

Evidence from the Fire Brigades Union to the Independent Public Service Pensions Commission's call for further evidence

Introduction

1. The Fire Brigades Union welcomes the opportunity to provide further evidence to the Commission on the specific further questions that have been raised, but we do so with substantial misgivings.

2. In our first submission we said that the case for further reform to the public service pension schemes needed to be made on the basis of an analysis of the effects of the reforms that were made in 2006. Your interim report records the fact (para 2.8) that the expected savings under these reforms amount to a third of the cost of the pension provision for firefighters, and employer contribution rates will have been reduced from 26.5% to 14.2%. It says, and we accept, that these savings will build up gradually because the benefits of existing members benefits are protected and overall costs are expected to remain the same for “much of the next decade”.

3. Since our first submission was sent:

- The effect of the change of the basis for indexing public service pensions has become apparent. Your interim report says (para 2.14) that the change from RPI to CPI will reduce pension expenditure by 10% by 2030, and cuts the effective benefit rate for members by 4% for FPS members and 2% for NFPS members (Table 2.B).
- Following your interim report the government has imposed an arbitrary 3.0¹% average increase in member contributions. The detail of how the burden will be shared has yet to be worked out but for some members it appears likely that their contributions will increase from 11% of pay to 17% by 2014.

4. The Pensions Policy Institute calculated that the 2006 reforms to the Firefighters' pension arrangements reduced the "effective benefit rate" by 11%². The combined effect of (i) the closure of the FPS and its replacement by the NFPS, (ii) the change in the basis of indexation, and (iii) the increase in contributions has reduced the effective benefit rate for firefighters by 13% and increased their contributions by an average of 0.5% when the position of a new entrant in 2005 and a new entrant now are compared.

5. Dismissing the effect of the 2006 reforms by saying that the savings will not become apparent "for much of the next decade", and compounding the worsening standard of firefighter pensions by two arbitrary changes leads us to the view that the Government's aim is not sustainability in the long term or fairness but immediate cost savings at the expense of firefighter pension scheme members.

6. The FBU remain confident that these reforms will address these key concerns in the long term. The interim report (para 2.8) recognises that over the next 30 years these expected reforms will reduce the cost of the firefighter's pension schemes by around a third. We mention throughout this response that there is a lack of clear data relating to the FPS and the NFPS and the absence of any regular history of actuarial valuation. The only recent valuation shows the state of the schemes as at 31 March 2007 and that was only produced last year. The effects of the introduction of the NFPS have not yet worked through, and the effects of changes made to ill-health retirement arrangements made in 2004, and again in 2006, are not included in the results. The next valuation will show the state of the schemes as at 31 March 2011 and until that is available there is simply no empirical evidence to show whether they are affordable and sustainable. We strongly believe that the Commission's conclusions should be evidence-based.

7. In December 2010 the National Audit Office (NAO) released several documents which highlighted the impact of the 2007-08 changes to public service pensions. Although these documents referred to Civil service, NHS and Teachers pensions, they did highlight that the savings brought about by these reforms have not been specifically monitored by the Treasury, a fact that will impact upon the projected overall spending figures for public

¹ Officials from the DCLG told the members of the Firefighters Pensions Committee at a meeting on 17 November that the average increase for members of the pay-as-you-go schemes was 3.2% and not 3.0% because the Armed Forces Pensions Scheme was excluded. The lack of clarity does not help members to maintain any trust in what they are being told.

² PPI: "An assessment of the Government's reforms to public sector pensions" October 2008, p 13 and chart 2

service pensions. The NAO reports that these reforms will have the effect of reducing costs to taxpayers by 14%.

8. The FBU is also aware of the repeated claims that the public service pension schemes are unsustainable and in particular they are aware of the furore created by the recent claims by an independent consultant, John Ralfe, that the deficit in the LGPS funds totals £100bn. The FBU shares the view of the Local Government Employers and the Chartered Institute of Public Finance and Accountancy that looking at the “deficit” in the LGPS on the basis of a snapshot FRS17 basis is meaningless. The FBU looks forward to debating the real analysis when the LGPS valuation results are published in January, and will respond to the issues raised by Mr Ralfe in its response to the consultation paper on the appropriateness of the current discount rate.

9. The FBU is open to the idea of engaging in the process of discussing structural reforms to the FPS, the NFPS and the LGPS as we have done for many years in the usual processes of collective bargaining and consultation. We took a constructive role in the negotiations that led to the 2006 reforms. The effects of those reforms have not yet worked through, and as we said in our first submission, the paucity of data maintained by the Fire Service employers and the infrequency of formal valuations of the FPS - once in 15 years - and the NFPS mean that a proper evidence-based evaluation will take some time.

