

FIREFIGHTERS' PENSION COMMITTEE

NOTE OF THE 50th MEETING OF THE FIREFIGHTERS' PENSION COMMITTEE HELD ON 16th October 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 49th FPC meeting

2.1 The Chair summarised the action points from the 49th FPC meeting:

Action 1 – Paragraph 3.9: Sharon Mayers circulated a revised version of the paper on opt-out in September;

Action 2 – Paragraph 4.5: This will be dealt with as part of the Valuation discussions.

Action 3 – Paragraph 4.27: DCLG collected data from a number of FRAs regarding the different duty systems they currently operate. This information was provided to GAD and fed into the work on the Valuation assumptions.

Action 4 – Paragraph 4.27: No further comments were received with respect to the 2012 Valuation assumptions.

2.2 It was highlighted that Glynn Morgan's comment at paragraph 3.5 was a reaffirmation of FOA's view and CFOA's view.

2.3 It was noted that the reference to "West Midlands" in paragraph 5.2 should have been "East Midlands".

2.4 Subject to the above amendments, the note of the 49th meeting was agreed.

3. Employee Contributions 2014/15 - FPC(13)8

3.1 Sharon Mayers introduced committee paper FPC(13)8 which sought the Committee's views on the draft proposals for employee contribution increases from April 2014. The Government remains committed to delivering in full the cumulative savings of 3.2% percentage points. This means that from April 2014 further savings of 1.28 percentage points are needed to be delivered.

3.2 The Committee had previously agreed that the most up to date opt out data should be taken into account by the Government before final decisions on the April 2014 increases were taken. DCLG was still collecting data and a final report would be included in the forthcoming Government consultation.

- 3.3 The proposed tariffs for both the FPS and NFPS had been set out in the Annex of the committee paper. These proposed tariffs would deliver the cumulative savings of 3.2 percentage points. The proposed increases for each scheme and pay bands are the same as those which applied from April 2013. As such, limited protection will be given to members of the NFPS. This would see a firefighter earning £29k paying a contribution rate of 14.2% in the FPS and 10.4% in the NFPS.
- 3.4 No final decisions have been taken on rates for the 2015 Scheme but DCLG had previously set out that the estimated average yield might be 12.6%. If this was the case, then NFPS members who transferred to the 2015 Scheme would see around a 2% increase in contribution rates, whereas FPS members would see a reduction in contribution rates.
- 3.5 An alternative consideration could be to increase the contributions for NFPS members from April 2014 to ease that transition. This would also see a slight decrease in the contribution increase for FPS members from April 2014. However, any decrease in FPS rates could impact the contribution rates for the 2015 Scheme as this rate has been determined by the average contribution rate of 13.2% across all schemes.
- 3.6 Sean Starbuck suggested that opt out rates will increase as soon as the consultation paper is published. He said the proposed increases would essentially price people out of the scheme.
- 3.7 Cllr Heaster said that he had some empathy as the proposed increases will make it difficult for members to afford contributions, especially during a period of pay restraint.
- 3.8 Sean Starbuck said that firefighters may opt out of the schemes' membership if they felt that it was unaffordable or that they would not be fit enough to reach the retirement age. He said that the Government needed to recognise that the FBU was currently advising members not to opt out of the schemes, which was keeping opt out rates to a minimum.
- 3.9 Des Prichard highlighted that the contribution rates for the FPS were a lot higher than other public service pension schemes. He said that a 30 years scheme at 11% was equivalent to a 40 years scheme at 8.3%. He asked whether DCLG could provide a table for APFO members that set out the contribution rates that members of other public service schemes were currently paying. In response, the Chair explained that all public service pension schemes have increased their contribution rates by an average of 3.2 percentage points and that pensions are one part of an employee's total remuneration package. He also explained that the 8.3% calculation was a crude calculation without actuarial basis as it fails to take into account that an FPS pension is in payment for a substantially longer period and has much more generous ancillary benefits. The Chair confirmed that contribution rates for other public service pension schemes are readily available online.
- 3.10 Sean Starbuck said that the 2015 Scheme was less generous than other public service pension schemes when comparing the ratio of employer contributions to employee contributions. In the 2015 Scheme the employee is required to

49% of the total pension costs. In comparison, LGPS members pay 32%; Teachers' Pension Scheme members pay 44%; and PCPS members pay 25%. This needed to feed into discussions. The Chair replied that the employer contribution rate in the 2015 scheme would not be known until the outcome of the valuation and therefore it was not possible to comment on the contribution ratio.

