



Office of the
Deputy Prime Minister

Creating sustainable communities

Government Proposals for a New Firefighters' Pension Scheme



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A consultation document issued by the
Office of the Deputy Prime Minister, the Scottish Executive,
the Department of Health, Social Services and Public Safety for Northern Ireland and
the Welsh Assembly Government.

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Contents

Ministerial Foreword	5
Executive Summary	7
Section One: Introduction	10
Section Two: Key Issues	12
Section Three: Costs and Financing	20
Section Four: Transitional Arrangements and Future of the Firefighters' Pension Scheme	21
Section Five: Implementation Dates	22
Section Six: Responses	22
Appendix 1: Firefighters' Pension Scheme 1992; New Firefighters' Pension Scheme Options; and the Local Government Pension Scheme – Main Provisions	26
Appendix 2: Costs of possible new arrangements	33
Appendix 3: Consultation Criteria	35

Foreword

By Phil Hope, MP



In the White Paper *Our Fire and Rescue Service*, we promised to introduce a new pension scheme for firefighters more suited to the service of the future and reflecting changes in the relevant tax and regulatory framework, and this paper sets out our proposals for such a scheme as a basis for public consultation.

The Fire and Rescue Service is going through a period of major change and the Fire and Rescue Services Act 2004 makes the promotion of fire safety, as well as firefighting and other emergency responses, a core function. If these developments are to work successfully, we must provide the service with the systems to support change. A new pension scheme with the flexibility to meet the future requirements of the Service is therefore essential.

In 1998, the Government published proposals for change to the Firefighters' Pension Scheme which would have brought these arrangements more into line with other public service schemes: making pensions more affordable and reforming aspects of the arrangements for early retirement which resulted in the loss of highly skilled staff and imposed unacceptable cost burdens on authorities. Those proposals are no longer sufficient to address the deficiencies of the old pension scheme and support the service in the future, and we must make more fundamental changes.

We are not intending that members of the existing scheme be required to join the new scheme, although we will enable them to do so if they wish. We are issuing separately proposals for some further changes to the existing scheme although we do not intend that these should impact on the arrangements for those firefighters who can retire before 2013.

A handwritten signature in black ink that reads "Phil Hope".

Parliamentary Under-Secretary of State

Executive Summary

INTRODUCTION

1. The Government is committed to introducing new pension arrangements for firefighters. It is proposed that the new scheme should be available for new entrants joining at a date to be determined, but no later than 1 April 2006. The objectives of the new arrangements should be to bring firefighters' pensions into line with the pensions of other Fire and Rescue Service staff except where differences can be justified by the nature of the work or the needs of the Service. The new scheme should be a defined benefit arrangement, which might be linked to final salary or to final salary combined with earnings in earlier periods.
2. This document has been released on a UK wide basis as it would be the intention of the devolved administrations in Scotland, Northern Ireland and Wales to mirror these proposals. While the document refers to the Fire and Rescue Services Act 2004, this Act does not extend to Scotland and Northern Ireland, where work is currently underway to introduce similar legislation.

KEY ISSUES

3. *Membership* of the scheme should be available to regular (whole and part-time) and retained duty firefighters.
4. There is no justification for a compulsory retirement age in the pension scheme and the test should be capability for role. Instead there should be a normal pension age, at which a member may retire with benefits on an unreduced standard scale.
5. Whilst firefighters' pension arrangements have traditionally been aligned with those for police officers, this no longer appears to be justified and closer alignment with other members of the Fire and Rescue Service is recommended. There are good arguments for a *normal pension age of 65* on the basis that there will be sufficient non-operational jobs to provide posts for a significant proportion of those who are no longer fit for firefighting duties; although we invite comments on age 60 as an alternative.
6. The *deferred pension age* should be age 65.
7. There should be a single rate of *accrual* either at 60ths with an option to commute or 80ths with a fixed lump sum.
8. The existing pension scheme allows for *commutation* of part of the pension to a lump sum but creates an incentive to retire at the point when the lump sum can be maximised by the current commutation factors. It is proposed that this might be replaced by a *fixed lump sum*

or that a single commutation factor should be used regardless of the age or sex of the firefighter.

9. Pensionable pay should be limited to core pay and other permanent emoluments but other allowances and payments should be excluded. Whilst pension should continue to be based on final salary, it should be recognised that some members may choose to move to non-operational duties or step-down from a more senior role. The scheme should, therefore, allow for this without adverse effect on the pension benefits built up by that person.
10. The scheme should allow for payment of pension from age 55 at the discretion of the fire and rescue authority for organisational reasons. Those resigning before the normal pension age would otherwise receive a deferred pension.
11. We would propose to move to a two tiered arrangement for ill-health retirements. The first providing an immediate unenhanced pension, payable to those whose level of fitness would not prevent them taking up regular employment elsewhere; and a second with enhancements for those who are permanently disabled from taking regular employment.
12. Separate proposals will be made for *injury benefits* which in future will be outside the pension arrangements.
13. It is proposed that *survivor benefits* should be extended to unmarried partners, as well as widow(er)s, civil partners, and children. The maximum spouse/partner's pension should be 50% of the member's pension, and the children's pension too would be a percentage.
14. *Death grant* should be increased to 3 x pensionable pay.

COSTS AND FINANCING

15. The proposals outlined above should result in a reduction in the cost of firefighter pensions from the existing 37.5% of pensionable pay to between 19% and 24% depending on the precise combination of normal pension age, accrual rate, definition of pensionable pay and commutation terms chosen. On the basis that members will be expected to pay a contribution of about one-third, i.e. 6.5% to 8%, this would make the scheme more affordable for both the employers and employees and would be in line with other public sector schemes.

TRANSITIONAL ARRANGEMENTS

16. The existing scheme will be closed to new members probably from 1 April 2006.
17. Arrangements will be prepared to enable members of the existing scheme to join the new scheme, if they wish.

18. The new scheme will be open to retained firefighters. It is expected that this will be on the basis that new entrants will have automatic membership on the same basis as regular firefighters. Existing retained firefighters would have the option to join but would need to recognise that this could limit rights currently available to them for injury benefits combined with ill-health pensions under the 1992 Scheme.