10. If the issue of scheme affordability is being progressed the FBU would expect that, before commencing negotiations with a view to any further amending of the schemes, all the relevant evidence is made available and the schemes are actually revalued. Until then we are totally opposed to any amendments that reduce the value of pensions for our members.

Scheme Design

11. In our view the FPS, the NFPS and the LGPS should remain defined benefit final salary schemes. The question whether the schemes should be defined benefit ought to be beyond debate now. Your interim report recommended that they should, and the Government accepted that recommendation in the Spending Review. We believe that it was right to do so.

12. We do not think that a career-average structure is appropriate in the fire and rescue service. We do not think that any such proposal recognises that the fire service relies upon a robust strategy for recruitment and retention and the role that the pension scheme plays in this. It is a fundamental requirement for a fire service to ensure its staff are experienced and committed to self development over a long term, this point cannot be over emphasised.

13. Over recent years the National Joint Council (a national negotiating body made up from employers and the Fire Brigades Union) have recognised the requirement for continued staff development and have introduced a continual professional development scheme to encourage self development over the individuals career. With any economic upturn it is vital that any pension scheme plays a part in ensuring that staff remains committed to the fire service as a vocation to avoid increased training costs and lack of

experience and consistency if individuals feel that they can receive better career development and financial packages elsewhere.

14. The Fire Service is unusual when compared to other public services because of its flat career structure: This can be evidenced in the following table which shows that more than 90% of FPS & NFPS members are in roles below Station manager.

Role	Pay ³	Numbers	
		FPS	NFPS ⁴
Firefighter (competent), crew & watch manager	£28k	23,600	4,654 (regular) 6,580 (retained duty system part-time)
Station manager	£40k	2,580	
Group manager	£46k	675	
Area manager	£53k	200	
Brigade manager	£75k	160	

15. These numbers also indicate that in real financial terms, the difference between a career-average scheme and a final salary scheme in the fire and rescue service is minimal.

16. The current final salary schemes take cognisance other factors including;

- The level of employee contributions,
- The high cost and intensity of training involved to be a competent, confident and efficient firefighter and the benefits of retaining experienced staff,
- The continual requirement for encouraging and promoting leadership qualities to be developed to ensure an effective and efficient fire service.

17. Final salary pension schemes reward those individuals who through self-improvement and professionalism demonstrate the leadership qualities required in the fire service, some of whom may have looked to other industries with a much more lucrative financial

³ Figures supplied by DCLG. We have used the upper pay boundaries on the assumption that with flat pay scales the majority will be on the maximum. If average pay is lower than this then the yield from tiers will be lower, if average pay is higher because of the effect of pensionable allowances, then the yield will be higher.

⁴ We have assumed that most members of the NFPS will be in firefighter, crew or watch manager roles given the age of the Scheme.

package. It cannot be overlooked that high earners do make a considerable employee contribution.

18. Most importantly, we believe that career-average schemes are prey to shifting Government policy. We are aware of the detailed negotiations between unions and the Government that led to the creation of the civil service Nuvos scheme, and in particular the debate whether the rate of revaluation in the accrual phase should be in line with retail prices or average earnings. We had a similar debate with the Department for Communities and Local Government when new arrangements were made for pension accrual for fluctuating elements of pay. With one short sentence in the budget speech the Government reduced the rate of revaluation by 0.75% per annum, by changing it from RPI to CPI. Similar effects could be imposed by the Office for National Statistics (ONS) if it chooses, for perfectly sensible macro-economic reasons, to change the basket of goods used to measure changes in whatever index is used.

19. Pensions are part of the wage-work bargain. Its terms should not be set by the Chancellor in the budget speech or by the ONS.

20. Introducing a nursery scheme in the fire and rescue service is logistically difficult because the main two schemes are unfunded. The logic is also undermined by the flat career structure mentioned above, and by the fact that the vast majority of firefighters join the service in their mid-20s⁵ and stay in the service until they reach retirement age⁶.

21. It also undermines the continued identification, development and support of professional leadership qualities which are essential to the future effectiveness of the fire service. Other initiatives, in addition to the normal career progression paths, are being introduced to develop managers in the fire service. For example the Department for Communities and Local Government have been instrumental in the fire service developing a High Potential Leadership Programme, which is designed to encourage graduates and other highly qualified academic students with the type of qualities required to be leaders in the fire service to look at this as a career they could invest their skills in. Individual Brigades have also recognised the continual need for quality managers and have invested time and money in schemes such as graduate entry schemes and university backed initiatives designed to show the fire service is a rewarding career worth real consideration. A nursery scheme discourages late joiners and undermines these initiatives.

