

Report to	North Wales Fire and Rescue Authority
Date	20 January 2025
Lead Officer	Helen MacArthur, Assistant Chief Officer, Finance and Resources
Contact Officer	Helen MacArthur
Subject	Welsh Government Consultation – employee contribution rates for the firefighters' pension scheme



PURPOSE OF REPORT

- 1 To provide Members of the North Wales Fire and Rescue Authority (the Authority) with information on the Welsh Government's consultation on proposed changes to the employee contribution rates for the firefighters' pension scheme in Wales.

EXECUTIVE SUMMARY

- 2 The Welsh Government is currently consulting on proposed changes to the employee contribution rates and contribution structure within the Firefighters' Pension Scheme (FPS) in Wales. The consultation document can be found [here](#).
- 3 The 2020 valuation of the firefighters' pension scheme undertaken by the Government Actuary's Department (GAD) identified that the yield from employee contributions was below the 13.2% yield required for the scheme. Employee contributions have special protection under section 22 of the Public Service Pensions Act 2013 and rates can only be amended following consultation.
- 4 The consultation document sets out a range of proposals and seeks comments via a series of structured questions by 4 February 2025.
- 5 The proposed response to be sent on behalf of the Authority is set out within [Appendix 1](#).

OBSERVATIONS FROM THE LOCAL PENSION BOARD

- 6 This report has not previously been considered by the Local Pension Board due to the timing of the consultation.

RECOMMENDATIONS

- 7 It is recommended that Members:
- i) note the background to the Welsh Government consultation; and
 - ii) approve the response to be submitted on behalf of the Authority.

BACKGROUND

- 8 The Welsh Ministers have responsibility for the regulations relating to the operation of the Firefighters Pension Scheme in Wales. These responsibilities include setting the employee and employer contribution rates.
- 9 Following the latest valuation undertaken in 2020, Members will recall that the contribution rates for employers were increased from April 2024. In addition, the Government Actuary's Department noted that the employee yield was lower than the required 13.2%. Accordingly, Welsh Ministers are required to review and revise the contribution rates to address this. However, due to special protections under section 22 of the Public Services Pensions Act 2013 the underpinning regulations can only be amended following consultation.
- 10 The Welsh Government consultation was published on 12 November 2024 and will close on 4 February 2025. The consultation can be viewed [here](#).

INFORMATION

- 11 The underpinning principles considered when setting the employee rates are confirmed within the consultation document as:
- Contributions should be affordable, and the changes should not induce members to opt out of the scheme;
 - rates should be structured in favour of lower paid scheme members;
 - rates should not discourage career progressions;
 - the contribution rate structure should be future-proofed; and
 - the system should be straightforward to administer.
- 12 The current contribution rate structure includes contribution rates of between 11% and 14.5% based on pensionable pay, noting that competent firefighters pay a contribution of 12.9%. The consultation document includes the following options that are being considered:

- Maintain the current system but amend the contributions rates for each of the existing bands. This would be the simplest option but does not future proof the system.
- Update the current system to introduce contributions on a marginal basis similar to the mechanism for determining tax. This means that an employee's contribution rate would vary. Whilst this does remove any disincentive for promotion due to higher contributions it does present significant administrative challenges.
- Calculate contribution rates based on actual salary rather than whole-time salary (assumed pensionable pay). This would benefit on-call employees but would require the contribution rates for all staff to increase to ameliorate the impact.
- Link contributions to grade structures set out within the Firefighters' Terms and Conditions of Service (the Grey book).

- 13 The consultation sets out nine structured questions around both the principles and the different options for structuring the employee rates. The proposed response to be submitted on behalf of the Authority in its capacity of Scheme Manager is set out in [Appendix 1](#).
- 14 The proposed response confirms that linking contributions to grade structures provides an easy to administer approach that supports the principles established. However, this option in its current form contains a disincentive effect for employees considering promotion due to the significant effect of widening the contribution rates between bands. This option includes a proposed a reduction in contributions for firefighters but increases the contributions for crew managers and above. Subject to this disincentive effect being addressed this remains the preferred option.
- 15 In addition, feedback is provided to the Welsh Government around the timing of the introduction of any changes. This is necessary both to communicate with those affected and also to ensure that the necessary administrative changes can be made including software updates.

