

**Firefighters' Pension Scheme Advisory Board for Wales**

**27 November 2017, Welsh Government Office, Cathays Park, CF10 3NQ**

**Minutes**

**Members**

Michael Prior (MP)	Independent Chair
Cllr Sue Pickering (SP)	South Wales Fire and Rescue Authority
Grant Mayos (GM)	Fire Brigades Union, Executive Council Member for Wales
Sean Starbuck (SS)	Fire Brigades Union
Paul Scott (PS)	Fire Officers' Association

**Officers in attendance**

Julie Brown (JB)	North Wales fire and Rescue Service
Kevin Jones (KJ)	Mid and West Wales Fire and Rescue Service
Mark Malson (MMa)	South Wales Fire and Rescue Service

**Others in Attendance**

Chris Mulholland (CM)	Government Actuary's Department
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**Welsh Government Officials (Secretariat)**

Kerry Citric (KC)	Fire Services Branch
Cerys Myers (CLM)	Fire Services Branch
Natalie Spiller (NS)	Fire Services Branch

**Apologies**

Cllr Claire Mills	Mid and West Wales Fire and Rescue Authority
Adrian Hughes	Retained Firefighters Union
Clair Alcock	Local Government Association
Cllr Bryan Apsley	North Wales Fire and Rescue Authority

**Observers**

Chris Barton (CB)	South Wales Fire and Rescue Service
Mark Miles (MM)	Mid and West Wales Fire and Rescue Service

**1. AGENDA ITEM 1 – WELCOME AND INTRODUCTIONS**

1.1 MP welcomed everyone to the meeting. It was noted that, as well as officers accompanying employer members, 2 additional observers were also in attendance (Chris Barton and Mark Miles). A list of members, officers in attendance, and observers had been provided to the SABW to prevent any confusion.

- 1.2 Apologies had been received from Cllr Claire Mills, Cllr Bryan Apsley, Adrian Hughes, and Clair Alcock. MP iterated the importance of members attending meetings to effectively undertake the role of the SABW.
- 1.3 MP wished to express his condolences on behalf of the SABW following the sad loss of Carl Sargeant, previous Cabinet Secretary for Communities and Children.
- 1.4 Members confirmed they had no conflicts of interest to declare.

**2. AGENDA ITEM 2 – MINUTES FROM LAST MEETING (3 FEBRUARY 2017 & 29 SEPTEMBER 2017)**

- 2.1 MP referred to the minutes of the previous meetings held on 3 February and 29 September and invited members to agree the minutes for accuracy. No comments were made and both sets of minutes were agreed as a true record.
- 2.2 A matters arising paper had been circulated to incorporate the actions from both meetings to clearly set out where action had been completed or was ongoing. MP acknowledged that the majority of actions had been completed; an update on Pensionable Pay and Local Pension Boards would be covered by the agenda.
- 2.3 MP invited SS to provide an update on the actions which pre-dated 3 February.
- *Provide information on the number of 2007 Scheme firefighters interested in transferring to the 2015.* SS explained that the information was dependent on the outcome of an employment tribunal due to take place 11-14 December. SS requested the item remain on the agenda.
  - *To consider proposal to allow members of the 2007 scheme to transfer their pension into the 2015 scheme.* MP acknowledged that this action was dependent on the action above.
  - *Employee contribution rates yield* - SS asked for the action to be removed from matters arising; MP agreed.
  - *Protected Pension Age* - SS advised that FBU was awaiting a response from the Pensions Ombudsman and requested the item remain on the agenda.
- 2.4 KC provided an update on FRA “buy in” to LGA Guidance and explained that the SABW had previously discussed whether to establish a budget to cover training aspects and any potential actuarial advice required by the SABW. The budget for the Scheme Advisory Board in England (SABE) was based on a levy on FRAs; if the SABW was to follow the same approach, the contributions would provide the SABW with a relatively small budget with limited benefit. The matter had been discussed at the meeting held in February and it was agreed that the secretariat would explore options for “buying in” to the additional expert resource in Local Government Association (LGA). The FRAs had agreed in August to a proposal to increase the Welsh FRA levy for 2017/2018, for pension services from LGA, from £2 to £3 per firefighter member. The FRAs confirmed that they were benefitting from the service.

