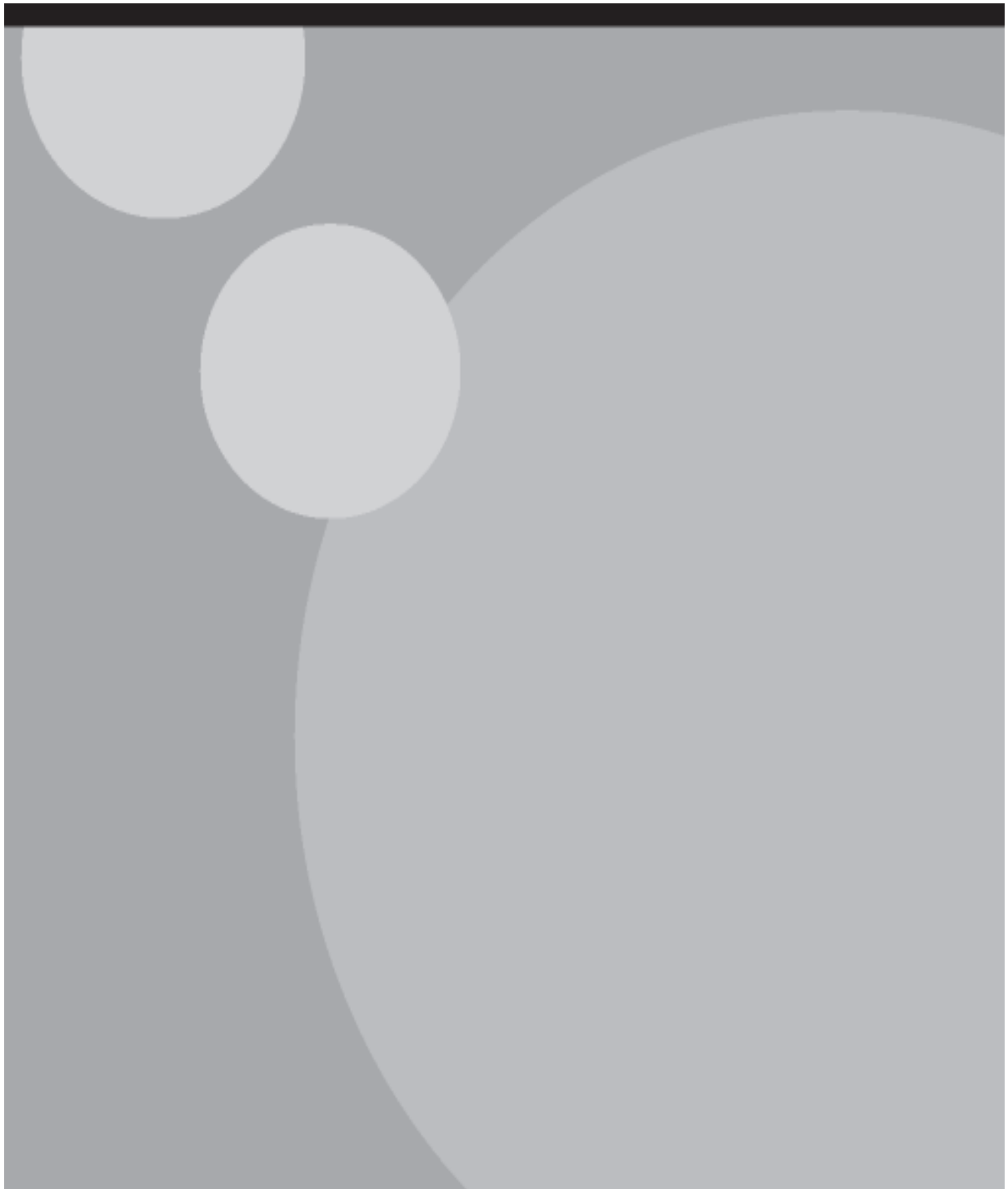




Firefighters' Pension Scheme: Proposed Final Agreement





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May 2012
Department for Communities and Local Government

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Firefighters' Pension Scheme: Proposed Final Agreement

This document sets out the Proposed Final Agreement on the scheme design for the Firefighters' Pension Scheme in England to be introduced from April 2015 ("the 2015 scheme"). The Government has made clear this sets out their final position on the main elements of scheme design, which unions will now take to their Executives. The Government reserves its position on all aspects of this proposed scheme design.

