

Jayne Baldock and Chris Mulholland  
Firefighters' Pension Team  
6th Floor  
Fry Building  
2 Marsham Street  
London SW1P 4DF  
13<sup>th</sup> October 2017

Dear Jayne and Chris

Consultation on the draft 2016 valuation assumptions report to the Secretary of State.

Thank you for the opportunity to provide the views of the scheme advisory board on the draft recommendations to the Secretary of State for assumptions on the 2016 valuation.

We are pleased to provide our comments as attached.

In making our comments, we sought independent assurance of the draft recommendations and also consulted with the SAB Cost Effectiveness Committee, a committee formed of representatives from the SAB, Fire Authorities, practitioner experts and Local Pension Boards in order to form a balanced opinion

Please find attached to this letter our full response to this consultation.

This response is supported by both the employee and employer representatives of the Scheme Advisory Board.

If you have any questions, please let me know.

Yours sincerely



Malcolm Eastwood  
Chairman, Firefighters Pension Scheme (England) Scheme Advisory Board

## Introduction

1. The GAD paper refers to 7 particular areas where GAD make assumptions that are specific to Firefighters.
  - Pensioner Mortality
  - Age Retirement
  - Ill-Health Retirements
  - Voluntary Withdrawal
  - Death Before Retirement
  - Promotional Pay
  - Commutation
  - Family Statistics

## Summary

1. The board welcomes the opportunity to comment on the assumptions for the 2016 valuation. The board notes that the purpose of the consultation is to provide commentary on the reasonableness of the assumptions made, and provide any additional information.
2. This response should not be interpreted that the board agree with the assumptions made, nor do they accept liability for any change to the valuation. They are simply providing commentary on the assumptions made by GAD.
3. The board's comments are in relation to this valuation only. They were not consulted in 2012 or 2015 and therefore do not make any comment on the effect of any previous valuation assumption.
4. Should the assumptions remain as proposed and evidence supporting different assumptions emerges over time, consideration should be given to retrospectively revising the initial cost cap valuation.
5. The Scheme Advisory Board make the following comments on data and the use of assumptions for men and women.

## Males and Females

- The board notes the position outlined in paragraph 3.7 with regards to using the same assumption for males and females. Whilst the position at the 2016 valuation is that less than 5% active members are female, they would expect to see this position reviewed at the next valuation given that increasing diversity is a priority issue for services, so the expectation is that figure will increase. The capacity to do so will vary from one service to another so it's not possible to give a national projection at this time.

## Data

- The board were concerned to note the references throughout the GAD report to where data was not considered reliable as per the table below.

Mortality	17 FRAS excluded
Age retirement	18 FRAs excluded (30% of active membership) [Para 5.18]
Ill-Health retirement	15 FRAs excluded (25% of active membership) [Para 6.5]
Death before retirement	15 FRAs excluded (25% of active membership) [Para 8.4]
Family Statistics	Only 10 of 45 FRAs (20%) had credible data [Para 11.4]

- The board recognise that the significance on the assumptions made by GAD due to this missing data is not material. Nevertheless they would make the following comments.
- LGA held a meeting with GAD, representatives of DCLG and Home Office, pension administrators and software suppliers in December 2015 to discuss concerns that the deadline for the valuation data request for both Police and Fire pension schemes, at that time set to be 30 June 2016, did not give administrators sufficient time to prepare the data.
- Notably the administrators explained that because this was the first year of the new scheme, many data items on the data specification were not yet on the system, and in some cases the software functionality to calculate these items had only just been delivered and in others it wasn't even available yet. All these items meant there would be considerable resource pressure at the end of the year, and in all cases, the end of year processes wouldn't be able to be run until the

employer year end data had been received from the Fire and Police authorities.

