

7 Tweedside Park
Tweedbank
GALASHIELS
TD1 3TE

Firefighters' Consultees

www.sppa.gov.uk

Tel: 01896 892471
Fax: 01896 893214
firepensionsreform@scotland.gsi.gov.uk

7 October 2011

Dear Colleague

Firefighters' Pension Scheme Consultation – Employee contribution increases

In his address to Parliament on 21 September on the Scottish Spending Review 2011, the Cabinet Secretary for Finance, Employment and Sustainable Growth, John Swinney, announced the Scottish Government's decision to reluctantly apply employee contribution increases for the NHS, Teachers', Police and Firefighters' schemes in Scotland.

Attached is a copy of the consultation on proposed increases to employee contribution rates effective from April 2012 for the Firefighters' Pension schemes in Scotland. Responses should be sent by email to: firepensionsreform@scotland.gsi.gov.uk or by mail to the following address no later than 17 November 2011:

Firefighters' Pension Reform
Policy Branch
SPPA
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

A copy of the consultation documentation is also available on the Agency's website at www.sppa.gov.uk/fire/consultations

Yours faithfully



Chad Dawtry
Director of Policy
SPPA

FIREFIGHTERS' PENSION SCHEME (FPS) AND THE NEW FIREFIGHTERS' PENSION SCHEME (NFPS)

CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES EFFECTIVE FROM APRIL 2012

1. Purpose

This is a consultation by the Scottish Government on proposals for potential increases in the level of contributions scheme members will be required to make to the firefighters' pension schemes in Scotland from 1 April 2012.

This consultation will run for six weeks, from **7 October 2011** to **17 November 2011**. The Scottish Government invites views on the proposals contained in this document; the questions it poses; and related issues which consultees believe should have a bearing on the implementation of these proposals.

The Scottish Government will continue to discuss the proposals outlined in this document with representatives of Scottish firefighter stakeholders.

2. Background

Occupational pensions policy is reserved to Westminster. The UK Government is committed to a programme of reform of public service pensions, which draws on conclusions and recommendations made by Lord Hutton of Furness in his independent review of public service pension schemes commissioned by the Chancellor of the Exchequer in June 2010. The UK Government has made it clear that it expects its proposals to apply to public service schemes across the UK, including those in Scotland.

Broadly, the UK Government's proposed reforms incorporate:

- ◆ increases in the amount public servants will be required to pay towards their pensions from April 2012; and

- ◆ longer-term reforms to redesign the content and governance of public service pension schemes, which are expected to apply from April 2015.

This consultation is solely concerned with the first of these proposed reforms – increases in employee contribution rates which might apply to the firefighter schemes in Scotland.

The UK Government has made clear its intention that public sector workers should pay an average of 3.2% of pay more for their pensions by April 2014. It intends to introduce increases progressively – so that lower paid workers receive some protection and higher earners pay proportionately more for their pensions. It also intends to introduce these increases in three increments: 40% from April 2012; a further 40% from April 2013 and the final 20% from April 2014.

This consultation concerns the increases which might apply from April 2012 for the firefighter schemes in Scotland only.

In due course, the Scottish Government will consult on proposals for potential second and third year increases and on any proposals for longer-term reforms of public sector pension schemes in Scotland.

3. The Scottish Government's position on employee contribution rate increases

The Scottish Government remains committed to public service pension schemes that are affordable, sustainable and fair for public service workers and taxpayers alike. It recognises the importance of ensuring that those who have devoted their working life to public service are able to enjoy good quality pensions in retirement alongside its role of ensuring that public finances are used constructively and for the good of Scotland's communities.

Against that context, the Scottish Government has made it very clear that at a time of pay constraint and pressure on household finances - and in the absence of clear evidence of immediate need – the UK Government's policy of increasing employee contributions is unwarranted and disruptive.

However, despite repeated representations to the UK Government to allow a different course of action to be taken in Scotland, Her

Majesty's Treasury has reiterated its intention that, should increases not be applied in Scotland, the Scottish budget will be reduced by £8.4 million per month.

