

CHESHIRE FIRE AND RESCUE SERVICE

MEETING OF : LOCAL PENSION BOARD – FIREFIGHTERS
PENSION SCHEME
DATE : 20 NOVEMBER 2019
REPORT OF : PENSION SCHEME MANAGER
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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. **Firefighter Pension Scheme Bulletins**

Any actions for FRAs outlined in the monthly LGA bulletins are monitored on the action log at Appendix B. Copies of the FPS bulletins issued since May have been sent to Board Members for reference.

4. **Contracting-Out Reconciliation Exercise**

5. Cheshire Fire and Rescue Service (CFRS) are still currently in phase 2 of the GMP reconciliation project, which was due to conclude at the end of December 2018. However, HMRC have now extended the deadlines to December 2019 due to the volume of queries they have received. XPS are currently working through the responses already received from HMRC in order to conclude the investigation phase of the project, however phase 2 is unlikely to be completed until the final data is provided by HMRC in December.

Phase 1 – Accessing the data and initial assessment

Phase 2 – Investigation of variances

Phase 3 – Reconcile

Phase 4 – Correct Scheme and HMRC data

6. A summary of the current position is provided in Appendix C. The total inactive member cases left to be reviewed are 295 and active member queries 462, 404 of which are orphaned records which should be straight forward to resolve.

7. **2018 Firefighter Pension Scheme Administration Survey**

In December 2018, FRAs responded to The Pension Regulator's (TPR) annual administration survey, the results of which were published in May 2019. Appendix D provides a summary of results.

8. The 6 key processes that TPR monitor are:

- Conflicts of Interests Policies
- Knowledge and Understanding
- Assessing and Managing Risks
- Monitoring records for accuracy/completeness
- Resolving contribution payment issues
- Processes to identify, assess and report breaches of the law

A more detailed outline can be found at

<http://fpsregs.org/images/admin/TPR-6-key-processes.v1.pdf>

9. Only 85% of FRAs indicated that they had a Conflicts of Interest policy. CFRS currently have a documented Code of Conduct and Conflict policy which outlines how we will identify, monitor and manage conflicts. Conflicts are a standing agenda item, and any conflicts declared are documented in a Conflicts of Interest log.

10. In the 2018 survey, 98% of FRAs had procedures in place to ensure the knowledge and understanding of Board Members was sufficient to support the Scheme Manager to run the schemes effectively and comply with legislation. In Cheshire, all Board Members are expected to complete TPR's training toolkit and attend annual training sessions. However, it was emphasised that boards should have a robust plan in place to ensure that evaluation of skills takes place regularly, particularly for boards with a high turnover.

11. Only 80% of FRAs reported having documented procedures for managing and assessing risks. In Cheshire, a risk register is in place and is a standing item on the agenda at each Board meeting. The register is reviewed and updated quarterly and any feedback from the Board is incorporated. The survey indicated that FRAs felt the top 3 administration and governance risks for the FPS were:

- Securing compliance with changes in regulations (61%)
- Record Keeping (receipt and management of correct data) (51%)
- Recruitment and retention of staff or knowledge (26%)

12. 85% of FRAs reported to having procedures for monitoring the accuracy of records. However, in contrast, a benchmarking survey conducted by Aon last year indicated that a significant number of employers said that they experience difficulties in providing data for the administration of the scheme, these were in meeting expected turnaround times, providing data of required quality, not being clear on

what was expected and extracting data.

13. Due to the complexities of the scheme and the volume of changes to roles and pay, CFRS do experience difficulties in providing data. This is predominantly due to difficulties in automating these processes, which results in a lot of work being completed manually. However, there are a number of processes, checks and balances in place to ensure the accuracy of this data and we work closely with XPS to ensure they have all the data they need to carry out pension calculations and process annual benefit statements.
14. Nationally, TPR are advocating that administrators move to a monthly reporting process, which is also the case for our LGPS pension provider Cheshire Pension Fund, who have already commenced this work. Currently, pensionable pay and contributions data for the Firefighter Pension Schemes is provided annually in April.
15. This will provide the administrator with real time information, however, it is likely that setting up monthly returns will be a complex project involving both the pension and payroll provider. Where software needs to be reconfigured it may involve additional costs and due to the complexity of the scheme, it may not be possible to fully automate the process.
16. 85% of FRAs report to having procedures for resolving contribution issues. CFRS have a number of processes in place to ensure that:
 - tapered protection members taper on the appropriate date and have the correct pro-rata contributions taken
 - modified scheme members who are repaying historic contributions are monitored by Finance and HR write to anyone who ceases to repay advising them of the consequences
 - members taking a period of unpaid leave are informed how to repay contributions and how much it will cost.
17. The majority of FRAs now have documented procedures for identifying and assessing breaches of the law, using TPR's traffic light system. Cheshire Fire also have a policy in place and utilise LGAs best practice template to assess any potential breaches.
18. TPR also flagged a number of key areas of focus for FRAs which were cyber security, frequency of Pension Board meetings and barriers to improvement. XPS have provided a cyber security brief at Appendix E showing how they protect member data and to assure the Board that the necessary controls are in place.
19. **Annual Benefit Statement Update 2019**

Annual Benefit Statements (ABS) were distributed to active members week commencing 19th August 2019.