Accrued rights protection guarantee

1. There will be full statutory protection for accrued rights for all members as follows:
 - a. all benefits accrued under final salary arrangements will be linked to the members' final salary, in accordance with the rules of the members' current schemes, when they leave the reformed scheme
 - b. full recognition of a members' expectation to double accrual for service accrued under the Firefighters' Pension Scheme 1992 ('the 1992 scheme'), so that a members' full continuous pensionable service upon retirement will be used to calculate an averaged accrual rate to be applied to service accrued under the 1992 scheme
 - c. members to be able to access their 1992 scheme benefits when they retire at that scheme's 'ordinary pension' age (i.e. from age 50 with 25 or more years pensionable service), subject to abatement rules for that scheme. Pensionable service for the purpose of calculating the ordinary pension age will include any continuous pensionable service accrued under both the 1992 scheme and the 2015 scheme
 - d. members of the 1992 scheme will continue to have access to an actuarially assessed commutation factor for benefits accrued under that scheme.

Transitional protection

2. There will be statutory based transitional protections for certain categories of members, as follows:
 - a. all active scheme members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age¹ will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by the member remaining in their current scheme until they retire, which could be beyond 31 March 2022.
 - b. there will be a further 4 years of tapered protection for scheme members. Members who are up to 14 years from their current Normal Pension Age, as of 1 April 2012, will have limited protection so that on average for every month of age they are beyond 10 years of their Normal Pension Age, they gain about 53 days of protection. The last day of protected service for any member benefiting from the tapered protection will be 31 March 2022. At the end of the protected period, they will be transferred into the new pension scheme arrangements. Further details on how the tapered protection will apply can be found at **Annex A**.

Main scheme design parameters for a new Firefighters' Pension Scheme

3. The main parameters of the new scheme from 2015 are set out below.
 - a. a pension scheme design based on career average revalued earnings
 - b. an accrual rate of 1/58.7th of pensionable earnings each year
 - c. there will be no cap on how much pension can be accrued
 - d. a revaluation rate of active members' benefits in line with average weekly earnings
 - e. pensions in payment and deferred benefits to increase in line with Prices Index (currently CPI)

¹ The Normal Pension Age for the purpose of the Firefighters' Pension Scheme 1992 is age 55, for the New Firefighters' Pension Scheme 2006 it is age 60.

- f. Member contribution rates in the 2015 scheme from 1 April 2015 will average 13.2%, equal to the expected average of contribution rates in the 1992 and 2006 schemes on the 31 March 2015. However, as announced by the Chief Secretary to the Treasury on 20 December 2011, the Government will review the impact of the proposed 2012-13 contribution changes, including the effect of membership opt-outs, before taking final decisions on how future increases will be delivered in 2013-14 and 2014-15, and in the new scheme. Interested parties will have a full opportunity to provide evidence and their views to the Government as part of the review
- g. without prejudice to the outcome of that review, tariffs for the 2015 scheme are likely to provide for lower rates for new recruits, with some tiered progressive increases for middle, high, and higher income earners
- h. flexible retirement from the scheme's minimum pension age of 55, built around the scheme's Normal Pension Age of 60, with members able to take their pension from the scheme's minimum pension age as follows:
- for all active members who are aged 57 or more at retirement, 2015 scheme benefits taken before Normal Pension Age will be actuarially reduced with reference to the 2015 scheme's Normal Pension Age, rather than the deferred pension age
 - all other members will have their 2015 scheme benefits actuarially reduced on a cost neutral basis from the scheme's deferred pension age²
- i. authority initiated early retirement for members of the 2015 scheme, from age 55, to be in accordance with the arrangements set out in Part 3, Rule 6 of the New Firefighters' Pension Scheme 2006
- j. the Normal Pension Age will be subject to regular review. These reviews will consider the increasing State Pension Age and any changes to it, alongside evidence from interested parties, including unions and employers. It will consider if the Normal Pension Age of 60 remains relevant, taking account of the economical, efficient and effective management of the fire service, the changing profile of the workforce and the occupational demands of, and fitness standards for, firefighting roles

² Once a member is entitled to receive their 1992 scheme benefits, benefits taken from that scheme will not be actuarially reduced, even if the member has been transferred into the 2015 scheme.

