



Department for  
Communities and  
Local Government

## Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006)

Proposed increases to employee contribution rates, effective  
from 1 April 2014 - consultation

Summary of consultation responses and the Government's  
response

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# 1. Introduction

- 1.1. The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pension schemes and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public service workers and the taxpayer.
- 1.2. Lord Hutton published his independent report on 7 October 2010. In this report he set out that the value and cost of public service pensions have increased by around a third because of longer life expectancy over the last fifty years, and that these costs had generally fallen to the taxpayer. Lord Hutton therefore recommended that, if the Government wanted to make short term savings, then raising employee contributions would be the most effective way. This would also make for a fairer balance between what employees pay and other taxpayers contribute. Currently for every £1 paid into the Firefighters' Pension Schemes by the employee, the taxpayer contributes £5.
- 1.3. The Government accepted Lord Hutton's rationale and announced at Spending Review 2010 the intention to raise employee contributions in public service pension schemes by 3.2 percent of pensionable pay, on average, to be phased in over a three year period from April 2012.
- 1.4. The Government also determined a number of design parameters to ensure that any proposed increases in contribution rates should protect low earners and be progressive, so that high earners pay proportionately higher increases to reflect their more generous pensions. In particular that:
  - There should be no increase in employee contributions for those earning less than a Full Time Equivalent salary of £15,000.
  - There should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning a Full Time Equivalent Salary of up to £21,000.
  - High earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15.

## Firefighters' Pension Schemes – previous consultations

- 1.5. A statutory consultation proposing increases in the firefighters' pension schemes in England from 1 April 2012 was published in September 2011. In light of the responses received to the statutory consultation, Ministers decided to proceed with an altered contribution rate which sought to generate an increased yield of 0.64 percentage points from 1 April 2012, rather than the originally proposed 1.28 percentage points. The proposed increases in the firefighters' pension schemes in England from 1 April 2013 were set out in a consultation paper published on 29 November 2012. Following the consultation, the Government announced that as opt out rates remained low and on a similar basis to the number of opt outs in 2011-12, it was justified to proceed with the increased contributions, averaging 1.28 percentage points, as consulted on.

## Pension Reform

- 1.6. The Government is committed to providing public service pensions that are sustainable, fair and effective and has made clear that the proposed changes to public service pension schemes should ensure that they remain among the very best, providing a guaranteed pension level for all employees.
- 1.7. The Proposed Final Agreement<sup>1</sup> set out the scheme design for the Firefighters' Pension Scheme in England to be introduced from April 2015. This aims to strike a balanced deal between public service workers and the taxpayer. This will ensure that firefighters continue to have access to good pensions while taxpayers benefit from greater control over their costs.
- 1.8. The Government is currently consulting<sup>2</sup> on draft regulations, covering the main membership benefits in the Firefighters' Pension Scheme 2015, which are to come into force from April 2015.
- 1.9. Under the reforms firefighters will continue to get one of the most generous public service pensions – a firefighter who earns £29,000 and retires after a full 40 year career aged 60, will get a £19,000 a year pension. The total pension that a firefighter will receive rises to £26,000 when they become entitled to their state pension. A firefighter would need to contribute double to a private pension pot to get an equivalent pension.

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<sup>1</sup> <https://www.gov.uk/government/publications/firefighters-pension-scheme-proposed-final-agreement>

<sup>2</sup> <https://www.gov.uk/government/consultations/firefighters-pension-scheme-from-april-2015>

## 2. Consultation Proposals

- 2.1. On 29 November 2013 the Government published a 6 week consultation<sup>3</sup> on the proposed changes to increases in employee contributions by 1.28 percentage points from 1 April 2014 (leading to a cumulative 3.2 percentage point increase between 2012-13 and 2014-15) for the two firefighters' pension schemes in England. The consultation also set out the proposed different levels of increase for the Firefighters' Pension Scheme 1992 ("the 1992 Scheme") and the New Firefighters' Pension Scheme 2006 ("the 2006 Scheme"). This document provides a summary of the views and comments received from individuals, employers and interested representative bodies, together with the Government's response.
- 2.2. Alongside the consultation document, the Department published a (partial) Equality Statement that set out the Department's consideration of the impact of the proposed 2014-15 pension contribution increases in the Firefighters' Pension Scheme (1992) and the New Firefighters' Pension Scheme (2006) on the protected groups. The equality statement has now been updated, to take account of the responses to the consultation, and has been published alongside this Government response.
- 2.3. The Department invited respondents' views and any evidence on all aspects of the consultation and in particular to the following four questions:
  - Question 1 - Do the proposed tiered contributions meet the design parameters as set by the Government?
  - Question 2 - Are there any consequences of the proposed contribution tiers that you consider have not been addressed?
  - Question 3 - Do you consider that there are equality issues, which the Department hasn't considered in the published (partial) Equality Statement, which will result in individual groups being disproportionately affected by the proposed contribution tiers? If so, what do you consider to be the nature and scale of that disproportionate effect?
  - Question 4 - Is there a tariff which you think will help to further minimise any opt outs from the firefighters' pension schemes, but will deliver the cumulative 3.2 percentage point increase between 2012-13 to 2014-15?

