

## **FIREFIGHTERS' PENSION COMMITTEE**

### **NOTE OF THE 49th MEETING OF THE FIREFIGHTERS' PENSION COMMITTEE HELD ON 17th JULY 2013 AT ELAND HOUSE, BRESSENDEN PLACE, LONDON**

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

#### **1. Introduction**

1.1 The Chair welcomed everyone to the meeting.

#### **2. Note of the 48<sup>th</sup> meeting**

##### **Actions arising from last meeting**

2.1 The Chair confirmed that Des Prichard had sent through information on the minimum fitness levels for new entrant firefighters and that this had been incorporated into the note of the 48<sup>th</sup> meeting.

2.2 Sharon Mayers had circulated to the Committee a final report on opt outs from the firefighters' pension schemes during 2012-13 and this was on the agenda for discussion.

##### **Other**

2.3 Trevor Peel enquired whether any update could be provided on any AME limit. The Chair responded that no decision had yet been taken but that the Committee would be kept updated regarding any decision reached.

2.4 Des Prichard asked whether any more information could be provided regarding contracting out and the employer rate that would apply. The Chair confirmed that the employer would be expected to pay the full national insurance contribution rate from 2016 and that the current difference between the contracted out rate that the employer paid and the full rate was 3.4%. Further details could be found on the HMRC website.

2.5 Sean Starbuck asked when the Government planned to publish the Normal Pension Age report. The Chair said that the Government's final decisions regarding the recommendations in the report would be published in due course.

#### **3. Employee Contributions**

##### **Consultation on April 2014 increases**

3.1 The Chair set out the proposed timetable for consulting on the 2014-15 contribution rates, where the intention was to seek views of the unions and employer on possible rates to apply during September ahead of a formal consultation in October/November. The intention was for the modelling of contribution rates to take into account opt out rates during the first three/four months of the year, although the Chair asked the Committee to reconfirm its commitment that the opt out data collected during 2013-14 should be taken into

account before final decisions on employee contribution rates from April 2014 were made.

- 3.2 The Committee agreed that opt out data should continue to be collected and be taken into account and therefore no final decisions in November on the rates to apply in 2014-15 should be taken in advance of that data.

### **Opt-out data 2012-13**

- 3.3 Sharon Mayers confirmed that there had been very little change to the data contained in the final report on opt outs and non-joiners for 2012-13 compared with the data presented to the Committee at the previous meeting. Therefore, only key facts of this report were highlighted:

- 190 firefighters (regular and retained) had opted out of their pension scheme, of which 91 were regular firefighters from the 2006 scheme.
- 156 regular and retained firefighters had chosen not to join the 2006 scheme compared with 935 that had joined the scheme. There were 38 regular firefighters that had not joined the scheme compared with 151 (25%).
- As set out in paragraphs 11 and 12 of the report, the non-joiner data contained information on firefighters that had been automatically enrolled into the scheme, were on temporary contracts and already employed in a permanent capacity and those over aged over 50 suggesting that they had been subsequently retired and re-employed. Excluding this information there were 16 non-joiners out of 129 joiners, aged under 50 (12%), and 7 non-joiners out of 68 joiners aged 30 or under (10%).

- 3.4 Sean Starbuck pointed out that the figures gave a clear indication that new firefighters were not wishing to join the scheme and that, combined with the actual number of opt outs, the figures were of concern. The Chair said that the 2012-13 information was consistent with that of previous years and before any contribution increases had been implemented.

- 3.5 Glynn Morgan re-affirmed APFOs view that the opt out rate had not yet reached its peak given that the actual increase applied in 2012-13 had been a lower average increase than had been originally intended. He also expressed concern that only 3 to 4 months of opt out/non-joiner data would be considered when modelling the rates from April 2014 and this might not be sufficient to understand the full effects of the contribution increases that had taken place from April 2013.

- 3.6 Trevor Peel confirmed that Leicestershire Fire and Rescue Authority had found it difficult to persuade new regular and retained firefighters to join the pension scheme due to the high contribution rate.

