

Local Pension Board Training

Firefighter's Pension Scheme

Greater Manchester Fire & Rescue
Training Centre

30th July 2015

With thanks to

- Bob Holloway DCLG
 - Mandy Kaur-Sadler Eversheds
 - Robert Plumb TPR
 - Ian Pollitt KPMG
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An important note

- These slides are provided to accompany awareness training of the Local Pension Board responsibilities only and should not be regarded as a complete guide
 - Please note that it is the responsibility of each FRA to apply the rules of the pension scheme in accordance with their interpretation of the scheme and to obtain legal advice where they consider this is necessary.
 - The information contained in these slides have been provided to give some guidance on Local Pension Boards, however they should be used only as an informal view of the interpretation of the firefighters' pension scheme as only a Court can provide a definitive interpretation of legislation.
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Agenda

- Introduction and Welcome
- How did we get here?
- What do the regulations say (DCLG)
- The Legal Perspective (Eversheds)
- Discussions and Debate
- LUNCH

Agenda

- Overview of Firefighters Pension
 - The Regulator Calls (TPR)
 - So what does it all mean (KPMG)
 - Support structures (LGA)
 - Discussions and Debate
 - What do we do next!
 - Summary
-

Breaks!!



Introduction

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Firefighters' Pensions Adviser?



Objectives of today

- Why Governance?
 - Roles and responsibilities of Pension boards
 - Knowledge and understanding
 - 55 topics, a tall order to cover in 5 hours
 - Identifying what you don't know
 - Training needs analysis
 - Opportunity for discussion
-

Working Together



Why Governance?

Schemes and
Complexity

Resource

Knowledge
gaps

Increased
complexity

More schemes

Reduced level
of resource



What if?

- Norman v Cheshire and subsequent 2013 amendments
 - Retained Modified Options Exercise
 - Introduction of reforms
-



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cutting through complexity

Firefighters' Pension Board Training

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- Background to reforms
- Hutton
- Public Service Pension Act 2013
- Governance – what does it mean?

Pensions in the news

Summer Budget: Annual allowance reduced to £10k

Budget 2015: Lifetime Allowance reduced to £1m

Government green paper: reforming pensions tax relief

UK pensions deficits hit all time high

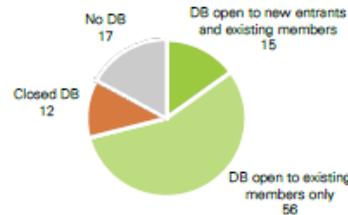
LGPS reform – consolidation, superfunds, shared services

Steve Webb: Government's pensions reforms are "unfinished business"

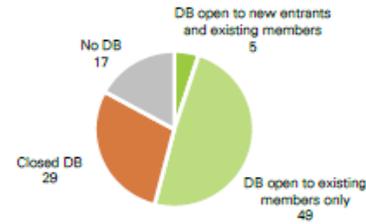
The FTSE100 continues to close its DB pension schemes

Since our last survey of the FTSE100 in 2014, some major household names have either closed their defined benefit schemes completely, or started on the road to closure.

FTSE100 in 2010



FTSE100 in 2015



Source: KPMG analysts.
 Note: Of the five schemes open to new members in 2015, two provide Career Average Revalued Earnings (CARE) benefits and three provide cash balance benefits. Results from 2010 refer to schemes of the current FTSE100 constituent companies at 31 December 2010.

Only five FTSE100 companies now have a DB scheme open to new entrants. Three of these schemes are cash balance schemes which do not provide a guaranteed income in retirement, and two are career average schemes. No schemes providing a guaranteed pension based on final salary remain open to new entrants.

In the last 12 months, 6 FTSE100 companies including HSBC and Standard Life have closed (or agreed to close) their defined benefit pension schemes for all employees.

In addition, Tesco has announced its intention to close its career average pension scheme to both new entrants and all current members.

17 schemes have closed for all employees, including existing members, since 2010.

Only 64 of the FTSE100 are still providing some form of DB benefit.

17 of the FTSE100 have no UK DB provision – either as they have very few employees in the UK, or are younger companies without legacy DB schemes.

Common reasons given by companies for closing their DB pension schemes include:

- Falling gilt yields increasing costs at a time when every expenditure is subject to intense scrutiny:
 - Costs have commonly doubled in 10 years, to as much as 40% of salary.
- Disparity in reward between those with DC pensions and those who were able to join the DB scheme.
- Intolerable risks building up on the balance sheet due to the volatility of DB pension deficits.
- Years of regulatory change continuing to push up costs.
- A wish to view the pension benefits more holistically as part of the overall reward package.

Distribution of schemes, members and assets

Number of schemes

DB: **5,270**



Hybrid: **1,380**



DC trust: **36,370**



DC contract: **2,310**



Public service: **210**



Number of members

DB and DB hybrid: **12.1m**



DC trust and DC hybrid: **4.7m**



DC contract: **4.2m**



Public service: **13m**



Amount of assets

DB and DB hybrid: **£1,137bn**



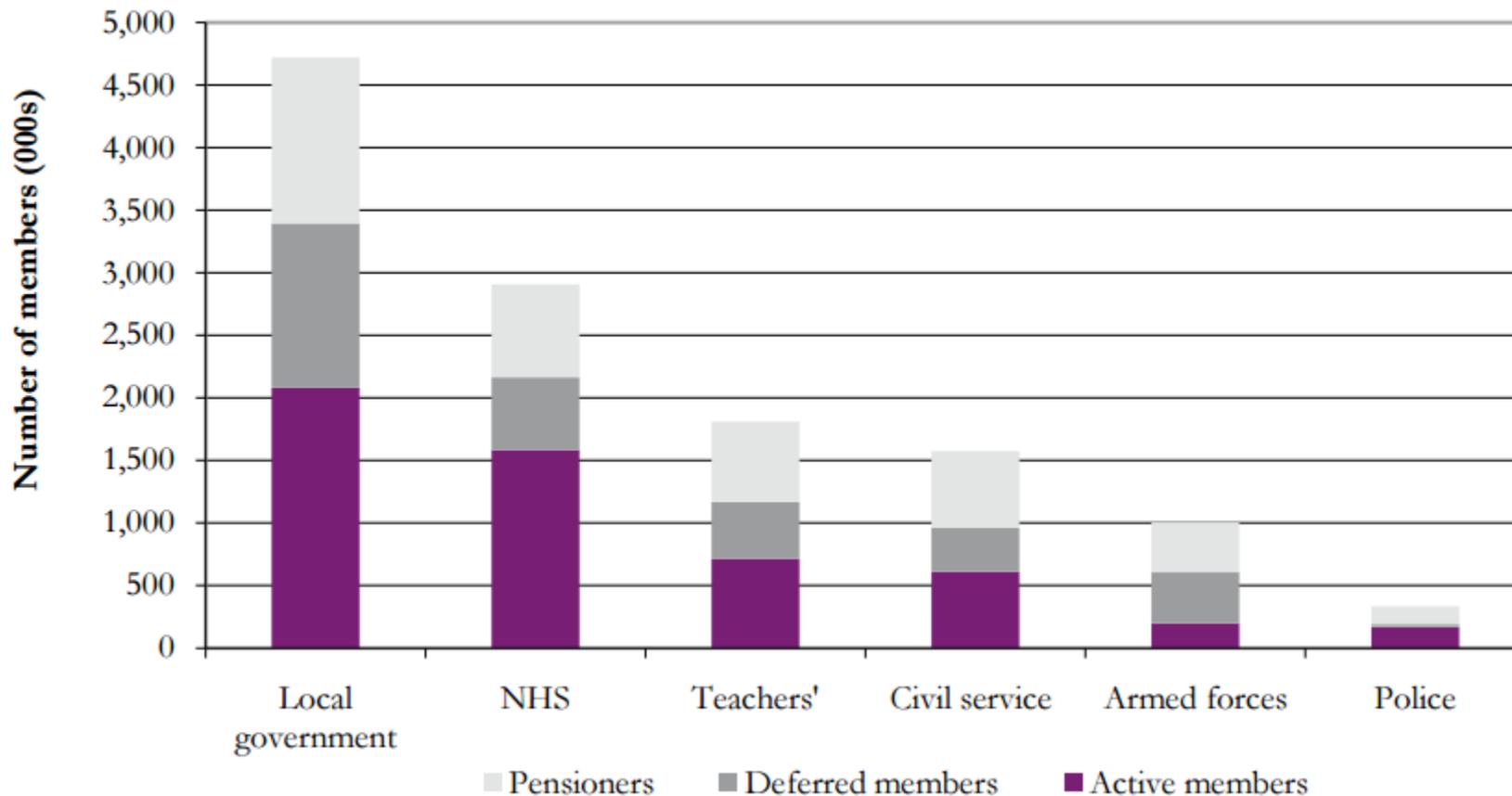
DC trust and DC hybrid: **£270bn**



'Big 7' Public Pension Schemes

	Schemes	Members (million)	Participating Employers (est.)
Local Government Pension Scheme (LGPS)	101	4.7	7,800
NHS	3	2.9	1,300
Teachers	3	1.9	5,300
Civil Service	2	1.7	300
Armed Forces	3	0.8	10
Police	57	0.3	60
Fire	48	0.1	60
TOTAL	217	12.4	14,830

Membership in Big 7 public schemes



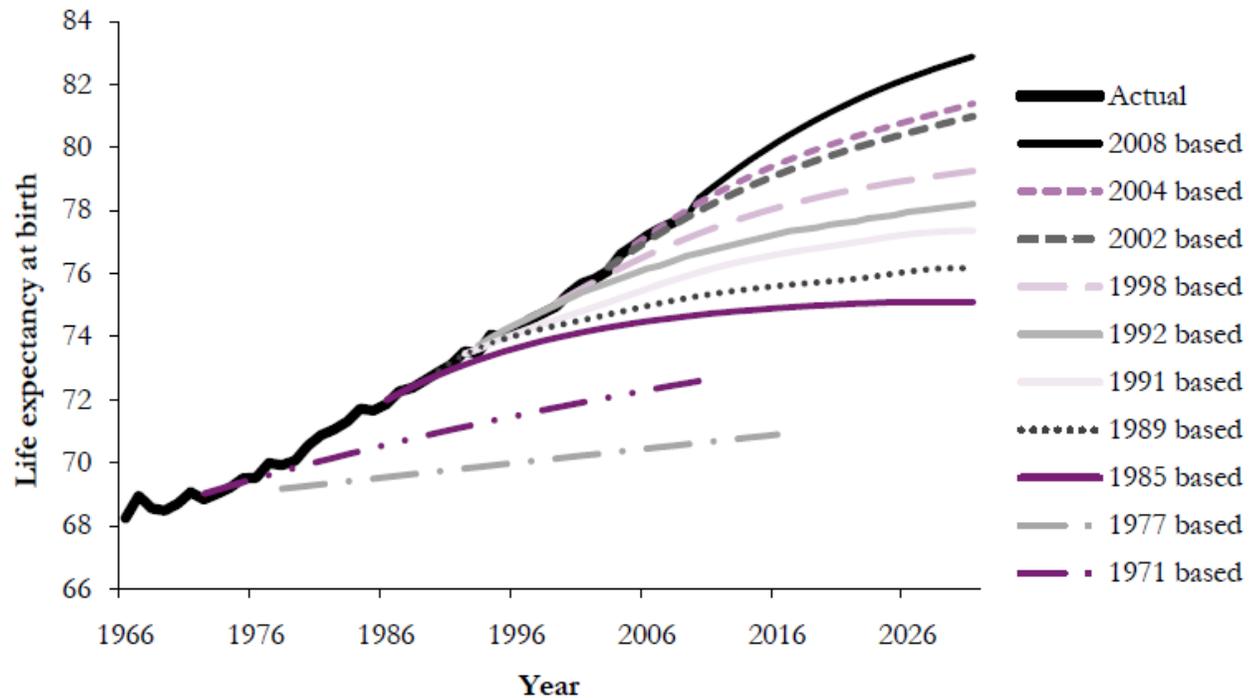
Gold plated pensions?

Table 1.B: The evolution of pension payments from the five largest schemes

	Total Pensions Paid			Average (Mean) Pension		
	1999-2000 (adjusted to 2009- 10 prices) (£bn)	2009-10 (£bn)	% change	1999-2000 (adjusted to 2009-10 prices) (£)	2009-10 (£)	% change
Local government (England)	3.53	4.41	25	4,115	4,052	-2
NHS (England and Wales)	3.13	4.62	47	6,951	7,234	4
Civil service (UK)	2.97	3.67	23	5,626	6,199	10
Teachers (England and Wales)	4.07	5.56	37	9,781	9,806	0
Armed forces	2.40	3.08	28	7,160	7,722	8
Total	16.11	21.34	32	6,222	6,497	4

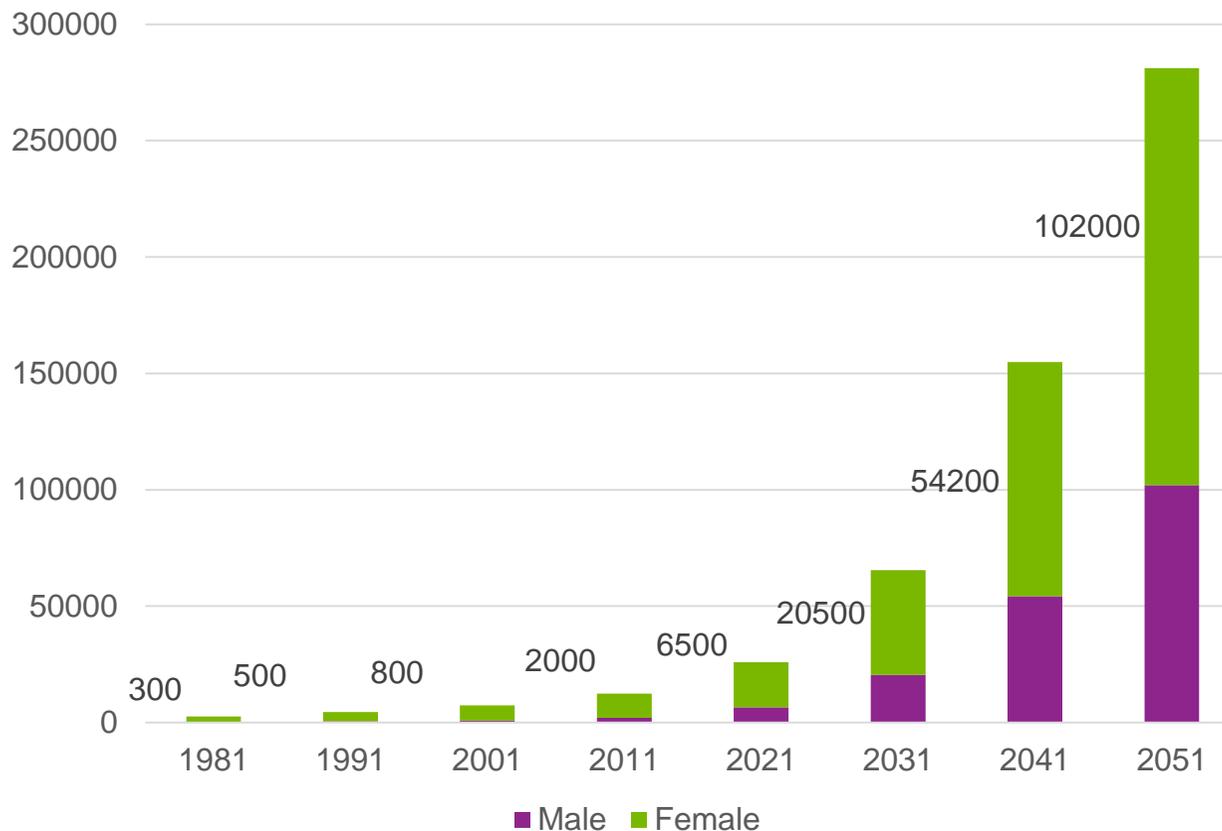
Source: The Cost of Public Service Pensions, National Audit Office, IPSPC analysis of resource accounts, Local Government Financial Statistics England, 2010.

