

CONSULTATION RESPONSE FORM: Firefighters' Pension Scheme (Scotland). CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES EFFECTIVE FROM 1st APRIL 2012.

Please Note this form should be returned with your response to ensure that we handle your response appropriately.

1. Name/Organisation

Organisation Name:

Title:

Surname:

Forename:

2. Postal Address

Postcode: **Phone:**

Email:

3. Permissions - I am responding as... (please complete either sections (a), (b) and (d) or sections (c) and (d):

Individual



(a) Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish Government web site)? Yes No

(b) Where confidentiality is not requested, we will make your responses available to the public on the following basis.

Please indicate yes to one of the following:

Yes, make my response, name and address all available

or

Yes, make my response available, but not my name and address

or

Yes, make my response and name available, but not my address



or Group/Organisation



(c) The name and address of your organisation **will be** made available to the public (in the Scottish Government library and/or on the Scottish Government web site).

Are you content for your **response** to be made available?

Please indicate yes or no:

Yes No



(d) We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise? **Please indicate yes or no:**

Yes No

CONSULTATION QUESTIONS - Please give reasons for your answers.

Within the context of the principles set out in the consultation document, your comments are invited on the preferred approach to delivering the required savings by increasing employee contributions to the Firefighters' Pension Scheme by the amounts set out in Table 1 below.

Proposed increases to contribution rates (before tax relief)			
Full Time Equivalent pensionable pay	Contribution rate 2011/12	Contribution rate 2012/13	Contribution rate increase in 2012/13
Up to and including £15,000	11%	11%	0%
More than £15,000 and up to and including £21,000	11%	11.6%	0.6%
More than £21,000 and up to and including £30,000	11%	12.3%	1.3%
More than £30,000 and up to and including £40,000	11%	12.4%	1.4%
More than £40,000 and up to and including £50,000	11%	12.6%	1.6%
More than £50,000 and up to and including £60,000	11%	12.8%	1.8%
More than £60,000 and up to and including £100,000	11%	13.0%	2.0%
More than £100,000 and up to and including £120,000	11%	13.1%	2.1%
More than £120,000	11%	13.3%	2.3%

Comments

This response form contains extracts from our accompanying response document (indicated by numbered paragraphs). Whilst we have attempted to fit the content of the document into this form, the separate document provides a more flowing response with some additional comment and explanation.

Our response to the Scottish Government is very much aligned to that which will be submitted to the English Department for Communities and Local Government and is likely to make reference to matters outwith Scottish Government control. Where this is the case, the comment should be regarded as being for information purposes or as information that may assist Scottish Government representations to Westminster counterparts.

We believe that a uniform approach to Fire Pensions should be maintained as significant variation between the UK devolved administrations would create a need for separate advisory arrangements leading to, for the majority of matters, unnecessary duplication and increased costs to each government and stakeholders through the need to service each part of the UK separately.

Question 1: Should we adopt the England and Wales proposals or adjust them to reflect circumstances in Scotland as long as these still achieve the required additional contribution yield for 2012/13?

1.1 The Fire Officers' Association is keen to maintain a UK-wide approach to fire and rescue service pensions and this response mirrors that which will be submitted to the Department for Communities and Local Government in respect of English consultation on proposed increases to employee contributions for members of the 1992 and 2006 Firefighters' Pension Schemes.

1.2 It is recognised that the proposed increases in Scotland result from the Westminster Government's fiscal strategy and that the Scottish Government opposes the approach towards public sector pension reform. It is also acknowledged that the Scottish Government is in an invidious position where the Scottish block grant will be cut by an amount equivalent to the expected revenue return from increasing employee pension contributions; this being irrespective of any desire to apply a different approach in Scotland.

Question 2: How might any Scotland specific adjustments fit with our policy of having agreed common salary scales/terms and conditions across the UK?

Whilst the Scottish administration might be sympathetic to the plight of public service pension scheme members making and more amenable to making beneficial specific adjustments for Scottish members of the Fire Pension Schemes, we have to consider fairness across our entire membership and we could not support a move to vary conditions of service between Scotland and other parts of the UK.

