CHESHIRE FIRE AND RESCUE SERVICE

MEETING OF: LOCAL PENSION BOARD – FIREFIGHTERS PENSIONS SCHEME
DATE : 22 NOVEMBER 2018
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 quarter two performance report for our administrator XPS Pensions (previously Kier Pensions) is included at Item 4 on the agenda.

4. **Pension Administrator Transfer**

   The current pension contractor Kier Business Services has entered into an agreement to sell its pension unit to XPS Pension Group. This transfer took place on 1 November 2018.

5. XPS are one of the largest pensions consultancy companies in the UK, administering pensions for over 800,000 people. The current pensions team based in Middlesbrough will all transfer to XPS, meaning that all accrued knowledge of the firefighter pension scheme will be retained and the existing software, Heywoods Altair, will continue to be used.

6. Details of the change in provider have been communicated with active, deferred and pensioner members of the scheme. Members will see very little change but as and when branding and contact details are updated, further communications will be sent to members.

7. **Firefighter Pension Scheme Bulletins**

   The Local Government Association (LGA) technical advisors produce monthly update bulletins.

This report summarises the main changes that have occurred over the last six months as outlined in these bulletins.

8. The LGA team has communicated a number of actions for FRAs to complete via their monthly bulletins. To date we have completed the following:

   - Submission of data to HMRC regarding the 2006 Modified Scheme.
   - Completion of the annual Pension Regulator return
   - In progress amending the IDRP policy to reflect the changes in signposting from the Pension Advisory Service to the Pension Ombudsman.
   - Data check of common data – outlined in the XPS performance report

9. There are a number of longer term actions to be completed and these will form part of the 2018/19 and 2019/20 work plan. A self-assessment will be carried out shortly to highlight any gaps with scheme governance or administration of the schemes and any findings will be fed back to the Board.

10. **Firefighter Pension Scheme Valuation**

    As part of public sector pension reforms, a cost ceiling was built into the 2015 pension scheme to maintain the cost of the scheme at a similar level to when the scheme was introduced. It is monitored at each valuation which happens every 3 years and only applies to the 2015 scheme.

11. A baseline cost was established at the 2012 valuation of 16.8% of pensionable pay and the accrual and contribution rates were set for 1st April 2015 to 31st March 2019. If the cost of providing the scheme is +/- 2% of the 16.8% threshold, the Home Office must consult with the Scheme Advisory Board on the action to be taken to bring costs back within the threshold.

12. Following the most recent valuation, the Government Actuary's Department (GAD) has reported that it is likely that the costs will be more than 2% lower than the cost cap floor. The Home Office have commenced consultation with the Scheme Advisory Board (SAB) on this matter. This will run until 5th December 2018.

13. The possible impact of this breach is that employer contributions rates could rise significantly. GAD have advised that the indicative accrual rate would be 1/51.2 and based on this the employer contribution rate would be 30.2%. The current rates are 1/59.7 and 14.3% respectively.

14. If no agreement can be reached following the first consultation, the Home Office and SAB will continue to engage for a further 3 month period. If consensus cannot be reached after this, the default position is that the accrual rate will be amended.

15. The Treasury have indicated that funding will be available to help FRAs with additional employer costs for the first year. Following this, the Government will consider the additional costs alongside regular spending reviews.

16. **Contracting-Out Reconciliation Exercise**

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 as a result.

17. Due to the introduction of the new State Pension, HMRC and pension scheme administrators have been reconciling their National Insurance and Guaranteed Minimum Pension (GMP) data in order to be able to make accurate adjustments to the New State Pension for 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, therefore HMRC need accurate data to ensure they are making the correct adjustments.

18. The reconciliation exercise is extremely technical and we have commissioned our pension administrator XPS to do this on our behalf. The exercise into four phases. We are currently in phase 2 which is due to conclude at the end of December. This is dependent on HMRC's timely response to variance queries that XPS have submitted.

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

19. The most recent progress report from XPS is at Appendix B. The outstanding variances to be queried with HMRC have reduced from 428 to 295 since the last update, with the majority of these (175) being orphaned records. This means that XPS have a record for the member but HMRC do not

20. The Home Office have confirmed that any overpayments identified as a result of this exercise will be written off and the records should be corrected as soon as possible. If records are not corrected quickly, it could result in tax charges for the FRA, which would have to be paid from operational budgets and not the pension fund.

21. The Home Office has also agreed that any confirmed pension underpayments should be corrected going forward and any reimbursement made to affected members as soon as possible.

22. We will be working closely with XPS to agree the next steps and ensure all necessary actions are carried out within timescales to avoid any tax charges being levied on the Service, and to ensure all necessary communications are sent to affected members. It is estimated that stages 3 and 4 of the exercise will be completed by June 2019.