4. Scheme Valuations

Valuations and Employer Cost Cap Directions & Employer Cost Cap Regulations (HMT papers)

- 4.1 Mike Scanlon introduced the HM Treasury papers.
- 4.2 Cllr Maurice Heaster suggested that costs relating to the RDS Settlement would be a new burden if they were included in the calculations for the 2015 employer cost cap. Mike Scanlon responded by confirming that any past service pre-1 April 2015 costs would be included in the starting cost cap fund as at 31 March 2015. Therefore these costs would not have an adverse impact on the cost cap mechanism (although any future changes to the expected costs in respect of these benefits would impact on the cost cap mechanism, in the same way as would be the case for any other past service liabilities). He said that this was because the draft HMT Directions require that notional scheme assets for the cost cap fund would be set at the same level as the scheme liabilities as at 31 March 2015, based on data as at that date (which would include past service data from the retained settlement). DCLG have noted the concerns that FRAs will be liable for the past service employer contributions and would respond in the Government response to the RDS Settlement consultation in due course.

Assumptions for Firefighter Schemes (GAD paper)

- 4.3 Rich Haines introduced GAD's paper on assumptions. He explained that DCLG was responsible for setting the assumptions after taking advice from GAD but would need HM Treasury to approve the final assumptions. He invited members to provide any comments on the paper by Friday 25 October.

ACTION: FPC members were invited to provide any further comments by Friday 25 October.

[Secretary's Note: Further comments were received from FBU, FOA and LGA]

- 4.4 Sean Starbuck confirmed that the FBU would be submitting a detailed response. He asked the Chair whether he would be happy for the FBU's actuaries to consult with GAD direct in order to clarify some of the more technical points. The Chair agreed.
- 4.5 Rich Haines noted that GAD had considered comments from stakeholders at the previous FPC meeting, and in light of these had revised its recommended salary scale assumption to assume lower promotional pay awards for members with between 5 and 13 years' service.

- 4.6 James Dalglish asked whether GAD's assumptions on salary scales had taken account of the July 2013 amendments to the scheme which introduced Annual Pension Benefit arrangements for payments relating to temporary promotions; and the impact of the Norman v Cheshire Judgment on duty systems. Rich responded that data from some Authorities on existing duty systems had been considered, but no data on temporary promotions had been considered.
- 4.7 Mike Scanlon said that the impact of the new arrangements for temporary promotions to count towards the APB arrangements (and not average pensionable pay) would vary depending on whether the temporary promotion was within the member's averaging period (last 3 years prior to retirement). James Dalglish said that it may be that the impact on costs is marginal but they need to be considered. DCLG agreed to undertake a short survey of FRAs to collect additional information on temporary promotions within the Fire Service. This information would be fed back to GAD for consideration.

ACTION: DCLG to consider undertaking a short survey of FRAs to collect additional information on temporary promotions within the Fire Service.