- 2.5 SS queried whether the SABW had arrangements to secure actuarial advice, if required to feed into the valuation. MP advised that the Valuation assumptions were broadly the same as those in England and there had not been need to seek different advice. He added that if differences became apparent in the future, the SABW would need to reconsider the position on a case by case basis.
- 2.6 In relation to Past Service Costs, KC advised that the secretariat had written to HM Treasury to outline the views of the SABW as discussed at the last meeting. A copy of the letter had been circulated to members as part of the Matters Arising paper. The Welsh Government had spoken to HM Treasury who had advised that they had not reached a final agreement with the Home Office in relation to the handling of past service costs. The Welsh Government had outlined their position to HM Treasury in that they had noted and accepted the views of the SABW. An update would be provided to the SABW when possible. CM advised that the treatment of past service costs would impact the final assumptions of the valuation but that it had not delayed progress thus far.

### **3. AGENDA ITEM 3 – 2016 VALUATION**

- 3.1 MP referred to the September meeting where information on the actuarial assumptions for the English firefighter pension schemes and their relevance to the valuation in Wales had been shared with members. GAD had now produced the report in respect of the Firefighters' pension schemes in Wales and members would need to consider the assumptions in order to provide advice to Welsh Ministers. A copy of the report and some specific questions for members to consider and respond to had been circulated prior to the meeting.
- 3.2 CM explained that GAD was required to calculate some, but not all, of the valuation assumptions in order to place a cost on the scheme. General assumptions (such as discount rate, consumer price index and pay increases) were set by HM Treasury in their valuation directions.
- 3.3 The Scheme specific assumptions for the Valuation were set by Welsh Ministers, following advice provided by GAD. Welsh Ministers were required to consult with stakeholders; in practice this involved consulting with SABW. A deadline of 15 December was proposed to ensure GAD could continue with their valuation work in a timely manner. The assumptions were subject to change to reflect consultation responses and a forthcoming change in HM Treasury directions. If the changes were material to the valuation, the report would be re-circulated to the SABW.
- 3.4 CM referred to the Welsh assumptions for the 2012 Valuation which, with the exception of 'retirement in normal health' and 'promotional pay increases', had mirrored the English assumptions. The Welsh assumptions for 2016 Valuation were the same as those set out in the English assumptions. CM added that some of the data available to analyse the experience of the schemes was limited compared with the corresponding schemes in England. Where there was no

reason to believe experience across the memberships of the two schemes was materially different, GAD had used data from the England Schemes to form their recommendations for the Welsh Schemes.

### *Pension Mortality*

3.5 CM explained that there had been insufficient pensioner deaths (126) in Wales over 2012-16 to carry out a robust analysis. GAD had proposed using the same mortality assumption as proposed for the English Schemes (1,489). The analysis covered male members only as there were relatively few female firefighters to allow robust experience analysis for females.

3.6 SS queried the data and asked whether the cost of the scheme would decrease if the Welsh mortality assumption was used. CM confirmed this to be the case. SS commented that the scheme was being made more expensive than it needed to be as the assumptions would impact the employer contribution rate, the cost cap and the overall management of the scheme. CM explained that the Welsh data had been subject to large variation and was not sufficient to set robust assumptions. This approach had been taken for the 2016 valuation of the firefighters' pension scheme in Northern Ireland, which showed a similar relationship between aggregate population mortality rates compared to those in England. In contrast, there had been a greater percentage between the assumptions for the 2016 valuation of the firefighters' pension scheme in Scotland compared to those in England and so Scotland would use their own assumptions for their Schemes. MP acknowledged that this would be something to be mindful of in future Valuations of the Schemes.

### **ACTION: SABW to review the data used in future valuations of the Schemes.**

3.7 PS asked whether consideration had been given to a possible increase in mortality rates of firefighters aged between 55 and 60 as they appeared to be working longer. CM said that this had not been considered. CM referred to life style effects of pensioners between ages 50-60 which could change the pensioner mortality. The change to the base table would increase the employer contribution rate by approximately 1.4% of pay. Some of the impact would be offset by the change to future rates of mortality improvement.

3.8 CM explained that the rates of pensioner mortality had been updated to reflect Office for National Statistics (ONS) population projections for 2014. HM Treasury have yet to confirm whether the data will be substituted by the 2016-based population projections published in October 2017; which would result in lower expectancies than in 2014. This would significantly reduce the impact on the cost cap cost and employer contributions. It was agreed that the consultation response would request the use of the ONS 2016 data.

