FIREFIGHTERS' PENSION COMMITTEE

NOTE OF THE 52nd MEETING OF THE FIREFIGHTERS' PENSION COMMITTEE HELD ON 22nd APRIL 2014 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 51st FPC meeting

2.1 The Chair summarised the action points from the 51st FPC meeting:

Action 1- paragraph 3.10 – no comments were received on what should be included in the e-learning training toolkit for Pension Board members;

Action 2 – paragraph 5.2 – the survey results re: impact of temporary promotions and new duty systems on promotional pay scale assumptions were circulated along with the draft Note of the 51st FPC meeting;

Action 3 – paragraph 9.1 – no comments were received on the statement of persons to be consulted.

2.2 Des Prichard made reference to paragraph 3.3 and asked for the inclusion of "*unwittingly*" immediately before misinterpreted. He also made reference to paragraph 5.5 and asked for it to be rephrased to:

"Des Prichard explained that the 'daycrewing plus' duty system was a relatively new duty system and therefore it would be difficult to make assumptions on the cost of pensions relating to staff working this system. In the more traditional 'day crewing' duty system, staff tended to stay on that system until retirement with the consequential pension cost; the newly introduced 'day crewing plus' duty system was likely to attract younger staff who may on stay on that duty system for a few years, before moving to a more conventional system. It would be advisable to take a cautious approach in any assumptions made by GAD until such time as actual data became available".

2.3 Des Prichard also made reference to the 'Revised liabilities' section of the note (paragraphs 5.8 to 5.12) and asked for confirmation as to whether the total scheme liability figure of £13.8bn was material or not. He said that if the figure wasn't material why was it included in the Valuation report? In response, Rich Haines explained that the total scheme liability was not needed for the Valuation report and that its revision down by £300m did not have effect the contribution rates set in 2007.

2.4 The Chairman explained that it was now important to get the total scheme liability figure correct as it will be used to set the SCAPE notional assets.

2.5 Sean Starbuck made reference to paragraph 5.9 and asked for "*at that time*" to be added to the end of the penultimate sentence. Ivan Walker also asked for an additional sentence to be added at the end of paragraph 5.9 to explain why the total scheme liability figure is now significant. The Chair agreed to amend the final sentence in paragraph 5.9 to:

"*The Chair said that it was now important that the most accurate figure was used to set the SCAPE notional assets due to the introduction of SCAPE notional fund.*"

2.6 Des Prichard asked what figure would be used for the cost cap. Rich Haines confirmed that the cost cap would be set as part of the 2012 Valuation and would represent a % of pensionable pay. The Chair also explained that there would be a cost cap fund which will only take account of the costs associated with active members of the current scheme.

2.7 It was agreed for GAD to produce a short paper to set out the mechanism of the cost cap arrangements and to set out the potential options available to maintain the scheme costs within the permitted +/-2% limits.

ACTION: GAD to produce a committee paper setting out the mechanism of the cost cap arrangements, and the options available to maintain scheme costs.

[Secretary's Note: A HMT document explaining the cost cap arrangements was circulated].

2.8 Des Prichard explained that Scheme Valuations are currently undertaken every 4 years. He said that there needed to be a means of determining the direction that scheme costs were moving between Scheme Valuations. Cllr Heaster said that it would not be effective governance to wait 4 years to find out the new costs of the Scheme.

2.9 Ian Hayton said that Scheme Valuations are undertaken on a 4 year basis and, as such, it was not clear how Schemes would be able to make an assessment as to whether any measures implemented by the SAB to reduce/increase costs had been successful in maintaining total costs within the cost cap limits. He also said the SAB would be then given 6 months to bring costs down. In response, the Chair said that it would be necessary for the SAB to seek appropriate actuarial advice in order to get an indication as to whether sufficient changes have been made. The SAB would need to consider what information it would need in order to make the appropriate assessment. He also said that there would be a six month period following Valuations in which the SAB would need to take actuarial advice and identify potential options – there was no expectation that material change would need to be made by the end of this period.

2.10 Des Prichard expressed his concern that the SAB would not have access to monthly updates on the costs of the Schemes, especially considering the implications of breaking the cost cap limits. The Chair said that it was not practical to have monthly scheme valuations given that they take about a year to undertake. He said that the SAB would need to consider what information would be needed during the interim period that would give a reliable indication of the scheme costs.

2.11 It was agreed to provide the Committee with up to date Scheme cashflow information to show the current trend in scheme costs.

ACTION: DCLG to provide Scheme cashflow information to show the current trend in scheme costs.

[**Secretary's Note**: DCLG circulated the cashflow information to members on 28 April 2014]

2.12 Glyn Morgan asked for GAD to consider what additional information is currently available that would be able give an indication of the current scheme costs. Rich Haines said that he would consider what other indicators might be available.

