

**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, 26 February 2018 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.

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2017

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Signature of Proper Officer:



**MEMBERSHIP**

**Councillors:**

S	Bradwick	Rhondda Cynon Taff
D	Ali	Cardiff
H	Joyce	Cardiff
J	Harries	Rhondda Cynon Taff
V	Smith	Monmouthshire
M	Phillips	Cardiff
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, 16 OCTOBER 2017 AT SOUTH WALES FIRE & RESCUE SERVICE HEADQUARTERS

#### 32. PRESENT

<b>Councillor</b>	<b>Left</b>	
S Bradwick (Chair)		Rhondda Cynon Taf
M Phillips		Cardiff
V Smith		Monmouthshire
K McCaffer		Vale of Glamorgan
R Prendergast		Prospect
A Psaila		Fire Brigades Union

**OFFICERS PRESENT:** ACO P Haynes – Director of People Services; DCO S Chapman – Monitoring Officer; Mr C Barton – Treasurer; Mr C Powell – Deputy Monitoring Officer; Mr M Malson – Head of Human Resources, Ms K Jeal – Accountant

#### 33. DECLARATIONS OF INTEREST

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

#### 34. CHAIR'S ANNOUNCEMENTS

- **Request from Pension Regulator**

The Fire & Rescue Authority is responsible for the registration of 5 firefighter pension schemes. Each year the Pension Regulator requires the details of all those pension board members who scrutinise those schemes and the way in which the schemes are managed. The return identifies members by name, establishes their role or representation and provides contact details. The 2017/18 board member details have been recorded.

- **Training Event – 29 September 2017**

Wales Government enabled a training event at Cardiff Gate on 29 September. Copies of the slides are available and hard copies distributed to board members today.

At the event the Local Government Association representatives confirmed that they would be facilitating an event to address pension scheme related tax matters, including lifetime allowance and annual allowance. All of the

events will take place in England. Details of the venues and dates have been received and will be forwarded to board members. The nearest event will be held in Cheltenham in January 2018. Members are advised to indicate a preference to the FRS Secretariat so that a booking can be made.

- **Breach of Annual Allowance**

RCT has notified the Service that during 2016/17 28 members of staff breached their Annual Allowance.

- a) 22 members were able to rely on unused allowance from the previous 3 years. They have no tax charge to pay.
- b) 6 members were not able to rely on unused allowance from the previous 3 years. They have a tax charge to pay. These members will need to make a declaration via self-assessment and make arrangements to pay their charge.

The breaches have been identified as a result of an accumulation of factors, including 1% pay increases in a double accrual scheme, temporary promotions, substantive promotions and subsequently achieving competent rate of pay.

It is suggested that these factors may increase in impact for scheme members in future years.

### **35. MINUTES OF PREVIOUS MEETING**

The minutes of the Local Pension Board meeting held on 3 July 2017 were received and accepted as a true record of proceedings.

### **36. FIREFIGHTERS' PENSION SCHEME – MEMBERSHIP DATA**

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

#### **RESOLVED THAT**

- 36.1 Members noted the composition profile for the Firefighters' Pension Schemes.
- 36.2 Members agreed to continue receiving regular updates on the composition profile for the Firefighter Pension Schemes.

- 36.3 The Chair to express his concerns to Councillor Pickering regarding the lack of pension consultation responses from other services and requested that this be relayed at the next SAB.

### **37. MANAGING RISKS & INTERNAL CONTROLS**

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

As Board Members are aware, the Pensions Regulator identifies a number of documents which are considered to be significant to ensure effective scheme administration. The foremost of these is the Risk Assessment and register for the scheme(s). To comply with the administrative requirements, copies of the revised Risk Assessment were available at the meeting for consideration.

#### **RESOLVED THAT**

- 37.1 Members considered and agreed the revised Risk Assessment Form contents.
- 37.2 Members agreed to establish a further review and test schedules to evaluate the effectiveness of management of risk management processes and ensure adequate controls are in place.
- 37.3 The Head of Human Resources to review the timing of the risk assessment activities and make recommendations.
- 37.4 Further risk assessment reports to be provided at future LPB meetings.
- 37.5 The SLA review for pension services with RCT pension section be undertaken, incorporating the range of services and the effectiveness of data records management.

### **38. FIREFIGHTERS' PENSION SCHEME – INTERNAL DISPUTE RESOLUTION PROCEDURE (IDRP)**

The Director of People Services reported that, in January 2008, the Welsh Government issued Circular Number W-FRSC (09)01 advising Fire & Rescue Authorities that the Internal Dispute Resolution Procedure arrangements have been reviewed and changes had been introduced in order to meet the requirements of the Pensions Act 1995, as amended.

**RESOLVED THAT**

Members noted the Internal Dispute Resolution Procedure rules, the revised provisions, and the range of cases that have been processed to date.

**39. LOCAL PENSION BOARD – TRAINING PLAN & FRAMEWORK**

Members recalled that in March 2016 they were asked to agree to introduce a Training Policy and Framework to meet the statutory requirements of ensuring all Board Members assist in identifying the requisite knowledge, skills and understanding to enable them to fulfil their role on the Board.

**RESOLVED THAT**

- 39.1 Members reviewed, amended and endorsed the draft Training Policy and Framework for Local Pension Board Members.
- 39.2 Members agreed that future LPB training plans incorporating Members of the Fire Authority and Trade Unions should be available on the intranet site.

**40. PENSION REGULATOR'S SELF-ASSESSMENT TOOL FOR PUBLIC SERVICE PENSION SCHEMES**

The Director of People Services advised Members that the Pension Regulator has made available a self-assessment tool to assist Scheme Managers in the evaluation and regulation of pension schemes.

The purpose of the report was to enable Members to consider whether there is value in Local Pension Boards (LPBs) completing an assessment which can provide feedback to the Scheme Advisory Board (SAB) on progress against the self-assessment tool, as part of Local Pension Board regular updates.

**RESOLVED THAT**

Members considered the evaluation assessment for the Fire & Rescue Authority's pension scheme administration performance and requested a further report on next year's assessment tool.

**41. FORWARD WORK PROGRAMME 2017/18**

The Director of People Services presented the Forward Work Programme for municipal year 2017-18.

**RESOLVED THAT**

Members accepted the Forward Work Programme for 2017/18 and made recommendation for incorporation of the items identified at the meeting.

**42. TO CONSIDER ANY ITEMS OF BUSINESS THAT THE CHAIRMAN DEEMS URGENT (Part 1 or 2).**

There were no items of business that the Chair deemed urgent.

At the conclusion of the meeting the Chair wished to extend his best wishes to ACO Haynes and wish him the very best of luck on his impending retirement.





## AGENDA ITEM NO 5

**Brief Overview of the work and role of the Wales Scheme Advisory Board**

-

**To be presented on the day**

-

**Author – Mr Michael Prior**



**SOUTH WALES FIRE & RESCUE AUTHORITY  
LOCAL PENSION BOARD COMMITTEE**

AGENDA ITEM NO 6  
26 FEBRUARY 2018

**REPORT OF THE ASSISTANT CHIEF OFFICER PEOPLE SERVICES**

**ALL WALES SCHEME ADVISORY BOARD - UPDATE**

**SUMMARY**

The Scheme Advisory Board is a body established by Welsh Government to oversee the various Firefighters' Pension Schemes in Wales. The purpose of this report is to appraise the Local Pension Board of the most recent Scheme Advisory Board's discussions which could impact on the Fire & Rescue Authority's role as Pension Scheme Managers.

**RECOMMENDATION**

That Members accept the report and the information contained therein.

**1. BACKGROUND**

- 1.1 The Public Service Pensions Act 2013 put in place the legislative framework for the new governance arrangements for public service pension schemes. This includes the establishment of a 'Scheme Advisory Board'.
- 1.2 Due to the devolved nature of Firefighter Pension Schemes under the Public Service Pensions Act 2013, the Welsh Ministers are the 'Responsible Authority' for the Firefighters Pension Scheme in Wales.
- 1.3 Each defined benefit public service pension scheme has a Scheme Advisory Board with responsibility for providing advice on the desirability of changes to the scheme, when requested to do so by the 'Responsible Authority' (or otherwise, in accordance with scheme regulations). Where there is more than one Scheme Manager the scheme regulations state that the Scheme Advisory Board may also provide advice (on request or otherwise) to the Scheme Managers or the scheme's pension boards, on the effective and efficient administration and management of the scheme, or any pension fund of the scheme.

**2. ISSUES**

- 2.1 Welsh Government established a Scheme Advisory Board in 2015. The Board is chaired by an Independent Chair appointed by the First Minister, supported by Fire Service Branch officials who are also responsible for the administration of the Board. Membership of the Board is drawn from the three Fire & Rescue Authority Members, supported by officers and representatives from the Fire Brigades Union, Retained Firefighters

Union, Fire Officers' Association, and the Association of Principal Firefighter Officers.

