

Meeting of the Board 6<sup>th</sup> March 2017

ITEM 7

## Firefighters' Pension Scheme Advisory Board (England) 2016 Funding Valuation

### Purpose

1. Request from Home Office for views from the Scheme Advisory Board (SAB) on Scheme Funding Matters
2. The purpose of this note is to make the SAB aware of the areas of the scheme valuation on which the Home Office would appreciate their input and to set out the expected timetable (as shown in Appendix 2).

### Background

3. The 2016 valuation of the Firefighters' Pension Schemes (England) ('the Fire Schemes') will be undertaken in accordance with HM Treasury valuation directions.
4. These directions are expected to contain similar provisions to those published for the 2012 valuations<sup>1</sup>. The 2012 directions specify a number of generic assumptions that must be used to calculate the cost of each scheme (such as pay growth and pension increases). They also contain a provision<sup>2</sup> for the responsible authority (ie the Secretary of State for the Home Office) to determine any scheme specific assumptions, and in doing so, to consult such persons/representatives as they consider appropriate.
5. The Home Office would like to consult the SAB in setting the scheme specific assumptions for the 2016 valuation of the Fire Schemes.
6. There are also some past service cost impacts that have arisen since the 2012 valuation and the Home Office would like to consult the SAB for their views on how these costs might be taken into account in the valuation.
7. SAB may wish to use a sub-group to consider these issue as it sees fit. It may also be appropriate to establish additional meetings that align with the timetable in Appendix 2.

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<sup>1</sup> <https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations-and-the-employer-cost-cap-mechanism> for the directions that applied for the 2012 valuations. A revised set of directions are expected to be published for application in the 2016 valuation.

<sup>2</sup> Direction 19(b)

## Assumptions

8. SAB are asked to provide comments to the Home Office on the development of assumptions to be used in the 2016 scheme valuation.
9. The main purposes of the scheme valuation are:
  - i) to determine the level of employer contributions required to pay for the cost of benefits being earned by firefighters each year; and
  - ii) to assess the cost of the Fire Schemes as part of the cost cap arrangement for managing the cost risks within the scheme.
10. As scheme actuary, GAD advise the Home Office on appropriate assumptions, and this advice will be made available to the SAB. We have instructed GAD that this advice should include, for each required assumption, a summary of any analysis undertaken by them, any other factors considered by them and their proposal on appropriate assumptions to adopt for the 2016 valuation. This is subject to review on HM Treasury's publication of the 2016 valuation directions. A list of these assumptions is included in Appendix 1 for reference.
11. On receipt of GAD's advice, the Home Office would like the SAB, for each required assumption:
  - i) to consider whether any other information should be taken into account, and
  - ii) to give a view on whether they have any reason to believe that the assumption proposed is inappropriate.

## Assumptions - Scope and planning

12. The Home Office will request comments from the SAB on the assumptions that GAD have developed and SAB will focus primarily on those requests. This does not however prevent the SAB from bringing specific issues to the attention of Home Office.
13. Discussions will focus on the scheme specific assumptions and the scheme data provided. It is not envisaged that the SAB will communicate with HM Treasury regarding any general assumptions set by HM Treasury in their directions.
14. All agreed SAB comments should be provided in writing to the Home Office. Comments will only be considered as "agreed" where the SAB have collectively indicated their acceptance. In the event that all SAB members cannot agree on the comments to be provided to the Home Office, the Chair will provide a report to the Home Office which records the different positions reached and indicates the relative support for those positions.

15. For the avoidance of doubt, the proposals in this document are in addition to the statutory role of the SAB as set out in The Firefighters' Pension Scheme (England) Regulations 2014 as follows:

*"The function of the Firefighters' Pension Scheme Advisory Board is to provide advice in response to a request from the Secretary of State on the desirability of making changes to this scheme and any connected scheme."*

16. To support SAB, Home Office will arrange for some training on the valuation process and the assumption setting process. This training will be provided by GAD at relevant SAB meetings.
17. SAB engagement on the assumptions is expected to take place over July and August 2017. A draft timetable is set out in Appendix 2.
18. The SAB may wish to carry out some preparation for their input to the proposed assumptions over the coming months, ie before the GAD advice is prepared in the summer. This would put the SAB in a good position to provide comments when required in August/September. For the avoidance of doubt, the Home Office is only looking for comments from the SAB on the assumptions for which they have some relevant knowledge or experience (for example, information regarding workforce planning), and not the full list of assumptions set out in Appendix 1.

## **Past service costs**

19. Since the 2012 valuation, there have been three events that have occurred which may have an impact on the cost and funding of the Fire Schemes. These are:
- a. The option for eligible retained members to purchase past service in the modified/special section of the 2006 Scheme (options generally made over 2015/2016).
  - b. The additional payments made following the Pensions Ombudsman's determination in the case of Milne (payments generally made during 2015/2016).
  - c. The refunds of employee contributions being paid to eligible firefighters who made contributions after they had reached their maximum pensionable service in the 1992 Scheme (refunds generally paid during 2016/2017).
20. These may be considered to give rise to past service costs as they result in an additional cost in respect of benefits already accrued from past service.

21. Government is currently developing their policy for how these past service costs will be treated in the valuation; in particular the impact on the following:
  - a. The employer contribution rate  
(eg should employer contributions increase to meet the additional costs?)
  - b. The cost cap arrangement  
(eg should the cost feed into an increase in the cost of the scheme for assessment against the cost cap?)
22. The Home Office will be consulting the SAB for their views as part of this process and plan to provide an overview of the issues at the March 2017 SAB meeting, and provide a detailed paper at the June 2017 SAB meeting.
23. **The SAB is asked to provide comments after the June 2017 meeting.**

**Appendix 1: List of Scheme Specific Assumptions**

**Assumptions for behaviour before retirement:**

- Retirement in normal health
- Retirement in ill health
- Voluntary withdrawal from service
- Death before retirement
- Promotional pay increases

**Assumptions for behaviour at/after retirement:**

- Commutation of pension at retirement
- Death after retirement
- Proportion of members for whom a spouse/dependant pension is payable
- Age difference between a member and spouse/dependant

**Appendix 2: Timetable**

<b>Work stage</b>	<b>Action by</b>	<b>Expected timing</b>
SAB training session – the valuation process	GAD	March 2017
SAB training session – setting the assumptions	GAD	June 2017
HO to present paper inviting SAB to provide views on past service costs	HO, GAD	June 2017
SAB to make preparations for their comments on relevant assumptions	SAB	June/July 2017
SAB to provide views on past service costs	SAB	July 2017
Stakeholder engagement on assumptions	GAD, SAB, HMT, HO	August 2017
SAB to provide comments on proposed assumptions to the Home Office	SAB	September 2017
Finalise assumptions	HO	October 2017
Final results*	GAD	March 2018*

\* Not accounting for any actions which may be required in the event of a cost cap breach.

Additional SAB meetings may be required over the summer to discuss the valuation assumptions.

As Prepared By Home Office – 1<sup>st</sup> March 2017