IMPLEMENTATION

19. The new scheme is expected to come into operation from 1 April 2006.

SECTION ONE: INTRODUCTION

- 1.1. In the White Paper *Our Fire and Rescue Service* the Government committed itself to introducing new pension arrangements for firefighters more suited to the Fire and Rescue Service of the future.
- 1.2. This consultation document concerns the arrangements for new firefighters: that is those joining after a date no later than 1 April 2006, when the new scheme proposals have been finalised.
- 1.3. The deficiencies of the current pension scheme, which in its main provisions dates from 1948, have been recognised for many years. A review published in 1998 recommended a new scheme which would have met some of the concerns and reduced future costs. However the pensions and employment environment which existed in 1998 has changed fundamentally and a more radical approach is now needed.
- 1.4. Since 1948 the job of a firefighter has changed substantially. Improved equipment and risk management have reduced day-to-day dangers and the level of the risk facing firefighters is now similar to that of people in many other occupations.
- 1.5. The Independent Review of the Fire Service (*The Future of the Fire Service: reducing the risk, saving lives – December 2002*) found that research comparing the most dangerous jobs in Britain had concluded that the occupation of firefighting was 23rd out of 30. The risk of death or injury is relatively low due to the management of the very real hazards firefighters face through training, proper equipment and the effective management of risk at incidents.
- 1.6. Since 1998, when firefighting remained the core activity, change has accelerated. The Fire and Rescue Services Act 2004 places emphasis on the proactive role of the Service in the prevention of fire; gives a statutory basis for other emergency work; and recognises the role of the Fire and Rescue Service in responding to terrorist incidents. The modernisation programme is unlikely to be time limited and as in other areas of employment we can expect continuing change.
- 1.7. The Fire and Rescue Service is responding to the changes demanded by modernisation but, inevitably, each fire and rescue authority is working through this process in different ways and there is no single set of solutions. In fact, the new conditions of service recognise the need for local agreements on a range of employment issues. We cannot therefore plan for a single monolithic service but must assume a diversity of arrangements.
- 1.8. In our discussions with human resource managers from across the Service there was a clear expectation that substantial changes to working practices, including the current shift arrangements, were inevitable but no certainty as to what changes there would be. Nor was there any certainty about the possibilities for extending the roles of firefighters into additional community fire safety and other preventative work since these required competencies which firefighters had not required in the past and

could be carried out by non-uniformed staff with the necessary training at lower cost.

- 1.9. This means that in designing a new pension scheme we have to ensure that we do not create new restrictions or perverse incentives which place a straitjacket on the Fire and Rescue Service but provide a regime which is sufficiently flexible to allow for future change and development. It must also be capable of providing pensions which are affordable to both employer and employee.
- 1.10. Although the job of a firefighter may not carry the same risks as in the past, it remains dangerous and new risks, including possible threats from terrorism, are emerging. But these dangers should be reflected in pay and not in the pension arrangements beyond an ill-health and injury package which provides fair compensation for anyone, or their dependants, who is injured as a consequence of the work. Whilst the nature of the work will continue to demand high standards of fitness, particularly for firefighters in the early stages of their careers, new opportunities will be created in community fire safety and fire prevention work which should increase the opportunities for firefighters who no longer satisfy the fitness requirements or do not wish to continue in emergency response work: however, as pointed out in paragraph 1.8 above, such opportunities may require competencies which can only be acquired by training and the jobs may be paid less so there will be a need for stepping down arrangements within any pension scheme to enable benefits to be preserved at the point of job change.

Policy objectives for a new pension scheme

- 1.11. The main objectives for the new scheme are:
- Bring firefighters' pensions into line with other members of the Fire and Rescue Service (i.e. control room and administrative/support staff) in regards to pension provision, and consequently also with other local government and public sector employees so that differences are justified by the nature of the work or the needs of the service. This points to retaining the present defined benefit arrangements linked to final salary or earnings over a specified period;
 - Recruitment and retention;
 - Affordability: the present scheme has an employee contribution rate currently set at 11% of pay, and a notional employer rate which is more than twice this and increasing. The current costs are estimated to be 37.5% of pensionable pay. Reducing the cost of firefighter pensions will benefit firefighters, employers and taxpayers;
 - Flexibility and diversity: the present scheme has a number of perverse incentives which encourage firefighters to leave at certain points and the system of double accrual, under which after 20 years' service each year counts as double, penalises late joiners and those who take career breaks.

SECTION TWO: KEY ISSUES

Membership of any new pension scheme

- 2.1. At present membership of the firefighters' pension scheme is limited to regular firefighters, and this has recently been extended to include part-time as well as whole-time firefighters. Retained (and volunteer) firefighters are excluded although entitled to ill-health and injury benefits if injured or killed on duty: benefits are paid on a basis comparable to those for a whole-time regular firefighter of similar rank and service.
- 2.2. The recent pay negotiations and changes to the conditions of service have radically changed the basis upon which firefighters on the retained duty system are employed, for example, they are now paid the same hourly rate as regular firefighters and there are the same expectations under integrated personal development for the retained to progress towards achieving the same competencies. The expectation outlined in the report of the Retained Review Team is that in future the retained firefighters will not be doing a different job but only a different pattern of duty. This means that the reasons for retained firefighters being excluded from the full benefits of the same pension scheme as regular firefighters are increasingly less valid and there is no reason why they should not be members of the new pension scheme upon the same basis as part-time regular firefighters.

Retirement age

- 2.3. At present a firefighter with 25 or more years' service may retire at age 50 and the compulsory retirement age for a station officer and below is 55. The new regulatory regime for pensions, which is not negotiable, means that for new entrants from April 2006, the minimum age for taking pension benefits will rise to 55 with a deferred pension age of 65.

(a) compulsory retirement

- 2.4. We do not believe that there is any justification for a compulsory retirement age. The test should be capability for role. Fitness levels are improving and will continue to improve as occupational health provision, with a greater emphasis on monitoring the health of staff, and a positive attitude to health and safety become more effective.
- 2.5. In addition, staff are being recruited at higher ages and there will be greater opportunities for career breaks and part-time working, so fewer staff will be able to earn full pensions if a compulsory retirement age continues to be set; and many will want to maximise their pensions.

We propose that there should be no compulsory retirement age.

(b) Normal retirement age

- 2.6. The more usual arrangement is to set a normal pension age (NPA), that is the age at which a member may receive retirement benefits on an unreduced standard scale, e.g. a pension of 1/60ths or 1/80ths of final pay for each year of pensionable service. Employees can leave before NPA, with entitlement to preserved pension rights; or with the possibility

of reduced immediate pensions, actuarially reduced to take account of how much earlier than NPA the pension is being paid.

