Responses and comments on the issues raised in this consultation exercise are required by 14 January 2005.

How to comment

England

- 5.3. Comments can be e-mailed to:
firepensions@odpm.gsi.gov.uk
or you can write to:

Firefighters' Pension Scheme
Fire Legislation, Safety and Pensions Division
Office of the Deputy Prime Minister
17/B, Portland House
London SW1E 5LP

Scotland

- 5.4. You can e-mail to:
Firepensionscheme@scotland.gsi.gov.uk or you can
write to:

Karen Bradley
Scottish Executive Justice Department
Fire Services Division
Room GW15.
St Andrews House
Regent Road,
Edinburgh EH1 3DG

Northern Ireland

- 5.5. You can e-mail to: publicsafetyunit@dhsspsni.gov.uk or
you can write to:

Department of Health, Social Services and Public Safety
Public Safety Unit
Annex 4,
Castle Buildings
Stormont,
Belfast BT4 3SG

Wales

- 5.6. You can e-mail to: jason.pollard@wales.gsi.gov.uk or you can write to:

Jason Pollard
Construction, Fire and Domestic Energy Branch
Welsh Assembly Government
Cathays Park,
Cardiff CF10 3NQ

APPENDIX

EXTRACTS FROM GOVERNMENT PROPOSALS FOR A NEW FIREFIGHTERS' PENSION SCHEME

EXECUTIVE SUMMARY

Introduction

1. The Government is committed to introducing new pension arrangements for firefighters. It is proposed that the new scheme should be available for new entrants joining no later than 1 April 2006. The objectives of the new arrangements should be to bring firefighters' pensions into line with the pensions of other Fire and Rescue Service staff except where differences can be justified by the nature of the work or the needs of the Service. The new scheme should be a defined benefit arrangement, which might be linked to final salary or to final salary combined with earnings in earlier periods.
2. This document has been released on a UK wide basis as it would be the intention of the devolved administrations in Scotland, Northern Ireland and Wales to mirror these proposals. While the document refers to the Fire and Rescue Services Act 2004, this Act does not extend to Scotland and Northern Ireland, where work is currently underway to introduce similar legislation.

Key issues

3. *Membership* of the scheme should be available to regular (whole and part-time) and retained duty firefighters.
4. There is no justification for a compulsory retirement age in the pension scheme and the test should be capability for role. Instead there should be a *normal pension age*, at which a member may retire with benefits on an unreduced standard scale.

5. Whilst firefighters' pension arrangements have traditionally been aligned with those for police officers, this no longer appears to be justified and closer alignment with other members of the Fire and Rescue Service is recommended. There are good arguments for a normal pension age of 65 on the basis that there will be sufficient non-operational jobs to provide posts for a significant proportion of those who are no longer fit for firefighting duties.
6. The *deferred pension* age should be age 65.
7. There should be a single rate of *accrual* either at 60ths with an option to commute or 80ths with a fixed lump sum.
8. The existing pension scheme allows for *commutation* of part of the pension to a lump sum but creates an incentive to retire at the point when the lump sum can be maximised by the current commutation factors. It is proposed that this might be replaced by a *fixed lump sum or that a single commutation factor should be used regardless of the age or sex of the firefighter*.
9. Pensionable pay should be limited to core pay and other permanent emoluments but other allowances and payments should be excluded. Whilst pension should continue to be based on final salary, it should be recognised that some members may choose to move to non-operational duties or step-down from a more senior role. The scheme should, therefore, allow for this without adverse effect on the pension benefits built up by that person.
10. The scheme should allow for payment of pension from age 55 at the discretion of the fire and rescue authority for organisational reasons. Those resigning before the

normal pension age would otherwise receive a deferred pension from age 65.

11. We would propose to move to a two tiered arrangement for ill-health retirements. The first providing an immediate unenhanced pension, payable to those whose level of fitness would not prevent them taking up regular employment elsewhere; and a second with enhancements for those who are permanently disabled from taking regular employment.
12. Separate proposals will be made for *injury benefits* which in future will be outside the pension arrangements.
13. It is proposed that *survivor benefits* should be extended to unmarried partners, as well as widow(er)s, civil partners, and children. The maximum spouse/partner's pension should be 50% of the member's pension, and the children's pension too would be a percentage.
14. *Death grant* should be increased to 3 x pensionable pay.