- k. this regular review will be informed by research to be carried out within the auspices of the Firefighters' Pension Committee, which will monitor and collate scheme data and experience
- l. late retirement factors for members retiring from active service to be actuarially neutral from Normal Pension Age
- m. a deferred pension age equal to the individuals' State Pension Age
- n. optional lump sum by commutation at a rate of £12 for every £1 per annum of pension foregone in accordance with HMRC limits and regulations
- o. abatement in existing schemes to continue
- p. ill-health retirement benefits to be based on the arrangements in the 2006 scheme
- q. all other ancillary benefits to be based on those contained in the 2006 scheme
- r. members rejoining after a period of deferment of less than 5 years can link new service with previous service, as if they had always been an active member
- s. members transferring between public service schemes would be treated as having continuous active service
- t. an employer contribution cap with a symmetrical buffer as set out below.

Equality Impact Assessment

- 4. An Equality Impact Assessment of this scheme design will be carried out in pursuance of the public sector equality duty, at s149 of the Equality Act 2010. This requires public bodies to:
 - have due regard to the need to eliminate discrimination;
 - advance equality of opportunity; and
 - foster good relations between different people when carrying out their activities.

5. The Department for Communities and Local Government is committed to completion of an Equality Impact Assessment covering the scheme design for a reformed Firefighters' Pension Scheme. In taking this work forward, the Department will consider the likely equality impact of the scheme design changes and whether or how scheme design might be adjusted in furtherance of the three aims set out above. This process will involve full engagement with firefighter unions, employers and other stakeholders. Given the need to ensure that these assessments are robust, it is acknowledged that the assessment process will need to continue beyond the final completion of this Agreement. Further detail on this is outlined at **Annex B**.

Cost ceiling and cost management processes

6. For the purposes of the reform design process for 2015, the Government previously set out the gross cost ceiling of 27.0% and the net cost ceiling of 13.8%. Attached at **Annex C** is a report by the scheme actuary verifying that the expected cost of the proposed scheme design above is within the cost ceiling. This report has been prepared in accordance with the advice in the Government Actuary's Department's report of 7 October 2011: Cost ceilings for scheme level discussions: Advice on data, methodology and assumptions, with suitable adaptations to take account of scheme specific circumstances.
7. The scheme design parameters have been reviewed by HM Treasury who have agreed the approach taken to risk management.
8. This agreement also covers arrangements for an employers cost cap, and a 25 year guarantee (further information at **Annex D**).

Annex A

Tapered protection

1. Scheme members who, on 1 April 2012, are in the Firefighters' Pension Scheme 1992 and between the ages of 41 and 45, or are in the New Firefighters' Pension Scheme 2006 and between the ages of 46 and 50, will continue to accrue pension in their existing scheme on a tapered basis. They gain about 53 days of protection in their existing schemes for every month they are older than 41 years in the 1992 scheme and 46 years in the 2006 scheme, as set out in the table below. Once a members' tapered protection expires, they will be transferred into the new pension scheme.

2. Members will be able to take their 'Part 1' pension on retirement at their current Normal Pension Age for that scheme (or, in the case of members of the 1992 scheme, at their ordinary pension age), subject to abatement rules. After members are transferred into the new pension scheme, they will accrue their 'Part 2' pension in that scheme.

Firefighters' Pension Scheme 1992

Date of Birth		Age at 1 April 2012		Days of protection	Age at end of protection				Date of end of protection
					From		To		
From	To	Year	Month		Year	Month	Year	Month	
02/04/1967	01/05/1967	44	11	2557	54	11	55	0	31/03/2022
02/05/1967	01/06/1967	44	10	2504	54	8	54	9	06/02/2022
02/06/1967	01/07/1967	44	9	2450	54	5	54	6	14/12/2021
02/07/1967	01/08/1967	44	8	2398	54	3	54	4	23/10/2021
02/08/1967	01/09/1967	44	7	2343	54	0	54	1	29/08/2021
02/09/1967	01/10/1967	44	6	2289	53	9	53	10	06/07/2021
02/10/1967	01/11/1967	44	5	2237	53	6	53	7	15/05/2021
02/11/1967	01/12/1967	44	4	2182	53	4	53	5	21/03/2021
02/12/1967	01/01/1968	44	3	2130	53	1	53	2	28/01/2021
02/01/1968	01/02/1968	44	2	2076	52	10	52	11	05/12/2020
02/02/1968	01/03/1968	44	1	2021	52	7	52	8	11/10/2020
02/03/1968	01/04/1968	44	0	1971	52	5	52	6	22/08/2020
02/04/1968	01/05/1968	43	11	1916	52	2	52	3	28/06/2020
02/05/1968	01/06/1968	43	10	1864	51	11	52	0	07/05/2020

