

CHESHIRE FIRE AND RESCUE SERVICE

MEETING OF : PENSION BOARD
DATE : 24 APRIL 2017
REPORT OF : DIRECTOR OF TRANSFORMATION
AUTHOR : JILL SWIFT

SUBJECT : FIREFIGHTER PENSION SCHEME UPDATE

Purpose of Report

1. The purpose of this report is to provide the Pension Board with an update on current issues relating to the Firefighters' Pension Schemes.

Information

2. **Membership Statistics**

Membership statistics are detailed in Appendix A.

3. **Pension Administrator Performance**

The Kier Pensions performance report for quarter three 2016/17 is included at Appendix B. Their report outlines the key pieces of work completed since the last report and also their performance against service level agreements.

4. **Firefighter Pensions Scheme Advisory Board - Update**

The Scheme Advisory Board (SAB) met in March 2017. The following topic were discussed.

5. The SAB is progressing well and getting to grips with its role and the issues which it needs to address. There will be a new LGA Technical Advisor role which will provide additional capacity for SAB support. The priority of the SAB is to support Local Pension Boards (LPBs) such as providing support on policy writing and will be a central point of contact.
6. A number of subcommittees are being considered including:
 - LPB effectiveness – considering best practice, escalation of issues and consistency
 - Cost effectiveness – including the cost cap and employer rates.
 - Effectiveness of administration – including considering the feasibility of reducing the number of administrators.
7. **Taxation** - Since April 2016 there have been a number of changes to the tax system which have impacted on pensions. The SAB have had bespoke training on this subject and are considering how employers can get this complex message across effectively to employees. The

SAB are looking to commission training on taxation for Scheme Managers and LPB members as well as more detailed training aimed at administrators.

8. **Home Office consultations** –FRAs may be aware of the changes relating to ill health retirement where a member is due to transition to the 2015 scheme. Where an IQMP is initiated, the member should not be transitioned to the new scheme until the IQMP is finalised. This change will not have retrospective effect. The regulations will shortly be amended for this.
9. **The Pension Regulator Survey** – TPR recently distributed a survey to all FRAs asking for feedback on the operation of the LPB. The results are due to be published shortly. Initial indications show a much improved response rate in comparison to last year and the key issue raised by FRAs is the approach to risk strategy. TPR are also considering quarterly webinars for LPBs.

10. **Pension Scheme Valuation**

The Government Actuary's Department (GAD) undertakes a valuation of the Firefighter Pension Schemes every 3 years. The schemes are unfunded, therefore benefits in payment are financed by employer and employee contributions as well as a Government top-up grant.

11. A useful explanation and update on the progress of the valuation is attached at Appendix C. The valuation will determine the employer contribution rates for the period 2019 to 2023. Results are likely to be published in early 2018.
12. The briefing also explains the assumptions used to calculate the valuation, the employer cost cap mechanism and some of the recent pensions exercises which will have an impact on the future employer contribution rates such as the Milne v GAD corrections, the Pension Holiday and the Retained Modified Scheme.

13. **Contracted-Out Scheme Reconciliation**

In April 2016, contracting-out for defined benefit pension schemes ceased. All public sector pension schemes were contracted-out of the State Second Pension (S2P) and members paid reduced National Insurance contributions.

14. Due to the introduction of the new State Pension, HMRC and pension scheme administrators must now reconcile their National Insurance and Guaranteed Minimum Pension (GMP) data in order to be able to make accurate adjustments to the New State Pension amount of pensioners after 6 April 2016. Anyone who has been contracted-out at some point in their career is likely to have their State Pension reduced.
15. As a result, FRAs now have to complete an exercise to reconcile all HMRC data held on file for anyone who has been contracted out. This involves accessing and assessing historic HMRC data. Any variances

will need to be investigated and the data corrected.

16. This exercise is extremely technical and we have employed our pension administrator Kier to do this on our behalf. They have split the exercise into four phases and will provide a report after each stage. The Phase 1 report is attached at Appendix D.

Phase 1 – Accessing the data and initial assessment

Phase 2 – Investigation of variances

Phase 3 – Reconcile

Phase 4 – Correct Scheme and HMRC data

17. To date HMRC have only released data for pensioner and deferred members. It is likely that data for active members will be released later in the year.
18. The total records are 1070 records. 203 records matched exactly and 190 further records can be easily corrected without the need for investigation, therefore leaving 677 queries. It is likely that 329 of the queries can be resolved using HMRC's bulk query tool, leaving 348 needing more detailed investigation. The results table on page 4 of Appendix E outlines the discrepancies in the data so far.
19. We are currently at Stage 2 which is expected to take 6 to 12 months. The deadline for the completion of this exercise is December 2018.
20. The picture from a national perspective is detailed below for your information. This indicates that progress is slow for the majority of pension administrators due to the complexity of this exercise.

Scheme	No of locally administered authorities	Pensioner & Deferred data issued by HMRC to authority	No. of authorities that have raised queries (thus indicating work is progressing) regarding pensioner and deferred data	No. of authorities that have yet to query their pensioner and deferred data with HMRC
Fire England	46	46	12	34 (74%)
Fire Wales	3	3	0	100%
Fire Scotland	1	1	0	100%
Fire NI	No figures			

21. **Equalisation and Indexation**

Pension administrators must also complete an equalisation exercise for GMPs. Without this equalisation there may be inequality in pension payments to men and women. Before the removal of the S2P, a linked indexation and equalisation process applied to occupational pensions and State Pensions which ensured this equality was maintained. However with the removal of the S2P this mechanism no longer works.