We believe that our arguments about the potential counter-productiveness of contributions increases as a result of increased opt-out, particularly amongst higher earners, are equally applicable to all UK administrations but they are aimed at H.M. Treasury in an effort to reduce their cost-savings target. Any concession here would benefit the whole UK.

We have concerned about the introduction of differentials between Scotland and other parts of the UK as we believe that they could impact on the movement of talented individuals between fire and rescue services and cross fertilisation of ideas and experience around the UK service has been beneficial to progress and innovation over the years. We would, therefore, not wish to see barriers created.

Question 3: How might any Scotland specific adjustments be set to ensure that no-one in Scotland pays higher levels of contributions than their UK counterparts?

Please refer to our previous answer.

Question 4: Do the proposed tiered employee contributions from April 2012 achieve the appropriate balance between:

- **[Protecting the low paid];**
- **Minimizing potential opt out from the scheme;**
- **Ensuring that they are set progressively, so that higher earners pay proportionately more?**

3.1 Provisions for the protection of low earners have little bearing on the fire and rescue service where, few, if any, operational staff earn less than £15,000 per annum.

3.2 The last paragraph of Section 3 refers to the key issue of tiered contributions which present a major concern for the majority of Fire Officers' Association members. Whilst original DCLG suggestions for the introduction of tiered contributions have been modified for this consultation paper, we retain concerns about the approach. We welcome the wider range of proposed tiering increments but it still seems inherently unfair to apply the relevant contribution rate for a particular income level to a person's entire salary.

3.3 We contend that there is no need to introduce tiered contributions at all, since those earning more already pay more. The principle of applying a common percentage contribution rate to all members of a pension scheme ensures that each member pays proportionately equal contributions and this is reflected in the level of benefits that are available on retirement. For example, all FPS members are presently required to pay 11%; consequently a senior manager who earns £90,000 in a year would pay £9,900 over that year, and a firefighter who earns £30,000 in a year would pay £3,300 over that year. This is reflected in their pensions. The senior manager who pays three times as much as a firefighter by way of contributions gets a pension three times greater. This already achieves the aim of the second part of the above i.e. that higher earners should pay proportionally higher increases to reflect their more generous pensions, without any further tinkering by way of tiered contributions.

3.4 However, as the Westminster Government appears to be insistent about the need to introduce tiering to fire pension schemes, it is suggested that the fairest way of implementing this would be to apply tiering through a banding system similar to that used for income tax.

3.5 For example, a rate of 13% might be paid on earnings up to £30,000, 14% from £30,001 to £60,000, and 15% from £60,001

to £90,000 and 16% thereafter. It should be noted that these figures are purely arbitrary, to illustrate the principle, and some work would need to be done to determine what percentages and bandings would be needed to realise the required savings.

3.6 Charging by bands would be a much fairer mechanism since, for lower bands, every member of the Scheme would pay the same percentage amount for the same benefit at each lower income level. However, where an individual chooses to seek promotion they will be well aware that they will contribute a higher proportion of their additional income towards their pension benefit.

3.7 Applying a higher contribution rate based on a person's whole salary, is inherently unfair and may deter the better promotion candidates from coming forward, especially when recent changes to the pensions tax regime have already had a detrimental effect. People seeking to progress through FRS roles could be faced with a significant additional tax liability and they are now staring at the prospect of paying a very significant additional amount towards whatever pension benefits remain after 2015.

3.8 We already have concerns about the current quality of leadership within the UK fire and rescue service. We are even more concerned for the future and the need to encourage the best candidates to come forward for advancement to senior positions.

3.9 It appears that potential managers are actively being discouraged from seeking advancement as we have seen a number of disincentives introduced, such as reduced tax relief on pension benefits, proposals to alter the pensionable status of the Flexible Duty Supplement on top of a pay freeze and across the board pension contribution increases. With tiered contributions being added to this list, we fear that the number of talented people interested in advancing to the most senior positions will diminish; to the detriment of the service as a whole.

3.10 Recent experience with a Scottish Assessment and Development Centre for Area Managers failed to identify a sufficiently high number of suitable candidates and some posts remain temporarily occupied by people who did not reach the required standard. It is deeply worrying that the role of Area Manager did not appeal to a sufficient number of people with the required abilities.