2.2 The Board is scheduled to meet three times a year. The most recent meeting was held at the Welsh Government Offices, Cathays Park, Cardiff, on 27 November, 2017

2.3 The Board received reports and addressed a number of matters that are summarised below for ease of reference.

#### 2.4 **Budget for Scheme Advisory Board**

2.4.1 Unlike the Scheme Advisory Board (England), the Scheme Advisory Board (Wales) has no established budget. Therefore, it was confirmed that rather than levy each Welsh Fire & Rescue Service to establish a small budget with limited benefit, that arrangements have been made for the Scheme Advisory Board to 'buy-in' to additional expert resources from the Local Government Association (LGA). It was confirmed that the cost of this for 2017/2018 is £3 per Firefighter member.

#### 2.5 **Firefighters Pension Schemes – GAD Valuation 2016**

2.5.1 The draft GAD Valuation Report 2016 was discussed in detail. Michael Prior (Scheme Advisory Board Chair) acknowledged that the factors were many and complex. Councillor Pickering, the Scheme Advisory Board Member for South Wales Fire & Rescue Service, along with other Scheme Advisory Board members, considered the GAD Valuation to assist in making recommendations to Welsh Minister.

2.5.2 The GAD representative explained that GAD is required to calculate some, but not all, of the valuation assumptions in order to place a cost on the scheme. General assumptions (such as discount rate, consumer price index and pay increases) were set by HM Treasury in their valuation directions.

2.5.3 Reference was made to the Welsh assumptions for the 2012 Valuation which, with the exception of 'retirement in normal health' and 'promotional pay increases', had mirrored the English assumptions. The Welsh assumptions for 2016 Valuation were the same as those set out in the English assumptions. Some of the data available to analyse the experience of the Schemes in Wales was limited compared with the corresponding Schemes in England. Where there was no reason to believe experience across the memberships of the two Countries Schemes was materially

different, GAD had used data from the England Schemes to form their recommendations for the Welsh Schemes,

2.5.4 There were a number of key areas discussed in respect of the 2016 Valuation Assumptions.

## 2.6 Pension Mortality

2.6.1 GAD had proposed using the same mortality assumption as proposed for the English Schemes. The analysis covered male members only as there were relatively few female Firefighters to allow robust experience analysis for females. The data was queried by the Fire Brigades Union if the cost of the scheme would decrease if the Welsh mortality assumption was used. GAD confirmed this to be the case. The Chair acknowledged that this would be something to be mindful of in future Valuation of the Schemes.

## 2.7 Life Style Effects on Pensioner Mortality

2.7.1 GAD referred to life style effects of pensioners between ages 50-60 which could change the pensioner mortality. The change proposed would increase the employer contribution rate by approximately 1.4% of pay. Some of the impact would be offset by the change to future rates of mortality improvement.

2.7.2 GAD explained that the rates of pensioner mortality had been updated to reflect Office for National Statistics (ONS) population projections for 2014. HM Treasury have yet to confirm whether the data will be substituted by the 2016-based population projections published in October 2017; which would result in lower expectations than in 2014. This would significantly reduce the impact on the cost cap cost and employer contributions. It was agreed that the consultation response would request the use of the ONS 2016 data.

2.7.3 GAD said that adequate data had been available to analyse mortality on an 'amounts' basis as opposed to a 'lives' analysis as was the case in 2012. An 'amounts' basis weights the experience by the size of each member's pension and was more accurate. It was noted that the Scheme Advisory Board England had agreed with the approach that GAD had used, and had stated so in their response to the assumptions. It was agreed that the Scheme Advisory Board Wales would take the same approach.

## 2.8 Age Retirement from Service

2.8.1 GAD proposed to adopt the England assumption for the 1992 Scheme of all retiring before 60 years of age and for the 2007 Scheme all retire at 60 years of age. This was challenged by the Fire Brigades Union for the 2007 Scheme in the belief that Firefighters would not be able to work until they were 60. GAD accepted the comments and explained that there was insufficient data to undertake any meaningful analysis of retirements in the 2007 and 2015 Schemes. GAD added that the data relating to the 2015 Scheme was not material to the 2016 Valuation and would not impact the cost of the scheme.

## 2.9 Ill-Health Retirement from Service

2.9.1 GAD proposed maintaining the 2012 assumptions of 40% for upper-tier benefits. This was challenged at the meeting with evidence presented that across the three Fire & Rescue Services in Wales this figure was more like 17% for upper-tier benefits, and asked GAD to reconsider this assumption.

## 2.10 Voluntary Withdrawal from Schemes

2.10.1 In relation to voluntary withdrawal from Service, GAD had considered events that had occurred which could have impacted on scheme membership (including increases in member contribution rates, the introduction of the 2015 scheme and the public sector pay cap). GAD, therefore, proposed to maintain the same assumption as adopted for the 2012 valuation. There were concerns raised about member opt-outs and the impact they would have on the future income of the scheme. GAD explained that the data had been dominated by those opting out within the first three months of being in the 2015 scheme under auto-enrolment and being in the main On-Call Firefighters, and that GAD was interested in those who had opted out after a number of years.

## 2.11 Promotional Pay

2.11.1 It was noted that the number of temporary promotions had increased, and it was recognised that members were able to work at that temporary grade for 12 months or so, and to increase their pension by contributing on an 'Additional Pension Benefits' basis. GAD explained that they had to estimate pay at retirement in order to determine pensions on retirement, which would ultimately impact on the cost of the scheme.

## 2.12 Commutation

2.12.1 GAD explained that commutation related to members who exchanged their pension for a lump sum. Assumptions of 15% for the 2007, 2015 and mixed 2007/2015 schemes were as specified in HM Treasury 2014 directions. This was challenged by Scheme Advisory Board members in that this assumption seemed low. It was suggested that Firefighters generally took the highest level of commutation possible, even where this incurred a tax charge, i.e. 25%

## 2.13 Family Statistics

2.13.1 In relation to family statistics, all assumptions were the same as those adopted for the 2012 valuation. The Scheme Advisory Board Wales agreed the assumptions.

2.13.2 The implications/recommendations from the GAD report are expected to be implemented in April 2018.

## 2.14 Pensionable Pay

2.14.1 This is an on-going issue across the Fire & Rescue Service nationally. Mid & West Wales FRS currently have a pensionable pay case with the Pensions Ombudsman, the outcome of which could have wider impacts. A determination is expected soon. It is hoped that once the decision is given that a consistent approach can be taken across the three Fire & Rescue Services in Wales.

## 2.15 Scheme Data – Employee Contribution Rates Yield

2.15.1 The Scheme Advisory Board are required to monitor this on an annual basis to inform whether the estimated yield, as part of the GAD Valuation exercise, was being achieved. The yield should be no greater than 13.2%. In 2015/2016 the yield was 13.1%, and rose to 13.24% in 2016/2017, averaging over the two years at 13.17%.

## 2.16 Scheme Costs

2.16.1 A copy of the pension scheme costs broken down by the Fire & Rescue Authority was provided to Members. The data showed both scheme income and expenditure (income being employee and employer contributions, and expenditure being mainly linked to payments made to pensioners). HM Treasury provided the different in costs. The figures showed the volatility of the pension

fund year on year, particularly in 2015/2016 where South Wales Fire & Rescue Authority had experienced a larger number of retirements than anticipated.

## 2.17 Opt-Out Data

2.17.1 for 2017-2018 was presented that included the latest returns from Fire & Rescue Authorities. It was reiterated that some of the previous year's figures differed slightly following a data cleanse in order to share detailed information with GAD and HM Treasury.

## 2.18 Guaranteed Minimum Pension

2.18.1 Following the introduction of a single tier state pension, Pension Schemes had been asked to work with HMRC to undertake a data reconciliation exercise to ensure that records were correct. All three Fire & Rescue Authorities confirmed that the scheme administrators were working with HMRC, but it had appeared that the Local Government Pension Scheme had taken precedence.