Chart 4.B: Actual and projected period life expectancy at birth for UK males



Source: IPSPC analysis drawing on C Shaw, 2007 and ONS 2008 population projections.

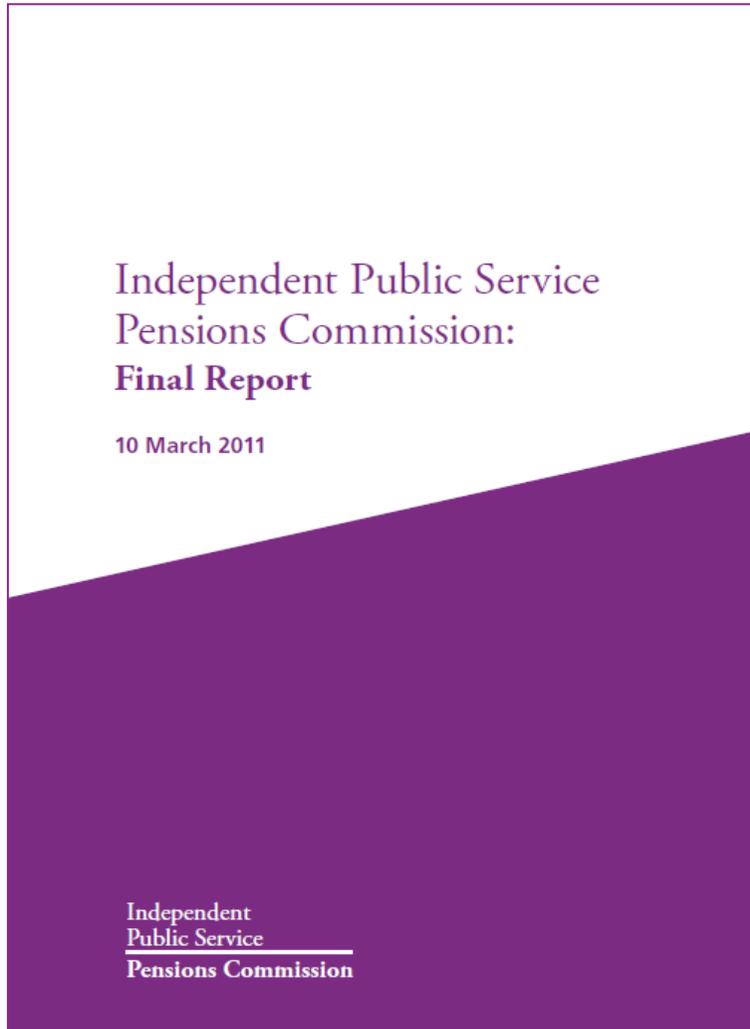
Number of Centenarians in the UK



The data labels indicate the number of male centenarians
 Source: Office for National Statistics, National Population Projections (UK)

Case for reform

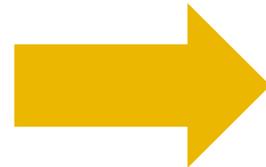
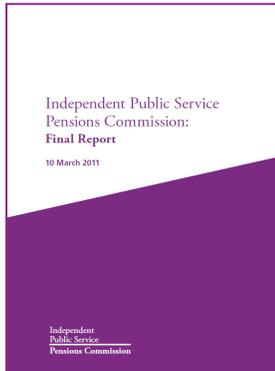
- 13 million active, deferred and retired members of public service pensions = 1 in 5 of population
- £32bn pa paid out (2009-10)
- Between 1999 and 2009 costs increased by 32%
- Longer life expectancy
- Increase in number of public servants
- Widening of entitlement – auto enrolment
- Contributions too low
- Legal challenges to ‘unmodernised’ rules
- Divergence with private sector
- 1997 reforms resulted in increase in retirement ages, reduced accrual rates, ‘cap & share’
- New schemes slowly introduced from mid 2000s



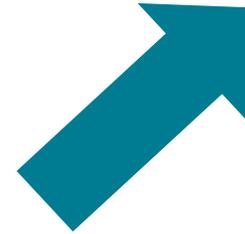
- 27 recommendations
- Final salary replaced with CARE
- Standard design
- Accrued Rights
- NPA to be SPA
- Fixed cost ceiling
- Tiered contribution rates
- Publish standard data
- Pension Boards
- The Pensions Regulator oversight
- Good standards of administration

Latest reforms

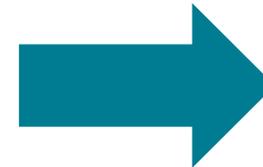
Lord Hutton's recommendations



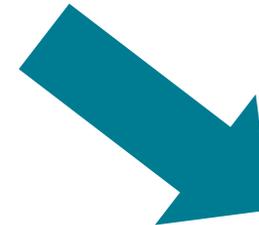
Public Service Pensions Act 2013



Regulations (benefits and governance)



Pensions Regulator (governance)



Guidance (governance)



Wider reforms (tax, auto-enrolment, contracting-out etc)



Public Service Pensions Act 2013

CHAPTER 25

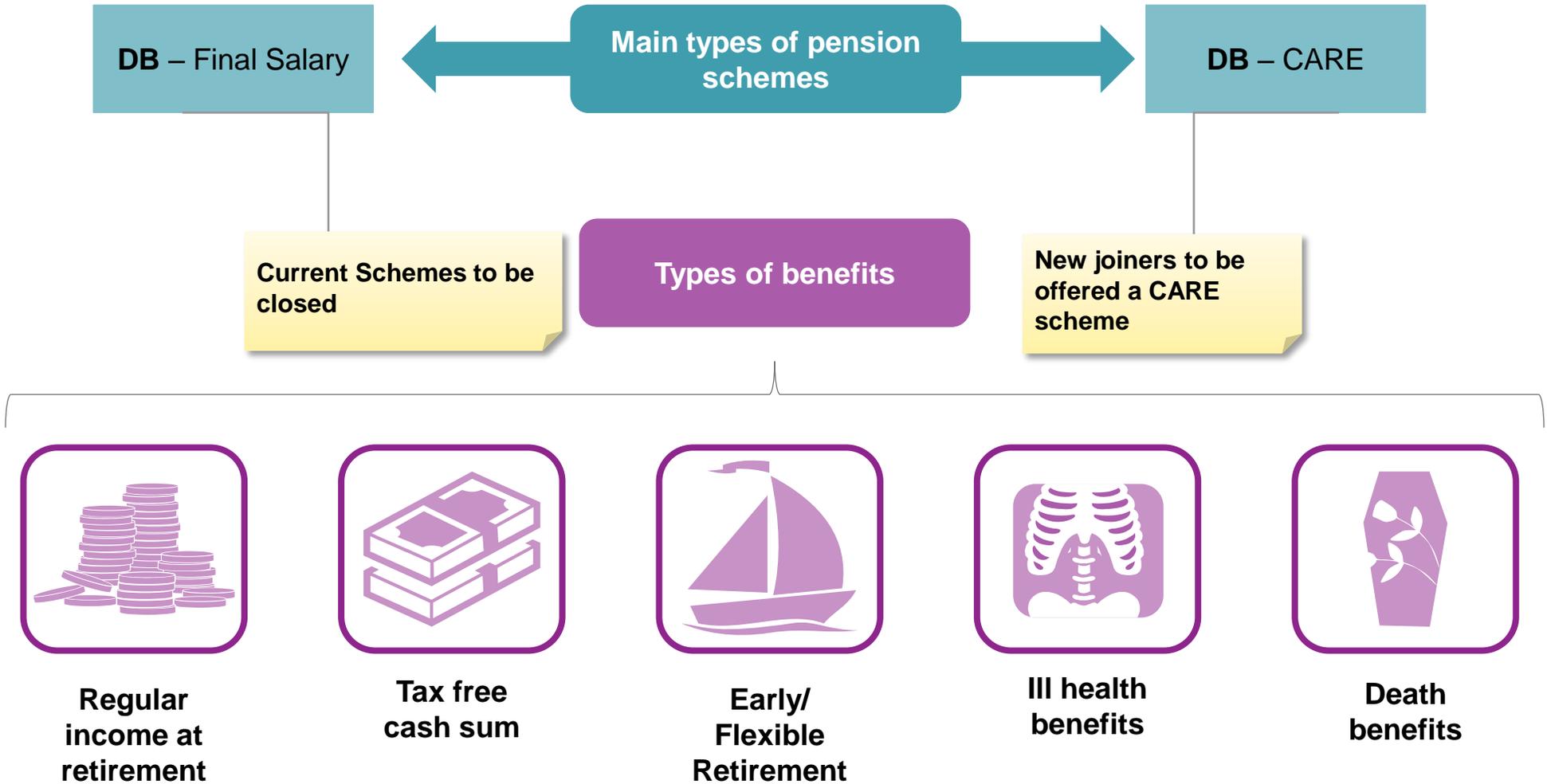
Explanatory Notes have been produced to assist in the understanding of this Act and are available separately

- Each locally administered scheme to have a properly appointed, trained and competent Pension Board in place by 1 April 2015
- Equal number of employer and scheme members
- Scheme Advisory Board
- Adequate internal controls
- Robust record keeping
- Timely reporting to HM Treasury etc
- Good administration
- Sound internal dispute procedures
- Information for members on benefits

Code of Practice No 14

1. Knowledge and understanding required by Pension Board members
2. Conflicts of interest
3. Publishing information
4. Internal controls
5. Record keeping
6. Maintaining contributions
7. Providing information to members
8. IDRPs
9. Reporting breaches of the law

UK Public Pension arrangements



How does a DB scheme work?

The costs

Employee regular contributions

Employer regular contributions

Deficit contributions from Employer/HMT



Defined Benefit Pension Scheme

The benefits

Tax Free Cash

Retirement pension

Other benefits

Costs

Benefits



Unknown!



Known!

Costs depend on:

- How long people live i.e. mortality
- How long members serve
- Salary growth
- Number of members and distribution
- Inflation

In reality public Pension Schemes are a consequence of many factors of which the majority are outside the control of the Board or members

How is a DB pension calculated?

$$\begin{array}{|c|} \hline \text{Pension build-up} \\ \text{rate} \\ \text{(Accrual Rate)} \\ \hline \end{array}
 \times
 \begin{array}{|c|} \hline \text{Final pensionable} \\ \text{salary} \\ \hline \end{array}
 \times
 \begin{array}{|c|} \hline \text{Service in pension} \\ \text{scheme} \\ \hline \end{array}
 =
 \begin{array}{|c|} \hline \text{Annual pension} \\ \hline \end{array}$$

Example Scheme



20
years service

1/60
accrual rate

£25,000
final pensionable
salary

$$\begin{array}{|c|} \hline \mathbf{1/60} \\ \hline \end{array}
 \times
 \begin{array}{|c|} \hline \text{£25,000} \\ \hline \end{array}
 \times
 \begin{array}{|c|} \hline \text{20 years} \\ \hline \end{array}
 =
 \begin{array}{|c|} \hline \text{£8,333} \\ \text{per annum} \\ \hline \end{array}$$

How a CARE scheme works

CARE pension in first year:

$$1/49 \times \text{£}30,000 = \text{£}612.24 \text{ pa}$$

Total pension £612.24 per annum

Year 1 Pay £30,000

In the first year you receive 1/49 of pensionable pay as a pension

Your CARE benefits

CARE pension after 2 years:

CPI = 2.8%

CPI +1.25% = Increase of
4.05% x £612.24 = £24.80

$1/49 \times £30,000 = £612.24 \text{ pa}$

+

$1/49 \times £31,000 = £632.65 \text{ pa}$

Total pension £1,269.69 per annum

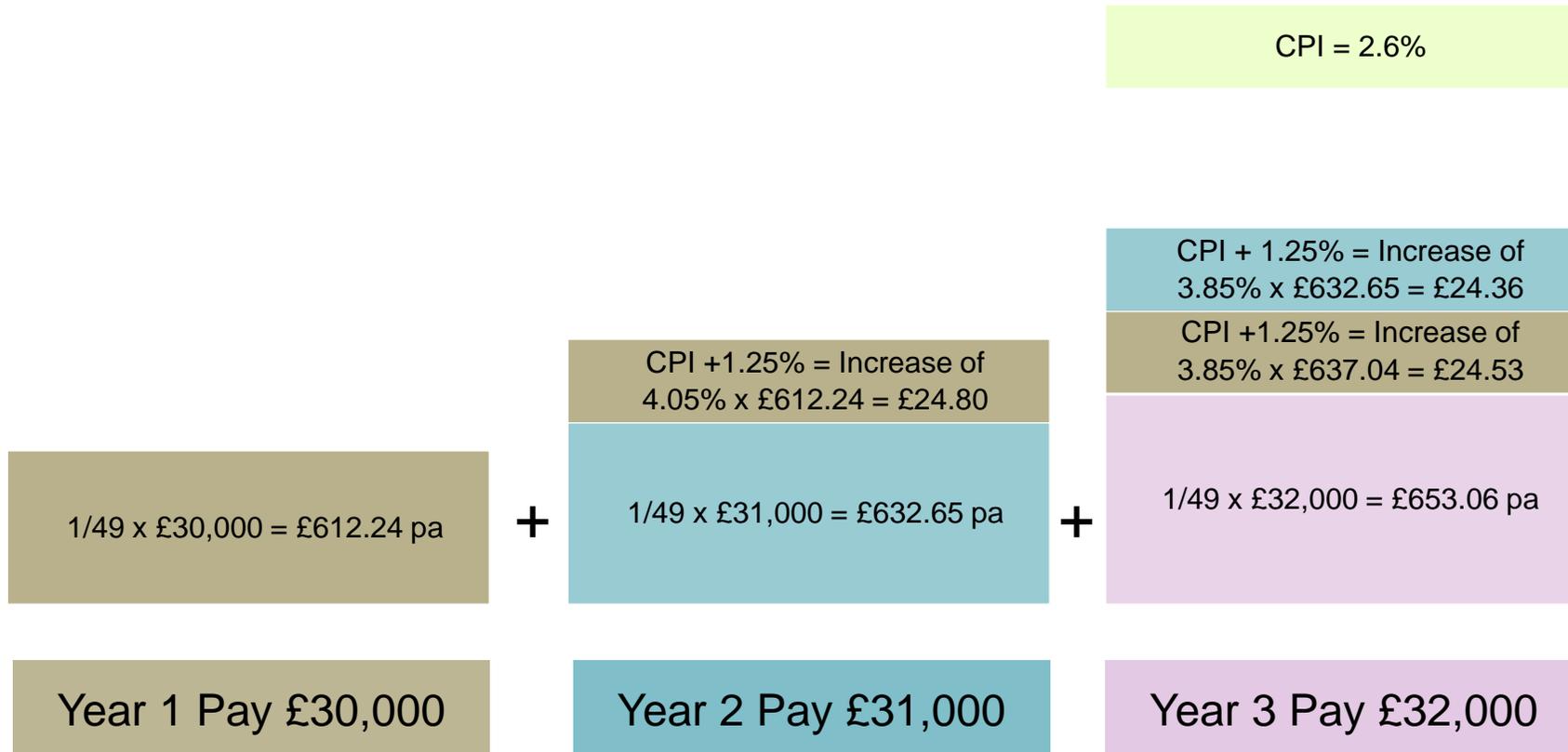
Year 1 Pay £30,000

Year 2 Pay £31,000

In year two you receive 1/49 of pensionable pay as a pension plus your first years' pension is re-valued by CPI +1.25%

