

# Scheme Advisory Board

## **ACTIONS AND AGREEMENTS**

**25<sup>th</sup> September 2017**

**LGA Offices, Layden House, Farringdon, London**

### **PRESENT**

Malcolm Eastwood	Chair
Cllr Thomas Wright	Scheme Employer Representative (LGA)
Cllr John Bell	Scheme Employer Representative (LGA)
Dave Limer	Scheme Member Representative (FBU)
Francis Bishop	Scheme Member Representative (FBU)
Sean Starbuck	Scheme Member Representative (FBU)
Sam Rye	Scheme Member Representative (FBU)
Glyn Morgan	Scheme Member Representative (FOA)
Tristan Ashby	Scheme Member Representative (RFU)
Des Prichard	Scheme Member Representative (APFO)

Rob Hammond	First Actuarial (Adviser)
Craig Moran	First Actuarial (Adviser)

Kevin Courtney	LGA (Observer)
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Clair Alcock	LGA – Acting Board Secretary
Philip Perry	Home Office Observer

### **1. Apologies**

Apologies were received from Cllr Roger Price. Cllr John Fuller was available by phone, but due to technological problems in the room was unable to dial in.

### **2. Changes to membership**

The Scheme Advisory Board have recently sought three new nominations to replace Cllr Howson, Cllr Knox and Cllr Pulk.

These nominations will be passed to the minister

### **3. Conflicts of Interest**

There were no conflicts of interest declared.

### **4. Chair's Update**

Malcolm informed the group of the events he had attended in capacity as chair of the Scheme Advisory Board

# Scheme Advisory Board

- Glyn deputised and attended the software supplier AGM in July
- Eastern Regional Group
- South Eastern Regional Group
- West Yorkshire Local Pension Board
- Visit to West Yorkshire Pension Fund ( supplier of 8 FRAs)
- Wrap up training session
- SAB Committee meetings (see item later in agenda)
- Leicester, Derby & Nottingham board training

## 5. Valuation – Assumptions report from First Actuarial

**Minutes to be read in conjunction with report from First Actuarial and Draft GAD advice on assumptions.**

1. Rob Hammond from First Actuarial attended to present their report to the board
2. One board member commented that the meeting paperwork had not been presented in good time, to enable a full understanding.

## Mortality

3. Rob Hammond gave members a full and thorough explanation on the section of mortality. He explained that in their opinion
  - The use of S2 mortality table is reasonable as they are more up to date.
  - Using an amounts basis vs lives basis was 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. However they recommend that the weighting of 1/3 is investigated further.
  - Whilst excluding 17 FRAs from GADs analysis initially appears a concern, it does not appear to have materially affected the analysis. However, it is recommended that quality of data is investigated to make sure these FRAs can be analysed in subsequent valuations.
  - 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.

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## ACTION:

1. Investigate further with GAD the choice of 2/3:1/3 weighting
2. Investigate quality of data to make sure this can be analysed in future valuations.

## UPDATE:

### **Q1.** [Email from First Actuarial 26.09.2017]

The Scheme Advisory Board met yesterday to discuss the valuation assumptions, and a question came up that I hope you can help us with.

In your draft report (paragraph 4.19) you recommend using a 2/3:1/3 weighting of the 2012 assumption for pensioner mortality and the 2012-16 experience.

Please can you give some comments on why you have chosen a weighting that gives more weight to the 2012 assumption. That is, why did you choose a weighting that was not 50:50?

### **A1.** [Email from Chris Mulholland 27.09.2017]

The rationale for the 2/3:1/3 weighting is set out in the bullets in that paragraph of the report (i.e. it reflects the relative amounts of data used, reduces volatility and reduces the risk that the assumption is distorted by any underreporting of deaths over 2012-16). These points were explained at the SAB meeting on 12th September.

A 50:50 approach is, in general, being used by other public service pension schemes in the 2016 valuation round. However, other schemes were able to make use of the full experience data over 2012-16, whereas only 75% was available for the Fire scheme over that period. Also, other schemes generally had a similar length period for the analyses at 2012 and 2016 (i.e. 4 years at both), whereas for the Fire scheme, a 5 year period underlies the analysis at 2012, compared to 4 years for the analysis at 2016, and this is also reflected in the 2/3:1/3 weighting. Combined with the other issues described in paragraph 4.19 and noting that the Fire scheme is the smallest of the main public service schemes, so subject to higher levels of volatility in experience, the 2/3:1/3 weighting of experience was considered to be more appropriate.

### **Q2.** [Email from Clair Alcock 27.09.2017]

...can you advise how this position compares to Police, which uses a 50:50 weighting for normal health? My understanding is that Police have the same data issues with up to 27% of membership excluded and I believe similar timing issues with regards to the analysis between 2012 and 2016.

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So whilst I can understand a different position for Fire to the rest of the public sector, Fire and Police normally follow a similar pattern, and I would expect assumptions to be broadly similar. Is the difference because the police make different assumptions on death due to normal and ill-health retirements?