3.11 We also have doubts about the level of additional revenue that would be raised from tiered contributions due to the progressively smaller number of people at each level within middle and senior management roles. With the planned introduction of a single fire and rescue service for Scotland there will be even lower income from those at the most senior levels.

3.12 Using CIPFA 2010 establishment statistics, we have prepared some calculations of the likely revenue returns from the proposed contribution increases and some alternative contribution rates. We have focused our attention on England (since this is where the proposals originate). However, on a pro-rata basis we believe that the figures produced will be relevant to Scotland and will serve to illustrate the points made in this response.

3.13 For simplicity, it has been assumed that the average principal officer salary is £127,375 (taken from random sample of English FRS remuneration reports). It is also assumed that Competent pay B rates apply for each role.

3.14 Table 1 below shows the return that might be achieved if all existing staff pay contributions at the rates proposed. The figures indicate that the target return of £13.2 million for England is exceeded. More importantly, it demonstrates that there is a diminishing return from management roles, even with tiering. In practice, we suggest that the return from senior managers will diminish further as a result of tiering with an Area Manager paying in the region of £450 extra per annum (over £300 net), over and above the base figure of £841 at the 1.3% firefighter rate. This figure is more significant for a principal officer who, instead of paying £1,665 (over £800 net) at the base rate, would pay an additional £1,264 which is a significant amount even after higher rate tax relief.

(Please refer to Table 1 in the accompanying response document).

3.15 Although the proposals relate only to 2012-13, we believe that increases will be sufficient to drive people out of the pension scheme. If, as we anticipate, rates increase further between 2013 and 2015, even more people would leave, significantly reducing revenue returns.

3.16 Area Managers are, for the purposes of national collective bargaining, classed as middle managers. The proposed £60,000 to £100,000 banding would place Area Managers in the same grouping as many staff at Brigade Manager level. We consider this to be unfair when the banding is so wide and recommend that there be a clearer distinction between middle and strategic (senior) management. A banding range of £50,000 to £90,000 would be more appropriate as the higher rate would only apply when significant local responsibility allowances are paid and there is a much clearer indication that an Area Manager is operating well beyond a middle manager role, e.g. performing Brigade Manager functions that put them into a strategic manager contribution band, perhaps when earning more than £70,000. Because of the relatively small numbers involved, this would not significantly reduce revenue returns but it could help to prevent many opt-outs at Area Manager level.

3.17 We believe that deferring the decision would help prevent opt-out and that the amount of lost revenue would be balanced

out (if not exceeded) by the revenue retained from reducing the number of opt-outs. Table 2 below shows that the estimated amount of return would reduce by just over £1 m if the lower rate increase of 1.3% were applied to all staff. Whilst there would still be some opting-out, we believe that the perception of a fair approach being applied and the slightly lower costs would reduce the number of scheme opt-outs.

(Please refer to Table 2 in the accompanying response document).

4. Assumed Opt-out rates

4.1 The Treasury's opt-out rate assumptions appear to be little more than arbitrary and not arrived at through any robust methodology.

4.2 This is somewhat worrying since a higher opt-out rate than that assumed will significantly impact upon the level of cost savings that will be achieved by 2015. Whilst we do not consider the rate will be as high as the 27% predicted by one FRS organisation, we believe that the rate will be higher than the assumed 1%. Our most recent members' survey indicates that: -

- For the 1992 Firefighters Pension Scheme, 7.6% would opt out and some 37% would consider opting out.
- For the 2006 Firefighters Pension Scheme, 13.6% would opt out and 31.8% would consider opting out.
- For our Local Government Pension Scheme members, 6.5% would opt out and 28.3% would consider opting out.

4.3 Our findings and those of other stakeholders indicate that the revenue return from increased contribution is likely to be significantly less than anticipated by HM Treasury. Whilst we hope that the number of opt-outs will not be as high as suggested, a high number of opt-outs or non-joiners means that fewer people will be contributing. This might not only fail to realise the savings sought by Government but also create additional pressure on the Schemes by adversely impacting on FRAs' cash flow.