### **Opt out data 2013-14**

- 3.7 Sharon Mayers provided an update on firefighters that have chosen to opt out of, or not to join their pension scheme during April and May 2013, based on an average of 38 returns from fire and rescue authorities. The key points were:

### ***Opt outs***

- 17 firefighters had opted out of their pension scheme: 5 from the 1992 scheme, 10 regular and 2 retained firefighters from 2006 scheme.
- This equated to 0.06% of the total paybill and 0.1% of membership (regular and retained firefighters).

### ***Non Joiners***

- 19 firefighters had chosen not to join the 2006 scheme: 8 regular firefighters (1 aged over 50) and 11 retained firefighters.
- A further 28 firefighters chose not to join the scheme after being automatically enrolled (rather than contractually enrolled).

### ***Joiners***

- A total of 38 regular firefighters (1 over aged 50) and 110 retained firefighters chose to join the scheme and a further 67 (15 regular and 52 retained) firefighters were automatically enrolled into the 2006 scheme.
- A non-joiner rate for regular firefighters of 19% had been calculated. This was based on 7 regular firefighters not joining the scheme compared with the 37 that did – these figures did not take account of those automatic enrolments or those firefighters aged over 50 who had assumed to have retired and been re-employed.

3.8 Sean Starbuck said that the information on non-joiner and joiner information was presented in a way that made it difficult to understand, and asked whether the information could be presented together to make it easier to determine the overall percentage of non-joiners to the scheme. Des Prichard also confirmed this would be helpful. The Chair confirmed that a re-drafted paper on opt outs and non-joiners would be sent to the Committee.

3.9 Ivan Walker questioned whether the automatic enrolment figures included those that had been automatically enrolled on employment ie contractually enrolled. Sharon Mayers confirmed that the information was in relation to those that had been automatically re-enrolled only. Ivan suggested that, as more FRAs were affected by automatic enrolment, it might be difficult to distinguish between those who had been automatically enrolled due to newly joining the fire service and those who had been re-enrolled. James Dalgleish said it was important to monitor the impact of automatic enrolment. Sharon Mayers confirmed that she would re-consider the information being asked of authorities to clearly separate between automatic enrolment and re-enrolment.

**ACTION: Sharon Mayers to send through a re-draft of the report on level of opt outs and non-joiners from April 2013**

#### 4. Scheme Valuations

##### **Valuation Directions (HM Treasury presentation slides were tabled for discussion)**

- 4.1 The Chair and Michael Scanlon talked the Committee through the slide pack that had been prepared by HM Treasury regarding the “teach in” of the valuation directions.
- 4.2 Des Prichard enquired about the background to the valuation methodology and, in particular, the items that would count as income received and benefits paid out. The Chair confirmed that as employers hadn’t been contributing the full rate, given that no changes were made to the employer contribution level following the 2007 valuation, then this would feed through into the valuation.
- 4.3 The Chair confirmed that the effective date for the firefighters’ pension schemes valuation was 31 March 2012 and that GAD had received full data from fire and rescue authorities as at that date, and would provide a report on the data.
- 4.4 Ivan Walker questioned whether the Projected Unit Methodology (PUM), used to undertake the valuation, would produce a different result compared with the methodology used in the previous valuation (the Entry Age method). Mike Scanlon confirmed that no analysis had yet been undertaken but explained that the previous methodology considered the employee and employer contribution rate throughout the expected service of a typical new entrant, whereas the PUM considers costs accruing over each year eg the first valuation will consider costs accruing each year between 2015 and 2019.
- 4.5 Sean Starbuck asked how the valuation would be undertaken where there was no previous scheme experience data, for example, little information on firefighters being able to work until age 60, and how this might impact on ill health retirements. The Chair said that there would be a process to establish how this would be adopted and that he would report back in due course.

