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Dear Marc

### **Meeting the requirements for auto-enrolment after contracting out is abolished in April 2016**

As you know, employers are obliged to automatically enrol all workers who satisfy age and earnings criteria into a suitable workplace pension arrangement. An employer using a defined benefits scheme such as any of the firefighters' pension schemes for automatic enrolment must show that it meets minimum requirements. I am writing to let you know that the firefighters' pension schemes continue to meet the minimum requirements, albeit that the way in which they satisfy the minimum requirements will change from April 2016.

#### **Minimum requirements**

The firefighters' pension schemes currently satisfy the minimum requirements because they are contracted out of the State Second Pension arrangement. However, this will no longer be the case when contracting out is abolished from 6 April 2016. After this date, from all of the options available, we would expect employers to use the 'cost of accruals' test to show that the firefighters' pension schemes meet the minimum requirements for auto-enrolment. Further details of the cost of accruals test can be found in our briefing note '*Auto-enrolment post April 2016*'.

#### **Verification that the firefighters' pension schemes pass the cost of accruals test**

At the Actuarial Valuation of the firefighters' pension schemes as at 31 March 2012 the costs of accrual for each of the schemes over the period 2015-19 were determined. I have set these out in the table below.

<b>Firefighters' Pension Scheme</b>	<b>Contribution rate for 2015-19 accrual</b>
1992 Scheme	43.6%
2006 Scheme	30.7%
2015 Scheme	27.3%

For each scheme, you can see that the cost of accrual is considerably higher than the required 11% to pass the cost of accruals test.

As such, I am content that the firefighters' pension schemes pass the 'cost of accruals' test and therefore satisfy the minimum requirements for auto-enrolment.

### **Additional test for career average revalued earnings benefits**

There is an additional test placed on career average revalued earnings benefits, such as those offered in the 2015 Scheme, based on the level of revaluation provided. Further details of this test can be found in our briefing note '*Auto-enrolment post April 2016*'. As benefits in service are revalued with reference to earnings increases at least in line with the rate specified in an HMT Order, the 2015 Scheme, passes this test.

### **Next steps**

This letter verifies that the benefits offered by the schemes exceed the minimum required for auto-enrolment. Employers should keep a record of this letter.

In addition to meeting the minimum requirements, the other criteria for a pension scheme to be used for auto-enrolment are set out in Pension Regulator's Detailed guidance no. 4 - Pension schemes<sup>1</sup>. Employers should satisfy themselves that their pension schemes meet all of these criteria.

Please let me know if you have any queries.

**Yours sincerely**



**Samantha Watts**

Deputy Chief Actuary

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<sup>1</sup> <http://www.thepensionsregulator.gov.uk/docs/detailed-guidance-4.pdf>