

**Due to the current heightened security level at all our premises, Members are reminded to wear their identity badges whilst attending meetings. Any visitors must produce photographic identification at Reception.**

## **LOCAL PENSION BOARD COMMITTEE SUMMONS**

### **SOUTH WALES FIRE & RESCUE AUTHORITY**

You are required to attend a meeting of the Local Pension Board Committee to be held at **South Wales Fire & Rescue Service Headquarters, Forest View Business Park, Llantrisant, CF72 8LX** on **Monday, 21 January 2019 in Room 8 at 1030 hours.**

#### **A G E N D A**

1. Apologies for Absence

2. Declarations of Interest

Members of the Fire & Rescue Authority are reminded of their personal responsibility to declare both orally and in writing any personal and/or prejudicial interest in respect of matters contained in this agenda in accordance with the provisions of the Local Government Act 2000, the Fire & Rescue Authority's Standing Orders and the Members Code of Conduct.

3. Chairman's Announcements

4. To Receive the Minutes of:-

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Signature of Proper Officer:



**MEMBERSHIP**  
**Councillors:**

S	Bradwick	Rhondda Cynon Taff
J	Harries	Rhondda Cynon Taff
V	Smith	Monmouthshire
K	McCaffer	Vale of Glamorgan
R	Prendergast	Association of Principal Fire Officers
A	Psaila	Fire Brigades' Union
D	King	Retained Firefighters' Union
L	Jones	Fire Brigades' Union

**SOUTH WALES FIRE & RESCUE AUTHORITY**

**MINUTES OF THE LOCAL PENSION BOARD MEETING  
HELD ON MONDAY 22 OCTOBER 2018 AT  
SOUTH WALES FIRE & RESCUE SERVICE HEADQUARTERS**

**67. PRESENT:**

**Councillor**

**Left**

S Bradwick (Chair)  
V Smith (Deputy Chair)  
D King  
R Prendergast

Rhondda Cynon Taff  
Monmouthshire  
Fire & Rescue Service Association  
Association of Principal Fire Officers

**APOLOGIES:**

J Harries  
K McCaffer  
A Psaila

Rhondda Cynon Taff  
Vale of Glamorgan  
Fire Brigades Union

**ABSENT:**

L Jones

Fire Brigades Union

**OFFICERS PRESENT:-** A/ACO M Malson – Director of People Services, Mr C Barton – Treasurer

**68. DECLARATIONS OF INTEREST**

All Members declared a personal non-prejudicial interest in each agenda item which affected their Authority.

**69. CHAIR'S ANNOUNCEMENTS**

There were no new announcements to report.

## **70. MINUTES OF PREVIOUS MEETING**

The minutes of the previous Local Pension Board Committee meeting held on 25 June, 2018, were received and accepted as a true record of proceedings.

### **70.1 MATTERS ARISING**

Officers provided an update on the following items contained within the minutes:-

#### **Item 59 – Local Pension Board – Training Strategy & Framework**

- Item 59.2 – There was no further progress on the Local Pension Board Training Strategy, and Members would receive an update in due course.
- Item 59.3 – The Training Needs Analysis had been completed, and would be circulated to Members shortly.
- Item 59.4 – The Training Record Log had been completed.
- Item 59.5 – The Local Pension Board Members Handbook was still work in progress, and Members would receive an update in due course.
- Item 59.6 – The Training Strategy would be incorporated into the Local Pension Board Terms of Reference

#### **Item 62 – The Firefighters’ Pension (Wales) Scheme (Amendment) Order 2014 – Pensionable Pay**

- Members were informed that the Wales Audit Office were querying the legality of a decision made by Fire Authority Members of the three Welsh Fire & Rescue Services regarding the ‘Firefighters’ Pension (Wales) Scheme (Amendment) Order 2014 – Pensionable Pay’.

Officers from each of the three Welsh Fire & Rescue Services were in the process of taking joint legal advice

before meeting up with representatives from the Wales Audit Office to discuss a pragmatic resolution to the issue. Members were informed that 22 people may be affected by the ruling and may need to have their pensions recalculated and adjusted.

## **RESOLVED THAT**

Following lengthy debate, and a question and answer session, Members agreed to note the update on the individual items contained with the previous minutes.

### **71. WELSH GOVERNMENT'S CONSULTATION ON AMENDMENTS TO FIREFIGHTERS' PENSION SCHEMES IN WALES – SURVIVORS BENEFITS**

The Acting ACO People Services presented a report which provided Members with details of the changes to benefits for certain survivors of deceased members of the various Firefighters' Pension Schemes. These changes are reflected in the Firefighters' Pension Schemes and Compensation Scheme (Wales) (Amendment) Order 2018, and the Firefighters' Pension Schemes and Compensation Scheme (Wales) (Amendment) Order 2018, and the Firefighters' Pension Scheme (Wales) (Amendment) Regulations 2018, both of which came into force on 1 June, 2018.

## **RESOLVED THAT**

Members agreed to note the content and changes detailed within the report.

### **72. FIREFIGHTERS' PENSION FUND ACCOUNT 2017/2018**

The Acting ACO People Services presented a report which provided Members with an update on the Firefighters' Pension Fund for 2017/2018, relating to the Fire & Rescue Authority's management of the Firefighters' Pension Scheme 1992 (FPS 1992), the Firefighters' Pension Scheme (Wales) 2007 (FPS 2007), and the new Firefighters' Pension Scheme (Wales) 2015 (FPS 2015), and the On Call Modified Firefighters' Pension Scheme 2016.

## **RESOLVED THAT**

Following a question and answer session, Members agreed to accept the information contained within the report and to consider monitoring reports on an annual basis.

### **73. HMRC RULES AND THEIR RELATIONSHIP WITH THE FIREFIGHTERS' PENSIONS SCHEMES**

The Acting ACO People Services presented a report which informed Members of the relationship between the Firefighters' Pension Schemes and HM Revenue & Customs, and the associated regulations as they were applied to Scheme members and the Pension Scheme Managers.

Members were advised that all the existing Firefighters' Pensions Schemes were identified as being 'defined benefit schemes' in which the employer promised a specified monthly benefit on retirement which was predetermined by a formula based on the employee's earnings history, tenure of service, and age, rather than depending directly on individual investment returns.

## **RESOLVED THAT**

73.1 Members agreed to receive the report and acknowledged the significant points detailed therein.

73.2 Officers agreed to amend the date in Item 2.6 to read 'The Finance Act 2014', not 2004 as recorded.

73.3 Following a query on Item 1.1 within the report, Officers agreed to confirm the rules on tapering, and to provide a response in due course.

### **74. THE PENSIONS REGULATOR – CODE OF PRACTICE NO. 14 – GOVERNANCE AND ADMINISTRATION OF SERVICE PENSIONS SCHEMES**

The Acting ACO People Services advised Members that the Pensions Regulator's Code of Practice No. 14 (the 'Code') was directed at Scheme Managers and the members of Pension Boards of public service pension schemes, and connected schemes. The purpose of the report was to inform the Local

Pension Board Members of the overarching conditions in relation to Board membership.

## **RESOLVED THAT**

Members agreed to accept the report and the conditions identified therein.

### **75. FIREFIGHTERS' PENSION SCHEMES – MEMBERSHIP DATA**

The ACO People Services reminded Members that South Wales Fire & Rescue Authority, as the duly appointed Firefighters' Pension Scheme Manager, was responsible for compiling and maintaining membership data for each of the Firefighters' Pension Schemes in accordance with the Scheme's regulations.

## **RESOLVED THAT**

75.1 Members agreed to note the composition of the Scheme(s) Membership as at 1 April, 2018.

75.2 Members agreed to note the profiling of the Scheme membership when all Scheme members would transition to the 2015 Scheme on 31 March, 2022.

75.3 Members agreed to continue to receive regular updates on the composition profile for the Firefighters' Pension Schemes.

75.4 Following discussion on the Firefighters' Pension Scheme (Wales) 2007 Regulations, Officers agreed to provide Members with an explanatory note in due course.

### **76. MANAGING RISKS & INTERNAL CONTROLS – ANNUAL RISK ASSESSMENT (2018)**

The Acting ACO People Services reminded Members that South Wales Fire & Rescue Authority, as Scheme Manager for the Firefighters' Pension Scheme (Wales) 2015, and all other associated and connected Firefighter Pension Schemes', was responsible for the administration of each scheme in accordance with that scheme's regulations.

As the Board Members were aware, the Pension Regulator identified a number of documents which were considered to be significant to ensure effective scheme administration. The foremost of these was the Risk Assessment and register for the scheme(s). To comply with the administrative requirements a revised Risk Assessment (2018) had been prepared, and was attached to the report as Appendix 1 for consideration.

### **RESOLVED THAT**

76.1 Following consideration, Members approved the revised Risk Assessment Form (2018) at Appendix 1 attached to the report.

76.2 Members agreed an annual review to evaluate the effectiveness of management of risk management process, and to ensure adequate controls were in place.

### **77. FORWARD WORK PROGRAMME 2018/2019**

The Acting ACO People Services presented the Forward Work Programme for 2018/2019.

### **RESOLVED THAT**

77.1 Members accepted the Forward Work Programme for 2018/2019.

77.2 Following lengthy discussion on some retired members of staff experiencing delays in receiving their lump sums and first pension payments, Officers agreed to provide Members with a report on the current Service Level Agreement which would include costs.

### **78. TO CONSIDER ANY ITEMS OF BUSINESS THAT THE CHAIRMAN DEEMS URGENT (PART 1 OR 2)**

There were no items of urgent business for Members to consider.

## **79. FIREFIGHTERS PENSION SCHEMES (WALES) 2016 VALUATION PROVISIONAL RESULTS AND COSTS**

The Treasurer delivered an electronic presentation to Members entitled 'Firefighters Pension Schemes (Wales) 2016 Valuation Provisional Results and Costs', which had been presented at the last Firefighters Scheme Advisory Board meeting.

The Treasurer highlighted the key areas and points within the presentation, and advised that there would be an impact for Fire Authority Members and Scheme members.

### **RESOLVED THAT**

Following a question and answer session, Members agreed to note the contents of the presentation, and thanked the Treasurer for his informative report.

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## **VOLUNTARY SCHEME PAYS IN THE FIREFIGHTERS' PENSION SCHEMES**

### **SUMMARY**

This report outlines the requirements on the Fire & Rescue Authority in respect of provisions for individuals in the Firefighters' Pension Schemes (FPS) to make payment of a tax charge if they breach the HMRC's standard Annual Allowance (AA) limit.

There are two methods for assisting these individuals to pay any tax charge incurred, via Mandatory Scheme Pays (MSP) and Voluntary Scheme Pays (VSP).

Changes to the tax rules now mean that some high earning scheme members could become subject to a 'Tapered Annual Allowance', where their pension growth exceeds their tapered AA. The tapered AA will be lower than the £40,000 limit and, therefore, these scheme members cannot use the MSP to pay this charge.

With the introduction of the 2015 Scheme, members of the 1992 Scheme and 2007 Scheme on or after 1 April 2015, will effectively become members of two pension schemes, and will see pension benefit growth in both schemes until retirement. By virtue of accruing their pension growth across two rather than one pension scheme, there is an increased likelihood that although the member's total annual pension growth across both schemes may exceed £40,000, the pension growth in any of the schemes may fall short of the AA limit. As such, they will not be eligible to use MSP to pay the AA tax charge.

The Fire & Rescue Authority through its Pensions Administrators, RCT Pensions, have in place MSP provisions. However, there is no VSP provisions in place. It is, therefore, recommended that the Fire Authority should introduce a VSP procedure with effect from 1 April, 2019.

### **RECOMMENDATION**

1. That the Local Pension Board Members consider the contents of the report and the draft Voluntary Scheme Pays Procedure at Appendix 2.
2. That Local Pension Board Members recommend to the Fire & Rescue Authority the introduction of the Scheme Pays Procedure with effect from 1 April 2019.

## 1. BACKGROUND

- 1.1 This report outlines the requirements placed on the Fire & Rescue Authority in respect of provisions for individuals in the Firefighters' Pension Schemes (FPS) to make payment of a tax charge if they breach the HMRC's standard Annual Allowance (AA) limit.
- 1.2 There are two methods for assisting these individuals to pay any tax charge incurred, via Mandatory Scheme Pays (MSP) and Voluntary Scheme Pays (VSP). A 'Scheme Pays' facility works by having a pension fund pay the scheme members tax charge initially, which is then repaid by the scheme member through a reduction in their pension benefits once they come into payment.
- 1.3 Changes to the tax rules now mean that some high earning scheme members with income of more than £150,000 p.a., are now subject to a 'Tapered Annual Allowance' which reduces from £40,000 to £10,000 incrementally for those earning between £150,000 and £210,000 p.a. Scheme members who are subject to a tapered AA will incur an AA tax charge where their pension growth exceeds their tapered AA. The tapered AA will be lower than the £40,000 limit and, therefore, these scheme members cannot use the MSP to pay this charge.
- 1.4 With the introduction of the 2015 Scheme, members of the 1992 Scheme and 2007 Scheme on or after 1 April 2015 will effectively become members of two pension schemes, and will see pension benefit growth in both schemes until retirement.
- 1.5 By virtue of accruing their pension growth across two rather than one pension scheme, there is an increased likelihood that although the member's total annual pension growth across both schemes may exceed £40,000, the pension growth in any of the schemes may fall short of the AA limit. As such, they will not be eligible to use MSP to pay the AA tax charge.

### **Mandatory Scheme Pays (MSP)**

- 1.6 Individuals whose annual growth in pension savings during the Scheme's 'Pension Input Period' exceeds HMRC's standard AA limit, currently £40,000 p.a., and who have no unused AA to carry forward from the previous three years will be subject to an AA tax charge.
- 1.7 The individual can pay the AA tax charge from their own finances. However, the Finance Act 2004 provides that a pension scheme must provide a 'Scheme Pays' facility where all of the following qualifying conditions are met:-

- The HMRC AA limit (currently £40,000) has been exceeded in the pension scheme the Scheme Pays election is made; and
- An AA tax charge exceeding £2,000 has been triggered; and
- The relevant time limits for making an election have been met.

### **Voluntary Scheme Pays (VSP)**

1.8 Where a scheme member does not meet the conditions for MSP to apply or they do not make their nomination in time then a Scheme may decide to pay the member's AA tax charge on a VSP basis.

## **2. ISSUES**

2.1 The Fire & Rescue Authority through its Pensions Administrators, RCT Pensions, have in place MSP provisions. However, there is no VSP provisions in place, and there is no express regulation in the Firefighters' Pension Schemes for a VSP provision to be implemented. There is, however, a question regarding whether the Fire Authority has the power to settle the annual tax charge on pension savings for individual scheme members on a voluntary basis, and, therefore, to initiate a VSP provision.

2.2 In 2017 the Home office made initial proposals to amend the Firefighter Pension Regulations to allow tax charges to be met in the circumstances below using VSP:-

- Transitional members with pension growth of over £40,000 across both schemes and a corresponding tax charge, to use the scheme to pay this cost initially, before it is repaid by a pension debit added to the member's pension when it comes into payment.
- Members subject to a tapered AA to use the scheme to pay their tax charge initially, and then this to be repaid via a pension debit. For this option it is also recommended that the member should be required to make an initial contribution of £2,000 from their own finances towards the resultant AA tax charge.

2.3 The Home office proposed to make these changes via an amendment to the Pension Scheme Regulations rather than guidance. This change to the regulations has not yet been made and advice from the Local Government Association (LGA) is that until that legislation is introduced it is for the Fire Authority to consider their approach to this issue, ensuring what they do is both lawful and appropriate.

2.4 In this respect the LGA provided for Fire Authority's in England legal advice received from Eversheds Sutherland on the question:

*'Does a FRA have the power to agree to voluntary 'scheme pays', taking into account both the relevant provisions of the FPS Regulations and the FRA's general powers, and to pay the member's tax liability from the Firefighters' Pension Fund (the 'FPF') maintained under the FPS Regulations?'*

A copy of this advice is attached to the report at Appendix 1.

- 2.5 The answer given was that Fire Authority's do have the powers to put in place a VSP, 'because they have a power of general competence, which may be exercised reasonably where there are sufficient grounds for doing so'. The legal advice lays out the basis for this as follows:-
- A FRA which is a county council in England can operate voluntary 'scheme pays' relying on s.1 of the Localism Act 2011 and Reg.2 of the Modification Regulations. It would be possible to construct an argument that the necessary powers are conferred by virtue of s.111 of the Local Government Act 1972, but the position is less clear under the Localism Act 2011.
  - For those FRAs which are metropolitan county FRAs or created by Order as a combined FRA the power to operate such a scheme is derived from s.5A of the Fire and Rescue Services Act 2004, which was inserted by s.9 of the localism Act 2011.
  - Where a FRA agrees to operate voluntary 'scheme pays', it can properly pay the amount of the tax charge which due to HMRC from its FPF without contravening the FPS Regulations.
  - The power of general competence, like all local authority powers, must be exercised reasonably. The FRA must be satisfied that there are sound reasons to make the payments, and that the interests of the Authority are not harmed by so doing.
  - It should be noted that the Localism Act 2011 provisions apply only to English local authorities.
- 2.6 Further advice has been taken by the Welsh Government (WG) and confirmation received that s.1 of the Localism Act 2011 does not apply in Wales, but s.5A of the Fire Services Act 2004 (inserted by s.9 of the Localism Act 2011) does apply to Wales as well as England.
- 2.7 Welsh Government also confirmed that there are no plans to legislate for a change to the FPS to accommodate a VSP in that as per the LGA legal advice s.5A of the Fire Services Act 2004 (inserted by s.9 of the Localism

Act 2011) already gives these powers to the Fire Authority, subject to its own assessment of reasonability.

2.8 It is, therefore, recommended that the Fire Authority should introduce a VSP procedure with effect from 1 April, 2019. The basis of this recommendation is to allow tax charges to be met in the circumstances below using VSP:-

- Transitional members with pension growth of over £40,000 across both schemes and a corresponding tax charge, to use the scheme to pay this cost initially, before it is repaid by a pension debit added to the member's pension when it comes into payment.
- Members subject to a tapered AA to use the scheme to pay their tax charge initially, and then this to be repaid via a pension debit. For this option it is also recommended that the member should be required to make an initial contribution of £2,000 from their own finances towards the resultant AA tax charge.
- Members may face a tax charge without being able to access the MSP facility because the deadline for doing so has passed, and they can justifiably argue it was not their fault.

Under all of the above circumstances the interest of the Authority may not be harmed because under the Registered Pension Schemes (Modification of Scheme Rules) regulations 2011, it will be able to recover the payments from member's benefit entitlement when it comes into payment.

2.9 Circumstances where the use of the VSP procedure **will not** be applicable are:-

- The relevant deadline for MSP has been missed. The failure to meet the deadline ultimately rests with the scheme member themselves.
- The fault that relevant deadlines were missed cannot be attributable to the Fire Authority, e.g. the pensions administrator was unclear and did not fully inform the scheme member of what should be done to protect their position.

Under these circumstances the Fire Authority risks setting a precedent for making similar payments in circumstances where deadlines are missed, and where it is hard to determine when a scheme member has missed the deadline because of a lack of information or because of their own delay.

2.10 A proposed Firefighters' Pension Schemes – Scheme Pays Procedure is attached at Appendix 2.

### 3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications identified for the introduction of the VSP procedure because the costs will be met from the Firefighters' Pension Fund account.

### 4. EQUALITY RISK ASSESSMENT

4.1 There are no Equality Risk Assessment issues arising as a result of this report.

### 5. RECOMMENDATION

5.1 That the Local Pension Board Members consider the contents of this report and the draft Voluntary Scheme Pays Procedure at Appendix 2.

5.2 That Local Pension Board Members recommend to the Fire & Rescue Authority the introduction of the Scheme Pays Procedure with effect from 1 April, 2019.

Contact Officer:	Background Papers:
ACO Mark Malson Acting Director of People Services	Appendix 1 – Local Government Association – Guidance Note – 23 May 2017  Appendix 2 – Firefighters' Pension Schemes – Scheme Pays Procedure

## **'Voluntary Scheme Pays' in the Firefighters' Pension Schemes.**

### **Background**

#### **Mandatory Scheme Pays ('MSP').**

1. Individuals whose annual growth in pension savings during the Scheme's 'Pension Input Period' exceeds HMRC's standard Annual Allowance Limit ('HMRC AA Limit'), currently set at £40,000, and who have no unused Annual Allowance to carry forward from the previous three tax years will be subject to an Annual Allowance tax charge ('AA tax charge').
2. The individual can pay the AA tax charge from their own personal finances, however, the Finance Act 2004 provides that a pension scheme must provide a 'Scheme Pays' facility<sup>1</sup> where all of the following qualifying conditions are met:
  - i. the HMRC AA limit (currently set at £40,000) has been exceeded in the pension scheme that the Scheme Pays election is made; and
  - ii. an AA tax charge exceeding £2,000 has been triggered; and
  - iii. the relevant time limits for making an election have been met.