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<sup>3</sup> <https://www.gov.uk/government/consultations/firefighters-pension-scheme-1992-and-new-firefighters-pension-scheme-2006>

### 3. Consultation process

- 3.1. The consultation was open from 29 November 2013 until 10 January 2014. The consultation document was available on the GOV.UK website<sup>4</sup> and responses could be returned to the Department for Communities and Local Government by email or by post. Prior to the consultation, views on the proposed contribution rates were sought from members of the Firefighters' Pension Committee<sup>5</sup>, which includes trade unions, the Local Government Association and other key representative bodies.
- 3.2. On publication of the consultation, the Department drew the consultation paper to the attention of members of the Firefighters' Pension Committee. The Department also announced the consultation in the 'Fire and Rescue Monthly Bulletin', which was sent, on 9 December 2013, to the chairs of all fire and rescue authorities, the chief executives of the county councils, the clerks to all fire and rescue authorities, the London Commissioner, and the chief fire officers of all fire and rescue authorities.
- 3.3. A total of 19 responses were received to the consultation, broken down as follows:

Individual scheme members	2
Employers	11
Employee Representatives	5
Professional Body Representatives	1

- 3.4. Employer and trade union responses in some cases included summaries or surveys of views expressed by their staff or members.
- 3.5. The Department has considered the comments and evidence provided in each consultation response and, in the next section, offers a summary of the responses to the particular consultation questions.
- 3.6. Some respondents offered comments on aspects of public service pension reform which were outside the scope of this consultation exercise. These comments were not considered as part of this consultation.

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<sup>4</sup> <https://www.gov.uk/government/consultations/firefighters-pension-scheme-1992-and-new-firefighters-pension-scheme-2006>

<sup>5</sup> At the 50<sup>th</sup> Firefighters' Pension Committee meeting held on 16 October 2013.

## 4. Summary of Responses

- 4.1. Some support was offered for the proposals or elements of the proposals as set out in the consultation. For example, the continued protection for 2006 scheme members or the recognition that tiered pensionable pay bands helped address some of the inequalities of a final salary scheme. However, many respondents did not agree with the proposals; with some stating that further increases were not necessary or suggesting that, if an increase was necessary, it should be at a lower average rate than that proposed and the total average increase of 3.2% should be delivered over a longer time scale.
- 4.2. Several respondents highlighted that further increases could impact on firefighters' decisions to choose not to join or to opt out from the pension scheme. Although some respondents recognised that the number of opt outs remained low, and in line with previous years, they highlighted that this was not necessarily indicative of the long term picture and the full impact of the contribution increases was yet to be seen.
- 4.3. These, and other, issues raised as part of the consultation process are expanded on under the relevant questions.

### **Question 1: Do the proposed tiered contributions meet the objectives set out by the Government in the Spending Review?**

#### **Consultation responses:**

- 4.4. There were 15 (79%) respondents who offered a specific response to this question, or who made comments which have been considered as responding to this question.
- 4.5. Of those responding to this question, 7 respondents agreed that the proposed tiered contributions met the Government's objectives. One of these respondents commented that, although they were of the view that central Government's design parameters were met, fire and rescue authorities had not been consulted on the original design parameters. Although two respondents agreed the design parameters had been met, they did not accept these parameters, with one respondent highlighting that the protection for low earners was inadequate given that no firefighter earned less than £21,000 and that there needed to be further protection for on-call firefighters.
- 4.6. Of the remaining 8 respondents, a number of points were made as set out below.
- 4.7. In response to this question, one respondent felt that the protections were not adequate and higher contribution increases for higher earners may produce a higher level of opt outs amongst those in receipt of a higher salary or lead to a succession of rapid retirements. This point raised by the respondent will be explored further in the Government's response at question two. A further respondent said that the higher tier percentage increases were not only too high but were insignificant when looking at the number of members in those tiers, so there could be a direct negative impact



on high earners which was unnecessary given the amount generated from high earners would have a limited impact when delivering the overall savings of 3.2%.

