

## FEEDBACK ON STAKEHOLDER COMMENTS ON VALUATION ASSUMPTIONS

### Issue

1. At the 50<sup>th</sup> meeting of the Firefighters' Pension Committee, the Government Actuary's Department provided advice on assumptions to be adopted for the Firefighters' Pension Schemes valuation as at 31 March 2012. Comments were sought from members of the Committee on those assumptions.

### Background

2. There is an ongoing valuation of the firefighters' pension schemes as at 31 March 2012. The valuation will set the employer contribution rates for each of the schemes to apply from April 2015. As part of the valuation process, the Department will adopt scheme specific assumptions to enable GAD to undertake the valuation. In their letter of 8 October 2013, GAD proposed draft advice on the appropriate assumptions to be adopted for the 2012 valuation, as a basis for consultation. The Department consulted with members of FPC on those draft assumptions.

### Responses

3. Three written responses were received. A summary of those responses are set out in Annex A, along with a final response from DCLG and/or GAD. Where stakeholders did not raise queries or issues with the assumptions in their response these have not been included. A number of responses also raised questions about the methodology and robustness of the data. These are addressed below.
  - *The valuation will need to take into account the retained duty system pension settlement* - there is too much uncertainty about the likely take up by members of the settlement to include assumptions in the 2012 valuation. This will be picked up by subsequent valuations.
  - *We would like to see greater clarity on how changes in cost arising from GAD assumptions relating to 2012 to 2015 and the period prior to 2012 will affect contribution rates* - Costs arising from the period prior to 2012 is based on scheme experience and detailed scheme income and expenditure data provided by fire and rescue authorities as part of the top-up grant process. The period from 2012 to 2015 will be based on the assumptions used for the 2012 valuation for the respective scheme.
  - *We would welcome assurances that all deaths have been reported when the data was extracted – i.e. if this was soon after 31 March 2012 some deaths may be missing* – The data was requested from authorities on 12 December 2012 but the data used for the valuation can only be as good as the data provided by individual fire and rescue authorities. GAD provide a data verification tool for fire and rescue authorities to check the data. GAD also carried out an overall member by member reconciliation between pensioner members (excluding dependants) who were present in the 2007 data and those who were present either in the 2012 valuation data or the 2007-12 movements data. This process

uncovered a significant number of extra deaths in 2007 to 2012. After this exercise, GAD were content that the reconciliation indicated that data on pensioner deaths was credible. However, GAD's checks would not pick up instances where deaths have not been recorded in the 2007-12 movements data and the member record remains in the 2012 valuation data.

4. Also attached as Annex B, is the summary of proposed assumptions.

## SUMMARY OF COMMENTS RECEIVED ON GAD PROPOSED ASSUMPTIONS

<b>Assumption</b>	<b>Summary of stakeholder comments</b>	<b>DCLG/GAD comments</b>	<b>Assumption adopted</b>
Promotional pay scale	One respondent recommended that the assumption should reflect the introduction of new duty systems targeting firefighters closer to retirement age since 2012, allowing for pay progression in excess of general wage inflation beyond 30 years' service. One respondent stated that it was too early to determine whether new duty systems create a surplus or deficit and that retirement rates for individuals whilst temporary promoted is low. Another respondent believed that there will be an evening out of the proposed pay scale from 5 years service to retirement.	The Department surveyed fire and rescue authorities to assess the impact of temporary promotions and the introduction of new duty systems. Following that, GAD's advice was that the data provided some evidence that both temporary promotions and duty payments were awarded to a range of firefighters with no clear pattern. Under that scenario, there would be no impact on the promotional salary scale.	As in draft report dated 8 Oct
Age retirement ( <i>new entrants from 2015</i> )	One respondent asked for confirmation that the "profit" released when a 2015 scheme member retires early (due to early retirement factors based on CPI revaluation rather than on Average Weekly Earnings revaluation) will be taken into account in calculating the cost cap in future valuations.	<p>The proposed valuation assumption is that, for new entrants from 2015, 25% of members are assumed to retire at age 57 with the remainder retiring at 60.</p> <p>This assumption is the same as used in reform calculations and hence the affordable accrual rate that was determined as part of the reform process was calculated taking account of this 'profit'.</p> <p>If, at future valuations, the assumption is changed, then this will impact on the cost cap mechanism. A reduction in those assumed to retire early at a future valuation would put an upward pressure on scheme costs recognised under the cost cap. The reverse would be true of an increase in those assumed to retire early.</p>	As in draft report dated 8 Oct