Your CARE benefits

CARE pension after 3 years:



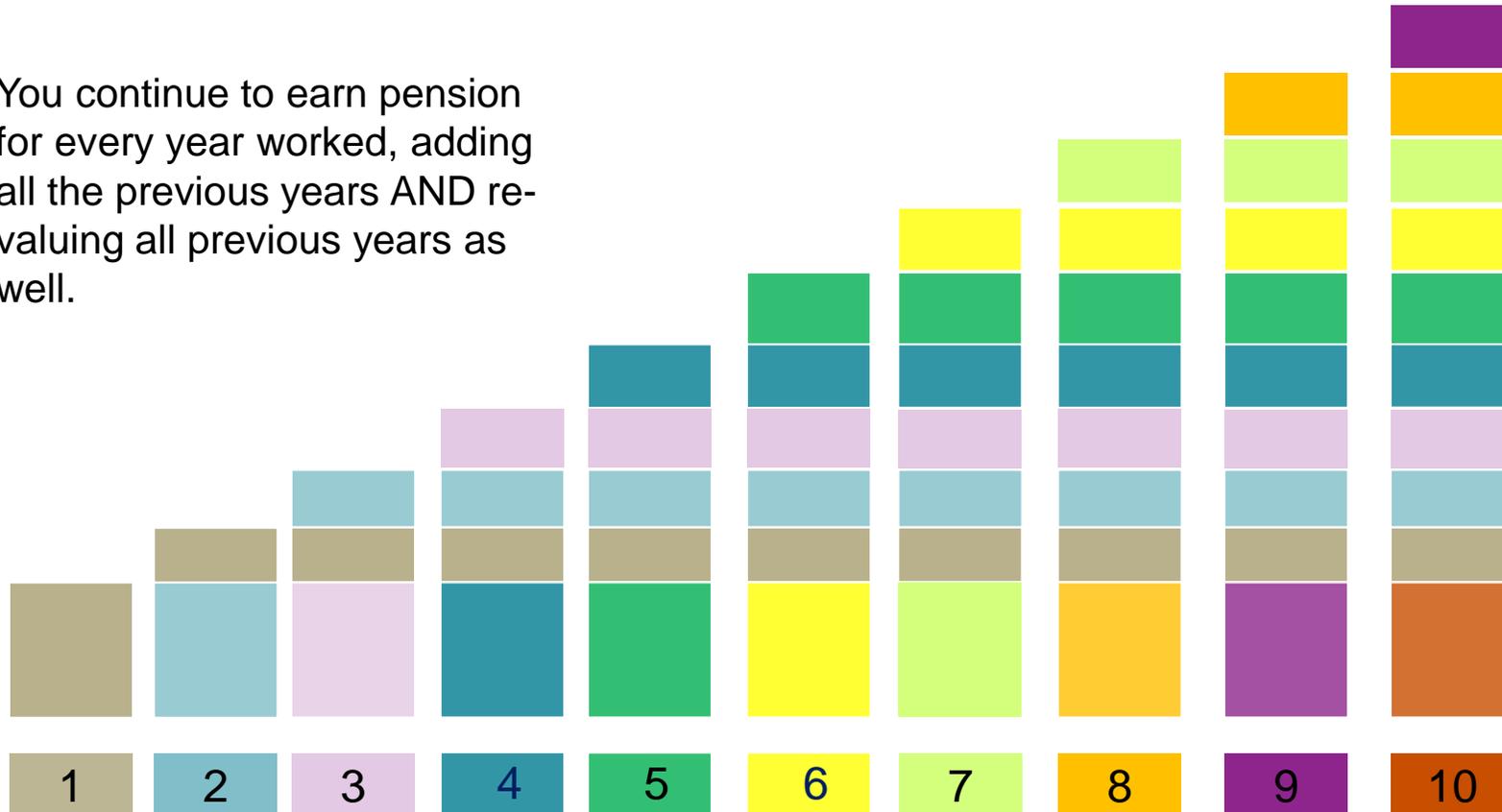
In year three you receive 1/49 of pensionable pay as a pension plus your first two years' pension are both re-valued by CPI + 1.25%

After three years you have built up a pension of £1,971.64 per annum

Your CARE benefits

CARE pension after 10 years:

You continue to earn pension for every year worked, adding all the previous years AND re-valuing all previous years as well.



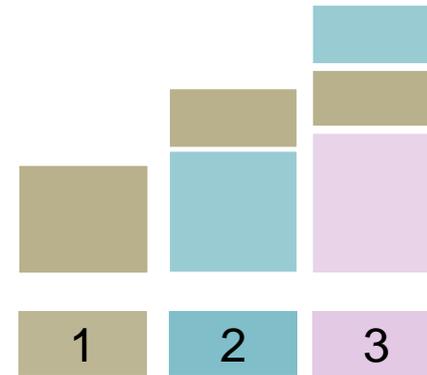
and so on until you leave or retire...

Bringing it all together...

scheme membership before 1 April 2015

scheme membership from 1 April 2015

$$\begin{array}{|c|} \hline \text{Pensionable} \\ \hline \text{service} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Final} \\ \hline \text{pensionable} \\ \hline \text{pay} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Accrual} \\ \hline \text{rate} \\ \hline \text{(1/60 or} \\ \hline \text{1/80)} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Annual} \\ \hline \text{pension} \\ \hline \end{array}$$



Etc for each year of membership

total pension

More reform to come?

- Government 25 year promise & political appetite; but.....
- Cost pressures e.g. longevity increases
- Social changes
- Valuation and cost cap
- 1/3rds contributions model?
- More tax changes?
- Different savings vehicles?
- Work longer and pay more
- ????

Local Pension Board Training

What Do the Regulations Require?

Clair Alcock (on behalf of Bob Holloway)

Workforce Pay & Pensions Division

Section 5(1)

“Scheme regulations for a scheme under section 1 must provide for the establishment of a board with responsibility for assisting the scheme manager (or each scheme manager) in relation to the following matters :-

- (a) securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme...
- (b) securing compliance with requirements imposed in relation to the schemeby the Pensions Regulator;
- (c) such other matters as the scheme regulations may specify.



The FPS (Amendment)(Governance) Regulations 2015

Regulation 4A : Local pension boards – establishment

- Each scheme manager to establish LPB by 1st April 2015;
- Secure compliance with :-
 - Scheme regulations and any other relevant legislation
 - Pension Regulator's codes of practice, etc
- To ensure effective and efficient governance and administration
- Applications for SoS to approve joint boards
- Scheme managers to determine procedures
- Voting rights conferred only on employer and scheme member reps
- Wide powers to discharge functions

Regulation 4B : Local pension boards – membership

- Scheme managers to determine :-
 - membership
 - manner in which members are appointed and removed;
 - terms of appointment
- LPB must have equal number of employer and scheme member reps
- No less than four in total
- Employers reps to have capacity to represent employers
- Scheme member reps to have capacity to represent scheme members
- A member of the scheme manager must be appointed as either an employer or scheme member rep
- Members of a scheme manager with a pensions function may not be appointed as a member of that scheme manager's LPB.

Regulation 4C : Local pension boards – conflict of interest

- Scheme managers must be satisfied that no candidates have a conflict of interest
- Being a scheme member is not regarded as a conflict of interest
- Same requirement applies during periods of membership
- Candidates must provide relevant information to the scheme manager
- Members must also provide relevant information

Regulation 4D : Local pension boards - guidance

- Scheme managers must have regard to guidance issued by the Secretary of State

Regulation 4E : Scheme advisory board - establishment

- The Firefighters' Pension Scheme Advisory Board also has the function of providing advice to scheme managers and local pension boards in relation to the effective and efficient administration and management of the scheme....



Local Government Association

Local Pension Boards – The legal perspective

30 July 2015

Mandy Kaur-Sadler

Principal Associate



Overview

- The new legislation
- Pension Boards
- Legal Requirements
- Setting up the Board
- Key documents required

The new legislation

The new legislation

- Public Service Pensions Act 2013
 - New legal framework
 - New schemes created – 1 April 2015 (exception: 1 April 2014 – LGPS (England & Wales))
 - New benefit structures
 - New governance arrangements
 - New regulation of schemes
- The Firefighters' Pension Scheme (England) Regulations 2014
- The Firefighters' Pension Scheme (Amendment) (Governance) Regulations 2015

New Fire Scheme (April 2015)

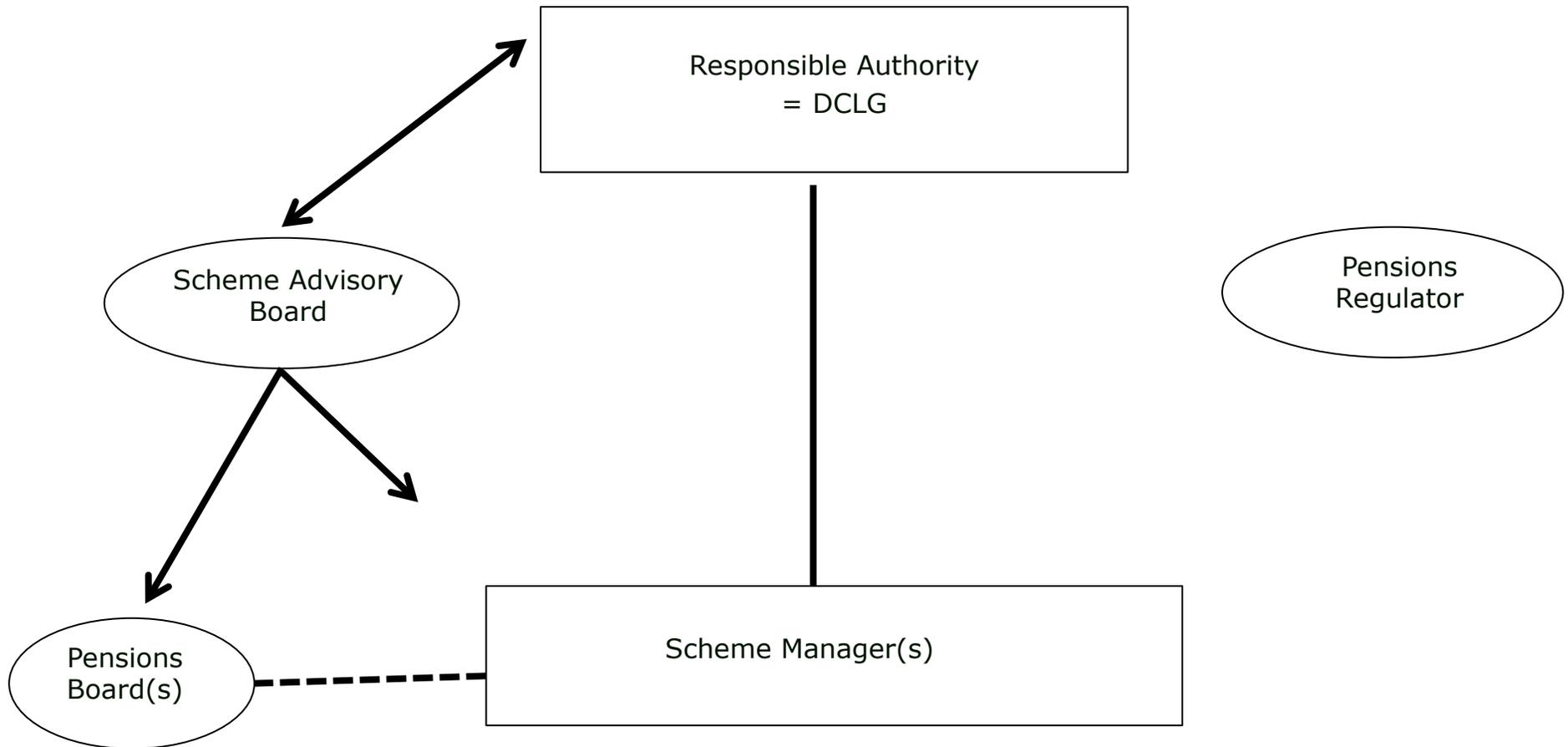
- Implementation – 1 April 2015
- New CARE benefit structure
 - 1/59.7th accrual
 - Revalued Average Weekly Earnings (AWE)
 - Optional lump sum by commutation
 - Linked to State Pension Age
 - 12.2% average contribution
- Transitional protections for older members

New Governance requirements

- Change to current structures
- Re-naming of existing bodies
- Creation of new bodies
- Creation of new duties and responsibilities
- Biggest impact on locally administered schemes such as the Fire/Police/LGPS

Firefighters' Pension Scheme

New Governance Structure



Scheme Manager

Public Service Pensions Act 2013

- “Scheme regulations ...must provide for a person to be responsible for managing or administering ...called the **scheme manager**”
- Firefighters’ Pension Scheme = Fire & Rescue Authority

Pension Board(s)

Public Service Pensions Act 2013

– Scheme regulations... must provide for the establishment of a **board**... for assisting the scheme manager... in... the following matters:

- securing compliance with... regulations relating to the governance and administration...
- and with requirements... imposed... by the Pension Regulator
- ...such other matters... regulations may specify

Local Pension Boards

Firefighters' Pension Scheme

Local Pension Boards

Implementation

- Established by the Fire & Rescue Authority – it decides the structure, shape and scope!
- One Board per Fire & Rescue Authority
- Except where a Joint Board is approved by the Secretary of State
- Deadline was 1 April 2015!