- 4.8. Some respondents suggested that the Government's objective of making savings of 3.2% across all public service schemes did not recognise that firefighters, especially those in the 1992 Scheme, already faced one of the highest contribution rates in the public service. Two respondents had calculated the contribution rate that would be payable for members of the 1992 Scheme based on a membership of 40 years, and highlighted that this revised calculation was still one of the highest compared with other public service pension schemes that had a 40 year membership.
- 4.9. A further respondent felt that the contributions to the scheme should be aligned to the cost ceiling and requirements of the firefighting role. This respondent, along with one other, highlighted that the proposal to increase contributions by 3.2 percentage points for public service schemes was too general, and that firefighter life expectancy, rather than general longevity, should have been taken into account by the Government when considering the rising costs of the scheme. One respondent suggested that if this longevity information was made available firefighters may be better informed on why reforms were necessary and base their decisions on this information.
- 4.10. Two respondents disagreed that the Government's objectives had been met. One respondent had calculated that the average rate payable by employees at 31 March 2012 was 10.43%, and that, based on the proposals, the average rate payable from 1 April 2014 would be 13.57% - an increase of 3.14 percentage points which fell short of the Government's overall aim. A further respondent said that the contribution rates, post tax, for those earning between £21,000 and £50,000 were too high compared with those in a higher tiered band and therefore did not reflect Government's proposals that high earners pay proportionately more.
- 4.11. A tiered system for contribution rates was introduced from 1 April 2012. One respondent recognised that the use of tiered contributions was an effective way of addressing any inequalities within a final salary scheme. They were therefore supportive of the principals of tiered bands provided that there was no increase in opt outs arising from the way the tiered bands had been set. However, others disagreed with the tiered approach. This is addressed more fully in question two.

#### **Government response:**

- 4.12. Since the statutory consultation on contribution increases closed, the Department has considered the responses and evidence received.
- 4.13. The design parameters, set by Government, are central design parameters applicable to low workers across all public service pension schemes. The Government recognises that no firefighter earns a full time equivalent salary of less than £21,000 but has determined that the design parameters which have a wider application should protect the low paid, namely that:
- There should be no increase in employee contributions for those earning less than a Full Time Equivalent salary of £15,000

- There should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to a Full Time Equivalent salary of £21,000

- 4.14. The issue of part-time workers, including those on-call contracts, is addressed in the accompanying Equality Statement.
- 4.15. Respondents are correct that firefighters pay a high rate of contributions compared to most other public service pension scheme members. However, this reflects the fact that the 1992 Scheme is one of the most expensive public service pension schemes at 37.5% of pensionable pay. This cost not only reflects the provision for double accrual in the 1992 Scheme, but also a lower retirement age which are not features of most other public service pension schemes. Any attempt to compare contribution rates across public service pension schemes is difficult, given the large variation in scheme design and must take into account other elements of remuneration.
- 4.16. The Government decided that the increase of 3.2 percentage points, phased in over three years across all public service pension schemes, would be an effective way of delivering short term savings. Recent life expectancy data from the Government Actuary's Department shows that firefighters live longer than the general UK population and these specific assumptions will be taken into account in the 2012 valuation of the firefighters' pension schemes.
- 4.17. The Government has calculated the required contribution rates based on the pensionable pay information currently available for firefighters and has re-checked the calculations. The Government is satisfied that the proposed contribution rates in the 1992 and 2006 Schemes deliver the overall savings of 3.2 percentage points. Without having the detailed calculations underpinning one respondent's comments that the proposals fell short of the Government's overall aim, the Government is not prepared to further increase the proposed contribution rates. However, contribution rates will be kept under review as, from April 2015, the proposal is to deliver an average rate of 13.2% across the 1992, 2006 and 2015 Schemes.
- 4.18. The Government also believes it reasonable to expect high earners to pay proportionately more. Prior to the introduction of contribution rate increases and the tiered bands, there was a single contribution rate for each of the firefighters' pension schemes in which high earners will also have benefitted from a higher level of tax relief. Under this arrangement, a 1992 scheme member subject to 20% tax relief would have paid a net contribution rate of 8.8% and a member subject to 40% tax relief, would have paid a net contribution rate of 6.6% of pensionable pay. Having tiered contribution rates helps to address this imbalance. The contribution rates published in the consultation paper, net of tax relief, can only be indicative as the level of tax relief will depend on an individual's personal circumstances.
- 4.19. The Government concludes that it is appropriate to continue with the basis of tiered contribution rates. Tiered bandings are not an uncommon feature in pension scheme design and can be indicative of the level of pension benefits built up on retirement.

## **Question 2: Are there any consequences of the proposed contribution tiers that you consider have not been addressed?**

### **Consultation responses**

4.20. There were 17 (89%) respondents who offered a specific response to this question, or made comments which have been treated as a response to this question.