2.13 Ivan Walker made reference to paragraph 7.2 and asked for the wording "It was proposed" to be substituted with "DCLG proposed". He also referred to paragraph 8.12 and asked for the wording "undertake future Scheme valuations" to be substituted with "be the actuary who will value schemes".

2.14 The note of the 51st meeting was agreed, subject to the above the changes set out in paragraphs 2.2, 2.3 and 2.5.

3. Budget announcements – restriction of CETVs, minimum pension age, welfare cap – FPC(14)6

3.1 The Chairman introduced the committee paper.

3.2 Sean Starbuck expressed his concern that the proposed increase to the minimum pension age from 2028 would impact on a firefighter's ability to take pension benefits from earlier than age 57 years without incurring a tax charge. He said that this had obvious implications for the proposed new 2015 Scheme.

3.3 Des Prichard said that some of the current membership of the 1992 Scheme will have a protected right to retire before age 57 which may go beyond 2028. He said the any proposals to raise the minimum pension age would have obvious implications for these individuals. He suggested that a response is submitted to the consultation on behalf of the FPC. The Chairman responded by explaining that the membership profile suggests that there won't be any members in the 1992 Scheme who will be under age 57 after 2028. He also said that he was unsure whether it would be appropriate to be responding to the consultation as Chair of the FPC.

3.4 Sean Starbuck suggested that there would also be implications for members of the 2006 Scheme which includes a provision for FRA/Employee initiated early payment of pension from age 55 years.

4. 2015 scheme: Employee contributions – FPC(14)7

4.1 Sharon Mayers advised the Committee that DCLG would be consulting shortly on the employee contributions. Employee contributions across the 1992, 2006 and 2015 Schemes would need to average 13.2% of pensionable pay from

April 2015; and over the long term this will be the average required by the 2015 Scheme. This may mean that 1992 Scheme members who subsequently transition into the 2015 Scheme could see a reduction in their contributions, whereas 2006 Scheme members could face an increase.

Consideration 1 – Any forms of transitional arrangements for existing members

4.2 It was explained that the paper set out two options for offering transitional arrangements for existing members. Under the first option no transitional arrangements would be offered which would mean that all members of the 2015 Scheme, irrespective if they transferred from the 1992 or 2006 Schemes, or are new members of the 2015 Scheme, would pay the same contribution rate. This could suggest a rate of 12.2% of pensionable in the first year for a firefighter earning £30K (please refer to Annex A of committee paper FPC(14)7). The second option would be to provide transitional arrangements for those 2006 Scheme members who have been identified as being more likely to opt-out of scheme membership. Under this option, 2006 Scheme members who transfer to the 2015 Scheme would pay a lower contribution rate in the 2015 Scheme during the first 3 years than those former 1992 Scheme members or new members of the 2015 Scheme. This could possibly see a former 2006 Scheme member pay a rate of 11.1% in the first year, compared with all other members paying a rate of 13.0% (please refer to Annex B of committee paper FPC(14)7).

Consideration 2 – Should contributions be based on FTE

4.3 The paper invites members' views on whether contribution rates in the 2015 Scheme should be based on the member's full-time equivalent pay (as is currently the case in both the 1992 and 2006 Schemes) or their actual pay? Annex C of the paper provided a long term projection which showed that if contribution rates were based on actual pay then those members earning below £50K per annum would possibly have to pay an additional 0.1 to 0.2 percentage points more (please refer to Annex C of committee paper FPC(14)7). Further modelling work would be required if the FPC viewed this as a realistic option.

Consideration 3 – Tiered bandings to apply

4.4 Under this consideration the Department is proposing that the 2015 Scheme would have four tiers. The Department had initially proposed that the lowest tiered banding would be £0-£25K, but was now inviting views on whether this should be revised to £0-£27K. Also welcomed views on whether there should be less or more contribution tiers, for example the proposed highest tier applies to earnings over £100K and, as such, would affect very few members – should this be amalgamated with the £50-£100K tier?

Consideration 4 – Uprating of the tiered bands

4.5 Each year the tiered contribution bands will need to be either automatically updated in line with an independent metric or the actual tiered bandings to be used each year will need to be set out in the regulations. The Department has previously considered metrics such as movements in average weekly earnings or CPI to uprate the contribution tiers, however, if firefighters' pay differs from these metrics then the average contribution rate may not be met or could be exceeded. The Department is therefore proposing that the actual tiered contribution bands should be set out in the regulations and that these should be increased by approximately 1% each year.

ACTION: DCLG welcomes members' views on the options and proposals set out above.

