



Home Office

Home Office Firefighters' Pensions Comms Briefing: 2016 Valuation Publication

Key messages

- HM Treasury (HMT) published Amending Directions on 7 October 2021 which will allow public service pension schemes, including the Firefighters' Pension Scheme to complete the cost control element of the 2016 valuation process.
- This process had previously been paused following the uncertainty arising from the McCloud and Sargeant judgments and was 'un-paused' in 2020.
- Following publication of these Amending Directions, the Home Office has finalised their 2016 valuations for the Firefighters' Pension Scheme providing certainty on the outcome to scheme members.
- The publication confirms that the cost control element 2016 valuation is not used to set the employer contribution rate. HMT has confirmed that changes to the employer contribution rates resulting from the 2020 valuations will take effect from April 2024.
- In a related announcement, the government decided to waive the impact of any ceiling breaches that arise as part of the 2016 cost control valuations process. This means no member will see a reduction in benefits and be worse off as a result of the 2016 valuations.

If needed:

- The government in 2021 announced proposed reforms to the Cost Control Mechanism which will be implemented in time for the 2020 valuations. These reforms do not affect the 2016 valuations as the government previously decided that it would be inappropriate to reduce member benefits based on a mechanism that may not be working as intended.
- The government therefore announced that any ceiling breaches found when schemes complete the 2016 valuations will be waived. This means that no member will face a reduction in their benefits as a result of the 2016 valuation. Any floor breaches will be honoured, and benefits increased where appropriate.

Frequently asked questions (FAQs)

1. Would you be reforming the mechanism if there hadn't been floor breaches at the 2016 valuations?

- The 2016 valuations were the first time the mechanism was tested, and the provisional results suggested there would be breaches across the board. As a result, the government was concerned this indicated the mechanism was not operating as intended and was too volatile.
- For this reason, the government commissioned the Government Actuary to carry out a review of the mechanism to assess whether it was too volatile and if it was operating in line with its objectives.
- The Government Actuary's final report was published in June 2021. The government considered the final report and concluded that changes were necessary to ensure the mechanism operates more in line with its objectives, and then put these changes to consultation.
- All the government's reforms proposed in the consultation were recommendations made by the Government Actuary.

2. Will members see their benefits decrease following the 2016 valuation?

- No. The government announced that any ceiling breaches identified at the 2016 valuations would be waived. It was legislated for in the Public Service Pensions and Judicial Offices Act (PSPJOA) which received Royal Assent on 10 March.

3. How is the McCloud remedy being paid for as part of the 2016 cost cap mechanism?

- When the cost control mechanism was established, it was agreed that it would only consider costs that affect the value of the schemes to members.
- By increasing the pension rights of eligible members, remedy increases the value of schemes to members. This increase in value has therefore rightly been reflected in the cost control mechanism at the 2016 valuations.
- However, no member's benefits will be cut, or member contribution rates increased, as a result of the 2016 valuations. Any benefit improvements that are due will be honoured.

4. Why is the government spreading the costs over four years, when remedy will be paid over decades?

- The government believes it is right to reflect the entire expected impact of remedy at the 2016 valuations, given the remedy period will end by the end of the implementation period for this set of valuations.
- **[if pushed]** Capturing remedy over four years also more closely aligns those who benefit from remedy with those who pay for it. The Government Actuary advised that

a four-year spreading period is a reasonable way of achieving intergenerational fairness.

5. Why has the government decided to waive ceiling breaches?

- In September 2018, the government announced it would commission the Government Actuary to undertake a review of the cost control mechanism amidst concerns it was not operating in line with its objectives. Specifically, there was concern about the stability of the mechanism, since breaches were only expected to be triggered by extraordinary, unpredictable events.
- The government decided that it would be inappropriate to reduce member benefits based on a mechanism that may not be working as intended. However, any benefit increases due as a result of floor breaches will be delivered.
- The PSPJOA 2022 therefore contains a measure to ensure no member benefits will be cut as a result of the 2016 valuations.

6. What impact does the government's announcements on waiving ceiling breaches have on members?

- As a result of the decision to waive any ceiling breaches, no member will see a reduction in pension benefits at the 2016 valuations. However, any floor breaches will be honoured, and any benefit increases that are due will be delivered.
- HMT published amending directions in October 2021 which will allow schemes to complete the cost control element of the 2016 valuations and specifies how this should be done.

7. Why introduce a reformed scheme only design (applies from the 2020 valuation)?

- Through this reform, the cost control mechanism will operate with a reformed scheme only design (for the firefighters' pension scheme, this is the 2015 scheme). This means that costs associated with legacy schemes will be excluded from the mechanism, and only costs relating to past and future service in the reformed schemes will be considered.
- Whilst this transfers the risks associated with legacy scheme payments to the employers (and by extension the Exchequer), it ensures consistency between the set of benefits being assessed and the set of benefits potentially being adjusted. It will make the mechanism more stable and reduce intergenerational unfairness.

8. Why is the government breaking the 25-year guarantee? Will you recommit to the 25-year guarantee?

- The government does not believe these reforms breach the 25-year guarantee.
- The elements protected by the 25-year guarantee are set out in legislation, and the cost control mechanism is not included.
- The government is making these changes following a thorough and independent review of the mechanism by the Government Actuary and following a full and open consultation process. As the Government Actuary's report makes clear, it does not seem possible for the mechanism to be able to protect the taxpayer unless it

considers the wider economic outlook. The symmetrical operation of the economic check will also protect members.

- Furthermore, the reforms will lead to a more stable mechanism, with both benefit improvements and reductions becoming much less likely, which aligns with the spirit of the 25-year guarantee.
- The government is committed to ensuring public servants are rewarded at the end of their careers and for schemes to be sustainable and affordable in the future.

9. Why widen the corridor (applies from the 2020 valuation)?

- Widening the cost corridor to +/-3% of pensionable pay will ensure a more stable mechanism, meaning it is more likely that breaches occur only in unforeseen and unpredictable circumstances, as was intended when the mechanism was originally established. This should provide greater certainty to members regarding their projected benefits and future contribution rates.

10. Does widening the cost corridor from the 2020 valuation create the risk of sudden, large changes in benefits and/or contributions?

- A wider corridor does not mean that different action would need to be taken if a breach beyond 3% were observed. For example, a breach of 4% would still require the same changes in benefits under either a 2% or 3% corridor, because after a breach the aim is to return costs back to target.
- However, a 3% corridor will mean that cost changes between 2 and 3% will not trigger a breach and require rectification, which could lead to a larger than otherwise breach occurring at subsequent valuations. The government considers that, although this risk exists, a wider corridor is necessary to ensure a more stable mechanism and limit the frequency of member benefit and contributions changes.
- Furthermore, if a scheme shows cost changes between 2-3% at one valuation, then that does not automatically mean costs would either stay at that level or move further in the same direction at subsequent valuations and therefore result in a breach that would be larger than under a smaller corridor. It is perfectly possible that a scheme may see an increase in costs at one valuation, and then a reduction in costs at the next.

11. When will you respond to the SCAPE methodology consultation?

- The government closed its consultation on the discount rate methodology on 19 August 2021. It is now considering the responses received and will set out the methodology to be used to set the discount rate going forward in due course.
- The government's conclusions regarding the SCAPE discount rate methodology will be based on the separate objectives for the SCAPE discount rate.
- The government's consultation response on reforms to the cost control mechanism makes clear that the economic check will be based on expected long-term GDP growth, either directly or through the SCAPE discount rate where it remains based on expected long-term GDP growth.