22. Capped DB schemes and combined DB-DC schemes are not DB schemes at all and should already have been ruled out of consideration.

Risk-sharing

23. Whatever view might be taken about the appropriateness of risk-sharing, or the risks that can be shared, must be measured against the possible outcomes for members if they are asked to bear part of the risk.

⁵ The 2007 valuation assumed an average entry age of 25

⁶ The 2007 valuation data showed a withdrawal rate of 1%

24. **Contributions:** A further increase in member contribution levels is simply unfeasible. We think that the likely drop-out rate that will be felt if contributions are increased by an average of 3.0% has been drastically underestimated.

25. **Pension age:** Changes to normal pension age that reflect life expectancy after retirement are not appropriate in the fire service. The retirement age in the fire and rescue service needs to be dictated by the required age-profile of the service, not likely life-expectancy in retirement.

26. It is a fundamental requirement of the role that operational firefighters are operationally fit. That is a role requirement that cannot be maintained in sufficient numbers beyond the current retirement ages. The fire service is a very small sector that relies upon its operational staff being operationally fit and must recognise that this fitness is inevitably age-related.

27. Retirement ages for firefighters need to be determined by fitness standards and not the pension scheme. If a firefighter is not fit enough to perform the job then he or she will be required to leave. Opportunities for redeployment to non-operational roles (a factor which must be considered) have been removed over recent years, as many Brigades now use non-uniformed staff, in roles that used to be filled by firefighters, as a way of reducing their staffing costs. In other Brigades, the available posts have already been filled by firefighters who are not fit for front-line duty. Having asked the London Fire and Rescue Authority, for instance, how many vacancies currently exist for “non-operational” firefighters, we received the honest and candid answer that there are none.

28. The non operational jobs are simply not there for a firefighter requiring redeployment due to not being operationally fit. In this case if a firefighter has not reached the normal retirement age then the issue of ill-health retirement has to be considered. The ill health process has already been looked at and reformed, with the introduction of the new two-tier ill-health retirement arrangements. A firefighter who is unfit to carry on as a firefighter but is fit enough to undertake other employment within their role is now expected to do so. Furthermore a firefighter who is forced to retire through ill health on a lower tier award will be expected to find work outside the fire service and the amount of pension awarded now reflects this fact. The only people who would receive a higher tier award are the most seriously injured/ill who are unable to continue in employment either within or outside the fire service.

29. Raising the retirement age does nothing more than increase the number of firefighters who are not fit to do the job, not old enough to retire, and who therefore have to be considered for ill-health retirement. Putting them out of work with no means of obtaining an income in some other employment is not acceptable.

30. It remains our view that the normal retirement age in the NFPS (age 60) is too high. When the NFPS was introduced the retirement age should have remained at age 55 as it did with the police scheme. Any redeployment opportunities that were considered in the decision to raise the retirement age to 60 years old have not materialised. In reality raising the retirement age has meant an unrealistic position being created whereby future firefighters will have to be fully operational until they reach the age of 60. We are

working with the employers to design appropriate operational fitness standards for the service but it is very unlikely that an average 60-year-old firefighter will be fit enough to meet them. There are no members of the NFPS who are approaching retirement age who can be looked at as guinea-pigs for the purpose, but we fully anticipate that in years to come we will have an explosion in disputes about whether members meet the fitness criteria to remain in the service or to qualify for some form of income in retirement.

31. **Other changes:** our fundamental view regarding risk-sharing is that until the consequences of the 2006 changes have been worked through, coupled with a change in the indexation requirements and a hike in member contributions, it is not appropriate to impose structures that dictate changes to benefits. We expect that all the relevant data, based upon valuations that are conducted more regularly and are transparent, is made available should negotiations be required.

32. Valuations of the FPS have been undertaken inconsistently within the last 15 years. Some of the largest Brigades supply data that the Government Actuary describes as “unusable” or “no data.” This is not acceptable. Any credible, affordable and sustainable position can only be developed using accurate information and can only be reached following a comprehensive valuation. The next one is scheduled for 2011.

Adequacy

33. The peculiarities of the fire and rescue service and the extremely high employee contribution rates coupled with the unavoidable lower than average retirement age mean that adequacy has a particular context in the case of the FPS and the NFPS. The popular myth is that firefighters retire at age 50 and go and get another job almost immediately. We have heard the Department for Communities and Local Government express that view.