## 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 the information contained therein.

<b>Contact Officer:</b> A/ACO Mark Malson Acting Director of People Services	<b>Background Papers:</b> None
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**SOUTH WALES FIRE & RESCUE AUTHORITY  
LOCAL PENSION BOARD COMMITTEE  
REPORT OF THE ASSISTANT CHIEF OFFICER PEOPLE SERVICES**

AGENDA ITEM NO 7  
26 FEBRUARY 2018

**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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# Government Actuary's Department

## Firefighters' Pension Schemes (Wales)

Actuarial valuation as at 31 March 2016  
Advice on assumptions

*Initial draft for discussion purposes*

Date: **DRAFT** – 16 November 2017  
Author: Chris Mulholland



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## 1 Executive summary

*This report contains our recommendations for the best estimate assumptions to be set by the Welsh Ministers for the 2016 valuation of the Firefighters' Pension Schemes (Wales) ('the Schemes').*

- 1.1 An actuarial valuation of the Firefighters' Pension Schemes (Wales)<sup>1</sup> ('the Schemes'), is being carried out as at 31 March 2016. The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 (as amended) ('the Directions') require that, unless specified otherwise<sup>2</sup>, the assumptions to be adopted for this valuation will be set by the Welsh Ministers, having obtained advice from the scheme actuary. Direction 19(c) requires the assumptions to be the Welsh Ministers' best estimates.
- 1.2 GAD is the appointed scheme actuary to the Schemes. This report has been commissioned by the Welsh Government and sets out GAD's formal advice to Welsh Ministers on the actuarial assumptions to be adopted where these are not otherwise specified. The advice covers the assumptions to be set by the Welsh Ministers. The main advised assumptions are summarised in Table 1 with further detail in Appendix A. *The advice contained in this report has been shared and discussed with the Firefighters' Pension Scheme Advisory Board for Wales.*
- 1.3 This report relates to demographic assumptions, ie assumptions about member behaviours. When considering appropriate assumptions, experience (both recent and longer term) generally provides the most reliable evidence when considering best estimates of future experience. Anticipated future events may also influence how assumptions are set. For some assumptions, there are only small amounts of experience that can be analysed in the Schemes. The experience in other larger public service pension schemes, including the Firefighters' Pension Schemes in England ('the England Schemes'), can then provide useful reference. Where there is no reason to believe experience across the memberships of the two schemes is materially different we have also considered the conclusions reached based on the England Schemes' experience<sup>3</sup> in formulating our recommendations for the Schemes.
- 1.4 This advice sets out relevant analysis of recent experience and indicates which other factors have been considered in deriving recommendations of best estimate assumptions.

<sup>1</sup> As provided by The Firefighters' Pension Scheme Order 1992 (SI 1992/129) (as amended), The Firefighters' Pension Scheme (Wales) Order 2007 (WSI 2007/1072) (as amended) and The Firefighters' Pension Scheme (Wales) Regulations 2015 (WSI 2015/622) (as amended).

<sup>2</sup> Certain assumptions are specified in the Directions.

<sup>3</sup> See *draft report Firefighters' Pension Schemes (England): Actuarial valuation as at 31 March 2016: Advice on assumptions* dated 7 September 2017.



- 1.5 The previous completed actuarial valuation of the Schemes was carried out as at 31 March 2012. Many of the assumptions put forward in this report are the same as adopted for that valuation. The changes are:
- > Rates of pensioner mortality have been updated to reflect recent experience and to reflect changes in population mortality as reflected in updated ONS population projections<sup>4</sup>.
  - > Normal health retirement rates for members with 1992 Scheme benefits have been updated to allow for experience over 2012-2016 and to maintain alignment with the equivalent assumption being proposed for the England Schemes.
  - > Promotional pay increases for retained members have been updated to allow for the analysis carried out at this valuation and align with the equivalent assumption being proposed for the England Schemes.
- 1.6 After the changes above, the proposed assumptions for the 2016 valuation of the Schemes are all the same as those proposed for the 2016 valuation of the England Schemes.
- 1.7 The following chapters and appendices provide more detail on the advice, supporting analysis and an indication of the magnitude of financial impact of each assumption on valuation results. They also contain important background information about the context of this advice and its limitations.
- 1.8 The estimated financial impact of changing assumptions is shown in Table 1 below. These have been calculated in an approximate way and are intended to provide a broad indication of the impact and are not definitive. In particular, they should not be used to support any decision making on the choice of assumptions for the 2016 valuation.
- 1.9 *[The Welsh Ministers are now asked to confirm to GAD the actuarial assumptions to be adopted for the valuation.] DN: After conclusion of the consultation process.*
- This report is a draft of GAD's advice to the Welsh Ministers. The draft report and underlying analyses are sufficiently well-advanced that the Welsh Government is content it can now be shared with the SAB for consultative purposes. However, it should be borne in mind that GAD's advice and the report are subject to change before the report is sent to the Welsh Ministers in final form, where such change might reflect consultation responses, comments from other stakeholders, any further analysis undertaken or the need to ensure full compliance with Professional Standards.*

<sup>4</sup> From the 2012 based ONS projections to the [2014] based ONS projections.



### **Compliance and quality standards**

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

*Note that this statement of compliance relates to the work carried out for the Welsh Ministers to date and compliance with these standards will be reassessed before the report is signed off as final.*

DRAFT

**Table 1: Summary of recommended assumptions consistent with the 'best estimate' requirement**

Assumption <sup>5</sup>	Summary of recommended assumptions	Rationale for recommendation	Magnitude of financial impact of change from 2012 valuation assumptions <sup>6</sup>	
			Employer contributions (2019-23) – past service impact <sup>7</sup> (% of pay)	Employer contributions (2019-23) – past and future service impact <sup>8</sup> (% of pay)
<b>Pensioner baseline mortality</b>	Aligned to standard SAPS table <sup>9,10</sup>			
Current pensioners (normal and ill-health)	113% x S2NMA	Insufficient experience. Informed by wider analysis of mortality in England.	+1.2% <sup>11</sup>	+1.4% <sup>11</sup>
Future pensioners (normal and ill health)	113% x S2NMA			
Dependants	100% x S2DFA			

<sup>5</sup> In general, our recommendations are for the same assumptions to be used for males and females. As 95% of members are male, there is insufficient data to analyse female members separately, other than for dependant pensioners who are mostly female.

<sup>6</sup> The financial impacts have been estimated on an approximate basis using the 2012 valuation results and long term financial assumptions, and should only be used as a guide to the approximate size of the impact. Each impact is specific to the change described and a combination of assumption changes will not necessarily equate to the sum of the individual impacts.

<sup>7</sup> Impact on employer contribution rate of spreading change in past service liabilities over 15 years.

<sup>8</sup> Total change in employer rate of spreading past service and allowing for future service impacts.

<sup>9</sup> SAPS tables are published by the Actuarial Profession and the S2 series is based on the experience of self-administered pension schemes from 2004 to 2011. The S2 series has separate standard tables, including those based on experience of members retiring in normal health (S2NMA), in ill-health (S2IMA) and for widows (S2DFA).

<sup>10</sup> Adjusted to take account of improvements in population mortality between the base year for the tables and the date the future improvements are applied from.

<sup>11</sup> As directed by HMT, future improvements in mortality assumed to be in line with those underlying the most recent ONS population projections. The financial impact shown relates only to the change in baseline mortality.



Assumption <sup>5</sup>	Summary of recommended assumptions	Rationale for recommendation	Magnitude of financial impact of change from 2012 valuation assumptions <sup>6</sup>	
			Employer contributions (2019-23) – past service impact <sup>7</sup> (% of pay)	Employer contributions (2019-23) – past and future service impact <sup>8</sup> (% of pay)
<b>Age retirement</b>				
1992 Scheme protected, tapered and unprotected members with more than 16 years' service at March 2012	Age and service based rates, with many retiring on reaching 30 years' service and all retiring by age 60.	In light of 2012-16 experience and informed by wider analysis of age retirement in England.	Not material	Not material
1992 Scheme unprotected members with less than 16 years' service at March 2012	No retirements before age 55. Age and service based rates, with many retiring at age 55. All assumed to retire by age 60.	Based on the assumption for the protected group, but with no allowance for retirement before age 55. There is, however, no relevant evidence yet.	Not material	Not material
Standard 2007 Scheme (protected, tapered and unprotected)	All retire at age 60.	Insufficient evidence. Informed by wider analysis of age retirement in England.	No change in assumption.	
Special 2007 Scheme members (protected, tapered and unprotected)	All retire at age 55.	Insufficient evidence. Proposal allows for the full take up of benefits at the earliest time at which they become available on an unreduced basis in the modified scheme.	New assumption.	
2015 Scheme - new entrants	25% retire at 55 and remainder retire at 60.	Insufficient evidence. Proposal makes a reasonable allowance for the take up of benefits at the earliest time at which they become available and is in line with the assumption that was adopted for the 2012 valuation and used for the scheme reform work. To be kept under review.	No change in assumption.	

