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Mr Andrew Cornelius  
Communities and Local Government  
5/F6 Eland House  
Bressenden Place  
London  
SW1E 5DU

20<sup>th</sup> December 2011

Dear Andrew

### **Firefighters' Pensions - Cost Ceilings**

The FOA cannot willingly accept the Treasury's preferred scheme design for a future Firefighters' Pension Scheme. Whilst the proposals would significantly alter the nature of firefighters' pensions, the principal reason for our non-acceptance is the timing of the offer which does not allow us to properly consult members and consider their opinions on the proposal. We are disappointed that time has been lost through our adherence to the "Private for Discussion" marking on the Minister's letter which meant that we did not circulate the contents; only to discover that the Treasury had placed information, dated 7<sup>th</sup> December, on their web site.

Should the Government choose to apply the cost ceiling, it is hoped that there will remain scope to discuss scheme design and that there will still be an element of leeway, in terms of H.M. Treasury's willingness to consider variation of transitional arrangements, in particular.

Whilst we are not in a position to give a definitive response to the Minister's letter of 8<sup>th</sup> December, the following comments are made to reiterate comments made during our 15 December meeting and to indicate concerns or areas where agreement may be possible.

Additionally, our members are still not in a position to consider the overall impact of proposed changes since they do not yet have the Government's response to consultation on employee contributions and amendments to the 1992 and 2006 Firefighters' Pension Schemes.

As discussed on 15<sup>th</sup> December, there are a number of questions and matters that will need to be addressed. Whilst it is accepted that they might form part of the more detailed development of a new scheme but it may be helpful to identify these at an early stage and we attempt to highlight several points and questions towards the end of this correspondence.

### CARE Scheme

Changing to a Career Average Revalued Earning (CARE) Scheme significantly alters the benefits available to members of fire and rescue services. Whilst removing the valuable final salary link, it also exposes the amount of final pension to market forces through the linkage to average earnings. We are willing to consider altering the revaluation linkage to CPI if this would offer a better accrual rate that allows some flexibility on the question of Normal Retirement Age (NRA) or other elements of the future scheme.

We presume that Additional Pension Benefits (APBs) and regular allowances would no longer be a significant issue within a CARE Scheme as, unlike the final salary system, it would accommodate 'temporary' payments fairly. However, some protection will be required for existing APBs and for any additional voluntary contributions paid by members of the current schemes.

It should be simpler to accommodate RDS firefighters in a CARE system

### Accrual Rate

Whatever is finally set as the new scheme's accrual rate we wish to confirm our opinion that there should be no cap on the number of years' pensionable service that can be accrued so as to allow scheme members discretion on whether (if still able) to work beyond normal retirement age whilst adding to their pension benefits. If there are to be actuarial reductions for early retirement, we would expect to see an actuarial enhancement applied for late retirement.

### Normal Retirement Age

A retirement age of 60 is a good offer compared with retirement ages in other revised public sector schemes. However, we remain concerned about the general ability of firefighters in operational roles to work beyond age 55. With a NRA of 60 it will be necessary to monitor the situation to ensure that it does not give rise to increased levels of ill-health retirements

If firefighters believe that their accrued benefits would be paid at a later age than 60 (FPS) and 65 (NFPS), this might be an additional incentive for firefighters to opt out before the new scheme is introduced – something should be avoided in the interest of scheme sustainability.

### Commutation

12:1 seems to be a common conversion rate nowadays although does not appear to be linked to longevity and, therefore, not an accurate reflection of the value of the portion of pension being commuted. It has previously been considered that commutation produces longer-term cost savings for a pension scheme and, as such, something to be encouraged. With a lower lump sum under the proposed arrangements, there might be reduced take up of the option to commute with some increase in long-term costs, especially if increasing longevity assumptions are correct.