Local Pension Boards

What Do They Do?

- Responsible for assisting the Fire & Rescue Authority to secure compliance with:
 - the 2015 Regulations
 - any other legislation relating to the governance and administration of the Scheme
 - any requirements imposed by the Pension Regulator
 - the effective and efficient governance and administration of the Scheme

- Power to do anything which is calculated to facilitate or conducive or incidental to the discharge of its functions

Assisting the Fire & Rescue Authority

- Assist = To help (someone), typically by doing a share of the work
- Role covers all aspects of governance and administration of the Scheme
- The Local Pension Board does not:
 - replace the Fire & Rescue Authority; or
 - make decisions which are the responsibility of the Fire & Rescue Authority

Examples of Assisting

- Develop/review scheme member/employer communications
- Compliance of scheme employers with their duties under the Regulations and relevant legislation
- Complaints and performance on the administration and governance of the scheme
- Employer discretions
- Development of improved customer services
- Review effectiveness of processes for the appointment of advisors and suppliers

Setting up the board

Local Pension Boards

Who Sits on Them?

- Equal number of employer representatives & member representatives
- Minimum 4 members in aggregate
- Fire & Rescue Authority must be satisfied appointees have capacity to represent employers/employees
- Only employer & member representatives have the right to vote
- No member/officer of Fire & Rescue Authority with responsibility for the management of the Scheme may be a Board Member
- Board Members can't have a conflict of interest

Local Pension Boards

How do they operate?

- Nothing too prescriptive in the Regulations as to how they operate / what the Board may consider
- Recommend Terms of Reference to govern the operation and scope of the Board
- Rules setting out how the Board will be constituted and operate on a day to day basis
- Should include as a minimum:
 - Functions of the Board / Statement of purpose
 - Composition of Board / Membership
 - Code of Conduct
 - Conflicts of Interest

Conflicts of Interest

- Each scheme manager to be satisfied that appointees to a pension board do not have a conflict of interest

- “Conflict of interest” is defined in Public Service Pensions Act 2013 as:
 - “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)”

Conflicts of Interest

- Ongoing requirement once appointed
- Appointees to provide reasonable information to the Fire & Rescue Authority in this regard
- The Fire & Rescue Authority must have regard to Secretary of State's guidance
- Guidance suggests that the Board should have a Conflicts Policy

Key documents required

Local Pension Boards

Terms of Reference

- Decision making and administration
- Chair's functions
- Reporting on activities
- Budget, expenses and allowances
- Advice and information
- Knowledge and skills
- Review/updating the Terms of Reference

Local Pension Boards

Terms of Reference

– Functions of the Board

- statutory purpose
- specific functions above the Board's core statutory role

Local Pension Boards

Ancillary documents?

–Ancillary documents:

- Nomination and Selection Rules
- Code of Conduct (incorporate Nolan Principles)
- Conflicts Policy and Register
- Knowledge and Understanding Policy

Local Pension Boards

How Much Do They Cost?

- Unlike Scheme Advisory Board nothing prescriptive in regulations about funding / administration costs

- Fire & Rescue Authority to determine procedure applicable to payment of expenses

- Budgets need to be considered

- Also other ongoing costs:
 - Secretarial
 - Training and support
 - Professional advice

Local Pension Boards

So What Needs to Happen Next?

- Decide composition and selection process (if not already done so)
- Appoint Chair (if applicable)
- Adopt Constitution
- Arrange training and support
- Arrange first meeting (if not already done so)

Local Pension Boards

Ongoing Legal Duties

- Board members subject to own separate legal duties
 - Knowledge & Understanding
 - Reporting breaches of law
- Fire & Rescue Authority has own separate duties – expanded from 1 April 2015!

Local Pension Boards

Knowledge & Understanding

Every individual who is a member of a Pension Board must:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme; and
- have knowledge and understanding of the law relating to pensions and such other matters as may be prescribed.

Knowledge & Understanding

- Immediate and personal requirement
- Does not apply to scheme manager!
- Degree of knowledge and understanding:
 - working knowledge
 - relevant to an issue?
 - does a particular provision or policy may apply?
 - obligations of Fire & Rescue Authority
 - range and extent of overriding law
 - understand professional advice

Knowledge & Understanding

- To enable Pension Boards to satisfy the legal requirements and to ensure Board Members maintain the necessary level of understanding to effectively fulfil their role, they will need to be conversant with/have knowledge and understanding of areas such as:
 - Legislative framework
 - The Pensions Regulator
 - Understanding key documents relating to the administration of the Scheme

Knowledge & Understanding

- Role and responsibilities of the Pension Board
- Role and responsibilities of the Scheme Manager
- Role and responsibilities of Scheme Employers
- Role of advisors and key persons
- Role of key bodies connected to the scheme

A Knowledge and Understanding Checklist is very useful

Knowledge & Understanding

- Is KU policy/framework fit for purpose?
- Additional training and support may be needed at outset
- Members to have personal training plan
- Sufficient time allocated?
- Sufficient training on an ongoing basis?
- Consider shared training with other pension boards/committees

Demonstrating knowledge and understanding

- Keep records
- If got specific expertise – demonstrate this

Action Points

- Adopt KU Policy and Framework
- Responsibility with designated person
- Access to induction (and ongoing) training – Scheme manager must do this!
- Provide list of core documents
- Assess personal training needs
- Maintain training records to demonstrate compliance

Reporting Breaches of Law

- Legal requirement under S.70 of the Pensions Act 2004 - aka 'whistleblowing'
- Is the breach likely to be of material significance to the Regulator?
- Duty applies to Fire & Rescue Authority, local pension board members, scheme advisers and service providers
- Covered in Regulator's Code of Practice
- Must have effective reporting arrangements in place

Questions

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Discussion and Debate



Lunch



History of the Firefighters' Pension Scheme

Clair Alcock

9 years ago



Simple

- Double accrual after 20 years
 - Earliest retirement age 50
 - Final Salary
 - Actuarial commutation factors
 - Injury benefits
 - Built in Ill-health benefits / life cover
 - Pension for dependents
-

And then in 2006, suddenly there were three



Which introduced

- Options exercise
 - New retirement age for NFPS
 - Pension at 1/60ths over 40 years
 - Early retirement at age 55
 - Separate Compensation scheme
-

Which brings us to today



A new scheme!

- Changes schemes from 'Final Salary' to 'Career Average'
 - New 'Accrual' rate $1/59.7^{\text{th}}$
 - Individual Pension Accounts
 - New 'Normal Pension Age' (for 1992 members) – 60
 - Partial retirement of 2015 benefits from age 55
 - Deferred Pension Age equal to State Pension Age (with a minimum of age 65)
-

Modified Retained Scheme

- Benefits reflect 1992 scheme (in part)
 - Incorporated into 2006 scheme
 - Accrual rate $1/45^{\text{th}}$
 - Normal Pension Age 55
 - Deferred Pension Age 60
 - Death Grant (in service) 2 x pensionable pay
 - Option to purchase additional $1/45^{\text{th}}$
-

A changed membership

protected

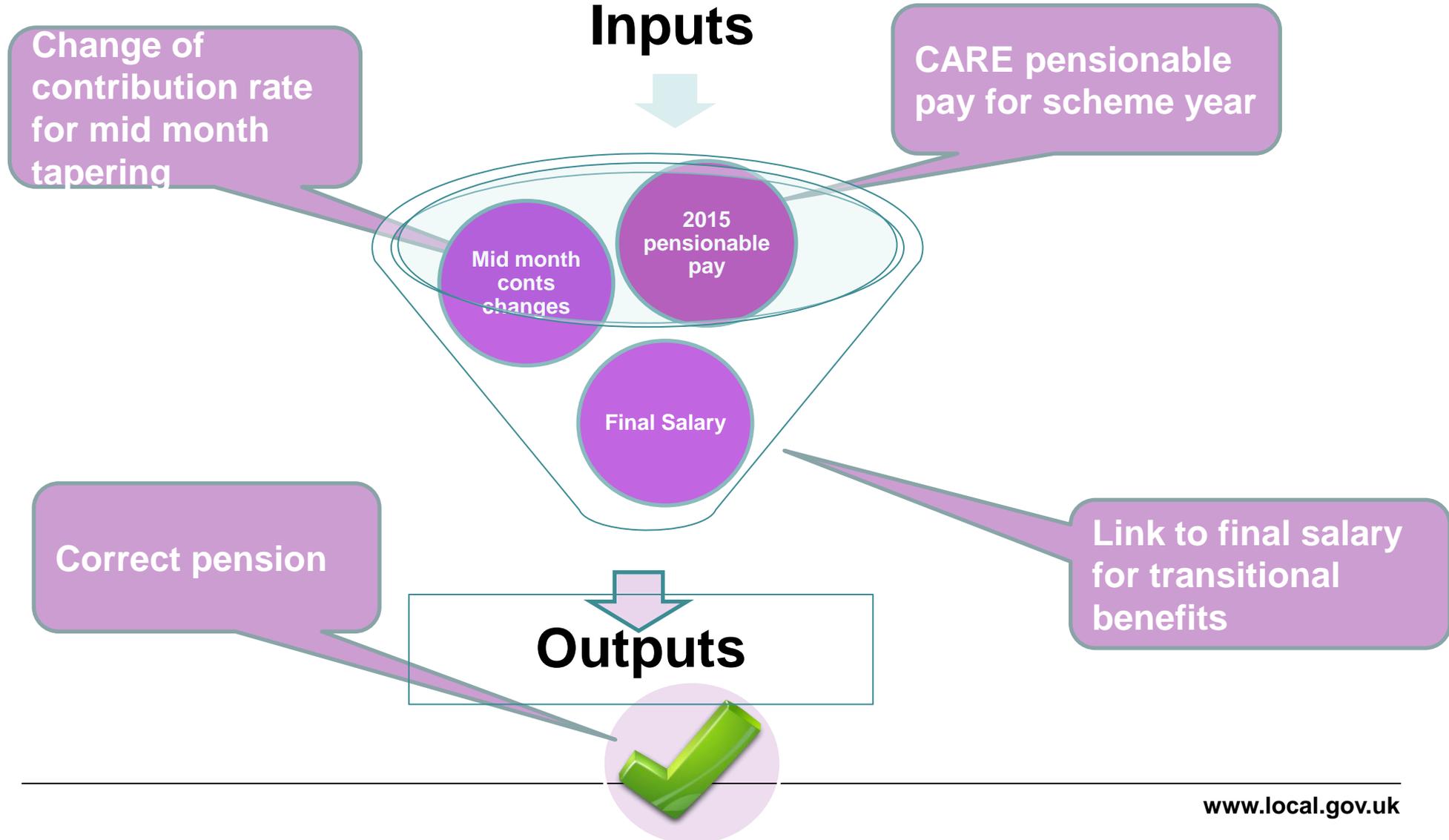
tapered

unprotected



The importance of data

Inputs



Questions to ask?

Mid Month Tapers

- Are payroll comfortable they are aware of the taper dates
- How will the changes be managed

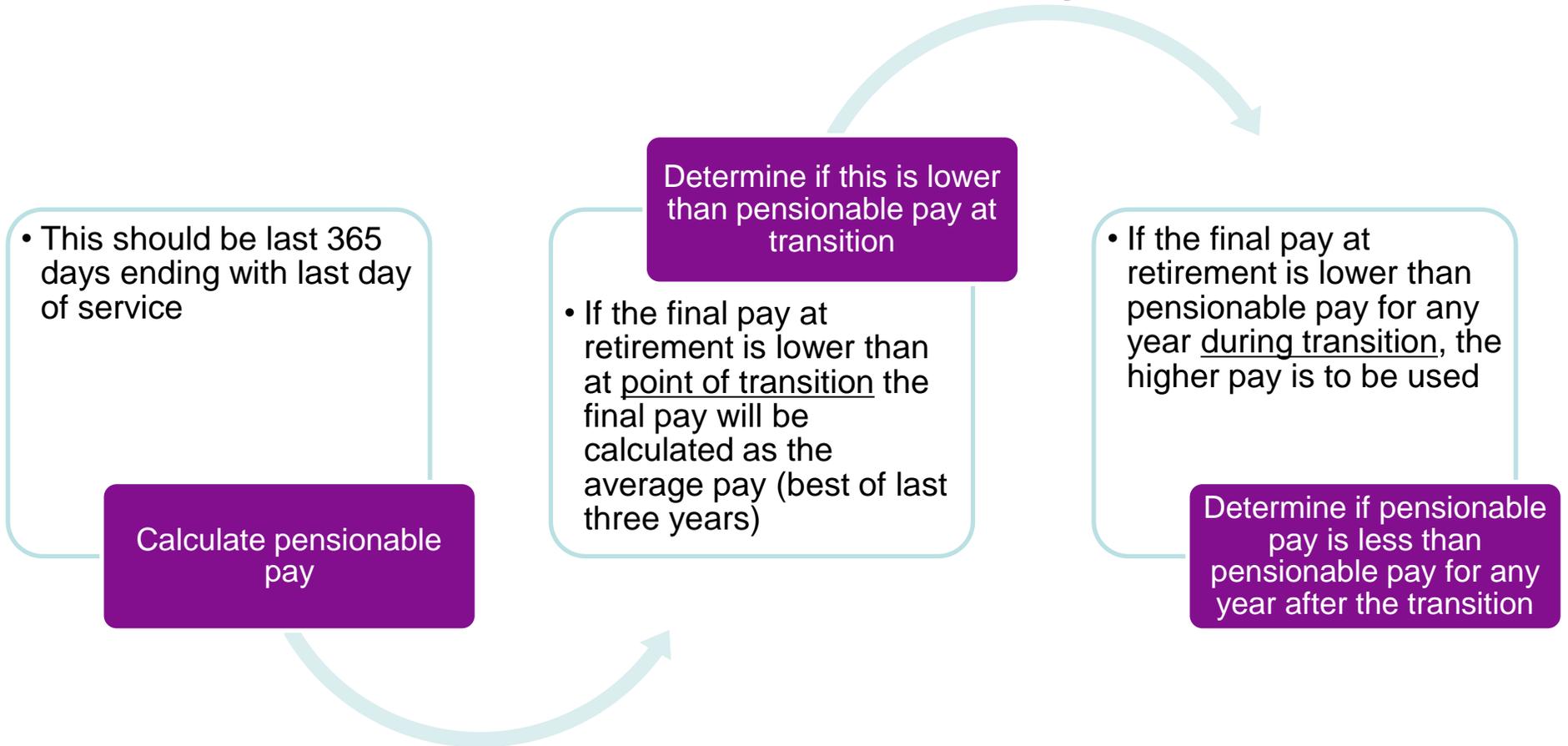
Pensionable Pay

- Can you identify 2015 pensionable pay?
- Are payroll comfortable they understand the protections given to the final salary link