#### **Voluntary Scheme Pays 'VSP'**

3. Where a member does not meet the conditions for Mandatory Scheme Pays 'MSP' to apply or they do not make their nomination in time then a scheme may decide to pay the member's annual allowance charge on a voluntary basis 'VSP'.
4. Changes to the tax rules now mean that some high earning members with income of more than £150,000 per annum are now subject to a Tapered Annual Allowance ('tapered AA') which reduces from £40,000 to £10,000 incrementally for those earning between £150,000 and £210,000 per annum.

Members who are subject to a tapered AA will incur an AA tax charge where their pension growth exceeds their tapered AA. The tapered AA will be lower than the £40,000 HMRC AA limit and therefore these members cannot use MSP to pay this charge.

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<sup>1</sup> A scheme pays facility works by having the pension fund pay the member's tax charge initially. This is then repaid by the member as a debit is added to their pension once it comes into payment.

5. With the introduction of the 2015 Scheme, members of the 1992 Firefighters' Pension Scheme ('1992 Scheme') and 2006 Firefighters' Pensions Scheme ('2006 Scheme') who have transferred into the 2015 Scheme on or after 1 April 2015 will effectively be members of two pension schemes and will see pension benefit growth in both schemes until retirement:

By virtue of accruing their pension growth across two rather than one pension scheme, there is an increased likelihood that although the member's total annual pension growth across both schemes may exceed £40,000, the pension growth in any one of the schemes may fall short of the HMRC AA limit. As such, they will not be eligible to use MSP to pay the AA tax charge.

#### Home Office Proposal

6. At their meeting of 6<sup>th</sup> March 2017, the Firefighters Scheme Advisory Board considered and agreed an initial proposal from the Home Office to amend the Firefighter Pension Regulations to allow the charge to be met in the circumstances below using Voluntary Scheme Pays (VSP)
- (i) transitional members with pension growth of over £40,000 across both schemes (HMRC AA limit) and a corresponding tax charge, to use the scheme to pay this cost initially, before it is repaid by a pension debit added to the member's pension when it comes into payment
  - (ii) members subject to a tapered AA, to use the scheme to pay their charge initially and then this be repaid via a pension debit. For this option, it is also recommended that the member should be required to make an initial contribution of £2,000 from their own finances towards the resultant AA tax charge.
7. It is now for the Home Office to seek the new administration's views on the proposal after the General Election. Assuming this is taken forward the working assumption is that these changes would be introduced via an amendment to the pension scheme regulations rather than guidance. Legislative amendments take time and therefore will not be introduced in the short term.
8. It is important to note that this is simply a proposal at this time and is not a guarantee that legislation will change. It will be dependent on a number of factors.
9. Therefore unless or until that legislation is introduced it is for the FRA to consider their approach to this issue ensuring that what they do is both lawful and appropriate.

### Can an FRA operate Voluntary Scheme Pays?

10. This note therefore considers whether FRAs have the ability to offer **Voluntary Scheme Pays 'VSP'** without an amendment to the Firefighter Pension Regulations, and that it is both lawful and appropriate.
11. LGA has recently sought legal advice on behalf of English FRAs, in order to determine whether an FRA can offer voluntary scheme pays, without the need for a change to legislation.
12. **The legal advice was prepared solely for the Local Government Association ("LGA"). Sharing of this legal advice does not amount to a waiver of legal privilege by Eversheds Sutherland.**
13. To operate voluntary scheme pays there are two different steps.
  1. The first is for the Fire Authority to pay the annual allowance charge on behalf of the scheme member to HMRC
  2. The second is for the Fire Authority to adjust the members benefit to reflect the payment made by the administrator

#### **Step 1 – Can the Fire Authority satisfy a member's annual allowance charge on a voluntary basis?**

14. The legal advice we have sought opines 'yes, we consider that it is possible for an FRA to operate voluntary "scheme pays"'.
 

The instruction to Eversheds Sutherland from LGA was

"Does a FRA have the power to agree to voluntary "scheme pays", taking into account both the relevant provisions of the FPS Regulations and the FRA's general powers, and to pay the member's tax liability from the Firefighters' Pension Fund (the "FPF") maintained under the FPS Regulations?"

15. The short answer was 'yes' the longer answer (paraphrased) was 'yes because they have a power of general competence, which may be exercised reasonably where there are sufficient grounds for doing so'.

## 16. Extract from the 'executive summary' of the legal advice

3. In relation to the specific questions posed:

3.1 Yes, we consider that it is possible for a FRA to operate voluntary "scheme pays":

3.1.1 A FRA which is a county council in England can operate voluntary "scheme pays" relying on s.1 of the Localism Act 2011 and reg.2 of the Modification Regulations. It would be possible to construct an argument that the necessary powers are conferred by virtue of s.111 of the Local Government Act 1972, but the position is less clear-cut than under the Localism Act.

3.1.2 For those FRAs which are metropolitan county FRAs or created by Order as a combined FRA the power to operate such a scheme is derived from s.5A of the Fire and Rescue Services Act 2004 which was inserted by s.9 of the Localism Act 2011.

3.1.3 Where a FRA agrees to operate voluntary "scheme pays", it can properly pay the amount of the tax charge which is due to HMRC from its FPF without contravening the FPS Regulations.

## 17. Extract from the 'detailed advice' of the legal advice

3.2 First, as regards the question of whether a FRA may agree to meet a member's liability to the annual allowance charge, the arrangements for the administration of the FPS are set out in regulations which are complex in nature and very prescriptive. This is true of many areas of local government activity, and through the Localism Act 2011 the then Government introduced a means by which specific regimes can be supplemented by the exercise of a broad general power of competence for local authorities.

3.3 Those FRAs which are county councils may exercise this power to enter into the necessary arrangements with the member and HMRC. This power cannot be exercised where there is express prohibition of the action proposed. However, since there is no express prohibition of the action proposed here, the FRA may participate in such an arrangement.

3.4 The power of general competence, like all local authority powers, must be exercised reasonably. The FRA must be satisfied that there are sound reasons to make the payments and that the interests of the authority are not harmed by so doing.

3.5 We believe that there are sufficient grounds on which the authority could conclude that there are sound reasons for offering a voluntary "scheme pays" facility, given that (for instance) the effect of the recently introduced tapered annual allowance is that scheme members may now face a substantial tax charge without being able to access the mandatory "scheme pays" facility (because the latter provisions remain based upon the standard annual allowance). Similarly, the interests of the authority will not be harmed, provided that the authority is able to make a consequential adjustment under the Modification Regulations, because the payment will ultimately be met from the member's benefit entitlement, and because the authority will have discretion as to when to offer voluntary "scheme pays", meaning that the administrative burden of such arrangements can be retained within manageable bounds.

3.6 It should be noted that the Localism Act 2011 provisions apply only to English local authorities.

3.7 For those English fire and rescue authorities which are not county councils there is power in the Fire and Rescue Services Act 2004 to enter into voluntary "scheme pays" arrangements subject to the same principles and constraints as apply to county councils.

3.8 Section 5A of the Fire and Rescue Services Act 2004 was inserted by s.9 of the Localism Act 2011. This provides as follows:

***"Powers of certain fire and rescue authorities***

***(1) A relevant fire and rescue authority may do—***

*(a) anything it considers appropriate for the purposes of the carrying-out of any of its functions (its "functional purposes"),*

*(b) anything it considers appropriate for purposes incidental to its functional purposes,*

*(c) anything it considers appropriate for purposes indirectly incidental to its functional purposes through any number of removes,*

*(d) anything it considers to be connected with—*

*(i) any of its functions, or*

*(ii) anything it may do under paragraph (a), (b) or (c), and*

*(e) for a commercial purpose anything which it may do under any of paragraphs (a) to (d) otherwise than for a commercial purpose.*

*(2) A relevant fire and rescue authority's power under subsection (1) is in addition to, and is not limited by, the other powers of the authority.*

*(3) In this section "relevant fire and rescue authority" means a fire and rescue authority that is—*

*(a) a metropolitan county fire and rescue authority,*

*(b) the London Fire and Emergency Planning Authority,*

*(c) constituted by a scheme under section 2, or*

*(d) constituted by a scheme to which section 4 applies."*

*[Sections 2 and 4 relate to combined FRAs.]*

3.9 Reliance upon s.111 of the Local Government Act 1972 requires the FRA to be satisfied that it is doing something "which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions". The purpose of the incidental power is to enable actions to be taken in support of statutory functions, so it is necessary to identify the function before the authority can be said to be acting incidentally to it. The functions of a local authority acting as a FRA and as scheme administrator (for tax purposes) are defined by statute and regulation, and it can be argued that entry into a voluntary "scheme pays" arrangement is incidental or conducive to the performance of those functions (though the position is necessarily not as clear-cut as with the general power of competence under the Localism Act). Again, the test of reasonableness is to be applied.

**'Exercised reasonably where there are sufficient grounds for doing so'**

18. The power of general competence that allows an FRA to satisfy an annual allowance charge on a voluntary basis, must be exercised reasonably and the FRA must be satisfied there are sound reasons for doing so.
19. LGA consider that the circumstances below proposed by the Home Office and agreed by the Scheme Advisory Board should be considered as sound reasons.
- Transitional members with service in one of the 1992 or 2006 Schemes, and the 2015 Scheme, are able to access a VSP arrangement in the same way that a protected 1992 or 2006 scheme member, or a member with service only in the 2015 Scheme, can do so through Mandatory Scheme Pays.
  - Scheme members with a tapered annual allowance are able to use a VSP arrangement to pay a tax charge in a circumstance where the pension growth in one scheme (or more schemes) is less than the £40,000 general AA limit but more than their own tapered AA limit.
20. Any fire authority wishing to make a Voluntary Scheme Pays arrangement for reasons outside of the two listed are advised to consider whether to do so is a reasonable exercise of their powers and they would have sound reasons for doing so. For example they may not consider allowing a VSP arrangement for a member who would have been eligible for Mandatory Scheme Pays but did not notify the authority within the statutory limit to be a reasonable exercise of their powers.

**Step 2 - Can a fire authority adjust a members benefits to reflect the payment made?**

21. Having established that the fire authority has the vires in order to satisfy the members charge. The second question for consideration, is does the Fire authority have the power to adjust the members benefit (ie the scheme pays debit) to recover the charge?
22. The Modification of Scheme Rules [SI 2011/1791], Rule 2, Paragraph 2 allows for such an adjustment to be made to the pension (ie the scheme pays debit)

*2.—(1) This regulation applies where a scheme administrator of a registered pension scheme ("the scheme") satisfies all or part of a member's liability to the annual allowance charge, either on a voluntary basis or pursuant to a liability under section 237B of the Finance Act 2004(1).*

*(2) The rules of the scheme shall be modified so as to allow for a consequential adjustment to be made to the entitlement of the member to benefits under the scheme on a basis that is just and reasonable having regard to normal actuarial practice. This paragraph is subject to paragraph (3).*

*(3) Any modification to the scheme's rules made by virtue of paragraph (2) is subject to section 159 of the Pension Schemes Act 1993(2) or section 155 of the Pension Schemes (Northern Ireland) Act 1993(3) (inalienability of guaranteed minimum pension etc).*

23. The intent of this regulation is explicitly laid out in the explanatory memorandum paragraph 2.1

*This instrument provides that where a scheme administrator of a registered pension scheme satisfies an annual allowance charge on behalf of a member of the pension scheme from the member's pension benefits, any rules of the pension scheme which prevent such an adjustment to the member's pension benefits are modified to allow for such adjustments.*

**For the avoidance of doubt who is the 'scheme administrator'?**

24. The modification of scheme rules refers to the 'scheme administrator' for the avoidance of doubt, LGA sought legal guidance onto whom this refers in the case of a Fire Authority.

Does a FRA count as the "scheme administrator" for the purposes of reg.2(1) of The Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011 (the "Modification Regulations"), taking into account the effect of The Registered Pension Schemes (Splitting of Schemes) Regulations 2006 (the "Split Scheme Regulations")?

25. The legal advice opines that the FRA in this case is the 'scheme administrator'.

4.1 Yes. The Split Scheme Regulations provide in reg.2(1)(a) that all registered pension schemes listed in Schedule 1 to the regulations are to be treated as "split schemes". Both the 1992 scheme and the 2015 scheme are listed by name, and although the 2006 scheme (the NFPS) is not expressly listed by name, it is clear that the intention is for the reference in Sch.1 to the "Firefighters Pension Scheme" to cover both the 1992 and the 2006 schemes, since reference is made expressly to s.34 of the Fire and Rescue Services Act 2004, which is the enabling legislation for the 2006 scheme.

4.2 On the basis that all three FPS schemes are to be treated as "split schemes", this therefore means that under reg.3(2) of the Split Scheme Regulations, in the provisions referred to in Schedule 3 to those regulations, "any reference to the scheme administrator shall be read as a reference to the sub-scheme administrator". Schedule 3 includes the Modification Regulations.

4.3 Under reg.1, the "sub-scheme administrator" for a split scheme is "the scheme administrator of a sub-scheme appointed in accordance with the rules of the split scheme to be responsible for the discharge of the functions conferred or imposed on the sub-scheme administrator by or under these Regulations".

4.4 In relation to the 2015 scheme, this is clearly the FRA as "scheme manager" for the purposes of the 2014 Regulations. Under reg.177 of the 2014 Regulations:

*"177 Scheme administrator for the purposes of the Finance Act 2004  
The scheme manager is appointed to be responsible for all liabilities and responsibilities connected with the functions conferred or imposed on the scheme administrator by or under Part 4 of FA 2004 which the scheme manager assumes as sub-scheme administrator under regulation 3 of, and Schedule 3 to, the Registered Pension Schemes (Splitting of Schemes) Regulations 2006."*

4.5 In relation to the 2006 scheme and the 1992 scheme, there is no explicit statement under either the 2006 Order or the 1992 Order confirming who is to act as scheme administrator for the purposes of the Finance Act 2004. However, given that under both sets of provisions, the FRA is expressly required to deduct tax / lifetime allowance charges which are due on any payments, it can be inferred that the intention was for the FRA also to be the scheme administrator for Finance Act purposes.

4.6 Therefore, a decision by a FRA to operate voluntary "scheme pays" would constitute a "scheme administrator" satisfying "all or part of a member's liability to the annual allowance charge" for the purposes of reg.2(1) of the Modification Regulations. As such, it would trigger the operation of reg.2(2), which would override the provisions of the FPS to the extent needed to make the "consequential adjustment" to the member's benefit entitlement.

## Summary

26. In certain circumstances, an individual cannot use Mandatory Scheme Pays 'MSP' to pay a relevant HMRC tax charge. This note considers whether an FRA can satisfy the tax charge on a members behalf using Voluntary Scheme Pays 'VSP'
27. The Home Office is considering amendment to the legislation that would allow an FRA to use 'VSP' in certain circumstances only. However, unless or until that legislation is introduced it is for the FRA to consider their approach to this issue ensuring that what they do is both lawful and appropriate.
28. Having taken Legal advice on behalf of FRA's, LGA can confirm that an FRA (including County Councils, combined Fire Authorities and Metropolitans) can offer Voluntary Scheme Pays arrangements in order to pay the tax bill where a member of the scheme cannot use mandatory scheme pays because they have a power of general competence, which may be exercised reasonably where there are sufficient grounds for doing so'.
29. It is considered that FRAs should consider the test of 'exercised reasonably where there are sufficient grounds for doing so' to be in line with the two circumstances proposed by the Home Office and agreed by the Scheme Advisory Board:
- Transitional members with service in one of the 1992 or 2006 Schemes, and the 2015 Scheme, are able to access a VSP arrangement in the same way that a protected 1992 or 2006 scheme member, or a member with service only in the 2015 Scheme, can do so through Mandatory Scheme Pays.
  - Scheme members with a tapered annual allowance are able to use a VSP arrangement to pay a tax charge in a circumstance where the pension growth in one scheme (or more schemes) is less than the £40,000 general AA limit but more than their own tapered AA limit.
30. The Fire Authority as the 'scheme administrator' have an express power under Rule 2, paragraph 2 of the Modification of Scheme Regs SI 2011/1791, to allow for an adjustment to be made to the pension (ie in this case a scheme pays debit)

## Final Note

31. This note was prepared on 31<sup>st</sup> May 2017 for Fire Authorities consideration by the Local Government Association. It does not constitute legal advice and should not be treated as so.

**Contact officer:** Clair Alcock  
**Position:** Firefighters Pension Adviser  
**Phone no:** 07958 749056  
**E-mail:** Clair.alcock@local.gov.uk

**SOUTH WALES FIRE & RESCUE AUTHORITY****FIREFIGHTERS PENSION SCHEMES****SCHEME PAYS POLICY AND PROCEDURES****1.0 Introduction**

- 1.1 Scheme Pays is a mechanism that permits an individual to ask the Scheme Manager of the pension scheme that they are a member of to pay any tax charge due in relation to an excess of pension savings above Her Majesty's Revenues & Customs (HMRC) standard Annual Allowance limit. In return, there is a reduction in pension benefits when the individual's pension comes into payments.
- 1.2 There are two types of Scheme Pays, Mandatory and Voluntary, and each has its own qualifying conditions and timescales that must be satisfied.
- 1.3 You will need to advise HMRC if you plan to use Scheme Pays. The process for applying for Scheme Pays is detailed below.

**2.0 Annual Allowances**

- 2.1 Each taxpayer has a standard Annual Allowances set by Her Majesty's Revenues and Customs (HMRC), which may be allocated to his or her pensions savings account during the Scheme's 'pension input period' without incurring a tax liability.
- 2.2 A tax liability is usually incurred if the individual's annual pension savings growth exceeds the Annual Allowances, which is currently set at £40,000 per year.
- 2.3 Changes to the Annual Allowances, known as tapering, resulted in the Annual Allowance for high earning individuals reducing to £10,000 from April 2016.

**3.0 Mandatory Scheme Pays**

- 3.1 An individual who exceeds their Annual Allowance and incurs a tax charge, can pay the tax from their own personal finances. However, the Finance Act 2004 provides that a pension scheme must provide a 'Scheme Pays' facility where certain qualifying conditions are met. A scheme pays facility works by having the pension fund pay the members' tax charge initially, which is then repaid by the member through a reduction in their pension benefits once they come into payment.
- 3.2 The qualifying criteria for Mandatory Scheme Pays are:-
- The HMRC Annual Allowance limit (currently £40,000) has been exceeded in the pension scheme that the scheme pays election is made

- The Annual Allowances tax charge exceeds £2000
  - The relevant time limits for making an election have been met
- 3.3 The Fire Authority must agree to a Mandatory Scheme Pays election where the qualifying conditions are met and Mandatory Scheme Pays has been used in the Firefighters' Pension Schemes since 2012.
- 3.4 Due to HMRC introducing 'tapering' of the £40,000 Annual Allowance for the 2016/2017 tax year, there are now circumstances where a firefighter does not have the right to make a Mandatory Scheme Pays election for the tax relating to the difference between the 'tapered' (a minimum of £10,000) Annual Allowance, and the standard £40,000 Annual Allowance. In such circumstances, the additional tax liability could be covered by a Voluntary Scheme Pays arrangement, which is common practice in other pension schemes.
- 3.5 Furthermore, scheme members who built up pension savings in more than one scheme (e.g. members of the 1992 Scheme or 2007 Scheme who transition to the 2015 Scheme), will have savings grow in both schemes until retirement. By virtue of accruing pensions growth across two rather than in one scheme, there is an increased likelihood that although a scheme member's total pension savings growth across both schemes might exceed £40,000, or a 'tapered' Annual Allowance, the savings growth in any one of the schemes may fall short of HMRC Annual Allowance limits. In view of this, Mandatory Scheme Pays will not be available to the individual to pay the tax charge.
- 3.6 The timescales for Mandatory Scheme Pays are set out below:-

<b>Action</b>	<b>Deadline Date</b>
Tax Year ends	5 April
Employer provides information to Scheme Administrator	30 April
Scheme Administrator provides Pension Savings Statement to member	6 October
Member submits Self-Assessment Tax Return stating how Annual Allowance tax will be paid to HMRC	31 January
Member Mandatory Scheme Pays election deadline (or by retirement if earlier). Otherwise tax due to HMRC by previous 31 January 2018	31 July
<b>Mandatory Scheme Pays</b> – Scheme Administrator submits Event Report to HMRC	31 January
Scheme Administrator pays tax to HMRC	14 February

## 4.0 Voluntary Scheme Pays

4.1 Voluntary Scheme Pays works in the same way as Mandatory Scheme Pays whereby the tax liability is initially paid by the pension scheme and the cost recovered by a reduction to the individual's annual pension when it comes into payment.

4.2 The automatic qualifying criteria for Voluntary Scheme Pays are:-

- Transitional members with pension growth of over £40,000 across both schemes and a corresponding tax charge, to use the scheme to pay this cost initially, before it is repaid by a pension debit added to the member's pension when it comes into payment.
- Members subject to a tapered AA, to use the scheme to pay their tax charge initially and then this to be repaid via a pension debit. For this option, it is also recommended that the member should be required to make an initial contribution of £2,000 from their own finances towards the resultant AA tax charge.
- Members may face a tax charge without being able to access the MSP facility because the deadline for doing so has passed, and they can justifiably argue it was not their fault.