[**Secretary's Note**: The formal consultation on the regulations to introduce a new Firefighters' Pension Scheme from April 2015 was published on 23 May.]

5. Update on Scheme Advisory Board discussions; and **Pension Boards – FPC(14)8**

5.1 Cllr Heaster updated the Committee by setting out the key points from the discussions on the SAB:

- Further clarity on the responsibilities of the Board would help understand the skills of the members required and the discussions that will take place;
- There was a need for further clarification as to what influence the Board would have with regards to the cost cap;
- Needed confirmation on the powers that the Board would have;
- It was generally agreed that a very skilled Chairperson would be required;
- The Board would need to have the ability to seek actuarial advice;
- There was a risk that the process would become overly bureaucratic.

5.2 The Chairman explained that the 2013 Act requires for an SAB to be set up which would:

- Have an advisory role;
- Provide advice to the Secretary of State;
- Provide advice to Scheme Managers and Pension Boards;

He also said that the cost cap arrangements do not require the SAB to have a role. However, it was the Department's view that it would be appropriate to have the SAB involved in order to advise on changes to the Scheme. Where the SAB does advise changes then there would need to be agreement with the Secretary of State.

5.3 Sean Starbuck said that it was the FBU's view that the membership of the SAB should reflect proportional representation and, as such, the FBU should represent employee interests.

5.4 Des Prichard said that the 2013 Act states that SAB is to "provide advice to Scheme Managers or Pension Boards". The Chairman said that it was his understanding the SAB will advise both the Scheme Managers and Pension Boards.

5.5 Des Prichard explained that the breach of the cost cap will be caused by the aggregate effect on pension costs of all 46 FRAs in England. As such, there would be 46 potential opportunities of contributing to any breach. He also said that if one FRA was the cause of any cost cap breach then it would be up to the other 45 FRAs to help bring costs down – he suggested that this was not effective governance. In response, the Chairman explained that this was no different than the current arrangements, for example any pension costs associated with the introduction of new duty systems would effectively be shared amongst all FRAs.

5.6 Des Prichard said that it would be much simpler to have one piece of advice that applied to all 46 FRAs. This would also encourage a more consistent approach to the administration of the Schemes. He also suggested that a reduction in the number of Pensions Boards would be more effective.

5.7 The Chairman said that each Pension Board would need to be able to scrutinise what is being done by the Scheme Manager. If you reduce the number of Pension Boards then the Pension Boards become more remote which may not be effective.

5.8 Sean Starbuck said that it was his understanding that each FRA needed to have a Pensions Board, The Chairman said that said that it may be possible for each Pension Board to cover more than one FRA.

5.9 Terry Crossley said that Wales had initially considered having one Pension Board to represent the 3 Welsh FRAs but were now considering having one Pension Board for each FRA. He said that whilst there did not appear to be anything to prevent Pension Boards from representing more than 1 FRA, however, this could increase risks were the Pension Board makes an error.

5.10 Cllr Heaster confirmed that the LGA would write to the Chairman to seek clarification on a number of points regarding the SAB and Pension Boards.

ACTION: LGA to write to DCLG to seek clarification on a number of points regarding the SAB and Pension Boards

5.11 Cllr Heaster said that the SAB would incur significant costs to carry out its role effectively. This was a real concern for the LGA especially as budgets will be very tight over the next few years. He said the National Joint Committee was an existing format that might be able to be used. This model would be less costly.

5.12 Ivan Walker said that the LGPS will have an independent Chairperson for its SAB.

5.13 Sean Starbuck confirmed that the FBU had started to look at the TOR for the SAB and will share their findings with the FPC in due course. Ivan Walker also said that it would be difficult to assess the costs of the SAB until it was clear what its responsibilities were.

5.14 The Chair said that it was expected that DCLG would attend the SAB as an observer.

6. 2015 Scheme: Pensionable pay – FPC(14)9

6.1 Sharon Mayers introduced committee paper FPC(14)9 which sought members' views on the definition of pensionable pay to be used in the 2015 Scheme. She said that there was no intention to change the current definitions of pensionable pay for either the 1992 or 2006 Schemes.

6.2 Under a Career Average arrangement there were not the same risks of making certain elements of pensionable as there was under final salary arrangements. However, the definition of pensionable pay would have a direct impact on certain benefits, such as the payment of death grants and injury awards.

6.3 The paper set out 3 options:

(i) Option 1 – to keep the definition of pensionable pay similar to that used in the 2006 Scheme (and as consulted on in the first draft of the 2015 regulations), where pay received for the performance of the member's role and CPD payments would be considered pensionable. As this definition would be similar to both the definitions in the 1992 and 2006 Schemes this would reduce any administrative burden on FRAs of having to maintain separate definitions of pensionable pay. However, there was still a risk that, due to the interpretations of scheme regulations, firefighters with similar pay arrangements would see changes in the pension benefits that they accrue.

