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Dear Jayne

**Firefighters' Pension Schemes (England) – Scheme Specific Employer Contribution Rates**

1. This letter is addressed to the Home Office and relates to the Firefighters' Pension Schemes ('the Schemes') in England. The purpose is to provide the scheme specific employer contribution rates over the ***implementation period*** (April 2019 to March 2023) that equate to the average ***corrected employer contribution rate*** of 30.2% of pensionable pay, that has been calculated under HMT Directions[1] and as set out in the 2016 valuation report[2]. This rate includes the cost of benefits assuming that the 2015 Scheme accrual rate is improved from 1 April 2015 such that the ***employer contribution correction cost*** aligns with the target cost of the scheme[3]. This work was commissioned by the Home Office, the main user of this letter.

2. The average ***corrected employer contribution rate*** has been calculated in accordance with the HMT Directions and is a single average rate across the 1992, 2006 and 2015 schemes.

3. Under the 2015 Scheme's regulations, the Secretary of State must determine, after consultation with the Scheme Actuary, the employer contribution rate payable by employers[4].

4. Where a member has retired with an entitlement to the immediate payment of an ill-health pension, that member's employer must pay an ill-health additional contribution. The Home Office has confirmed they intend that the ill-health additional contribution over the ***implementation period*** will be as follows:

   > Higher tier ill-health additional contribution: 4 times pensionable pay (over the last 12 months)

   > Lower tier ill-health additional contribution: 2 times pensionable pay (over the last 12 months)

[1] The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 (as amended).
[2] Firefighters' Pension Schemes (England) - Actuarial valuation as at 31 March 2016 - Report by the Scheme Actuary, dated 28 February 2019.
[3] The target cost of the scheme is equal to the ***employer cost cap***, which is specified in Regulation 150A of The Firefighters' Pension Scheme (England) Regulations 2014 (SI 2014/2848) as 16.8% of pensionable earnings.
[4] The Firefighters' Pension Scheme (England) Regulations 2014, Regulation 117(1).

5. We have calculated separate employer contribution rates over the ***implementation period*** for the members accruing benefits in the 1992 Scheme (including special retained members of the 2006 Scheme), in the 2006 Scheme (excluding special retained members) and in the 2015 Scheme, after allowance for the expected ill-health additional contributions as set out above and allocating the same percentage of pay to each rate for past service effects. These are set out below, with further details in the Appendix.

   > 1992 Scheme (including special members of 2006 Scheme): **37.3%** of pensionable pay, plus ill-health additional contributions.

   > 2006 Scheme (excluding special members): **27.4%** of pensionable pay, plus ill-health additional contributions.

   > 2015 Scheme: **28.8%** of pensionable pay, plus ill-health additional contributions.

6. If employers pay contributions in line with the rates set out in the previous paragraph (and ill-health additional contributions are as expected), then the weighted average of the employer contributions during the ***implementation period***, expressed to the nearest 0.1% of pensionable pay, is expected to be equal to the average ***corrected employer contribution rate*** of 30.2% of pensionable pay. The actual average obtained may differ from this figure to the extent that the proportion of overall payroll in each scheme over the ***implementation period*** is different to that estimated or ill-health additional contributions received are different to those estimated.

7. The data, method and assumptions used for this purpose are as described in the 2016 valuation report, which should be read in conjunction with this letter. The results are sensitive to the assumptions made. The executive summary and section 4 of the 2016 valuation report provide more details about the sensitivity to the assumptions.

8. In December 2018, the Court of Appeal provided a judgment that the transitional protection provided to some members of the Schemes was unlawful discrimination. Details about this and the Government's decision to pause the cost cap process is provided in paragraphs 1.3 and 1.4 of the executive summary of the 2016 valuation report.

9. Terms defined in HMT Directions are shown in bold italics when used in this letter.

10. This work has been carried out in accordance with the applicable Technical Actuarial Standards, TAS 100 and TAS 300, issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

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Yours sincerely

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## Appendix – Further details of the scheme specific employer contribution rates

The following table sets out the separate employer contribution rates, which are expressed as a percentage of pay in each scheme.

### Employer contribution rates for 1992, 2006 and 2015 schemes

| | 1992 Scheme[5] % pay | 2006 Scheme[6] % pay | 2015 Scheme % pay | Note |
|---|---|---|---|---|
| Cost of benefits accruing over implementation period | 47.0 | 34.0 | 35.1 | 1 |
| Less estimated average member contribution rate | -14.8 | -10.8 | -12.9 | 2 |
| **Employer rate for benefits accruing over implementation period** | **32.2** | **23.2** | **22.2** | |
| Plus adjustment for past service effects | 7.3 | 7.3 | 7.3 | 3 |
| Less allowance for ill-health additional contributions | -2.2 | -3.1 | -0.7 | 4 |
| **Employer contribution rate payable from 1 April 2019** | **37.3** | **27.4** | **28.8** | 5 |
| Weighting by projected salary over the implementation period | 6.5% | 0.1% | 93.4% | |

### Explanation of employer contribution rates

| Note | Explanation |
|---|---|
| 1. | Reflects the benefits and projected membership of each scheme over the ***implementation period***. The weighted average is equal to 35.9% of pensionable pay. |
| 2. | Reflects the contribution rates and salary bands currently set out in the Schemes' regulations and projected membership of each scheme over the ***implementation period***. The weighted average is equal to 13.0% of pensionable pay. |
| 3. | Reflects the deficit as at 31 March 2016 and the difference between the cost of accrual and actual contributions paid between April 2016 and March 2019. The same adjustment has been applied to each scheme. |
| 4. | Reflects the ill-health additional contributions (as described in paragraph 4 of the main body of this letter), the projected membership of the Schemes, and the ill-health retirement assumption, calculated as an average over the ***implementation period***. The weighted average is equal to 0.8% of pensionable pay. |
| 5. | The weighted average is 29.4% of pensionable pay. This equates to the average ***corrected employer contribution rate*** of 30.2% of pensionable pay minus the expected average ill-health contributions of 0.8% of pensionable pay. |

[5] Includes special retained members of the 2006 Scheme.
[6] Excludes special retained members.

**Comparison of results with the 2012 valuation**

| Employer contribution rates | 1992 Scheme[7] % pay | 2006 Scheme[8] % pay | 2015 Scheme % pay |
|---|---|---|---|
| 2012 valuation – implementation period April 2015 to March 2019 | 21.7 | 11.9 | 14.3 |
| 2016 valuation – implementation period April 2019 to March 2023 | 37.3 | 27.4 | 28.8 |
| Increase from 2012 to 2016 valuations | 15.6 | 15.5 | 14.5 |

The scheme specific employer contribution rates have each increased by a similar amount and the main reasons for the increases are the same as those described in section 2 of the 2016 valuation report. An additional increase to the 2015 Scheme rate might have been expected due to the impact of assuming that the accrual rate is improved from 1 April 2019 (as described in paragraph 1 of the main body of this letter). However, the 2015 Scheme rate calculated at the 2012 valuation was not reduced to allow for the surplus at that valuation (only the rates for the 1992 and 2006 schemes were adjusted) and this relatively higher starting point for the 2015 Scheme rate has broadly offset the impact of assuming that the 2015 Scheme accrual rate is improved in the 2016 calculations.

[7] Includes special retained members of the 2006 Scheme in the 2016 valuation. These members were not present in the 2012 valuation.
[8] Excludes special retained members in the 2016 valuation. These members were not present in the 2012 valuation.