**ACTION: DCLG to report back on the process to establish how the valuation would be undertaken where there was no previous scheme experience data**

- 4.6 Ivan Walker asked whether the notional assets would include past service costs, and whether any deficit between 2007 and 2012 would feed into the valuation. Mike Scanlon explained that the intention would be to spread any deficit over 15 years: this would have an impact on the employer contribution rate but any surplus or deficit arising before 31 March 2015 would not impact on the cost cap mechanism. The Chair stressed that no approach on determining notional assets had yet been set by HMT.
- 4.7 Mike Scanlon explained that the employer cost cap would be set to cover the expected costs of benefits in the long term (ie where members didn’t have any pre-2015 scheme service), and that the cap would assume there were no members with pre-2015 scheme service. Des Prichard questioned this approach as it would not mirror actual circumstance but Mike set out that there could be significant swings in costs in the short-term due to behaviours of pre-

2015 scheme members – and taking account of this would lead to the 2015 scheme being valued cheaper for the purpose of the employer cost cap than it would be in the longer term.

- 4.8 Mike Scanlon explained that the employer cost cap would be set without reference to any notional surplus or deficit as at 2015. A cost cap fund, used to track notional assets/liabilities, would be set up as at 31 March 2015. Where risks were controlled by the cap any surplus or deficit arising after 2015 would affect the cap mechanism.
- 4.9 The employer costs (financial or technical changes) which may affect the cost cap cost of the scheme would be excluded from the operation of the cost cap mechanism. Sean Starbuck asked how introduction of new duty systems would be taking into account, as any impact would not feature in the 2012 valuation.
- 4.10 The Chair set out that the valuation would be guided by pay assumptions, but Ivan Walker stressed that assumptions using pensionable pay as at March 2012 would not take into account the increases in pensionable pay which would more likely impact during 2013 and 2014.
- 4.11 Mike Scanlon explained that although new duty systems may impact on the actual employer contribution rate, they should not have any material impact of the setting of the employer cost cap as this would be looking at the 2015 scheme only and the benefits associated with this under a CARE arrangement. However, there could be an impact on the cost cap fund which would not be set until 2015, but would be based on the assumptions used in the 2012 valuation.
- 4.12 Trevor Peel suggested that it would be helpful to have a full timetable on the valuation, as the results will have an impact on future planning post 2015. The Chair said that he was happy to ask HMT to meet with finance directors to talk through the issues, if there was a requirement to do so.
- 4.13 Des Prichard enquired as to the meaning of paragraph 23(6) of the valuation directions which provided information on rates of pay increases. The Chair explained that two separate issues would be considered when the valuation was undertaken – 1) promotional increases and 2) general earnings increases each year. The latter, for the firefighters' pension scheme, would be based on an average weekly earnings definition where it was proposed to use the ONS definition for the whole economy – this was the information that had been provided at para 23(6) of the directions.
- 4.14 The Chair asked the Committee to feed back to HMT and DCLG any comments on the Directions by the end of that week. The Chair confirmed that he would consider the impact of implementing different duty systems.

**Experience data – GAD report on analysis of post-retirement mortality experience between 1 April 2007 and 31 March 2012**

- 4.15 Mike Scanlon introduced the draft paper prepared by GAD on pensioner mortality, which focused on the mortality rates of current pensioners and dependents to the scheme. Analysis of data on deaths between 2007 and 2012 compared with assumptions adopted for the 2007 valuation found that

16% more pensioners and 25% fewer dependants had died than expected. GAD was recommending that the mortality assumptions reflected this experience (with allowance for mortality improvements).

- 4.16 Cllr Heaster commented that although GAD had looked at overall numbers of pensioners who had died, this should also be considered alongside longer life expectancy issues and this needed to be fed into any analysis. Mike Scanlon noted that the assumption about current mortality rates would be based on Fire scheme data, as discussed in GAD's report. The draft HMT directions require that it shall be assumed that these mortality rates improve in line with the improvements assumed in ONS's UK national population projections.
- 4.17 Sean Starbuck highlighted that a decrease to life expectancy of current pensioners of 1 to 1.5 years, with a corresponding decrease of approximately £200m (as set out on page 9 of the report) did not fit with Government's assumption that people were living longer. Des Prichard also raised this concern when considering the graphs within the report. The Chair said that the average 30 year old firefighter was fully expected to live longer. Mike Scanlon confirmed that compared with average UK population life expectancy rates, firefighters did live longer.