- 2.7. Firefighters' pension arrangements are currently aligned with police officers. The Home Office are proposing a new police pension scheme with a minimum pension age of 55. The Home Secretary is concerned at the loss of experienced operational police officers and one of the aims of their proposals is to aid retention by moving from a 30 to a 35-year scheme, whilst not ruling out the possibility of introducing a 40-year scheme at some point if projected fitness levels improve further; and with other changes to provide flexibility and diversity. The Consultation Document on a new Police Pension Scheme quoted costs of around 26%–30% of pensionable pay, and a similar scheme for firefighters would cost 27%–31% with a pension contribution for members of 10%–11%.
- 2.8. We believe that there are differences between the future needs of the Police and the Fire and Rescue Service. Not only is there no current shortage of potential recruits for the Fire and Rescue Service but we are also expecting the Service to place greater emphasis on fire safety creating a wider range of opportunities for staff over and above responding to emergencies. This points to bringing firefighters closer to the pension arrangements available to other employees of fire and rescue authorities who are members of the Local Government Pension Scheme.
- 2.9. There are good arguments for a normal pension age of 65, because this would bring operational members of the Fire and Rescue Service into line with other members of the Service including control room and support staff who are, and will continue to be, members of the Local Government Pension Scheme. This assumes opportunities for operational staff to develop competencies to expand their roles in supporting the wider functions of the Service provided for in the Fire and Rescue Services Act 2004, and in particular in promoting fire safety. However, we need to be confident that there will be jobs available for a significant proportion of persons who are no longer fit for operational duties. If not, we could find that ill-health retirements are not reduced and that, in practice, firefighters continue to leave with pensions at ages 50 to 55.
- 2.10. An alternative option would be to provide for a normal pension age of 60, although allowing members to continue working beyond that date. The relative cost of these two options would be between 19% to 23.5% for a normal pension age of 65 and 20% to 24.5% for a normal pension age of 60 depending on the actual details of the scheme, and therefore member contribution rates of between 6.5% and 8%.
- 2.11. It is difficult to look ahead and make assumptions about the structure of the Fire and Rescue Service in up to 40 years' time and beyond but for pension purposes we need to do so and make reasoned decisions. We should not, therefore, be planning a pension scheme on what is happening today but on what we expect to be happening when people who are being recruited now are preparing for their retirement. The costs of a pension scheme with more flexibility than the present scheme will also depend on how the employers use the new freedoms. We will look further at the developing picture as modernisation develops and expect

the employers also to address this issue. If pension costs do not fall sufficiently following modernisation, further steps may be needed to make pensions affordable.

We would like views on the proposal that the normal pension age should be age 65.

- 2.12. Whatever decision may be taken on normal retirement age, we believe that the deferred pension age for firefighters should be age 65, as proposed also for other new public service pension schemes, such as for the police. The Firefighters' Pension Scheme currently provides that members who leave the service early should have a deferred pension at 60, in line with the normal retirement age for other public service pension schemes. As the normal age for such schemes is moving to age 65, it would be right that the deferred age for firefighters should be 65, whatever decision is made about the normal pension age.

(c) accrual rate

- 2.13. In the current pension scheme maximum pension rights are accrued after 30 years' service and this is a disincentive for staff to remain in the service after that point with a consequent loss of experience. In the context of the changes in the terms of pension provision generally, and the modernisation of the Fire and Rescue Service, there is no reason why a person joining the service should expect to accrue a maximum pension solely from firefighting duties over a period of 30 years or so. If a member of the scheme is unable to remain in service because of ill-health, compensation should be through ill-health provision and, where appropriate injury benefits, not through a short accrual period.
- 2.14. At present, a firefighter's pension accrues at 1/60th each year for the first 20 years and 2/60ths each year thereafter to a maximum of 40/60ths. This discriminates against late entrants to the service or people who may take career breaks; and also contributes to the pattern of early retirements.
- 2.15. It has also been suggested that as an alternative to fast accrual and in recognition of the risks an enhancement of service for each year on operational duties up to a maximum period, e.g. 3 months extra for each year up to a 5 year maximum might be offered. We believe that this would be too complex, and administratively burdensome, if members of the scheme were to spend periods on community fire safety and other prevention duties, and it might be impossible to make the necessary distinctions where staff were employed in dual capacities as operational firefighters and community fire safety officers; or where more senior staff are on call for operational duties but generally do not attend incidents. It would also act as an incentive against staff doing preventative duties. Again any risks should be recognised through the pay structure.

(d) optional commutation or fixed lump sum

- 2.16. The commutation arrangements in the Firefighters' Pension Scheme allow a scheme member to convert part of the pension to a lump sum. Women retiring at the same age as men with the same pension benefits receive

larger lump sums, because at present the actuarial assumptions used differ between men and women. Where commutation arrangements vary with age, they create an incentive to retire at the point at which the benefit can be maximised.

2.17. The normal arrangement in public service schemes has been not to provide a commutation option, but instead to provide a lump sum of three times pension combined with a maximum pension of half average pensionable pay, i.e. 3/80ths of final pensionable pay for each year of service to give a maximum after 40 years' of 1.5 x final pensionable pay. More recently, the new Civil Service Premium Scheme allowed an option to commute at a rate not dependent on age or gender.

2.18. In conclusion, there are two main options:

- a normal pension based on 60ths with an option to commute: typically this would provide a lump sum of up to 2.25 times pre-commutation pension with a subsequent reduction of the pension of £1 per annum for each £12 taken as lump sum, although the new tax regime will allow for more generous commutation; or
- a normal pension based on 80ths with a fixed lump sum of 3 or 4 x pension.

Appendix 2 gives the estimated costs of these and some other options. The options with a fixed lump sum of 3 or 4 times pension are generally less expensive than those with optional commutation.

In addition:

- for those who accrue maximum service before normal pensionable age the excess service should be allowed to accrue for pension purposes;
- for those who work beyond normal pension age the additional service should be allowed to accrue for pension purposes.

Comments are invited on whether there should be single accrual and either optional commutation or fixed lump sum.

Pensionable pay

2.19. At present pensionable pay, used both for the calculation of pension awards and employee contributions, consists of core pay and pensionable emoluments such as flexible duty allowances. Temporary emoluments such as overtime are not pensionable.