Assumption <sup>5</sup>	Summary of recommended assumptions	Rationale for recommendation	Magnitude of financial impact of change from 2012 valuation assumptions <sup>6</sup>	
			Employer contributions (2019-23) – past service impact <sup>7</sup> (% of pay)	Employer contributions (2019-23) – past and future service impact <sup>8</sup> (% of pay)
<b>Ill-health retirement</b>				
Incidence	Same assumptions for males and females. Increasing by age: around 0.03% at age 30, 0.10% at age 40 and 0.50% at age 50.	Same as the assumption proposed for England and no change from 2012 assumption. Small amount of experience over 2012-16 in Wales. Limited experience is similar to England.	No change in assumption.	
Upper/lower-tier split	40% on upper-tier.	Same as the assumption proposed for England and no change from 2012 assumption.	No change in assumption.	
<b>Withdrawal</b>				
Regulars (and special retained)	Same assumptions for males and females. Decreases with age: 1.1% at age 25, 0.3% at age 45.	Same as the assumption proposed for England and no change from 2012 assumption.	No change in assumption.	
Standard retained	Nine times the regular withdrawal rates.	2012-2016 experience is higher than 2012 assumption but events during 2012-16, suggest it is not expected to be a reliable indicator of future trends.	No change in assumption.	

Assumption <sup>5</sup>	Summary of recommended assumptions	Rationale for recommendation	Magnitude of financial impact of change from 2012 valuation assumptions <sup>6</sup>	
			Employer contributions (2019-23) – past service impact <sup>7</sup> (% of pay)	Employer contributions (2019-23) – past and future service impact <sup>8</sup> (% of pay)
<b>Death before retirement</b>	Same assumption for males and females. Increasing by age: 0.02% at age 30, about 0.04% at age 40, 0.08% at age 50.	Same as the assumption proposed for England and no change from 2012 assumption. Very small amount of experience over 2012-16 in Wales.		No change in assumption.
<b>Promotional salary scale</b>				
Regular firefighters	Service based scale: large increases for first four years, 0.7% a year for next 8 years, then about 1.2% a year up to 30 years, with a lower increase thereafter.	Same as the assumption proposed for England and no change from 2012 assumption. In light of 2012-16 experience.		No change in assumption.
Retained firefighters (including special members)	Age related scale: about 1% a year up to age 50, 0.4% a year thereafter.	Same as the assumption proposed for England. In light of 2012-16 experience.		Not material.
<b>Commutation</b>				
1992 Scheme - protected	0% of pension commuted.	Cost neutral commutation terms.		No change in assumption.
2007 Scheme - protected	15% of pension commuted.	HMT Directions.		No change in assumption.
2007 Scheme (special retained) - protected	0% of pension commuted.	In line with 1992 Scheme assumption.		New assumption.

Assumption <sup>5</sup>	Summary of recommended assumptions	Rationale for recommendation	Magnitude of financial impact of change from 2012 valuation assumptions <sup>6</sup>	
			Employer contributions (2019-23) – past service impact <sup>7</sup> (% of pay)	Employer contributions (2019-23) – past and future service impact <sup>8</sup> (% of pay)
2015 Scheme - new entrants	15% of pension commuted.	HMT Directions.		No change in assumption.
1992 Scheme - unprotected and tapered	[0% of 1992 Scheme and 0% of 2015 Scheme pension commuted.]	1992 Scheme offers a significantly greater lump sum for pension given up.		[No change in assumption.]
2007 Scheme - unprotected and tapered	15% of both 2007 Scheme and 2015 Scheme pension commuted.	HMT Directions.		No change in assumption.
2007 Scheme (special retained) - unprotected and tapered	[0% of special 2007 Scheme and 0% of 2015 Scheme pension commuted.]	2007 Scheme (special section) offers a significantly greater lump sum for pension given up.		New assumption.
<b>Family statistics</b>				
Proportion married	75% at retirement (consistent assumptions for existing pensioners).	Same as the assumption proposed for England and no change from 2012 assumption.		
Proportion partnered	80% at retirement (consistent assumptions for existing pensioners).	Same as the assumption proposed for England and no change from 2012 assumption.		No change in assumptions.
Age difference	Males 3 years older than partner.	Same as the assumption proposed for England and no change from 2012 assumption.		
Remarriage	No allowance.	No change (no evidence).		



## 2 Introduction

*This report contains our advice to the Welsh Ministers but will be of interest to other parties who should note the limitations.*

- 2.1 An actuarial valuation of the Firefighters' Pension Schemes (Wales) ('the Schemes') is being undertaken as at 31 March 2016. The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 (as amended) ('the Directions') require that, unless specified otherwise<sup>12</sup>, the actuarial assumptions to be adopted for this valuation are the responsibility of the Welsh Ministers, having taken advice from the scheme actuary. Direction 19(c) requires the assumptions to be the Welsh Ministers' best estimates.
- 2.2 GAD is the appointed scheme actuary to the Schemes. This report is addressed to the Welsh Ministers and contains our formal advice on the appropriate assumptions to be adopted for the 2016 valuation, as required by the Directions. The purpose of this advice is to enable the Welsh Ministers to determine the required best estimate assumptions.
- 2.3 The advice also has regard to HM Treasury's suggested approach<sup>13</sup> for setting assumptions in the absence of direct evidence.
- 2.4 The advice covers the main assumptions to be set by the Welsh Ministers. In particular, we consider the following sets of demographic assumptions in this report:
- > Pensioner mortality
  - > Age retirement from service
  - > Ill-health retirement from service
  - > Voluntary withdrawal from service
  - > Death before retirement
  - > Promotional pay progression
  - > Commutation of pension for cash at retirement
  - > Family statistics

Appendix B includes other calculation assumptions as required to complete the valuation.

<sup>12</sup> Certain assumptions are specified in the Directions.

<sup>13</sup> Set out in Annex A of HM Treasury's *Public service pensions: actuarial valuations and the employer cost cap mechanism* dated March 2014.



- 2.5 *[The Welsh Ministers are now asked to confirm the actuarial assumptions (listed in paragraph 2.4) to be adopted for the valuation as required by the Directions.] DN: After conclusion of the consultation process.*
- 2.6 The Schemes' administrators from each of the three fire and rescue authorities supplied data on the experience of the membership of the Schemes over the four-year period to 31 March 2016. We have used this data to analyse the Schemes' experience in order to develop our advice on the assumptions. Our report, ***Firefighters' Pension Schemes (Wales) Actuarial Valuation as at 31 March 2016: Report on valuation data dated [ ]***, provides information about this data and should be read in conjunction with this advice. The report includes details of the checks carried out on the data, the amendments made to the data and our residual concerns about the quality of the data. In preparing our advice, we have relied upon the general completeness and accuracy of the data provided.
- 2.7 When considering appropriate assumptions, experience (both recent and longer term) generally provides the most reliable evidence when considering best estimates of future experience. However, robust analysis of scheme experience will only be possible where there is both sufficient quality, and quantity, of data. The level of reliance that can be placed on any assumptions derived from the analysis will also vary depending on these two factors. Anticipated future events may also influence how assumptions are set.
- 2.8 It is generally accepted that larger datasets will be subject to less volatility and statistical variation, and may be less prone to the impact of errors in individual records. For the smallest public service pension schemes it may therefore not be possible to undertake, in isolation, a statistically reliable analysis of that scheme's own experience. For other schemes it may only be possible to complete a reliable analysis of certain aspects of the scheme's own experience. Where appropriate, it may be preferable to consider whether the experience of similar larger schemes might be used when setting assumptions.
- 2.9 The Schemes in aggregate are a small public service pension scheme with around 6,000 members. In this advice we propose to set certain assumptions based on an analysis of the scheme's own experience. In some cases the data available to analyse inter-valuation experience for the Schemes is less reliable and complete than corresponding information for the larger Firefighters' Pension Schemes in England ('the England Schemes'). Where there is no reason to believe experience across the membership of the two schemes should be materially different we have also considered the conclusions reached based on the England Schemes experience<sup>14</sup> in formulating our recommendations for the Schemes. This is consistent with the approach used in previous valuations where in many cases the same assumptions have been used for both schemes.

<sup>14</sup> See [draft report](#) Firefighters' Pension Schemes (England): Actuarial valuation as at 31 March 2016: Advice on assumptions, dated 7 September 2017



- 2.10 This report sets out relevant analysis of recent experience and indicates which other factors have been considered in deriving recommendations of best estimate assumptions. We are happy to revisit our advice to take account of any additional evidence relevant to expected future experience of the membership of the Schemes. The Welsh Ministers should consider whether there is any reason why the approach taken to setting the assumptions is inappropriate.
- 2.11 For a number of assumptions considered in this report the experience data available from the Schemes is not sufficient to set a robust assumption. Placing full reliance on the Schemes' recent experience might lead to assumptions which vary significantly between valuations simply as a result of one-off events or random variation in the experience. This could lead to unstable valuation results and potentially trigger a cost cap breach. To mitigate this risk we have made use of the experience of the England Schemes. We have adopted the following approach where there is insufficient evidence from the Schemes to set a robust assumption directly:
- > If the Welsh experience is very similar to the experience in England then the assumption recommended for the England Schemes has been recommended for the Schemes as well.
  - > If the Welsh experience differs from England but the underlying experience in the two regions could reasonably be expected to be the same with the differences resulting only from natural random variation then the assumption recommended for the England Schemes has been recommended for the Schemes as well.
  - > If the difference between the experience in Wales and England cannot reasonably be the result of natural random variation then the recommended assumption will reflect the experience in Wales where that is expected to be the best guide for the future. It may still be possible to make use of the experience in England if the experience in Wales has a similar pattern by age, but the overall level is higher or lower. This does not mitigate the risk of the assumption changing significantly between valuations but, in our view, is more sensible than adopting an assumption which seems clearly inappropriate.
  - > If no analysis of Welsh experience has been possible due to the lack of credible data then the assumption recommended for the England Schemes has been recommended for the Schemes.