We ask that consideration be given protecting FPS commutation factors for those who have less than 10 years to normal retirement age at 2015 and, in the case of those who have more than 10 years, for the commutation of the accrued FPS rights as at 2015 to be protected as final salary benefits. It would also be helpful if they continue to increase in line with longevity as allowed for in the FPS.

### Transitional Arrangements

Retirement without actuarial reduction for people within 10 years of 50 (current minimum retirement age with full benefits). For most members of the 1992 Scheme their expected retirement age would be 50 or whenever they achieve 30 years' pensionable service. The Government's 'within 10-years from retirement protection offer short-changes firefighters as we consider that the offer to be aimed at other parts of the public sector with a higher NRA and where the majority of employees retire at their NRA.

Our members' fears should be eased by some form of additional protection that take account of the actual normal retirement age for firefighters An arrangement that caters for people currently aged between 45 and 50 who would achieve 30 years' service on or after their 50<sup>th</sup> birthday would be welcomed.

It is suggested that this matter be considered as a matter of priority as the protection arrangement is a major concern for the many FPS members who will reach age 50 within the next 10 years.

At a time when many fire and rescue services are faced with a potential need to reduce their uniformed establishment. Their problems will be exacerbated by having to retain staff who they expected to retire over the next 10 years. It is suggested that, in the overall scheme of things, it may be cheaper and simpler to allow staff to retire as planned rather than have to deal with redundancy procedures.

### Ancillary Benefits

- There is no mention of how the “enhancement” of a higher tier pension would be assessed.

- There is no mention of death grant assessment principles.
- Has it been appreciated that, in the event of death occasioned by a qualifying injury, dependants' benefits are not paid under the pension scheme but under the compensation scheme?
- There is no mention of pension credit members and the implications for earmarking and pension sharing
- There is currently no provision in the FPS for benefits for a nominated cohabiting partner. If, as suggested, "ancillary benefits" are to match those in the scheme currently open to new members (the NFPS) then, this will be an additional benefit for those currently subject to the FPS. But would it be based on new Scheme benefits only – no account being taken of pre-2015 accrued rights?
- Can it be assumed that the "age difference" reduction to spouse's pension which features in the NFPS would start to apply to former FPS members. (Complications could arise in assessment in respect of pre-2015 accrued rights under the FPS not subject to the reduction, and reduced benefits under the new scheme.) Furthermore, the "living separately" rule could affect spouse's benefits under pre-2015 accrued rights but not under the new scheme.
- Former FPS member children would presumably also have access to the spouse's pension, as in the case of NFPS children, where there is no surviving spouse. This would be an improvement.
- How would the short-term 13 week spouse's benefit be assessed?

#### Members rejoining after a period of deferment of less than 5 years

Whilst the Minister's letter indicates that people re-joining can link past and current service, how would the pre-2015 accrued rights under the FPS and NFPS be treated? Would they have to remain as deferred benefits (based upon pay as at date of leaving) or could they, too, be reactivated so that the service in those pre-2015 accrued rights is set against the final pay at the end of the new period of employment?

#### Transfer from 'Club Schemes

Do this mean Club Schemes or public service schemes? Both expressions are used but they are not the same; there are schemes in the Club that aren't considered public service schemes.

Also, how would transfers out be assessed and transfer in credited and how would pre-2015 accrued rights be treated on transfer? For example, if a person transferred from the new LGPS, would pre-change LGPS benefits have to be protected, on pre-change LGPS principles, in the new Fire scheme? Similarly what would happen if civil servants, teachers, health workers, etc transfer to the new Fire scheme?

Would "protected" rights remain behind in the previous scheme? In which case would the pay used for assessing those protected rights be based on pay as at the date of leaving the previous scheme, e.g. in effect providing a deferred benefit, or on pay as at date of leaving the new Fire scheme – which would require the complicated administration process of knowing when and how to inform the previous scheme at the time of retirement.

It is hoped that the content of this letter will be of assistance.

Yours sincerely



Glyn Morgan  
Chief Executive