Such a reduction would reduce the level of public sector employment and run contrary to the direction of the Scottish Government's employment policy. In light of the UK Government's position, the Scottish Government has concluded that, regrettably, it has no choice other than to apply the increases in employee pension contributions the UK Government has proposed from April 2012, unless it can persuade the UK Government to change direction.

4. Principles

The Scottish Government takes its commitment to affordability, sustainability and fairness in public sector pension deals seriously. In developing the range of proposed increases, it has therefore paid considerable attention to protecting the low paid; minimising the risk of opt outs from the scheme; and ensuring that the additional burdens fall on those with the greatest ability to meet them, so that higher paid members pay proportionately more.

Our proposals on protection include:

- ◆ reinforcing the importance the Scottish Government attaches to the Scottish Living Wage, by ensuring that full time scheme members earning less than £15,000 a year will face no increases at all;
- ◆ offering partial protection to the newest members of the scheme to reduce the risk of opt-out.

Additionally, the Scottish Government is aiming to ensure that no-one in Scotland pays higher levels of contributions than their UK counterparts.

In these ways, the Scottish Government is endeavouring to make these changes as fair as possible.

As a starting point, the rates set out in this document are those which are currently being consulted upon for the firefighter schemes in England. We welcome consultees' views on how appropriate these rates will be in the context of the requirement to deliver the overall level of savings required by the UK Government.

5. Increase of contributions 2012-13

The FPS and NFPS are both unfunded schemes. They are both supported by contributions from employers, who contribute a percentage equivalent of a scheme member's pensionable pay into the scheme (a contribution valued at 27% in FPS and 14.7% in NFPS which is reduced to 21.8% and 11.5% respectively to take into account the additional payments an FRA make into its Pension Account for each ill-health retirement) and by employees who contribute a percentage of their pensionable pay (11% in the FPS and 8.5% in the NFPS) depending on their whole time equivalent earnings.

- The proposed new rates for both schemes are set out in the tables below, and are based on the proposed increases issued by the Department for Communities and Local Government (DCLG) for 2012/13. HM Treasury expect that the increased contributions should deliver a yield which represents an average increase of 3.2% of pensionable pay by 2014/15 delivered in 3 tranches of 40%, 80% and 100% of savings. This consultation proposes rates for 2012/13 only.

6. Proposals for the FPS and NFPS

Due to the levels of firefighter pay the Scottish Government's principal on fully protecting those full time employees who earn less than £15,000 will not apply. In making the proposals the DCLG seek to apply a lower rate of increase to the NFPS compared to the FPS as proportionately those scheme members currently pay more towards the total cost of the schemes contributions. The existing levels of employee and employer contributions, excluding ill-health charges, are as follows:

	Firefighters' Pension Scheme	New Firefighters' Pension Scheme
Employer	21.8%	11.5%
Employee	11.0%	8.5%
Ill-health	5.2%	3.2%
Total	38%	23.2%

Currently, members of the Firefighters' Pension Scheme pay less than 30 per cent of the total cost of the Scheme. For the New Firefighters' Pension Scheme, members contribute 37 per cent of the total cost. On that basis DCLG's rationale is that a lower increase for NFPS members compared to the Firefighters' Scheme is proposed. **In addition it should also be recognised that the benefits provided by the NFPS do not reflect those provided by the FPS where double accrual, actuarially related lump sum factors and earlier retirement ages apply**
Proposed FPS increases commencing from 1 April 2012

Pensionable pay band (wholetime equivalent pay)	Current rate	Proposed increase	Revised rate
Up to and including £15,000	11%	0.0%	11.0%
More than £15,000 and up to and including £21,000	11%	0.6%	11.6%
More than £21,000 and up to and including £30,000	11%	1.3%	12.3%
More than £30,000 and up to and including £40,000	11%	1.4%	12.4%
More than £40,000 and up to and including £50,000	11%	1.6%	12.6%
More than £50,000 and up to and including £60,000	11%	1.8%	12.8%
More than £60,000 and up to and including £100,000	11%	2.0%	13.0%
More than £100,000 and up to and including £120,000	11%	2.1%	13.1%
More than £120,000	11%	2.3%	13.3%