IMPLICATIONS

Wellbeing Objectives	The proposed changes align to the Wellbeing Objectives and provide for a sustainable and affordable pension scheme.
Budget	No impact – the consultation is based on employee contribution rates.
Legal	The Authority is under a legal duty to ensure compliance with the Scheme Regulations.
Staffing	This matter directly impacts on employees who are members of the public sector pension schemes offered by the Authority; depending on the scheme, members may choose to opt out of the pension scheme.
Equalities/ Human Rights/ Welsh Language	The proposals have been subject to an equality impact assessment by the Welsh Government.
Risks	The proposals address the risk that the employee yield on the firefighters' pension scheme will not be achieved.

Appendix 1 – Proposed responses

Question 1

How far do you agree that the new structure should be underpinned by the principles outlined above? Do you think some principles are more important than others?

Underpinning Principles

- **Contributions should be affordable, and the changes should not induce members to opt out of the scheme**

Affordability is a basic principle required to ensure that all staff plan and contribute towards their retirement which needs to be balanced off against the sustainability of the scheme. However, this is clearly a risk that needs to be carefully modelled and managed as increasing contributions may make members consider opting out, which in turn would then leave fewer members to fund the scheme.

- **Rates should be structured in favour of lower paid scheme members.**

The principle of affordability is closely aligned to structuring the rates to best favour those employees who are lower paid. This approach is currently an accepted and simple mechanism that individuals understand and accept and is supported by the Scheme Manager also.

- **Rates should not discourage career progression**

This principle is agreed. Whilst members currently accept that an increase in salary, due to promotion, may indeed require them to pay more contributions, this is understood and members recognise that under the CARE principle of the 2015 Scheme, the more they contribute the higher their pension will be when they retire. Any new structure should not introduce perceived barriers to promotion due to an unrealistic increase to pension contributions.

- **The contribution rate structure should be future-proofed**

To the extent that this is achievable, this principle is agreed. The existing employee contribution structure has been in place for a number of years but has not kept pace with salary increase due to annual pay awards. This in itself has contributed to the current need for a fundamental review, in order to meet the required yield of 13.2%. However, it should also be noted that ongoing discussions around modernising firefighter salaries at a national level may impact on this aspiration.

- **The system should be straightforward to administer**

This principle is fully supported both to reduce the administrative burden but also to reduce the risk of error. Any fundamental changes to the current contribution structure need to be practical and workable for all stakeholders. Members need to easily understand what they are expected to pay, payroll systems need to be able to manage the structure of deductions automatically without manual intervention and administrators need to also understand how an individual's salary is constructed in order to ensure that contributions are being deducted correctly.

Question 2

How far do you agree that employee pension contributions should be calculated on a marginal basis, rather than a tiered basis?

Whilst the introduction of a marginal based structure would enable a greater feeling of fairness, with those on higher salaries paying additional contributions only on salary above the basic bandings, any fundamental changes to the current contribution structure would need to be practical and workable for all stakeholders.

Members need to easily understand what they are expected to pay, payroll systems need to be able to manage the structure of deductions automatically without manual intervention and administrators need to also understand how an individual's salary is constructed in order to ensure that contributions are being deducted correctly.

If there is a move to a marginal basis, compared to a tiered basis, the proposed implementation date of April 2025 would be unachievable, as significant changes to the way current payroll systems are configured would need to be updated and tested. Payroll managers would need to be included in this avenue of thought, as well as their payroll system providers. It would not be practical to change the contribution structure if it led to manual calculations of employee contributions needing to be done on a regular basis.

Even with the introduction of a marginal approach, thought would still need to be given to the bandings and percentages increases above the basic rate applied to all.

Question 3

How far do you agree that employee pension contributions should be based on the Fire Service grade structure rather than by financial banding?

Whilst members currently accept that an increase in salary, due to promotion, may indeed require them to pay more contributions, this is understood and members recognise that under the CARE principle of the 2015 Scheme, the more they contribute the higher their pension will be when they retire. Any new structure should not introduce perceived barriers to promotion due to a realistic increase to pension contributions.