02/06/1968	01/07/1968	43	9	1810	51	8	51	9	14/03/2020
02/07/1968	01/08/1968	43	8	1757	51	6	51	7	21/01/2020
02/08/1968	01/09/1968	43	7	1703	51	3	51	4	28/11/2019
02/09/1968	01/10/1968	43	6	1649	51	0	51	1	05/10/2019
02/10/1968	01/11/1968	43	5	1596	50	9	50	10	13/08/2019
02/11/1968	01/12/1968	43	4	1542	50	7	50	8	20/06/2019
02/12/1968	01/01/1969	43	3	1489	50	4	50	5	28/04/2019
02/01/1969	01/02/1969	43	2	1435	50	1	50	2	05/03/2019
02/02/1969	01/03/1969	43	1	1381	49	10	49	11	10/01/2019
02/03/1969	01/04/1969	43	0	1332	49	8	49	9	22/11/2018
02/04/1969	01/05/1969	42	11	1278	49	5	49	6	29/09/2018
02/05/1969	01/06/1969	42	10	1225	49	2	49	3	07/08/2018
02/06/1969	01/07/1969	42	9	1171	48	11	49	0	14/06/2018
02/07/1969	01/08/1969	42	8	1118	48	9	48	10	22/04/2018
02/08/1969	01/09/1969	42	7	1064	48	6	48	7	27/02/2018
02/09/1969	01/10/1969	42	6	1010	48	3	48	4	04/01/2018
02/10/1969	01/11/1969	42	5	957	48	0	48	1	12/11/2017
02/11/1969	01/12/1969	42	4	903	47	10	47	11	19/09/2017
02/12/1969	01/01/1970	42	3	851	47	7	47	8	29/07/2017
02/01/1970	01/02/1970	42	2	796	47	4	47	5	04/06/2017
02/02/1970	01/03/1970	42	1	742	47	1	47	2	11/04/2017
02/03/1970	01/04/1970	42	0	693	46	11	47	0	21/02/2017
02/04/1970	01/05/1970	41	11	639	46	8	46	9	29/12/2016
02/05/1970	01/06/1970	41	10	586	46	5	46	6	06/11/2016
02/06/1970	01/07/1970	41	9	532	46	2	46	3	13/09/2016
02/07/1970	01/08/1970	41	8	480	46	0	46	1	23/07/2016
02/08/1970	01/09/1970	41	7	425	45	9	45	10	29/05/2016
02/09/1970	01/10/1970	41	6	371	45	6	45	7	05/04/2016
02/10/1970	01/11/1970	41	5	319	45	3	45	4	13/02/2016
02/11/1970	01/12/1970	41	4	264	45	1	45	2	20/12/2015
02/12/1970	01/01/1971	41	3	212	44	10	44	11	29/10/2015
02/01/1971	01/02/1971	41	2	158	44	7	44	8	05/09/2015

02/02/1971	01/03/1971	41	1	103	44	4	44	5	12/07/2015
02/03/1971	01/04/1971	41	0	54	44	2	44	3	24/05/2015