4.21. Ten respondents (53%) specifically objected to any increase, or the level of increases consulted upon. The potential consequences raised by respondents are grouped below.

#### *Opt outs and non-joiners*

4.22. Of those who responded, many said that the proposed increases would have an adverse impact on the number of members opting out of, or new employees choosing not to join, the pension scheme. One representative body responded that the consultation on the increases had not taken account of the independent research commissioned by the Department in summer 2012 which found that the tipping point for firefighters opting out of the scheme would be contribution increases of 2% or more. This respondent highlighted that the proposals from April 2014 would see members of the Firefighters' Pension Scheme 1992 face a contribution increase of 3.2% between April 2012 and 2014.

4.23. Many respondents expressed the view that the actual rate of firefighters opting out, or choosing not to join, the schemes was not indicative of the long term picture, although one of these respondents recognised that, based on the information within the consultation document, the increases implemented from April 2013 had not had the impact on opt outs as some respondents had originally suggested. A few respondents provided suggestions as to why the number of opt outs were currently lower than anticipated: i) A number of members of the Firefighters' Pension Scheme 1992 were protected and therefore had chosen to remain in the scheme until they could retire ii) members had heeded advice from their representative body that they should remain in the pension scheme, and were waiting to see the full extent of the pension reforms before making a decision. It was also suggested that there would be a significant number of opt outs from April 2015, when the new pension reforms were implemented.

4.24. A representative body provided information from their own survey<sup>6</sup> which showed that 43% of members (compared with 57% surveyed in 2012 and 27% surveyed in 2011) would be likely or very likely to opt out of the scheme if contribution rates increased, with the percentage increasing to 67% among younger members. However, the representative body recognised that in anonymous surveys the figures may show a higher proportion of members saying they would opt out under certain circumstances than would actually do so.

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<sup>6</sup> Conducted in December 2013 of a total sample size of over 6,200 staff

- 4.25. One employer representative highlighted that three times as many of their members of the New Firefighters' Pension Scheme 2006 had opted out, despite membership of the Firefighters' Pension Scheme 1992 being three times greater. A further respondent agreed that continued protection should be provided for 2006 Scheme members to minimise the overall number of opt outs.
- 4.26. A number of respondents also suggested that an increased number of opt outs or non-joiners to the scheme could impact on the long-term viability of the scheme and future pension fund income issues. This could lead to tax payers having to contribute more to the schemes. One representative body had calculated the impact on the cash flow based on their survey results of 43% opting out of the scheme, suggesting that the net cash flow could worsen by over £121m, with an impact to the taxpayer.

#### *Workforce management issues*

- 4.27. Workforce management issues were also cited as reasons for not increasing contributions. Several respondents suggested that tiered contribution rate increases could act as a disincentive for firefighters applying for promotion. A representative body's own survey re-iterated their survey results from 2012 where 71% of firefighters said that they would be put off seeking promotion due to the higher tariffs. Respondents also suggested that increases could have an adverse impact on senior managers, who would face large increases. This could lead to an increased number of opt outs among senior managers or a change in past retirement patterns, with one employer reporting that some individuals were deciding to retire earlier than they would normally – from the minimum age of 50 with less than the maximum 30 years service. Earlier retirements could lead to a loss of expertise over a short period.
- 4.28. Two respondents commented on the impact of retention issues, with one suggesting that the contribution rate increases could act as a disincentive for a potential recruit joining the service. The other respondent said that, historically, the pension scheme had acted as a retention mechanism and if more members opted out, they could be more inclined to leave their employment. However, there was recognition from respondents that by people opting out of the scheme it might be indicative that the fire service was no longer viewed as a job for life.
- 4.29. Respondents argued that these actions would have a significant impact on succession and workforce planning for the service in the future.

#### *Tiered contribution rates*

- 4.30. Many respondents disagreed with the continued use of tiered contribution rates, although some recognised that it was already a feature of the scheme. One respondent questioned whether the current tiered bands were appropriate given the purpose was to address the deficit, and that consideration should be given to the reduction being spread fairly across the membership pool. Although not part of this consultation, some respondents said that they did not agree with tiered rates that may possibly be introduced in the Firefighters' Pension Scheme 2015.