11. It was noted that there would be considerable risk in the quality of data in trying to meet the 30<sup>th</sup> June deadline, and the administrators and software suppliers asked GAD to consider extending the deadline to 30<sup>th</sup> September 2016, as setting the valuation submission date after the annual benefit statement date would a useful tool in quality checking.
12. GAD acknowledged some of these concerns and requested data by 12<sup>th</sup> August 2016.
13. The Scheme Advisory Board would request that GAD work with the Scheme Advisory Board Secretariat in order to address any data concerns ahead of the 2020 valuation.

## **Comments on assumptions**

### **Mortality – [Chapter 4, pages 14 to 21]**

14. The board commissioned independent advice to review the tables and assumptions used by GAD.

This independent assurance assured the board that

- The use of S2 mortality table is reasonable as they are more up to date.
- Using an amounts basis vs lives basis is reasonable
- The proposed category specific base tables for non-dependant and dependant pensioners are reasonable, as it is reasonable to assume that the dependants of firefighters are likely to have different mortality experience to their partners.
- Adjusting the base table to not (fully) allow for recent experience is a reasonable approach.
- Excluding 17 FRAs from GADS analysis does not appear to have materially affected the analysis.
- The use of the most up to date ONS table 2014 is reasonable, they would recommend using ONS 2016 if available
- Provided some sensitivity information to estimate the sensitivity of using a different weighting.

15. **Having considered the advice from the independent actuaries the board would request that GAD use ONS2016 if available at the date of the final valuation.**

16. The board noted comments from First Actuarial that adjusting the base table to not (fully) allow for recent experience is a reasonable approach. However the board further questioned how the decision to weight at 1/3:2/3 was reached. **The board note the reply from GAD and make no further comment**

**Age retirement from service [Chapter 5 pages 22 to 27]**

17. The board noted the assumptions proposed by GAD

	1992 (High Service)	1992 (Low Service)	2006	Special 2006	2015
Reaching age 50 with less than 30 years	Increase from 5% to 25%	No change, majority to retire at age 55 with all by age 60	Assumed to retire at age 60	Assumed to retire at age 55	25% at age 55 75% at age 60
Reaching age 55 with less than 30 years.	Decrease from 79% to 41%	As above	As above	As above	As above

18. Employee members fundamentally disagree that all members can reach a retirement age of 60 and therefore do not agree the assumption of 75% retiring at age 60.

19. Should the assumption remain as proposed and evidence supporting the employees' position emerges over time, consideration should be given to retrospectively revising the initial cost cap valuation since that was based on the premise that firefighters would be capable of working to age 60.

There is a view amongst Board members that it would be unfair to penalise the Scheme and its members as a result of flawed Scheme design which employee representatives argued was the case during discussions about surrounding pensions reform.

20. The board note that the effect on both the cost cap and employers contribution of early retirement from the 2015 scheme is dependent on the assumptions used for setting the early retirement factors and may be subject to change, which could have a subsequent cost on the employer contributions or cost cap.. The board have not been given the opportunity to comment on the assumptions to set the early retirement factors.

### **III Health retirement [Chapter 6, pages 28 to 31]**

21. Assumption for Ill-Health is 1.5% of members to retire on Ill-Health with a split of 40% for those retiring on lower tier ill health and 60% retiring on upper tier Ill-health. [Paragraph 6.1 & 6.2]

22. The GAD report recommends that the same assumption is used across all the schemes, as a member has the same chance of retiring from Ill-health regardless what scheme they are in. [Paragraph 6.1]

23. Paragraph 6.11 of the report suggests that the higher upper tier proportion of 84% in 2012/2013, may have recorded upper tier as a default.

24. The secretariat to the board offered direct experience to inform the SAB and GAD as to why higher upper tier Ill-Health rates were recorded in the 2012/2013.

The recording of the ill-health tier was only requested by GAD for the first time in 2012. The request wasn't made in advance of the valuation data request and so offered no lead time to software suppliers in order to make the necessary software amendments to record the split.

There are two main software suppliers for Fire pension administrators, Aquila Heywood and CIVICA. The date the software amendments were made for CIVICA are not known, however the software amendments for Aquila Heywood were made [by Clair Alcock who worked for Aquila Heywood at the time] and delivered in 2013, hence the accurate recording from 2013 onwards. It is expected that CIVICA worked on the same timescale.

