



The Fire Brigades Union

General Secretary: Matt Wrack

Bradley House, 68 Coombe Road, Kingston-upon-Thames, Surrey, KT2 7AE

Telephone: 0208 541 1765

Facsimile: 0208 546 5187

E-mail: office@fbu.org.uk

«NameLine1» «RegionBrigade» «StationCode»
«NameLine2»
«Address1»
«Address2»
«Address3»
«Address4»
«Address5»
«Address6»

Circular: 2015HOC0032MW

20 January 2015

TO: ALL MEMBERS

Dear Brother/Sister

PENSIONS: WHY THE DCLG MINISTER IS WRONG ABOUT EARLY RETIREMENT FACTORS

In the recent letter from DCLG Fire Minister Penny Mordaunt to Firefighters in England (18 December 2014), the Minister criticises the active early retirement factor method we have been suggesting should be utilised for firefighters retiring at age 55 instead of the much more punitive one currently being adopted by DCLG. This circular sets out why her comments are flawed and misleading.

The Minister also raised this point in the Parliamentary debate on 15 December.

In her letter to firefighters, the Minister wrote:

Active factors

In short, active factors do not guarantee an early retirement reduction of 9% or 12% at age 55 as many, including the Opposition, have claimed. We took extensive actuarial advice on this specific issue as part of our deliberations on the final scheme design. What we found was that while active factors may look presentationally attractive, they actually provide a very uncertain and volatile early retirement factor. This is because active factors will be very sensitive to short-term changes in inflation and earnings growth.

We asked the Government Actuary's Department to calculate a factor using a real world scenario. They calculated that using the actual earnings and inflation figures between September 2008 and September 2012 to set the factors would result in an early retirement reduction of about 27% at age 55 under active factors. This compares with the early retirement reduction of 21.8% under the 2015 scheme regulations - almost half of what the 2006 scheme introduced at over 40%. So under active factors, firefighters would be guaranteed to earn less pension for every year they were a member of the scheme but they would have no certainty about the actual factor that would be in force when they wished to retire. This, alongside the worse ill-health pension that active factors provide and penalising those firefighters who choose to work longer, led me to conclude that active factors would not provide the best deal for firefighters.

We have written to her and explained why this paragraph is misleading and wrong.

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First of all the active early retirement reduction calculations, in England, Wales and Scotland have been confirmed by the Government Actuary's Department. The 12.8% figure was initially suggested in discussions that took place in January 2014 and confirmed (by GAD) as being affordable in March 2014. The 9% figure, however, was suggested entirely by GAD as part of its ongoing work in Scotland and Wales. The FBU and the opposition have only used figures that GAD - *on behalf of Government* - have authorised and accepted.

The Minister's suggestion that under recent circumstances 'actives' would produce a reduction of 27% while the DCLG proposal would produce a reduction of 21.8% is misleading. It is based on altering the assumptions for one method but not for the other - clearly an incorrect approach.

- DCLG have calculated their early retirement factor using **long-term** assumptions for CPI - which is 2%. However, for active early retirement factors, instead of using the long-term assumption for salary growth which is used to cost the scheme (of CPI + 2.25% = 4.25%) they have used the **current** CPI assumption (1%).
- Instead of comparing like for like they have altered the assumptions for just one of the two alternative methods to make their preferred option look better. This is an illogical and inconsistent way of comparing the two methods.
- If both comparisons used the current short-term CPI assumption of 1% the DCLG proposal would also be at around 27% instead of the 21.8% they suggest.
- All GAD assumptions use **the long-term assumptions** to calculate the ERFs, whether they are calculating "active" ERFs or "deferred" ERFs. (The long-term assumption is that salaries increase at CPI plus 2.25% a year.) It is **these long-term assumptions** that were used to calculate the cost of the scheme.
- It is misleading to suggest that only "active" ERFs will be sensitive to short-term changes in inflation and earnings growth.

In reality if an ERF of 9% (or 12%) at age 55 was introduced, then the DCLG Minister's statement that "...under active factors, firefighters would be guaranteed to earn less pension for every year that they were a member of the scheme ..." is misleading because in every case apart from someone working until age 60 a firefighter would be better off using active early retirement factors.

The comparison charts below demonstrate these points.

In each table the DCLG proposal (deferred factors with reduction of 21.8% with a better accrual rate) is compared to the proposal contained in the recent consultation document from Wales (active factors with reduction of 9% but a worse accrual rate).

Table 1 assumes Average Weekly Earnings is CPI + 2.25%

Age at retirement	DCLG proposal	Wales proposal
Accrual Rate	1/59.7 th	1/61.4 th
Reduction	21.8%	9.0%
55	£16,188	£18,316
56	£17,607	£19,351
57	£19,115	£20,420
58	£20,783	£21,525
59	£22,599	£22,666
60	£24,522	£23,843

Table 2 assumes Average Weekly Earnings is RPI (CPI + 1%)

Age at retirement	DCLG proposal	Wales proposal
Accrual Rate	1/59.7 th	1/61.4 th
Reduction	21.8%	9.0%
55	£13,059	£14,775
56	£14,110	£15,507
57	£15,216	£16,255
58	£16,434	£17,021
59	£17,751	£17,803
60	£19,132	£18,603

Table 3 assumes Average Weekly Earnings is CPI

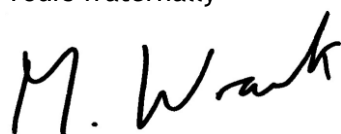
Age at retirement	DCLG proposal	Wales proposal
Accrual Rate	1/59.7 th	1/61.4 th
Reduction at 55	21.8%	9.0%
55	£11,099	£12,558
56	£11,935	£13,117
57	£12,810	£13,685
58	£13,771	£14,262
59	£14,804	£14,848
60	£15,882	£15,442

It is clear from all the charts that irrespective of whether average weekly earnings raise in line with CPI + 2.25%, with RPI or with CPI, firefighters who retire at ages 55, 56, 57, 58 or 59 using the Wales proposal would be better off using the active early retirement factors. (Because of a slightly worse accrual rate in the Scottish proposal (1/61.6th compared to 1/61.4th in Wales) firefighters who retire at ages 55, 56, 57 or 58 would be better off using the active early retirement factors).

The FBU has already written to the DCLG Fire Minister outlining our concerns with her comments on this issue. We have asked to meet her to discuss this as soon as possible.

Best wishes.

Yours fraternally



MATT WRACK
GENERAL SECRETARY

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