4.3 Circumstances, where the use of the VSP procedure **will not** be applicable are:

- The relevant deadline for MSP has been missed. The failure to meet the deadline ultimately rests with the scheme member themselves.
- The fault that relevant deadlines were missed cannot be attributable to the Fire Authority e.g. the pensions administrator was unclear and did not fully inform the scheme member of what should be done to protect their position.

4.4 The timescales for Voluntary Scheme Pays are set out below:-

Action	Deadline Date
Tax Year ends	5 April
Employer provides information to Scheme Administrator	30 April
Scheme Administrator provides Pension Savings Statement to member	6 October
Member requests Scheme Pays quote	10 November
Scheme Administrator issues quote	20 November
Member returns forms accepting quote	15 December

Scheme Administrator process deductions	29 December
Member submits Self-Assessment Tax return to HMRC stating will pay Annual Allowance via Scheme Pays	31 January
Scheme Administrator pays Voluntary Scheme to HMRC	31 January

**SOUTH WALES FIRE & RESCUE AUTHORITY**  
**LOCAL PENSION BOARD COMMITTEE**  
**REPORT OF THE ASSISTANT CHIEF OFFICER PEOPLE SERVICES**

AGENDA ITEM NO 6  
21 JANUARY 2019

**THE PENSIONS REGULATOR – PUBLIC SERVICE GOVERNANCE AND ADMINISTRATIVE SURVEY 2018**

**SUMMARY**

This report is to provide Members with a copy of the Service's return to The Pensions Regulator – Public Service Governance and Administrative Survey 2018. The report is for information only.

**RECOMMENDATION**

That Members accept the report and note the details contained in the survey return.

**1. BACKGROUND**

- 1.1 The Pensions Regulator (TPR) issued its annual Public Service Governance and Administrative Survey (the Survey) for 2018 in November 2018.
- 1.2 The purpose of the survey is to assist The Pensions Regulator to build a comprehensive picture of governance and administrative standards across the public service sector.
- 1.3 The survey forms part of the Pension Regulator's expectations of good practice by Scheme Managers (the Fire & Rescue Authority), on the governance and administration of public service pension schemes that if not effective could have major consequences for their schemes.
- 1.4 The survey was undertaken in respect of the Firefighters Pension Scheme 2015 (Wales) – South Wales, but the return could be applied across all of the Firefighters' Pension Schemes.

**2. ISSUES**

- 2.1 The Fire & Rescue Authority has a Service Level Agreement with RCT Pensions (currently under review) to provide the full administration of the Firefighters' Pension Schemes. However, the Fire & Rescue Authority, as the Scheme Manager, ultimately are accountable for the running of the Schemes.
- 2.2 The 2018 survey was designed to provide an update on how public service pension schemes are progressing, as well as collecting extra data on some new area. The areas assessed were:-

- Governance
- Managing Risks
- Administration and Record Keeping Processes
- Cyber Security
- Data Review Annual Benefit Statements
- Resolving Issues
- Reporting Breaches
- Governance and Administration
- Perceptions of TPR

2.3 The survey was completed by the ACO People Services, working with the Chair of the Local Pension Board on behalf of the Fire Authority (the Scheme Manager). A copy of the survey return is attached at Appendix 1.

### **3. FINANCIAL IMPLICATIONS**

3.1 There are no additional financial issues arising as a result of this report.

### **4. EQUALITY RISK ASSESSMENT**

4.1 There are no Equality Risk Assessment issues arising as a result of this report.

### **5. RECOMMENDATIONS**

5.1 That Members accept the report and note the details contained in the survey return.

<b>Contact Officer:</b>	<b>Background Papers:</b>
ACO Mark Malson Acting Director of People Services	None

**SOUTH WALES FIRE & RESCUE AUTHORITY**  
**LOCAL PENSION BOARD COMMITTEE**  
**REPORT OF THE ASSISTANT CHIEF OFFICER PEOPLE SERVICES**

AGENDA ITEM NO 7  
21 JANUARY 2019

**THE PENSIONS REGULATOR – FIREFIGHTERS’ PENSION SCHEME RETURNS FOR 2017-2018**

**SUMMARY**

The Pensions Regulator (TPR) requests annual scheme returns for all three of the Firefighters’ Pension Schemes, 1992, 2007, and 2015 Schemes, that identifies each of the Schemes, membership data, governance of the Schemes to include identification of the manager of the scheme, Pension Board Members (both LPB Members and Trade Union members), and record keeping in terms of common data and scheme specific data (conditional data)

The report details the Scheme Returns for Members of the Local Pension Board.

**RECOMMENDATION**

That Members accept this report and note the details of the Firefighters’ Pension Scheme Returns 2017-2018 as made by the Fire Authority’s Pension Administrators, RCT Pensions

**1. BACKGROUND**

1.1 The Pensions Regulator (TPR) requests annual scheme returns for all three of the Firefighters’ Pension Schemes, that identifies each of the Schemes:-

- Membership data
- Governance of the Schemes to include identification of the manager of the scheme, Pension Board Members (both LPB Members and Trade Union members).
- Record keeping in terms of common data and scheme specific data (conditional data)

1.2 The Fire & Rescue Authority has a Service Level Agreement with RCT Pensions (currently under review) to provide the full administration of the Firefighters’ Pension Schemes. However, the Fire & Rescue Authority, as the Scheme Manager, ultimately are accountable for the running of the Schemes.

1.3 Under our current Service Level Agreement, RCT Pensions made a Scheme Return for 2017-2018, against each of the three Firefighters’

Pension Schemes, the 1992, 2007, and 2015 Schemes, on 30 October 2018.

## **2. ISSUES**

2.1 Copies of the Scheme Returns are attached as follows:

- Firefighters' Pension Scheme 1992 – Appendix 1
- Firefighters' Pension Scheme 2007 – Appendix 2
- Firefighters' Pension Schemes 2015 – Appendix 3

2.2 The basis of each Schemes return is for:

- Membership data at 31 March 2017, where the Pensions Regulator requires to know the number of members present at the scheme year end between the dates 1 April, 2016, and 31 March, 2017.
- Membership data at 31 March 2018, where the Pensions Regulator requires to know the number of members present at the scheme year end between the dates 1 April 2017, and 31 March 2018.
- What percentage of common and specific data has been assessed to be present and accurate?

2.3 A summary of each Scheme return is attached at Appendix 4, for Members ease of reference and comparison between Schemes.

## **3. FINANCIAL IMPLICATIONS**

3.1 There are no additional financial issues arising as a result of this report.

## **4. EQUALITY RISK ASSESSMENT**

4.1 There are no Equality Risk Assessment issues arising as a result of this report.

## **5. RECOMMENDATIONS**

5.1 That Members accept this report and note the details of the Firefighters' Pension Scheme Returns 2017-2018 as made by the Fire Authority's Pensions Administrators, RCT Pensions.

<b>Contact Officer:</b>	<b>Background Papers:</b>
ACO Mark Malson Acting Director of People Services	None

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Scheme return  
2017 - 2018

# The Pensions Regulator

Your scheme details:

**South Wales Firemens Pension Scheme 1992**

Date produced: **30 October 2018**

PSR number: 10079094

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Please note that this document cannot be used in place of a scheme return and will not be accepted as such by the Pensions Regulator. If you are required to complete a scheme return and are unable to do so online you should contact us by phone on 0345 600 5666 and select option 2 (Mon - Fri 9am - 5.30pm). Alternatively you can email us at [exchange@thepensionsregulator.gov.uk](mailto:exchange@thepensionsregulator.gov.uk)

## 1. Introduction

The following are the details that were on the scheme return submitted on 30 October 2018 02:15 PM.

The scheme return details were confirmed by Mrs Catherine Black.

## 2. Scheme details (includes membership details)

Basic details	
Scheme name	South Wales Firemens Pension Scheme 1992
PSR number	10079094
Scheme address	South Wales Fire & Rescue Service Unit 2, Forest View Business Park Llantrisant PONTYCLUN Mid Glamorgan CF72 8LX United Kingdom
Scheme type	Occupational
Benefit type	Defined benefit
Current status	Closed to new members since 01 April 2007
Scheme year-end (DD/MM)	31/03 since 01 April 1947
HMRC reference number (PSTR)	00616644RY

Number of members as at 31 March 2017 The Pensions Regulator requires to know the number of members present at the scheme year-end between the dates 1 April 2016 and 31 March 2017.	
Active members	260
Deferred members	54
Pensioner members	1202
Total of members	1516

Number of members as at 31 March 2018 The Pensions Regulator requires to know the number of members present at the scheme year-end between the dates 1 April 2017 and 31 March 2018.	
Active members	217
Deferred members	63
Pensioner members	1216
Total of members	1496

## 3. Governance Details

PSR number: 10079094

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<b>Manager of the scheme</b>	
Role or organisation name	Manager of the Scheme
Address of manager of the scheme	South Wales Fire & Rescue Service Unit 2, Forest View Business Park Llantrisant PONTYCLUN Mid Glamorgan CF72 8LX United Kingdom
Telephone number	[REDACTED]
Email address	[REDACTED]

<b>Pension board member</b>	
Name of pension board member	Councillor Steve Bradwick
Pension board member type	Member
Chair of pension board	Yes
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

<b>Pension board member</b>	
Name of pension board member	Councillor Val Smith
Pension board member type	Member
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

PSR number: 10079094

Pension board member	
Name of pension board member	Mr Richard Prendergast
Pension board member type	Employer
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Mr Alex Psalia
Pension board member type	Employer
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Mr David King
Pension board member type	Employer
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

PSR number: 10079094

Pension board member	
Name of pension board member	Mrs Kathryn McCaffer
Pension board member type	Member
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Councillor Jack Harries
Pension board member type	Member
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

PSR number: 10079094

PSR number: 10079094

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**3. Record-keeping**

<b>Common data</b>	
Have you measured your common data in the last three years?	Yes
When did you last measure your common data?	October 2018
What percentage of this data have you assessed to be present and accurate?	95%

<b>Scheme-specific ('conditional') data</b>	
Have you measured your scheme-specific ('conditional') data in the last three years?	Yes
When did you last measure your scheme-specific ('conditional') data?	October 2018
What percentage of this data have you assessed to be present and accurate?	92%

PSR number: 10079094

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## 5. Employer details

Employer	
Employer's name	South Wales Fire Authority
Employer type	Participating Employer
Organisation type	Government / public body
Address of employer	South Wales Fire & Rescue Service Unit 2 Forest View Business Park Llantrisant PONTYCLUN CF72 8LX United Kingdom
Employer status	Active since 01 January 1996
Employer email address	pensions@southwales-fire.gov.uk

PSR number: 10079094

Please note that this document cannot be used in place of a scheme return and will not be accepted as such by the Pensions Regulator. If you are required to complete a scheme return and are unable to do so online you should contact us by phone on 0345 600 5666 and select option 2 (Mon - Fri 9am - 5.30pm). Alternatively you can email us at [exchange@thepensionsregulator.gov.uk](mailto:exchange@thepensionsregulator.gov.uk)

**6. Service provider details**

<b>Insurance company</b>	
There is currently no insurance company listed as involved with this scheme.	

<b>Third party administrator</b>	
Organisation name	Rhondda Cynon Taf Pension Fund
Address of administrator	Rhondda Cynon Taff County Borough Council Council Offices Bronwydd PORTH Mid Glamorgan CF39 9DL United Kingdom
Telephone number	01443 680646
Email address	catherine.black@rctcbc.gov.uk

<b>In-house administrator</b>	
There is currently no in-house administrator listed as involved with this scheme. Details required are name and address, telephone number and email address.	

<b>Auditor</b>	
Organisation name	Wales Audit Office
Address of auditor	Wales Audit Office 24 Cathedral Road CARDIFF CF11 9LJ United Kingdom
Telephone number	02920320500

PSR number: 10079094

PSR number: 10079094

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Please note that this document cannot be used in place of a scheme return and will not be accepted as such by the Pensions Regulator. If you are required to complete a scheme return and are unable to do so online you should contact us by phone on 0345 600 5666 and select option 2 (Mon - Fri 9am - 5.30pm). Alternatively you can email us at [exchange@thepensionsregulator.gov.uk](mailto:exchange@thepensionsregulator.gov.uk)

**7. Contact details**

<b>Scheme contact details</b>	
Name of contact	Mrs Kimberly Henderson Jeal
Job title	Accountant (People Services)
Address of contact	South Wales Fire & Rescue Service Unit 2, Forest View Business Park Llantrisant PONTYCLUN Mid Glamorgan CF72 8LX United Kingdom
Telephone number	[REDACTED]
Email address	[REDACTED]

<b>Pension Tracing Service contact details</b>
There is no pension tracing service contact associated with this scheme.

<b>Consent to electronic service details</b>	
Confirmed by contact name	Mrs Catherine Black
Confirmed date	23/10/2018
Email address	catherine.black@rctcbc.gov.uk

PSR number: 10079094

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# The Pensions Regulator

Scheme return  
2017 - 2018

Your scheme details:

**Firefighters' Pension Scheme (Wales) 2007 - South Wales**

Date produced: **30 October 2018**

PSR number: 10276791

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Please note that this document cannot be used in place of a scheme return and will not be accepted as such by the Pensions Regulator. If you are required to complete a scheme return and are unable to do so online you should contact us by phone on 0345 600 5666 and select option 2 (Mon - Fri 9am - 5.30pm). Alternatively you can email us at [exchange@thepensionsregulator.gov.uk](mailto:exchange@thepensionsregulator.gov.uk)

## 1. Introduction

The following are the details that were on the scheme return submitted on 30 October 2018 02:23 PM.

The scheme return details were confirmed by Mrs Catherine Black.

## 2. Scheme details (includes membership details)

Basic details	
Scheme name	Firefighters' Pension Scheme (Wales) 2007 - South Wales
PSR number	10276791
Scheme address	South Wales Fire and Rescue Service Headquarters Forest View Business Park Llantrisant RCT CF72 8LX United Kingdom
Scheme type	Occupational
Benefit type	Defined benefit
Current status	Closed to new members since 01 April 2015
Scheme year-end (DD/MM)	31/03 since 06 April 2006
HMRC reference number (PSTR)	00680186RY

### Number of members as at 31 March 2017

The Pensions Regulator requires to know the number of members present at the scheme year-end between the dates 1 April 2016 and 31 March 2017.

Active members	42
Deferred members	262
Pensioner members	11
Total of members	315

### Number of members as at 31 March 2018

The Pensions Regulator requires to know the number of members present at the scheme year-end between the dates 1 April 2017 and 31 March 2018.

Active members	29
Deferred members	328
Pensioner members	12
Total of members	369

## 3. Governance Details

PSR number: 10276791

Manager of the scheme	
Role or organisation name	South Wales Fire & Rescue Authority
Address of manager of the scheme	Headquarters Forest View Business Park Llantrisant CF72 8LX United Kingdom
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Councillor Steve Bradwick
Pension board member type	Member
Chair of pension board	Yes
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Councillor Val Smith
Pension board member type	Member
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Mr. Alex Psaila (FBU)
Pension board member type	Employer
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

PSR number: 10276791

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Pension board member	
Name of pension board member	Mr. David King (RFU)
Pension board member type	Employer
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Mr Richard Prendergast
Pension board member type	Employer
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Councillor Kathryn McCaffer
Pension board member type	Member
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

PSR number: 10276791

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Pension board member	
Name of pension board member	Councillor Jack Harries
Pension board member type	Member
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

PSR number: 10276791

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PSR number: 10276791

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**3. Record-keeping**

<b>Common data</b>	
Have you measured your common data in the last three years?	Yes
When did you last measure your common data?	October 2018
What percentage of this data have you assessed to be present and accurate?	89%

<b>Scheme-specific ('conditional') data</b>	
Have you measured your scheme-specific ('conditional') data in the last three years?	Yes
When did you last measure your scheme-specific ('conditional') data?	October 2018
What percentage of this data have you assessed to be present and accurate?	96%

PSR number: 10276791

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## 5. Employer details

Employer	
Employer's name	South Wales Fire Authority
Employer type	Participating Employer
Organisation type	Government / public body
Address of employer	South Wales Fire & Rescue Service Unit 2, Forest View Business Park Llantrisant PONTYCLUN Mid Glamorgan CF72 8LX United Kingdom
Employer status	Active since 01 January 1991
Employer email address	pensions@southwales-fire.gov.uk

PSR number: 10276791

**6. Service provider details**

<b>Insurance company</b>	
There is currently no insurance company listed as involved with this scheme.	

<b>Third party administrator</b>	
Organisation name	Rhondda Cynon Taf County Council
Address of administrator	Pensions Department Bronwydd Porth Rhondda Third-Party CF39 9DL United Kingdom
Telephone number	01443 680611
Email address	pensions@rctcbc.gov.uk

<b>In-house administrator</b>	
There is currently no in-house administrator listed as involved with this scheme. Details required are name and address, telephone number and email address.	

<b>Auditor</b>	
Organisation name	Wales Audit Office
Address of auditor	Wales Audit Office 24 Cathedral Road CARDIFF CF11 9LJ United Kingdom
Telephone number	02920320500

PSR number: 10276791

PSR number: 10276791

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**7. Contact details**

<b>Scheme contact details</b>	
Name of contact	Mrs Kimbely Henderson Jeal
Job title	Accountant (People Services)
Address of contact	South Wales Fire & Rescue Service Unit 2, Forest View Business Park Llantrisant PONTYCLUN Mid Glamorgan CF72 8LX United Kingdom
Telephone number	[REDACTED]
Email address	[REDACTED]

**Pension Tracing Service contact details**

There is no pension tracing service contact associated with this scheme.

**Consent to electronic service details**

There is no consent to electronic service associated with this scheme.

PSR number: 10276791

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# The Pensions Regulator

Scheme return  
2017 - 2018

Your scheme details:

**The Firefighters Pension Scheme Wales 2015**

Date produced: **30 October 2018**

PSR number: 10276724

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## 1. Introduction

The following are the details that were on the scheme return submitted on 30 October 2018 02:27 PM.

The scheme return details were confirmed by Mrs Catherine Black.

## 2. Scheme details (includes membership details)

Basic details	
Scheme name	The Firefighters Pension Scheme Wales 2015
PSR number	10276724
Scheme address	South Wales Fire and Rescue Service Headquarters Forest View Business Park Llantrisant RCT CF72 8LX United Kingdom
Scheme type	Occupational
Benefit type	Defined benefit
Current status	Open to new members since 01 April 2015
Scheme year-end (DD/MM)	31/03 since 01 April 2015
HMRC reference number (PSTR)	00824190RC

Number of members as at 31 March 2017 The Pensions Regulator requires to know the number of members present at the scheme year-end between the dates 1 April 2016 and 31 March 2017.	
Active members	882
Deferred members	65
Pensioner members	4
Total of members	951

Number of members as at 31 March 2018 The Pensions Regulator requires to know the number of members present at the scheme year-end between the dates 1 April 2017 and 31 March 2018.	
Active members	1004
Deferred members	103
Pensioner members	5
Total of members	1112

## 3. Governance Details

PSR number: 10276724

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Manager of the scheme	
Role or organisation name	South Wales Fire & Rescue Authority
Address of manager of the scheme	Headquarters Forest View Business Park Llantrisant CF72 8LX United Kingdom
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Councillor Steve Bradwick
Pension board member type	Member
Chair of pension board	Yes
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Councillor Val Smith
Pension board member type	Member
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Mr. Richard Prendergast
Pension board member type	Employer
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

PSR number: 10276724

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Pension board member	
Name of pension board member	Mr. Alex Psaila (FBU)
Pension board member type	Employer
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Mr. David King (RFU)
Pension board member type	Employer
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

Pension board member	
Name of pension board member	Mrs Kathryn McCaffer
Pension board member type	Member
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

PSR number: 10276724

Pension board member	
Name of pension board member	Councillor Jack Harries
Pension board member type	Member
Chair of pension board	No
Address of pension board member	[REDACTED]
Telephone number	[REDACTED]
Email address	[REDACTED]

PSR number: 10276724

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PSR number: 10276724

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**3. Record-keeping**

<b>Common data</b>	
Have you measured your common data in the last three years?	Yes
When did you last measure your common data?	October 2018
What percentage of this data have you assessed to be present and accurate?	96%

<b>Scheme-specific ('conditional') data</b>	
Have you measured your scheme-specific ('conditional') data in the last three years?	Yes
When did you last measure your scheme-specific ('conditional') data?	October 2018
What percentage of this data have you assessed to be present and accurate?	99%

PSR number: 10276724

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## 5. Employer details

Employer	
Employer's name	South Wales Fire and Rescue Service
Employer type	Participating Employer
Organisation type	Government / public body
Address of employer	South Wales Fire & Rescue Service Unit 2, Forest View Business Park Llantrisant PONTYCLUN Mid Glamorgan CF72 8LX United Kingdom
Employer status	Active since 01 April 2015
Employer email address	pensions@southwales-fire.gov.uk

PSR number: 10276724

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**6. Service provider details**

<b>Insurance company</b>	
There is currently no insurance company listed as involved with this scheme.	

<b>Third party administrator</b>	
Organisation name	Rhondda Cynon Taf County Council
Address of administrator	Pensions Department Bronwydd Porth Rhondda Third-Party CF39 9DL United Kingdom
Telephone number	01443 680646
Email address	catherine.black@rctcbc.gov.uk

<b>In-house administrator</b>	
There is currently no in-house administrator listed as involved with this scheme. Details required are name and address, telephone number and email address.	