**ACTION – GAD to update life expectancies to separate out the effects of future improvements in mortality and re-circulate the report**

**Experience data – GAD report on pay progression based on data as at 31 March 2012**

- 4.18 Mike Scanlon introduced the draft paper prepared by GAD on pay progression, setting out that GAD had analysed the average pensionable pay at 31 March 2012 and compared it with the assumption adopted for the 2007 valuation. GAD recommended that no fundamental changes for the purposes of the 2012 valuation to the pay progression assumptions used in the 2007 valuation.
- 4.19 On the basis of separate analysis of retained firefighters (which was not included in the 2007 assumptions), GAD were proposing salary increases of 1.1% pa up to age 50, and increases of 0.5% pa above age 50.
- 4.20 Trevor Peel commented that factors such as retirement and re-employment, if firefighters were treated as new employees, could distort the pay progression figures. Kay Banfield also suggested that firefighters on multiple contracts could also impact the analysis. Mike Scanlon confirmed that GAD would consider data in relation to age and service.
- 4.21 Des Prichard queried the information provided in chart 1 and, in particular, the salary scale of a firefighter after 5 years service. Mike Scanlon explained that the average salary in 2012 line was based on the data received and that the 2007 NFPS salary scale line shows the pay of an individual who would be projected to retire on the average salary after 30 year service (ie the average salary based on the data received – this means the two lines agree at 30 years). Des indicated that he would expect that all firefighters would be on the 'competent' pay point after 5 years service, and the 2007 NFPS salary scale line

therefore looked too low. Mike confirmed that GAD would consider this point before finalising recommendations for the 2012 valuation assumptions.

- 4.22 Mike Scanlon confirmed that the chart showing the average reference pay for retained firefighters was based on actual data and that the reference pay was that equivalent to a wholetime firefighter.
- 4.23 Ivan Walker asked whether the Department was satisfied that the data collected for the pensionable pay analysis was completely accurate. The Chair said that the Department was content that the correct information had been asked for. Ivan highlighted GAD's comments at paragraph 5.9 that set out that the introduction of new duty systems may influence future pay progression but the impact this would have on future salary scales was uncertain. He asked what impact this would have on the valuation and future contributions. The Chair said that any increase in pay would show an increase in member benefits, and the analysis could only be a snapshot of what was pensionable at that time. Ivan Walker pointed out that assumptions on pay progression should not be made without considering new systems, such as day crewing plus.
- 4.24 Des Prichard raised concerns over the issues of pensionable pay and highlighted previous advice (by the previous head of the firefighters pension team) that had been provided by the Department that day crewing plus systems were not pensionable. The Chair stressed that authorities needed to consider the aspects of pay that were pensionable in the context of legislation and case law.
- 4.25 Trevor Peel believed that the assumption that senior firefighters were more likely than non-senior firefighters to stay in the scheme after 30 years service was flawed – as any firefighter with the maximum of 30 years service would retire. Mike Scanlon confirmed this was an assumption used in the 2007 valuation, but agreed that the vast majority of firefighters left after 30 years service.
- 4.26 Trevor Peel asked if assumptions were needed relating to the introduction of the annual allowance and lifetime allowance as this may have a future impact on promotions to the Area/Brigade manager role. The Chair stated this would be unlikely to have an impact and the assumption was not necessary and immaterial.
- 4.27 The Chair confirmed that he would discuss with GAD what, if any, additional information could be collated relating to duty systems and the possible impact on assumptions regarding pay progression.

