



Firefighters' Pensions England

Scheme Advisory Board

COST-EFFECTIVENESS COMMITTEE

ACTIONS AND AGREEMENTS

Wednesday 17 January 2018

18 Smith Square, Westminster, London SW1P 3HZ

PRESENT

Cllr John Fuller	Chair
Malcolm Eastwood	Scheme Advisory Board chair
Clair Alcock	LGA
Glyn Morgan	SAB Scheme member representative
Helen Scargill	SAB Technical Adviser/ WYPF
John Weston	LPB representative (SYFRS)
Barrie Fullbrook	FRA representative (Kent)
Claire Hey	LGA – Board secretariat

1. Introductions

Introductions were made around the room. Apologies were received from Jane Staffiere and Sean Starbuck. Alison Kilpatrick from Kent FRS was also unable to attend and was substituted by Barrie Fullbrook.

2. Chair's welcome

Cllr Fuller welcomed all to the meeting and confirmed the primary purpose of this meeting was to set the work plan for the next twelve months. Malcolm Eastwood and Cllr Fuller gave an outline of the work of the other two sub-committees for the benefit of the members of the group.

3. Valuation – feedback and current position

1. Clair Alcock confirmed that the Home Office are meeting with HM Treasury and were expecting to be able to provide an update to the Scheme Advisory Board (SAB) hopefully by the end of the month, but certainly before the next SAB meeting on 9 March 2018.

2. Cllr Fuller confirmed the cost cap as 16.8%. If the cap is breached by more than 2%, contributions will increase or scheme benefits will be reduced. There is a general feeling that the scheme will remain within the cap at this valuation, although until the results are known this is impossible to guess.
3. Cllr Fuller said that it is the role of this committee and the SAB to work on keeping the scheme within the cost cap during the period to the next valuation.
4. Cllr Fuller commented that to some extent the 'die is cast' for this valuation, however it will be particularly important to monitor and manage the scheme specific elements of the assumptions over the next four years, so that there is a good chance of remaining within the cap for the next valuation.
5. John Weston asked when the results of the valuation would be available. Clair Alcock confirmed in response that two different valuations are running concurrently – the cost cap valuation and the scheme valuation for setting employer contribution rates, needed by FRAs to set their long-term budgets. Both results are hoped to be made available in March.
6. Clair Alcock summarised the background of work the cost-effectiveness committee and wider Scheme Advisory Board had carried out around the 2016 valuation in two key areas which the Home Office had consulted on:
 - a) Past service costs
 - b) 2016 valuation assumptions

Past Service Costs

7. The Home Office have progressed the SAB's response on past service costs to HM Treasury and a reply is awaited on this matter, therefore limited discussion could take place.
8. Clair Alcock reminded board members that the board had been asked to comment on whether costs relative to GAD V Milne, Special Modified Members in the 2006 Scheme and the Contributions Holiday should be reflected in either the employers' contributions or cost of the scheme.

Assumptions

9. GAD and the Home Office had requested the SAB to comment on proposed scheme specific assumptions to be used to set the 2016 valuation.
10. In order to respond to the consultation, the SAB procured independent actuarial advice from First Actuarial, following a tendering process.

11. First Actuarial were able to drill down into the assumptions and liaise with the Government Actuary's Department (GAD) in order to provide a report to the SAB. In the main, First Actuarial agreed with the reasonableness of the assumptions used. Malcolm Eastwood commented that it was invaluable to be able to obtain independent advice.
12. Clair Alcock confirmed that the SAB submission to the Home Office had largely accepted the GAD assumptions. The board had accepted that because the current position was that there are less than 5% active female members of the scheme, the assumptions were the same for females and males, but wished to review this position at the next valuation.
13. The group discussed the changing profile of the workforce at FRAs and commented that that this may affect future liabilities, which would be something the group should monitor.
14. A response was received from the Home Office on 28 November 2017 and Clair Alcock provided an update on the following specific assumptions for those in the group who had not been involved previously in the consultation:

Data

15. Clair Alcock explained to the group that data had been excluded from some FRAs when setting the assumptions around scheme movements. Whilst acknowledging that these data issues could have been caused by a number of factors, the board had asked GAD to work with the secretariat to address data concerns ahead of the next valuation. The Home Office response confirmed that they would work with the SAB, and would expect SAB to lead on this.

Pensioner Mortality

16. Following a recommendation from First Actuarial, the board had requested that the ONS 2016 table of pensioner mortality projections were used if available, and this has been accepted by the Home Office subject to HM Treasury agreement.