3.9 CM said that adequate data had been available to analyse mortality on an 'amounts' basis as opposed to a 'lives' analysis as was the case in 2012. An

'amounts' basis weights the experience by the size of each members pension and was more accurate. It was noted that the SABE had agreed with the approach that GAD had used and had stated so in their response to the assumptions. It was agreed that the SABW would take the same approach.

**ACTION: SABW response to include endorsement of data analysis on an 'amounts basis'.**

*Age retirement from service*

3.10 CM spoke about the assumptions for normal health retirements from each of the individual Schemes. GAD proposed a change to adopt the England assumption for 1992 Scheme Members and a new assumption for the modified scheme added, but the others would remain as set in the 2012 Valuation.

3.11 SS referred to the proposed assumption for 2007 Scheme members as FBU believed that firefighters would be unable to work until they were 60. SS added that this would also apply to 2015 Scheme members and noted that different early retirement factors applied in the 2015 scheme in Wales. PS agreed and said that many firefighters had verbally indicated that they would retire earlier than 60 but there was no evidence to confirm.

3.12 CM accepted the comments and explained that there was insufficient data to undertake any meaningful analysis of retirements in the 2007 and 2015 Schemes. CM added that the data relating to the 2015 Scheme was not material to the 2016 Valuation and would not impact the cost of the scheme. SS felt that it was important to use accurate data and reference should be made where this was not possible.

*Ill-health retirement from service*

3.13 GAD proposed maintaining the 2012 assumptions. MMA queried whether the number of retirements had increased since 2015/16, indicating that South Wales FRA had seen a far higher number of retirements in 2016 than in 2012. KJ and JB indicated that ill-health retirements in Mid and West Wales FRA and North Wales FRA were low and they had not detected an increase in trend. All three FRA's agreed to provide data to include in the response. KC reported that ill health data had been submitted by FRAs following the meeting in September to check the accuracy of lower and higher tier retirements, but suggested that FRAs review this information.

**ACTION: Welsh Government to re-circulate the ill-health data previously collected; FRAs to revisit and update as necessary.**

3.14 CM explained that GAD proposed maintaining the previous assumption of 40% for upper-tier benefits. CB queried whether the figure reflected the English assumption. CM confirmed that the original English assumption had been between 50 and 60% but as the data had been inconclusive, GAD had reverted

to the previous assumption of 40%. SS queried the quality of data in Wales and reiterated that the scheme was being made more expensive than it needed to be by relying on English data. KC mentioned the data check she had previously referred to following the September meeting, clarifying that the FRAs had provided data on the number of ill health retirements in Wales broken down by lower and upper tier retirements and this had been shared with GAD, hence the reference in the GAD report to two different figures for Wales. JB added that the return for North Wales FRA had reflected 27% of ill health retirements were upper tier and suggested that GAD's assumption may be too high if a similar figure had been provided by the other Welsh FRA's.

### *Withdrawal*

- 3.15 In relation to voluntary withdrawal from service, CM explained that GAD had considered events that had occurred which could have impacted on scheme membership (including increases in member contribution rates, the introduction of the 2015 scheme and the public sector pay cap). GAD therefore proposed to maintain the same assumption as adopted for the 2012 valuation. PS asked whether consideration had been given to the number of firefighters who had chosen not to join the pension scheme. CM said that this was not relevant to the Valuation as they had neither contributed or would be eligible to benefit from the scheme and so these were neutral costs in terms of the Valuation.
- 3.16 MP explained that an update on opt out data had been provided at a number of SABW meetings. KC added that a more detailed version had been provided to GAD which included data on auto enrolment of retained members. KC advised that some of the figures had changed slightly from those previously circulated following a data cleansing exercise which had detected duplication of some members.
- 3.17 KC mentioned that SWFRA had previously raised concerns about member opt outs and the impact they would have on the future income of the scheme. CM explained that the data had been dominated by those opting out within the first 3 months of being in the 2015 scheme and that GAD was interested in those who had opted out after a number of years. SS added that decisions on the age discrimination case may impact on future opt outs. The FBU continued to advise and encourage members to stay in the schemes. KJ added that many were on-call firefighters probably because they were already in separate schemes via their primary employers. KC referred to the data captured for 2017/18 and advised that the 31 opt outs had been from the 2015 Scheme; of which 19 were retained firefighters.