Proposed NFPS increases commencing from 1 April 2012

Pensionable pay band (wholetime equivalent pay)	Current rate	Proposed additional rate 2012-13	Revised contribution 2012-13
Up to and including £15,000	8.5%	0.0%	8.5%
More than £15,000 and up to and including £30,000	8.5%	0.6%	9.1%
More than £30,000 and up to and including £40,000	8.5%	0.8%	9.3%
More than £40,000 and up to and including £50,000	8.5%	0.9%	9.4%

More than £50,000 and up to and including £60,000	8.5%	1.0%	9.5%
More than £60,000 and up to and including £100,000	8.5%	1.1%	9.6%
More than £100,000 and up to and including £120,000	8.5%	1.2%	9.7%
More than £120,000	8.5%	1.3%	9.8%

EXAMPLE 1 FPS

A firefighter earning £28,000 would pay the following:

Current contribution rate	11%
Proposed contribution rate	12.3%
Current annual contributions	£3,080
Proposed annual contributions	£3,444

EXAMPLE 2 NFPS

A firefighter earning £28,000 would pay the following:

Current contribution rate	8.5%
Proposed contribution rate	9.1%
Current annual contributions	£2,380
Proposed annual contributions	£2,548

In the above examples if the scheme member was part-time earning £14,000 the contribution rate would be determined by the whole time equivalent rate i.e. £28,000 which would mean that the contribution percentage rates payable would be shown as above but they would be deducted from the firefighter's part-time pay.

A retained firefighter who has three years qualifying service, then the contribution increase is to be based on the full time equivalent pensionable pay of a firefighter who has been employed for three years in a similar role.

Employee pension scheme contributions are deducted from gross pay before income tax is deducted which provides for tax relief on those contributions. In the above examples the actual additional cost to the firefighter is estimated to be as shown in the tables below. These are for illustrative purposes only and assume lower rate tax relief of 20%. The net impact of the proposed increases would be determined by the individuals own circumstances.

EXAMPLE 1 FPS

A firefighter earning £28,000 would pay the following:

Current contribution rate	11%
Proposed contribution rate	12.3%
Current monthly cost before tax relief	£257
Current monthly net of tax relief	£206
Proposed monthly before tax relief	£287
Proposed monthly cost net of tax relief	£230
Estimated net monthly increase	£24

EXAMPLE 2 NFPS

A firefighter earning £28,000 would pay the following:

Current contribution rate	8.5%
Proposed contribution rate	9.1%
Current monthly cost before tax relief	£198
Current monthly net of tax relief	£158
Proposed monthly before tax relief	£212
Proposed monthly cost net of tax relief	£170
Estimated net monthly increase	£12

7. Consultation questions and how to respond

SPPA would welcome views about the proposals for the protection of the low paid and the maximum increase for higher earners. We would also welcome views about how the new tiered contributions should be set and any administration issues that may need consideration.

We would like you to consider these questions specifically when answering the consultation:

Question 1 Should we adopt the English proposals or adjust them to reflect circumstances in Scotland (and adjustments would need to achieve the required additional contribution yield for 2012/13)?

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

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?

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

- Minimising potential opt out from the scheme;
- Protecting those on lower incomes;
- Ensuring that they are set progressively, so that higher earners pay proportionately more?

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 tiering?

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

Administration implications of tiered contributions.

It is hoped that the introduction of a number of tiers will not create a disproportionate administrative burden on employers. The following proposal outlines how contribution tiers will be allocated and when they may be changed during the year.

To ensure that scheme members understand how tiered contribution rates operate, the first proposal is that the contribution rate applicable for the year will be set at the beginning of the year and, subject to significant salary-increases or decreases, would remain throughout 2012-13. It is proposed that an individual scheme member's contribution rate would be set using their Whole Time Equivalent (WTE) salary as at 31 March 2012. i.e. if a scheme member is earning £30,000 on that date that is the rate that will be used to determine the contribution rate for 2012/13.