- 4.31. One respondent highlighted that the tiered contributions did not take account of the higher salaries in London due to London weighting, resulting in a member working in London paying a higher contribution rate than a colleague of the same role outside of London and middle managers in London being more affected. This respondent also said that 1992 Scheme members in London would face an increase of 1.5% in 2014-15, which was higher than the Government's proposed overall average of 1.28%.
- 4.32. A further respondent suggested that the pay bands did not align with the current pay scales for firefighters and that the current bandings also straddled development and competent rates of pay.
- 4.33. Comparisons were also made to the Local Government Pension Scheme, suggesting that the highest tier band should be set at over £150,000 (like the Local Government Pension Scheme) rather than over £120,000. It was also highlighted that the Local Government Pension Scheme did not have contribution bandings based on full-time equivalent salary bands, unlike the Firefighters Pension Schemes which meant that there was no protection for low earners. In addition, unlike the Local Government Pension Scheme, the tiered bandings were not subject to any up-rating which, although had no immediate impact, could do over time for those firefighters who were protected from the pension reforms and would remain in their current pension scheme.

#### *Other factors*

- 4.34. Several respondents also felt that the increases should not be considered in isolation from other factors such as:
- Recent pay increases of 1%, with the pay award not being able to cover the cost of the increased contribution.
  - Changes in Government policy, including the introduction of the Single Tier Pension (and the corresponding increase of National Insurance contributions) and the changes to the Annual Allowance charge (which could impact on a firefighters aspiration for future promotion).
  - Government plans to reduce central funding for fire service budgets, therefore reducing the number of operational staff and having an impact on the cash flows into the scheme.
  - The impact of the overall pension reforms, including the changes to the Normal Pension Age which might encourage those to opt out.
- 4.35. One respondent suggested that members of the Firefighters' Pension Scheme 1992 could be forced to join the New Firefighters' Pension Scheme 2006, affecting the long term sustainability of the 1992 Scheme.

#### **Government response**

- 4.36. The firefighters' pension schemes will continue to offer a pension that is among the very best, providing a guaranteed pension level for all employees. There will remain a strong economic rationale for members to remain in the scheme, and members will continue to benefit from tax relief on contributions.

### *Opt outs and non-joiners*

- 4.37. Opt out rates from April to November 2013 show that the total number of opt outs is 0.5% of scheme membership (0.45% of the paybill): with 0.2% of members opting out of the 1992 Scheme, 1.7% of regular firefighter members, and 0.4% of retained firefighter members, opting out of the 2006 Scheme. This compares with 0.6% of members opting out of the schemes during the whole of 2012-13 (0.3% of members opting out of the 1992 Scheme, 1.9% of regular firefighter members, and 0.6% of retained firefighter members, opting out of the 2006 Scheme).
- 4.38. The joiner rate to the 2006 Scheme is 92% for regular firefighters (excluding those firefighters that have been re-employed following retirement or who have been automatically re-enrolled into the scheme) and 88% for retained firefighters. However, it is recognised that some retained firefighters will already be members of a scheme in their regular employment capacity. It is only right to exclude those firefighters who have been automatically re-enrolled in the scheme as these firefighters have made a previous decision to opt out of the scheme, and to include them in opt out figures again would distort the opt out rate.
- 4.39. The current evidence therefore suggests that the opt out and non-joiner rates to the scheme remain low. The results of the Independent Research, commissioned by the Firefighters' Pension Committee, also found that members of the 1992 Scheme were strongly wedded to their pension scheme although members of the 2006 Scheme were more ambivalent about continued membership. The current opt out figures suggest that more members have opted out of the 2006 Scheme, compared with 1992 scheme members, and the number of optants out from the 2006 scheme is slightly higher than at the same point last year. Taking into account the results of this research and the opt out data available, the Government is therefore continuing to provide some protection for these members, who tend to be younger members of the workforce.
- 4.40. In terms of the comments made regarding the long term financial viability of the scheme, the firefighters' pension schemes are statutory schemes and the Government stands behind them.

### *Workforce management issues*

- 4.41. Consideration has been given to the impact of promotions in firefighter roles, based on the current national pay scales in 2013, and does not believe that a firefighter would be worse off in terms of take home pay under the proposals if they took promotion. These members will also continue to receive higher pension benefits following promotion, and may be subject to a greater level of tax relief. The Government is not convinced that increased contribution rates will act as a disincentive for people applying for promotion given the additional benefits that are available to the member following a promotion.
- 4.42. The higher contribution rates paid by more senior officers reflect the higher level of benefits they can expect to receive. Members of the 1992 Scheme can retire at any point from age 50 with 25 or more years' pensionable service, although the double accrual provision (where after twenty years service, each year and day of

pensionable service is doubled) could act as an incentive for members to remain in the Scheme until they have accrued maximum pensionable service of 30 years.

4.43. In terms of retention issues, a career in the fire and rescue service is still a career of choice with a recruitment campaign undertaken by one authority in 2011 saw a total of 8,764 applications for some 150 trainee jobs. The overall benefits for firefighters, including a pension scheme that offers a defined level of benefit, should act as a good retention mechanism.

