FIREFIGHTERS' PENSION COMMITTEE

NOTE OF THE 33rd (SPECIAL) MEETING OF THE FIREFIGHTERS' PENSION COMMITTEE HELD ON 11th JANUARY 2010 AT ELAND HOUSE, BRESSENDEN PLACE, LONDON

(A list of the attendees is attached in Annex A)

1. Introduction

1.1 The Chairman welcomed members to the special FPC meeting to discuss the actuarial valuation of the firefighter pension schemes and the implications for the pension schemes. He introduced Phil Lancashire who was attending on behalf of Ian Hayton (CFOA) and Paul Fuller who was attending on behalf of Des Prichard (APFO).

1.2 Terry Crossley of CLG initiated the discussion by making reference to the 2009 Pre-Budget Report and in particular the extract from Chapter 6 (paragraph 6.51) that had been circulated to members previously (Annex B). He explained that this would help place the actuarial valuation of the firefighters' pension schemes into the context of Government policy on the future of public service pensions. During negotiations at the Public Service Forum in 2005 (which covered the 3 major unfunded pension schemes i.e. Civil Service, Teachers and NHS) it was accepted that there should be direct recognition by members of the financial costs of providing their pensions to ensure that the schemes remained sustainable and affordable; and that cost capping and sharing arrangements should be introduced. Now that Ministers' expectations were clear, it was now imperative for the FPC to consider what measures were necessary for the firefighter pension schemes.

1.3 In order to encourage discussion it was agreed that the note of the meeting would be non-attributable.

2. Valuation Report

2.1 During the discussion the following points were made:

Basis for Valuation

- The GAD valuation report was an actuarial assessment of the firefighter pension schemes in England;

- the assumption of 3.5% yield on investments was the same rate adopted for the 2004 costing exercise and was set by HM Treasury for valuing public service pensions;

- a financial assumption of 2% growth in earnings was also set by HM Treasury;

- It was asked whether any consideration had been made to take account for variations between the assumptions made as part of the report and the actual scheme experience. In response, reference was made to the Sensitivity Analysis section of the report (Part 7) which provided an analysis of the sensitivity of the valuation results to some of the key financial assumptions adopted;

- It was questioned whether any consideration had been given to the potential impact on age retirements of the increase in average age of entry to the FPS. It was suggested that the increase in age at entry could be explained by employers favouring applicants with "life experience", and the fact that employees were able to transfer more freely amongst occupational pension schemes

- In response, it was emphasised that all assumptions were evidence based and, therefore, it would not be acceptable to change the current assumptions adopted for age retirements until the effects of the increase in age at entry had fed through; to amend the assumptions at this stage would be premature and mean that it would no longer be evidence based;

- If there was evidence that demonstrated that employees were transferring between careers more, then this was something that would be considered for future valuations;

- There was evidence to suggest that members of the FPS 1992 who had accrued maximum pensionable service wanted to work beyond the 50/55 years of age;

- There was concern regarding absent data from a number of FRAs. In response, it was explained that the main reasons for absent data was that some FRAs had not submitted their data on time for the final analysis whilst there were issues with the quality of other submitted data. Assurances were given that sufficient data had been received to ensure a credible assessment;

- As data from some of the larger FRAs had not been included as part of the costing analysis then this could create presentational implications for the valuation report. Further consideration would be given to formalising the process of collecting data from FRAs for future valuation exercises;

Age & Ill-health Retirements

- It was recognised that most FRAs were now performing well with regards to managing ill-health retirements;

- There have been significant improvements in the rates of Ill-health retirements in the Fire and Rescue Service to a point where the vast majority of retirements were now age related; this has meant that there had been a reduction in costs to FRAs as a direct consequence of paying fewer ill-health charges;

Longevity

- Reference was made to GAD's note on Scheme Pensioner longevity (Annex C). The main conclusion of the analysis was that the longevity of a firefighter in retirement compared favourably to that of the general population with male firefighter pensioners generally expected to live for an additional 2 years;

- For the purpose of the valuation and in line with common actuarial practice, it was assumed that the trend in pensioner longevity would continue in line with that of the general population;

Affordability

- Cost sharing arrangements had already been introduced to the LGPS. An actuarial valuation of the LGPS was due to take place on the 31st March 2010. Any increase in future costs that exceed the agreed "Cap" would be borne by members in the form of increased contribution rates, decreased benefits, or some other form of strategic mechanisms to cut costs or increase income. The introduction of cost sharing arrangements underpins the direction of all the public sector pension schemes;

- The public's negative perception of public service pensions has been well documented in the national Press. The adoption of cost sharing principles was a very practical tool to ensure that public service pension schemes remain both viable and sustainable. Cost sharing is also a very strong presentational tool that can be put to any incoming administration to justify the continuation of the firefighter pension schemes;

- The FPS 1992 was still the most beneficial and costly public sector pension scheme available. Any increase in employer contribution rates would apply direct pressure on council tax rates. There was no public empathy for public sector pensions and, therefore, it would not be

publicly acceptable if council tax rates were to be increased to cover the increased cost of pensions;