- 2.12 We are content for the Welsh Ministers to release this report to third parties, provided that:
- > it is released in full
  - > the advice is not quoted selectively or partially
  - > GAD is identified as the source of the report, and
  - > GAD is notified of such release.
- 2.13 Third parties whose interests may differ from those of the Welsh Ministers should be encouraged to seek their own actuarial advice where appropriate. Other than to the Welsh Ministers, GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this report.

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### 3 General considerations

*This chapter sets out a number of general considerations common to the setting of the different assumptions considered in this report.*

- 3.1 The key considerations taken into account in formulating the advice in this report are explained in this section.

#### Directions

- 3.2 The advice in this report reflects the requirements of the Directions issued by HM Treasury that assumptions should be set as the Welsh Ministers' 'best estimates' of future experience and should contain no margin for prudence or optimism. They should be set having regard to:

- > assumptions set for previous valuations;
- > analysis of demographic experience in the period up to the valuation date;
- > historic long term trends and emerging evidence which may illustrate long-term trends in the future; and
- > relevant data from any other sources.

#### Different populations

- 3.3 The Directions require this actuarial valuation of the Schemes covers both the scheme established under the Public Service Pensions Act 2013<sup>15</sup> ("2015 Scheme") and the previous pension schemes ("pre-2015 schemes"), being the 1992 Scheme and 2007 Scheme. Assumptions appropriate to both the 2015 Scheme and the pre-2015 schemes are required for the valuation. The Directions also require assessment of benefit accrual costs over the **implementation period**<sup>16</sup>. This requires assumptions about anticipated member behaviour and characteristics during 2019-2023, as well as assumptions about member behaviour and characteristics in the longer term.
- 3.4 There are currently 3 distinct groups of members.
- > Those with full protection and remaining in the pre-2015 schemes to retirement. The introduction of the 2015 Scheme is not expected to have any impact on this group's behaviours.
  - > New members to the 2015 Scheme. These members' retirement behaviours are expected to be heavily influenced by the provisions of the 2015 Scheme.

<sup>15</sup> [http://www.legislation.gov.uk/ukpga/2013/25/pdfs/ukpga\\_20130025\\_en.pdf](http://www.legislation.gov.uk/ukpga/2013/25/pdfs/ukpga_20130025_en.pdf)

<sup>16</sup> 1 April 2019 to 31 March 2023



- > Members with service in both the 2015 Scheme and a pre-2015 scheme (including members with tapered protection). Over time, as the proportion of 2015 Scheme service increases, the retirement behaviours are expected to become increasingly influenced by the provisions of that scheme.
- 3.5 Within the 2007 Scheme and 2015 Scheme, members are separately identified as either regular firefighters or retained firefighters. There are no retained firefighter members of the 1992 Scheme.
- 3.6 Where relevant we indicate in each of the following chapters the relative importance of each set of assumptions to the groups of members identified above.

### **Males and Females**

- 3.7 There are relatively few female firefighters (ie less than 1% of pensioner members and 4% of active members are female) and as such it is not possible to perform any separate robust experience analysis for females. Our analysis therefore covers male members only. We recommend that the same assumptions are used for male and female firefighters in any given sub-group, based on the analysis of the males in the sub-group. We do not expect the use of different assumptions for females would have a material impact on the valuation results.
- 3.8 The only exception is for dependant pensioners, who are nearly all females. Therefore, the analysis and proposed assumption for these members is based entirely on an analysis of the females in this sub-group.

### **Special Retained Members**

- 3.9 An amendment<sup>17</sup> to the 2007 Scheme regulations made in December 2014 introduced a modified section of the 2007 Scheme for retained firefighters who were employed during the period 1 July 2000 to 5 April 2006 to provide them with access to a pension scheme (known as 'special' members). The special members could purchase past pensionable service in the modified section of the 2007 Scheme from the date their service began or from 1 July 2000, if later.
- 3.10 Special members were not present in the 2012 valuation, so there are no existing assumptions for them. Therefore, we have considered assumptions for these members in this report and set out in the relevant sections where assumptions for special members differ from those for standard 2007 members.

<sup>17</sup>[http://www.legislation.gov.uk/wsi/2014/3254/pdfs/wsi\\_20143254\\_mi.pdf](http://www.legislation.gov.uk/wsi/2014/3254/pdfs/wsi_20143254_mi.pdf)



## 4 Pensioner Mortality

*This chapter sets out our recommendation for the baseline pensioner mortality assumptions and summarises the analysis undertaken in order to inform that recommendation.*

- 4.1 The assumptions we recommend for baseline pensioner mortality for the 2016 valuation may be summarised by reference to standard mortality tables as follows. The corresponding assumptions for the 2012 valuation are also shown.

**Table 4.1: Recommended mortality assumptions**

Baseline mortality	2012 valuation		2016 valuation	
	Standard table <sup>18</sup>	Adjustment*	Standard table <sup>19</sup>	Adjustment*
Current normal and ill-health pensioners	S1NMA	113%	S2NMA	113%
Future normal health pensioners	S1NMA	113%	S2NMA	113%
Future ill-health pensioners	S1IMA	100%	S2NMA	113%
Dependants	S1DFA	100%	S2DFA	100%

\*An adjustment of 113% means that mortality rates are 13% higher than in the standard table.

- 4.2 As specified by HM Treasury, future improvements in mortality will be assumed to be in line with those underlying the most recent ONS population projections.

<sup>18</sup> SAPS (S1) tables are published by the Actuarial Profession and based on the experience of self-administered pension schemes over the period 2000 to 2006. The 'S1' series has separate standard tables based on experience of members including males retiring in normal health (S1NMA), males retiring in ill-health (S1IMA) and for female dependants (S1DFA).

<sup>19</sup> SAPS (S2) tables are published by the Actuarial Profession and based on the experience of self-administered pension schemes over the period 2004 to 2011. The 'S2' series has separate standard tables based on experience of members including males retiring in normal health (S2NMA), males retiring in ill-health (S2IMA) and for female dependants (S2DFA).



### Comparison of expected pensioner longevity

4.3 The table below gives a comparison of the resulting life expectancies<sup>20</sup> (allowing for future improvements) assumed for the 2012 valuation and recommended for the 2016 valuation. The life expectancies shown under each column are calculated using the following assumptions:

- > The mortality assumption adopted for the 2012 valuation, which allows for ONS 2012 future mortality improvements.
- > The mortality assumption adopted for the 2012 valuation changed from a 'lives' to 'amounts' basis (see paragraphs 4.11 to 4.15).
- > As previous column, but with life expectancies calculated from the year 2016, rather than from 2012.
- > As previous column, but using ONS 2014, rather than ONS 2012.
- > The proposed mortality assumption for the 2016 valuation, which allows for ONS 2014 future mortality improvements (on an 'amounts' basis).

**Table 4.2: Comparison of life expectancies (years) at the valuation date**

Base table:	2012 assumption (lives)	2012 assumption (amounts <sup>21</sup> )	2012 assumption (amounts <sup>21</sup> )	2012 assumption (amounts <sup>21</sup> )	2016 assumption (amounts)
Future mortality improvements:	ONS 2012	ONS 2012	ONS 2012	ONS 2014	ONS 2014
Effective year for life expectancies:	2012	2012	2016	2016	2016
<b>Current pensioners (normal and ill-health)</b>					
Member aged 50	37.2	37.5	38.0	37.7	37.9
Member aged 55	31.9	32.3	32.8	32.5	32.7
Member aged 60	27.0	27.3	27.7	27.5	27.6
Member aged 65	22.1	22.4	22.9	22.6	22.7
<b>Future pensioners (normal and ill-health) – current age 45<sup>22</sup></b>					
Member life expectancy from age 50	37.8	38.2	38.7	38.3	38.5
Member life expectancy from age 55	33.2	33.5	34.0	33.7	33.8
Member life expectancy from age 60	28.7	29.0	29.4	29.1	29.2
Member life expectancy from age 65	24.3	24.6	25.0	24.7	24.8

<sup>20</sup> Cohort life expectancies based on ages shown in the effective year, ie allowing for future mortality improvement.