#### *Tiered contribution rates*

4.44. Prior to the introduction of the contribution increases, the Government considered linking contribution bands to roles and pay scales, including taking account of higher salary bands in London. However, the Government took the view that the most practical and pragmatic option is to link contribution rates to pensionable pay and therefore the pension benefits that the member would receive, rather than their role. For instance, some individuals in a firefighter role earn more than the equivalent role paid in accordance with the national pay scales, due to local pay agreements. These higher salary levels will in turn be reflected in a member's final pension benefits. It is appropriate, therefore, that contributions reflect benefits and salary, not roles and that there is a tiered structure given that those who earn more will receive more pension.

4.45. When considering contribution rates and the tiered bands to apply, account has to be taken of the demographics of the firefighter workforce. Currently a large proportion of firefighters earns between £28,000 and £40,000 and to increase the tier of the higher pay band to over £150,000, like the Local Government Pension Scheme, may require a further yield to be generated at the lower tier bands. Comparisons with the pay bands for the Local Government Pension Scheme are not directly relevant due to the different workforce demographics between local government and the fire and rescue service and the different level of scheme benefits.

4.46. The Government considered whether tiered bandings should be up-rated to take account of national pay awards but has concluded that, at this time, there is no requirement to introduce them. It is proposed that there will be a level of uprating in the tiered bands for the Firefighters' Pension Scheme 2015 although this is a separate issue and will be consulted on separately. At this point, the Government will also give consideration as to whether the tiered bandings in the 1992 and 2006 Scheme should also be subject to a level of uprating post 2015.

#### *Other factors*

4.47. In terms of other factors raised:

- The Government is aware of the recent pay awards received by firefighters which are in line with the Government's public sector pay policy. This is why the increases have been phased in over a three year period from April 2012 and ask high earners to contribute more.
- The Government recognises that there will be an end to the lower level of National Insurance contributions paid by members of contracted out pension schemes, including the firefighters' pension schemes, following the introduction of the Single

Tier Pension. However, most workers will get an extra state pension as part of the change to the single tier pension. Pension benefits received by those impacted by the Annual Allowance will still be very generous and there remains a financial incentive to seek promotion despite the annual allowance level.

- The firefighters pension scheme is a statutory scheme and the Government stands behind it – any impact on cash flows will be topped up by a grant from central Government.
- The Government will continue to monitor the effect of opt outs during 2014-15. It is too early to predict the impact of the introduction of the Firefighters' Pension Scheme 2015 but it will remain a good quality scheme with a firefighter earning approximately £29,000 and retiring at age 60, after a 40 year career, earning a pension of £19,000.

**Question 3: Do you consider that there are equality issues, which the Department hasn't considered in the published (partial) Equality Statement which will result in individual groups being disproportionately affected by the proposed contribution tiers? If so, what do you consider to be the nature and scale of that disproportionate effect?**

### **Consultation responses**

4.48. There were 17 (89%) respondents who offered a specific response to this question, or made comments which have been considered as responding to this question.

4.49. A published (partial) Equality Statement was published alongside the consultation and six respondents confirmed that there were no further equality issues that should be addressed. The Equality Statement set out the individual groups(s) who, following the previous consultations about employee contribution rates from 1 April 2012 and 1 April 2013, respondents had identified as being disproportionately affected by the proposed changes and the possible consequences. These included:

- older members,
- younger members; including women and firefighters from ethnic minorities
- part time workers

4.50. Two respondents suggested that it was difficult to assess the full impact due to only limited information being available in the partial equality statement and that a more comprehensive assessment would have been beneficial.

4.51. One respondent to the recent consultation suggested that older members who have progressed through the ranks, and more likely to be high earners, could be disproportionately affected by having to pay higher contribution rates. It was suggested that these workers may have to rethink their career plans. One respondent suggested that firefighters on the retained duty system, or working part-time, would be discriminated against because tiered bandings were based on full-time equivalent salary rates and there would therefore be no protection for those earning a low salary.