<b>Auditor</b>	
Organisation name	Wales Audit Office
Address of auditor	Wales Audit Office 24 Cathedral Road CARDIFF CF11 9LJ United Kingdom
Telephone number	02920320500

PSR number: 10276724

PSR number: 10276724

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**7. Contact details**

<b>Scheme contact details</b>	
Name of contact	Mrs Kimbely Henderson Jeal
Job title	Accountant (People Services)
Address of contact	South Wales Fire & Rescue Service Unit 2, Forest View Business Park Llantrisant PONTYCLUN Mid Glamorgan CF72 8LX United Kingdom
Telephone number	[REDACTED]
Email address	[REDACTED]

<b>Pension Tracing Service contact details</b>
There is no pension tracing service contact associated with this scheme.

<b>Consent to electronic service details</b>	
Confirmed by contact name	Mrs Catherine Black
Confirmed date	29/10/2018
Email address	catherine.black@rctcbc.gov.uk

PSR number: 10276724

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## APPENDIX 4

**Summary of TPR - Firefighters' Pension Schemes Returns 2017-2018**

<b>1992 Scheme</b>				
	As @t 31/3/17	As @ 31/3/18	<b>Common Data -</b> What %age of this data have you assessed to be present and Accrate	<b>Specific Data -</b> What %age of this data have you assessed to be present and Accrate
Active Members	260	217	95%	92%
Deferred Members	54	63		
Pensioner Members	1202	1216		
Total Members	1516	1496		
<b>2007 Scheme</b>				
	As @t 31/3/17	As @ 31/3/18	<b>Common Data -</b> What %age of this data have you assessed to be present and Accrate	<b>Specific Data -</b> What %age of this data have you assessed to be present and Accrate
Active Members	42	29	89%	96%
Deferred Members	262	328		
Pensioner Members	11	12		
Total Members	315	369		
<b>2015 Scheme</b>				
	As @t 31/3/17	As @ 31/3/18	<b>Common Data -</b> What %age of this data have you assessed to be present and Accrate	<b>Specific Data -</b> What %age of this data have you assessed to be present and Accrate
Active Members	882	1004	96%	99%
Deferred Members	65	103		
Pensioner Members	4	5		
Total Members	951	1112		

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**SOUTH WALES FIRE & RESCUE AUTHORITY  
LOCAL PENSION BOARD COMMITTEE  
REPORT OF THE ASSISTANT CHIEF OFFICER PEOPLE SERVICES**

AGENDA ITEM NO 8  
21 JANUARY 2019

**SCHEME ADVISORY BOARD – RESPONSE TO WELSH MINISTERS ON  
THE GOVERNMENT ACTUARY’S DEPARTMENT (GAD) 2016 VALUATION  
ASSUMPTIONS**

**SUMMARY**

This report provides Members of the Local Pension Board with an update on the Scheme Advisory Board’s formal response to Welsh Ministers to all of the Government Actuary Department’s 2016 Valuation Assumptions.

**RECOMMENDATION**

That Members note the content of the Scheme Advisory Board’s response to Welsh Ministers.

**1. BACKGROUND**

- 1.1 At the meeting of the Scheme Advisory Board (SAB) meeting held on 27 November, 2017, the Scheme Advisory Board received the Government Actuary Department’s (GAD) draft 2016 Valuation Assumptions, prepared for consultation before being submitted by the Scheme Advisory Board for agreement by Welsh Ministers.
- 1.2 Appendix 1 attached to the report details the full GAD 2016 Valuation Assumptions.

**2. ISSUES**

- 2.1 The main areas covered in the Scheme Advisory Board’s response to Welsh Ministers are pensioner mortality, age retirement, ill health retirement, voluntary withdrawal, death before retirement, promotional pay, commutation, and family statistics.
- 2.2 The response also identifies the issue of gender, and using the same assumptions for women and men throughout the Valuation Exercise. It is noted that because of the low numbers of women pensioners there was a limited impact on the Valuation. The Scheme Advisory Board have requested that this approach be kept under review for future valuations.
- 2.3 The use of English data for the Welsh assumptions was identified, and the Scheme Advisory Board noted that whilst the differences that affected the Welsh Schemes were marginal, that Welsh Scheme data should be given due consideration.

2.4 The Scheme Advisory Board's formal response to Welsh Ministers is detailed in Appendix 2 attached to the report.

### **3. FINANCIAL IMPLICATIONS**

3.1 There are currently no identified increased costs to the Fire Authority following the draft GAD 2016 Valuation Exercise.

### **4. EQUALITY RISK ASSESSMENT**

4.1 An Equality Risk Assessment has been undertaken to assess the potential impact of this report. The assessment concluded that there are possibly some adverse effects based on gender, but due to the low number of women pensions there is limited impact on the Valuation Exercise.

### **5. RECOMMENDATIONS**

5.1 That Members note the content of the Scheme Advisory Board's response to Welsh Ministers.

<b>Contact Officer:</b> ACO Mark Malson Acting Director of People Services	<b>Background Papers:</b> Appendix 1 – GAD 2016 Valuation Assumptions Appendix 2 – Scheme Advisory Board's formal response to Welsh Ministers
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**TO: Scheme Advisory Boards (SABs)**

**FROM: Chris Mulholland, Government Actuary's Department (GAD)**

**DATE: 6 September 2018**

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**PUBLIC SERVICE PENSIONS:  
2016 ACTUARIAL VALUATIONS AND COST CONTROL MECHANISM**

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***Earlier today, the Chief Secretary to the Treasury, Rt Hon Elizabeth Truss MP, made an announcement on the completion of the 2016 actuarial valuations currently being undertaken. The purpose of this note is to brief SAB members on the matters covered by today's announcement, and on the process for finalising the valuations.***

***Indicative results of the current valuations suggest that:***

- employer contribution rates over the period April 2019 to March 2023 are likely to be generally higher than the current rates;***
- in contrast, scheme costs under the employer cost cap mechanism are generally lower than those determined at the previous valuation, and point to a number of schemes breaching the cost cap mechanism downwards. This requires the relevant responsible authority to take action to adjust the scheme's benefits or members' contribution structure to increase the scheme cost, as measured under the cost cap mechanism, back to the target level.***

## **Introduction**

1. As SAB members will be aware, the Public Service Pensions Act 2013 and the Public Service Pensions Act (Northern Ireland) 2014 specify the reformed framework for public service pension schemes, reflecting the recommendations of the Independent Public Service Pensions Commission chaired by Lord Hutton.

2. Two key parts of this framework are:

(a) the requirement for regular actuarial valuations of all schemes on a transparent and consistent basis, to inform the contributions to be paid by employers; and

(b) the establishment of a cost control mechanism (the 'employer cost cap') to protect scheme members and taxpayers from unforeseen changes in pension costs.

3. Directions published in 2014 by [HM Treasury](#) (HMT) and the [Northern Ireland Department of Finance](#) (DoF NI) set out detailed requirements for the conduct of actuarial valuations and the operation of the employer cost cap. Those directions first applied to the initial valuations of the reformed schemes which were undertaken by GAD, in its capacity as the scheme actuary, generally as at 31 March 2012.

4. It was recognised that certain amendments would be required to the directions to cater for the second round of valuations, currently being undertaken by the scheme actuary as at 31 March 2016 for each scheme (31 March 2017 for the Local Government Pension Scheme in Scotland). For the unfunded schemes, the results of these valuations will inform the employer contributions payable from 2019/20.

5. The Chief Secretary to the Treasury today announced the publication for comment of a document setting out the necessary amendments to the current directions which, when finalised later in the year, will enable the current round of valuations to be concluded. DoF NI will shortly issue for comment the corresponding amendments to the Northern Ireland directions.

#### **Documents circulated with this note**

6. The following documents are appended to this note:

(a) a Written Ministerial Statement made by the Chief Secretary to the Treasury earlier today;

(b) the accompanying document referred to in the ministerial statement, comprising:

(i) the proposed amendments to the current HMT directions to cater for the current, 2016, valuations; and

(ii) an explanatory note detailing the purpose of the various amendments, relative to the directions which applied to the previous, 2012, valuations; and

(c) a copy of the letter sent today by the Chief Secretary to the Treasury to the General Secretary of the Trades Union Congress, enclosing the documents referred to above.

7. Please refer to the attached documents for further detail and get in touch with your usual SAB secretariat contact should you have any questions. It is suggested that you retain both this note and the attached documents for future reference.

### Valuation directions: financial assumptions

8. The directions specify the applicable SCAPE discount rate, together with the assumptions to be used, in both the short-term and the long-term, for: (a) future pension increases, which apply also to the future revaluation of career average benefits linked to prices; (b) the future revaluation of career average benefits linked to earnings; and (c) future public service earnings growth.

9. HMT propose appropriately updated assumptions for each of these parameters. In particular, the directions reflect the reduction in the annual SCAPE discount rate from 3% to 2.8% with effect from 1 April 2016 which was announced at Budget 2016. Having regard to relevant assumptions made by the Office for Budget Responsibility (OBR) in its most recent, March 2018, [Economic and Fiscal Outlook \(EFO\)](#), **HMT are additionally proposing a further reduction in the SCAPE discount rate, from 2.8% to 2.4%**. This further reduction is subject to confirmation in due course and, if confirmed, it is envisaged that a rate of 2.4% will apply from 1 April 2019 for the purpose of the current, 2016, actuarial valuations. **If confirmed, this further reduction in the SCAPE discount rate will significantly increase employer contribution rates from their current levels.**

10. The proposed amendments to the directions also give effect to the UK government's commitment to exempt from the operation of the employer cost cap changes in certain of the financial assumptions mentioned in 8. above, notably the SCAPE discount rate. **So, while the reductions in the SCAPE discount rate create a material upward pressure on employer contribution rates, the employer cost cap mechanism will not be similarly impacted.**

11. The updated assumptions proposed for pension increases, and for short-term and long-term earnings growth, generally also reflect those made by the OBR in its most recent EFO report. These amendments also include updating the period over which the short-term assumptions apply, again in line with the most recent EFO. **The nature of these updates to the short-term earnings assumptions gives rise to a downward cost pressure on both employer contribution rates and within the cost cap mechanism.** The size of this impact varies by scheme, depending on a scheme's specific features - for example, the assumed rate of turnover of members of the final salary section after 2016, and the size of the scheme's final salary liabilities compared with the scheme's pensionable payroll.

**Valuation directions: demographic assumptions (for example, membership turnover and retirement/mortality patterns)**

12. On demographic aspects, the following amendments are proposed for the 2016 valuations:

(a) the future mortality pattern of scheme members after retirement is assumed to be in line with the mortality improvements underpinning the most recent, October 2017, United Kingdom population projections undertaken by the Office for National Statistics (ONS). The directions used for the 2012 valuations were based on earlier ONS projections published in autumn 2013. The latest ONS projections imply a material reduction in the pace of future mortality improvements as compared with the earlier projections, in other words lower expectations of life than assumed previously.

***Therefore, use of the most recent population projections results in a material downward cost pressure on both employer contribution rates and within the cost cap mechanism;***

(b) where a scheme member is entitled to commute pension for a lump sum at the rate of £12 for every £1 of pension commuted 17½% of the pension is assumed to be commuted. This assumption is based on an analysis of scheme experience up to the current actuarial valuations. ***This compares with the assumption of 15% for the previous valuations, and gives rise to a downward cost pressure on both employer contribution rates and within the cost cap mechanism.***

13. Other demographic aspects remain as specified in the current directions, notably:

(a) the directions continue to provide that demographic assumptions should generally be determined on a 'best estimate' basis by the relevant 'responsible authority' (that is, the person who may make scheme regulations), after obtaining the advice of the scheme actuary and after consultation with such persons as the responsible authority considers appropriate, such as the SAB; and

(b) other than for the uniformed services, scheme members' normal pension age in the reformed schemes is generally their State Pension Age, as currently specified in legislation.

### Valuation directions: other matters

14. The proposed amendments to the current directions also cover matters such as, for example:

- (a) the process whereby the scheme actuary certifies a breach of the employer cost cap and, subsequently, certifies that the steps taken to rectify such a breach are sufficient;
- (b) clarification of how the costs arising from certain legal cases are to be met; and
- (c) adjustments necessary to cater for the particular circumstances of individual schemes.

### Employer contribution rates and employer cost cap: indicative results

15. Indicative results of the current valuations suggest that ***employer contribution rates over the period April 2019 to March 2023 are likely to be generally higher than the current rates.***

16. In contrast, these indicative results suggest that ***scheme costs under the employer cost cap mechanism are generally lower than those determined at the previous valuation.*** Furthermore, where this is the case, the reduction in such costs may be more than 2% of pensionable pay, that is more than the maximum reduction currently permitted without triggering a breach of the cost cap mechanism.

17. **The indicative 2016 valuation results therefore point to a number of schemes breaching the cost cap mechanism downwards**, to an extent which requires the relevant responsible authority to take action to adjust the scheme's benefits or members' contribution structure to *increase* the scheme cost, as measured by the employer cost cap mechanism, to the target level determined at the previous valuation.

18. The UK government is committed to keeping the cost cap mechanism under review. Accordingly, before completion of the next round of four-yearly actuarial valuations, which will be undertaken as at 31 March 2020 and with provisional results perhaps being available during 2022, the Government Actuary will be asked to review the mechanism to check whether it is working as intended.

### Next steps

19. As SAB members will be aware, in the event of a downwards breach of the cost cap mechanism, scheme regulations generally provide for:

(a) a process whereby the responsible authority and the SAB seek to reach agreement on the steps to be taken; and

(b) the 'default' action which is taken if such agreement is not reached. In these circumstances, and subject to the provisions of the scheme's regulations, the responsible authority would generally be required to increase the accrual rate of the reformed career average scheme for service after April 2019, such that the employer cost cap cost of the scheme is increased to the scheme's target cost.

20. Accordingly, the scheme actuary is undertaking the necessary calculations, in line with the proposed amended directions, to determine, for each of the unfunded schemes:

(a) the employer contribution rate payable from April 2019 before considering the cost cap mechanism;

(b) the extent, if any, to which the scheme has breached the cost cap mechanism; and, if there has been a cost cap breach; and

(c) the employer contribution rate payable from April 2019 after the 'default' improvement to the scheme's provisions to correct the breach.

These calculations will necessarily be provisional this stage, since definitive figures cannot be provided until the directions are finalised later in the year.

**21. A report by the scheme actuary setting out the results of these provisional calculations will be circulated to you in advance of your next scheduled SAB meeting.**

22. In addition, in the event of a cost cap breach of a level triggering the need for an adjustment to the scheme's provisions, the scheme actuary will also liaise with your SAB secretariat to provide the information and support required to facilitate the preparation of the SAB's advice to the responsible authority on the steps to be taken to rectify the breach.

23. Accordingly, when the scheme actuary's report above is provided to SABs, it is anticipated that it will be accompanied by material relating to a formal commission from the responsible authority to the SAB setting out the context for the development of the SAB's advice. We expect that SABs will wish to start considering their advice on how to adjust the scheme's benefits or members' contribution structure to increase the scheme cost back to the target level determined at the previous valuation. Responsible authorities will also be considering what adjustments to the scheme's benefits or members' contribution structure they would be prepared to agree to.

Kerry Citric  
Fire Services Branch  
Welsh Government

T 0207 211 2730  
E chris.mulholland@gad.gov.uk

[www.gov.uk/gad](http://www.gov.uk/gad)

19 September 2018

Dear Kerry

## **2016 Valuation of the Firefighters' Pension Schemes (Wales) – Provisional valuation results**

### **Executive summary**

The provisional valuation results as at 31 March 2016 for the Firefighters' Pension Schemes (Wales), based on the draft amending directions issued by HM Treasury (HMT) on 6 September 2018, are:

- > Cost cap cost of the scheme in 2016 valuation of 12.3%, which is **4.8%** lower than the employer cost cap of 17.1% set in the 2012 valuation and therefore the reduction has exceeded the 2% margin set out in the cost cap framework.
- > Employer contribution rate required over 2019 to 2023 implementation period of **23.9%**, before any adjustment to member benefits for exceeding the 2% cost cap margin. This includes employer contributions towards ill-health retirements and is comparable with an employer contribution rate of 18.7% calculated at the 2012 valuation.
- > Employer contribution rate required over 2019 to 2023 implementation period of **28.3%**, after 'default rectification' adjustment to scheme benefits to address the cost cap breach (ie allowing for a higher accrual rate in the 2015 Scheme). This includes employer contributions towards ill-health retirements.
- > Balance sheet deficit of £37m.

### **Introduction**

This letter is addressed to the Welsh Government and its purpose is to provide provisional valuation results as at 31 March 2016 for the Firefighters' Pension Schemes (Wales) ('the scheme'). These results were commissioned by the Welsh Government following the draft amending directions issued by HMT on 6 September 2018.

It is recognised this letter may be made available to the Scheme Advisory Board (SAB) of the scheme as part of the consultation process relating to the actuarial valuation as at 31 March 2016 and may also be shared with HM Treasury and the Northern Ireland Department of Finance.

Full details of the results are set out in Annex A to this letter and the headline results are also shown below. These results are based on the following:

- > HMT directions, as revised by the amending directions which have been published in draft. Therefore, the valuation results in this letter are provisional until the directions are confirmed and finalised. If the directions are finalised without any changes, the results set out in this letter are expected to remain unchanged<sup>1</sup>. Our formal valuation reporting, including finalising the data and assumptions reports, will follow finalisation of the directions.
- > An average employee contribution rate of 13.0% of pensionable pay over the period 2019/2023, as expected based on the employee contribution rates set out in the scheme's regulations.
- > The employer contribution rate includes the cost of past service for special retained members of the modified 2007 Scheme, with allowance for the full amount of service being purchased, net of future periodic contributions that are to be received. The opening value of the cost cap fund includes an allowance for the cost of this past service, so there is no direct impact on the cost cap result.
- > For the purposes of spreading past service surplus or shortfall over a 15 year period, future payroll levels have been assumed to grow in line with the valuation assumptions for salary increases and assuming a stable workforce.
- > Our draft advice on scheme specific assumptions which has previously been provided to the Welsh Government and shared with the SAB, in our draft report "Advice on assumptions" dated 16 November 2017, with an update to the commutation assumption. We will update this draft report to reflect the final directions, once confirmed, and therefore formal advice to, and the decision of, the responsible authority (that is, the person who may make scheme regulations), remains outstanding. A summary of the key assumptions used in the current and previous valuation is set out in Annex B.
- > Data as detailed in the draft data report dated 12 March 2018, with pensionable salaries at 2015 increased by 0.6% to allow for the salaries provided to GAD being below the full amount in some cases. The draft data report will be updated to reflect this change before it is finalised.

### Cost cap cost of the scheme

The cost cap cost of the scheme calculated as at 31 March 2016 is set out in the table below, together with a comparison with the employer cost cap from the previous valuation.

**Table 1: employer cost cap**

<b>2016 valuation</b>	
Employer cost cap set at 2012 valuation (also known as the target cost)	17.1%
Cost cap cost of the scheme at 2016 valuation	12.3%
<b>Cost cap cost of the scheme less Employer cost cap</b>	<b>(4.8)%</b>

As shown above, the cost cap cost of the scheme in 2016 is 4.8% lower than the employer cost cap set at the 2012 valuation and therefore has exceeded the 2% margin set out in regulations under the Public Service Pensions Act 2013. This letter provides confirmation by

<sup>1</sup> It should be noted however that the passage of time may result in some adjustments being necessary to reflect, for example, confirmed pension increases.

the scheme actuary that the cost cap cost of this scheme would be outside the 2% margin based on the draft amending directions (formal notification will follow finalisation of the directions).

In the event of exceeding the 2% margin, regulation 160 of The Firefighters' Pension Scheme (Wales) Regulations 2015 (SI 2015/622) provides for a process whereby the responsible authority and the SAB seek to reach agreement on the necessary steps to be taken to restore the cost to the scheme's target cost. If such agreement cannot be reached within 3 months of the end of the consultation period, then the regulations provide that the accrual rate of the reformed scheme is adjusted so that the employer cost cap cost of the scheme for the implementation period (1 April 2019 to 31 March 2023) is restored to the scheme's target cost (ie to the employer cost cap).

The results shown in this letter are based on the position before any adjustment to restore the scheme's target cost. We also show the employer contribution rate should the default position in regulation 160 apply, ie rectification by adjustment of the reformed scheme accrual rate. Other rectification approaches may have different impacts on the employer contribution rate and in particular certain approaches may lead to scheme-specific assumption changes being required (for example if commutation factors are improved, it may be appropriate to assume a higher rate of commutation).

## Headline results

### *Employer contributions and scheme deficit*

The headline results below show the funding position and employer contribution rates before any actions taken to rectify the cost cap breach ("Pre rectification") and the outcome using the default accrual rate adjustment ("Default rectification"), together with the corresponding employer contribution rate and funding position from the previous valuation.

All employer contribution rates quoted in this letter are an average rate across the 1992, 2007 and 2015 schemes and include contributions towards ill-health retirements, ie the rates shown have not been reduced to allow for the separate employer contributions that are payable when a member retires from ill-health. Specific employer contribution rates for each scheme, after reductions for anticipated ill-health charges, can be provided in due course.