34. The vast majority of firefighters are whole-time and have started in the fire and rescue service in their mid-20s and although they are highly trained in their particular field have no transferable skills to fall back on when they are no longer able to meet the fitness standards of the service and have to retire. It is pointless to say that they could be re-deployed into some other role in local government when local government employment is being cut back drastically. The short point is that a firefighter at the retirement age for the FPS and the NFPS will need an income, when they retire from the fire and rescue service, and that needs to be a pension.

35. Members of the fire service recognise that they need to save for their retirement and to cover themselves against the contingency of forced retirement through ill-health or injury. Employees in the fire and rescue service have a very keen knowledge of the benefits of the FPS and NFPS, recognise the current provision within the fire service pensions and that they were designed around the roles they perform. Almost all of them join the pension scheme upon their recruitment to the service. They recognise that their contributions are extremely high and they recognise that they are high because their retirement age is comparatively low.

36. It is a very popular myth in media circles that firefighters receive very generous pension payouts at the end of their career. Competent firefighters⁷ currently earn up to £28,199 per annum (firefighter control up to £26,790) after a period of intensive training and development, which could take up to three to four years. The professionalism and dedication required to reach this level, coupled with the physical and mental requirements of the role is not always reflected in the financial reward. Firefighters recognise they are not going to be among the highest-paid workers in society and their future planning takes account of and ability to invest in their long-term future beyond their working life.

37. Even in retirement, a firefighter who has contributed 30 years service and 30 years employee contributions does not receive the very generous amount that the public would be led to believe.

38. For example a firefighter retiring now, after 30 years service paying employee contributions of over £3,100 per year (11%), aged 55 years old, with a final salary of £28,199 would receive a pension in the region of £18,000 per annum. In most cases this firefighter would be struggling to maintain their operational fitness and remaining in service is not an option. **The high contribution rates reflect the nature of the job, the shortened career opportunity and the necessity of an adequate pension per annum for the retirement period.**

39. The Commission has asked (question 12) whether room should be left for individuals to make their own arrangements. If the question means that members might pay more to purchase an additional non-core pension, the fact that the basic contribution is currently 11% or 8.5% and it is proposed that this will increase by 3.0% (against the background of a pay-freeze), with a further tiered pension imposition for some of a further 3%, speaks for itself.

Understanding and choice

40. Virtually every employee in the fire and rescue service joins whichever of the FPS, NFPS or LGPS is available at the first opportunity. As already mentioned, the withdrawal rate is extremely low (1%); withdrawal through opting out is infinitesimally small. Employees in the service understand the schemes, their contribution rates, the benefits and the need to join.

41. Question 17 asks if the scheme design could offer a range of core benefits for a standard contribution rate, and additional non-core benefits for additional contributions. In our view the benefits of the current schemes are already core benefits. Offering the member the opportunity, for instance, to select a higher retirement age or worse ill-health or injury benefits, or worse dependants' benefits is an invitation to profligacy. A choice to save money at age 20 is easy to make and a bitter regret at age 50 or when the member is injured.

Administration

⁷ A competent firefighter in this example refers to an individual who is qualified but has not been promoted beyond the firefighter role

42. **The FPS and the NFPS:** the current governance of the schemes is unsatisfactory. Each Fire and Rescue Authority has its own Firefighters Pension Fund account and is responsible for the payment of benefits and the determination of entitlements. They rely heavily on formal and informal guidance from the Department for Communities and Local Government (DCLG). The DCLG is responsible for funding benefits in so far as they are not paid for on a pay-as-you-go basis, and so it has a financial interest in the schemes, but the DCLG maintains that it has no formal role in scheme governance and it is not the administrator of the schemes in any legal sense.

43. DCLG is responsible for ensuring the periodical valuations of the schemes which have been conducted very infrequently. It is reliant on the Fire and Rescue Authorities for the provision of basic data, however, and data-keeping seems to have been poor: for instance, in the 2007 valuation the data supplied by some Authorities for the number of early leavers was described by the Government Actuary as missing or unusable. Different authorities have different views on issues as basic as the definition of pensionable pay. Valuations have been very infrequent. The only recent valuation shows the state of the schemes as at 31 March 2007, and it is on the basis of that valuation that decisions about the cost of the schemes is now being made when (i) the NFPS only came into existence on 25 January 2007, and (ii) the ill-health arrangements had been substantially revised since 2004 but the effect on behaviour was not yet known⁸.

44. If this is allowed to continue it will exaggerate inconsistencies and lead to possible inaccurate data being recorded. The role and responsibility of the Fire and Rescue Authorities and the DCLG needs to be clarified, because until that is done there is no objective basis for determining what benefits are actually being provided and how much they cost as recent events have proven that often a misunderstanding of clear remit boundaries.