Moving towards a structure based on Fire Service grades rather than salary, ensures that any salary increases are captured and future proofs the banding structure into the future. However, this approach needs to be mindful of future national discussions around modernising of firefighter pay and the potential for crossover of salary bands within the fire service grades.

Given the contribution proposals set out in the consultation document, it is highly possible that some members may be deterred from applying for promotion due to the increase in contributions, especially whilst on development pay. Additionally, this approach could inadvertently introduce a culture of extended temporary promotions, which enable the member to remain in their previous banding, as temporary promotions are not pensionable in the 2015 Scheme. Whilst the principle of structuring rates is in favour of lower paid employees, this may be perceived as changing the balance out of favour of those seeking promotion. Overall whilst this appears a good, workable and easy to administer proposal, a review of the contribution levels for each grade would further enhance this option.

Additionally, structure based on grades affords complete transparency and enables individuals to understand what contributions they should be paying.

Question 4

How far do you agree that contributions should continue to be calculated by reference to wholetime equivalent salary rather than actual pensionable pay?

The proposal to move towards contributions based on actual pensionable pay would benefit on-call members and would potentially lead to them paying less contributions overall. However, to maintain the yield it would be necessary to adjust the contributions of all wholetime staff and result in higher contributions than set out within other options.

Although it accords with the principle of favouring the lower paid employees, there is potential for this different approach to become divisive amongst members and this would need to be carefully managed.

This approach also moves the on-call members away from the role-based principal, which is the option being suggested for the future.

Question 5

How far do you agree with the detailed proposal set out in paragraphs 37- 40 above?

Placing all on-call firefighters on a single contribution rate accords with the principle that rates are structured for lower paid employees. Equally, this potentially removes a perceived barrier to promotion within the on-call cohort of staff. Although relatively easy to administer it would require updates to existing software and therefore an implementation date of April 2025 would not be achievable.

However, the impact for wholetime staff of the proposed contribution rates currently set out within table would need to be worked through to ensure that the increase for wholetime staff was neither divisive nor negatively perceived to the extent that employees left the pension scheme.

Question 6

If you do not agree with the proposal outlined above, do you have an alternative suggestion of how the contribution rate should be structured?

The proposals set out within Option 3, modified for on-call employees, provide a clear methodology. The potential detrimental effects for those seeking promotion could be addressed through narrowing the contribution rates between all grades of staff, whilst maintaining the principle that lower paid staff pay less.

Question 7

We would like to know your views on the effects that the above proposals would have on the Welsh language, specifically on opportunities for people to use Welsh and on treating the Welsh language no less favourably than English. What effects do you think there would be? How could positive effects be increased, or negative effects be mitigated?

No impact

Question 8

Please also explain how you believe the proposed policy could be formulated or changed so as to have positive effects or increased positive effects on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language, and no adverse effects on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.

No impact

Question 9

We have asked a number of specific questions. Do you have any other comments on our proposals or any related issues which we have not specifically addressed?

- It is important that Scheme Managers have sufficient time to make any administrative changes including updates to software for payroll systems. Accordingly, achieving an implementation date of April 2025 is not considered achievable. Furthermore, introducing the changes retrospectively will create an administrative burden and create concern for employees.
- If Wales brings in a new contribution structure from April 2025, there is potential for that to be somewhat different to the changes that are introduced in England, Scotland and NI. It is noted that the Home Office is currently working to an October 2025 implementation date in England.

- As a Scheme Manager we would prefer a later implementation date to ensure not only that administration and software changes are made, but also that communication takes place with employees to explain the changes and the potential impact. The workloads on existing teams should be considered given the work around existing legal challenges.
- If affordability is considered a significant impediment to joining the pension scheme an alternative approach may include the introduction of a 50/50 option similar to the LGPS. However, it is understood that this may negatively impact on the yield as those on higher salaries may be more inclined to take advantage of this option.
- Has consideration been given to aligning the approach in Wales with the firefighters' pension schemes in England and other devolved nations? Any divergence could potentially affect cross border transfers due to different contribution rates, leading to higher or lower pensions in Wales. Also, we need to be mindful that significant changes to administration processes and current practices may increase the cost of these contracts to the Services across Wales.