**Table 2: valuation balance sheet**

	2012 valuation	2016 valuation	
		Pre rectification	Default rectification
<b>Employer contributions</b>			
Employer contribution rate required over implementation period	18.7%	23.9%	28.3%
Implementation period	2015 to 2019	2019 to 2023	2019 to 2023
<b>Balance sheet position</b>			
Aggregate assets	£918m	£995m	
Aggregate liabilities	£896m	£1,032m	
Surplus (shortfall)	£21m	£(37)m	

The default rectification approach is an improvement to the 2015 reformed scheme accrual rate, which would see the accrual rate for service from April 2019 to March 2023 improve

from 1/61.4 to 1/53.1. This results in an additional employer contribution rate of 4.4% of pensionable pay, with no change in the balance sheet position.

As you can see from the table above, the employer contribution rate over the implementation period is higher following the 2016 valuation, compared with the corresponding period following the 2012 valuation, and there is now a deficit at the 2016 valuation compared to a surplus at the 2012 valuation. The main reasons for this are the changes to directed assumptions for the 2016 valuation (in particular the reduction in the SCAPE discount rate from 3.0% pa to 2.8% until April 2019 and 2.4% pa thereafter) which result in a higher liability for scheme benefit payments. The higher contribution rate is due to a combination of the additional cost of paying off the deficit over a 15 year period (the past service cost) with some offsetting from a lower cost of benefits accruing over the implementation period (future service costs). The future service cost has reduced overall as the impact of the change in assumptions has been more than offset by a reduced proportion of active members in the final salary schemes over the implementation period.

The impact of the Milne payments and the purchase of past service by special retained members was an increase in the employer contribution rate of 0.7% of pay and 0.7% of pay respectively.

#### *Employer cost cap*

Table 3 sets out the employer cost cap shown above together with the rate resulting from the default rectification option.

**Table 3: employer cost cap including default rectification**

<b>2016 valuation</b>	<b>Pre rectification</b>	<b>Default rectification</b>
Employer cost cap set in 2012 valuation	17.1%	17.1%
Cost cap cost of the scheme	12.3%	17.1%
<b>Difference</b>	<b>(4.8)%</b>	<b>0.0%</b>

The addition to the overall employer contribution rate after default rectification is slightly lower than the cost cap difference (4.4% compared with 4.8%). This is because improvements apply only to members of the 2015 Scheme and some protected members will remain in the pre-2015 schemes over the 2019-2023 period.

The main drivers of the fall in the cost cap cost compared with the previous valuation are

- > The change in the nature and term of the short-term earnings assumptions adopted for the 2016 valuation.
- > The reduction in life expectancies resulting from the use of the ONS 2016 population projections as set out in the draft amending directions for the 2016 valuation compared with the ONS 2012 population projections as set out in the 2012 valuation directions.

As you can see from the above results, the cost cap cost of the scheme has decreased since the 2012 valuation whilst the employer contribution rate has increased. This is because the impact of certain changes in assumptions which materially affect the employer contribution rate are excluded from the cost cap mechanism, the most significant of these being the change in the SCAPE discount rate.

## Next steps

Once the directions are finalised, Welsh Government is required by regulations to commission SAB in relation to the cost cap breach.

The results in this letter are based on the amending directions that have been issued in draft and which are subject to comment before being finalised. Our formal report on the valuation, including the final data report and assumptions advice report will follow finalisation of the directions which is expected as part of the 2018 budget.

Given the directions require rectification of a confirmed cost cap breach is implemented from April 2019 we recommend that Welsh Government consult the SAB as soon as possible and in anticipation of the breach being confirmed within the coming months.

This letter is suitable for the purposes of initiating that consultation and the results are expected to remain unchanged should the directions be finalised in line with the draft. It should be noted however that the passage of time may result in some adjustments being necessary to reflect, for example, confirmed pension increases.

## Compliance and limitations

This paper should be read in conjunction with our “Advice on assumptions” report, draft dated 16 November 2017 and our “Report on membership data”, draft dated 12 March 2018.

This report should not be reproduced or disseminated to parties other than those mentioned in the introduction above without our prior consent. The Government Actuary’s Department (GAD) does not accept any liability to third parties, whether or not it has agreed to the disclosure.

This work has been carried out in accordance with the applicable Technical Actuarial Standard: TAS 100 and TAS 300 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

Yours sincerely



Chris Mulholland  
Actuary

Figures shown may not sum to totals due to rounding effects.

## Annex A – Summary of valuation results

Table A1 - Valuation balance sheet

	£ million 31 March 2016	Direction	£ million 31 March 2012
<b>Aggregate scheme assets</b>	995	25(1)	918
<b>Aggregate scheme liabilities in respect of:</b>			
Active members	402	-	370
Deferred pensioners	18	-	7
Pensioners	613	-	519
<b>Total aggregate scheme liabilities</b>	1,032	24(1)	896
<b>Surplus (Shortfall)</b>	(37)	-	21

Table A2 - Contribution rates

	2016 valuation		2012 valuation <sup>3</sup>
		Direction	
<b>Contribution rate required to be paid for 15 years from 1 April 2019 to correct shortfall at 31 March 2016 (A)</b>	5.0%	27(1)(a)	(3.1)%
<b>Contribution rate required to be paid for 15 years from 1 April 2019 to correct underpayment of contributions between 1 April 2016 and 31 March 2019 (B)</b>	0.2%	27(1)(c)	2.1%
<b>Contribution rate required to cover cost of benefits accruing between 1 April 2016 and 31 March 2019</b>	32.3%	27(1)(b)	40.2%
<b>Less normal member contribution rate expected between 1 April 2016 and 31 March 2019<sup>1</sup></b>	13.2%	28(a)	12.2%
<b>Less employer contribution rate expected between 1 April 2016 and 31 March 2019</b>	18.3%	28(b)	19.3%
<b>Net contribution shortfall between 1 April 2016 and 31 March 2019</b>	0.8%		8.8%
<b>Employer contribution rate required for cost of accrual of benefits over implementation period</b>	18.7%		19.7%
<b>Contribution rate required to cover cost of benefits accruing over implementation period (C)</b>	31.7% <sup>†</sup>	27(1)(d)	32.9%
<b>Less normal member contribution rate expected over implementation period<sup>2</sup> (D)</b>	13.0%	28(c)	13.2%
<b>Employer contribution rate required over implementation period (A + B + C - D)</b>	23.9%	29	18.7%

<sup>1</sup> Expected outturn, using data collected by Welsh Government for 2016/17 and assuming the target yield of 13.2% is met over 2017/18 and 2018/19.

<sup>2</sup> Expected outturn assuming no changes to current scheme provisions.

<sup>3</sup> Corresponding payment periods all 4 years earlier.

<sup>†</sup> Excluding cost of improving 2015-scheme accrual rate to correct cost cap breach.

**Table A3 - Valuation balance sheet - Comparison with previous valuation**

	£ million
<b>Surplus (shortfall) at 31 March 2012</b>	21
Interest on surplus (shortfall)	4
Impact of Milne payments	(5)
Difference between contributions paid and cost of benefits accruing 2012 to 2016	(16)
Past service cost effect from GMP interim solutions	(1)
Past service option for special retained members	(5)
Lower contributions to remove surplus	(1)
Impact of known pensions increase on discount rate for 2014/15 and 2015/16 (relative to short term earnings assumptions)	(12)
<b>Experience effects</b>	
Pay increases	14
Pensioner mortality	(3)
Negative inflation in 2016	(1)
Other	1
Change in financial assumptions	(57)
Impact of change in demographic assumptions (including change in ONS projection table)	27
Unattributed	(5)
<b>Surplus (shortfall) at 31 March 2016</b>	<b>(37)</b>

**Table A4 - Employer contribution rate - Comparison with previous valuation**

	% pay
<b>Employer contribution rate determined at 31 March 2012</b>	<b>18.7%</b>
Change in financial assumptions	3.8%
Impact of change in demographic assumptions (including change in ONS projection table)	(1.3)%
Change owing to past service adjustment (from surplus to deficit) <sup>1</sup>	6.2%
Run-off of the pre-2015 schemes	(3.5)%
Change in membership profile (accrual cost)	(0.4)%
Change in longevity assumption due to passage of time (accrual cost)	0.2%
Change in average SPA (accrual cost)	0.0%
Decrease in average member contribution rate	0.2%
Change in cost of public sector transfer club	(0.3)%
Unattributed	0.2%
<b>Employer contribution rate determined at 31 March 2016, before the approach adopted to rectify the Cost Cap cost</b>	<b>23.9%</b>
Change in scheme accrual rate to rectify the Cost Cap cost (default approach under regulations)	4.4%
<b>Employer contribution rate determined at 31 March 2016, after default approach to rectify the Cost Cap cost</b>	<b>28.3%</b>

1 - Includes 0.7% of pay in respect of the impact of Milne payments and 0.7% of pay for the impact of the past service option for special retained members.

## Employer cost cap

### Table A5 - Change in cost cap fund

	£ million
<b>Initial Cost Cap Fund (set at 31 March 2015)</b>	454
Plus Cost Cap Income	23
Less Cost Cap Benefits Paid	0
Less Cost Cap Net Leavers Liability	(51)
Plus Cost Cap Notional Investment Return	11
<b>Cost Cap Fund (at 31 March 2016)</b>	435

### Table A6 - Comparison of cost cap fund and cost cap liabilities

All figures at 31 March 2016	£ million
<b>Cost Cap Liabilities</b>	409
Relating to benefits accrued in the pre-2015 schemes and for members in service at the <b>valuation date</b>	401
Relating to benefits accrued in the post-2015 scheme	8
<b>Cost Cap Fund</b>	435
<b>Cost Cap Surplus (Shortfall)</b>	26

### Table A7 - Cost cap contribution rates

	% pay
<b>Employer cost cap set at 2012 (B)</b>	17.1%
<b>Employer cost cap (A) (after SCAPE adjustment)</b>	20.1%
<b>Cost cap difference<sup>1</sup> (A-B)</b>	3.0%

<b>Cost Cap Cost of the Scheme</b>	<b>Before rectification of cost cap</b>	<b>Default rectification of cost cap</b>
Cost Cap Future Service Cost (Contribution rate required to cover expected cost of benefits accruing between 1 April 2019 and 31 March 2023 by reference to assumptions in Direction 40)	31.7%	36.5% <sup>†</sup>
Add Cost Cap Past Service Cost (Contribution rate required to be paid for 15 years from 1 April 2016 to correct Cost Cap Shortfall at 31 March 2016)	(3.4)%	(3.4)%
Deduct Cost Cap Contribution yield Contribution yield expected from members between 1 April 2019 and 31 March 2023 <sup>2</sup>	13.0%	13.0%
Deduct Cost Cap Difference <sup>1</sup>	3.0%	3.0%
<b>Cost Cap Cost of the scheme</b>	12.3%	17.1%
<b>Difference between Employer cost cap and Cost Cap Cost of the Scheme</b>	(4.8)%	0.0%

1. Impact of change in the SCAPE rate and long term earnings assumption.

2. Expected outturn assuming no changes to current scheme provisions.

<sup>†</sup> Including cost of improving 2015 Scheme accrual rate to correct cost cap breach.

**Table A8 - Analysis of difference between Employer cost cap and Cost Cap Cost of the Scheme**

	Past service	Accrual cost
Change in financials <sup>1</sup>	(1.7)%	n/a
Change in mortality assumptions <sup>2</sup>	(1.0)%	(0.6)%
Changes in demographic assumptions <sup>3</sup>	0.1%	(0.4)%
Change in membership profile <sup>4</sup>	n/a	(0.4)%
Change in average SPA <sup>5</sup>	n/a	0.0%
Identified experience gain <sup>6</sup>	(0.8)%	n/a
Mortality improvements: improvement due to elapsed time <sup>7</sup>	n/a	0.2%
Change in cost of public sector transfer club <sup>8</sup>	n/a	(0.3)%
Change in expected member contribution yield <sup>9</sup>	n/a	0.2%
Unexplained <sup>10</sup>	0.0%	(0.1)%
Total Change in cost cap cost of the scheme (past service/accrual cost)	(3.4)%	(1.4)%
<b>Change in cost cap cost of the scheme</b>		<b>(4.8)%</b>

1. Whilst any change in long-term assumptions is outside the cost cap mechanism this item reflects the impact of the changes in short-term assumptions between the 2012 and 2016 valuation versions.
2. This is mainly due to the change in directed mortality improvements resulting from the change from ONS 2012 to 2016. This results in a reduction in expected future life expectancy.
3. This is the impact of changes to demographic assumptions other than mortality, primarily the change in directed commutation assumption. This mainly impacts future service, as most past service relates to 1992 Scheme benefits, for which the commutation assumption is scheme specific and has not changed.
4. At the 2016 valuation, there is a larger proportion of retained members which results in a reduction in the accrual cost.
5. Although there has been no change in the timetable of SPA used for the valuation the passage of time means that current members (with close to the same average age as the 2012 membership), have on average, later SPA than the previous membership set. However, the impact is not material as SPA is only relevant for deferred benefits in the 2015 Scheme, so not a main driver of the cost of benefits.
6. The experience gain mainly relates to pay increases. The impact of pay restraint on overall pensionable pay growth has resulted in lower increases over 2015/16 than assumed at the 2012 valuation. The latter being the combined assumption of general pay growth as directed and promotional pay growth as set on a scheme specific basis.
7. The passage of time and the nature of the directed assumption for mortality improvements means that a member now aged 45 will have a different future life expectancy to a member aged 45 at the 2012 valuation. The figures shown reflect the impact of the passage of time on future life expectancy between successive implementation periods. The impact shown is after allowance for the change in improvement basis shown in 2.
8. The expected cost to the scheme of the public sector transfer club has reduced since the previous valuation from 1.0% of pay to 0.7% of pay.
9. The expected average member contribution rate over 2019/23 is 13.0% of pay, assuming no changes to current scheme provisions, compared to 13.2% of pay expected over 2015/19.
10. The unexplained item is expected to be a result of the aggregate impact of small and unidentified experience effects. Data limitations have resulted in some difficulty in determining the Net Leavers Liability to a reasonable degree of accuracy, and the NLL has been set such that there is a zero unexplained item in the reconciliation of past service.

## Annex B – Summary of assumptions

### Financial assumptions

	31 March 2016 draft				31 March 2012			
<b>Discount rate</b>								
For liabilities and contribution rate	2.8% pa real; 4.86% pa nominal until 2019 and then 2.4% pa real; 4.45% nominal				3.0% pa real; 5.06% pa nominal			
For cost cap rate	2.4% pa real; 4.45% nominal				3.0% pa real; 5.06% pa nominal			
<b>Pension increases</b>								
	2.0% pa				2.0% pa			
<b>Long term salary growth</b>								
	4.2% pa, 2.2% pa in excess of assumed CPI				4.75% pa, 2.75% pa in excess of assumed CPI			
<b>Earnings assumption for CARE revaluations</b>								
	Date		Assumption		Date		Assumption	
	April 2019		2.7%		April 2016		3.4%	
	April 2020		2.4%		April 2017		3.6%	
	April 2021		2.5%		April 2018		3.7%	
	April 2022		2.8%		April 2019		3.7%	
	April 2023		3.0%		Thereafter		4.75%	
	Thereafter		4.2%					
<b>Short term variations in assumptions</b>								
	Year	Gross discount rate	Pension increases	Salary growth	Year	Gross discount rate	Pension increases	Salary growth
	2016/17	3.83%	1.0% <sup>1</sup>	1.2%	2012/13	5.27%	2.2%	1.8%
	2017/18	5.88%	3.0% <sup>2</sup>	2.2%	2013/14	5.78%	2.7%	0.5%
	2018/19	5.06%	2.2%	2.1%	2014/15	5.27%	2.2%	1.5%
	2019/20	4.24%	1.8%	2.3%	2015/16	5.16%	2.1%	2.0%
	2020/21	n/a	n/a	2.6%	2016/17	n/a	n/a	2.5%
	2021/22	n/a	n/a	2.8%	2017/18	n/a	n/a	3.0%
	2022/23	n/a	n/a	3.0%	2018/19	n/a	n/a	3.0%
1. Order made for 2016/17.								
2. Order made for 2017/18.								

### Mortality assumptions

Baseline mortality	2016 valuation		2012 valuation	
	Standard table	Adjustment	Standard table	Adjustment
Current normal and ill-health pensioners	S2NMA	113%	S1NMA	113%
Future normal health pensioners	S2NMA	113%	S1NMA	110%
Future ill-health pensioners	S2NMA	113%	S1IMA	100%
Dependants	S2DFA	100%	S1DFA	100%

Future mortality improvements are in line with the most recent ONS population projections at the date of each valuation: ONS-2016 projections for the 2016 valuation and ONS-2012 projections for the 2012 valuation.

Commutation assumptions as per our draft report "Advice on assumptions" dated 16 November 2017, other than assuming:

- > 17.5% of pension is commuted for members of the 2007 Scheme, mixed 2007/2015 scheme members and new entrants to the 2015 Scheme; and
- > 8.75% of 2015 Scheme pension is commuted for mixed service 1992/2015 scheme members and mixed service 2007 special/2015 scheme members.

Details of other demographic assumptions are provided in our draft assumptions report.

#### *Notional fund roll up*

	<b>Notional assets</b>	<b>Cost Cap Fund</b>
<b>2012/13</b>	5.27%	N/a
<b>2013/14</b>	5.78%	N/a
<b>2014/15</b>	4.25%	N/a
<b>2015/16</b>	2.90%	2.30%

\*To note the rate of roll up for 2015/16 is set differently for the notional assets and the cost cap fund.

#### *Projected pensionable payroll*

The following projected payroll has been used in the valuation calculations. This is actual pay, not full-time equivalent.

	<b>Projected pensionable payroll £ million</b>
<b>2019/20</b>	62.0
<b>2020/21</b>	63.5
<b>2021/22</b>	65.2
<b>2022/23</b>	67.1
<b>2023/24</b>	69.5
<b>2024/25</b>	72.4

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Llywodraeth Cymru  
Welsh Government

Eich cyf/Your ref  
Ein cyf/Our ref

Michael Prior  
Chair  
Firefighter Pension Scheme  
Advisory Board for Wales

8 October 2018

Dear Mr Prior

## **CONSULTATION WITH THE FIREFIGHTER SCHEME ADVISORY BOARD FOR WALES ON THE 2016**

1. This letter seeks the Firefighter Scheme Advisory Board (SAB) for Wales's advice following receipt of the provisional results of the actuarial valuation of the scheme as at 31 March 2016. These provisional results show that there has been a cost cap 'floor' breach.
2. On 6<sup>th</sup> September we advised SAB members of the publication of HM Treasury's draft directions, the expected breach of the cost cap, and the action that the Welsh Ministers would take to consult SAB as required by the 2015 scheme regulations. We then circulated a copy of the full provisional valuation results to SAB members on 20 September. The SAB is invited to provide the Welsh Government with recommendations on which changes to the scheme (or combination of changes) they believe should be adopted to enable the cost cap breach to be rectified. In presenting such advice, the SAB is asked to indicate the considerations it has taken into account.
3. The SAB should provide its advice to the Welsh Government no later than 7 December 2018, and should seek to reach agreement with the Welsh Ministers no later than 1 March 2019.
4. If the SAB is unable to agree a consensus position, it should advise the Welsh Government of that, and should provide a response that reflects any diverging views among its members.

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

## Background

5. The provisional results produced by GAD are based on the draft amending directions issued for comment by the Treasury on 6 September 2018. The results indicate that, as defined under the proposed cost cap framework, the estimated employer cost cap cost of the scheme (12.3%) has decreased to a level which requires steps to be taken to restore the employer cost of the scheme to the scheme's target cost of 17.1%.
6. In this situation, regulation 160 of the Firefighters' Pension Scheme (Wales) Regulations 2015 provides for:
  - (a) a process whereby the Welsh Ministers and the SAB seek to reach agreement on the necessary steps to be taken; and
  - (b) the steps to be taken if such agreement is not reached. In these circumstances, the Welsh Ministers are required to adjust the accrual rate of the 2015 scheme in respect of pensionable service after 31 March 2019, so that the employer cost cap cost of the scheme is restored to the scheme's target cost.
7. This letter, along with the circulation of the provisional results on 20 September, initiates the process in 7(a). SAB should consider it in conjunction with:
  - (a) those provisional results of the actuarial valuation of the scheme as at 31 March 2016 (attached);
  - (b) the draft amending directions <https://www.gov.uk/government/publications/public-service-pensions-2016-valuations-supplementary-documents> issued by the Treasury on 6 September 2018; and
  - (c) GAD's briefing note of 6 September 2018, which summarises the proposed amendments to the current valuation and cost cap directions (attached).