- 4.8 Des Prichard said that there was an expectation that FRAs would be reducing the size of their workforces going forward to 2020. This was likely to increase the earnings of individuals that are employed in new redesigned duty systems introduced in order to provide sufficient cover with a reduced number of firefighters. Rich Haines responded by explaining that the calculation of contribution rates for the period 1 April 2015 to 31 March 2019 would be based on data projected over this period, taking account financial and non-financial information in FRA's AME forecasts as collated by DCLG and submitted to the OBR. He added that information on how new duty systems might impact on the pay of members has been considered in setting the salary scale, based on data provided from some Authorities on existing duty systems (see 4.6 and 4.7).
- 4.9 Rich Haines also said that GAD had found that there had been a slight increase in the rates of IHRs between the years 2008/9 and 2011/12 – this was following a steep reduction in rates over the period 2003/04 to 2008/09. He said that it was not clear how rates of ill-health retirement (at a given age) might change in the future. GAD's initial recommendation is to assume rates of IHRs in line with the 2011/12 levels going forward. He asked for comments on what might have caused the increase in IHRs from 2008/09 to 2011/12.
- 4.10 James Dalglish highlighted that in 2008/09 there had been a delay in the processing of IHR cases following a dispute over guidance issued by DCLG which lead to a higher number of cases in subsequent years as the delayed cases were processed.
- 4.11 Sean Starbuck said that it was FBU's view that the IHR rates would increase in the future.
- 4.12 Cllr Heaster said that as a firefighter gets older it is reasonable to expect that they become more vulnerable to age related medical conditions, such as heart attacks etc. He asked whether the assumptions took account of projected

rates of IHR for the different age bands. Rich Haines confirmed that Graph E2 (page 57) shows the rates of IHR according to age.

- 4.13 Des Prichard said that whilst some firefighters will be able to maintain appropriate fitness levels until age 60, as firefighters get older it is very likely that this lead to higher IHR rates. As IHRs impact significantly on costs, it was imperative to obtain more evidence about this to feed into the assumptions on IHRs.
- 4.14 Richard Haines explained that the withdrawal rates for the 1992 Scheme were broadly in line with the assumptions. However, there were some anomalies with the withdrawal rates for the 2006 Scheme which was likely due to mis-recording by FRAs. He said that GAD had identified two possible approaches: to use the (higher) withdrawal rates assumed for the scheme reform work for regular firefighters in the 2006 scheme; or to use the withdrawal rates for regular firefighters in the 2006 Scheme that are the same as those for regular firefighters in the 1992 Scheme. There was also some evidence that retained firefighters tended to withdraw at higher rates than regular firefighters.
- 4.15 Trevor Peel suggested that there was a significant range between the two approaches which could have a significant impact on the cost cap. Rich Haines said that the evidence available was inconclusive and, therefore, it was up to DCLG to consider what they would view to be their best estimate, having regard to GAD advice based on the information available, and views of stakeholders.

ACTION: Members were invited to consider and provide views on:

- Do the different designs of the 1992 and 2006 schemes affects withdrawal rates? and
- Do members agree that retained firefighters are much more likely to withdraw than regular firefighters?

- 4.16 Trevor Peel referred to paragraph 9.12 of the GAD paper and questioned how it was possible to adopt a salary scale that is consistent for both the 1992 and 2006 schemes. He said that the 1992 was a 30 years scheme whereas the 2006 scheme was a 40 years scheme. As such, one would assume that a member of the 2006 scheme will have a longer scale. Mike Scanlon referred to paragraph 9.13 of GAD's draft report, which discussed this point.
- 4.17 Sean Starbuck referred to paragraph 10.7. He asked for the reference to 78 firefighters to be broken down into retained and regular. Mike Scanlon said that the data did not always make this possible but that GAD would try and extract this information.

5. RDS Settlement – update on consultation

- 5.1 Anthony Mooney explained that the RDS consultation paper closed on the 3 September. There were 28 responses received from individual firefighters, employing FRAs, Unions and the Local Government Association. He said that two bespoke meetings of the Firefighters' Pension Technical Working Group had also been set up to scrutinise the associated amendment SIs.

5.2 The most common issues raised as part of the consultation were:

- concerns that FRAs will be liable for the past service employer contributions;
- lack of clarity on the scale of past service costs to employers;
- unclear as to when these additional costs would impact on the employer contribution rates;
- concerns at the additional administrative burden (and costs) associated with implementing the Options exercise;
- the removal of the 'protected rights' injury awards for retained firefighters;
- the difficulty of locating former employees;
- concerns about the tight timetable for implementing the Options exercise;
- the complexity of administering the modified scheme.