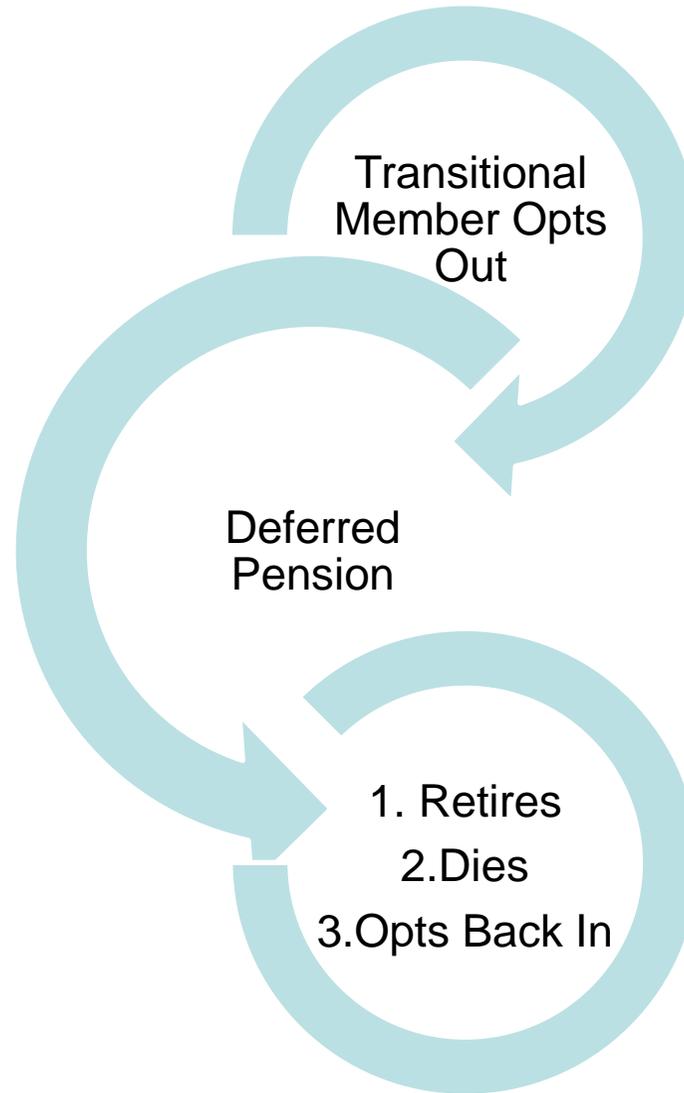
Supplying data to the administrator

- Mid month contribution changes
 - CARE and Final Salary Pensionable Pay
 - APP for retirement and death cases
 - Final Pay
-

How to calculate final pay



Opt Out



Opts Back In

- > Five years
 - 2015 Pension Account is reactivated (Pension account during break will be revalued at CPI)
 - Final Salary benefit deferred
- < Five Years
 - 2015 Pension Account is reactivated (Pension account during break revalued as if the member has never left)
 - 1992 treated as deferred but final salary applies
 - 2006 reactivated as an active benefit
-

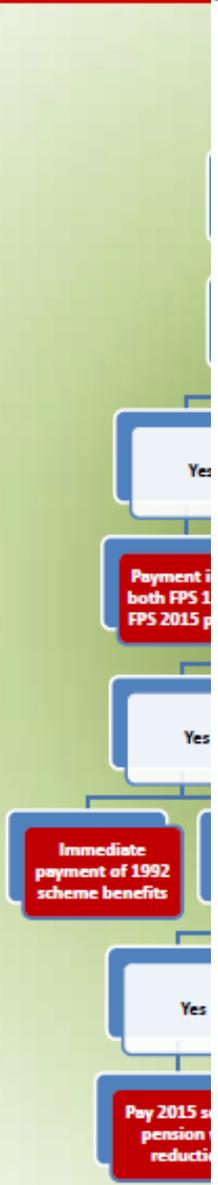
Normal Retirement?

- Normal Pension Age (NPA) – 60.
 - Age 60+ can immediately take 2015 benefits.
 - Retiring before NPA – 2015 benefits will be reduced.
 - Benefits accrued in 1992 & 2006 schemes **retain existing NPA** for benefits accrued under those schemes.
-

1992 Scheme

2006 Scheme Special Modified Scheme - Retirement

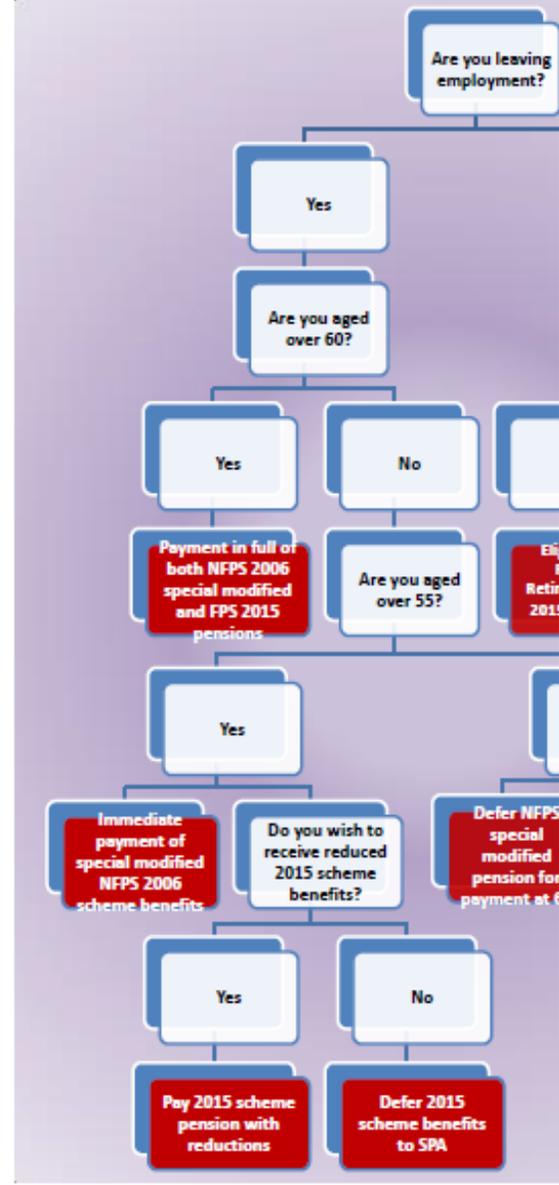
2015 Scheme - Retirement Decision Tree



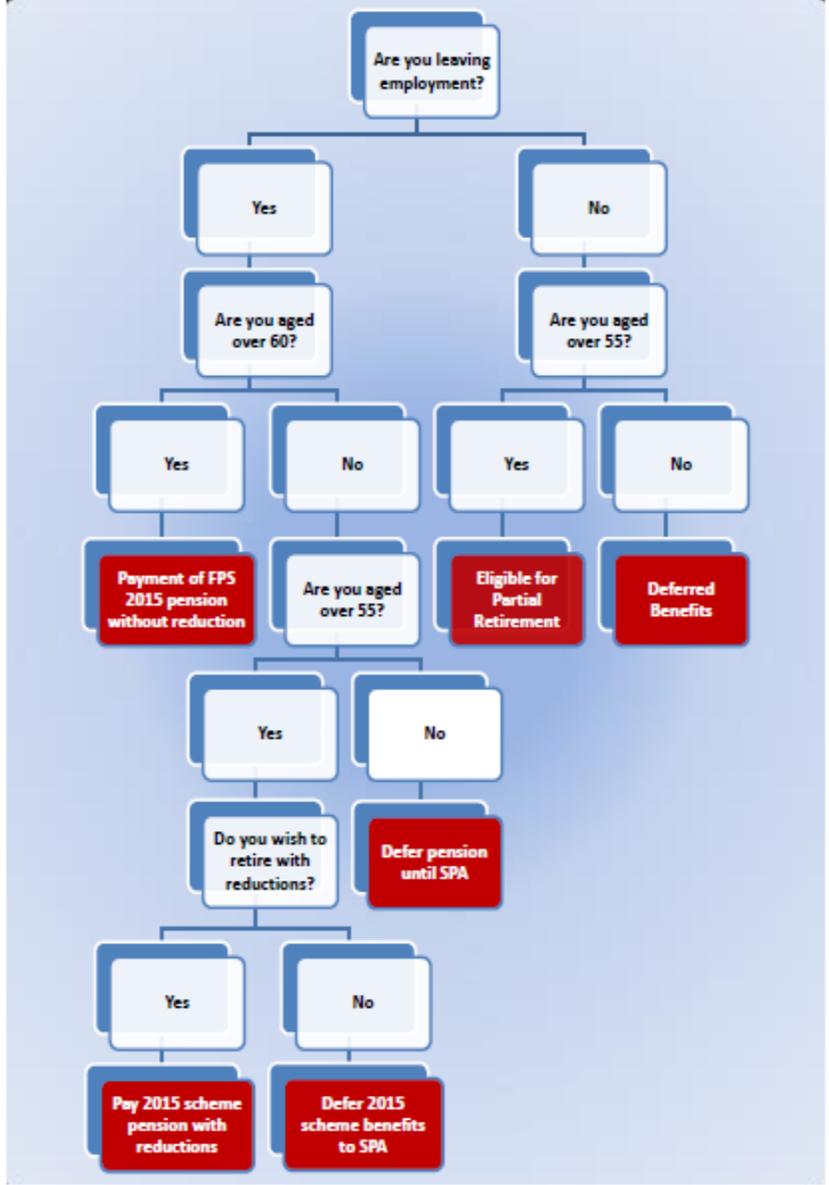
Firefig



Firefig



Firefighters' Pension S



Firefighters' Pension Scheme

Originating SI's

- 1992 <http://www.legislation.gov.uk/ukxi/1992/129/sc>
- 2006 <http://www.legislation.gov.uk/ukxi/2006/3432/contents/made>
- Compensation Scheme
<http://www.legislation.gov.uk/ukxi/2006/3434/contents/made>
- Modified Scheme
<http://www.legislation.gov.uk/ukxi/2014/445/contents/made>
- 2015
<http://www.legislation.gov.uk/ukxi/2014/2848/contents/made> (main regs)
<http://www.legislation.gov.uk/ukxi/2015/589/contents/made> (transitional regs)



Public Service Pensions Regulation

Firefighters' Pension Scheme

Robert Plumb

Scheme Liaison Manager

July 2015

The Pensions
Regulator

The Pensions Regulator and the recent reforms

TPR established by Pensions Act 2004 to regulate work-based pensions

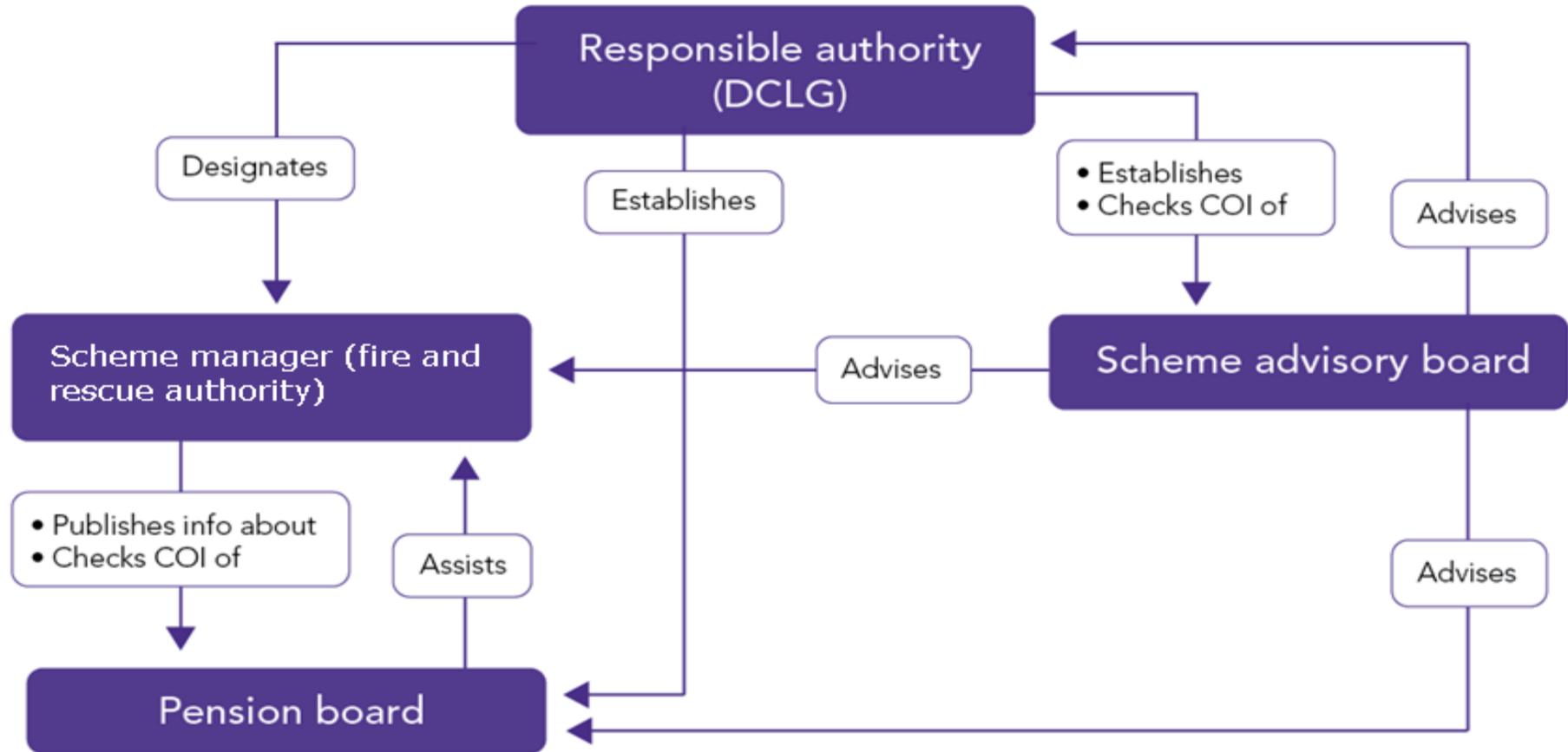
Objectives include protecting member benefits & promoting good administration

Hutton Review led to Public Service Pensions Act 2013, which

- places new responsibilities on scheme managers
- requires pension boards to assist the scheme managers
- requires us to produce a code of practice and regulate

Scheme regulations provide more detailed legal requirements

New governance structure



Code of practice

1. Knowledge and understanding required by pension board members
2. Conflicts of interest and representation
3. Information to be published about schemes
4. Internal controls
5. Scheme record-keeping
6. Maintaining contributions
7. Information to be provided to members
8. Internal dispute resolution
9. Reporting breaches of the law

Topics included in our on-line toolkit are underlined

Knowledge and understanding

Basic requirement

- be conversant with scheme rules and administration policies
- have knowledge and understanding of pensions law and anything else prescribed in regulations

How much?