### Options for rectification: members' contributions

8. Section 12(7) of the Act provides that the steps taken to rectify the cost cap breach may include the increase or decrease in members' benefits and/or contributions. In the current context, such steps would be expected to involve an increase in members' benefits and/or a reduction in members' contributions, so that the provisional employer cost cap cost of the scheme is increased to the scheme's target cost.
9. However, and without prejudice to the SAB's discussions, the Welsh Government is sceptical about reducing employee contributions. Scheme members rightly expect some certainty and stability about their contribution levels, and thus their net pay. Yet it is entirely possible that the 2021 valuation might yield a breach of the cost cap ceiling, meaning employee contribution rates would then have to rise significantly. In other words, until and unless valuations stabilise, we would risk creating long-term oscillations in employee contributions and net pay.
10. We also understand that this approach could affect the Treasury's funding provision for firefighter pensions in Wales. In developing their recommendations, SAB should be aware that the Welsh Government does not hold any provision for such costs in its own budgets.

**Options for rectification: members' benefits**

11. Broadly speaking, both:

- (a) improvements to benefits expected to accrue in the 2015 scheme after 31 March 2019, and
- (b) improvements to already accrued active member benefits in both pre- and post-reform schemes,

contribute to addressing the cost cap breach.

12. Given the significant impact that the change in the SCAPE discount rate will have on employer contribution rates, the Welsh Ministers will not agree to any SAB rectification proposal which, wholly or in part, increases employer costs but does not contribute to addressing the cost cap breach.

13. As noted in 7(b) above, regulation 160 of the scheme regulations provides that, should agreement not be reached between the Welsh Ministers and the SAB, the accrual rate of the 2015 scheme would be adjusted for pensionable service after 31 March 2019. GAD's provisional calculations indicate that this default option would result in an increase in the 2015 scheme accrual rate from 1/61.4 (1.63%) to 1/53.1 (1.88%).

14. For the avoidance of doubt, the SAB could advise the Welsh Ministers that it agrees with such an adjustment to the reformed CARE scheme accrual rate.

Yours sincerely



**STEVE POMEROY**  
Head, Fire Services Branch

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**FIREFIGHTERS' PENSION SCHEME ADVISORY BOARD FOR WALES:  
16 OCTOBER 2018**

**PROVISIONAL 2016 VALUATION RESULTS : COST CAP BREACH AND  
REQUIRED ACTION BY SAB**

**PURPOSE**

1. This paper provides further details to members of the process that the SAB is required to undertake under section 160 of the Firefighters' Pension Scheme (Wales) Regulations 2015 as a result of the cost cap breach.
2. Members are asked to note the actions required of the Board and the timings for doing so, and to consider their approach to providing recommendations within the timeframes provided.

**BACKGROUND**

3. The Firefighters' Pension Scheme Regulations 2015 sets the cost cap for the firefighter pension scheme in Wales at 17.1% of pensionable pay. If, at the valuation of the scheme, the cost cap is breached by more than 2% in either direction then action must be taken to amend scheme benefits to bring costs back to the agreed level.
4. The Regulations set out that, where a breach occurs, Welsh Ministers must consult with the Firefighter Pension Scheme Advisory Board for Wales (SAB) with the aim of agreeing action to rectify the breach. If no agreement can be reached the default arrangement is to amend the pension accrual rate for the scheme.
5. On 6 September the Welsh Government provided members with copies of the HMT draft valuation directions, HMT's letter to the TUC (which did not envisage any substantial changes to these directions) and GAD's detailed explanation of the likely impact on the cost cap costs of schemes. This set out that indicative figures, based on HMT's draft directions, showed that the cost cap floor was likely to be breached. The provisional valuation results circulated to members on 20 September (attached) confirmed the breach.
6. In addition the Welsh Government wrote to the Chair of the SAB on 9 October, setting out the timings for the consultation process. The key issues emerging from that letter are :

**Timing** - The SAB has been asked to provide its recommendations to the Welsh Government no later than 7 December 2018, and should seek to reach agreement with the Welsh Ministers no later than 1 March 2019.

**Actions to Rectify the Breach** – The SAB may wish to consider a range and combination of benefit improvement options in its deliberations, as follows :

- Accrual rate
- Revaluation

- Commutation factor
- Death in service lump sum
- Ill health terms
- Early retirement factors

The Welsh Government has however raised the following issues :-

- Employee Contribution Rates - without prejudice to the SAB's discussions, the Welsh Government has raised some issues in respect of reducing employee contributions. These focus on the potential for this to create instability for members, given that the current costs cap mechanisms is clearly prone to significant fluctuation. Such an approach could affect the Treasury's funding provision for firefighter pensions in Wales and members should also be aware that the Welsh Government does not hold any provision for such costs in its own budgets.
- Members need to be cognisant of the impact that the change in the SCAPE discount rate will have on employer contribution rates prior to any action taken to resolve the cost cap breach. Any SAB proposal which, wholly or in part, increases employer costs but does not contribute to addressing the cost cap breach would not be appropriate given this wider context.
- The 2015 Regulations provide for a fall back position should agreement not be reached between the Welsh Ministers and the SAB – that is an adjustment in the accrual rate. GAD's provisional calculations indicate that this default option would result in an increase in the 2015 scheme accrual rate from 1/61.4 (1.63%) to 1/53.1 (1.88%). The Welsh Government have pointed out that the SAB could advise the Welsh Ministers that it agrees with such an adjustment to the 2015 scheme accrual rate.

### **Principles for cost cap rectification**

7. The principles set out below may support SAB in assessing different benefit improvement options :-

- Lawful, and do not give rise to undue legal risk;
- Capable of being accepted by necessary parties;
- Simplicity: can be administered and understood by members;
- Member appreciation: change is valued by members;
- Reversibility: the impact on members if change has to be reversed at a later stage, as well as the administrative complexity (eg. if benefits need to be subsequently reduced at future valuations);
- No retrospective improvement to deferred or pensioner members' benefits ( doesn't contribute to correcting breach);
- No retrospective improvement to benefits for active members in respect of service before 1 Apr 2019;
- Fairness between members;

- Consistency amongst UK firefighters (although some differences already exist)
- Tax efficiency: consider pension tax consequences.

### Provisional Valuation Results

8. The provisional valuation results are set out in the attached letter from GAD to the Welsh Government, dated 19 September 2018. A summary of some of the key figures are set out below. GAD will be available at the meeting on 16<sup>th</sup> October to advise members on the detail of the calculations.

Employer Cost Cap as set in the 2015 firefighter pension regulations	- 17.1%
Cost Cap cost as calculated in the current (2016) valuation	- 12.3%
Level of adjustment required to bring costs back in line	- (4.8%)
Current Employer Contribution Rate	- 18.7%
Employer Contribution Rate resulting from valuation (including SCAPE adjustment)	- 23.9%
Employer contribution rate required to resolve the cost cap breach (based on improving member accrual rates)	- 28.3%

9. Members will be aware that similar breaches have occurred in the valuation of the other firefighter schemes across the UK and as such the SABs in the other UK Countries will be required to provide similar recommendations to their respective governments. In order to share knowledge and information between the SABs Michael Prior, Chair of SAB for Wales was party to the English SAB discussions on 3<sup>rd</sup> October, and Clair Alcock of the LGA has attended the SABs for all of the UK firefighter schemes. Both will provide verbal feedback to members on the emerging discussions.

### RECOMMENDATIONS

10. Members are asked to :

- Note the provisional outcomes of the 2016 valuation as set out in the report from GAD
- Agree a plan for delivering recommendations to the Welsh Ministers by 14 December, to include early consideration of options that members agree are in or

out of scope, and any additional information and advice they might require to progress with delivering the SABs recommendations.



# **Firefighters' Pension Schemes (Wales)**

## **2016 valuation provisional results and cost cap process**

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**Chris Mulholland, Government Actuary's Department**

**16 October 2018, SAB meeting**



## What we will cover

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1. Introduction: what's the issue?
2. Background
3. Headline draft results
  - > Cost cap
  - > Employer contribution rate
4. Options for fixing cost cap breach
5. Next steps



Government  
Actuary's  
Department

# 1. Introduction



## Introduction: what's the issue?

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- > Draft valuation results\* show a 'cost cap floor' breach – ie the pension scheme is costing less than expected.
- > Welsh Ministers are consulting with the SAB on how to change the pension scheme to fix this breach.

\* Results in these slides are based on draft amending Directions issued by HMT on 6 September 2018 and full detail is set out in GAD's letter dated 19 September 2018.

GAD technical bulletin dated 7 September 2018 provides summary of draft directions and more details on valuation process

<https://www.gov.uk/government/publications/public-service-pension-schemes-valuations-update-a-gad-technical-bulletin>



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# 2. Background



## What is a valuation?

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Regular assessment of cost of the pension scheme:

- > To set employer contribution rates  
(from 1 April 2019 to 31 March 2023)
- > To test cost against 'employer cost cap' mechanism  
(backstop cost protection for taxpayer)

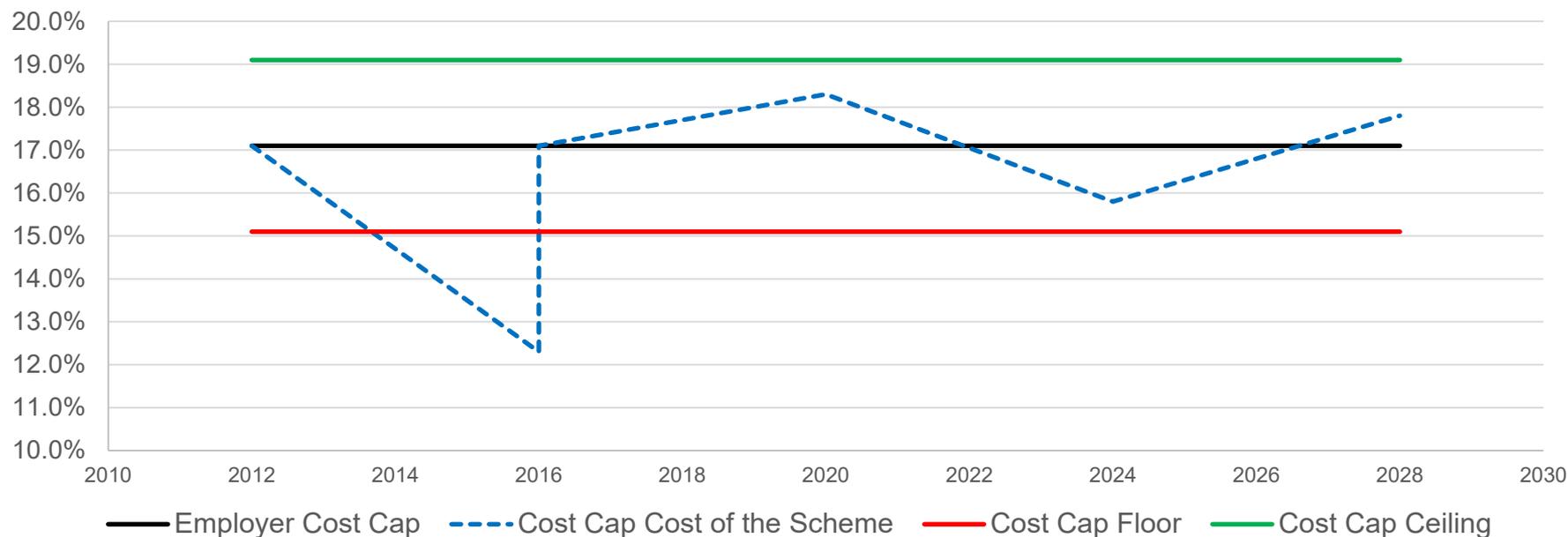


## How the cost cap works

**Employer cost cap** set as part of the 2012 valuation, expressed as a rate of pensionable pay (17.1% for scheme)

At subsequent valuations, compare the **cost cap cost of the scheme** to the **employer cost cap**

Illustration of cost cap mechanism





## Purpose of the Cost Cap

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### Only certain member costs controlled:

- > The past and future service costs of:
  - > All members of the 2015 Scheme, plus
  - > Active members of the final salary schemes (including protected and unprotected)

Pensioner and deferred members of the final salary pension schemes are excluded
- > Impact of factors such as life expectancy, growth in salaries, or career paths are included
- > Impact of financial assumptions (eg discount rate) are excluded

Review of the design of the cost cap mechanism announced in WMS, to be concluded in time for 2020 valuations.



# 3. Headline results



## Headline results

<b>% of pay</b>	<b>2012 Valuation</b>	<b>2016 Valuation</b>	<b>Difference</b>
Implementation period	2015-2019	2019-2023	
Employer Cost Cap (2012) or Cost Cap cost (2016)	17.1%	12.3%	-4.8%
Employer contribution rate (before rectification of cost cap breach)	18.7%	23.9%	+5.2%
Employer contribution rate (after 'accrual rate' rectification of breach)	18.7%	28.3%	+9.6%



# Cost cap results – main impacts

2012 Employer cost cap:

17.1%

Change in demographic assumptions  
(including ONS 2012 to ONS 2016)

-1.9%

Change in financial assumptions  
(short term salary growth)

-1.7%

Decrease in average member contribution rate  
(13.2% to 13.0%)

+0.2%

Experience gain  
(salary growth lower than assumed)

-0.8%

Other

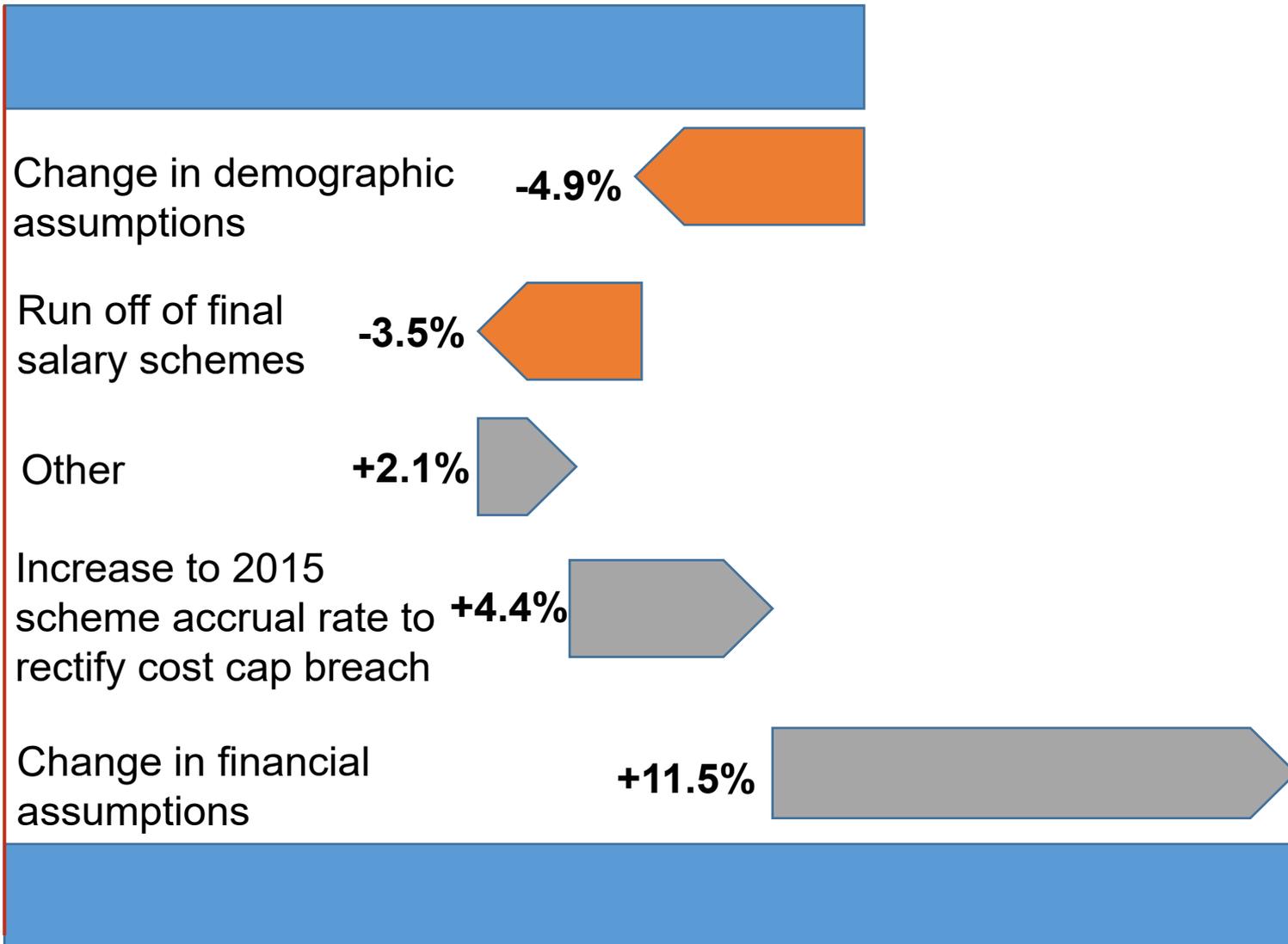
-0.6%

Cost cap cost of the scheme 2016:

12.3%



## Employer contribution rate – main impacts





# 4. Options for fixing cost cap breach



## Main options to fix cost cap breach

Option	Impact on cost cap breach	Impact on employer contribution rate
Improve accrual rate (currently 1/61.4)	Improving to 1/53.1 would eliminate breach	Increases by 4.4% of pay.
Reduce member contributions	Reducing overall average member contribution rate by 4.8% of pay would eliminate breach	Increases by 4.8% of pay.
Higher Commutation terms (currently 12:1)	Not sufficient on its own to fix breach, eg increasing to 20:1 changes the cost cap by about 2% of pay (40% of the breach).	Not calculated to date
Dependant's proportion (currently 50%)	Not sufficient on its own to fix breach, eg increasing to 75% changes the cost cap by about 1% of pay (20% of the breach).	Not calculated to date
Improve early retirement terms	Depends on improvement. Modelling is complex; member behaviour might change leading to assumption change.	Not calculated to date
Higher in-service revaluation (currently AWE)	Depends on size of change, eg increasing by 0.5% pa changes the cost cap by about 2% of pay (40% of the breach).	Not calculated to date



# 5. Next steps



## Estimated timeline

Step	Date
SAB discussion on options to fix breach.	Oct 2018
SAB provides recommendation to Welsh Ministers.	[TBC]
SAB and Welsh Ministers to seek to reach agreement (default is to change accrual rate).	[TBC]
Valuation directions finalised by HMT. GAD formally confirms cost cap breach.	Nov 2018
Welsh Ministers confirm approach to fix breach.	[TBC]
GAD calculates new employer contribution rate on the new benefit structure.	[TBC]
Implementation – amend scheme regulations, update admin systems, new employer rate.	Apr 2019 (target)



# 6. Additional Detail



## Cost cap results

Cost Cap Cost of the Scheme at 2016 valuation	% of pay
Cost Cap Future Service Cost	31.7%
Cost Cap Past Service Cost	(3.4%)
Average member contribution rate (2019 to 2023)	(13.0%)
Cost Cap Difference (Impact of change in the SCAPE rate and long term earnings assumption)	(3.0%)
<b>Cost Cap Cost of the scheme at 2016 valuation</b>	<b>12.3%</b>

The cost cap cost is compared against the employer cost cap set at 2012 valuation

Change in cost cap	% of pay
Employer cost cap set at 2012 valuation	17.1%
Cost cap cost of the scheme at 2016 valuation	12.3%
<b>Cost cap cost of the scheme less Employer cost cap</b>	<b>(4.8%)</b>



# Employer contribution rate

Employer contribution rate (before cost cap is rectified)	% of pay
Past service cost	5.0%
Adjustment for higher cost of accrual between April 2016 and March 2019	0.2%
Future service cost (31.7% cost of benefits accruing less 13.0% member contribution rate)	18.7%
<b>Employer contribution rate between April 2019 and March 2023 (before cost cap is rectified)</b>	<b>23.9%</b>

Rectifying the cost cap breach through the default approach of improving the accrual rate leads to additional employer cost. Accrual would improve from 1/61.4 to 1/53.1.

Employer contribution rate (after cost cap is rectified)	% of pay
Employer contribution rate, before rectification	23.9%
Cost of higher accrual rate	4.4%
<b>Employer contribution rate between April 2019 and March 2023 (after cost cap is rectified)</b>	<b>28.3%</b>

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## Firefighters' Pension Scheme (Wales)

### Accrual and employee contribution options to address cost cap breach

Both tables below show the combinations of the improvement in the 2015 Scheme accrual rate and the reduction in the employee contribution rate (for members of all schemes) that would address the cost cap breach of 4.8% of pay. The first table shows combinations based on simple changes to the accrual rate, whereas the second table shows the combinations based on simple changes to the employee contribution rate.

The current accrual rate is 1/61.4 and the current employee contribution rate is expected to average 13.0% of pensionable pay (over 2019/2023).

**Table 1 – Simple change to the accrual rate**

Improve accrual rate from 1/61.4 to:	Required reduction in employee contributions (% of pensionable pay)	Impact on employer contribution rate (% of pensionable pay)
1/61.4	4.8%	+4.8%
1/59	3.5%	+4.7%
1/57	2.4%	+4.6%
1/55	1.2%	+4.5%
1/53.1	No reduction needed	+4.4%

**Table 2 – Simple change to the employee contribution rate**

Reduction in employee contributions (% of pensionable pay)	Required accrual rate	Impact on employer contribution rate (% of pensionable pay)
0.0%	1/53.1	+4.4%
1.0%	1/54.7	+4.5%
2.0%	1/56.3	+4.6%
3.0%	1/58.0	+4.6%
4.0%	1/59.8	+4.7%
4.8%	No improvement needed (1/61.4)	+4.8%

These figures above have been prepared for the Welsh Government following a request at the SAB meeting on 16 October 2018 and are intended to provide an indication of accrual rate and employee contribution options to address the provisional cost cap breach. The figures are not suitable for any other purpose and should be considered alongside GAD's letter dated 19 September 2018 which contained the full set of provisional valuation results. GAD can provide confirmed figures once final directions are available and the intended change in scheme benefits and/or contributions is known.