20. In 2016 and 2017, XPS reported technical issues with the production of the annual benefit statements, which resulted in a number of members not receiving their ABS by the deadline of 31st August.
21. As a result, in 2018, CFRS undertook a reconciliation exercise to provide confidence that all active members had received a statement. However, 36 members, mainly those with multiple roles, only received a statement for one of their roles.
22. In 2019, XPS have undertaken more thorough checks to ensure manual processes are in place to pick up members with more than one role and also members of the Modified 2006 scheme, whose statements have to be completed manually.

23. Statement numbers are as follows:

Total Active Members at 31/03/2019	586
Minus starters/leavers since this date	-27
Minus errors	-6*
Total statements Due	553
Total statements printed	523
Total manual statements	30

* Four of the errors were due to pension sharing orders and were resolved manually. Two were data errors which are being investigated further.

24. As with previous years, we issued communications to staff in the Green Bulletin asking them to advise us if they did not receive a statement. To date we have had 9 reports from staff report who have not received a statement, which XPS are currently investigating further. We also received a number of queries from staff with multiple roles as both of their statements contained the same employee number, which has caused confusion. This has been fed back to XPS to ensure next year's statements are clearer.
25. Based on the numbers above, and factoring in the outstanding 11 queries, this means 98% of active members have received their ABS. This is in comparison to 94% in 2018.
26. A breaches assessment has been prepared at Appendix F for the Board's information. It is unlikely to constitute a reportable breach due to the small numbers involved.
27. In July, XPS demonstrated the pension self-service system and Board Members agreed to launch the facility for CFRS members. XPS have confirmed that member data has now been loaded and the system is ready to go live. Over the coming weeks we will be issuing communications to members advising them of their log in details and

how to use the system.

28. All ABS from 2019/20 onwards will be issued online only.

29. **Re-Enrolment 2019 Update**

The Pensions Act 2008 introduced automatic enrolment to a pension scheme for all eligible workers in the UK. Eligible workers are those over age 22 and under State Pension Age (SPA) who earn more than £10,000 per year (£833 per month).

The implementation date, called the staging date, varies by employer according to how many employees the organisation has. CFRS's staging date was 1 October 2013. Every three years, employers must re-enrol eligible workers into the pension scheme. The first re-enrolment took place on 1 October 2016 and the second was due on 1 October 2019.

30. During the re-enrolment cycle, we assess the age and earnings of all staff who are not members of a pension scheme and automatically re-enrol them into a pension scheme if they meet the criteria. There were 63 employees who were not members of a pension scheme as at the re-enrolment date. Of these, 3 were over State Pension Age and 9 had opted out within the previous 12 months and therefore did not need to be assessed further.

31. Of the remaining staff, 34 met the criteria to be enrolled. To date, 20 of have opted out immediately.

32. **Restricting Exit Payments in the Public Sector**

A £95,000 cap on public sector exit packages was due to be introduced in October 2016 as part of the Enterprise Act 2016. However, this has not yet come into force due a number of delays in progressing the legislation through Parliament.

33. The cap will include a wide range of termination payments as well as including pension strain costs for early retirements. The Government instructed all departments responsible for public sector pensions to review the scheme regulations with a view to amending them to allow the cap to be implemented. The most recent consultation closed in July 2019 and a response is still awaited.

34. In the FPS schemes there are 2 circumstances where a pension strain costs arises; Authority Initiated Early Retirement (AIER) in the 2006 and 2015 schemes and enhanced commutation in the 1992 scheme. In current draft legislation, these 2 scenarios will be exempt from the cap, however, the exemption only applies to AIER cases relating to fitness. It is not yet clear if the exemption will apply for other reasons.

35. If the exemption is removed following review of the consultation responses, it is likely that the FPS regulations would need to be amended and clarity would be required on how the pension strain cost would be calculated.

36. **Scheme Annual Activities**

There are a number of activities that the scheme must complete each year.