**A2.** [Email from Chris Mulholland 04.10.2017]

The Police (England and Wales) scheme had similar issues with a comparable amount of data being excluded from the mortality analysis over 2012-16. However, the same length periods were used for the 2012 and 2016 analyses, both 4 years.

For the Police scheme, the 2012-16 experience was only 2% different from the 2012 assumption, after movement from a lives to an amounts analysis. This lower volatility reflects the much larger Police scheme (4 times the size of Fire). Therefore, the choice between 50:50 and a lower weighting to the 2012-16 analysis was not a material decision for the Police scheme as both would result in the same proposed assumption after rounding.

## **Age retirement from service**

4. Rob talked members through GADs assumptions for setting age retirement
  - Retirement in the 2006 Scheme

The assumption used by GAD is for members to retire at age 60, which does not seem consistent with 2015 scheme that has the same retirement age. Recommend that GAD should calculate the impact of setting the retirement age consistent with the 2015 scheme.

- Retirement in the 2015 Scheme

Assumption is for 25% to retire at age 55 with 75% retiring at age 60  
Recommend that GAD should calculate impact of retiring at a range of ages

## Board comments

5. Employee members fundamentally disagree that members can reach a retirement age of 60

## **ACTION:**

1. Request GAD to calculate impact of 2015 scheme retirement age being set at a range of ages

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## UPDATE:

### **Q1.** [Email from Clair Alcock 27.09.2017]

We would request that GAD calculate the impact on both the employer contribution rate and the employer cost cap if the age retirement assumption for members of the 2015 scheme were set at a range of ages between 55 and 60.

### **A1.** [Email from Anthony Mooney 05.10.2017]

The purpose of the consultation is to provide the opportunity for the SAB to comment on whether the proposed assumptions are not unreasonable, in light of available scheme experience and previous assumptions. It also enables the SAB to comment on whether there is any additional information that might be taken into account.

The impact on costs of changes to the assumptions is not a relevant factor when setting the assumptions. Paragraph 3.2 of the draft assumptions report (dated 7<sup>th</sup> September) lists the factors that should be taken into account, and paragraph 1.6 says that financial impacts should not be used to support any decision making.

Therefore, we will not be asking GAD to provide the additional costings requested in the first two bullets, as part of this consultation with the SAB. Of course, if any of the proposed assumptions are amended following feedback from the SAB, GAD will then estimate the impact as part of their standard reporting.

## **Voluntary withdrawal from service**

6. Rob explained that the assumption was relatively immaterial

- **Actual vs expected**

Agree with GADs suggestions for spike and unlikely to be repeated.

- **Post valuation experience**

Recommend opt outs are monitored regularly.

- **Sensitivity of assumptions**

GADs proposed assumption is not unreasonable. Relatively immaterial.

## ACTION:

1. Board may wish to monitor opt outs regularly.

# Scheme Advisory Board

## Commutation

7. Rob explained the commutation assumptions that had been used in the scheme

- **Commutation in the 1992 scheme**

Cost neutral

- **Commutation in the 2006 and 2015 Scheme**

Noted that 15% is a directed assumption by HMT, but note that

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% (or more) of the value of their pension even if this means they incur a tax-charge.

First Actuarial recommendation is that SAB investigates scope to adopt a higher rate than 15%

- **Commutation with mixed service (known as transitional members)**

GAD have assumed that members with mixed service will not commute any of their 2015 scheme benefits.

No real evidence will be possible until after March 2022, however anecdotal experience from FRAs shows that

- a. Members almost always take a lump sum, this behaviour is not expected to change significantly
- b. Of seven ill-health cases where members had benefits from both the 1992 and 2015 schemes, members commuted from both schemes in all cases.

## **Board comments**

8. Board members agreed that the HMT direction of 15% appeared too low.
9. With regards to the transitional members in both the 1992 and 2015 scheme, the board discussed whether they agreed the GAD assumption that the factor of 1:12 would prove a disincentive. Anecdotal evidence from the secretariat gained from administrators was that current experience showed that even with paying 40% tax scheme members always commuted the highest level possible.

# Scheme Advisory Board

10. However, employee members did not agree that 2015 scheme transition members would commute from both schemes. Anecdotal evidence from scheme members when questioned was that the factor of 1:12 would be a disincentive, and they would choose not to commute from 2015 scheme.

11. 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.

## ACTION:

1. Request GAD to calculate impact of HMT direction if the assumption was 25%

## UPDATE

**Q1.** [Email from Clair Alcock 27.09.2017]

We note that HMT directions apply 15% to the commutation assumption for the 2006 and 2015 scheme, however nevertheless in order for the board to understand the impact of this we would request that GAD calculate the impact on both the employer contribution rate and the employer cost cap if the assumption was 25%

**A1.** [Email from Anthony Mooney 05.10.2017]

The purpose of the consultation is to provide the opportunity for the SAB to comment on whether the proposed assumptions are not unreasonable, in light of available scheme experience and previous assumptions. It also enables the SAB to comment on whether there is any additional information that might be taken into account.