2.20. It is not clear how new allowances are to be treated, e.g. the Continuous Professional Development Allowance, or any payments to reflect special skills or competencies. There will be a tendency that, if such payments become pensionable, they will be regarded as permanent and that once given they will not be withdrawn. There are therefore two options:

- make core pay and any permanent emoluments pensionable. These should be ongoing payments which would not fluctuate downwards and are payable until retirement;
- make core pay pensionable and nothing else. The scheme member could choose whether or not to pay any additional emoluments into a stakeholder/personal pension (on money purchase principles) to top up the pension.

- 2.21. In the case of retained firefighters, there is the question of whether the retaining fee should be treated as part of pensionable pay: there seems no obvious reason why it should be since it is supplementary to pay. Again there is no reason why a retained firefighter should not use it to buy a stakeholder/personal pension to supplement the firefighters' pension.
- 2.22. Under the existing pension arrangements a retained firefighter is entitled to an ill-health pension if injured on duty. The pension is the same as that of a whole-time regular firefighter of the same rank and seniority. This creates an anomaly in the case of a retained firefighter who also has a whole-time contract, whether with the same fire and rescue authority or another, since in certain circumstances they can receive two ill-health pensions, plus injury benefit. Treating the retained duty system as a form of part-time duty will remove the anomaly, since pension entitlement could accrue in respect of both contracts but would be proportionate to the service accrued.

We would welcome comments on the definition of pensionable pay.

Protection of pensionable pay

- 2.23. The pension scheme needs to be flexible enough to deal with any future changes to the working arrangements for firefighters. It needs therefore to be flexible enough to provide protection against the effects of lower pay if a firefighter moves from operational to non-operational duties or chooses to step down from a more senior role. We propose to incorporate measures such as the following:
- using step-backs to pick up higher pay, i.e. taking the best permanent pensionable earnings from a previous period as much as 13 years ago; or
 - treating the two periods of service before and after the pay reduction as separate for pension purposes, if this produces a better award than one based on total service and final pensionable pay.

However, a final salary pension scheme is not well adapted to employments with fluctuating pay. A possible alternative would be a scheme where pension is based on career average pay. This would take account of pay received throughout service, rather than final salary alone.

Comments are invited on these issues.

Early leavers

- 2.24. There are only two provisions for early exit in the FPS: the first allows a member to retire from age 50 with 25 years' service; and the second provides for compulsory retirement for a person from age 50 with 25 years' service "in the general interests of efficiency". Otherwise apart from resignation with a deferred pension, ill-health is the only route for early departure.
- 2.25. With the possible introduction of a higher normal pension age, there is likely to be a need for new arrangements which would enable members to leave early, at the discretion of the Fire and Rescue Authority. Therefore, we would propose that a separate compensation scheme should be developed to deal with early exits. Such a scheme could include an option that would enable management to invite individuals to retire early on grounds of structure, limited postability or limited efficiency. The benefit of such arrangements is that it avoids the need to resort to inefficiency procedures.
- 2.26. The new Fire and Rescue Service will still demand high standards of physical fitness and although a broadening of roles will create new opportunities for people who no longer meet exacting fitness standards, it will not be efficient if there is no provision for those who do not have either the competencies or the desire to continue in these roles; and at worse it might increase the numbers of ill-health retirements if management and scheme members saw this as the only option for early exit.
- 2.27. Accordingly, we would propose that there should be options for payment of pensions from age 55 at the discretion of the employer for structural or other reasons. Those resigning before age 55 in other circumstances should receive a deferred pension award from age 65. Those resigning from age 55 other than with the agreement of their employer for structural, etc. reasons should be able to claim an actuarially reduced pension. The extra cost of paying an unreduced pension from age 55 would have to be met by the employing authority.
- 2.28. We will be exploring the question of compensation payments for people who retire before age 55 for structural or other reasons, but this lies outside the pension scheme.

It is recommended that if the normal pension age is set at 60 or 65, there should be an option for payment of pensions from age 55 at the discretion of the employer.

Ill-health awards

- 2.29. A firefighter who is permanently disabled from performing the duties of a firefighter is currently entitled to an ill-health pension which is enhanced by an amount dependent on length of service. Enhancements are limited to the extent that a person's pension cannot exceed 40/60ths of average pensionable pay. Because the enhancements do not accrue smoothly, the present arrangements act as a perverse incentive to retire at certain points of service, e.g. after 26 years' service.

- 2.30. The level of ill-health retirements in the Fire and Rescue Service, at over 60%, remains higher than in any other area of public service. The majority of the early retirements are not directly related to work causes. Although there have been reductions in recent years and further changes to the Firefighters' Pension Scheme, which became effective recently, should reduce the level still further, numbers are expected to remain unacceptably high. It not only results in the loss of skilled and experienced staff but is also a drain on resources, which is wasteful and limits the money available for core activities.
- 2.31. The approach we would propose is to provide for two tiers. The first providing an immediate unenhanced pension and payable to those who can take alternative regular employment. Such persons may not be able to earn at the same level as in the Fire and Rescue Service and the pension would serve as a cushion between what was earned as a firefighter and the potentially lower paid job outside the Service.
- 2.32. For those permanently disabled from taking regular employment there would be a system of enhancements to compensate for the loss of earnings capacity. Enhancement could be in line with that currently provided for in the Firefighters' Pension Scheme, and also the present Local Government Pension Scheme, i.e, by reference to length of membership. Such enhancement would be limited by what could be accrued by the member had he/she not retired on health grounds by the normal pension age, and limited to 40 years' maximum. However, as noted by the Review of Ill Health Retirement in the Public Sector (July 2000), such a scale provides perverse incentives to go at certain points. A smooth scale of enhancements could avoid this. If pensionable service was enhanced by half the prospective service to normal pension age this could assist those who fall ill early in their careers but it would also make it financially advantageous for fire and rescue authorities to rehabilitate firefighters so that they remain in service.

Comments are invited on this issue.

Injury benefits

- 2.33. Under Inland Revenue rules, injury benefits, which are based on a minimum income guarantee, will have to be removed to a separate scheme as part of the process of modernisation. Proposals for a separate injury benefits scheme are currently being formulated. The Government have already indicated that any scheme will bring together the injury awards (including associated death awards) provided for in the Conditions of Service and the Firefighters' Pension Scheme.