<sup>21</sup> At the 2012 valuation of the England Schemes, it was not possible to carry out an 'amounts' based analysis, but sufficient data was available at the 2016 valuation to carry out an 'amounts' based analysis on the 2012-16 data and to show the 2012 valuation assumption on an 'amounts' rather than 'lives' basis, assuming the relationship between the two had been the same in 2012 as in 2016. These columns show the impact of changing the 2012 valuation assumption to an 'amounts' basis. See paragraphs 4.11 to 4.15 for further details.

<sup>22</sup> Life expectancies for future pensions based (on a combined health basis) on 2012 valuation assumptions use 113% of S1NMA base table to follow an approach consistent to the proposed 2016 assumptions.



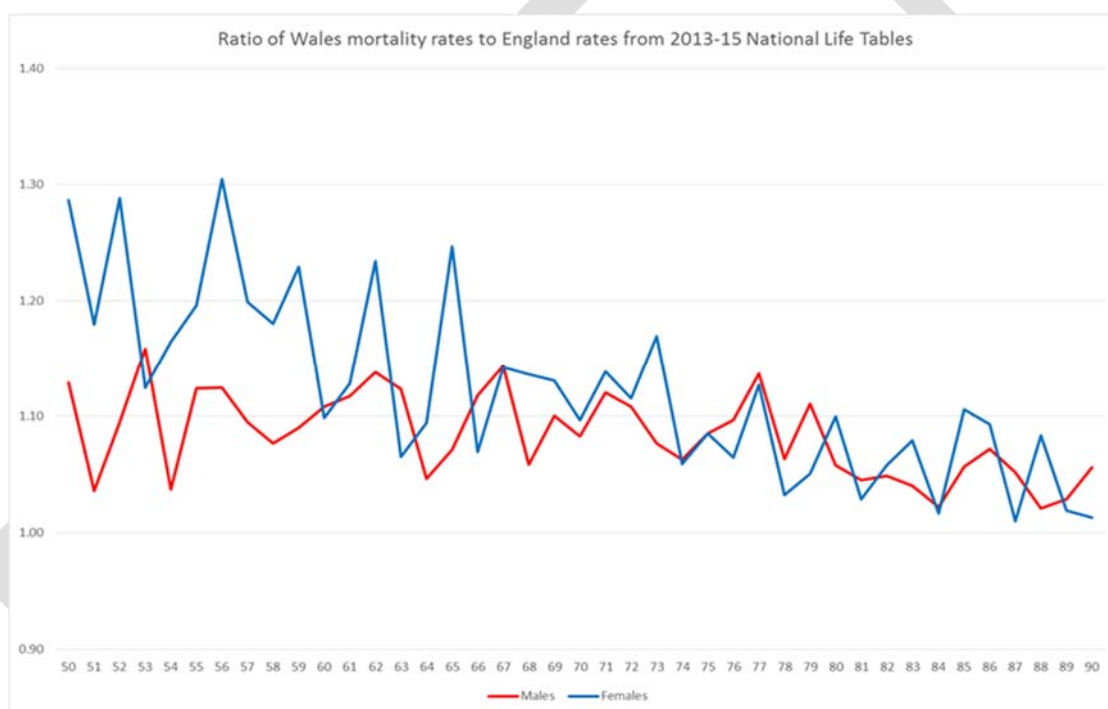
### Use of the assumption

- 4.4 Pensioner mortality is a key valuation assumption and is a measure of how long members retiring in normal or ill-health, or their dependants, are expected to live and receive benefits.

### Comparison of population mortality in Wales and England

- 4.5 The chart below illustrates the differences between the aggregate population mortality rates for Wales compared to England. The relationship is quite volatile over the different ages. Looking at ages 60 and older (as relevant for pensioner mortality), mortality rates for Wales are generally slightly higher for ages 60 to 70; the ratio then declines in a relatively linear fashion until around age 90, after which mortality rates in Wales are broadly similar to those in England.

**Chart 4.1: Ratio of mortality rates in Wales to rates in England from 2013-15 Interim Life tables**



- 4.6 Although the aggregate population mortality rates are slightly higher for Wales compared to England, an argument can be made that it is reasonable to expect there is greater similarity in the mortality rates in retirement for healthy, working individuals in equivalent workforces across the geographical regions than for the population as a whole, especially given the volatility in the comparison of aggregate population mortality rates. This is also the approach that has been taken for the 2016 valuation of the firefighters' pension scheme in Northern Ireland, which shows a similar relationship between aggregate population mortality rates compared to those in England, and uses the same proposed mortality assumption as for the England Schemes.



## Analysis and setting the assumption

- 4.7 The mortality experience of the Schemes is not sufficient in isolation to set robust assumptions and so we have also considered the experience of the England Schemes. The table below sets out the number of deaths for pensioner and dependants included in the analysis in Wales and in England.

**Table 4.3 – Number of deaths in the analysis in Wales and England**

Member category	Deaths in Wales 2012 - 2016	Deaths in England* 2012 - 2016
Male pensioner (Normal and Ill- health retirements)	126	1,489
Female dependants	55	500

\* Note that the analysis in England excluded data from 17 fire authorities for the pensioner analysis (representing about 25% of pensioners) and excluded data from 28 fire authorities for the dependant analysis (representing about 50% of dependants).

- 4.8 As the experience in the England Schemes is significantly greater than that in Wales, our proposal for the mortality assumptions for the Schemes is to use the same mortality assumption as is proposed for the England Schemes for the 2016 valuation. This is similar to the approach taken for the 2012 valuation when the mortality assumption for the Schemes was set to be the same as for the England Schemes.
- 4.9 In line with the proposals for the England Schemes, we recommend that the mortality assumption for future pensioners, for both normal and ill-health retirement, is the same as the assumption proposed for current pensioners. This is a change from the 2012 approach which used:
- > 100% of a standard ill-health mortality table for future ill-health retirements; and
  - > an adjusted standard normal health mortality table, with the adjustment calculated such that the combination of expected future normal and ill-health retirements would have the same mortality as the assumption for current pensioners (both normal and ill-health).
- 4.10 This change in approach is not expected to have a material impact on the valuation results, but has the advantage that it is easier to understand and is consistent with the approach taken by other public sector pension schemes which use a combined normal and ill-health mortality assumption for current pensioners.



### 'Amounts' analysis vs 'lives' analysis

- 4.11 Provided adequate data is available, mortality can be analysed on either a 'lives' basis or an 'amounts' basis:
- > A lives basis gives an equal weighting to every member of the population being analysed.
  - > An amounts basis weights the experience by the size of each member's pension (with the longevity of those with larger pensions given more of a weighting).
- 4.12 There is much evidence<sup>23</sup> to demonstrate that the size of pension is positively correlated with longevity, ie on average those with bigger pensions live longer. For a population with significant variation in the characteristics of the membership and in the amounts of pension being paid, an amounts mortality analysis is generally expected to show lower rates of mortality than a corresponding lives analysis.
- 4.13 Where possible it is usually preferable to use an amounts analysis rather than a lives analysis to set the mortality assumption for an actuarial valuation as in an amounts analysis the weighting given to different members' mortality experience more closely reflects the relative size of their financial liabilities to the pension scheme.
- 4.14 At the 2012 valuation it was not possible to complete an amounts analysis as data on pension amounts at death was not available. Therefore, a lives analysis was done and this was used to set the assumptions which were adopted for the valuation. GAD's *Advice on assumptions* report dated 6 March 2015 included the following comment:
- ... we have carried out our analysis on a 'lives' basis, which considers the number of deaths without weighting by pension amount. We consider this to be a reasonable method for the Schemes, as the underlying population is largely homogeneous, and so pension amounts are less widely spread than would be the case in a more diverse scheme. However, if the amounts data were available it is possible that analysis could lead to different mortality assumptions.*
- 4.15 For the 2016 valuation of the England Schemes, which is being used as a reference to propose a mortality assumption for the Schemes, it has been possible to do an amounts analysis and a lives analysis.