New Firefighters' Pension Scheme 2006

Date of Birth		Age at 1 April 2012		Days of protection	Age at end of protection				Date of end of protection
					From		To		
From	To	Year	Month		Year	Month	Year	Month	
02/04/1962	01/05/1962	49	11	2557	59	11	60	0	31/03/2022
02/05/1962	01/06/1962	49	10	2504	59	8	59	9	06/02/2022
02/06/1962	01/07/1962	49	9	2450	59	5	59	6	14/12/2021
02/07/1962	01/08/1962	49	8	2398	59	3	59	4	23/10/2021
02/08/1962	01/09/1962	49	7	2343	59	0	59	1	29/08/2021
02/09/1962	01/10/1962	49	6	2289	58	9	58	10	06/07/2021
02/10/1962	01/11/1962	49	5	2237	58	6	58	7	15/05/2021
02/11/1962	01/12/1962	49	4	2182	58	4	58	5	21/03/2021
02/12/1962	01/01/1963	49	3	2130	58	1	58	2	28/01/2021
02/01/1963	01/02/1963	49	2	2076	57	10	57	11	05/12/2020
02/02/1963	01/03/1963	49	1	2021	57	7	57	8	11/10/2020
02/03/1963	01/04/1963	49	0	1972	57	5	57	6	23/08/2020
02/04/1963	01/05/1963	48	11	1918	57	2	57	3	30/06/2020
02/05/1963	01/06/1963	48	10	1866	56	11	57	0	09/05/2020
02/06/1963	01/07/1963	48	9	1811	56	8	56	9	15/03/2020
02/07/1963	01/08/1963	48	8	1759	56	6	56	7	23/01/2020
02/08/1963	01/09/1963	48	7	1705	56	3	56	4	30/11/2019
02/09/1963	01/10/1963	48	6	1650	56	0	56	1	06/10/2019
02/10/1963	01/11/1963	48	5	1598	55	10	55	11	15/08/2019
02/11/1963	01/12/1963	48	4	1544	55	7	55	8	22/06/2019
02/12/1963	01/01/1964	48	3	1491	55	4	55	5	30/04/2019
02/01/1964	01/02/1964	48	2	1437	55	1	55	2	07/03/2019
02/02/1964	01/03/1964	48	1	1383	54	10	54	11	12/01/2019
02/03/1964	01/04/1964	48	0	1332	54	8	54	9	22/11/2018
02/04/1964	01/05/1964	47	11	1278	54	5	54	6	29/09/2018

02/05/1964	01/06/1964	47	10	1225	54	2	54	3	07/08/2018
02/06/1964	01/07/1964	47	9	1171	53	11	54	0	14/06/2018
02/07/1964	01/08/1964	47	8	1118	53	9	53	10	22/04/2018
02/08/1964	01/09/1964	47	7	1064	53	6	53	7	27/02/2018
02/09/1964	01/10/1964	47	6	1010	53	3	53	4	04/01/2018
02/10/1964	01/11/1964	47	5	957	53	0	53	1	12/11/2017
02/11/1964	01/12/1964	47	4	903	52	10	52	11	19/09/2017
02/12/1964	01/01/1975	47	3	851	52	7	52	8	29/07/2017
02/01/1965	01/02/1965	47	2	796	52	4	52	5	04/06/2017
02/02/1965	01/03/1965	47	1	742	52	1	52	2	11/04/2017
02/03/1965	01/04/1965	47	0	693	51	11	52	0	21/02/2017
02/04/1965	01/05/1965	46	11	639	51	8	51	9	29/12/2016
02/05/1965	01/06/1965	46	10	586	51	5	51	6	06/11/2016
02/06/1965	01/07/1965	46	9	532	51	2	51	3	13/09/2016
02/07/1965	01/08/1965	46	8	480	51	0	51	1	23/07/2016
02/08/1965	01/09/1965	46	7	425	50	9	50	10	29/05/2016
02/09/1965	01/10/1965	46	6	371	50	6	50	7	05/04/2016
02/10/1965	01/11/1965	46	5	319	50	3	50	4	13/02/2016
02/11/1965	01/12/1965	46	4	264	50	1	50	2	20/12/2015
02/12/1965	01/01/1966	46	3	212	49	10	49	11	29/10/2015
02/01/1966	01/02/1966	46	2	158	49	7	49	8	05/09/2015
02/02/1966	01/03/1966	46	1	103	49	4	49	5	12/07/2015
02/03/1966	01/04/1966	46	0	54	49	2	49	3	24/05/2015