- 4.52. Although the partial equality statement referred to evidence submitted by an authority in relation to the number of women and those from an ethnic minority background who had opted out or chosen not to join the New Firefighters' Pension Scheme 2006, one respondent suggested that the equality statement had discounted a lack of hard evidence from all authorities. This respondent highlighted that their authority represented 27% of regular women firefighters and 55% of ethnic minority firefighters and that 26% of their current staff who had been recruited after 2006 were women or from an ethnic minority but represented 42% of non scheme members.
- 4.53. One further respondent suggested that there were no options offered by the Government to mitigate against the disproportionate impact on women or ethnic minority staff.
- 4.54. Further groups were identified by respondents as being disproportionately affected by the proposals, although it was acknowledged by some that these groups were not covered by the Equality Act:
- single parent families or single earning families may struggle to meet the increased contributions, with one respondent highlighting this may impact more on women
  - an equality issue existed between high and low earners due to the use of tiered contributions
  - low earners (including retained firefighters) were disproportionately affected as their contribution rates were based on the full time equivalent pay ranges
  - middle income earners, earning between £21,000 and £50,000 would be affected due to the level of contribution increases proposed.
  - tiered contributions created an imbalance between employee and employer contributions that were paid into the two firefighters pension schemes.
  - new entrants to the 2015 scheme would be expected to pay for the retention of benefits that members had built up in the current pension schemes

## **Government response**

- 4.55. Following the responses to this consultation, detailed consideration has been given by the Government as to whether there are equality issues that will see one or more groups with a protected characteristic disproportionately affected by the proposals. The Government's conclusions are set out in the published equality statement.
- 4.56. Having had due regard to the potential impact on any specific group, the Government has concluded that the tariffs consulted on for the 1992 and 2006 Schemes represent a reasonable and proportionate means of achieving its objectives. In particular, the Government is clear that the tiered contribution rates are consistent with its objective to ensure that the increase is progressive and protects the lower paid and that higher earners will contribute more towards their pensions. Workforce

demographics, and pension benefits, differ across the public service and comparisons between schemes are not appropriate.

4.57. Under current final salary arrangements, part-time workers pay the same contribution rate as an equivalent full-time worker but their actual contributions are based on their actual pensionable pay. Using the Full Time Equivalent pensionable earnings ensures that workers paid the same hourly rate will pay pension contributions at the same rate and on the same proportion of pension benefits accrued. The Department's view is that in a final salary scheme it is appropriate for part-time workers to pay the contribution rate based on their full time equivalent pay. However, further consideration with interested parties will be given to this arrangement prior to the introduction of the Firefighters' Pension Scheme 2015, which will be a career average revaluation scheme.

4.58. The Government recognises that there is limited data from all fire and rescue authorities regarding the number of women and ethnic minority workers who are choosing not to join or opt out of the pension scheme. However, careful consideration has been given to the response from one employer who provided further information on this matter. This respondent provided information relating to recruitments of women and ethnic minority workers after 1 April 2006. These firefighters would have been eligible to join the New Firefighters' Pension Scheme 2006. It has already been recognised by the Government that it is 2006 Scheme members who appear to be the workforce demographic who are more likely to opt out of their pension scheme which is why some protections has been provided to new joiners to, and existing members, of the 2006 Scheme. New joiners to the 2006 Scheme also tend to be lower paid, and the tiered contribution bands should also offer some protection to those in lower pay bands.

**Question 4: Is there a tariff which you think will help to further minimise any opt outs from the firefighters' pension schemes, but will deliver the cumulative 3.2 percentage point increase between 2012-13 to 2014-15?**

4.59. **Consultation responses:** There were 19 (100%) respondents who offered a specific response to this question, or made comments which have been considered as responding to this question. A number of respondents were opposed to any further increases in 2014-15 with one representative body's own survey showing that 91% of surveyed respondents were opposed to any increase. Another representative body indicated that the contribution increases proposed from April 2014 for public service pension scheme members was equivalent to the amount of revenue lost from a change to the tax rate for those earning over £150,000.

4.60. Two respondents felt that further evidence from the Government was required in order that they could provide details of an alternative tariff that would deliver the required savings of 3.2 percentage points. One representative body said that they recognised that they wouldn't be able to identify a revised tariff, which met the 3.2 percentage point increase that would not have an adverse impact on members of the 1992 or 2006 schemes. However, one respondent did not provide an alternative tariff but proposed revised tiered bands.

4.61. It was suggested by a few respondents that, if increases needed to be made, then they should be at a lower rate than that proposed and implemented over a longer period of time in order to meet the full savings of 3.2%. It was suggested that the reduced contribution increase of 0.64% in 2012-13 had gone some way to mitigate opt outs in that year, and it was suggested that this average increase might also apply to 2014-15 rates. One respondent also commented that the total increase should have been limited to between 1 and 1.5% given the other financial pressures that members faced.

4.62. One respondent stated that it was appropriate to continue providing protection to members of the New Firefighters' Pension Scheme, given that the evidence suggested that they were most likely to opt out of their scheme.

4.63. A further respondent suggested that employees would prefer the contribution increases to apply to new members only, as these employees would be making full informed decisions when committing to become a member of the scheme.

