

# CHESHIRE FIRE AND RESCUE SERVICE

MEETING OF: PENSION BOARD  
DATE: 28 NOVEMBER 2017  
REPORT OF : DIRECTOR OF TRANSFORMATION  
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**SUBJECT: FIREFIGHTER PENSION SCHEME UPDATE**

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## 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 four 2016/17 is included at Appendix B.

4. **Firefighter Pensions Scheme Advisory Board (SAB) – Update**

The autumn update from the Chair of the SAB, Malcolm Eastwood is at Appendix C.

5. **Pensions tax training** - Since April 2016 there have been a number of changes to the tax system which have impacted on pensions. The SAB have commissioned training on taxation for Scheme Managers and Pension Board members. Dates and venues have been circulated to board members and advisors.

6. The SAB have now launched their website which can be found at <http://www.fpsboard.org/>

7. **Voluntary Scheme Pays**

If an employee breaches the annual allowance, which is currently £40,000 per year, and this results in a tax charge, the individual can pay the charge from their own personal finances or they can use a mechanism called Mandatory Scheme Pays (MSP).

8. A scheme pays facility works by having the pension fund pay the member's tax charge initially. This is then repaid by the member as a debit is added to their pension when it comes into payment.
9. MSP can only be used if the individual meets certain criteria:

- the HMRC AA limit (currently set at £40,000) has been exceeded in the pension scheme that the Scheme Pays election is made; and
  - an AA tax charge exceeding £2,000 has been triggered; and
  - the relevant time limits for making an election have been met.
10. With the introduction of the 2015 Scheme, those with membership in both the new and old schemes will see pension growth in both schemes. As a result there is an increased likelihood that where a member breaches the annual allowance, they will not meet the criteria to be eligible to use MSP.
  11. The Home Office have proposed a Voluntary Scheme Pays (VSP) is introduced to bridge this gap. However, at the time there are no regulations in place to govern this, and this is unlikely to be put into place until 2018 at the earliest.
  12. In the interim, LGA have sought legal advice on whether FRAs can apply voluntary scheme pays without the need for a change in legislation. The legal opinion was that FRAs could apply VSP but that legislation is introduced it would be for the FRA to ensure that anything they do is lawful and appropriate.
  13. **Retained Injury Pensions Taxation**

It was recently reported by the LGA that a number of FRAs have been taxing payments for retained injury pensions. These payments are not taxable.
  14. On investigation, this issue does not impact any CFRS pensioners as our providers have always treated this correctly as a non-taxable payment.
  15. **Regulatory Amendments**

Two amendment orders for the Firefighters' Pension Schemes were laid before the House of Commons on 11<sup>th</sup> September.
  16. The first order amends the rules relating to cessation of survivors pensions on remarriage. This change means that widows, widowers, and surviving civil partners of firefighters and police officers who died or die on duty in England and Wales will no longer lose their survivor benefits if they remarry or form a civil partnership. These changes can be applied retrospectively to marriages, remarriages and civil partnerships entered into on or after 1 April 2015.
  17. The changes also extend the circumstances in which pension would be retained beyond those already listed to include scenarios where the member's died as a result of an injury "sustained while on a journey necessary to enable them to report for duty or return home after duty".
  18. In such cases, it may be problematic for FRAs to clarify the full circumstances in historical cases. The Home Office recognises that in some cases, it will be necessary for FRAs to work with survivors to

establish the exact circumstances of the firefighter's death.

19. The second amendment order, which took effect from 6<sup>th</sup> October 2017, deals with the position of transitional members who are being considered for ill-health retirement by an independent qualified medical practitioner (IQMP) at the time they would transition to the 2015 scheme from either the 1992 or 2006 scheme.
20. Under the amended rules such members remain in their existing pension scheme, until a final decision is made (including an appeal) by the IQMP. If the Ill-health is upheld the member retires from the existing 1992 or 2006 scheme avoiding the necessity for a minimal period of membership of the 2015 Scheme, if the Ill-health is not upheld the member moves into the 2015 scheme from the date of the IQMP decision or the expiry of 28 days after the appeal decision.
21. **The Pension Regulator (TPR) Annual Survey**