- enough to exercise the functions of a pension board member
- ‘conversance’ = working knowledge of scheme rules & policy documents, so members can use them effectively in carrying out their duties

Public service “toolkit”

- An education portal covering the main parts of our code of practice

3 Managing risk: Fiona’s scheme

The next stage is to put in place controls to manage risks.

Remember that internal controls reduce, but do not eliminate, risk.

Fiona has considered potential controls to manage the ‘red’ risk she identified and evaluated using the ‘RAG’ status model.

She identifies the following controls:

- request a copy of the administrator’s system recovery plans and data back-up procedures
- obtain an external review of the procedures to ensure that they are adequate
- request regular reports from the administrator to confirm back-up procedures are being followed
- commission annual checks to ensure procedures are being followed.



Page 16 of 20

A vertical navigation bar with a dark purple background. At the top, it says 'The Pensions Regulator'. Below that, there are three buttons: 'Menu', 'Exit', and a navigation bar with '← Back' and 'Next →'.

The Pensions
Regulator

Conflicts of interest and representation

Scheme regulations must require the **scheme manager** to be satisfied there aren't any conflicts of interest on the **pension board**:

- any interest likely to prejudice a board member's exercise of functions
- may arise from personal interests or other responsibilities

Schemes should identify any potential conflicts of interest and pension board members must provide information for this purpose

Actual conflicts of interest are not allowed

We also recommend good practice for representation on pension boards

Information to be published about schemes

Scheme manager must publish information about the **pension board**

Internal controls are key

- **Scheme managers** must operate “adequate” internal controls
- Defined as:
 - administration procedures and arrangements
 - monitoring systems and arrangements
 - arrangements and procedures to protect scheme assets
- They should include:
 - a clear separation of duties
 - processes for escalation and sign-off/decision-making
 - procedures for assessing and managing risk
 - procedures for reviewing breaches of law
 - procedures for managing scheme contributions

Record-keeping is key

Scheme managers must keep records of:

1. members
2. scheme transactions
3. pension board meetings and decisions

Maintaining contributions

Scheme manager responsibilities:

1. Maintain a contribution schedule
2. Follow procedures enabling the identification of late payments
3. Establish the cause and circumstance of payment failure, the wider implications and what action has been taken by the employer
4. Notify us within 10 working days where late contribution payments are likely to be of material significance to us
5. Attempt to recover unpaid or underpaid contributions within 90 days of the due date

Information to members

Annual benefit statements must be provided by the **scheme manager** to each **active member**

Benefit statements must be sent to any member on request, within 2 months

Basic scheme information must be sent in various circumstances, e.g.:

- to prospective or new scheme members within 1 month of receiving joiner information or within 2 months of the date of joining the scheme
- to any member on request, within 2 months of the request

Internal dispute resolution

Scheme managers must operate arrangements to support the resolution of disputes between the scheme manager and a person with an interest in the scheme

Reporting breaches

- Who reports? - **everyone** connected with the scheme
- When they have reasonable cause to believe there has been a breach that is likely to be of material significance to the regulator
- What is of material significance to us can be considered from 4 aspects:

1. Cause	Dishonesty, poor governance, poor advice
2. Effect	If the matter appears to be the effect of non-compliance with PSPA2013, poor administration, inaccurate payments or theft
3. Reaction to the breach	If there has not been action to deal with it
4. Wider implications	If the breach suggests wider undetected problems

Our approach to regulation and enforcement

- Ensure all new schemes register
- Build our knowledge – e.g. upcoming survey
- Focus on education and enablement
- Enforce where needed
- Risk-based
- Proportionate, accountable, consistent, targeted, transparent
- Aim to raise standards where necessary

Thank you

Robert Plumb

The Pensions Regulator

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Brighton

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tel: 01273 648472

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Firefighters' Pension Boards Training

30 July 2015

Ian Pollitt CBE
Pensions Consultant
KPMG

What does a good Board look like?

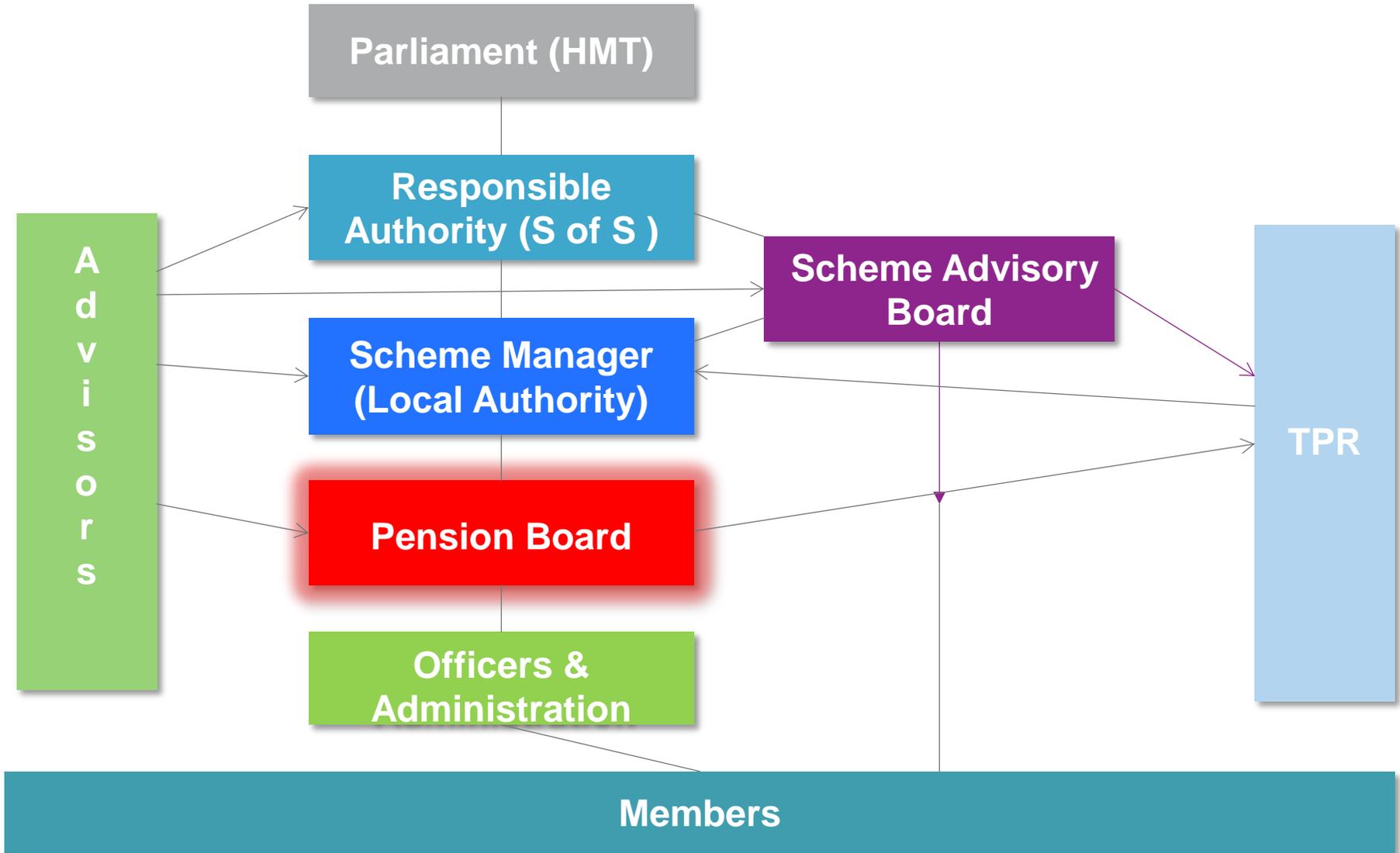
- **Clear roles and responsibilities**
 - need boundaries
 - who's who?

- **Knowledge and understanding**
 - the regulations; the schemes
 - share with other Boards
 - awareness of wider issues

- **Efficient and effective**
 - 'just enough' not 'just because'
 - good decisions and direction

- **Information**
 - establish clear lines of communications
 - asking the right questions

Who's who?



Roles and responsibilities

Pension Board

- Advice to Scheme Manager
- Compliance
- Ensure efficiency & effectiveness of administration
- Advise on member communications
- Monitor complaints

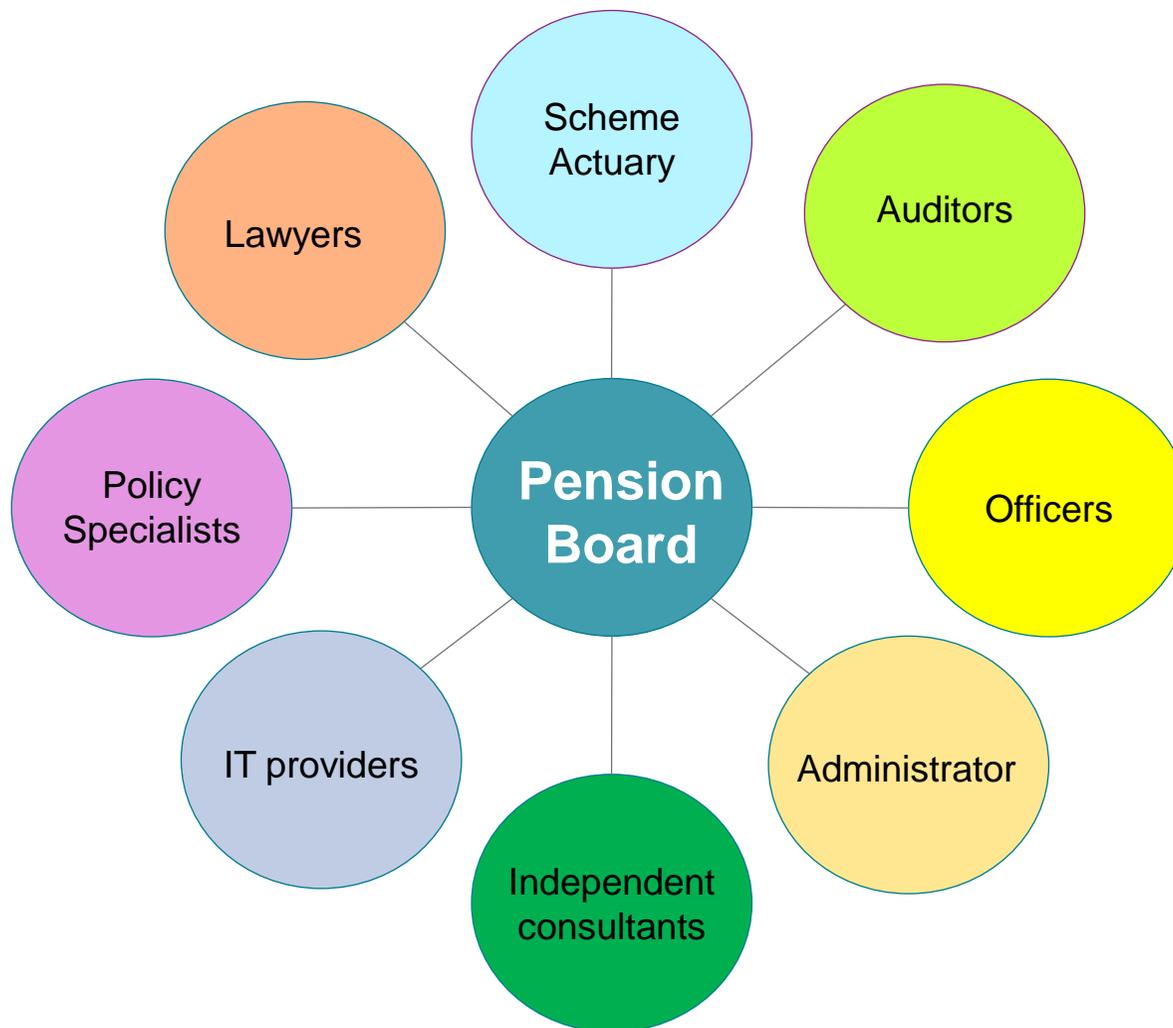
Scheme Manager

- Administer schemes
- Make scheme decisions
- Communications
- Publish data
- Auditing
- IDRPs

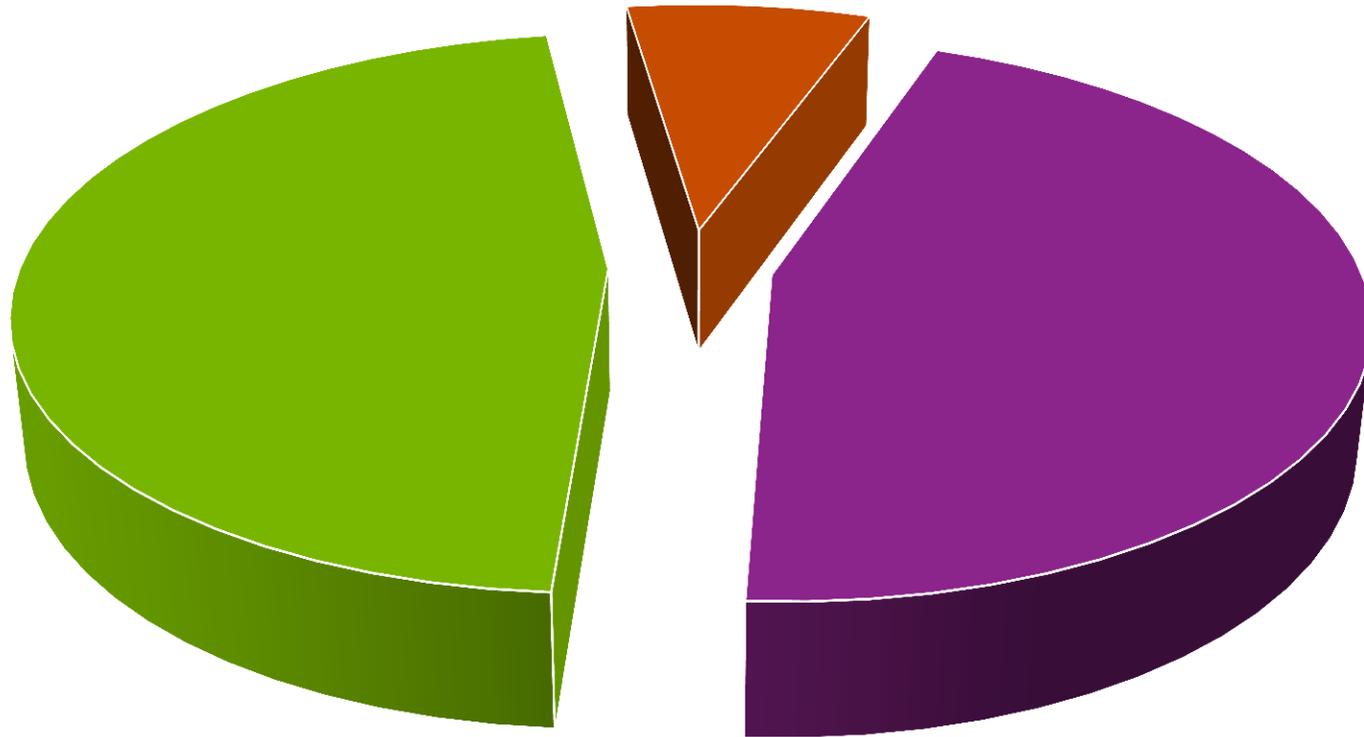
Scheme Advisory Board

- Advice to Secretary of State
- Changes to the scheme rules
- Cost Cap/Valuation
- Support PBs
- Benchmarking
- Oversee standards
- Strategic comms