- The valuation report determined the cost of the FPS 1992 to have risen from 37.5 to 37.7% of pensionable pay. With an employee contribution rate of 11% and after deducting the costs associated with ill-health retirement identified in the valuation as 2.3% of pensionable pay, the underlying cost for employers was 24.4% so that the current employer contribution rate of 21.3% of pensionable pay left a shortfall of the equivalent of 3.1% of total pensionable pay. This was mainly attributable to increases in pensioner longevity;

- Assuming that Council Tax increases would be capped then any increase in employer contribution rates to cover the shortfall in pension costs could only be covered by cuts to base budgets and could, therefore, ultimately result in service cuts and/or job losses;

- The Government had decided when introducing the NFPS 2006 not to close the FPS 1992 whereas the old LGPS had been closed and members moved into a new scheme with their past service benefits protected;

- One of the reasons for introducing the NFPS was to address the cost of the FPS and it was unreasonable to seek to revisit decisions taken in 2006 not to close the Scheme.

- The cost of providing a FPS 1992 member with a pension for life had increased significantly and there was a real need to consider managing the benefits and sharing the costs of the scheme. If the issue was not dealt with then there was a risk that any incoming administration could impose more draconian measures;

- The introduction of the financing arrangements in 2006 had given authorities the incentive to manage ill-health retirements but they did not have to manage, or the means to manage, the costs associated with ordinary retirements. It was clear that the overall pensions liability was increasing and there was an urgent need to consider ways of giving authorities the means to manage ordinary retirements with incentives to encourage firefighters to remain in service and defer taking their pensions;

- Reference was made to commutation: although it was recognised that the FPS commutation arrangements are considered to reduce long-term costs, other public sector schemes had already incorporated fixed commutation factors into their provisions as a means of making them more affordable;

- In terms of public spending, Local Government had entered into a period of austerity and a shortfall of 3.1% would have severe

consequences for local government budgets. As a Committee, there was a real need to consider all viable means of bridging this gap in financing;

Contribution Rates

- As more firefighters join the NFPS 2006 income from employer contributions would decrease but this transfer over to the NFPS would occur over a prolonged period of time;

- The 11% member's contribution for the FPS was already greater than in other public sector schemes and it would be unreasonable to expect members to pay more;

- In the 2009 Pre-Budget Report the Government stated that a larger share of any required increase in employee contributions would be met by those on higher salaries;

- It was argued that whilst increasing contribution rates for higher earners might be useful in terms of addressing the issue of negative public perception, it would generate a very small amount of income relative to the funding shortfall;

Next Valuation

- It was confirmed that the firefighters pension schemes was committed to a 4 year valuation cycle with the next valuation due to take place in 2011.

- The FPS 1992 and NFPS 2006 scheme regulations would be amended to make this a statutory obligation.

3. Conclusion

3.1 There was general consensus that stakeholders should continue the discussion on the valuation assessment of both firefighter pension schemes.

3.2 The Chairman concluded discussions by explaining that CLG would produce a Committee paper setting out some of the options for the schemes for discussion at the next FPC meeting on 18th February.

ACTION: CLG to produce a Committee paper setting out options for discussion.

4. Dates of Future Meetings

18 February 2010 **(11am)**
13 May 2010 **(11am)**
25 August 2010 **(11am)**
17 November 2010 **(11am)**

Communities and Local Government
January 2010

Annex A

Attendees

Martin Hill (Chairman)	DCLG
Terry Crossley	DCLG
Andy Boorman	DCLG
Anthony Mooney (Secretary)	DCLG
Ian Boonin	GAD
Orla Nally	GAD
Fred Walker	LGA
Ged Murphy	Advisor to LGA
Christine McGuire	DHSSPSNI
Terry McGonigal	NIFRS
Jason Pollard	Welsh Assembly
Sean Starbuck	FBU
Ivan Walker	Thompsons Solicitors
Phil Lancashire	CFOA
Paul Fuller	APFO
Glyn Morgan	FOA

Apologies

Jim Preston	SPPA
Eunice Heaney	Pensions Consultant
John Terry	COSLA
Brian Wallace	COSLA
John Barton	RFU
Tristan Ashby	RFU

Annex B

Public service pensions

6.51 Since 1997, the Government has introduced reforms to tackle increasing pension costs arising from longevity: these include higher pension ages and reform of ill health benefits. In addition to these cost saving measures, the Government is implementing further significant reforms to public service pensions. Cap and share reforms to the Teachers, Local Government, NHS and Civil Service pension schemes will cap the contribution to pensions made by employers, thereby limiting the liability of the taxpayer as pensions become more valuable. Cost increases below the cap will be shared equally between employers and employees, and those above the cap met solely by employees. In addition, as part of cap and share, the Government will expect those earning the highest salaries to pay a greater contribution towards their pension. These reforms will save an estimated £1 billion a year from 2012-13, and at least twice this amount over the long-term.

Annex C

Please see PDF attachment.