(ii) Option 2 – to make all aspects of pay that are subject to income tax pensionable. This option would be easy to administer as a single entity, but would be more complicated when being administered alongside 1992 and 2006 Scheme benefits. The arrangement would also be easy to explain to employees and would be flexible to support any new local pay arrangement. Notwithstanding this, it is likely to increase costs for both the employee and employer.

(iii) Option 3 – to list all the elements of pay that are pensionable within the scheme's regulations. This would make it clear which elements of pay should be treated as pensionable. However, this option may not be appropriate if and when any new local pay arrangements are introduced.

6.4 Sharon concluded by inviting members' views on their preferred options, and whether there may be other advantages or disadvantages associated with each option. If it was the committee's preference that the elements of pay that are pensionable should be listed within the Scheme's regulations, then the Department would welcome volunteers from both employee and employer representatives to input into this work.

ACTION: Views welcomed from the members on the options set out in the paper.

ACTION: If the preference is to set out the elements of pay which are pensionable within the scheme regulations, then volunteers were invited to input into this work

7. Update on Scheme Valuations

7.1 The Chair updated the Committee on progress with the valuation, noting that if the final scheme designed as a result of consultation, there might be the need to revisit the proposed assumptions.

8. Update on RDS Settlement

8.1 Anthony Mooney advised that the Department had published the Government response to the consultation on 6 March – an email had been sent to FPC members advising them of this. He said there were a small number of changes made to the terms of Settlement following consultation which include:

- providing FRAs with additional flexibility to extend the deadlines for each of the prescribed stages of the Options exercise, where necessary;

- the introduction of an additional mechanism to enable FRAs to calculate an individual's historic earnings in cases where the FRA does not hold the records;

- a small number of other technical changes to make the implementation of the Settlement work.

8.2 The associated enabling legislation (which included amendments to the 1992 scheme, 2006 Scheme, and the 2006 Compensation Scheme) came into force on the 1 April 2014. FRAs will now be required to undertake an Options exercise in order to implement the terms of the settlement. The Options exercise will need to conclude by 31 March 2015.

8.3 DCLG has provided FRA with informal employee and employer guidance (including template letters) to use when implementing the Options exercise. In addition to this, the Department is currently liaising with GAD in order to finalise an online calculator that will be used by FRAs to calculate the costs to the employee of buying back past service in the modified Scheme. It is expected that the online calculator will be available in early August.

8.4 DCLG is also currently producing an informal guide to set out how individuals can use existing HMRC processes to claim back any tax relief entitlement on their past service contributions; and to unwind any periods where they were contracted into the State Second Pension.

8.5 DCLG will continue to liaise with FRAS throughout the year to ensure any issues raised are dealt with promptly.

9. Any Other Business

9.1 Des Prichard asked the for an update on progress of the 'Compensation Regulations' for members of the FPS, to permit Fire Authorities to make redundancy payments above the statutory minimum and in line with what we see for members of to the LGPS. The Chair explained that this was being considered as part of the Knight Review. He said that the Government had still not responded to this.

9.2 Des Prichard also asked for an update on the proposed employee contribution that has been withdrawn from the 2011 consultation on proposed changes to the 1992 Scheme, and to seek a Court's decision. The Chairman said that the Department was taking this work forward and were currently seeking agreement with the FBU on the question to put to the Courts.

9.3 Des Prichard also made reference to Benefits Crystallisation Events (BCE) and asked whether it was possible to split the BCE in the 1992 Scheme. The Chairman responded by saying that 1992 Scheme rules do not appear to prevent the splitting of the BCE. However, administrators should satisfy themselves by seeking confirmation from HMRC if necessary.

Department for Communities and Local Government
June 2014

Annex A

Attendees

Andrew Cornelius (Chairman)	DCLG
Sharon Mayers	DCLG
Anthony Mooney (Secretary)	DCLG
Cllr Maurice Heaster	LGA
James Dalgleish	LGA
Jackie Wood	LGA
Rich Haines	GAD
Roshane Samarasekera	GAD
Alyson Hall	GMFRS
Andrew Bayne	Kent FRS
Trevor Peel	Leicestershire FRS
John Craig	Scottish Government
Lorna Smith	SPPA
Claire McGow	SPPA
Terry Crossley	Welsh Assembly
Sean Starbuck	FBU
Ivan Walker	Thompson’s
Ian Hayton	CFOA
Des Prichard	APFO
Glyn Morgan	FOA
Tristan Ashby	RFU

Apologies

Dr Will Davies	ALAMA
Donna Mullan	NIFRS