Survivor pensions

- 2.34. Under the Firefighters' Pension Scheme benefits are payable to widow(er)s, children and adult dependants; the Civil Partnership Bill will extend survivors' benefits to registered same-sex partners in line with those paid to legal widow(er)s. Additional payments are made if the firefighter dies from the effect of injuries on duty. We would propose to maintain the existing structure except in respect of dependants where we believe that the possibility of providing by allocation should be sufficient for adult dependants.

- 2.35. It is Government policy that survivor pensions can be extended to unmarried partners if:
- the costs of the extra benefits are met by scheme members through higher employee contributions or a scaling back of other member benefits;
 - the general membership of the scheme want the change; and
 - there are practicable arrangements for defining eligibility
- 2.36. We would be ready to extend survivors' benefits to unmarried partners on these terms provided they were financially dependent on or interdependent with the scheme member. To ensure that such partnerships are binding commitments, we also propose to require that the partner had been nominated by the member before death, that the couple had been living together in an exclusive relationship for at least two years and that they are free to marry.
- 2.37. Pension schemes are increasingly including arrangements to limit the cost to a scheme where there is a significant age gap between the scheme member and their spouse/partner. We would want therefore to place a limit on the age gap between scheme member and survivor and propose that where the spouse/partner is 12 or more years younger than the scheme member, the survivor pension should be reduced by 2½% for every year or part year above the 12 years, up to a maximum of 50%.

Comments are invited on these issues.

Scale of widow(er)s/partners pensions

- 2.38. At present a spouse's pension is half of a firefighter's pension before commutation or two-thirds after maximum commutation. The present maximum survivor's pension is therefore equivalent to one-third of pay. If the design chosen is 80ths with fixed pension lump sum, it is proposed that the survivor's pension should be 50% of the firefighter's pension discounting the proposed fixed lump sum or any additional switching of pension and lump sum payments that may be agreed for the new scheme. If the design chosen is 60ths with optional commutation, the survivor's pension would accrue separately, based on 1/160th per year of service. In either case the maximum survivor's pension would be 25% of pensionable pay. The pension should also be paid for life and not cease on remarriage. In the case of deaths in service, the survivor's pension would be based on the ill health pension that would have been paid to the member in the event of upper tier ill health retirement at the date of death. For deaths in retirement or deferment, the survivor's pension would be based on half the firefighter's pension as awarded and inflation proofed.

Comments are invited on this issue.

Death grant

- 2.39. Death in service grant under the current scheme is currently 2 x pensionable pay.

- 2.40. The purpose of a lump sum is to help any survivors and dependants meet the changes to their circumstances, particularly as death in service also prevents the receipt of a retirement lump sum in the normal way.
- 2.41. Other public service schemes, including the Civil Service Premium Scheme, have increased death grant to 3 x pensionable pay and this is proposed for the new Police pension scheme. We would propose that the death benefit should be set at this level.

Comments are invited on this issue.

SECTION THREE: COSTS AND FINANCING

Costs/contribution rate

- 3.1. In the early 1990s, the cost of the existing Firefighters' Pension Scheme was estimated at 34.75% of pay. It is now estimated to be 37.5% of pay. The main reason for the higher cost is the increase in assumed life expectancy. Other changes, such as the later assumed average entry age, a lower assumed rate of ill-health retirement, and a slightly higher assumed rate of withdrawal, have mitigated the increase.
- 3.2. Moving to a normal pension age of 65 would reduce costs significantly, for two reasons. Benefits would build up more slowly than in the existing scheme, and they would be payable from a later age. The alternative proposal based on a normal retirement age of 60 would save less. The costs will depend on pension design and on assumptions made about when firefighters will leave the Fire and Rescue Service. Costs are likely to range from between 19% to 24% of pay. Switching to a police type scheme with a normal retirement age of 55 would increase costs again to between 27% and 31% again depending on the benefits. A breakdown is given in the tables at Appendix 2.
- 3.3. We would expect scheme members to pay a contribution of about one third of the costs, as has previously been done in the Firefighters' Pension Scheme.

Financing

- 3.4. The Firefighters' Pension Scheme is a pay-as-you-go scheme and costs of pensions are met out of revenue by fire and rescue authorities. The main problem for authorities is the year on year fluctuation of expenditure depending upon when individual firefighters commence pension and draw lump sums.
- 3.5. We do not propose to establish a funded scheme. In 2001, a Treasury, Home Office and Department of Transport, Local Government and the Regions official working party reviewed arrangements for the financing of police and firefighter pensions. The review recommended that employee contributions and a new employer's contribution should be paid into a pensions account from which pension awards and lump sum payments would be met. Government would top up the account at the end of the year, or recover any surplus, as necessary. The underlying principle would be that employer and employee contributions together met the

full costs of liabilities being accrued while central Government met the costs of paying retirement pensions. Authorities would retain responsibility for paying ill health retirement costs and injury awards. We shall be publishing proposals for consultation on the future arrangements for managing the financing of Fire and Rescue Service pensions, based on these recommendations.

- 3.6. These new arrangements would counter the yearly volatility in pensions expenditure and increase transparency in that authorities' budgets would accurately reflect the ongoing, accruing costs of providing the frontline service. We are therefore minded to pursue this option. Detailed proposals will be issued for consultation in early 2005.

SECTION FOUR: TRANSITIONAL ARRANGEMENTS AND FUTURE OF THE FIREFIGHTERS' PENSION SCHEME

(i) regular firefighters

- 4.1. The new scheme should be open to new entrants to the Fire and Rescue Service from the date at which the scheme comes into operation (see below).
- 4.2. Membership of the Firefighters' Pension Scheme should be closed to those who join the Fire and Rescue Service once the new scheme has been finalised and no later than the end of March 2006.
- 4.3. We hope to give members of the Firefighters' Pension Scheme the option to transfer to the new scheme. Some may want benefits which will not be available under the existing scheme (e.g. partner pensions) or to take advantage of the lower contribution rate. Members should also be able to freeze their pension rights in the existing scheme and join the new scheme for future service only. Rights under the Firefighters' Pension Scheme would be fully protected.
- 4.4. Transfer issues will be considered when details of the new scheme design are firmer.

(ii) retained firefighters

- 4.5. In the case of retained firefighters, there are two points which need to be decided. The first relates to membership and the second to rights to ill-health and injury benefits under the Firefighters' Pension Scheme.
- 4.6. On the first point we need to decide whether membership is:
 - automatic on the same basis as for regular firefighters, with the option to opt out; or
 - voluntary for all; or
 - automatic (with opt out) for new entrants and voluntary for existing retained firefighters.

