

## **Frequently Asked Questions – Firefighters Pensions Consultation**

### **What is this announcement about?**

The Department for Communities and Local Government is consulting Fire and Rescue Authorities in England and other fire sector interests on the Department's preferred approach to the implementation of additional employee pension contributions from April 2012. You can find the consultation document, which sets out the Government's proposal and explains in more detail how the increases will be applied, at <http://www.communities.gov.uk/fire/publications/consultations/firefighterpensioncontributions>.

### **How do I have my say?**

The Department is consulting with Fire and Rescue Authorities, trades unions and employer representatives. If you belong to a trade union then you may want to send any comments to them. You can also submit a comment by emailing [firepensions@communities.gsi.gov.uk](mailto:firepensions@communities.gsi.gov.uk), but please note that the Department cannot undertake to send you a personal reply. The Department will, however, update the Question & Answer material to reflect common queries raised by firefighters and other interested parties and will make a formal response to the points raised during the consultation phase.

### **What does this mean for me?**

The Department's preferred approach would mean that members of the **Firefighters' Pension Scheme** would pay contributions at these rates:

<b>Pensionable pay band</b>	<b>Proposed additional rate 2012-13</b>	<b>Revised contribution 2012-13</b>
Up to and including £15,000	0.0%	11.0%
More than £15,000 and up to and including £21,000	0.6%	11.6%
More than £21,000 and up to and including £30,000	1.3%	12.3%
More than £30,000 and up to and including £40,000	1.4%	12.4%
More than £40,000 and up to and including £50,000	1.6%	12.6%
More than £50,000 and up to and including £60,000	1.8%	12.8%
More than £60,000 and up to and including £100,000	2.0%	13.0%
More than £100,000 and up to and including £120,000	2.1%	13.1%
More than £120,000	2.3%	13.3%

For members of the **New Firefighters' Pension Scheme**, the Department's preferred approach would mean that members would pay contributions at these rates:

<b>Pensionable pay band</b>	<b>Proposed additional rate 2012-13</b>	<b>Revised contribution 2012-13</b>
Up to and including £15,000	0.0%	8.5%
More than £15,000 and up to and including £30,000	0.6%	9.1%
More than £30,000 and up to and including £40,000	0.8%	9.3%
More than £40,000 and up to and including £50,000	0.9%	9.4%
More than £50,000 and up to and including £60,000	1.0%	9.5%
More than £60,000 and up to and including £100,000	1.1%	9.6%
More than £100,000 and up to and including £120,000	1.2%	9.7%
More than £120,000	1.3%	9.8%

If you do decide to opt out of the New Firefighters' Pension Scheme, the current scheme rules allow you to opt back in if you change your mind later. But any period of opted-out service will never count towards your pension. If you do not opt back in to the New Firefighters' Pension Scheme, you would not be able to take your pension until age 65 under the terms of the New Firefighters' Pension Scheme.

As the Firefighters' Pension Scheme is a closed scheme, if you opt out, you will not be able to opt back into it. You will, instead, become a deferred pensioner and your Firefighters' Pension Scheme pension will be paid at age 60. You would, however, be able to join the New Firefighters' Pension Scheme.

### **Why do we have to pay more?**

The cost of providing public service pensions is rising, for example it has risen by a third, to £32bn, over the last decade and is forecast to increase further. It is in this context that the Government asked Lord Hutton to undertake a fundamental review of public service pensions.

Both Lord Hutton and the Government have recognised the unique position of the uniformed services. Lord Hutton recommended a normal retirement age of 60 for firefighters, in line with the current retirement age in the New Firefighters' Pension Scheme. This means that firefighters will continue to have a lower pension age than other non-uniformed public servants, for which the proposal is to link retirement to the state pension age.

Lord Hutton set out a clear rationale for increasing public servants' contributions to reflect the fact that, over the years, the pension schemes have become more expensive as people live longer, and that most of this additional cost has fallen to the taxpayer.

### **Are more changes to the firefighters' pension schemes planned?**

The Government has said that public service pension schemes, like both of the firefighters' pension schemes, must deliver savings by 2014/15 equivalent to a 3.2 percentage point increase in contributions. This consultation is just about the first year, – 2012/13. The Department is currently holding discussions with trade unions and employer representatives to consider proposals for financial years 2013/14 and 2014/15.