Costs and financing

15. The proposals outlined above should result in a reduction in the cost of firefighter pensions from the existing 37.5% of pensionable pay to between 21% and 26% depending on the precise combination of normal pension age, accrual rate, definition of pensionable pay and commutation terms chosen. On the basis that members will be expected to pay a contribution of about one-third, i.e. 7% to 8.5%, this would make the scheme more affordable for both the employers and employees and would be in line with other public sector schemes.

Transitional arrangements

16. The existing scheme will be closed to new members probably from 1 April 2006.

17. Arrangements will be prepared to enable members of the existing scheme to join the new scheme, if they wish.
18. The new scheme will be open to retained firefighters. It is expected that this will be on the basis that new entrants will have automatic membership on the same basis as regular firefighters. Existing retained firefighters would have the option to join but would need to recognise that this could limit rights currently available to them for injury benefits combined with ill-health pensions under the 1992 Scheme.

Implementation

19. The new scheme is expected to come into operation from 1 April 2006.

SECTION SIX: RESPONSES

- 6.8. Comments are invited on any issues raised in this document but comments are invited particularly on the following:

Issue 1. The existing Firefighters' Pension Scheme should be closed to new members once the new scheme has been finalised and no later than 1 April 2006 and new entrants to the Fire and Rescue Service should join the new pension scheme from that date. (paragraphs 1.2 and 4.1 – 2)

Issue 2. Membership should be limited to firefighters, whatever duty system they work (regular or retained). (paragraphs 2.1 – 2)

Issue 3. There should be no compulsory retirement age. (paragraphs 2.4 – 5)

Issue 4. The normal pension age: there are arguments for age 65, although we need to be satisfied that the roles which firefighters may be expected to carry out in the future will allow members to continue working to that age 60. Other possibilities are 55 and 60 (paragraphs 2.6 – 11). The deferred pension age should be age 65 (paragraph 2.12).

Issue 5. There should be single accrual. There is a range of options, the main ones being a pension based on 60ths with optional commutation or a pension based on 80ths with a fixed lump sum of 3 or 4 x pension. (paragraphs 2.13 – 18)

Issue 6. For those who accrue maximum service (40 years) before normal pension age the excess service should accrue for pension purposes and for those who work beyond normal pension age the additional service should be allowed to accrue for pension purposes. (paragraphs 2.13 – 18)

Issue 7. Pensionable pay should be defined by reference to core pay and possibly other permanent emoluments. (Paragraphs 2.19 – 22)

Issue 8. The scheme should incorporate measures to mitigate adverse effects on the pension benefits built up by a member who moves from operational to non-operational duties or who steps down from a more senior role. Should firefighters' pensions be based on career average earnings? (paragraph 2.23)

Issue 9. There should be an option for payment of pensions from age 55 at the discretion of the employer. (paragraphs 2.24 – 28)

Issue 10. Firefighters retired for ill-health reasons who can take alternative regular employment should have an immediate unenhanced pension. Those permanently disabled from taking regular full-time employment should have enhanced pensions. Enhancements should be limited by reference to normal pension age, or 40 years' service, whichever is the lower. (paragraphs 2.29 – 32)

Issue 11. Survivor pensions should be extended to unmarried partners. (paragraphs 2.34-37)

Issue 12. Maximum spouse/partner's pension should be 25% of the member's pensionable pay, payable for life; and the children's pension too should be a percentage. (paragraph 2.38)

Issue 13. Death benefit should be 3 x pensionable pay. (paragraphs 2.39 – 41)

Issue 14. Scheme members should pay a contribution of about one third of the costs. On the basis of a normal pension age of 65, costs will range from 19% to 24% of pay depending on the benefits paid, giving a contribution of 6.5% to 8%. (paragraphs 3.1 – 3)

Issue 15. Options for members of the Firefighters' Pension Scheme to transfer to the new scheme will be considered. Rights under the Firefighters' Pension Scheme will be fully protected. (paragraphs 4.3 – 4)

Issue 16. Should membership by retained firefighters be automatic or voluntary; or could it depend on whether the person was an existing member of the Service or a new entrant? Should membership be on the same basis as regular firefighters, whether whole or part-time. (paragraphs 4.5 – 7)