Equality Impact Assessments

1. The Government takes its obligations to have regard to equality impacts very seriously, and this commitment was reiterated by the Chief Secretary to the Treasury in his letter of 15 February 2012 to the General Secretary of the TUC. The Government has confirmed that the responsible Departments will undertake Equality Impact Assessments for each of the reformed public service pension schemes before the legislation enacting the schemes is introduced. The Government is committed to conducting assessments that are transparent and as robust as possible as part of a genuine and serious process to identify and have due regard to equalities impacts, as required by the Equality Act 2010.
2. A working group met on Tuesday 6 March to discuss the overall approach to the Equality Impact Assessments, establishing principles and timescales for how they should be carried out. The group was chaired by the Cabinet Office and included officials from the Treasury, Government Equalities Office and the lead Departmental officials for the three large unfunded schemes. Union participants were drawn from the TUC negotiating team.
3. Following the discussion on 6 March it was proposed that the following approach should be adopted:
 - The Equality Impact Assessments will be conducted by the relevant sponsoring departments. In addition, the Government will conduct a central analysis in order to compare and assess the impact across all of the schemes.
 - The timescale for the assessment is pressing, and the process must be completed in good time to allow the analysis to influence decision making and the conclusion of the policy development process, prior to the introduction of legislation.
 - The Equality Impact Assessments should be conducted in a way that demonstrates compliance with the public sector equality duty and good practice guidance from the Equality and Human Rights Commission. The Equality Impact Assessments must assess the impact of the reforms on all of the relevant equality strands.

- In line with the Equality and Human Rights Commission guidance, the process of conducting the Equality Impact Assessments should consider: What are the key findings of the engagement? i.e. Based on the evidence gathered, what if any positive and negative impacts of the changes can be identified for people with any particular characteristics? If the policy has negative impacts on people with particular characteristics, what steps can be taken to mitigate these effects? Does any part of the policy discriminate unlawfully? Does the policy miss opportunities to advance equality of opportunity and foster good relations?
 - Stakeholders including the relevant unions should be engaged and consulted from the outset, including on the scope and methodology for the assessment. Unions will have the opportunity to submit evidence and views on equality impact and the Government will seek feedback on the analysis and reasoning during the process and share the results of the Equality Impact Assessments with unions. Departments should also be given access to Government Equalities Office/ Equality and Human Rights Commission support in conducting the assessments.
4. Following the completion of the Equality Impact Assessments, in having due regard to its findings, the Government will consider what further mitigating actions might be necessary in pursuance of the public sector equality duty. The next steps including any mitigating actions will be discussed with unions, prior to the introduction of legislation.

**Verification report from the Government Actuary's
Department**

[See separate document]

Employer cost cap, opt out review, and 25 year guarantee

Employer cost cap

1. An employer cost cap will be introduced to cover unforeseen events and trends that significantly increase scheme costs. The employer cost cap is intended to provide backstop protection to the taxpayer and will be based on cap and share principles. This means that changes to contribution rates due to 'member costs' will be controlled by the cap. Financial cost pressures, including changes to the discount rate, will be met by employers. The employer cost cap will be symmetrical with a floor and ceiling either side of the cap so that, if reductions in member costs fall below a 'floor', members' benefits will be improved. If costs rise above the ceiling, member representatives would be consulted on how to reduce the costs.
2. The cost cap will include the impact of changes in costs such as actual or assumed longevity, of careers or the age and gender mix of the workforce. These costs cover all schemes (old and new) and all types of service (past and future) of active, deferred and pensioner members. Changes in actual and assumed price inflation and the discount rate will be excluded from the cost cap.
3. Scheme valuations will take place periodically to assess how the cost of the scheme has increased or reduced. In the event that member costs drive the cost of the scheme above the ceiling or below the floor, there will be a period of consultation with relevant groups before changes are made to bring costs back below the ceiling or above the floor. If agreement cannot be reached through consultation, the accrual rate will be adjusted as an automatic default.
4. The size of the buffer will be set at 2% above and the floor set at 2% below the employer contribution rates calculated following a full actuarial valuation ahead of the introduction of the new scheme in 2015. Caps will not be based on cost ceilings.

Reviewing contribution levels and opt-out rates

5. The Government remains committed to securing in full the Spending Review savings of £2.3bn in 2013-14 and £2.8bn in 2014-15 from increased member contributions, and will consult formally on implementation in due course. The Government will review the impact of the 2012-13 contribution increases, including on opt-out, before taking final decisions on how future increases will be delivered. Interested parties will have the opportunity to provide evidence and views to the Government.

25 year guarantee

The Chief Secretary to the Treasury set out to Parliament on 2 November an offer on public service pensions that is fair and sustainable, and one that can endure for 25 years. This means that no changes to scheme design, benefits or contribution rates should be necessary for 25 years outside of the processes agreed for the cost cap. To give substance to this, the Government intends to include provisions on the face of the forthcoming Public Service Pensions Bill to ensure a high bar is set for future Governments to change the design of the schemes. The Chief Secretary to the Treasury will also give a commitment to Parliament of no more reform for 25 years.