<b>Assumption</b>	<b>Summary of stakeholder comments</b>	<b>DCLG/GAD comments</b>	<b>Assumption adopted</b>
<p>Age retirement: <i>Members with service in both 1992 and 2015 schemes</i></p>	<p>One respondent commented that as GAD had not made a recommendation, pending the finalisation of the design of the 2015 scheme, that the same assumption should be adopted for members with mixed service as for fully protected 1992 scheme members.</p> <p>Another respondent suggested that members with low 2015 scheme service (under 5 years), will retire at their earliest opportunity, members with more service will retire at age 55.</p>	<p>Version 4.0 of HMT's draft directions stipulates that the benefits to be valued are those set out in the proposed final agreement dated 24 May 2012.</p> <p>For members with service in the 1992 and 2015 schemes, retirement before age 57 will significantly reduce the value of benefits accrued in the 2015 scheme.</p> <p>Therefore some such members may choose to delay retirement to age 57, but it is difficult to predict how many.</p> <p>Tapered members will generally accrue a greater proportion of their benefits in the 1992 scheme than the unprotected members, so it is reasonable to assume that retirement decisions will be more focused on the availability of 1992 scheme benefits for tapered members than for unprotected members. The same is true of members with more accrued service in the 1992 scheme.</p>	<p><b>Members with tapered protection and members with no tapered protection and 16 or more years accrued service as at 31 March 2012</b> retire in line with 1992 scheme assumptions</p> <p><b>Members with no tapered protection and less than 16 years accrued service as at 31 March 2012</b> do not retire earlier than age 57</p>

<b>Assumption</b>	<b>Summary of stakeholder comments</b>	<b>DCLG/GAD comments</b>	<b>Assumption adopted</b>
<p>Ill health retirement: <i>Incidence</i></p>	<p>One respondent commented that a Normal Pension Age of 60 will increase the rate of ill-health retirements between age 50 and 60. They state it is arguable that current data is skewed towards healthier lives as the firefighters who have chosen to work beyond their NPA. They recommend that given the lack of credible data at the crucial ages, it would be appropriate to maintain the 2007 ill health retirement incidence rates.</p> <p>Another respondent suggested that the level of IHR between 2007 and 2009 was artificially low due to a reluctance to process IHR pending the issuing of clear guidance and the current level should be adopted. This respondent also suggested that the incidence of IHR should increase more steeply due to a NPA of 60.</p>	<p>Observed ill-health retirements at ages below 50 are significantly lower than the 2007 valuation assumption therefore GAD does not regard retaining the 2007 valuation assumption to be best estimate.</p> <p>GAD initially agreed that there was merit in the suggestion that the recent increase in IHR rates was a 'bump' caused by uncertainty over the Marrion judgment, however the most recent published FPS membership data<sup>1</sup> shows that the trend for IHR has continued to rise. Therefore GAD do not believe it is appropriate to lower the ill-health assumption from that proposed.</p> <p>GAD recognises that arguments could be made for steeper increases to ill health rates over the 55 to 60 age range where there is little evidence from the scheme. However, GAD's proposed assumption already has higher rates of ill-health retirement at older ages, based on the same proportional increase in ill-health rates at these ages as those used for the 2007 valuation and the reform work.</p>	<p>As in draft report dated 8 Oct</p>