Your advisors

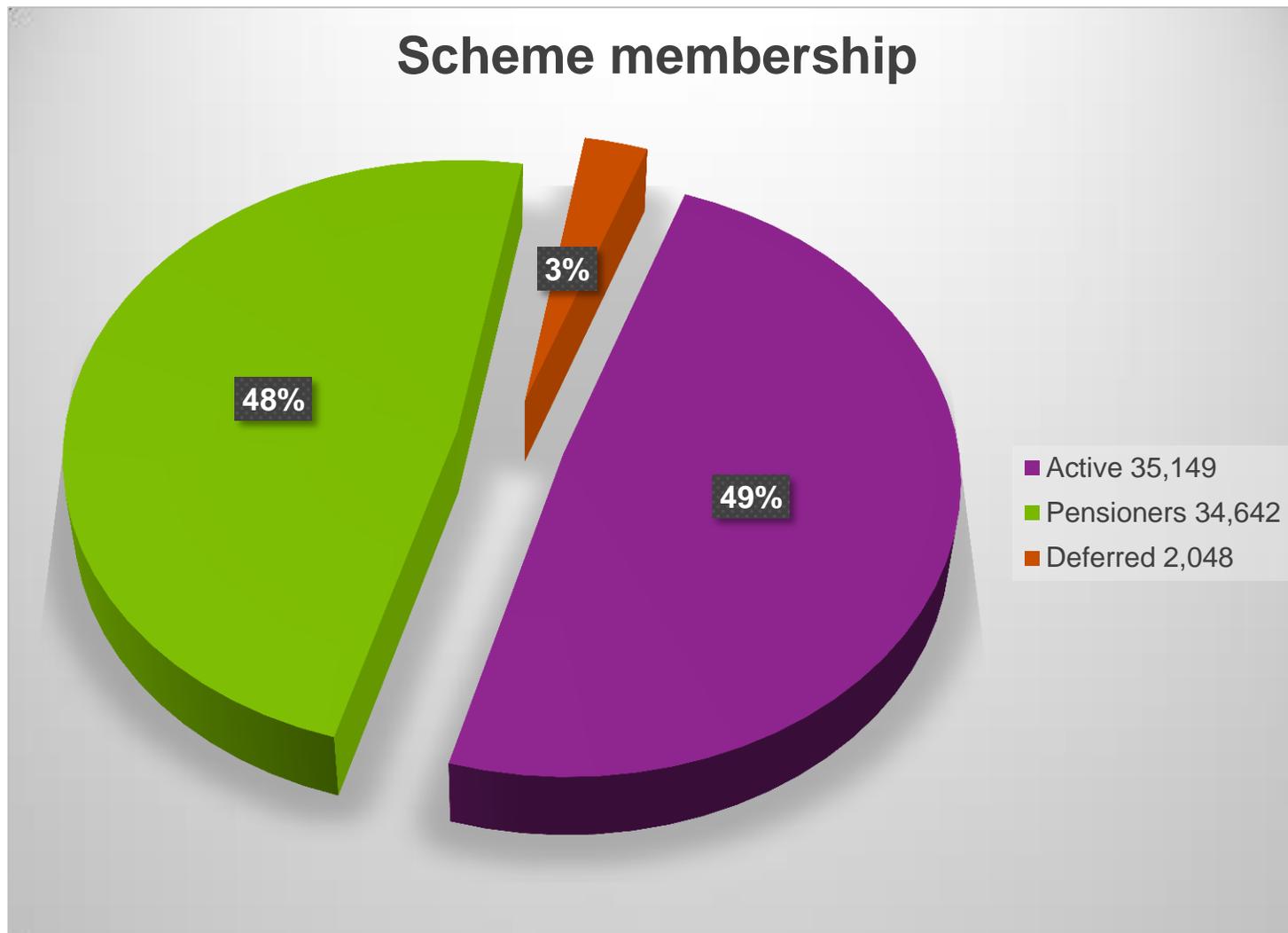


Knowledge and understanding



Based on figures provided in 31 March 2012 actuarial valuation

Knowledge and understanding



Based on figures provided in 31 March 2012 actuarial valuation

Knowledge and understanding

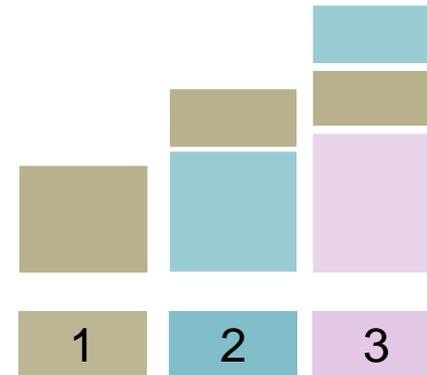
Scheme	1992	2006	2015
Final salary	yes	yes	No - CARE
Accrual	1/60 (2/60 after 20 yrs)	1/60	1/59.7*
Lump Sum	optional	optional	optional
Normal Pension Age	55	60	60
Min age	50	55	55
Employer Contributions	21.7%	11.9%	14.3%
Employee Contributions	11% - 17%	8.5% - 12.5%	10% - 14.5%

Bringing it all together...

scheme membership before 1 April 2015

scheme membership from 1 April 2015

$$\begin{array}{c} \text{Pensionable} \\ \text{service} \end{array} \times \begin{array}{c} \text{Final} \\ \text{pensionable} \\ \text{pay} \end{array} \times \begin{array}{c} \text{Accrual} \\ \text{rate} \\ (1/60) \end{array} = \begin{array}{c} \text{Annual} \\ \text{pension} \end{array}$$



Etc for each year of membership

total pension

Publications - GOV.U x FT Treasury rules out elc x P Public service | The P x

www.thepensionsregulator.gov.uk/public-service-schemes.aspx

The Pensions Regulator

Search site Search

Public service home Understanding your role Scheme management Further resources

Subscribe to news-by-email

Subscribe to our news-by-email service - it's a free and easy way to keep up to date with all our developments relevant to public service pension schemes.

Subscribe now

Pension scams

Find guidance on how you can help to protect scheme members from pension scams.

Pension scams

Public service employers

Read our guidance on ongoing automatic enrolment duties and running your pension scheme.

Employers

Public service schemes

This new section of our website is for anyone involved in the governance and administration of public service pension schemes. This includes scheme contacts, scheme managers, pension board members, administrators and professional advisers.

Initially these will be the schemes for civil servants, armed forces, health service workers, teachers, judiciary, police, firefighters and local government workers. In due course it may also include some public body schemes.

Over the coming months we'll be adding more web pages, guidance documents and online learning resources to help you ensure your scheme is managed effectively.

Understanding your role

If you're involved in governing and administering public service pension schemes you should understand your role and have the appropriate skills and expertise.

- Introduction to public service pension schemes
- Roles and responsibilities
- Knowledge and understanding duty on board members

Scheme management

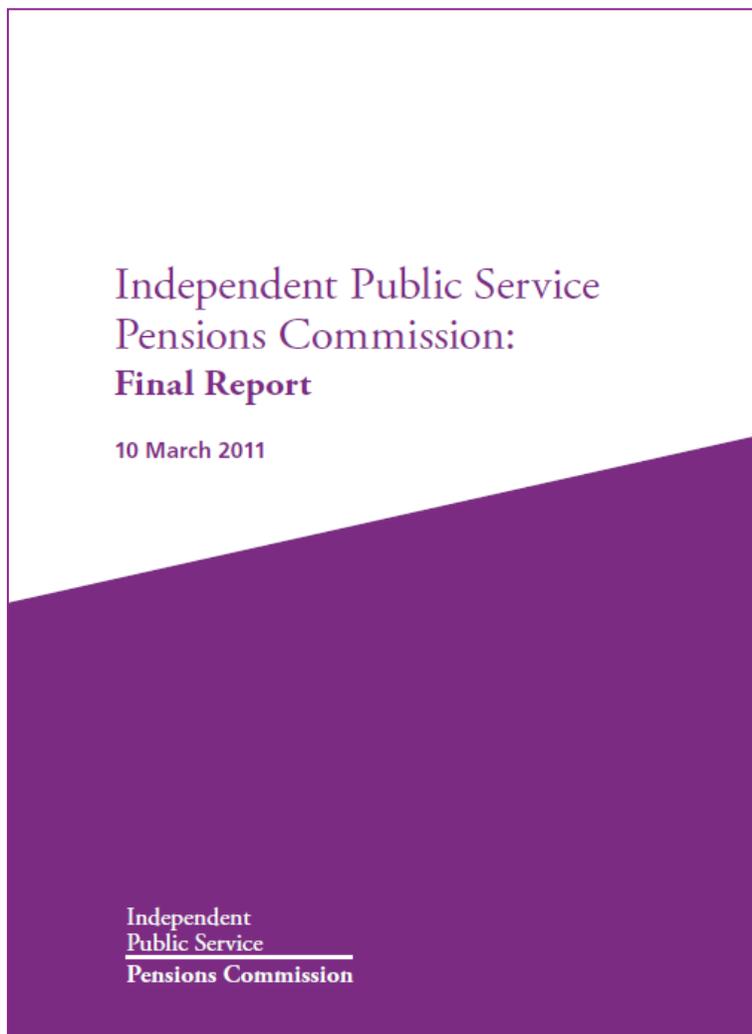
The areas of governance and administration you need to focus on when running, overseeing or advising a public service pension scheme.

- Internal controls and managing risks
- Communicating to members
- Publishing scheme information
- Maintaining contributions
- Pension board conflicts of interest and representation
- Resolving internal disputes
- Reporting breaches of the law

Further resources

Resources you can use to help you run, oversee or advise a public service pension scheme - includes pension guides, consultations, research, analysis and useful links.

- Pension guides
- Consultations
- Research and analysis
- Useful links



- 27 recommendations
- Final salary replaced with CARE
- Standard design
- Accrued Rights
- NPA to be SPA
- Fixed cost ceiling
- Tiered contribution rates
- Publish standard data
- Pension Boards
- The Pensions Regulator oversight
- Good standards of administration



Public Service Pensions Act 2013

CHAPTER 25

Explanatory Notes have been produced to assist in the understanding of this Act and are available separately

- Each locally administered scheme to have a properly appointed, trained and competent Pension Board in place by 1 April 2015*
- Equal number of employer and scheme members*
- Scheme Advisory Board
- Adequate internal controls
- Robust record keeping
- Timely reporting to HM Treasury etc
- Good administration
- Sound internal dispute procedures
- Information for members on benefits*

The Pensions Regulator

Code of Practice No 14

1. Knowledge and understanding required by Pension Board members
2. Conflicts of interest
3. Publishing information
4. Internal controls
5. Record keeping
6. Maintaining contributions
7. Providing information to members
8. IDRPs
9. Reporting breaches of the law

The Challenges



The Challenges

Governance

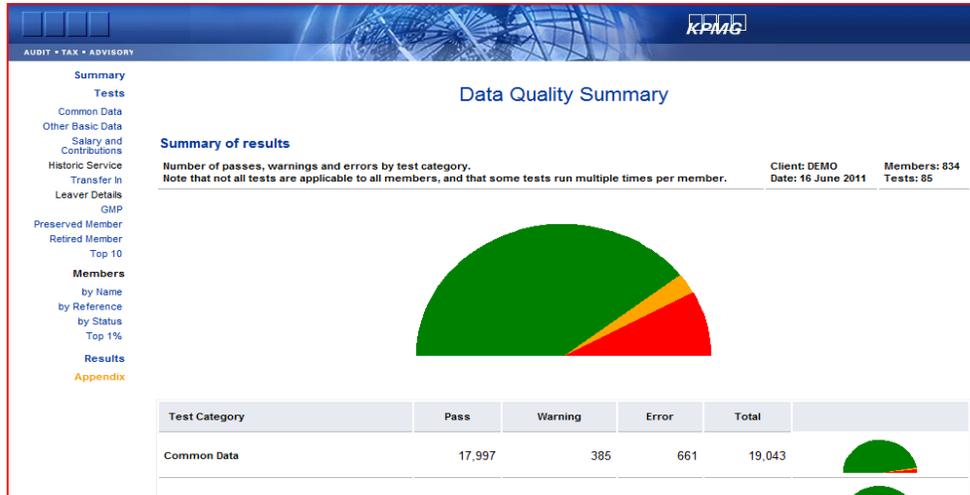
- Establish Pension Board
- Training
- Knowledge
- Compliance
- Publishing
- Code of Practice
- Complaints

Administration

- KPIs & SLAs
- Costs per member
- Level of service
- Data for CARE
- Data quality
- Benchmarking

Communication

- By Scheme
- By Local Authority
- Benefit statements
- Calculators
- Web-sites
- Push v pull



- Poor quality data can result in incorrect benefit calculations.
- Web-based interactive data validation tool, Klean provides 300 basic data validation checks

Common Data
 Other Basic Data
 Salary and Contributions
 Historic Service
 Transfer In
 Leaver Details
 GMP
 Preserved Member
 Retired Member
 Top 10
 Members
 by Name
 by Reference
 by Status
 Top 1%
 Results
 Appendix

Tests sorted by the highest number of failures.
 Note that not all tests are applicable to all members, and that some tests run multiple times per member.

Test	Category	Description	Results
2.8.2	Salary and Contributions	Missing contributions	46 Pass, 1910 Error
1.4.10	Other Basic Data	Scheme is contracted out and Date Contracted Out is not feasible (before 6th April 1978, on or after date contracting out ceased / date of leaving)	246 Pass, 552 Error
1.1.9	Other Basic Data	Unknown Date Contracted Out	281 Pass, 2 Warning, 438 Error
2.1.5	Salary and Contributions	Ill conts/earnings record completely missing	227 Pass, 413 Error
7.1.8	GMP	Pre88 GMP is missing	41 Pass, 397 Error
2.8.1	Salary and Contributions	Contributions record completely missing	156 Pass, 390 Error

S = Suspended

the highest numbers of test failures.