**Chris Mulholland, Government Actuary's Department, 29 October 2018**

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Government  
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## Firefighters' Pension Scheme (Wales) 2016 Valuation - Cost Cap Rectification

This paper is produced for the Welsh Government, and can be shared with the Scheme Advisory Board (SAB) of the Firefighters' Pension Scheme (Wales) ('the Fire Scheme') as part of the 2016 valuation discussions, to provide approximate costs for potential benefit improvements for service in the 2015 Scheme from April 2019 to rectify the 4.8% of pensionable pay cost cap breach.

The options included in this paper follow on from those requested in the meeting of the SAB on 5 November 2018 and are split into three tables:

- > The first section sets out a number of options which would each, in isolation, address the cost cap breach and which are costed on the basis that each such option is set as the new benefit and contribution structure from April 2019.
- > The second section repeats the same options, but assuming that the commutation factor is also improved to 20:1, rather than 12:1.
- > The third section considers options under which members would have a choice over their benefit and contribution combination (based on a commutation factor of 12:1).

The options that allow for a combination of a change in both the accrual rate and employee contributions have been selected such that a round accrual rate is used, so do not exactly correspond to the 75/25, 50/50 and 25/75 percentage splits in the second column of the first two tables below. The increases in the employer contribution rate illustrated in those tables are expressed relative to the provisional 'prerectification' rate of 23.9%.

### Fixed options based on commutation of 12:1

Fixed Option	Description	Accrual rate	Average member contribution rate (% of pay)	Commutation factor	Increase in employer rate (% of pay)
	Current benefits	1/61.4	13.0%	12:1	-
A1	Accrual only (default)	1/53.1	13.0%	12:1	4.4%

B1	75% Accrual, 25% Contributions	1/55.0	11.8% (-1.2%)	12:1	4.5%
C1	50% Accrual, 50% Contributions	1/57.0	10.6% (-2.4%)	12:1	4.6%
D1	25% Accrual, 75% Contributions	1/59.0	9.5% (-3.5%)	12:1	4.7%
E1	Member contributions only	1/61.4	8.2% (-4.8%)	12:1	4.8%

*At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes the [standards](#) we apply.*

### Fixed options based on commutation of 20:1

Fixed Option	Description	Accrual rate	Average member contribution rate (% of pay)	Commutation factor	Increase in employer rate (% of pay)
	Current benefits	1/61.4	13.0%	12:1	-
A2	Accrual only	1/56.7	13.0%	20:1	4.4%
B2	75% Accrual, 25% Contributions	1/58.0	12.2% (-0.8%)	20:1	4.5%
C2	50% Accrual, 50% Contributions	1/59.0	11.6% (-1.4%)	20:1	4.5%
D2	25% Accrual, 75% Contributions	1/60.0	11.1% (-1.9%)	20:1	4.6%
E2	Member contributions only	1/61.4	10.3% (-2.7%)	20:1	4.6%

### Options that provide members with a choice

Under these options, rather than a fixed benefit structure, members are offered a choice of a higher accrual rate / same member contribution or the same accrual rate / lower member contribution. Providing a choice for members does not rectify the cost cap breach on its own, but could potentially form part of a benefit and employee contribution package that does rectify the breach.

Member Option	Description	Accrual rate	Average member contribution rate (% of pay)	Commutation factor
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1	High accrual	1/53.1	13.0%	12:1
2	Low accrual	1/61.4	8.2% (-4.8%)	12:1

The increase in the employer rate would be in the range 4.4% to 4.8% of pay depending on the proportion of members taking each option.

**The figures in the above table are for illustration only** and use the default accrual rate and the full reduction in member contributions as the two options. In practice, we expect there would be an element of selection if a choice was provided to members, in that members might choose the option that is most beneficial to their own circumstances. As a result, lower accrual rates (ie less pension) and/or higher member contribution rates than those shown in the table may need to be offered instead of the examples above, so that the expected overall cost to the scheme is equal to that required to rectify the cost cap breach. Therefore, if members are offered a choice, there is the potential for some members to receive a lower accrual rate, or pay higher contributions, than would be the case if no choice was provided. GAD would need to carry out some further analysis to provide these accrual rates and contributions, which would require assumptions about which members would take up each option. The assumptions would be difficult to determine and there would be a risk that the actual take-up would vary significantly from the assumptions, which would mean that the package would either over- or under-correct the cost cap breach.

The SAB could use the costs of fixed options to put together a provisional member options pack. However, once a package was chosen, GAD would need to confirm this would work in aggregate.

There are also some further aspects that would need to be clarified in order to carry out those calculations, such as:

- > Are all current and future 2015 Scheme members offered a choice, or just those in the 2015 Scheme at a certain date, eg March 2019?
- > Would it be a 'one off' option or can members change the option at specified intervals, eg each year? The annual approach would be more complex to implement and it may be worth checking with scheme administrators whether it is practicable.
- > Are protected members who are still accruing benefits in the final salary schemes included and if so what would they be offered? For example, would they be excluded from any changes or would they be offered a reduction in contributions (and if so, would this be the same reduction as 2015 Scheme members or a different amount)?
- > Which commutation factors should be offered and should members have a choice about these?

Annex A provides some principles the SAB may wish to consider when looking at potential benefit changes. We would note the following points in relation to member choice options by reference to these principles:

- > HM Treasury may have concerns about member choice given the fiscal impact of reduced contribution receipts.
- > Providing members with a choice would not be simple. It would be administratively complex and would introduce risks around member choice. The communication exercise would need to be very carefully handled to manage these risks.
- > Introducing member choice may be hard to reverse.

## Limitations

This list of potential changes is not exhaustive and the Welsh Government, in consultation with the SAB, may wish to consider other changes. All benefit changes quoted above are assumed to apply to the 2015 Scheme from April 2019 onwards.

This paper contains the results of actuarial calculations. The Welsh Government will need to consider other issues in taking forward changes to scheme benefits. In particular, this paper does not constitute legal or administrative advice. We have not considered whether the options contained in this paper would be able to be implemented from a legal or administrative perspective. The Welsh Government may wish to consider seeking advice on these matters from an appropriately qualified person or source.

The figures quoted have been calculated using approximate methods and full calculations would be required to confirm the benefits and contributions that would rectify the cost cap breach under any particular option. The results assume that the benefit changes do not affect member behaviour.

## Compliance and quality standards

This work has been carried out in accordance with the relevant Technical Actuarial Standards issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK. This statement of compliance relates to the work carried out for the Welsh Government to date, and is on the basis that the figures in this paper will not be used for any final decisions. A formal valuation report will be produced to provide final results and compliance with these standards will be reassessed when the final report is issued.

## Government Actuary's Department 21 November 2018 Annex A – Possible principles for SAB consideration

We are aware some schemes or SABs are setting out principles for cost cap rectification. Different benefit improvement options can then be assessed against these principles. There is a list below of some possible principles, based on what we have seen:

- > Lawful, and do not give rise to undue legal risk.
- > Capable of being accepted by necessary parties.
- > Simplicity: can be administered by employers and the Welsh Government, and understood by members.
- > Member appreciation: change is valued by members.
- > Reversibility: how easy is it to reverse the change if benefits need to be subsequently reduced / improved at future valuations? (May conflict with member appreciation?)
- > No retrospective improvement to deferred or pensioner members' benefits (as breaches retrospection / doesn't contribute to correcting breach).
- > No retrospective improvement to benefits for active members in respect of service before 1 Apr 2019 (as breaches retrospection / can cost more for employers than changes to future accrual)?
- > Fairness between members? For example, what considerations apply to improvements to optional benefits such as commutation or early retirement (since only those who take the option will benefit)?
- > Consistency amongst workforces (eg England vs Wales vs Scotland vs Northern Ireland)?
- > Tax: consider pension tax consequences?
- > Wider implications, eg general principles of pension and reward?

## FIREFIGHTERS' PENSION SCHEME ADVISORY BOARD FOR WALES

Alun Davies AM  
 Cabinet Secretary for Local Government and  
 Public Services  
 Welsh Government  
 5th Floor Tŷ  
 Hywel  
 Cardiff Bay  
 CF99 1N  
[Correspondence.Alun.Davies@gov.wales](mailto:Correspondence.Alun.Davies@gov.wales)

7 December 2018

Dear Mr Davies

### **FIREFIGHTERS' PENSION SCHEME WALES 2016 VALUATION – RECTIFYING THE COST CAP BREACH**

1. The Firefighters' Pension Scheme Advisory Board for Wales was established in 2015, as required by the Firefighters' Pension Scheme (Wales) Regulations 2015. The Board's role includes providing advice, on request, to Welsh Ministers on the desirability of making changes to the 2015 scheme and any connected schemes. In particular, if following valuation of the scheme, the employer cost cap for the scheme is breached (in other words if the cost is more than 2% above or below the cost cap set in the Scheme Regulations) Welsh Ministers are required to consult with the Board on the steps required to bring the cost cap back to the target cost.

2. The Board was advised in September that provisional 2016 valuation results from the Government Actuary's Department indicated that such a breach had occurred, and Welsh Government officials formally sought recommendations from the Board on 8<sup>th</sup> October.

3. The Board has used the following provisional valuation results in its deliberations :-

Cost Cap as set out in 2015 Scheme Regulations	17.1%
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Cost Cap Cost as set out in the 2016 valuation	12.3%
Level of Cost Cap Breach	-4.8%

4. A breach of the cost cap floor means that the cost of the scheme is lower than expected. Therefore scheme benefits need to be increased to bring costs back to the cost cap level set when the scheme was introduced in 2015.

5. The Board is aware of the wider impact on the valuation (and particularly on employer contribution rates) of Treasury's change to the SCAPE discount rate. However, as the SCAPE discount rate change is excluded from the calculation of the cost cap cost, this has not formed part of the Board's considerations, other than in terms of an awareness of the potential resultant impact on employer costs should Treasury not provide ongoing funding to meet the costs of the change.

6. The Board has also been cognisant of Treasury's reservations regarding reductions in employee contribution rates, and a shared understanding across public sector schemes that proposals to rectify the cost cap breach via such a means may result in withdrawal of Treasury funding. The Board would like to make clear its concerns in this regard. Whilst the Board recognise that there would be potential disadvantages as well as benefits to such a reduction, its use as part of a package of benefits to members may have been appropriate and we are disappointed that this choice has been effectively removed from our considerations without us being able to fully deliberate its advantages and disadvantages.

7. The Board has considered a number of other issues before reaching its recommendations. Given that any recommended changes to scheme benefits may only apply for a 4 year period (there is potential for a further change at the next valuation) both administrative complexity and simplicity and clarity for members were considered. So too was the number of members who would benefit from the various options available.

8. As a result of these considerations, the Board has ruled out a number of alternative benefit changes as a means of dealing with the breach. These include recommending any changes to the overall proportion of a dependents benefits (although dependents will of course automatically benefit from any increase in a members pension fund anyway), improvements via higher in-service revaluation, and reducing member contributions rates for all 2015 scheme members. The Board has also ruled out recommending a change to early retirement factors given that the 2015 scheme in Wales, as introduced, already include improved factors (based on active rather than deferred factors) when compared with the English scheme.

9. The Board recognise the advantages of the default position which is to increase the rate at which members benefits accrue over time. At the same time

however, there is general recognition amongst Board members that the firefighter scheme is relatively inflexible compared to other public sector pension schemes.

10. For instance both the teachers and local government schemes allow individual members the opportunity to elect to adjust their standard employee contribution rates (reducing them in the LGPS which in turn reduces their scheme benefits but allows members with financial concerns to stay within a pension scheme that is affordable to them/increasing them in the teacher's scheme to enable members to increase their pension benefits). Given that the Board has effectively been prevented from recommending an employee contribution rate reduction across all members, it believes that providing some flexibility for members to opt for a limited decrease in contributions will give a more equitable approach across public sector schemes, and prevent lower paid members, who struggle with contribution levels, from opting out of the scheme entirely. It will also enable other members who might be subject to annual allowance breach tax charges as a result of an increase in the accrual rate alone to choose a lower contribution rate for lower benefits thereby avoiding such charges. The 1992 scheme offers far more beneficial commutation factors than the 2015 scheme. Whilst increased accrual would provide for a similar amount of pension that could be commuted as a change to the commutation factor itself, this concept is difficult to express in layman's terms. For a limited number of members gaining £20 in lump sum for every £1 sacrificed annually will appear to much more accurately reflect their life expectancy, even though this option would cost no more than the default accrual position, and may appear to provide a more tangible benefit. It would also ensure that pensioners are not penalised for opting to take cash rather than continued pension benefits.

11. The Board has reached an agreed position following detailed discussions over three meetings, advice on the costs of various options from the Government Actuaries Department, information from the Local Government Association, and an overall understanding of the discussions taking place at the other Firefighter Scheme Advisory Boards in the UK. Given all of the above deliberations, the Board makes the following recommendation to you to resolve the cost cap breach :-

For all 2015 scheme members a change in the accrual rate for the 2015 scheme from its current level of 1/61.4 to 1/53.1, effective from 1 April 2019 until further amended as a result of future valuations.

In addition, an opportunity for 2015 scheme members to elect one of two options instead of the full accrual rate change above. If one of these options is not elected the full accrual rate increase will apply :-

- Option 1 - A reduction in member contribution rates of around 2.4% (from 13% to 10.6%) reducing the accrual rate improvement from 1/53.1 to 1/57.
- Option 2 – An increase in lump sum commutation from 12:1 to 20:1, which would reduce the accrual rate improvement from 1/53.1 to 1/56.7.

12. The figures provided at this stage are illustrative only. The Government Actuary's Department will need to complete further work to determine the level of accrual rate that should apply for both options set out, and the actual reduction in member contributions for Option 1. This work would need to be based on some further assumptions regarding which members these options would be available to, and when and how often members would be given the opportunity to choose. The Board has considered some of these issues as set out below :-

- Evidence from the LGPS scheme suggests that there is little take up of the option to elect a lower employee contribution rate for lower accrual in that scheme (the assumption was that 10% of members might choose this option but take up is actually far lower). There is no basis to make an assumption on take up should a similar option be available to firefighters, although the Board recognise that awareness and understanding of scheme options and benefits under the firefighter scheme is significant amongst members and as a consequence might result in greater take up of the options. There is potential for actual take up to vary significantly from any assumption made.
- The options should be offered as a one off options exercise for members of the 2015 scheme only (including those members with tapered protection) to be applied until the scheme is reviewed again.
- The options should be available to members from 1 April 2019 if possible (the date at which the default accrual rate change for all members will apply under this recommendation). However the Board recognises that introducing changes to scheme regulations is unlikely to be achievable by April, that the recommendation, if agreed would require FRAs to undertake an options exercise with members that might take some months, and that applying a reduction in contributions rates retrospectively would create administrative burdens. Therefore the Board accepts that implementation of the options proposed might need to take place later than the change to the overall accrual rate. September 2019 is suggested as an alternative date.

13. I look forward to hearing your views on the recommendations that the Board has submitted, and confirmation of the next steps in the engagement process.

Yours sincerely



**Michael Prior**

**Chair  
Firefighter Pension Scheme  
Advisory Board for Wales**

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**SOUTH WALES FIRE & RESCUE AUTHORITY**  
**LOCAL PENSION BOARD COMMITTEE**  
**REPORT OF THE HEAD OF FINANCE & PROCUREMENT**

AGENDA ITEM NO 9  
 21 JANUARY 2019

**FIREFIGHTERS PENSION FINANCING MECHANISM (YEAR ENDING MARCH 2019)**

**SUMMARY**

The purpose of this report is to provide an outline of the funding arrangements for the Firefighters Pension schemes.

**RECOMMENDATION**

That Members note the content of this report.

**1. BACKGROUND**

- 1.1 Prior to April 2007 South Wales Fire & Rescue Authority was responsible for paying pensions of former employees from its annual revenue budgets. This led to volatile budget setting due to the significant fluctuations in the number of Firefighters retiring each year. It also meant a high proportion of the Authority's budget was pension related, leading to lack of clarity on the annual revenue cost of service delivery.
- 1.2 Since the 1 April 2007 formal responsibility for paying Firefighters pensions remains with the Authority, however the financial arrangements changed. The Authority continues to pay and administer Firefighter pensions but from a separate 'Firefighters Pension Fund (FPF)'. The Firefighters Pension Schemes are unfunded but the FPF acts as the financing mechanism. These changes to the financial arrangements had no impact on the terms and conditions of the various Firefighters pension schemes.

**2. ISSUE**

- 2.1 The underlying principle of the FPF is that employee and employer's contributions are paid into the fund from which pension payments are made to retired employees. Any annual deficit is paid or 'topped up' by Welsh Government (WG). If the FPF is in surplus this is recouped by WG. The pension financing mechanism is therefore deemed to be cost neutral, however it is important to remember that the overall cost of pensions is rising.
- 2.2 The FPF appears as a separate income and expenditure statement in the Authority's annual statement of accounts, with the following transactions paid in and out of the fund.

## Income

- Employee Pension Contributions
- Employer Pension Contributions
- Incoming transfers from other pension schemes
- Charges for ill health early retirements
- Top-up grant from WG

## Expenditure

- Pension payments to retired Firefighters or beneficiaries
- Outgoing transfers to other pension schemes
- Payment to WG if fund is in surplus at the end of the financial year

2.3 Appendix 1 gives a schematic overview of the operating elements of the pension fund mechanism.

2.4 Employer and employee contribution rates vary across the three Firefighters Pension Schemes. The employer contribution rates are an annual fixed charge which is reviewed on a triennial basis following actuarial reviews to reflect the true cost of accruing pensions.

## Employers

**1992 Scheme - 25.5%**

**2006 Scheme - 16.8%**

**2015 Scheme - 14.3%**

The employee contribution rates vary across the three schemes and are tiered based on salary levels. The current contribution rates across the schemes are detailed in Appendix 2.

## 3. Ill Health Early Retirement

3.1 Where an ill health retirement occurs, the Authority is required to make an individual charge to the FPF. From 1 April 2007, the Authority is required to make a lump sum payment into their pension fund of 4x average pensionable pay in respect of all higher tier ill-health retirements and 2x average pensionable pay in respect of all lower tier ill-health retirement.

3.2 In order to qualify for a higher tier ill-health award, a Firefighter must be permanently disabled from taking regular employment, therefore the pension is enhanced. The lower tier award will be paid to those who are

able to take alternative regular employment. These charges are intended to represent the additional cost of personal ill-health retirements.

- 3.3 To deal with in-year financial volatility, Authorities are required to spread the charges credited to the FPF equally over a period of three years.

#### **4. Injury benefits**

- 4.1 Injury awards and awards payable on the death of a Firefighter, attributable to a qualifying injury, are not part of the Firefighters' Pension Scheme because they are payable irrespective of whether a Firefighter is a member of the Firefighter Pension Scheme.
- 4.2 From 1 April 2007 all injury awards are outside the Firefighters' Pension Scheme and under the new financial arrangements must be paid from an Authority's revenue account, not from the FPF. Continuing payments in respect of previous injury awards must also be paid from an Authority's revenue account.
- 4.3 Expenditure for administration charges and audit fees cannot be made from the pensions account.

#### **5. Transfers**

- 5.1 When a Firefighter transfers out of the Firefighters' Pension Scheme to another pension scheme, or to another Firefighter Pension Scheme, they are entitled to ask for a Cash Equivalent Transfer Value (CETV) to be paid across. This is equivalent to the value of their pension rights on leaving the Firefighters' Pension Scheme at that point in time. This is paid as expenditure from the Authority's FPF. Similarly Firefighters who transfer into the Service create an inward Transfer Value (income) into the FPF.

#### **6. The Firefighters' Pension Fund Account**

- 6.1 At the beginning of the financial year an assessment is made of the amount of Top Up Grant required from Welsh Government, and 80% of the estimate is paid in addition to the surplus/deficit (asset/liability), which is payable/receivable from the previous year. As such, the asset/liability is held on the Authority balance sheet.
- 6.2 Each year an assessment of the number of Firefighters retiring within the year, and as a result an estimate of pension payments is calculated. This means that the top up grant received can be lower or higher than pension costs estimated, which can result in an underspend or overspend on the fund.