### *Promotional Pay*

3.18 CM explained that GAD had to estimate pay at retirement in order to determine pensions on retirement; which would ultimately impact on the cost of the scheme.

*Promotional increases – proposals*

3.19 It was suggested that the number of temporary promotions had increased and it was recognised that members were able to work at that temporary grade for 12 months or so. SS referred to a change in legislation backdated to 2013 which highlighted that temporary promotion was not pensionable and so was not linked to the final salary of members. It was noted that members were able to increase their pension by contributing on an Additional Pension Benefits basis. CM said that special retained members had not been included in the previous assumption but recommended that the assumption is equal to those of standard retained members.

*Commutation*

3.20 CM explained that commutation related to members who exchanged their pension for a lump sum. Assumptions of 15% for the 2007, 2015 and mixed 2007/2015 schemes were as specified in HM Treasury 2014 directions.

3.21 GAD proposed 1992-2015 mixed members would not commute significant amounts from the 2015 scheme but CM welcomed SABW views on whether some allowance for commutation of the 2015 scheme pension should be made. SS added that the 15% assumption seemed low for the 2006 and 2015 schemes. It was believed that most members would opt to take the 12.1. Similar views were expressed by other board members, including with reference to the mixed 1992-2015 members. It was suggested that firefighters generally took the highest level of commutation possible even where this incurred a tax charge.

3.22 KC explained that HM Treasury had shown interest in collecting evidence from FRAs to inform the review of this assumption. The data required had been outlined in the covering paper. For ease of reference, the FRAs were invited to provide evidence in the form of :-

- Anecdotal evidence on firefighter behaviours,
- Data on firefighters commuting the maximum tax free lump sum since 2012.
- Data on firefighters commuting the maximum lump sum and paying a 40% tax charge since 2012.
- Any experience of ill-health retirements from the 2015 scheme.

KC asked FRAs to submit the data by Weds 6<sup>th</sup> December.

**ACTION: FRAs to provide data on firefighters in relation to commutation by 6<sup>th</sup> December.**

*Family Statistics*

- 3.23 In relation to family statistics, all assumptions were the same as those adopted for the 2012 valuation. The SABW agreed the assumptions.
- 3.24 KC explained that the secretariat would draft a response for the Chair to submit to the Welsh Government. This response would be shared with SABW for their approval prior to its formal submission.

**ACTION: Secretariat to draft a response for the Chair to submit to the Welsh Government.**

**4. AGENDA ITEM 4 – PENSIONABLE PAY**

- 4.1 MP invited SS and KJ to provide an update on Pensionable Pay. SS advised that the issue related to firefighters across the UK and not just those in Wales. FBU was unable to provide an update as they were awaiting a determination from the Pensions Ombudsman. KJ confirmed that Mid and West Wales FRA was in the same position but hoped that a consistent approach could be taken across all 3 FRAs.
- 4.2 CM advised that GAD would continue with the Valuation as planned until the determination was known. SS added that the determination would only impact past service costs.
- 4.3 MP reiterated that the Welsh Government had no position on the matter. The issue would remain on the agenda until it was resolved.

**ACTION: Welsh Government to place Pensionable Pay on the agenda for the next meeting.**

**5. AGENDA ITEM 5 – SCHEME DATA**

- 5.1 KC introduced the item which provided an update on Employee Contribution Rates Yield, Scheme Costs and Scheme Opt Out Data.

*Employee Contribution Rates Yield*

- 5.2 KC explained that the SABW was required to monitor the employee contribution rate yield on an annual basis. The monitoring would provide a backward looking analysis and would inform the SABW on whether the estimated yield, as part of the valuation exercise, was being achieved. The overall yield was 13.2%.



5.3 KC referred to the yield for 2015-16 which was 13.1%. This was in line with GAD yield estimates for that period. Based on FRA returns, the yield in 2016-17 had increased to 13.24%. Over both years the total yield was 13.17%.

#### *Scheme Costs*

5.4 A copy of the pension scheme costs broken down by FRA had been provided to members. KC explained that the data showed both scheme income and expenditure (income being employee and employer contributions and expenditure being mainly linked to payments made to pensioners). HM Treasury provided the difference in costs. The figures showed the volatility of the pension fund year on year, particularly in 2015/16 where South Wales FRA had experienced a larger number of retirements than anticipated.