4.4 New and younger members of the Fire Pension Schemes may consider that they cannot afford to part with more than 11% of their salary as a pension contribution and decide that the money is more useful to them now, particularly where they have a young family and a single income. We know that a number of members experience cash flow difficulties with regard to payment of this Association's subscriptions and we believe that such people are likely to seriously consider leaving their occupational pension scheme in the belief that the extra income generated will help to 'make ends meet'. We doubt that their focus will be on the long-term benefits of pension scheme membership even though they may find themselves with financial difficulties in their retirement years.

4.5 We also believe that the significant contribution increases resulting from tiered contributions will prompt people at Area and Brigade Manager level to consider whether they might be better off investing their contributions in property or some other assets to avoid paying extra. For people with 25 or more years' pensionable service, it might be attractive to opt-out and defer accrued pension benefits whilst investing what could be a considerable sum elsewhere, e.g. for someone with a salary of £90,000 this amounts to £11,970 per annum or £15,960 for someone earning £120,000.

4.6 If sufficient people in senior roles were to opt-out, the effect of introducing tiered contributions and the underlying increase would be largely negated.

4.7 It should also be borne in mind that estimates of likely revenue returns will also be reduced due to the fact that a number of principal officers have effectively retired from the Service (i.e. taken their pension) whilst remaining in post without making further contributions to the Pension Scheme. The prospect of higher contributions may prompt others to enter into such arrangements, further reducing income rather than gathering more from the higher contribution tiers.

4.8 We consider that such arrangements do little to enhance the perception of public sector pension schemes and may have contributed to the current situation where public service pension scheme members are facing cost increases and reforms. Very few members of the fire and rescue service are in a position where they are afforded an opportunity to take a lump sum and continue working. Given the recent media coverage of Chief Officers' being re-engaged, it is perhaps understandable that public sector pensions are perceived by some as 'gold-plated'.

Question 5: Do you consider that there are any potential equality issues? For example, is there anything in the proposals that might result in individual groups being disproportionately affected by the proposed contribution tiers?

In terms of groups protected by legislation, we do not believe that the proposals discriminate as everyone within a particular pay band is equally disadvantaged.

The proposals do discriminate against those who are paid more than others and we do not consider the introduction of tiered contributions to be appropriate at this time. As explained elsewhere in this response and in the accompanying document, middle and senior managers are likely to be de-motivated as a result of a number of pressures (in addition to expanding workload in relation to decreasing management establishments) as well as becoming less likely to remain in their pension scheme.

5. Retained and Part-time Members

5.1 We understand the logic of applying a pro-rata approach to part-time staff but we have difficulty with the application of this approach to RDS staff. Where RDS staff are paid a pro-rata hourly salaried rate for hours worked, a pro-rata approach should be applied. However, the majority of RDS staff are not salaried and, until long-promised RDS duty system reforms are introduced, we believe that the percentage contribution rate applied should be assessed on actual income rather than reference pay.

5.2 In response to Question 5, we believe the proposed treatment of part-time workers is clear and equitable.

5.3 For RDS firefighters, we suspect that the proposed approach has been put forward because it is administratively simple to determine the contribution tier by reference to the whole-time equivalent pay.

5.4 The proposal would ensure equity if a person has more than one part-time job and when the hours of those part-time jobs are added together they equal the hours of a whole-time job. But in circumstances where the total hours are greater or less than whole-time, there will be inequitable treatment, for example: -

Scheme member A is whole-time. His pay is £21,000 a year.

On the current system, for a year he would be required to pay a contribution of 11% of £21,000, i.e. £2,310.

Assuming a tiered contribution system similar to that in the FPS table in paragraph 4.3, he would be required to pay a contribution of 11.6%. For a year this would be a contribution of 11.6% x £21,000, i.e. £2,436.

Suppose he retires at the end of that year with 20 years' service. His pension would be $20/60 \times £21,000 = £7,000$ a year.

Scheme member B is part-time. He, too, earns £21,000 a year, being a half-time worker in a job where the whole-time equivalent pay is £42,000. This is the only job he holds and he has family commitments which prevent him from working whole-time.

The rate for the job may be higher than for Scheme member A, but Scheme member B cannot be described as a "high earner".

On the current system, for a year he would be required to pay a contribution of 11% of £21,000, i.e. £2,310. Assuming a tiered contribution system similar to that in the FPS table in paragraph 4.3, he would be required to pay a contribution of 12.6%. For a year this would be a contribution of 12.6% x £21,000, i.e. £2,646. This is £210 a year more than Scheme member A pays.

