



# FIRE BRIGADES UNION

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Established 1918

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## 2011PENSIONS/SS

6<sup>th</sup> January 2011

Martin Hill,  
Workforce Pay and Pensions Division,  
Department for Communities and Local Government,  
5F/6 Eland House,  
Bressenden Place,  
London, SW1E 5DU.

Dear Martin,

### **39TH FPC MEETING ADDITIONAL AGENDA ITEM: INDEXATION REQUIREMENTS**

Thank you for sending me the meeting papers for the 9<sup>th</sup> FPC meeting, to be held on 12 January.

We would like to add the proposal to change the indexation of benefits as an agenda item. I enclose a paper on the subject and I should be grateful if you would circulate to members of the committee.

Yours sincerely,

**SEAN STARBUCK**  
National Officer

## Indexation of benefits payable under the FPS and the NFPS

### 1. Background

In the Budget Red Book, the Treasury said that the government will use the CPI for the price indexation of benefits and tax credits from April 2011, and went on to say that:

*“This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension.”*

(Budget Red Book, paragraph 1.106)

The DWP subsequently issued a press release on 12 July that said:

*The proposed changes will affect how many deferred pensions are revalued in future, and how pensions in payment are increased. The changes apply to defined benefit rights in occupational pension schemes, and certain defined contribution rights in occupational pension schemes. The changes will affect the statutory minimum requirement for revaluation and indexation; occupational pension schemes will still have the freedom to pay more than the statutory minimum.*

The issue has been raised in numerous written and oral answers in both Houses of Parliament. For present purposes the most pertinent exchange is this:

***Yvette Cooper:** To ask the Chancellor of the Exchequer with reference to the Budget Red Book, page 40, Table 2.1, line 22, which (a) benefits, (b) tax credits and (c) public service pensions are to be uprated in line with the consumer price index. [12649]*

***Mr Gauke:** This measure will cover all benefits and tax credits that were previously uprated by either the retail price index or Rossi index. This change will also apply to public service pensions through the statutory link to the indexation of the state second pension.*

(HC Written Answers, 6 Sep 2010 : Column 201W)

In short:

1. The Government’s intention is to change the indexation of public service pensions where the current indexation requirement is via the link to the indexation of the State Second Pension; and
2. There is no requirement to apply indexation in line with the CPI instead of the RPI – occupational pension schemes are at liberty to provide a different rate of indexation so long as it meets the *minimum* requirement of CPI indexation.

## **2. Indexation in the FPS and the NFPS**

### **(i) Additional Pension Benefits (APBs)**

Circular FPSC 8 (2010) points out that the RPI is referred to explicitly in relation to the revaluation of APBs in the period between the date they accrue and the date they come into payment. This basis for indexation (RPI and not CPI) is completely unrelated to the increases in the State Second Pension and as the Circular correctly states, the switch to CPI indexation announced in the Budget Statement will not automatically apply.

If the relevant rules are to be amended there therefore needs to be a reason for doing so. The Circular is wrong to suggest that the change automatically follows from the Budget Statement or anything that has subsequently been said.

In our view there is no justification for changing the current provisions. The basis on which LSI and CPD were to be pensionable was the subject of long negotiations between the FBU and Employers' representatives through the NJC. The FBU's position was that APBs should be indexed in line with national average earnings during the period before retirement but we eventually agreed to RPI indexation. That agreement is accurately reflected in the current rules and to change them now to provide for CPI indexation without further discussion is entirely unjustified.

### **(ii) Other benefits**

We agree with the Circular when it states that FRAs should review the communications that they have sent to members regarding the indexation of benefits. There is no doubt that they have been led to believe that their pensions will increase in deferment and in payment in line with the RPI.

Members have made decisions regarding their futures in reliance on what has been told to them. The most obvious instances are as follows:

1. Some members have selected their retirement age on the basis that a pension increasing in line with the RPI is sufficient, and would not have done so if they had realised that the increase would not keep pace with their patterns of expenditure.
2. Some members have transferred in benefits from other non-Club pension schemes on the basis of representations that the service credit they will receive will increase in line with the RPI. The service credit has been calculated on that basis and would have been greater if the calculation had assumed CPI indexation.
3. Some members have paid for added years AVCs or purchased additional pension where, again, the price paid has been calculated on the actuarial assumption that the pension bought would increase in line with the RPI. If the calculation had assumed CPI indexation then the price would have been lower or the service credit or additional pension would have been higher.

We have always negotiated terms and conditions of employment, including pensions, on the explicit understanding that pensions will be indexed to the RPI. If a change is to be made then it should be the subject of proper consultation and negotiation.