**25. In view of the reasons for the apparent distortion of upper tier ill-health retirement in 2012/2013. The board note the suggested actions to maintain the 2012 assumption appear reasonable.**

### **Voluntary Withdrawal from Service [Chapter 7, pages 32 to 36]**

26. In this context withdrawals from the scheme is considered to be deferred members and opt outs. It does not consider members who choose not to join the scheme from the beginning.

27. The board were concerned that the rate of withdrawals were not a spike as considered in paragraph 7.23 and noted an action to review these.

**28. The board note the independent assurance that the approach is relatively immaterial and makes no further comment.**

#### **Death Before Retirement [Chapter 8, pages 37 to 38]**

29. Proposed assumption for 2016 is to adopt the assumption for 2012 with no change [Paragraph 8.5]

30. Paragraph 8.3 notes that this assumption has little financial significance.

**31. The board note the proposed assumption and make no further comment.**

#### **Promotional Pay Increases [Chapter 9, pages 39 to 44]**

32. New proposed assumption for special retained members is equal to assumption for standard retained members. [Paragraph 9.2]

33. Proposed assumption for 2016 is to adopt the assumption for 2012 with no change [Paragraph 9.3]

34. The board sought assurances from the Home Office that the assumption for promotional increases did not take into account temporary promotion.

**35. The board note the proposed assumption and make no further comment.**

#### **Commutation [Chapter 10, pages 45 to 46]**

36. Assumptions proposed by GAD

1992 only	2006 only	Special Retained Members Only	2015 Scheme Only	Mixed 1992 and 2015 Scheme Members		Mixed 2006 and 2015 Scheme Members		Mixed Special 2006 and 2015 Scheme Members	
0%	15%	0%	15%	0%	0%	15%	15%	0%	0%

37. The assumption of 15% used for the 2006 and 2015 scheme is directed by HMT [Paragraph 10.8]
38. 0% is used for assumption of commutation from the 1992 and special 2006 scheme because these are cost neutral factors and do not affect the valuation of the benefits [Paragraph 10.2]
39. GADs expectation is that the commutation terms of 12:1 in the 2015 scheme would act as a disincentive to members with split benefits in the 1992 scheme or Special 2006 scheme. [Paragraph 10.9]
40. The board accept it is difficult to predict a behaviour with no current experience, nevertheless they sought to seek anecdotal evidence from
- Employee Side SAB Representatives
  - Employer Side SAB Representatives
  - Pension Administrators
41. Experience of Firefighters commuting the maximum tax free lump sum and paying a 40% tax charge

		Tax charges applied	Restricted to 2.25 times pension	Capped to HMRC Limits	No Lump Sum
London	198	122 [62%]	19	57	0
WYPF 1	9	3 [33%]	6		0
WYPF 2	31	25 [81%]	6		0
WYPF 3	3	2 [66%]	1		0
WYPF 4	14	10 [71%]	3		1
WYPF 5	12	5 [41%]	7		0
WYPF 6	28	10 [36%]	17	1	0
WYPF 7	57	45 [79%]	10	1	1
Total	352	222 [63%]			

42. Limited experience of transitional Ill-health commutation

Whilst it could be expected that Ill-health retirements to have a higher commutation rate, the limited experience also bears this out.

WYPF have dealt with 4 ill health retirement from the 2015 scheme

- 1992/2015 – HMRC maximum for 1992 benefits + 2015 maximum commutation

- 1992/2015 – Maximum less tax for 1992 benefits + 2015 maximum commutation
- 2006/2015 – Commuted both 2006 & 2015
- 2006/2015 – Commuted both 2006 & 2015

#### 43. Anecdotal evidence collected

Please note the views given are the personal view of the author and not the view of the organisation they represent, nevertheless there was a view that the culture of the fire service up until now has preferred to commute the maximum pension for cash.