Ill Number	Status	Pass	Warning	Error
L798417B	Preserved / Deferred	39	2	43
S665575C	Preserved / Deferred	40	2	37
T488359C	Preserved / Deferred	38	2	33
H683705A	Preserved / Deferred	39	4	31
A846229B	Preserved / Deferred	38	2	29
Surname769	LT	49	1	29

Countdown Bulletin

The newsletter about the ending of contracting-out

Welcome to the June 2015 edition of the Countdown Bulletin

In this edition we cover:

- Foreword
- Customer Relations Manager
- DWP/HMRC Pensions Conferences 2015
Issues and updates
- DWP Update
State Pension toolkit
Regulations
State Pension statements for the over-55s
- GMP Micro Service
- Where to direct customer by enquiry type
- Useful links
- Contact details
- Feedback

Only 9 months to go until the ending of Contracting-out



Alert!

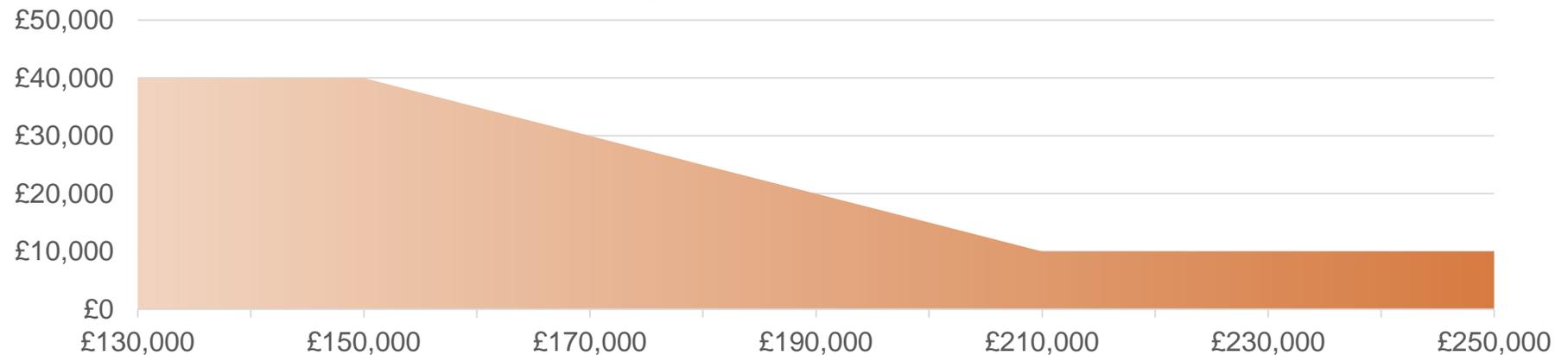
Schemes must send an expression of interest to use the Scheme Reconciliation Service before 5 April 2016.

If you do not register before this date you cannot use the service.

Changes to the annual allowance



Annual allowance (From 6 April 2016)



- Establish a Pension Board ✓
- Decide on membership – term of office ✓
- Terms of Reference, Code of Conduct etc. ✓
- Meetings - frequency ✓
- Training of members ✓
- Secretariat ✓
- Scope – Passive or Active?
- Sub-committees e.g. Admin, Communications?
- Benchmarking – how much does the scheme cost?
- Communications strategy – websites, annual report etc
- Administration strategy?
- Independent advice?
- Monitor other authorities and schemes for tips and LL

KIS(S)

- Proceed slowly, but effectively.
- Advise, monitor, oversee.
- Collect information/facts.
- Question – what has been published?
by whom? When?
- Request an admin report and update
for each meeting.
- Understand the costs.
- Understand IDRP & complaints.

And finally.....

‘If you want to make enemies, try to change something.’
Woodrow Wilson

It must be remembered that there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage than a new system.”

Niccolo Machiavelli



Ian Pollitt CBE

Senior Manager

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Mobile: 07825 218 471
Direct Line: 0121 232 3316
Email: ian.pollitt@kpmg.co.uk

Function and specialisation

Public Sector Pensions Consultant.
Specialist in unfunded pension schemes.

Education and qualifications

- PRINCE 2 qualified
- MA Kings College London
- MBA Cranfield University
- MSc Portsmouth University

Key skills

- Governance and management of pensions
- Consensus building

Background

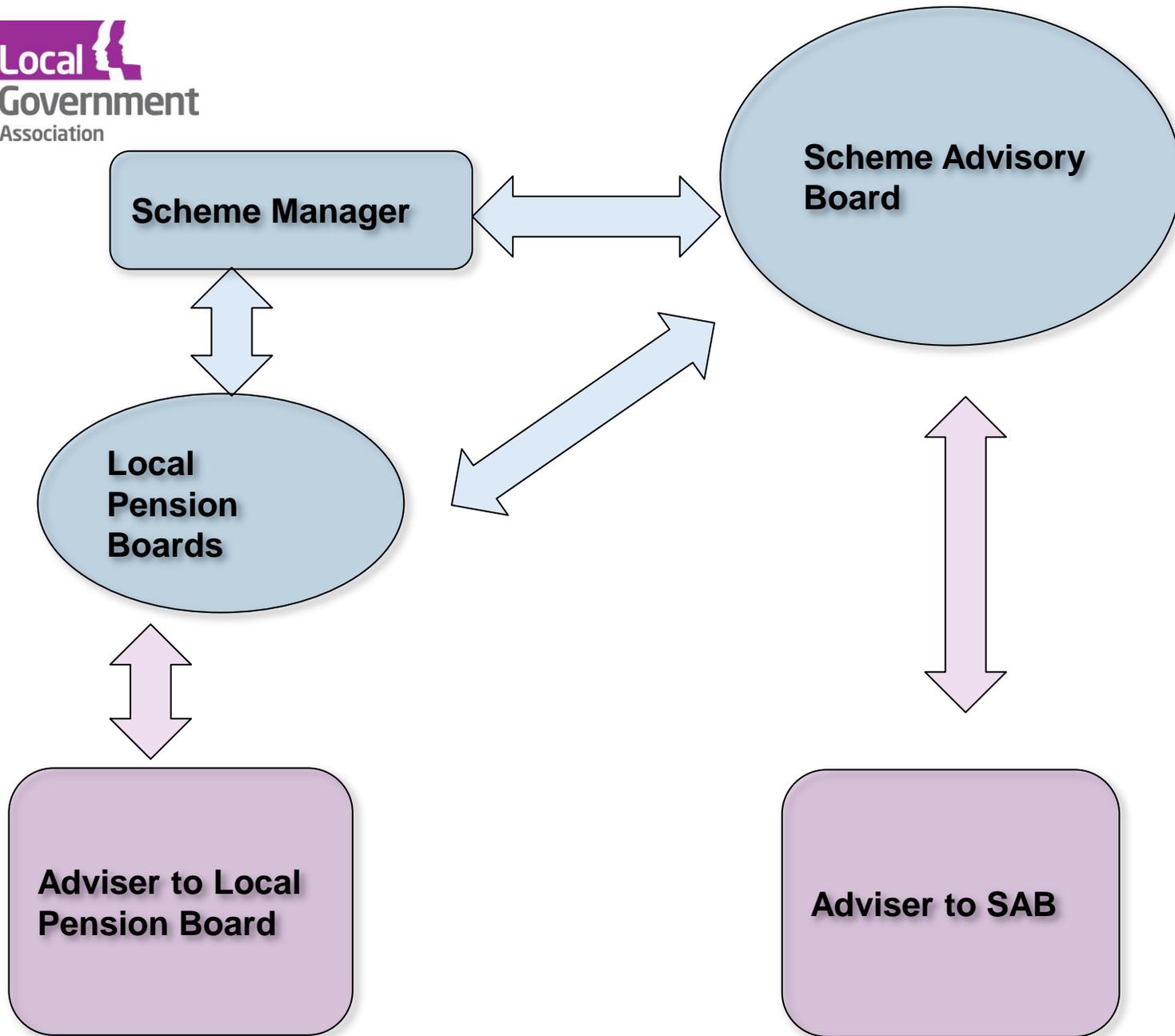
- Ian served in the Royal Air Force for 34 years before joining KPMG. He has extensive management background with a strong focus on delivering first class administrative support to customers. He spent 10 years in the Ministry of Defence and is a specialist in the development of pension and reward policy with particular emphasis on governance, administration and associated IT systems.

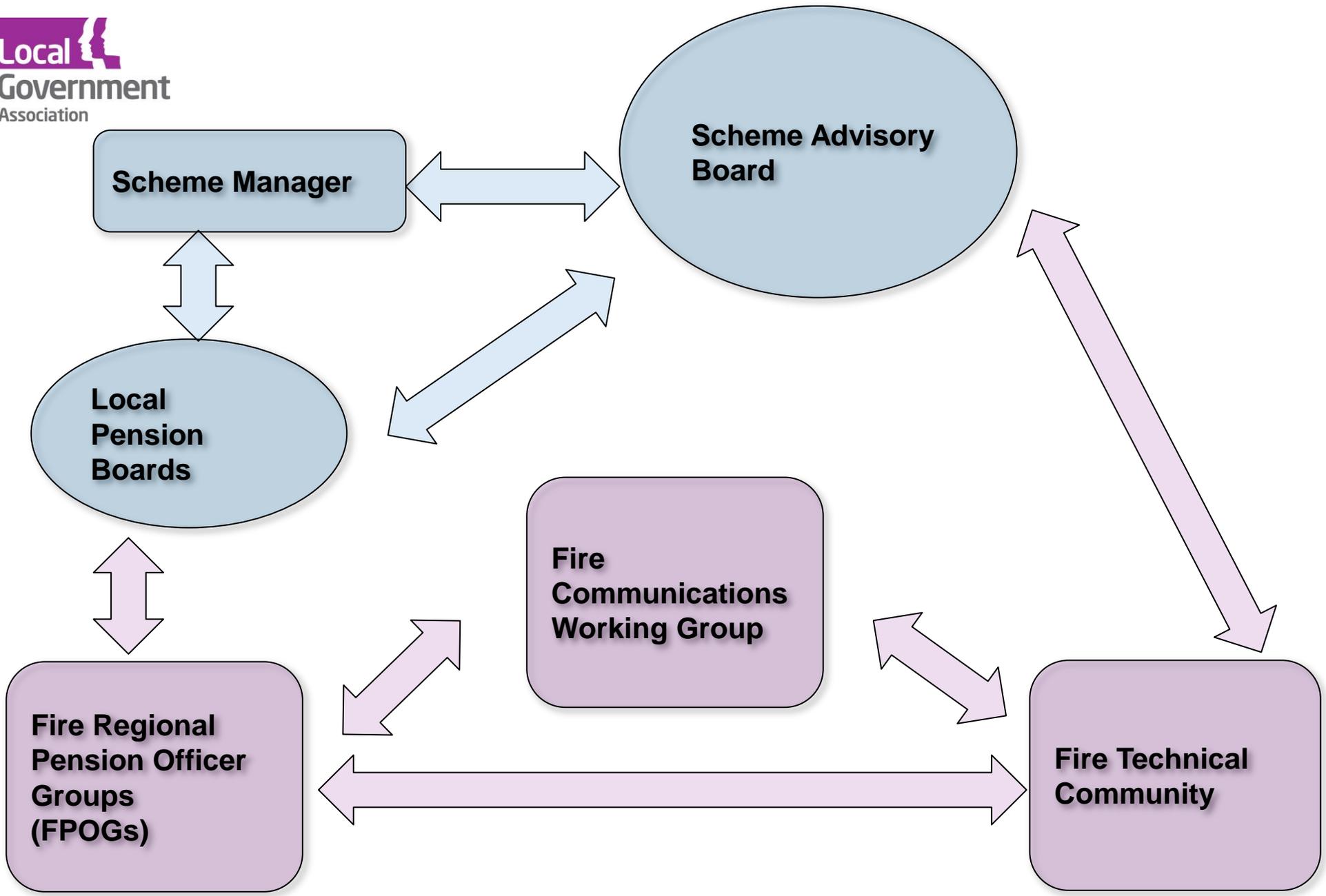
Professional and Industry Experience

- Since joining KPMG Public Sector Pension Team in May 2014 Ian has worked with a number of pension schemes including the Principal Civil Service Pension Scheme (MyCSP), the Police Pension Scheme and the London Borough of Lambeth Pension Scheme, principally providing assistance with governance and administration matters.
- From May 2011 to January 2014, Ian led the combined civilian, military and contractor team designing and delivering the £50 billion new Armed Forces Pension Scheme for 2015. He worked closely with multiple stakeholders including Ministers, HM Treasury and Service Chiefs to deliver a consensus on the new design and designed and led the largest consultation exercise ever conducted by the MOD. He worked closely with the MOD delivery organisation, the Service Personnel & Veterans Agency and their IT contractors; CSC and Thomsons (and previously HP and EDS) to ensure delivery on time and within budget.
- Member of Lord Hutton's Independent Public Service Pension Commission. Only non civil servant or actuary on the team; lead author for chapters on governance and administration. Focal point for discussions with Judiciary
- Head of RAF Technical Support to Armed Forces Administration IT System. Designed process to rectify over 200k data integrity issues and ensure uninterrupted HR and payroll function
- Head of Remuneration and Reward for RAF. Subject matter expert on all pay, allowances and pension matters. Completed MSc dissertation on the impact of financial incentives on retention.
- MOD Project officer for tri-Service Administration IT system . Employed as a 'trouble-shooter' reporting directly to the head of project on design and delivery issues for £150m IT project for 200k users. Led "Tiger Team" that successfully delivered IT training to users.
- RAF Project Officer for Joint Personnel Administration, a tri-Service IT system designed by MOD and EDS to replace dozens of existing systems delivering payroll and HR functions.
- Graduate of the Joint Services Command and Staff Course
- Fellow of Institute of Leadership and Management

Support Structures

Clair Alcock





Local Pension Board Forum

- Regulations
 - Guidance
 - Member Communications
 - Notices and Bulletins
 - <https://knowledgehub.local.gov.uk/group/firefighters-pension-scheme-local-pension-board-members-group-forum/forum>
-

Have we met our objectives?

- Why Governance?
 - Roles and responsibilities of Pension boards
 - Knowledge and understanding
 - Identifying what you don't know
 - Training needs analysis
 - Opportunity for discussion
-

Discussion and Debate



What do we do next?

- Evaluate further training needs
 - Consider agenda for next meeting
 - Firmly establish Local Pension Boards
 - Consider objectives
 - Build good relationships
-

Our takeaways





col·lab·o·rate

: to work with another person or group in order to achieve or do something



Disclaimer

- **The information contained in these slides are the authors interpretation of the current regulations.**
 - **Readers should take their own legal advice on the interpretation of any particular piece of legislation.**
 - **No responsibility whatsoever will be assumed by LGA or their partners for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information contained in these slides.**
-

Local Pension Board Training

Firefighter's Pension Scheme