The impact on costs of changes to the assumptions is not a relevant factor when setting the assumptions. Paragraph 3.2 of the draft assumptions report (dated 7<sup>th</sup> September) lists the factors that should be taken into account, and paragraph 1.6 says that financial impacts should not be used to support any decision making.

Therefore, we will not be asking GAD to provide the additional costings requested in the first two bullets, as part of this consultation with the SAB. **We also note that the second request relates to a non-scheme specific assumption that is not part of this consultation process.** Of course, if any of the proposed assumptions are amended following feedback from the SAB, GAD will then estimate the impact as part of their standard reporting.

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## 6. Valuation – Members discussion

### Minutes to be read in conjunction with Paper 1, Item 6 dated 25<sup>th</sup> September 2017

1. A paper provided by the board secretariat aided member's discussions.
2. Members discussed those assumptions not included in the paper from First Actuarial

### III Health retirement

3. Paper 1, paragraph 27, confirmed the secretariats recommendation to agree to maintain the 2012 assumption.

#### ACTION:

1. Board agreed to maintain 2012 assumption

### Death Before Retirement

4. Does the board agree the proposal to adopt the 2012 assumption with no change?

#### ACTION:

1. Board agreed this assumption

### Promotional Pay Increases

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

#### ACTION:

1. Board agreed this assumption, but requested assurance that the assumption for promotional pay increases does not include temporary promotion after 2013

#### UPDATE

#### Q1. [Email from Clair Alcock 27.09.2017]

Effect of promotional pay increases. The board are looking for assurance that the assumption for promotional pay increases does not include temporary promotion after 2013.

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**A1. [Email from Anthony Mooney 05.10.2017]**

I have spoken with GAD about the final bullet regarding the assumption for promotional pay increases. The purpose of this assumption is to make allowance for future increases in pay that are pensionable on final salary terms and feature as part of the final salary calculation at the estimated point of retirement or leaving the scheme in the future. Therefore, this assumption is not intended to include any allowance for temporary promotions that are not-pensionable, unless the promotion becomes permanent before retirement or leaving the scheme. In proposing that this assumption should remain unchanged from the assumption set at the 2012 valuation, GAD analysed the profile of the pensionable pay data that they received from FRAs as at 31 March 2016.

## **Family Statistics**

6. Proposed assumption for 2016 is to adopt the assumption for 2012 with no change [Paragraph 11.2]

### **ACTION:**

1. Board agreed this assumption

## **Board Comments**

7. The board discussed that the response should confirm that they welcome the opportunity to have an input, however, the starting point is from a position they did not have an opportunity to affect.

# Scheme Advisory Board

## 7. SAB Advisers – Appointment of actuarial adviser

1. The board discussed the merits of appointing a named actuarial adviser to the board, based on the responses received to the bid for the work to advise on the assumptions
2. The board agreed not to appoint a permanent adviser going forward at this stage. They were really impressed by the bids recently received to work with the board on the valuation and decided that they wished to keep the doors fully open to enable work with a variety of advisers in the future.

## 8. Update on tax awareness sessions

1. The board were informed that these sessions had now been scheduled and will shortly be circulated

Venue	Police	Fire
London		25 <sup>th</sup> October
Leeds	16 <sup>th</sup> November	15 <sup>th</sup> November
Amersham	30 <sup>th</sup> November	29 <sup>th</sup> November
Liverpool	4 <sup>th</sup> December	5 <sup>th</sup> December
Bromsgrove	7 <sup>th</sup> December	6 <sup>th</sup> December
Cheltenham	9 <sup>th</sup> December	8 <sup>th</sup> January
London	12 <sup>th</sup> January	10 <sup>th</sup> January

## 9. Update on actions summary

### 1. Technical Update

- Two recent statutory instruments laid, instructions to authorities issued
- HMRC have issued information to deal with contribution holiday in bulk
- Provided guidance to administrators to deal with tax errors on injury pensions
- Effect of Brewster (expected to be minimal), Walker still to be determined

# Scheme Advisory Board

## 10. Future meeting dates and venues

### **Scheme Advisory Board Meetings**

All meetings to be held at 18 Smith Square 10.30am until 3.30pm

Friday 1<sup>st</sup> December 2017

Wednesday 20<sup>th</sup> June 2018

Wednesday 5<sup>th</sup> December 2018

It was agreed that the March meeting would not take place at the Fire conference as had been previously agreed, and that dates would be offered in London.

It was noted that the October date fell on the conservative party conference. Further dates would be circulated.

#### **ACTION:**

1. Further consultation dates to be offered for March 2018 and October 2018

## 11. AOB

1. Board to consider whether they support a request to pension ombudsman to consider two current pensionable pay determinations to be referred to high court under pension ombudsman rules

#### **ACTION:**

1. Board supported this in principle
2. Board to consider whether they would like to invite a software supplier to demonstrate pension online software, and ability to run own projections.

#### **ACTION:**

1. Board agreed this and asked the secretariat to arrange with Aquila Heywood.