Q1 Apr-Jun	Annual Data Returns - May Scheme Year Start – 6 th April ABS preparation Pension Increase - April CARE revaluation – 1 st April TPR survey results
Q2 Jul-Sep	Employer data deadline Mandatory Scheme Pays deadline – 31 st July Issue ABS to active members by 31 st August
Q3 Oct-Dec	Issue Pension Savings Statements - 6 th October TPR scheme return - November TPR admin and governance survey - November LGA Firefighter Pension Scheme AGM – Sep/Oct Accounting for Tax return deadline – 31 st December
Q4 Jan-Mar	Voluntary Scheme Pays deadline – 31 st January Event Report deadline – 31 st January Paying over scheme sanction charges – 31 st January Paying over Mandatory Scheme Pays - 14 th February

37. In quarter 2 all tasks were completed to deadlines. In quarter three, the following tasks are outstanding but are on track to be completed on time.

- TPR scheme return – 20th November
- TPR administration survey – 29th November
- Accounting for tax return – 31st December

38. **LGA Conference Updates**

In May 2019, the LGA held a joint Police and Fire Governance Conference in London. The conference contained a number of best practice recommendations, to improve the efficiency and effectiveness of Local Pension Boards and provided attendees with an update on the TPR administration survey, a summary of which is provided above in paragraphs 7-18.

39. One of the recommendations was to report to the Pension Board on key cyclical processes, with the aim of providing assurance to the Board and the Scheme Manager that the schemes are compliant with statutory duties. This has been included for information in paragraphs 36 and 37.
40. The conference also provided feedback from a high performing LGPS Board and an interesting piece on the behaviours of high performing Boards which encouraged Boards to reflect on a number of key questions:
- **Do you complete an annual self-assessment?**
A self-assessment has been completed within the past 12 months
 - **Do you review your terms of reference regularly?**
The terms of reference are due to be reviewed at the next Governance and Constitution Committee
 - **Do you have an annual work plan?**
Yes a work plan is in place to track pieces of work that are ongoing or planned for the future such as the introduction of self-service.
41. Following the recent case on pensionable pay, Booth v Mid and West Wales, the LGA held a pensionable pay workshop in July. Whilst FRAs did not get the clear guidance they were hoping for, the workshop was useful to understand how other FRAs are treating allowances and to review and understand the numerous principles that are in place due to case law.
42. Following this workshop, all elements of CFRS pay have been reviewed against these principles to ensure we are compliant. The review did not highlight any changes that are required. Any new allowances that we create are assessed against these principles to ensure we remain compliant in the future.
43. In September, the LGA held the Annual General Meeting which included an update from the Home Office on the McCloud/Sargeant case, a review of case law and the services that the LGA technical team provide and a summary of the results of the Aon administration and benchmarking review conducted in 2018. In the afternoon, a number of workshops were held covering the topics of abatement, transitional pension calculations and national performance monitoring.
44. The Aon review identified that it had been difficult to benchmark the effectiveness and cost of pension administration in the Fire sector due to the different models of pension provision, such as where a Fire Service sits within the local council and has in house pension administration.
45. The review found that costs of administering Firefighter pensions appeared to be higher than other public sector schemes due to the

complexity of regulations. It also found that the costs for special projects were proportionately higher than the day to day running of the schemes, indicating the administrators may have to bring in additional and highly skilled resources to complete this type of work.

46. The LGA would like to gather information about the costs of administering the schemes on an annual basis and will work with the Fire Finance network to establish how best to identify and recognise these costs.
47. The survey also found that the complexity of the schemes resulted in FRAs finding it difficult to make decisions, and members finding it difficult to understand their benefits. However, where FRAs try to engage members by running pension surgeries or workshops, take up is usually low. The survey also sought views on performance reporting. Currently pension administrators report on a variety of KPIs but there is little consistency across the Fire sector.
48. Aon recommended that an accredited Firefighter Pension qualification is implemented and that a set of national performance measures is established.
49. The slides for all conferences can be viewed at <http://www.fpsboard.org/index.php/events>
50. **Regulatory/Scheme Updates**
51. Revised non-club transfer factors were announced in May 2019. This concluded the updates to factors following changes to the SCAPE discount rates in the autumn 2018 budget.
52. In July 2019, the Government accepted the court's decision in the McCloud/Sargeant case and this will now be referred back the employment tribunal for remedy to be agreed. The Firefighter's pension case will be heard on the 18th December 2019.
53. From 1st October, the Board of Medical Referees for the FPS will change to a company called Duradiamond Health Ltd. Any cases from 14th September onwards will be referred to the new contractor.