### **Government response**

4.64. The Government's intention is to increase contribution rates across all public service pension schemes by 3.2 percentage points, phased in over three years from April 2012. To not apply any further increases to contributions paid by firefighter members, to phase in the contribution increases over a longer period of time, or to only apply alternative, higher contribution increases to new members, would not deliver the necessary savings. This would not help rebalance the cost of the firefighters' pension schemes between taxpayers and the scheme members.

4.65. The Department considered the alternative tiered tariffs that were suggested by one respondent, which would have seen employee tariffs being the same for those competent firefighters, crew managers, and watch managers in the whole of England. However, due to a large proportion of firefighters earning between £28,000 and £40,000 then this alternative suggestion could have seen those competent firefighters earning less than £30,000 being subject to a higher contribution rate than that which the Government has proposed.

## 5. Conclusion

- 5.1. Government policy is to ensure a fairer distribution of costs between the taxpayer and employee. As Lord Hutton recommended, raising employee contribution rates was the most effective way to achieve this. The cost of the schemes, due to increased longevity, has mainly fallen on the taxpayers. Currently for every £1 paid into the Firefighters' Pension Schemes by the employee, the taxpayer contributes £5.
- 5.2. Ministers have considered the statutory consultation responses, and the evidence on firefighters opting out or choosing not to join the pension scheme. The Government has noted that opt outs remain low and on a similar basis to the number of opt outs in 2011-12 and 2012-13. The Government has therefore concluded that it is justified in proceeding with increased contributions from April 2014 as set out in the consultation (and included at **Annex A**), to help rebalance costs between the taxpayer and public service workers.
- 5.3. The Government has also concluded that it is justified in continuing to provide some protection for members of the 2006 Scheme who, of the two Schemes, appear to be the workforce section most likely to opt out.
- 5.4. The Government is mindful of the need to continue monitoring the effects of contribution increases, so the Department will continue to collect information on those firefighters who opt out or choose not to join their scheme from April 2014.

# Annex A

## Employee Contribution Tariffs

The following set out the employee contribution tariffs to apply to the firefighters' pension schemes from 1 April 2014.

### Firefighters' Pension Scheme (1992) in England

Pensionable pay band (full time equivalent)	Current rate (%)	Proposed increase from 2014-15 (percentage points)	Increase net of tax relief (percentage points)*	Total contribution rate 2014-15(%)	Total contribution rate 2014-15 net of tax relief (%)*
Up to and including £15,000	11.0%	0.0	0.0	11.0%	8.80%
More than £15,000 and up to and including £21,000	11.9%	0.3	0.24	12.2%	9.76%
More than £21,000 and up to and including £30,000	12.9%	1.3	1.04	14.2%	11.36%
More than £30,000 and up to and including £40,000	13.2%	1.5	1.20	14.7%	11.76%
More than £40,000 and up to and including £50,000	13.5%	1.7	1.36 (based on 20% tax relief) or 1.02 (based on 40% tax relief)	15.2%	12.16% (based on 20% tax relief) or 9.12% (based on 40% tax relief)
More than £50,000 and up to and including £60,000	13.7%	1.8	1.08	15.5%	9.30%
More than £60,000 and up to and including £100,000	14.1%	1.9	1.14	16.0%	9.60%
More than £100,000 and up to and including £120,000	14.5%	2.0	1.20	16.5%	9.90%
More than £120,000	15.0%	2.0	1.20	17.0%	10.2%

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

### New Firefighters' Pension Scheme (2006) in England

Pensionable pay band (full time equivalent)	Current rate (%)	Proposed increase from 2014-15 (percentage points)	Increase net of tax relief (percentage points)*	Total contribution rate 2014-15 (%)	Total contribution rate 2014-15 net of tax relief (%)*
Up to and including £15,000	8.5%	0.0	0	8.5%	6.8%
More than £15,000 and up to and including £21,000	9.1%	0.3	0.24	9.4%	7.52%
More than £21,000 and up to and including £30,000	9.6%	0.8	0.64	10.4%	8.32%
More than £30,000 and up to and including £40,000	9.9%	1.0	0.80	10.9%	8.72%
More than £40,000 and up to and including £50,000	10.1%	1.1	0.88 (based on 20% tax relief) or 0.66 (based on 40% tax relief)	11.2%	8.96% (based on 20% tax relief) or 6.72% (based on 40% tax relief)
More than £50,000 and up to and including £60,000	10.2%	1.1	0.66	11.3%	6.78%
More than £60,000 and up to and including £100,000	10.5%	1.2	0.72	11.7%	7.02%
More than £100,000 and up to and including £120,000	10.8%	1.3	0.78	12.1%	7.26%
More than £120,000	11.1%	1.4	0.84*	12.5%	7.5%

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