23. **Regulatory Amendments**

Change to SCAPE discount rate

24. A change to the SCAPE discount rate was announced on 29 October in the Budget Statement. The SCAPE rate is used in a number of pension calculations and is a method of assessing the present cost of expected pension payments in the future.

25. The calculations affected by this change are:

- Pension lump sum payments in the 1992 scheme
- Cash equivalent transfer values
- Scheme Pays offset for annual allowance charges
- Pension credit in divorce cases

26. GAD issued revised commutation factors for lump sums with effect from 31 October. They will be applied to calculations for anyone who retires on or after this date.

27. The revised SCAPE rates for the other types of calculations have not yet been issued. Until GAD release this information, the pension provider will be unable to complete any transfer, divorce or scheme pays calculations.

28. These changes have been communicated to employees through the green bulletin and the revised commutation factors published on the intranet.

29. **Police and Firefighter's Pension (Amendment) Regulation 2018**

The above regulation came into force on 8 October. It includes a number of minor amendments and clarification points.

30. It clarifies that indexation should be applied to split pensions. Our pension provider regularly calculates split pensions for our 1992 scheme members and indexation has always been applied.

31. It confirms that there is no longer a requirement for members of the 2006 scheme to nominate unmarried partners for survivor benefits. LGA have advised that FRAs may still wish to issue nomination forms, albeit no longer required under the scheme rules. As we only have a small number of members we will continue to issue nomination forms as it can help provide a clear picture of the members wishes in the case of a dispute, which may help to settle a dispute informally.

32. It was expected that the regulations would include amendments regarding voluntary scheme pays (VSP). However, this amendment was only made for the Police Pension Schemes. This confirms LGA's initial view that current fire pension regulations already allow for VSP and further legislation was not required. However, LGA have advised that FRAs should have a clear policy on VSP and the processes and deadlines that members should adhere to if they wish to use this mechanism to pay a tax charge.

33. There are two mechanisms that members can use. Mandatory Scheme Pays (MSP) or VSP. Where the member doesn't meet the eligibility criteria to use MSP, they can use VSP instead. Scheme Pays is where the member uses their pension fund to pay the tax charge, and they repay it by taking a reduction in pension when it comes into payment.

34. MSP can only be used in the following circumstances. The rules are laid out in legislation including deadlines and how members should apply:

- 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.

35. **The Pension Regulator (TPR) Annual Survey**

In 2017 TPR distributed a survey to all FRAs asking for feedback on the operation of Local Pension Boards. TPR have recently distributed the survey for 2018 and CFRS will be responding to this shortly.

36. The 2017 survey responses published in May 2018 indicated a number of areas for improvement across public service pension schemes. The key issues and risks identified were:

- Infrequency of pension board meetings
- Data quality and accuracy
- Timely provision of ABSs – a recurring theme from the 2016 survey
- Performance of Scheme Administrators
- Risk Management

37. CFRS has already made a number of improvements in these areas:

- Implementation of a number of additional checks on ABS provision

- Quarterly contract meetings are now in place with our pension provider to ensure performance issues are addressed quickly

- Conducted accuracy checks on common data such as names, NI numbers and date of birth – results detailed in the provider performance report.

- Implementation of a risk register which has been used by the LGA team as an example of good practice.

38. **Annual Benefit Statements 2018**

Annual Benefit Statements (ABS) for 2017/18 were produced and dispatched by 22 August. The deadline for ABS statements is 31 August.

39. In 2017, we received a number of reports from employees and pension board members that they had not received an ABS. This year, we have implemented a number of additional checks. We published a request in the green bulletin for any members who did not receive a statement to notify the payroll team and we have also carried out a reconciliation of XPS's data to identify any variances.

40. We have had reports from 3 employees to date that they did not receive a statement. These employees were included in XPS's data, therefore the cause is likely to be due to postal issues and one is due to XPS holding an incorrect address.

41. In comparing our data with that held by XPS, we have identified 36 employees for whom a statement may not have been produced. We are working with XPS to confirm this and identify the cause and ensure this is resolved.

42. There were 557 ABSs sent to active members. 94% were sent by the deadline of 31st August. A number of statements have to be produced manually for members of the 2006 Modified Scheme. These were all distributed to members by the deadline.

Financial Implications

43. There are no financial implications arising from this report.

Legal Implications

44. There are no legal implications arising from this report.

Equality and Diversity Implications

45. There are no equality and diversity implications arising from this report.

Environmental Implications

46. There are no environmental implications arising from this report.

CONTACT: DONNA LINTON, CLEMONDS HEY, WINSFORD
TEL [01606] 868804
BACKGROUND PAPERS: NONE