Age Retirement

17. Home Office will proceed with GAD's assumption that 25% of 2015 scheme new entrants will retire at age 55, with the remaining 75% retiring at age 60.
18. It was noted that the employee representatives of the SAB, remain dissatisfied with that assumption.

Commutation

19. For 2015 scheme members with transitional service in the 1992 and 2006 modified schemes, GAD's initial assumption was 0% rate of commutation in the 2015 scheme as the factor of 12:1 is seen to be a disincentive, due to a larger lump sum available from the final salary scheme. For reference, the overarching HM Treasury assumption on commutation in the 2006 & 2015 scheme is 15%.
20. The Home Office responded that they noted the response of the SAB and that of the anecdotal evidence provided by administrators and GAD have subsequently adjusted the proposed assumption to reflect a 7.5% commutation of 2015 pension within these groups.
21. The board welcomed this change of assumption.

Additional Scheme Advisory Board Comments

22. Throughout the board response to the assumptions consultation, the board had made a number of comments with regards to the ability to retrospectively revise the valuation where if evidence supporting different assumptions arises over time the board could request that consideration be given to retrospectively revising the starting point of the valuation.
23. The Home Office response confirmed that the request and comments were outside the scope of the consultation and have not been considered.
24. Glyn Morgan commented that it is disappointing that the potential to revise the initial cost cap fell outside of the scope of the consultation, and commented that the SAB may wish to respond to the Home Office response.

Next Steps

25. Once the Home Office and GAD are in a position to confirm the current position, the SAB will consider what the next steps are. It was suggested that this committee may need to meet before the next SAB meeting on 9 March, and that would be confirmed as soon as possible.

4. Risk register

1. Cllr Fuller introduced this item by stating that the committee and the SAB need to ensure that the future valuation and cost cap outcomes are down to design, rather than luck, and posed the question of what can be done within the scheme structure to reduce risk.
2. A detailed discussion took place among the group and the following key risk items as attached as Appendix 1 were identified for inclusion on a register:

Recommendations

3. In consideration of both data quality and payroll risk, Cllr Fuller drew on his experience of LGPS to suggest the development of a spreadsheet matrix, with details of administrators, software systems and structures of each FRA, along with numbers of their active, deferred and pensioner members, and details of opt-outs/ ill health retirements. This information would assist in measuring administration costs per member and benchmarking Authorities, and identify any outliers.
4. Clair Alcock highlighted that this could be challenging in terms of available resource on the LGA Bluelight team. Cllr Fuller countered this with the proposal of a part-time or fixed-term data analyst post to be built into the SAB budget.

5. Recommendations to SAB for strategic review

Options Paper for SAB on administration of the scheme

1. Cllr Fuller suggested that there are 80,000 members across 44 FRAs in England, administered between 27 organisations, each with different staffing arrangements and interpretations of the scheme regulations. This is an untenable situation and it is for the committee and the SAB to consider what does success look like.
2. Clair Alcock reminded the committee that the scheme manager function and responsibilities cannot be delegated to a third party administrator.
3. Helen added that lack of pensions knowledge at FRAs is a far greater risk than administration.
4. It was agreed that this committee will present an options paper to the full SAB on options for future administration of the scheme, outlining the pros and cons of each with a recommendation for action. The options as discussed will include:

- i. Centralisation
Often requested by FRAs, but generally considered unfavourable based on experience of other centrally administered schemes
- ii. Quality Standard
Board to consider introduction of a charter mark or quality accreditation for administration of the pension scheme, with the ability for an FRA to choose a provider.
- iii. Board to issue advice to reduce number of administrators to appropriate amount
The board could consider issuing advice to scheme managers and board chairs, that they expect to see the number of administrators reduce to an appropriate amount in a set period.
- iv. Ministerial Direction
Make recommendations to minister for direction.
- v. Do nothing
Do nothing and let the situation evolve naturally. There is evidence to suggest FRAs are moving towards a group of preferred suppliers.

Paper for SAB outlining risks identified and suggested recommendations

- 5. Secretariat to provide a paper for March meeting with risks identified.

2018/2019 budget paper

- 6. Secretariat to provide a draft budget for March meeting to include a budget for further resource to provide additional support to board secretariat.