**ACTION: DCLG to discuss with GAD whether the valuation analysis should take into account any impact relating to the introduction of new duty systems**

**ACTION: GAD to consider comments received before finalising recommendations for the 2012 valuation assumptions.**

## **5. Ken Knight Review: administration of firefighter pensions**

- 5.1 The Chair explained that Ken Knight's review had identified the possibility of authorities combining their pension administration services to reduce cost, and authorities should investigate this further. He asked for the Committee's views on whether a working group should be established to explore this issue, and identify any further potential efficiencies, with the intention of reporting in the autumn.
- 5.2 Trevor Peel confirmed that West Midlands did have a shared service and although the savings were negligible, there had been benefits regarding sharing of expertise. He felt that the issue was worth exploring further.
- 5.3 Cllr Heaster felt that it was not practical to take this work forward at a time when resources were scarce, and therefore sought clarification on how this would be tackled. The Chair confirmed that the intention was to collect data first, then arrange for a group to analyse the data, before feeding any results into Government.

**ACTION: DCLG to consider setting up a working group to consider further.**

## **6. 2013 Amendment Orders**

- 6.1 The Chair confirmed that the Orders amending the Firefighters' Pension Scheme 1992 and New Firefighters' Pension Scheme 2006 had been made in June and came into force in July 2013. There were two issues that the Committee should be aware of:
- There was a drafting error relating to abatement that the Department was working to correct.
  - The 'contributions holiday' issue was not resolved and the Department was seeking a part 8 declaration in relation to whether this was actually an age-discrimination issue.

## **7. RDS Settlement**

- 7.1 The Chair confirmed that the intention was to consult on the settlement in the very near future.

## **8. 2015 Scheme design – feedback from working group**

- 8.1 Sharon Mayers set out the key issues that had been discussed at the previous working groups. These included:
- Scheme membership
  - Pensionable Pay
  - Ill health benefits
  - Reduction of pay during course of career
  - Tiered contribution bands and uprating of these bands
  - Definition of average weekly earnings
  - Treatment of pension benefits from those 1992/2006 scheme members that transferred across to the 2015 scheme

- Transitional protection for those who voluntary moved from one public sector pension scheme to another

8.2 The Chair said that a fuller note on the issues that had been discussed would be circulated to the Committee. Sean Starbuck asked if the Department had further considered the issues regarding partial retirement that had been discussed at the last working group. The Chair confirmed that this was still being considered.

**ACTION:** Sharon Mayers to circulate a note summarising the issues that had been discussed at the 2015 scheme working group

## **9. Any Other Business**

### **Same Sex marriage**

9.1 The Chair highlighted that the Department was considering any amendments required to the firefighters' pension schemes, in particular survivor benefits, due to the introduction of same-sex marriage. The intention was that the rights would mirror those of survivors of civil partnerships and would be calculated based on post 1988 review.

### **2015 scheme communications**

9.2 The Chair highlighted that pension calculators for firefighters were available on the gov.uk website and that Brandon Lewis was holding a telephone conference with firefighters. He asked the Committee to make firefighters aware of these two issues.

## Annex A

### Attendees

Andrew Cornelius (Chair)	DCLG
Sharon Mayers	DCLG
Cllr Maurice Heaster	LGA
James Dagleish	LGA
Gill Gittins	LGA
Michael Scanlon	GAD
Rachel Cutts	GAD
Trevor Peel	Leicestershire FRS
Lorna Smith	SPPA
Sean Starbuck	FBU
Ivan Walker	Thompson's
Glyn Morgan	FOA
Tristan Ashby	RFU
Des Prichard	APFO (and representing CFOA on this occasion also)
Kingsley Rees	Welsh Assembly
Kay Banfield	Kent FRA

### Apologies

Jackie Wood	LGA
Jennie Coltman	SPPA
Ian Hayton	CFOA
Terry Crossley	Welsh Assembly
Heather Robinson	DHSSPSNI
Andrew Bayne	Kent FRA
Alyson Hall	Greater Manchester FRA