In 2016 TPR distributed a survey to all FRAs asking for feedback on the operation of Local Pension Boards. They have recently distributed the survey for 2017 and CFRS will be responding to this shortly.
22. The 2016 survey responses at Appendix D indicated a number of areas for improvement across public service pension schemes. The key themes were risk management, data quality and member communications in particular the provision of Annual Benefit Statements (ABSs).
23. The key risks identified were:

<b>Regulatory and Compliance</b>	<b>Financial</b>	<b>Operational</b>
Non compliance with TPR	Pension Fund accounting mistakes	Member data
Failure to interpret regulations	Excessive charges	Administrative failures
Failure to comply with disclosure requirements	Failure to deduct correct employee contributions	Premises and Software
Failure to communicate with scheme members	Penalties due to incorrect application of scheme/tax rules	Workforce planning

24. A risk register specific to CFRS has been drafted around these key risks and is attached at Appendix E for comments. It is recommended that reviewing the risk register is a standing agenda item for Pension Board meetings.

25. **Annual Benefit Statements 2017**

Annual Benefit Statements (ABS) for 2016/17 were produced and dispatched by 16<sup>th</sup> August. The deadline was 31<sup>st</sup> August.

26. We have had reports from 6 employees to date that they did not receive a statement. These cases have now all been resolved.
27. Kier have explained that the reason for these omissions was due to a software issue which excluded a number of members from the data extract used to produce the statements. The interface tool used corrupted year end dates to 31<sup>st</sup> March 2016 instead of 31<sup>st</sup> March 2017, resulting in the ABS not being produced for affected members when they ran the system process for the 2016/17 statements.
28. Kier have reassured us that the software issue is resolved and should not occur in future years

29. **Contracted-Out Scheme Reconciliation**

As advised in the previous Pension Board report in May 2017, Kier Pensions are currently undertaking a reconciliation exercise on behalf of CFRS to check and correct pension records for all members following the cessation of contracting out in April 2016.

30. Kier have split the exercise into four phases:

Phase 1 – Accessing the data and initial assessment  
Phase 2 – Investigation of variances  
Phase 3 – Reconcile  
Phase 4 – Correct Scheme and HMRC data

31. We are currently at Stage 2 which Kier expected to take 6 to 12 months. They are on track to complete this stage by March 2018. The HMRC deadline for the completion of this exercise is December 2018. Stages 3 and 4 are not dependant on the HMRC deadline and the completion date for these stages is estimated to be June 2019. An update report is provided at Appendix F.
32. Pension administrators must also complete an equalisation exercise. Without this equalisation there may be inequality in pension payments to men and women. Before the cessation of contracting out, a linked indexation and equalisation process applied to occupational pensions and State Pensions which ensured this equality was maintained. However with the removal of contracting out this mechanism no longer works.
33. 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 20<sup>th</sup> February 2017. A mini working group was set up following this consultation to

explore and cost the different options and this group met with the Treasury in September. The outcomes are expected to be published by the end of 2017.

34. **Annual General Meeting 2017**

The Annual General Meeting was held on the 9<sup>th</sup> and 10<sup>th</sup> October in London. The first day was for Local Pension Board members and focused on scheme governance, the work the SAB has been doing on behalf of FRAs over the past 12 months and future pension matters for FRAs to be aware of.

35. The second day was for Scheme Managers and administrators and covered pensions taxation, the reconciliation exercise, recent case law, an update on the valuation and changes to Data Protection rules in 2018.

36. Presentation slides from both days can be found at <https://www.local.gov.uk/fire-pensions-annual-conference-9-october-2017-london>

37. The LGA have advised that dates for the 2018 AGM have been provisionally set as the 9<sup>th</sup> and 10<sup>th</sup> October 2018.

38. **Future Developments**

**HMRC Pension Dashboards**

During the 2016 Budget, the government made a commitment that Pensions Dashboards would be created by the pensions industry, enabling everyone to view all of their pension pots through a single portal, with a view to delivering this facility by April 2019. The purpose of the dashboards is to help simplify what is a complex matter to enable people to manage their finances more effectively.

39. For defined pension schemes, it is proposed that the information from the last benefit statement are included. However, due to the complexities of the new schemes, it is not clear at this stage whether public sector defined schemes will be part of the dashboard.

40. **Exit Payment Cap**

To date there have been no further updates on the exit payment cap and how pension schemes rules will be impacted by the introduction of a cap on exit payments. Government departments responsible for public sector pension schemes are currently still in the process of considering this impact.