**7. FINANCIAL IMPLICATIONS**

7.1 None directly from this report.

**8. EQUALITY RISK ASSESSMENT**

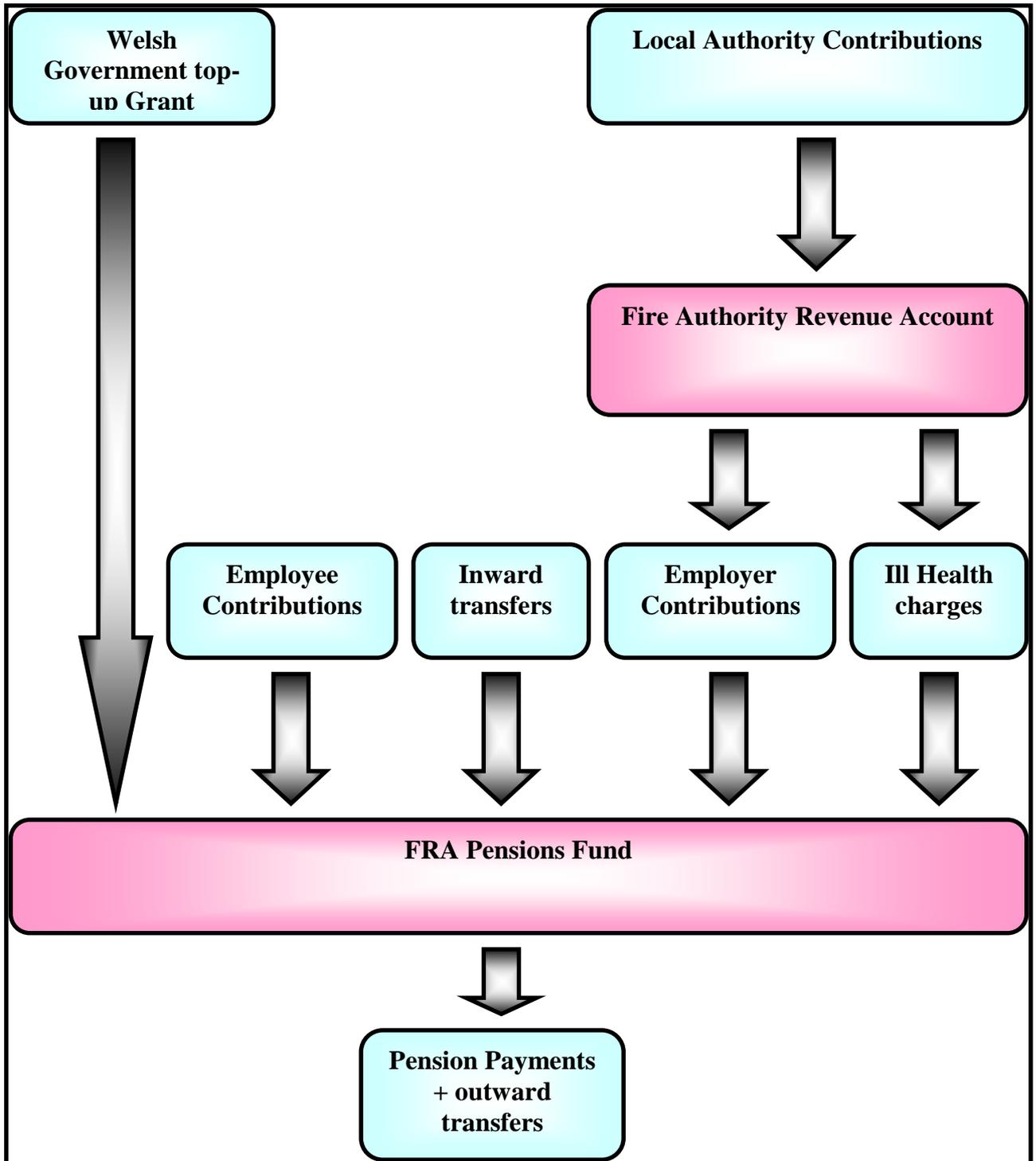
8.1 There are no equality implications resulting directly from this report. Each element of the Firefighters pension schemes will have undergone Equality and Diversity risk assessments by the Welsh Government prior to the commencement of the schemes.

**9. RECOMMENDATION**

9.1 That Members note the content of this report.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Geraint Thomas Head of Finance & Procurement	

APPENDIX 1



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## Appendix 2

### Employee contribution rates in fire service pension schemes for 2015-16

#### 1992 Firefighters' Pension                      Revised contribution 2015-16

##### **Scheme Pensionable pay band**

Up to and including £15,150	11.0%
More than £15,150 and up to and including £21,210	12.2%
More than £21,210 and up to and including £30,300	14.2%
More than £30,300 and up to and including £40,400	14.7%
More than £40,400 and up to and including £50,500	15.2%
More than £50,500 and up to and including £60,600	15.5%
More than £60,600 and up to and including £101,000	16.0%
More than £101,000 and up to and including £120,200	16.5%
More than £120,200	17.0%

#### Firefighters' 2006 Pension                      Revised contribution 2015-16

##### **Scheme Pensionable pay band**

Up to and including £15,150	8.5%
More than £15,150 and up to and including £21,210	9.4%
More than £21,210 and up to and including £30,300	10.4%
More than £30,300 and up to and including £40,400	10.9%
More than £40,400 and up to and including £50,500	11.2%
More than £50,500 and up to and including £60,600	11.3%
More than £60,600 and up to and including £101,000	11.7%
More than £101,000 and up to and including £121,200	12.1 %
More than £121,200	12.5%

**2015 Firefighters' Pension**      2015-16 rate**Scheme Pensionable pay band**

up to £27,000	10.0%
Over £27,000 and up to £50,000	12.2%
Over £50,000 and up to £142,500	13.5%
Over £142,500	14.5%

**Report on Local Pension Board Webpage**

-

**To be presented on the day**

Author: Kimbely Jeal

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**SOUTH WALES FIRE & RESCUE AUTHORITY**  
**LOCAL PENSION BOARD COMMITTEE**  
**REPORT OF THE ASSISTANT CHIEF OFFICER PEOPLE SERVICES**

AGENDA ITEM NO 11  
21 JANUARY 2019

**SUMMARY OF THE LOCAL PENSION BOARD WORK PROGRAMME**

**SUMMARY**

This report informs Members of the work that the South Wales Fire & Rescue Authority Local Pension Board has undertaken during the Municipal Year 2018/2019.

**RECOMMENDATION**

Members note the work of the South Wales Fire & Rescue Authority Local Pension Board

**1. BACKGROUND**

- 1.1 This report summarises the work that the Local Pension Board has undertaken during 2018/2019.

**2. ISSUES**

- 2.1 As Members will be aware, the Local Pension Board was established to demonstrate the Authority's commitment to ensuring that it fulfils its statutory obligations as required by the Public Service Pension Act 2013.
- 2.2 To discharge its functions the Board plans its work through a Forward Work Programme.
- 2.3 For the purpose of this report an overview of the work programme undertaken by the Board in the 2018/2019 Municipal Year is attached at Appendix 1.

**3. FINANCIAL IMPLICATIONS**

- 3.1 There are no immediate budget implications, but the plan provides a strategic planning framework for future years.

**4. EQUALITY RISK ASSESSMENT**

- 4.1 An Equality Risk Assessment has been undertaken to assess the potential impact of this report. The assessment concluded that there were no immediate or long term adverse impacts on any individual or group of personnel arising from this particular report.

## 5. RECOMMENDATIONS

- 5.1 Members note the work of the South Wales Fire & Rescue Authority Local Pension Board.

<b>Contact Officer:</b> ACO Mark Malson Acting Director of People Services	<b>Background Papers:</b> Appendix 1 - Work programme undertaken by the Board in 2018/19
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## APPENDIX 1

**PROGRAMME OF WORK UNDERTAKEN BY THE  
LOCAL PENSION BOARD IN THE MUNICIPAL YEAR 2018/19**

<b>Report Name</b>	<b>Purpose of report</b>	<b>Date Presented</b>
Local Pension Board Training Plan & Framework	<p>To enable Local Pension Board Members to review their training needs within the established framework and policy.</p> <p>To inform Members of the current training activity and future proposals.</p>	25 June 2018
Summary of Scheme Advisory Board meeting held on 20 March 2018	The purpose of this report was to appraise the Members on the most recent Scheme Advisory Board discussions which could impact on the Fire & Rescue Authority's role as Pension Scheme Manager.	25 June 2018
Update on the implications of the General Data Protection Regulations coming into force on 25 May, 2018, on the Firefighters Pension Schemes	To update the Local Pension Board on the implications for the Authority and the Authority's Pension Scheme Administrators to ensure compliance.	25 June 2018

Report on the Firefighters Pension (Wales Scheme) Amendment Order 2014 – Pensionable Pay	To update Members on the Firefighters Pension (Wales Scheme) Amendment Order 2014.	25 June 2018
Pensions Regulations – ‘Statement on managing Service Providers’	To update Members	25 June 2018
Survey of Fire & Rescue Authority Local Pension Board 2017	To update Members	25 June 2018
Consultation on Amendments to Firefighter Pension Schemes in Wales	The report updated Members on the outcome of the Welsh Government’s consultation on amendments to the FPS 1992 Survivors Benefits	22 October 2018
Firefighters Pension Fund 2017/2018	To update Members on the Outturn position for the Firefighters Pension Fund 2017/2018	22 October 2018
HMRC Rules and their relationship with the Firefighters Pension Schemes	To inform the Local Pension Board of the relationship between the Firefighters Pension Schemes and HMRC, and the associated regulations as they are applied to the members and Pension Scheme managers,	22 October 2018
The Pension Regulators – Code of Practice No. 14 – Governance & Administration of Public Service Pension Schemes	The Pension Regulators Code of practice is directed at Scheme managers and the members of Pension Boards of public sector pension schemes and connected	22 October 2018

	schemes. The report was to inform Members of the over-arching conditions in relation to board membership.	
Firefighters' Pension Scheme – Membership Data	To provide Local Pension Board Members with a data analysis of the composition of the Firefighters Pension Schemes	22 October 2018
Managing Risks & Internal Controls	To enable Members to consider the Fire & Rescue Authority's and Fire & Rescue Service's pension scheme risk factors.	22 October 2018
Voluntary Scheme Pays in the Firefighters' Pension Scheme	This report provided the background to the requirements placed on the Fire Authority to implement a Voluntary Scheme Pays provision.	21 January 2019
The Pension Regulator – Public Services – Governance and Administrative Survey 2018	This report provided Members with a copy of the Service's return to TPR 2018 survey on Governance and Administration of the Firefighters' Pension Scheme 2015 (Wales)	21 January 2019
The Pension Regulator – Firefighters' Pension Scheme Returns for 2017-2018	This report provided Members with the details of the Firefighters' Pension Schemes Returns for 2017-2018 made by the Fire Authority's Pension Administrators – RCT Pensions	21 January 2019

Firefighters Pension Scheme Advisory Board Wales Draft report regarding GAD 2016 Valuation Assumptions	This report provided an update for Members on the GAD 2016 Valuation Assumptions	21 January 2019
Firefighters Pension Scheme Financing Mechanism (Year ending March 2019)	To inform Local Pension Board with an outline of the funding arrangements for the Firefighters Pension Schemes	21 January 2019
Report on Local Pension Board webpage	To demonstrate the webpage of the Local Pension Board and Firefighters Pension Schemes	21 January 2019
Summary of the Local Pension Board Work Programme	Report to be submitted to the Fire & Rescue Authority which sets out the Local Pension Board activity throughout 2018-2019	21 January 2019

**FORWARD WORK PROGRAMME FOR  
LOCAL PENSION BOARD 2018/2019**

<b>Report Name</b>	<b>Purpose of piece of work</b>	<b>Lead Director/ Contact Officer</b>	<b>Expected Date of Decision/ Submission/ Review</b>	<b>Progress</b>
Local Pension Board Training Plan & Framework	To enable Local Pension Board Members to review their training needs within the established framework and policy.  To inform Members of the current training activity and future proposals.	ACO People Services  <b>Contact Officer:</b> Mark Malson	25 June 2018	Completed
Summary of Scheme Advisory Board meeting held on 20 March 2018	The purpose of this report is to appraise the LPB on the most recent SAB discussions which could impact on the FRA's role as Pension Scheme Manager.	ACO People Services  <b>Contact Officer:</b> Mark Malson	25 June 2018	Completed
Update on the Implications of the General Data Protection Regulations	To update the Local Pension Board on the implications for the Authority and the Authority's Pension Scheme Administrators to ensure	ACO People Services  <b>Contact Officer:</b> Mark Malson	25 June 2018	Completed

<b>Report Name</b>	<b>Purpose of piece of work</b>	<b>Lead Director/ Contact Officer</b>	<b>Expected Date of Decision/ Submission/ Review</b>	<b>Progress</b>
Coming into force on 25 May 2018 on the Firefighters' Pension Schemes	compliance			
Report on the Firefighters Pension (Wales Scheme) Amendment Order 2014 – Pensionable Pay	To update the Local Pension Board on the Firefighters Pension (Wales Scheme) Amendment Order 2014	ACO People Services <b>Contact Officer:</b> Mark Malson	25 June 2018	Completed
Pensions Regulations – 'Statement on Manging Service Providers'	To update Members	ACO People Services <b>Contact Officer:</b> Mark Malson	25 June 2018	Completed
Survey of Fire & Rescue Authority Local Pension Board 2017	To update Members	ACO People Services <b>Contact Officer:</b> Mark Malson	25 June 2018	Completed

Report Name	Purpose of piece of work	Lead Director/ Contact Officer	Expected Date of Decision/ Submission/ Review	Progress
Consultation on Amendments to Firefighter Pension Schemes in Wales	This report updates the Local Pension Board on the outcome of the Welsh Government's consultation on amendments to the FPS 1992, Survivors Benefits.	ACO People Services  <b>Contact Officer:</b> Mark Malson	22 October 2018	Completed
Firefighters' Pension Fund 2017/2018	To update the Local pension Board on the Outturn position for the Firefighters Pension Fund 2017/2018	ACO People Services  <b>Contact Officer:</b> Mark Malson	22 October 2018	Completed
HMRC Rules and their Relationship with the Firefighters' Pension Schemes	To inform the Local Pension Board of the relationship between the Firefighter's Pension Schemes and HMRC, and the associated regulations as they are applied to the members and Pension Scheme managers	ACO People Services  <b>Contact Officer:</b> Mark Malson	22 October 2018	Completed
The Pension Regulators – Code of Practice No. 14 – Governance &	The Pension Regulators Code of Practice is directed at Scheme managers and the Members of Pension	ACO People Services  <b>Contact Officer:</b> Mark Malson	22 October 2018	Completed

Report Name	Purpose of piece of work	Lead Director/ Contact Officer	Expected Date of Decision/ Submission/ Review	Progress
Administration of Public Service Pension Schemes	Boards of public sector pension schemes and connected schemes. This report is to inform Pension Board Members of the overarching conditions in relation to board membership.			
Firefighters' Pension Scheme – Membership Data	To provide Local Pension Board Members with a data analysis of the composition of the Firefighters' Pension Schemes.	ACO People Services  <b>Contact Officer:</b> Mark Malson	22 October 2018	Completed
Managing Risks & Internal Controls	To enable Members to consider the Fire & Rescue Authority's and Fire & Rescue Service's pension scheme risk factors	ACO People Services  <b>Contact Officer:</b> Mark Malson	22 October 2018	Completed

Report Name	Purpose of piece of work	Lead Director/ Contact Officer	Expected Date of Decision/ Submission/ Review	Progress
Voluntary Scheme Pays in the Firefighters' Pension Scheme	This report provides the background to the requirements placed on the Fire Authority to implement a Voluntary Scheme Pays provision.	ACO People Services  <b>Contact Officer:</b> Mark Malson	21 January 2019	On Agenda
The Pension Regulator – Public Services – Governance and Administrative Survey 2018	This report is to provide Members with a copy of the Service's return to TPR 2018 survey on Governance and Administration of the Firefighters' Pension Scheme 2015 (Wales)	ACO People Services  <b>Contact Officer:</b> Mark Malson	21 January 2019	On Agenda
The Pension Regulator – Firefighters' Pension Scheme Returns for 2017-2018	This report provides Members with the details of the Firefighters' Pension Schemes Returns for 2017-2018 made by the Fire Authority's Pension Administrators – RCT Pensions	ACO People Services  <b>Contact Officer:</b> Mark Malson	21 January 2019	On Agenda

Report Name	Purpose of piece of work	Lead Director/ Contact Officer	Expected Date of Decision/ Submission/ Review	Progress
Firefighters' Pension Scheme Advisory Board Wales Draft report regarding GAD 2016 Valuation Assumptions	This report provides an update for the Local Pension Board on the GAD 2016 Valuation Assumptions	ACO People Services  <b>Contact Officer:</b> Mark Malson	21 January 2019	On Agenda
Pensions Regulator's Self-Assessment Tool for Public Service Pension Schemes	To enable Local Pension Board Members to evaluate the Fire & Rescue Authority's pension scheme administration performance	ACO People Services  <b>Contact Officer:</b> Mark Malson	21 January 2019	<b>Completed</b> Same report that went to the LPB meeting on 22 October 2018 under the report heading of Managing Risks and Internal Controls
Report on the Review of the Service Level Agreement with the Firefighter's Pensions Scheme Administrator, RCT	To update Members on the review of the Service Level Agreement.	ACO People Services  <b>Contact Officer:</b> Mark Malson	TBC	Deferred due to the SLA not being agreed in time for the LPB meeting on 21 January 2019

Report Name	Purpose of piece of work	Lead Director/ Contact Officer	Expected Date of Decision/ Submission/ Review	Progress
Report on the Firefighters Pension Scheme 2015 Taper Protections – Legal Challenge	To update the Local Pension Board on the legal appeal to the FBU challenge to the Employment Tribunals judgement to reject the age discrimination claims brought by the Fire Brigades Union.	ACO People Services  <b>Contact Officer:</b> Mark Malson	TBC	Deferred due to the ET judgement not being published following the hearing held w/c 5 November 2018. Report will follow once determination announced
Firefighters' Pension Scheme Financing Mechanism (Year ending March 2019)	To inform Local Pension Board with an outline of the funding arrangements for the Firefighters' Pension Schemes	ACO People Services  <b>Contact Officer:</b> Mark Malson	21 January 2019	On Agenda
Firefighters' Pension Schemes – Composition and Funding Provisions (Financial 2018/2019)	To inform Local Pension Board of the composition of the current pension scheme membership and end of year revenue budget for pensions and the Pension Fund	ACO People Services  <b>Contact Officer:</b> Mark Malson	21 January 2019	<b>Completed</b> This was reported at the LPB meeting on 22 October 2018, split into two separate reports, FPS Membership Data and FF Pension Fund Account 2017/18

<b>Report Name</b>	<b>Purpose of piece of work</b>	<b>Lead Director/ Contact Officer</b>	<b>Expected Date of Decision/ Submission/ Review</b>	<b>Progress</b>
Report from the Firefighters' Pension Schemes, Scheme Administrators, (RCT)	To provide the Local Pension Board with a summary of various work streams relating to the Firefighters' Pension Schemes.	ACO People Services  <b>Contact Officer:</b> Mark Malson	TBC	Deferred due to the SLA not being agreed in time for the LPB meeting on 21 January 2019
Report on Compliance with GDPR Regulations	To enable the Local Pension Board to have an understanding of the work undertaken to ensure compliance with the new GDPR Regulations.	ACO People Services  <b>Contact Officer:</b> Mark Malson	TBC	Deferred due to the DPO leaving the Service. Will need to discuss future report with new Officer in January 2019
Report on Local Pension Board webpage	To demonstrate the webpage of the Local Pension Board and Firefighters Pension Schemes	ACO People Services  <b>Contact Officer:</b> Mark Malson	21 January 2019	On Agenda
Summary of the Local Pension Board Work Programme	Report to be submitted to the Fire & Rescue Authority which sets out the Local Pension Board activity throughout 2018-2019	ACO People Services  <b>Contact Officer:</b> Mark Malson	21 January 2019	On Agenda

**ACO Mark Malson – Acting Director of People Services**

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## AGENDA ITEM NO 13

**To consider any items of business that the Chairman deems urgent  
(Part 1 or 2)**

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1.	Apologies for Absence	
2.	Declarations of Interest	
	Members of the Fire & Rescue Authority are reminded of their personal responsibility to declare both orally and in writing any personal and/or prejudicial interest in respect of matters contained in this agenda in accordance with the provisions of the Local Government Act 2000, the Fire & Rescue Authority's Standing Orders and the Members Code of Conduct.	
3.	Chairman's Announcements	
4.	To Receive the Minutes of:-	
	<ul style="list-style-type: none"> <li>• Local Pension Board Committee Meeting held on 22 October 2018</li> </ul>	3
5.	Voluntary Scheme Pays in the Firefighters' Pension Schemes	11
6.	The Pensions Regulator – Public Service Governance and Administrative Survey 2018	29
7.	The Pensions Regulator – Firefighters' Pension Scheme Returns for 2017 – 2018	31
8.	Scheme Advisory Board – Response to Welsh ministers on the Government Actuary's Department (GAD) 2016 Valuation Assumptions	73
9.	Firefighters Pension Financing Mechanism (Year ending 31 March 2019)	133
10.	Report on Local Pension Board Webpage – <b>To be presented on the day</b>	141
11.	Summary of the Local Pension Board Work Programme	143
12.	Forward Work Programme 2018-19	149
13.	To consider any items of business that the Chairman deems urgent (Part 1 or 2)	159