5.3 DCLG was currently considering all the points raised and would publish a Government response in due course.

5.4 Once the Government response had been published the enabling legislation will be made shortly afterwards. It will be at this stage that FRAs will be expected to undertake an Options exercise to provide eligible individuals with an opportunity to join the modified scheme. DCLG is also currently liaising with GAD to ensure that the bespoke suite of actuarial factors will be ready for FRAs to implement the Options exercise.

6. 2015 Scheme – Scheme update

6.1 Sharon Mayers updated the Committee on the following points:

- DCLG lawyers were currently working on the draft 2015 scheme regulations in relation to member benefits in the 2015 scheme. Earlier discussion about key aspects of the member benefits at the 2015 scheme working groups will be incorporated into the draft regulations;
- Further consideration has been given to the calculation of higher tier ill health benefits. This followed advice that the proposed calculation that the 2015 Scheme working group had considered did not fall within the ambit of the Public Service Pensions Act. Following this, DCLG issued a paper to the working group in September setting out two alternative proposals. After receiving comments, the revised proposal is that higher tier ill health benefits will be based on a proportion of lower tier ill health benefits accrued projected up to Normal Pension Age. Draft regulations will incorporate this proposal;
- There are areas of commonality between the 2015 firefighters pension scheme and the other public service pension schemes, (eg CARE scheme, pension pot arrangements) so where we are able to the intention is that the draft regulations for the 2015 firefighters' pension scheme will be consistent with draft regulations being prepared for the other schemes;

- When issued, the consultation is expected to run for 3 months. During that time DCLG will meet with the Firefighters' Technical Working Group to discuss the regulations in detail;
- Following this, there will be further consultations covering the detailed transitional arrangements and another regarding Governance, Finance and Valuations.

7. Scheme Governance: LGPS perspective

7.1 Bob Holloway of DCLG provided an update on the work that had been undertaken on the Governance arrangements in respect of the LGPS.

[**Secretary's Note:** the attached link provides information on the work of the LGPS shadow scheme advisory board and its various sub-committees <http://www.lgpsboard.org/index.php/meetings-and-papers>]

8. Future scheme amendments – FPC(13)9

8.1 Anthony Mooney introduced committee paper FPC(13)9. He said that DCLG were now considering a further round of amendments to both the 1992 and 2006 Schemes. The paper set out a number of amendments that may be needed to correct errors and to update statutory references within the schemes.

ACTION: Members were invited to comment on the amendments identified in the committee paper and to suggest further amendments that might improve the administration of the scheme - comments/suggestions to be submitted by 30 November.

9. Any Other Business

9.1 There were no other items of business raised.

10. Dates of future meetings

22 January 2014 (10am)
22 April 2014 (10am)
24 July 2014 (10am)

***Department for Communities and Local Government
December 2013***

Attendees

Andrew Cornelius (Chairman)	DCLG
Chris Megainey	DCLG
Bob Holloway	DCLG
Sharon Mayers	DCLG
Anthony Mooney (Secretary)	DCLG
Cllr Maurice Heaster	LGA
James Dalgleish	LGA
Gill Gittins	LGA
Jackie Wood	LGA
Rich Haines	GAD
Mike Scanlon	GAD
Alyson Hall	GMFRS
Andrew Bayne	Kent FRS
Trevor Peel	Leicestershire FRS
Lorna Smith	Scottish Government
Claire McGow	SPPA
Terry Crossley	Welsh Assembly
Helen Griffiths	Welsh Assembly
Donna Mullan	NIFRS
Sean Starbuck	FBU
Ivan Walker	Thompson's
Ian Hayton	CFOA
Des Prichard	APFO
Glyn Morgan	FOA
Tristan Ashby	RFU

Apologies

Dr Will Davies	ALAMA
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