Firefighters' Pension Committee **FPC14(3)**

Employer cost cap procedure

Issue

1. This paper seeks the Firefighters' Pensions Committee's views on the proposed process to be followed, which will be defined in regulations, in the event that the upper or lower margins of the employer cost cap are breached.

Background

2. The existing draft Public Service Pensions (Employer Cost Cap) Regulations 2014 set out that the costs of a public service pension scheme (under the Public Service Pensions Act 2013) should remain within an upper or lower margin, which is defined as being 2 percentage points above or below the employer cost cap. The employer cost cap will be set in scheme regulations.

3. In cases where the costs of the scheme exceed the upper or lower margins, scheme regulations will need to set out a process to ensure that the costs of the scheme are returned to the level of the target cost (which will be equivalent to the employer cost cap). To achieve this there will either be a change to the design of the membership benefits set out in the Firefighters' Pension Scheme 2015 or a change to the contribution rate paid by employees.

4. It should be noted that the 25 year guarantee (defined as the Protected Period in the 2013 Act) means that no changes to scheme design, benefits or contribution rates should be necessary for 25 years outside of the processes agreed for the employer cost cap.

Proposed Process

5. In the event that the upper or lower margins are exceeded, then it is proposed that the Scheme Advisory Board will have responsibility for considering options to bring the costs of the Firefighters' Pension Scheme back to the target cost.

6. This period of consideration by the Scheme Advisory Board will last for a minimum of three months but no more than six months from the commencement of the date that this issue is first brought to the Board's attention.

7. The Scheme Advisory Board should agree the process on how it should approach this issue, including determining how agreement to the scheme changes should be reached eg unanimous agreement or by a majority vote.

8. The Scheme Advisory Board must verify with the Scheme Actuary that the recommended changes to the scheme are within the scheme's target cost.

9. The Secretary of State (responsible authority) may extend the period of consideration by the Scheme Advisory Board if it appears likely that the Board will reach agreement.

10. At the end of this period of consideration, if agreement is reached by the Scheme Advisory Board then recommendations should be made to the

Secretary of State on the changes required to bring the scheme costs back to the target cost.

11. The Secretary of State should have regard to the Scheme Advisory Board's recommendations when determining the scheme changes required.

12. Where agreement cannot be reached between members of the Scheme Advisory Board, then the default mechanism will be an adjustment to the accrual rate. This accrual rate will be adjusted in line with actuarial advice, which will need to verify that the revised accrual rate delivers the scheme's target cost.

Timetable

13. It is proposed that changes to the scheme design be in line with, and come into force, from the valuation's implementation date. The implementation date is the date that the employer contribution rates may change following the valuation of the schemes.

14. The current draft of the Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014 sets out (at section 7) that the implementation date must be a date, specified by the responsible authority, no more than three years and one day after the effective date. Section 8 of the Directions provides for a definition of the effective date. For the Firefighters' Pension Scheme 2015 the effective date for the next valuation of the scheme will be 31 March 2016, and every four years after.

15. We therefore propose that the implementation date for the Firefighters' Pension Scheme 2015 will be a date which is exactly three years and one day after the effective date. This would mean that in practice, the first implementation date would be 1 April 2019. An example of the timing is provided in the accompanying annex.

Annex

Next valuation of the Firefighters' Pension Scheme 2015

Financial Year 2015/16	Effective date of the valuation is 31 March 2016
Financial Year 2016/17	Valuation process is underway
Financial Year 2017/18	Valuation concludes
Financial Years 2017/18 and/or 2018/19	If the upper or lower margins are breached then there will need to be sufficient time to decide on the changes to the scheme design. This will need to be a minimum of one year and will include time to allow for: - Scheme Advisory Board to discuss and consider changes to the scheme design/employee contribution rate - The Scheme Actuary to verify that the recommendations of the Scheme Advisory Board are within the target cost - Recommendations to be made to, and decision taken by, the Secretary of State on the required scheme changes - Legislative amendments to be drafted - A period of consultation on the revised scheme regulations - Consideration of consultation responses and the legislation to be made
Financial year 2019/20	1 April 2019 will be the implementation date: Any revised employer contribution rate will take effect from this date Any scheme changes (if needed to bring the costs of the scheme within the target cost) will take effect from this date.