- It is very rare for firefighter's not to take a lump sum no matter what scheme they are retiring from. I would expect the 2015 scheme pension to be commuted in the same way as the 1992 scheme, even though they know they don't have to.
- The feeling at WYPF is that Firefighters will commute the 2015 benefits at the point of retirement. I have also spoken to Laura who speaks to a lot of fire-fighters and she agrees with this as well
- ...we had our Executive Board meeting yesterday, I thought I would sound then out on the commutation assumption. They were of the opinion that people will go for cash rather than a promise of cash and my response is : -

With reference to paragraph 10.9, I tend to agree that firefighters tend to commute the maximum allowable amount whilst reducing the amount commuted to a level that avoids a tax charge. There are, however, some who will defy logic in that they will choose to commute the maximum despite incurring a tax charge.

I understand that members of other pension schemes are more inclined to speculate on their longevity by taking a smaller sum in order to receive a higher annual pension but this is not true of FPS members.

Since the culture of the fire service seems to be a firefighters prefer to have a 'bird in the hand' rather than two in the bush, I believe that the assumption is inaccurate and should be revised. Whilst there may be no data on retirements from the 2015 scheme, analysis of retirements from the other fire schemes in terms of amounts commuted ought to offer a good indication of future behaviour.

- I tend to agree with your view, there is more likely to be a short-term gain attitude towards the opportunity of accessing cash now, albeit with a higher taxable penalty than those taking a long-term view.
- My view is that X members would seek to commute the maximum amount and be seeking the largest cash sum they can take.

They will weigh the cost and consequence of taking a larger cash sum, accepting that this will incur a higher level of taxation, rather than taking a smaller cash lump sum and a higher annual pension, to avoid the tax that may be due on their lump sum.

I am not able on behalf of X, to give an absolute and definitive answer as to which option X members are likely to take; however in discussion with a number of colleague, our view sways towards the higher cash lump sum whilst accepting the greater level of tax.

- I know you are only seeking views from the Employee members but I thought I would confirm my perception to you, which is the same as that of X only across all ranks.

My experience to date, and I have followed the trend since my retirement, demonstrates the majority of personnel on the FFPS commute the maximum. I realise we are seeing the majority conditioned to the 92 scheme but I do not believe this trend will significantly change as most of those retiring work to the adage, 'a bird in the hand', as most of them have plans for a lump sum....

It will be interesting to see if the trend changes under the new schemes and the tax liability some will face...?

44. However, balanced to the opinion of some members, other members of the board did not agree that 2015 scheme transition members would commute from both schemes. They had collected anecdotal evidence from scheme members, whom when questioned confirmed that the factor of 1:12 would be a disincentive, and they would choose not to commute from 2015 scheme.
45. Board members did agree that some firefighter members may not understand the structure of scheme benefits which allowed for a different decision, and therefore may ultimately affect decision making.
- 46. The board request that the assumption that no 2015 member with transitional 2015 scheme benefits would commute should be reconsidered by GAD.**
- 47. The board note that HMT directions apply 15% to the commutation assumption for the 2006 and 2015 scheme. Nevertheless the board would request that this should be re-considered**
1. Members of the Fire scheme do not earn cash in addition to their pension and are more likely to give up more of their pension for cash at retirement
  2. Anecdotal experience gained from administrators suggests that members routinely commute 25% of their pension even if this means they incur a tax-charge.
- 48. Should the assumption remain as proposed and evidence supporting a different rate of commutation emerges over time. The board would request that consideration should be given to retrospectively revising the valuation.**

## **Family Statistics [Chapter 11, pages 47 to 50]**

49. Proposed assumption for 2016 is to adopt the assumption for 2012 with no change [Paragraph 11.2]
50. The board note that only 10 out of 45 forces (20% of members) had sufficient data to analyse, however this might be explained by the fact that schemes don't usually keep data on spouses until actual death occurs
51. **The board note the proposed assumption and make no further comment.**