The exception to this would be where a scheme member has a significant pay increase or decrease during the year where the contribution rate had been set and where it may be appropriate to reset their contribution rate to ensure fairness between scheme members on the same salary. However, the threshold for reviewing a scheme member's contribution rate needs to balance equity and fairness against the administrative burden. SPPA would welcome views on what that threshold should be.

For new scheme members appointed during the year it is proposed that their contribution rate would be determined by reference to their WTE salary on appointment. For scheme members with multiple employments, it is proposed that the scheme member would have a contribution rate for each separate employment, based on the WTE salary in that employment on 31 March. Again, SPPA would welcome views on this proposal in particular:

Question 7 From an administration perspective, are there any particular issues that need to be taken into account in introducing a tiered system for the firefighter schemes?

Question 8 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?

Question 9 Do you consider that the proposals for determining the contribution rate for new firefighters and those with multiple-employment are appropriate?

A full Equality Impact Assessment evaluating the approach proposed for the Scottish Firefighter Pensions Schemes in the above tables will be published in due course.

This consultation does not invite comments on the contribution rates in 2013-14 and 2014-15 as these will be the subject of further discussion with Trade Unions. This consultation concerns proposed increases relating to 2012-13 only.

The closing date for receipt of comments is **17 November 2011**.

Responses should be made by completing the Consultation Response Form at Annex A either electronically at

www.sppa.gov.uk/fire/consultations and emailing to:
firepensionsreform@scotland.gsi.gov.uk

or by mail to:

Firefighters' Pensions Reform
Policy Branch
SPPA
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

8. Next steps after the consultation ends

The Scottish Government will respond to this consultation by publishing draft regulations which will also be the subject of further consultation. In addition, a summary of the responses to this consultation will be made available on the SPPA website.

9. Confidentiality of information

We need to know how you wish your response to be handled and, in particular, whether you are happy for your response to be made public. Please complete and return the attached Respondent Information Form which forms part of the consultation questionnaire as this will ensure that we treat your response appropriately. If you ask for your response not to be published we will regard it as confidential, and we will treat it accordingly.

All respondents should be aware that the Scottish Government are subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

ANNEX A: CONSULTATION RESPONSE FORM FIREFIGHTERS' PENSION SCHEME (SCOTLAND). CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES EFFECTIVE FROM 1 APRIL 2012

Please Note this form should be returned with your response to ensure that we handle your response appropriately. An electronic version of the form can be accessed at www.sppa.gov.uk/fire/consultations

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 or **Group/Organisation**

(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)?

Please state yes or no: _____

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

Please state 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

(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 state yes or 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 state yes or no:

