



Home Office

Malcolm Eastwood
Chair of the Firefighters' Pensions
(England) Scheme Advisory Board

(sent via Board Secretariat)

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Dear Malcolm

CONSULTATION ON 2016 SCHEME VALUATION ASSUMPTIONS

Thank you for your letter of 13 October providing the Firefighters' Pensions (England) Scheme Advisory Board's (Fire SAB), formal response to the consultation on the draft assumptions for the 2016 Scheme Valuation. Please convey my thanks to the Fire SAB.

I have considered the Fire SAB's comments and have set out below the Department's position on each of the assumptions to be adopted.

Pensioner Mortality

The assumption for future mortality improvements is set by HM Treasury across all public service pension schemes. I understand that the HMT are likely to adopt the ONS 2016 pensioner mortality projections but this decision has yet to be confirmed. HMT will confirm this assumption when their Valuation directions are finalised for the 2016 valuation.

The Department will proceed with GAD's proposed approach for the scheme specific mortality assumption.

Age Retirement

The Department will proceed with GAD's proposed approach on assuming that 25% of new entrants to the 2015 Scheme will retire at age 55 with the remaining members retiring at age 60. This is an existing assumption that has been used to cost the new 2015 Scheme and currently no meaningful scheme experience is available to justify making any change – this will not materialise for at least another 10 years.

The Fire SAB's comment on retrospectively revising the Cost Cap Valuation should future scheme experience indicate that this assumption was incorrect sits outside the scope of this consultation and therefore has not been considered at this time.

Ill-Health Retirements

I am grateful for the additional information provided by the Fire SAB that gives some explanation as to why higher upper tier ill-health rates were recorded in 2012/13. GAD have agreed to reference this in their final Valuation report, and note that the experience for the other years in the analysis was more in line with the proposed assumption.

The Department will proceed with GAD's proposed approach of adopting assumptions for ill-health rates which are age related but do not go above 1.5% of the membership at any age. This will be split as 60% for lower tier and 40% for upper tier ill-health retirements.

It is worth pointing out that the Fire SAB's formal response to the consultation has incorrectly stated that the proposed assumption for ill-health retirements is split as 40% for those retiring on lower tier and 60% retiring on upper tier. I will assume that this was an unintentional error unless advised otherwise.

Voluntary Withdrawal

No substantive comments were provided by the Fire SAB. The Department will proceed with GAD's proposed approach.

Death before Retirement

No substantive comments were provided by the Fire SAB. The Department will proceed with GAD's proposed approach.

Promotional Pay Increases

No substantive comments were provided by the Fire SAB. The Department will proceed with GAD's proposed approach.

Commutation

I am grateful for the additional information provided by the Fire SAB showing the numbers of 1992 Scheme members across eight fire and rescue authorities, that commuted their pension above the tax free threshold. GAD have advised that these members would have effectively received a return, after tax, in the region of 12:1 for any pension commuted above the threshold, so similar to the (tax free) return provided under the 2015 Scheme.

Given the evidence, the Department will adjust the proposed assumption to make some allowance for 1992 Scheme transitional members, and 2006 Scheme (Special) transitional members, to commute part of their 2015 Scheme benefits at retirement. GAD have advised that it would be reasonable to assume that these groups will commute 7.5% of their 2015 Scheme pension. The Department is content to proceed on this basis.

The Fire SAB have also requested that the Department reconsiders the commutation assumptions for the 2006 and 2015 Schemes, and commented on retrospectively revising the valuation should future evidence suggest that this commutation assumption was incorrect. As these assumptions are set across all schemes by HMT, the request and comments are outside the scope of this consultation and therefore have not been considered.

Family Statistics

No substantive comments were provided by the Fire SAB. The Department will proceed with GAD's proposed approach.

General comments

There are a number of general comments made by the Fire SAB in the response to the consultation. We have responded to each of these below.

1. *Gender specific assumptions* – The Fire SAB have requested that the use of separate assumptions for females be considered at the next Scheme Valuation to reflect the increasing gender diversity in the firefighter workforce.

The Department is content to consider whether it will be appropriate to adopt separate assumptions for female firefighters as part of the 2020 Scheme Valuation process.

2. *Data quality* – The Fire SAB have requested that they work with GAD to address any data concerns ahead of the 2020 Scheme Valuation.

The Department will work with GAD and the Fire SAB to improve future data quality. To assist with this process GAD will provide feedback in respect of the current 2016 Scheme Valuation process. The expectation is that the Fire SAB will lead this work.

3. *Assumptions* – The Fire SAB have requested that the initial Cost Cap Valuation be retrospectively revised should future evidence emerge that supports assumptions different than those being adopted. This request sits outside the scope of this consultation and therefore has not been considered.

Please also note that the Department is currently finalising its position in regard to the earlier consultation on the treatment of past service costs for the purposes of the 2016 Scheme Valuation; a formal response will be provided in due course.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jayne Baldock', written in a cursive style.

Jayne Baldock
Head of the Firefighters' Pensions Team