<sup>23</sup> For example see CMI self-administered Pension Schemes Mortality Committee, Working Paper 65: *Analysis of the mortality experience of pensioners of self-administered pension schemes for the period 2004 to 2011, April 2013.*



### Comments on the analysis of the England Schemes

- 4.16 We analysed the pensioner mortality experience for the England Schemes over 2012-16 on an 'amounts' basis, after removing some fire authorities from the analysis if the data about deaths did not appear credible.
- 4.17 To derive an assumption on an amounts basis we compared the actual amounts of pension ceasing on deaths with those expected had the members' experience been in line with the mortality rates in the relevant current SAPS tables ("S2 Tables"). The recommended assumption of baseline pensioner mortality is expressed by reference to suitable adjustments to the rates in the relevant S2 table ("the base table"). **Details of this analysis can be found in the draft report Firefighters' Pension Scheme (England): Actuarial valuation as at 31 March 2016: Advice on assumptions, dated 7 September 2017.**
- 4.18 The experience of the England Schemes over 2012-16 suggests lower levels of mortality overall than expected based on the 2012 assumption (which was the same as the 2012 assumption for the Schemes) for normal and ill health pensioners.
- 4.19 The proposed assumption for the England Schemes was derived by taking an average of the 2012 assumption (converted from a 'lives' to an 'amounts' basis) and the England experience over 2012-16. A 2/3:1/3 weighting of the 2012 assumption and the 2012-16 experience has been used. This approach:
- > makes allowance for the relative amounts of mortality data underlying the 2012 assumption and the 2012-16 analysis;
  - > helps reduce volatility from relatively large changes in the mortality assumption from one valuation to the next; and
  - > helps to reduce the risk that the mortality assumption is significantly impacted by any deaths that might have been underreported in the mortality data over 2012-16.
- 4.20 For dependants, the experience over 2012-16 was broadly in line with that expected from the 2012 assumption (which is the same as the 2012 assumption for the Schemes) and also close to that which would be expected from the standard S2 table for dependants. Therefore, the proposed assumption for dependants in the England Schemes was 100% of the S2DFA table.





## 5 Age retirement from service

*This chapter sets out our recommendation for the assumed patterns of retirement on grounds other than ill-health, and summarises the analysis undertaken in order to inform that recommendation.*

### Proposed assumptions for 2016 valuation

5.1 We recommend that rates of age retirement are set separately for the following groups of members:

- > 1992 Scheme members who have full protection, tapered protection or are unprotected but have significant 1992 Scheme service (greater than 16 years' service at 31 March 2012).
- > Unprotected 1992 Scheme members with less than 16 years' service at 31 March 2012.
- > Members with any standard 2007 Scheme service (ie including protected, tapered and unprotected members).
- > Special members with any modified 2007 Scheme service (ie including protected, tapered and unprotected members).
- > 2015 Scheme members with no previous service in the pre-2015 schemes.

Sample age retirement rates are provided in Appendix A. This approach to setting assumptions was adopted for the previous valuation (other than for the new assumption for special members). There is not yet any evidence on which to reconsider this approach.

#### **Members with 1992 Scheme service**

- 5.2 For full protection members, who continued in the 1992 Scheme after 2015, we recommend adopting the same retirement assumption proposed for firefighters in England in the 2016 valuation who have full protection. Both age and service are taken into account in the retirement rates. Many members are assumed to retire on reaching 30 years' service and all are assumed to retire by age 60.
- 5.3 For taper protected members, and unprotected members with more than 16 years' service at 31 March 2012, we recommend the same assumption as for protected members above. This is consistent with the approach taken in 2012 and reflects an expectation for 1992 Scheme benefits, rather than 2015 Scheme benefits, to drive member behaviours.



- 5.4 For unprotected members with less than 16 years' service at 31 March 2012, we also recommend adopting the same retirement assumption proposed for this group of members for the 2016 valuation of the England Schemes. The retirement rates for this group assume no members retire before age 55 and most members retire at age 55. For example, for members who joined before age 25, about 99% are assumed to retire at age 55, and for members joining at age 30 (and over) about 40% are assumed to retire at age 55. This reflects an expectation for the 2015 Scheme benefits to have greater influence over member behaviours than the 1992 Scheme benefits, in particular the normal pension age of 55 in the 2015 Scheme, and is consistent with the approach taken in the 2012 valuation.

***Members with standard 2007 Scheme service***

- 5.5 We recommend that members with standard 2007 Scheme service are assumed to retire at age 60. This applies to protected members, members with tapered protection and unprotected members who have joined the 2015 Scheme.

***Special Retained Members***

- 5.6 Under the pension arrangements of the modified section of the 2007 Scheme, all special retained members are eligible to retire at age 55 with an unreduced pension. Therefore, we propose that protected special members take up their benefits at age 55, with this being the earliest available opportunity to draw an unreduced pension.
- 5.7 We propose that unprotected and tapered special members are also assumed to retire at age 55 in the 2015 Scheme, as a (reduced) 2015 Scheme pension is available from that age.

***New entrants to the 2015 Scheme***

- 5.8 Our recommended assumption is:
- > 25% of members reaching age 55 are assumed to retire immediately; and
  - > all remaining members will retire at age 60.
- 5.9 The assumption is intended to make a reasonable allowance for the take-up of benefits at the earliest time at which they become available (with reduction for early payment) and is the same assumption that was adopted in the 2012 valuation. It is also the same assumption used for the costings carried out as part of the design of the 2015 Scheme.



### ***Deferred Members***

- 5.10 We recommend it is assumed that deferred members will take their pension at their deferred pension age. Deferred members can take a reduced pension before deferred pension age, but the reduction is actuarially neutral so allowance for this would not have a material impact on the valuation results.

### **Previous valuation assumptions**

- 5.11 The proposed assumptions are identical in nature and effect to those which were adopted for the 2012 valuation for all categories of members except for 1992 Scheme members. For 1992 Scheme members the proposed assumptions are identical in nature to those adopted for the 2012 valuation but have been updated to align with the equivalent assumptions proposed for the England Schemes. There are also new assumptions for the special retained members.

### **Use of the assumption**

- 5.12 Age retirement rates specify the rate at which members are assumed to retire on grounds other than ill-health and therefore potentially include allowance for retirements before or after Normal Pension Age.
- 5.13 In the 1992 Scheme, members can retire on an unreduced pension once they have completed 25 years' service if they are aged 50 or over, and most members can retire from age 55 regardless of service. There is no actuarially reduced early retirement option.
- 5.14 Members in the 2007 Scheme can retire unreduced at age 60 from active service and from age 65 if deferred members. Active members can take actuarially reduced early retirement from age 55 up to age 60; the reduced pension is with reference to a pension payable from age 65.
- 5.15 Members in the 2015 Scheme can retire unreduced at age 60 from active service and from State Pension Age if deferred members. Active members can take an actuarially reduced early retirement from age 55, with reference to a pension payable from age 60 (with future increases assumed to be in line with in-service revaluation).

### **Analysis and setting the assumption**

- 5.16 For the purposes of considering the assumptions appropriate for members of the 1992 Scheme, we have considered the experience of these members in the Schemes over 2012-16. After excluding any data that was not credible, there were 172 such retirements, with an average age on retirement of 53 years and average service on retirement of 29 years.
- 5.17 We have also considered the experience of the England Schemes, for which 2,668 retirements were included in the equivalent analysis over 2012-16, with an average age on retirement of 52 years and average service on retirement of 29 years.

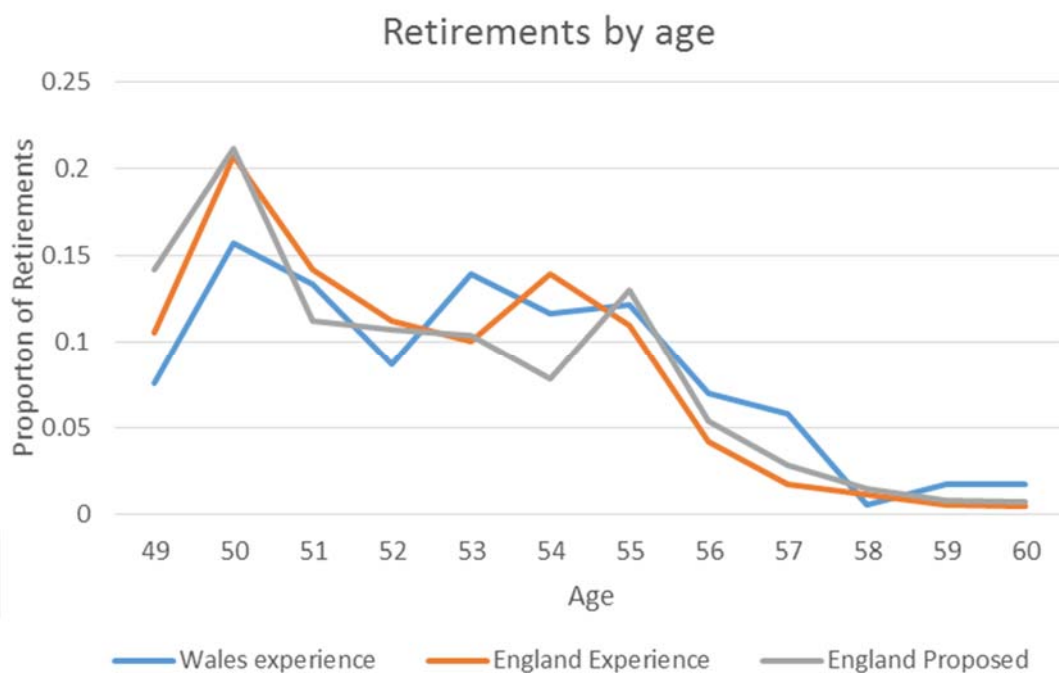


- 5.18 There is insufficient data to undertake any meaningful analysis of retirements in the 2007 Scheme (standard and special) or in the 2015 Scheme. As most of the available retirement experience continues to relate to retirements from the 1992 Scheme, the actual scheme experience is not directly relevant for this purpose. As such, we recommend that the retirement assumptions from the 2012 valuation are maintained for these members.