### **What about pension reform?**

The Government remains committed to providing a form of defined benefit pension – where your pension is based on your service and pay, so you know what you will get.

Scheme level discussions on longer-term reform are now under way involving employers and the trades unions. The firefighters' pension schemes, like other public service schemes, are required to work up initial proposals for a reformed scheme by the end of October 2011.

The Government has also committed to protecting your accrued rights in your current pension scheme. Members of the firefighters' pension schemes will be able to take the pension they accrued in their existing scheme at their final salary, and at the retirement ages set out in their current scheme. New schemes are not expected to be introduced until 2015, and so anyone leaving the scheme before then will not be affected. People working on beyond 2015 and remaining in a pension scheme would probably have a '2-part' pension, with one part reflecting their service up to 2015 and their final salary (at the time when they retire or leave the scheme) at their current pension age, and a second part reflecting their service from 2015 under the new pension scheme terms.

After the reforms, public service pensions will remain among the very best available.

### **Does this mean I have to work more years?**

We are living longer. This means that working lives need to increase – to keep a reasonable balance between the working and the retired populations.

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### **What if I continue working, but not fulltime – what will this mean for my pension?**

We expect that a key feature of the new pension scheme will be its ability to provide fair pensions for people who choose to change their working hours as they approach retirement.

### **Is a career average scheme fairer?**

Lord Hutton set out the case for why Career Average Revalued Earnings (CARE) is fairer when considered against current final salary schemes. He concluded that:

- Final salary schemes unfairly benefit high flyers who can receive up to twice as much in pension payments per £100 of contributions
- CARE schemes allow pension to be accrued on the basis of earnings in each year of service. In these schemes, future earnings do not affect past years' pension accrual and the unfairness of big benefits to high flyers is removed.

The Government has committed to public service pensions remaining amongst the very best available.

### **Firefighters' already pay some of the highest levels of contributions. Why is the increase the same for all of the public sector schemes?**

Pensions are one aspect of the remuneration package and current contribution rates reflect historical differences for each workforce.

Increasing costs because people are living longer in retirement are common to all pension schemes, regardless of the contribution rate. The cost of this in recent decades has mainly been met by taxpayers. It is right therefore that all public servants, including firefighters, should pay more for their pension to ensure a fairer distribution of costs between the taxpayer and pension scheme members, and this is why each workforce will see the same average increase.

### **Why should I not opt out of the firefighters' pension scheme?**

The firefighters' pension scheme will continue to offer a pension that is amongst the very best, providing a guaranteed pension level for all employees, and there will remain a strong economic rationale for members to remain in the scheme. Increases will be phased in over three years, and be progressive, and there will be protection from increases for lower earners. Scheme members also benefit from tax relief on their pension contributions and a lower national insurance rate. If you opt out, you will become a deferred member, meaning that you may face changes to the age at which you can take your pension.

### **What happens to the money raised through the additional contributions by scheme members?**

The money raised through additional contributions will go towards paying the pensioners in the scheme, in the same way as the current contributions are.

The firefighters' pension schemes operate on a "pay-as-you-go" basis. There is no pension fund, so contributions by members and employers are used to pay the pensioners. This means if, as is currently the case, contributions from the firefighters scheme are less than the value of pensions in payment the taxpayer tops up the scheme to ensure pensions can be paid.

Typically, pay-as-you-go pension schemes operate a surplus in their early years (when there are very few pensioners) and need to be topped-up as they become more mature (and have a lot of pensioners). Taken together, the firefighters' pension schemes are mature.

**How much does the employer (the Fire and Rescue Authority) pay? And will they pay more as well?**

The rate the employer pays depends on which pension scheme you are in. For the Firefighters' Pension Scheme, employers currently pay 21.3 per cent, with a one-off ill-health charge of 5.2 per cent. For the New Firefighters' Pension Scheme, employers currently contribute 11 per cent, with an ill-health charge of 3.2 per cent.

**Will I get additional tax relief on my contributions?**

Employee pension contributions are made before income tax. This means that for tax purposes an individual's gross salary is their earnings, less any pension contributions made. So when contributions increase, individuals will have a lower taxable salary.

**I'm purchasing Added Years. What do the proposals mean for me?**

These consultation proposals do not change the terms of your Added Pension purchase. The rates for Added Pension are actuarially assessed and are reviewed by the Government Actuary's Department.

If you want to stop purchasing Added Pension, or change the amount you contribute, please contact your pensions administrator.