45. The Commission will be familiar with the arrangements for the management of the LGPS funds by the administering authorities. The FBU believes that the administering authorities need to be properly, legally separated from the employing authorities so that they can operate as proper, independent quasi-trustees. That is a legal requirement imposed by Directive 2003/41/EC concerning the activities and supervision of institutions for occupational retirement provision.

Transition

46. The FBU supports the view that should any changes to the existing schemes need to be made this should only take place through negotiation after all the accurate information has been provided. There are existing consultation and negotiating arrangements in place and they should be used.

47. The current forum for consultation and negotiation for the FPS and the NFPS is the Firefighters Pension Committee. This committee is made up of stakeholders from the fire service who have an in-depth understanding of the schemes and is comprised of Trade

⁸ It is worth noting that the cost of ill-health retirement is *still* being charged to Fire and Rescue Authorities on the basis of an actuarial review conducted in 2004 when the shape of ill-health retirement provision has changed out of all recognition since then.

Unions, Employers, Principal managers, the Department for Communities and Local Government and the Government Actuary's Department. This committee recognises that any realistic reforms must take into account the necessity to understand the role of the firefighter.

48. The committee was among the first to put in place changes (Initial report para 2.2) and as recently as 25 August has been discussing a paper 'options of the future' which looks at cost sharing considerations such as cap and share, phased retirement options tiered contributions etc.

49. The proposed imposition of the employee contribution levy and the imposed change from RPI to CPI has severely restricted the opportunity for an effective transition to any new arrangements and has demonstrated an intention to circumvent any real consultation.

50. Furthermore the proposed 3.0% imposition to employee contributions across pension schemes has not taken into consideration the fact that FPS and NFPS contribution rates are amongst the highest in the public sector. The differences between the employee contribution rates in the schemes, and the reasons for them, were not examined in the Spending Review and will leave firefighters in a no-win situation. They will not be able to afford the new contribution rates, but opting out and therefore becoming a deferred member when they have made considerable contributions is unpalatable. If the Commission is to be seen to be ensuring firefighter pensions remain sustainable, affordable and fair it must recognise that it also must be sustainable, affordable and fair to the employee who is contributing and these new imposed contribution rates do not satisfy that test.

51. As we said in opening, dismissing the effect of the 2006 reforms by saying that the savings will not become apparent for much of the next decade, and compounding the worsening standard of firefighter pensions by two arbitrary changes leads us to the view that the Government's aim is not sustainability in the long term or fairness but immediate cost savings.

52. The Commission can attempt to restore some confidence in the review by recognising that each scheme has been examined, discussed and negotiated by all stakeholders over many years. If changes need to be made then the case for change needs to be made, scheme by scheme, through the channels that already exist.

53. There is no evidence in the recent proposal for impositions of increased contributions and the imposed change to indexation that there will be any recognition of previous attempts through reforms to ensure sustainability, affordability and fairness. All three firefighter pension schemes have been reformed in recent years.

54. For an effective transition to take place in any reforms to the firefighter pension schemes, the Commission must recognise the specific roles and requirements of the service, and that the firefighters' pension schemes need to reflect these in the benefits they provide.

Summary

55. In submitting this response the FBU is aiming to emphasise that any changes to the fire service pension schemes must recognise the specific role of the staff and that the pension scheme must be designed around the role not vice versa.

56. Over recent years the fire service pensions have been changed substantially as highlighted throughout this response but the FBU is still very concerned that the outcome of these changes have not yet been realised and are being overlooked in a drive for a quick fix position.

57. We recognise that the initial report attempted to dispel the myth that public sector pensions are gold plated and that a one size fits all approach is not appropriate.

58. The FBU is extremely disappointed that the recent impositions of both employee contributions and detrimental indexation rates have undermined any real opportunity to negotiate a real cost sharing option to ensure all future schemes remain affordable, sustainable and fair.

59. The FBU strongly believes that any changes to contributions or benefits need to be evidence-based, and that means taking account of the actuarially assessed effects of the changes to ill-health retirement arrangements and the introduction of the NFPS. That will be available when the 2011 valuation is produced.

60. The FBU have made several references throughout this response to highlight why any raising of retirement ages is unrealistic, unworkable and has the potential to undermine the effectiveness of the fire service as a whole.

61. The response also highlights the importance of a recruitment and retention strategy for the fire service and the important part the pension schemes play in that.

62. There is an opportunity through the established committees to ensure that real evidence based reforms can be investigated and the FBU have shown that this process has been successful in implementing such reforms in the recent past. It is extremely important that any such reforms are based on robust information if real long term savings can be realised.