If Scheme member B retires at the end of that year with 20 years' service. His pension would be $\frac{1}{2} \times 20/60 \times £42,000 = £7,000$ a year, the same amount as paid to Scheme member A

5.5 This example shows that, under the current system the two Scheme members with the same salary would pay the same contributions for a similar pension but, under the proposed system, a part-time worker could be required to pay more for a similar pension to that provided to a whole-time worker on the same pay.

5.5 This example shows that, under the current system the two Scheme members with the same salary would pay the same contributions for a similar pension but, under the proposed system, a part-time worker could be required to pay more for a similar pension to that provided to a whole-time worker on the same pay.

Question 6: Are there any other specific issues around these potential increases that you would like the Scottish Government to consider?

6. The earnings Cap

6.1 The tables on pages 4 and 5 show that the highest band proposed is for those who earn more than £120,000. Nowhere in any of these discussions on tiered contributions have I seen an acknowledgement that both the FPS and NFPS contain an “earnings cap” and how this may impact on the proposal for tiered contributions.

6.2 The earnings cap was introduced by Inland Revenue in 1989/1990 and was set around £60,000 a year at that time and has since, we understand, been increased. It applied to all members of the FPS who joined after 31 May 1989 (or who rejoined after a break in service). Anyone whose earnings exceeded the cap, would not have contributions deducted, or benefits assessed on pay in excess of the cap.

6.3 The requirement for HMRC-approved schemes to have an earnings cap was dropped from 2006 but the FPS retained it and it was included in the NFPS. Because it is no longer a tax requirement, schemes that retained a cap assess and operate a “notional” cap with DGLC annually informing FRAs of the amount they should be operating, e.g. for 2010/2011 it was £123,600.

6.4 When assessing the increasing costs of the public service schemes, have GAD taken into account that an increasing number of principal officers are subject to the cap; and has it been taken into account when considering how much additional “income” there would be from people in the highest tier of the proposed contribution rates, i.e. for those who earn in excess of £120,000?

Q7. From an administrative perspective, are there any particular issues that need to be taken into account in introducing a tiered system for the firefighter schemes?

Since we do not think that it is appropriate to introduce a tiered system at this time, postponement would certainly ease the administrative burden.

Should tiering be implemented it would be much simpler to work with fewer bands. However, as stated in our response to question 4 we do not consider it fair to apply higher rates to a scheme member's whole salary and it is recommended that higher percentage rates are only applied to the portion of pay that falls within each banding range. We are sure that administrators will suggest that such an approach is too complicated but we believe that if it works for PAYE, it can be done for similar calculations for pension contributions.

Q8. If the contribution rate is set for each year, do you think it would be appropriate to review this for significant changes in salary? If so, what threshold should be used?

Here again, whilst opposing the introduction of tiered contributions, we feel it necessary to comment on the arrangements that might be made should it be decided to progress the current proposals.

The simplest approach would be to review and amend contribution rates annually but this would reduce the income from contributions. Whether or not this reduction would be significant depends largely on the number of promotions each year. As we do not have access to historical information about the number of promotions, we cannot assess the amount involved.

We have some difficulty with the suggestion that contribution changes are made on the basis of crossing a pay increase threshold as wherever the threshold is set, some people will be treated unfairly. For this reason we suggest that the approach should be review and adjust contributions for any pay rise or on an annual basis.

Q9. Do you consider that the proposals for determining the contribution rate for new firefighters and those with multiple-employment are appropriate?

Subject to the comments made about retained members at question 5, the proposals for part-time workers appear to be appropriate.

Q10. We also welcome suggestions on other ways of delivering the UK Government's required savings through increased employee contributions within the Scottish Government's preferred scheme design parameters. Please detail any suggestions below.

We will certainly have thoughts about a redesigned Firefighters' Pension Scheme but, at this time, without the cost ceilings for the future Scheme we not consider it appropriate to make suggestions.

We are, however, hopeful that any contributions increases before 2015 can be offset or reduced by modifications to the Scheme design.

Please e-mail your response to firepensionsreform@scotland.gsi.gov.uk or mail to:

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Closing date for receipt of comments is 17th November 2011.