- 4.7. On the second point, if retained membership is to be on the same basis as part-time regular firefighters, as proposed, it would be unacceptable to allow retained firefighters to continue to have injury benefits, which then also provide for ill-health pensions, on the same basis as whole-time regular firefighters with the same rank and pensionable service.
- 4.8. It would seem reasonable to give new entrant retained firefighters automatic membership of the new scheme on the same basis as regular firefighters, and to allow serving retained firefighters the option to join. Those exercising the option should lose their rights to whole-time regular ill-health and injury benefits unless it could be established that the condition was attributable to an event that occurred before the date on which they joined the new scheme.

Comments are invited on these issues.

SECTION FIVE: IMPLEMENTATION DATES

- 5.1. A new Pensions Bill is currently going through Parliament, but its effects on firefighters' pensions are expected to be relatively small. More importantly, pension taxation is to be reformed with effect from April 2006, with the introduction of a new tax regime.
- 5.2. In addition, plans for new financing arrangements are unlikely to be completed before April 2006, although the new scheme and financing arrangements do not have to be tied together.
- 5.3. Together these suggest a start date of April 2006 for the new pension scheme.

SECTION SIX: RESPONSES

- 6.1. Responses and comments on the issues raised in this consultation exercise are required by 14 January 2005.

How to comment

England

- 6.2. Comments can be e-mailed to: firepensions@odpm.gsi.gov.uk or you can write to:

New Firefighters' Pension Scheme
Fire Legislation, Safety and Pensions Division
Office of the Deputy Prime Minister
17/B, Portland House
London SW1E 5LP

Scotland

- 6.3. You can e-mail to: Firepensionscheme@scotland.gsi.gov.uk or you can write to:

Karen Bradley
Scottish Executive Justice Department
Fire Services Division
Room GW15, St Andrews House
Regent Road
Edinburgh EH1 3DG

Northern Ireland

- 6.4. You can e-mail to: publicsafetyunit@dhsspsni.gov.uk or you can write to:

Department of Health, Social Services and Public Safety
Public Safety Unit
Annex 4, Castle Buildings
Stormont, Belfast BT4 3SG

Wales

- 6.5. You can e-mail to: jason.pollard@wales.gsi.gov.uk or you can write to:

Jason Pollard
Construction, Fire and Domestic Energy Branch,
Welsh Assembly Government
Cathays Park,
Cardiff CF10 3NQ

- 6.6. This consultation is being conducted in line with the Code of Practice on Written Consultation issued by the Cabinet Office. The Code criteria are set out in Appendix 3.
- 6.7. The responses we receive will be considered by Ministers before decisions are made on the structure of the new firefighters pension scheme which we aim to have in place by 1 April 2006. We will publish the outcome of this consultation exercise as soon as possible after 14 January 2005.

Invitations to comment

- 6.8. Comments are invited on any issues raised in this document but comments are invited particularly on the following:

Issue 1. The existing Firefighters' Pension Scheme should be closed to new members once the new scheme has been finalised and no later than 1 April 2006 and new entrants to the Fire and Rescue Service should join the new pension scheme from that date. (paragraphs 1.2 and 4.1 – 2)

Issue 2. Membership should be limited to firefighters, whatever duty system they work (regular or retained). (paragraphs 2.1 – 2)

Issue 3. There should be no compulsory retirement age. (paragraphs 2.4 – 5)

Issue 4. The normal pension age: there are arguments for age 65, although we need to be satisfied that the roles which firefighters may be expected to carry out in the future will allow significant numbers of members to continue working to that age. The other possibility is age 60. (paragraphs 2.6 – 11). The deferred pension age should be age 65 (paragraph 2.12).

Issue 5. There should be single accrual. There is a range of options, the main ones being a pension based on 60ths with optional commutation or a pension based on 80ths with a fixed lump sum of 3 or 4 x pension. (paragraphs 2.13 – 18)

Issue 6. For those who accrue maximum service (40 years) before normal pension age the excess service should accrue for pension purposes and for those who work beyond normal pension age the additional service should be allowed to accrue for pension purposes. (paragraphs 2.13 – 18)

Issue 7. Pensionable pay should be defined by reference to core pay and possibly other permanent emoluments. (Paragraphs 2.19 – 22)

Issue 8. The scheme should incorporate measures to mitigate adverse effects on the pension benefits built up by a member who moves from operational to non-operational duties or who steps down from a more senior role. Should firefighters' pensions be based on career average earnings? (paragraph 2.23)

Issue 9. There should be an option for payment of pensions from age 55 at the discretion of the employer. (paragraphs 2.24 – 28)

Issue 10. Firefighters retired for ill-health reasons who can take alternative regular employment should have an immediate unenhanced pension. Those permanently disabled from taking regular full-time employment should have enhanced pensions. Enhancements should be limited by reference to normal pension age, or 40 years' service, whichever is the lower. (paragraphs 2.29 – 32)

Issue 11. Survivor pensions should be extended to unmarried partners. (paragraphs 2.34-37)

Issue 12. Maximum spouse/partner's pension should be 25% of the member's pensionable pay, payable for life; and the children's pension too should be a percentage. (paragraph 2.38)

Issue 13. Death benefit should be 3 x pensionable pay. (paragraphs 2.39 – 41)

Issue 14. Scheme members should pay a contribution of about one third of the costs. On the basis of a normal pension age of 65, costs will range

from 19% to 24% of pay depending on the benefits paid, giving a contribution of 6.5% to 8%. (paragraphs 3.1 – 3)

Issue 15. Options for members of the Firefighters' Pension Scheme to transfer to the new scheme will be considered. Rights under the Firefighters' Pension Scheme will be fully protected. (paragraphs 4.3 – 4)

Issue 16. Should membership by retained firefighters be automatic or voluntary; or could it depend on whether the person was an existing member of the Service or a new entrant? Should membership be on the same basis as regular firefighters, whether whole or part-time. (paragraphs 4.5 – 7)

Appendix 1

Main Provisions – Firemen's Pension Scheme Order 1992 (FPS), New Firefighters' Pension Scheme Options and the Local Government Pension Scheme (LGPS)

FPS		Firefighters – New Scheme – options for consultation	LGPS Currently subject to review
Eligibility	<i>Wholetime regular firefighters. Retained firefighters</i> are not members of the FPS, but are covered for injury benefits.	Regular and retained* firefighters. *to be treated in a similar way to part-time regulars.	All employees of local government and a number of associated employers; includes Fire Service Control staff and administrative and support staff.
Type of Scheme	Final salary	Final Salary	Final salary
Funded or Unfunded	Unfunded	Unfunded – but with a reformed system of financing.	Funded
Cost of scheme benefits as % of pensionable pay	37.5% (assessment July 2004 – prior to that assessed as 34.75%)	Between 19% and 24% of pensionable pay, depending on final options.	Approximately 22%.
Employees contributions	11% (subject to possible increase as a result of July 2004 assessment)	About one third of total cost.	6% (5% protection for those members contributing at lower rate as at 31/3/98 in continuous membership of similar nature)
Inflation proofing	In line with Retail Prices Index from age 55, although from pension start date for ill health retirement and survivors' pensions.	In line with Retail Prices Index from age 55 although from pension start date for ill health retirement and survivors' pensions.	In line with Retail Prices Index from age 55, although from pension start date for ill-health retirement and survivors' pensions.