CONSULTATION QUESTIONS

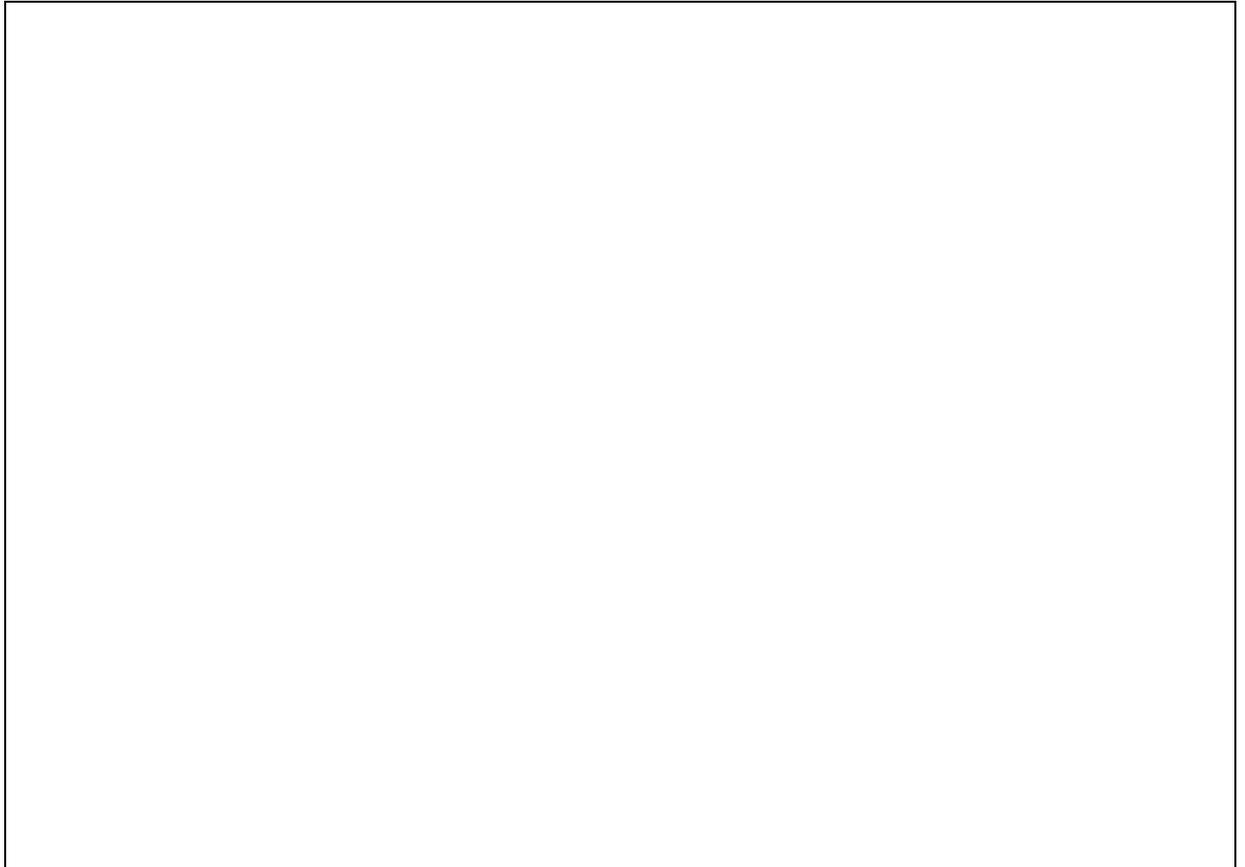
When responding to the following questions, please give reasons for your answers.

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%

Comment

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



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



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?

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?**

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?

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

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?

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?

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

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

Firefighters' Pensions Reform
Policy Branch
SPPA
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

Closing date for receipt of comments is 17 November 2011.

ANNEX B: CONSULTATION RESPONSE FORM NEW FIREFIGHTERS' PENSION SCHEME (SCOTLAND). CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES EFFECTIVE FROM 1 APRIL 2012: CONSULTATION RESPONSE FORM

Please Note this form should be returned with your response to ensure that we handle your response appropriately. An electronic version of the form can be accessed at www.sppa.gov.uk/fire/consultations

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 or **Group/Organisation**

(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)?

Please state yes or no: _____

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

Please state 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

(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 state yes or 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 state yes or no:

CONSULTATION QUESTIONS

When responding to the following 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 New Firefighters' Pension Scheme (Scotland) 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	8.5%	8.5%	0%
More than £15,000 and up to and including £30,000	8.5%	9.1%	0.6%
More than £30,000 and up to and including £40,000	8.5%	9.3%	0.8%
More than £40,000 and up to and including £50,000	8.5%	9.4%	0.9%
More than £50,000 and up to and including £60,000	8.5%	9.5%	1.0%
More than £60,000 and up to and including £100,000	8.5%	9.6%	1.1%
More than £100,000 and up to and including £120,000	8.5%	9.7%	1.2%
More than £120,000	8.5%	9.8%	1.3%

Comment

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



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



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?

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?**

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?

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

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?

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?

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

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

Firefighters' Pensions Reform
Policy Branch
SPPA
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

Closing date for receipt of comments is 17 November 2011.