

## EMPLOYEE CONTRIBUTIONS

Public service pensions are getting more expensive as people live longer. Lord Hutton established that the firefighter pension (1992) scheme is the most expensive in the whole public service. For every £1 a firefighter pays into the scheme, taxpayers now pay in an extra £5 to meet scheme costs. Last year that totalled over half a billion pounds. It is not right to expect all of these additional costs to be met by taxpayers.

After reform a firefighter earning approximately £29,000 is likely to receive a pension of around £19,000 (or 67% of their final salary) after a full career<sup>1</sup>. A firefighter would need to double their level of contributions to get the same pension from a private provider.

### Q&A

#### **Q. Why ask firefighters pay more of a contribution to their pension?**

A. All public servants that are members of unfunded public service pension schemes are paying more for their pension to ensure a fairer distribution of costs between the taxpayer and employee. The most recent valuation of the firefighters' pension schemes (reported in 2009) found that the costs of both the 1992 and 2006 schemes have continued to rise. This was mainly due to increased longevity.

#### **Q. Is this a fair deal for firefighters compared to all public servants?**

A. Yes. Firefighters receive more generous pension benefits than the majority of the other public service pension schemes, with lower Normal Pension Ages and more generous accruals, and therefore are more expensive.

#### **Q. What determines the contribution rate?**

A. The combined employee and employer contribution rate reflects the cost of the scheme. In the 1992 scheme the employer contributes twice that of a firefighter. A worker earning £29,000 would need to contribute nearly double that of a firefighter to a private pension pot in order to guarantee an annual income of around £19,000 at age 60.

#### **Q. What contributions will members pay who transfer to the 2015 scheme?**

A. Members of the 1992 scheme who transfer to the 2015 scheme will likely see a reduction in their contribution rates in 2015. Members of the 2006 scheme will face an increase in the contributions payable – but these members have benefitted from a degree of protection since contributions were increased from April 2012.<sup>2</sup>

#### **Q. What do the proposed increases mean for an average firefighter?**

A. A competent firefighter in the Firefighters' Pension Scheme 1992, earning £28,800, will see an increase (after tax relief) of around £25 per month from

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<sup>1</sup> For members of the 1992 scheme a full career would be after 30 years pensionable service in the 1992 scheme. For 2006 scheme members a full career would be after 40 years pensionable service in the 2006 scheme.

<sup>2</sup> Full details of the rates to apply in the 2015 scheme will be consulted on during 2014.

April 2014. The same firefighter in the New Firefighters' Pension Scheme 2006 will see an increase (after tax relief) of around £15 per month from April 2014.

**Q. Under these proposals, what is the average increase for firefighters?**

A. The proposals will increase employee contributions by 1.28 percent, on average, from the two firefighters' pension schemes, and will help rebalance costs between the taxpayer and public service workers.

**Q. Is it true that firefighters have been opting out of the scheme as a result of contribution increases?**

A. No. Opt outs from the 1992 scheme remain on a similar level to 2010-11 and 2011-12 – prior to the contribution increases took effect from April 2012. Opt outs from the 2006 scheme between April and September 2013 remain on a similar level to that reported in the first six months of 2012-13. However, the Government has proposed some continued protection to 2006 scheme members. The Government is continuing to monitor opt out rates.

**Background**

At the Spending Review, the Government announced that the unfunded public service pension schemes (with the exception of the Armed Forces) would see increases of 3.2 percentage points (pp) phased in over 3 years, with 40% (1.28pp) delivered in 2012-13, a further 40% (1.28pp) in 2013-14, and the final 20% (0.64pp) in 2014-15. However, firefighters saw an increase of 20% (0.64pp) in 2012-13 with the remaining to be delivered in subsequent years on a 40%, 40% basis.

From 2015, firefighters who are protected and remain in their current schemes will continue paying the rate that they paid in 2014-15. Members of the FPS who transfer to the 2015 scheme are likely to see a drop in their contributions in 2015 but members of the NFPS who transfer will see an increase in 2015. Brandon Lewis's letter of 19 June set out that the short term average employee contribution rate might be 12.6% in 2015, 12.7% in 2016, 12.8% in 2017, lower than the originally proposed 13.2%.