FPS		Firefighters – New Scheme – options for consultation	LGPS Currently subject to review
Rate of accrual for pensionable service	1/60th for each of the first 20 years, after which 2/60ths for each year up to 10 additional years. Maximum service 40/60ths (i.e. 30 years for pension of 2/3rds final pensionable pay)	Uniform accrual. Options: 1/80ths for each year with fixed lump sum; OR 1/60ths for each year with an option to commute part of the pension into a lump sum.	1/80 for each year of service up to 40 years (which would provide a pension + lump sum of slightly less than 2/3rds of final remuneration). (Proposals to remove 40-year limit from 2006.)
Pensionable Pay	Pensions calculated on the best average pensionable pay out of the last 3 years.	<ul style="list-style-type: none"> Pensionable pay in the last 12 months with an option to step-back at least 3 years (and up to 13 years) to pick-up a higher pay period; OR When firefighter changes roles the periods are treated separately for pension purposes: OR Career average pensionable pay. 	Pensionable pay in final year. Provision to step-back for a further 2 years with an option to go back further 10 years where earlier pay frozen/reduced beyond control of member.
Pension Lump Sum	By commuting up to 1/4 of pension.	Options: <ul style="list-style-type: none"> Up to 2.25 x pre-commutation pension; OR Fixed of 3 or 4 x pension. 	3/80ths of final pensionable pay for each year of service. (Automatic lump sum of 3x pension but members may give up either pension or lump sum to increase payment of the other benefit).
Normal retirement age	Compulsory at 55 for ranks up to and including station officer; 60 for assistant divisional officers and above. Exceptionally can be postponed at the discretion of the Fire Authority.	No compulsory retirement age. Normal pension age of 65/60/55.	65

FPS		Firefighters – New Scheme – options for consultation	LGPS Currently subject to review
Earliest normal retirement age	Ranks below Chief Fire Officer may retire on unreduced pension from age 50 with 25 years service. (Chief Fire Officer with permission of authority)	<ul style="list-style-type: none"> • 55 with actuarial reduction of pension award; or • 55 with unreduced pension paid at discretion of employer and at employer cost. 	Currently able to retire on unreduced pension from age 60 if the sum of their service and age is at least 85 years. (Current consultation proposes to remove this provision from April 2005, with transitional arrangements for members who could retire before age 65 by April 2013).
Early payment of benefits	Actuarially reduced benefits are not available. But payment may be made of <i>unreduced</i> pension from age 50 with 25 years service for ranks below Chief Fire Officer. (CFO with permission of authority).	Actuarial reduction for those wishing to take pension benefits between ages 55 and 65.	Currently benefits can be paid from age 50 with employer's consent. (Current consultation proposes to increase this to age 55 from April 2005 – with transitional arrangements for members who have already attained age 50). Such benefits are normally reduced; however, the employer can waive this reduction on compassionate grounds. Actuarial reduction will also not apply if service + age totals 85. This facility is being phased out as above. Where a member attains age 60 they are entitled to elect for immediate payment of benefits – currently where service + age does not total at least 85, the benefits are actuarially reduced to reflect early payment.

FPS		Firefighters – New Scheme – options for consultation		LGPS Currently subject to review	
Resignation after qualifying for pension	Deferred award payable at age 60 calculated as a proportion of the pension that would have been received if a firefighter had continued until retirement age. A deferred award can also be commuted for a lump sum when it becomes payable. It can also be paid early on ill-health grounds.	Deferred pension payable from age 65 calculated on service to date. It may be paid early on ill-health grounds.	Deferred award payable automatically at age 65 based on service accrued in the scheme. Member can elect for earlier payment from age 60 or 50 if employer agrees (as above). It may be paid early on ill-health grounds.		
Death grant	2 x pensionable pay to the spouse or personal representatives.	3 x pay.	Death in service benefit of 2 x salary.		
Widows'/ Widowers' Pensions	<p>(i) Serving firefighter – 13 weeks at the rate of pensionable pay. Thereafter 1/2 of a serving firefighter's notional ill-health pension.</p> <p>(ii) Pensioner – 13 weeks at the rate of the retired firefighter's pension. Thereafter 1/2 of the firefighter's pension.</p>	<p>Serving firefighters: Maximum based on 25% of a firefighters' pensionable pay (upper tier of ill-health enhancements applied for death in service)</p> <p>Retired firefighters: 1/2 former member's pension. + pension to be lifetime award.</p>	3-6 months pension to legal spouse at the rate of final pay or pension in payment followed by 50% of normal pension entitlement for life. 50% of member's ill-health pension in the case of death in service.		