<b>Assumption</b>	<b>Summary of stakeholder comments</b>	<b>DCLG/GAD comments</b>	<b>Assumption adopted</b>
<p>Withdrawal: (2006 scheme and new entrants from 2015)</p>	<p>One respondent stated that previous experience may not necessarily be a good indication of future experience. Given the lack of credible data, the second alternative recommended, which assumes that the withdrawal behaviour of 2006 scheme members is the same as 1992 scheme members, would appear to be most appropriate. They also stated that a rate of 4 or 5 times the rate of retained firefighters leaving service compared to regular firefighters is more credible.</p> <p>One respondent suggested that the higher withdrawal rate should be applied as that reflects the increasing number of members leaving the 2006 scheme. Another respondent suggested that withdrawals will increase following contribution increases in 2014 and that opt outs from the 2015 scheme will be high initially but will be similar to the 2006 scheme in the medium term.</p>	<p>GAD still accepts that arguments could be made for either of the two approaches set out in its draft report.</p> <p>DCLG agree that current behaviour is not a good indicator for this assumption. Whilst opt out rates from the 2006 scheme are higher than the 1992 scheme this is a short term effect which may not be seen in the long term. It is considered that once members are in the 2015 Scheme and have a substantial level of service, they will remain there. There are different factors for retained firefighters where their withdrawal rate may be driven by external circumstances.</p> <p>Using the 1992 scheme rates for regular firefighters and a rate of 4 or 5 times that rate for retained firefighters would not be consistent with the data for the overall number of deferred pensioners in the NFPS. therefore GAD does not regard this proposal as best estimate.</p>	<p><b>All regular firefighters:</b> withdrawals in line with 1992 scheme rates.</p> <p><b>Retained firefighters:</b> withdrawals at 9 times the rates for regular firefighters.</p>
<p>Commutation: 2006 and 2015 schemes</p>	<p>One respondent stated that the commutation factor of 12:1 in the 2006 and 2015 schemes is poor value and will deter members commuting. They recommend that nil commutation is assumed for all members.</p>	<p>Version 4.0 of the draft HMT directions stipulates that, for members commuting pension using a factor of 12:1, it should be assumed that 15% of pension is commuted.</p>	<p><b>1992 scheme members:</b> no commutation</p> <p><b>Other members:</b> 15% commutation</p>

<b>Assumption</b>	<b>Summary of stakeholder comments</b>	<b>DCLG/GAD comments</b>	<b>Assumption adopted</b>
Pensioner baseline mortality: <i>Current pensioners (normal and ill health)</i>	One respondent suggests that there is insufficient evidence to assume people will die earlier for the 2012 valuation compared to the 2007 valuation and therefore the adjustment factor should be reduced below 113% to give a life expectancy more in line with the 2007 assumption. Another respondent suggested that the data, however limited, should form the baseline for the valuation.	GAD have carried out an overall member by member reconciliation which suggests that the data for all pensioners combined is credible. Using evidence for the population as a whole to set a single assumption for the population as a whole is therefore appropriate – in GAD’s view reducing the adjustment factor below 113% would not represent a best estimate given the credible evidence available.	As in draft report dated 8 Oct
Pensioner baseline mortality: <i>Future pensioners (normal health)</i>	One respondent suggested that assuming a lower adjustment factor is appropriate but that the 3% difference is arbitrary and not based on any evidence and therefore a 100% adjustment factor should be used.	The 110% (ie 3% difference compared to current pensioners) adjustment is based on analysis of the expected proportion of future pensioners who will be entitled to ill-health and normal health pensions respectively (under the proposed 2012 assumptions). Our analysis concluded that using 110% of S1NMA for future normal health pensioners and 100% of S1IMA for future ill-health pensioners is consistent with an average mortality of 113% of S1NMA for the population of future pensioners as a whole, and is therefore consistent with the mortality analysis carried out on current pensioners. For the same reasons, GAD would not regard using an assumption of 100% of S1NMA for future normal health pensioners and 100% of S1IMA for future ill-health pensioners as best estimate.	As in draft report dated 8 Oct

<b><i>Assumption</i></b>	<b><i>Summary of stakeholder comments</i></b>	<b><i>DCLG/GAD comments</i></b>	<b><i>Assumption adopted</i></b>
<u>Family statistics:</u> Proportion married(future pensioners)	One respondent recommended that given the lack of credible data, the assumption is increased to 80% and 90% for 1992 scheme members and 2006 scheme (and 2015 scheme) members, respectively.	In the absence of credible data, GAD's rationale is that national population statistics are a reasonable alternative source of data from which to derive a best estimate assumption. In the absence of a rationale being provided for the respondent's recommendation, GAD's view remains unchanged.	As in draft report dated 8 Oct