22. A consultation was launched in December 2016 to ascertain how best to avoid unequal payments and also to establish whether the Government or employers would be responsible for the cost of indexation going forwards. This consultation closed on 20th February 2017. The response has not yet been published.

23. **Pension Contributions Holiday**

The 1992 Firefighters' Pension Scheme currently has a minimum retirement age of 50, as long as the member has at least 25 years service. The scheme is also capped at 30 years, meaning anyone who accrues more than 30 years pensionable service can accrue no further pension benefits once they have attained this 30 year cap.

24. The FBU launched a legal challenge on the grounds of age discrimination in December 2015. However, the Department for Communities and Local Government conceded the case and the Secretary of State confirmed that affected members would be allowed to take a contributions holiday from the point they attained 30 years reckonable pension service until the date they reached age 50.

25. The amending regulations for the 1992 pension scheme came into force on the 30th September 2016. Active members captured by the new rules have ceased to pay employee pension contributions on basic pay and allowances from 30th September 2016 until their 50th birthday. Pension is still deducted from CPD and any other pay which goes towards calculating additional pension benefits rather than final pensionable pay and employer contributions continue to be deducted on the full pensionable pay.

26. There were 68 retirees eligible for a pension refund. They were advised of their eligibility by letter in December 2016.

27. Between January and March 2017, calculations were completed for 61 of the members. 7 members required a bespoke calculation by the Government Actuary's Department.

28. Members were advised of the amounts due and payments were made to 61 members week ending 24th March 2017. We are still awaiting the bespoke calculations from GAD for the remaining 7 members. These are expected to be resolved within the next couple of weeks.

The breakdown of these payments is as follows:

Total Gross Payments	Tax Due Unauthorised payment	Interest Due (Bank of England rate 0.5%)	Total Net Payments
£315,395.39	£126,158.29	£7,825.92	£189,237.48

29. Each payment constitutes an unauthorised payment which attracts a 40% pension tax charge. The net payments were 'grossed up' so that the employee received the net amount without reduction. This amount equals the historic pension contributions paid minus the tax relief they would have received at the time of paying the contributions, plus the

interest.

30. All members completed a tax mandate form which allowed the unauthorised payment to be deducted at source. This means that members will not have to complete tax self-assessment forms.
31. The timetable proposed by the Home Office suggested that the majority of payments should be made by the end of March 2017. This has been achieved.

32. **Survivor Benefits – Nomination Forms**

33. A recent legal case in Northern Ireland concluded that where a member dies, is not married and they have **not** completed a survivor benefit nomination form to nominate a long-term partner, as long as the partner meets the scheme criteria, payment of benefits should be allowed. This case involved the Local Government Pension Scheme, however it may have implications for all public sector pension schemes.

34. At present the rules of the Firefighter Pension Schemes are as follows:

- **1992 Scheme** - The regulations currently state that pensions are paid to spouses and civil partners only.
- **2006 Scheme** - The regulations currently require a person to be a 'nominated partner' in order to pay a survivors pension.
- **2015 Scheme** - The rules of the scheme do not require someone to nominate a surviving partner.

35. At present there are no indications that the regulations will be amended. However, if amendments are required, only the 2006 scheme regulations would need to be amended.
36. All new joiners to the 2015 scheme are provided with nomination forms to complete, despite the fact that this is not a requirement. A recent survey of other FRAs in the north west regional group established that most Services also follow this practice as it ensures the member has had the opportunity to clarify their wishes in case of any potential family disputes.

37. **Employment Tribunal – Transitional Protections**

The Employment Tribunal decision concerning the transitional arrangements for the 2015 Firefighter's Pension Scheme was handed down in February 2017. The Tribunal concluded that the transitional arrangements did not discriminate on the grounds of age, sex or race. The FBU have appealed the verdict and we await further updates on this case.

38. **Exit Payment Cap – Update**

A £95,000 cap on public sector exit packages was due to be introduced in October 2016 as part of the Enterprise Act 2015. However, the

Government published further consultations and have now instructed departments to produce packages consistent with the proposals within the next three months, with a view to them being in force by June 2017.

39. The cap will include a wide range of payments including pension strain costs, pay in lieu of notice, redundancy and severance pay. The most recent consultation also proposes a number of additional measures which limit how exit payments within the overall exit package can be calculated such as how many weeks pay can be used and salary level.
40. There has been no further update on this matter at the time of writing this report. It is expected that further consultations will be published once individual Government departments have reviewed pension schemes and formulated proposals.

41. **General Updates**

Public service pensions have been increased by 1% from 10th April. This increase is based on the Consumer Price Index (CPI) up to September 2016.

42. The Firefighter's Pension CARE scheme is revalued each year in line with the Average Weekly Earnings Index. Pension benefits for 2016/17 will be revalued by 2.6%.
43. The Communications Group are currently looking at a number of improvements including a simplified employee guide, branding for all Firefighter Pension literature, additional guidance and support on taxation and guidance for transitional members.
44. Survivors of firefighters in the 1992 Scheme are currently required to forgo their benefits (and any benefits awarded under the Compensation Scheme) if they re-marry or form a new civil partnership. The regulations will be amended to change this as the Government wish to recognise the high risk of harm that firefighters face as an everyday part of their jobs. Survivors of qualifying firefighters will no longer be faced with the prospect of losing their pension in the event of remarrying or entering into a new civil partnership.

45. **LGA Local Pension Board Forum**

Members of Local Pension Boards are encouraged to join the LGA forums as it is a great source of reference information and helps to keep members up to date with key changes between board meetings. All minutes and actions from the Scheme Advisory Board meetings are also published in this forum. Instructions to join are at Appendix E.