FPS	Firefighters – New Scheme – options for consultation	LGPS Currently subject to review
<p>Children's Pensions</p> <p>Child's allowance or gratuity -Payable to:</p> <ul style="list-style-type: none"> • Children under 16; • 16 to 17 except where in full-time employment unless this is vocational training of at least one year; • 17 to 19 where in full-time education/training or permanently disabled and substantially dependent or Fire Authority exercise discretion to pay. • 19 or over if in full-time education <p><i>Ordinary Pension</i> –</p> <p>Other parent alive – 18.75% x firefighter's (notional) pension per child up to a limit of 37.50%.</p> <p>No other parent alive – 25% x firefighters' (notional) pension per child to a limit of 50%.</p> <p>Additional benefits paid if firefighter dies as result of a qualifying injury.</p>	<p>Children's benefits to be a percentage of the scheme member's pension.</p>	<p>Children (25% where spouses pension is payable)(children includes those over the age of majority who remain in constant full-time education from age 17, or physically/mentally incapacitated and became so as a child)</p>
<p>Dependants Benefits</p>	<p>Provision for Dependent Relative Benefits is included for certain other relatives who may have been dependent upon the firefighter financially at the time of death. These are discretionary.</p>	<p>Not included. It could be provided by allocation.</p>
	<p>Provision for Dependent Relative Benefits is included for certain other relatives who may have been dependent upon the firefighter financially at the time of death. These are discretionary.</p>	<p>No provision but can be provided by allocation.</p>

FPS	Firefighters – New Scheme – options for consultation	LGPS Currently subject to review
<p>Partners' Pensions</p>	<p>Not available.</p> <p>To include:</p> <ul style="list-style-type: none"> • civil registered partners; • unmarried couples, but subject to nomination and other requirements as set out in the in the new civil service scheme and proposals for new Police Scheme. 	<p>Not available</p>
<p>Early payment of pension on grounds of redundancy or limited efficiency</p>	<p>Not available.</p> <p>Exit packages outside of the pension scheme to be introduced to support management with structural changes, limited postability and limited efficiency – may help avoid inefficiency procedures.</p>	<p>Automatic payment of benefits where employment is terminated on grounds of redundancy or efficiency and the member is aged 50 or over (rising to 55 from April 2005, as above).</p>

<p>FPS</p>	<p>Firefighters – New Scheme – options for consultation</p>	<p>LGPS Currently subject to review</p>
<p>Ill Health Retirement</p>	<p>Enhanced pension. With over 13 years service enhanced by up to 7/60ths of final pensionable pay (so maximum ill-health pension of 40/60ths can be achieved after 26.5 years); with 10-13 years, pension enhanced to 20/60ths. With 5-10 years, service is doubled; under 5 years no enhancement.</p>	<p>Enhanced pension paid early where members cease employment by reason of being permanently incapable by reason of ill-health of discharging efficiently their duties and those of any comparable employment (comparable employment is defined)(subject to completion of 3 months contributory membership). Enhancement is currently by reference to membership (minimum of 5 years required to qualify): doubled if less than 10 years; increased to 20 years if membership more than 10 but less than 13 1/3 years; and 6 2/3rd years in all other circumstances). (Currently under review, consideration being given to introduction of tiered ill-health benefits along lines of the civil service and Police schemes. Review mechanism also being considered).</p>

Appendix 2

Costings of any new pension arrangements

The options shown in the table below range from a full pension of half final salary plus an additional fixed lump sum of up to four times the pension (i.e. 2 x pay) to a full pension of 2/3 final salary with the option of commuting part of it for a lump sum up to three times the pre-commutation pension (i.e. 2 x pay).

The estimated costs of each option are shown as a percentage of pensionable pay. This is the estimated total cost on both employers and employees expressed as a constant percentage of pay over the working life of a typical member, sufficient to fund the accrual of pensions as if the scheme were a funded arrangement. The range of costs in current cash terms, assuming an annual pensionable pay bill of £900 million¹, would be from £275 million for the most expensive option to about £171 million for the least expensive. It is important to note that these costs relate to the value of pension benefits accruing each year to serving officers. The actual cash expenditure on pensions is governed by a range of other factors, primarily the pensions that were accrued by past officers.

The options include schemes with Normal Pension Ages of 65, 60, and 55. The Normal Pension Age (NPA) is not a compulsory retirement age. The Normal Pension Age is the age at which firefighters could retire with unreduced pension. For the option with Normal Pension Age of 55, figures are given on two assumptions about when firefighters will retire on pension: all at age 55, or at a spread of ages between ages 55 and 60.

The estimated costs depend on assumed career patterns in the FRS, as well as on mortality, the mix of upper and lower tier ill-health retirements, and other such factors. The gap between the estimated costs of schemes with different Normal Pension Ages is therefore the consequence both of differences between the scheme benefits, and of the assumptions made about firefighters' behaviour and career patterns in those schemes. Likely career patterns in an FRS where unreduced pension benefits are not normally available until age 65 are difficult to forecast. For this reason, the figures for the options with a Normal Pension Age above 55 are quoted as an indicative range, rather than a single estimate. Also, given the uncertainty about future career patterns, the differences between the respective tops and bottoms of the ranges of costs for the options with Normal Pension Ages of 60 and 65 do not necessarily indicate the savings to be made from moving to Normal Pension Age 65.

¹ CIPFA Fire Service Statistics 2003: pensionable pay of FPS members GB 2001-02.

	NPA 65	NPA 60	NPA 55	NPA 55
<i>Normal retirements take place at:</i>	65	60	55	55-60
Pension accrual rate	1/80	1/80	1/70	1/70
Pension + fixed lump sum of:				
3 x pension	19% – 22%	20% – 23%	28.5%	27.2%
4 x pension	20% – 23%	21% – 24%	29.7%	28.4%
Pension accrual rate	1/60	1/60	1/52½	1/52½
Pension + lump sum by commutation of:				
2¼ x pre-commutation pension at 12:1	20.5% – 23.5%	21.5% – 24.5%	30.6%	29.2%
3 x pre-commutation at 12:1	20% – 23%	21% – 24%	30%	28.7%

Appendix 3

Consultation Criteria

The Code of Practice on Written Consultation issued by the Cabinet Office recommends the following criteria:

- A Timing of consultation should be built into the planning process for a policy or service from the start, so that it has the best prospect of improving the proposals concerned, and so that sufficient time is left for it at each stage.
- B It should be clear who is being consulted, about what questions, in what timescale and for what purpose.
- C A consultation document should be as simple and concise as possible. It should include a summary, in two pages at most, of the main questions it seeks views on. It should make it as easy as possible for readers to respond, make contact or complain.
- D Documents should be made widely available, with the fullest use of electronic means (though not to the exclusion of others), and effectively drawn to the attention of all interested groups and individuals.
- E Sufficient time should be allowed for considered responses from all groups with an interest. Twelve weeks should be the standard minimum period for a consultation.
- F Response should be carefully considered and open-mindedly analysed, and the results made widely available, with an account of the views expressed, and reasons for decisions finally taken.
- G Departments should monitor and evaluate consultations, designating a consultation co-ordinator who will ensure the lessons are disseminated.

The full code of practice is available at:

www.cabinet-office.gov.uk/servicefirst/2000/consult/code/ConsultationCode.htm