6. 2018 work-plan

- 1. The following items have been agreed by the committee to set the 2018 work plan:
 - i. Set minimum standards for SLAs and benchmarking - Administration and Benchmarking committee to lead
 - ii. Determine administration cost per member to provide information to SAB (Cost committee to lead)
 - iii. Options paper to SAB in relation to administrative options (Secretariat)
 - iv. Options paper to SAB for additional budget (Secretariat)
 - v. Paper to SAB on risk (Secretariat)

7. Future meeting dates and venues

1. Date to be agreed dependent on next steps from Home Office response to valuation consultation and outcomes from the other sub-committees.
2. All meetings to be held at 18 Smith Square.

8. AOB

1. None.

APPENDIX 1. RISK REGISTER (ITEM 4)

Organisational Structure

5. Cllr Fuller attested that FRAs are complex organisational environments with potentially seven different governance structures since the introductions of PFCCs, which are affected by functional but also geographical motivations. As such the governance and management of locally operated and funded pension schemes were inconsistent and posed significant risk.
6. Clair Alcock confirmed that LGA had provided guidance to the Home Office on the pension considerations that any PCC considering a PFCC should be aware.

Duty Systems/ Pensionable Pay

7. Glyn Morgan raised a number of risk considerations under this heading, including the definition of pensionable pay, inconsistency of approach, and FRAs having different names for the same allowances.
8. It is believed that there are some cases with the Pensions Ombudsman; and a draft judgement has been handed down. However, the details are currently unknown.
9. Clair Alcock confirmed that within the consultation response on past service, the SAB had requested that the Secretary of State ask the SAB to further explore issues surrounding pensionable pay.
10. Clair commented that not only did retrospective amendments of pensionable pay pose a risk to future valuations, but there could potentially be tax consequences of making additional payments more than twelve months after retirement.
11. Clair commented that FRAs has asked LGA for a list of pensionable pay elements, however, this is impossible to provide, both in terms of liability and because allowances are in a constant state of flux. A survey of pensionable pay from FRAs may be undertaken at a later date.
12. Cllr Fuller challenged that evidence is needed to quantify the differences, and this presented to the minister.
13. Glyn Morgan suggested a process map for FRAs to determine whether pay is pensionable or not. All agreed that guidance would be welcomed by FRAs. However, legal advice will need to be obtained in the first instance and any guidance issued must be legally drafted.

Data Quality

14. Glyn Morgan and Helen Scargill raised data quality as a risk, particularly around CARE pay and the interaction with payroll software. Helen felt, however, that the issue may lie with the pensions/ payroll staff rather than the systems, as individuals may not be fully conversant with the software and the specifications the department requires.
15. Cllr Fuller suggested raising this as a challenge to the Administration and Benchmarking committee.

Payroll

16. Following on from data, Malcolm Eastwood commented that payroll was a significant risk. Clair Alcock agreed, and said this was common amongst many public sector employers because there were a number of payroll software suppliers on the market.
17. Cllr Roger Phillips had suggested at the Scheme Advisory Board induction training of 17 January 2018 the introduction of a charter mark or quality accreditation for preferred payroll suppliers. Helen Scargill supported this and added that a framework similar to the Norfolk procurement framework could be established.

Poor Governance

18. John Weston queried whether audits for pension arrangements take place. Helen Scargill outlined the procedures at West Yorkshire Pension Fund (WYPF).
19. Clair Alcock added that the LPB Effectiveness committee have recommended an audit of pension boards, and that the LGA Bluelight team are monitoring boards' attendance at training and similar, to identify any patterns of poor performance.

Succession Planning

20. John Weston and Barrie Fullbrook both raised the above, in terms of loss of knowledge and experience at FRAs when a long-standing member of staff leaves. There needs to be adequate succession planning and handover periods in place to mitigate this risk.
21. This led to a discussion on the administration of the scheme, and whether a central administrator or smaller group of administrators would help minimise the risk of loss of knowledge.

Discretions

22. Glyn Morgan raised the use of discretions as a risk where these may have cost implications. Glyn asked whether FRAs have policies in place and if so, are they monitored to see if they are being applied correctly.
23. Helen Scargill confirmed that for the FRAs administered by WYPF policies are mostly in place for the 2015 scheme discretions, but historically not, and a discretion was only considered if a case arose.

Optant Outs

24. It was suggested that there may be an increasing trend in opt-outs of the scheme, and that these should be monitored to consider whether they posed a risk to the scheme.
25. Statistics can be requested from the Home Office and the group agreed these should be requested.

Scheme Specific Assumptions

26. Cllr Fuller suggested that the eight GAD assumption categories are added to the risk register:
 - Pensioner Mortality
 - Age retirement
 - Ill-health retirement
 - Withdrawal
 - Death before retirement
 - Promotional pay
 - Commutation
 - Family statistics