5.5 SS pointed out that the data showed that employee contributions were increasing year on year.

#### *Opt Out Data*

5.6 KC advised that the Opt Out data for 2017-18 included the latest returns from FRAs. She reiterated that some of the previous years figures differed slightly following a data cleanse in order to share detailed information with GAD and HM Treasury.

5.7 KC explained that the Welsh Government used FPF annual return data to provide information on the yield, scheme costs and pension top up grants as well as for a number of other ad hoc data requests. Receiving accurate data from the FRAs was extremely important.

## **6. AGENDA ITEM 6 – UPDATES FROM LOCAL PENSION BOARDS**

6.1 MP explained that this agenda item provided FRAs with an opportunity to share good practice and to discuss specific issues of concern raised at the Local Pension Boards (LPBs).

#### *South Wales FRA*

6.2 MMA explained that LPB representation had changed following the FRA election in June but the Chair had remained the same. Two meetings had taken place in July and October. Training of members had been identified as an issue but all members had registered with the Pensions Regulator and had attended the pension training session held in September. MMA advised that the general risk register was under review. The Service Level Agreement with the Pension Scheme Administrator was also under review.

#### *Mid and West Wales FRA*

6.3 MM advised that two LPB meetings had taken place since the SABW met in February. MM thanked MP for attending the July meeting to provide an overview of the role of the SABW. The LPB had agreed the Annual Report 2016/17 and had considered the Risk Assessment Policy and forward work programme. Training had been provided to new members and refresher training was provided to existing members.

#### *North Wales FRA*

6.4 JB explained that the employer representatives had changed. One meeting had taken place in April; the November meeting had been cancelled and rescheduled to take place in January. As a result, the FRA had submitted a response to the Pensions Regulator survey without discussing with the LPB. The response was however, approved by the Chair of the LPB.

6.5 KC spoke about the consistency of feedback and acknowledged that the issue had been referred to the Personnel and Organisation Development Group meeting scheduled on 11 January 2018.

6.6 MP added that he would be happy to attend individual meetings of the LPBs if members would find it helpful.

### **7. AGENDA ITEM 7 – FIREFIGHTERS’ PENSION SCHEME AMENDMENTS**

7.1 KC advised that the Welsh Government were consulting on two orders, one which covered minor amendments to the 2015 scheme and transitional arrangements and one which covered survivor benefits on remarriage and other minor amendments to the 1992 and 2007 schemes.

7.2 KC explained that the Welsh Government was not consulting on Brewster as it formed part of a supreme court judgment but the ruling would be included in the final survivor benefits order. Based on discussions with FRAs, the Welsh Government did not believe that there were any retrospective cases in Wales. However the order would include retrospection in case there were individuals that the FRAs had not been able to identify.

7.3 The consultation would close on 21 December. One response had been received from North Wales FRA.

7.4 KC referred to the recent judgment case of Walker v Innospec Limited, which ruled that any pension scheme that restricts a civil partner from accessing benefits on periods of service before 5 December 2005 would now be deemed unlawful. The Welsh Government was considering the implications of the judgment with Legal Services and was awaiting more general advice from HM Treasury. KC said that a further consultation may take place if there were cases in Wales impacted by the ruling. The SABW was not aware of any retrospective cases in Wales.

**8. AGENDA ITEM 8 – GUARANTEED MINIMUM PAYMENT – FRA RECONCILIATION EXERCISE**

8.1 KC explained that following the introduction of a single tier state pension, schemes had been asked to work with HMRC to undertake a data reconciliation exercise to ensure that records were correct. All three FRA's confirmed that the scheme administrators were working with HMRC but it had appeared that the Local Government Pension Scheme had taken precedence.

8.2 In relation to overpayments, HM Treasury had advised that it was up to individual accounting officers to decide whether any overpayments should be clawed back, based on Managing Public Money principles. In previous years, it had been considered that it was not cost effective to re-coup any overpayments.

**9. AGENDA ITEM 9 – ANY OTHER BUSINESS**

9.1 Members confirmed they had no other business to report. MP added that he had been invited to attend a SABE meeting on 1 December and would provide feedback at the next meeting.

9.2 KC referred to the date of the next meeting which had been scheduled to take place in March 2018. KC suggested that the meeting be re-arranged for April to coincide with the final publication of the Valuation.

**ACTION: Welsh Government to re-arrange and confirm date of next meeting.**