### Results of analysis for protected 1992 Scheme members

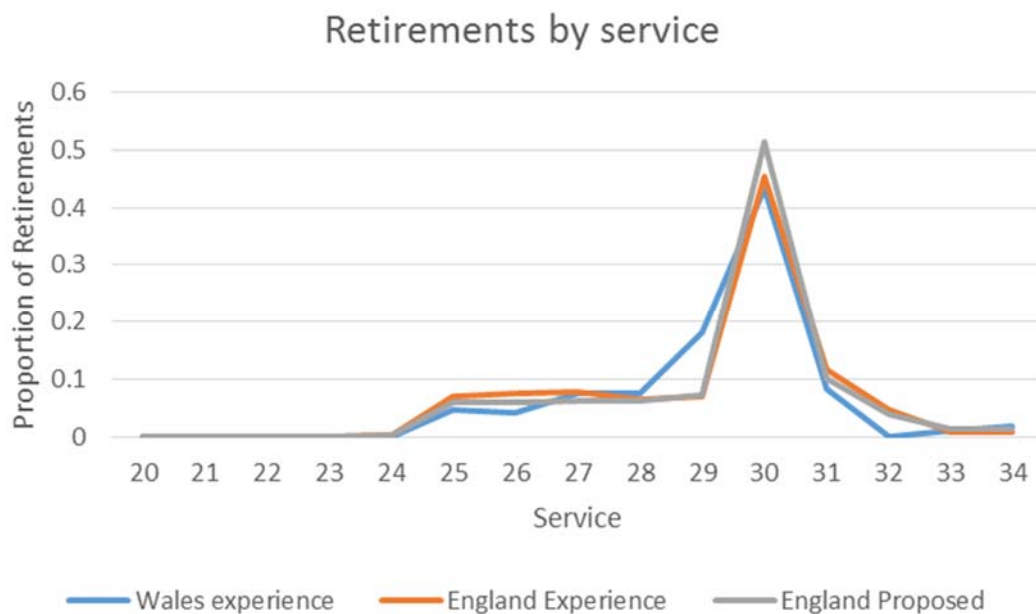
- 5.19 We have considered the proportion of normal health retirements by age and service over the period 2012-16 compared to those observed for the England Schemes over the same period and those expected under the proposed assumption for the England Schemes. The results of these comparisons can be seen in Graphs 5.1 (by age) and 5.2 (by service) below

**Graph 5.1: Proportion of 1992 Scheme retirements by age**





**Graph 5.2: Proportion of 1992 Scheme retirements by service**



### Comments on results of analysis for protected 1992 Scheme members

- 5.20 Due to the low number of retirements from the Schemes the proportion of retirements at each age or service can be volatile. However, given this volatility, both charts show a reasonable alignment of the retirements in Wales and England over the period. The average age and average service of retirements has been similar in both Wales and in England. We also note that the benefit design of both the 1992 Scheme in Wales and in England is the same in so far as it would be expected to influence retirement rates. We therefore propose that the retirement assumptions proposed for the equivalent groups of 1992 members in the England Schemes is adopted for the Schemes at the 2016 valuation.



## 6 Ill-health retirement from service

*This chapter sets out our recommendation for the assumed rates of retirement on grounds of ill-health, and summarises the analysis undertaken in order to inform that recommendation.*

### Proposed assumptions for 2016 valuation

- 6.1 We recommend that a single set of assumptions is used for all members to allow for the incidence of ill-health retirement, ie applying both to those members who remain in the pre-2015 schemes and members of the 2015 Scheme. Assumed rates of ill-health increase with age but less than 1.5% of members are assumed to retire on ill-health grounds each year, even at the highest ages. Sample rates are provided in Appendix A.
- 6.2 We also recommend assuming that 40% of members retiring on ill-health grounds will receive the upper-tier benefits and the remaining 60% will receive the lower-tier benefits.

### Previous valuation assumptions

- 6.3 The proposed 2016 assumptions for both the incidence of ill-health retirement and the proportion of members eligible for upper-tier benefits are the same as those adopted for the previous valuation.

### Use of the assumptions

- 6.4 Ill-health retirement rates specify the rate at which members are assumed to retire on grounds of ill-health. The assumed eligibility for upper or lower-tier awards specifies the benefits which will be provided. The ill-health assumptions have a low impact on the overall results. The rates of mortality experienced after ill-health retirement are also relevant to the valuation calculations. Post retirement mortality is addressed in Chapter 4.

### Analysis and setting the assumption - Ill-health incidence

- 6.5 After excluding any data that was not credible, there were 39 ill-health retirements in the Schemes over 2012-16, with an average age on ill-health retirement of 48 years.
- 6.6 As this is a relatively small number of ill-health retirements, the experience of the Schemes is not sufficient in isolation to set a robust assumption and so we have also considered the experience of the England Schemes, for which 244 retirements were included in the equivalent analysis over 2012-16, with an average age on ill-health retirement of 49 years.



- 6.7 The 39 ill-health retirements in Wales equates to an approximate average ill-health rate of 0.37% pa over the four-year period 2012-16. The equivalent rate over the same period in England was 0.25%. The average age on ill-health retirement over 2012-16 were similar in Wales and in England.
- 6.8 Given the relatively small amount of ill-health experience for the Schemes and that the experience in England was similar, we propose that the ill-health assumption for England for the 2016 valuation is also adopted for the Schemes. This is consistent with the structure of the assumptions used at the 2012 valuation, when the same ill-health assumption was used in Wales and in England. This also means no change in the assumption from that used for the Schemes in the 2012 valuation.

#### **Analysis and setting the assumption - Split between ill-health tiers**

- 6.9 We analysed the proportion of members with upper-tier benefits when retiring in ill-health during 2012-16. Over this period, 19 (or 49%) of the 39 ill-health retirements were recorded as upper-tier. This compares to the assumption made in the 2012 valuation that 40% would be upper-tier (which differs from the 2012-16 experience by 3 retirements).
- 6.10 We also received another set of ill-health tier data that Welsh Government had collated from fire and rescue authorities over the period 2012-16. This showed that 17% of ill-health retirements over the period were upper-tier.
- 6.11 On balance, given the two data sources suggest that the 2012 assumption is either lower or higher than the experience, we propose that the assumption of 40% for upper-tier ill-health benefits is maintained for the 2016 valuation in Wales, with this also being the assumption proposed for the 2016 valuation of the England Schemes.
- 6.12 In making this proposal we have noted that the assumption is of low materiality to the valuation results, there are only a small number of upper-tier ill-health pensions in Wales on which an assumption can be based and that we are not aware of any reason why the upper-tier proportion would be significantly different to that in England.



## 7 Voluntary withdrawal from service

*This chapter sets out our recommendation for the assumed rates of withdrawal from active service, and summarises the analysis undertaken in order to inform that recommendation.*

### Proposed assumptions for 2016 valuation

- 7.1 We recommend that for the purposes of the 2016 valuation separate withdrawal rates are used for regular and standard retained members. We propose that special retained members are assumed to withdraw at the same rate as regular firefighters.
- 7.2 These withdrawal rates would apply equally to those members who remain in the pre-2015 schemes and those who join the 2015 Scheme.
- 7.3 The recommended rates decrease with age; for regular firefighters they are 1.1% at age 25 and 0.3% at age 45. Withdrawal rates for standard retained firefighters are nine times the regular firefighter rates.
- 7.4 Sample rates are provided in Appendix A. The same rates apply regardless of the length of the member's service, except that no withdrawal will be assumed for members entitled to immediate retirement benefits.

### Previous valuation assumptions

- 7.5 The proposed 2016 assumptions are the same as those adopted for the previous valuation, other than the new assumption for special retained members who were not present in the 2012 valuation.

### Use of the assumption

- 7.6 Withdrawal rates specify the rate at which members are assumed to leave voluntarily before retirement (including opting out), becoming entitled to either deferred benefits or, for those with less than 3 months' service, a refund of contributions, or have chosen to transfer the value of their pension out of the Schemes.
- 7.7 There is insufficient evidence to indicate the level of members re-joining the Schemes after leaving. For the avoidance of doubt, all members assumed to withdraw are assumed not to re-join.





## Analysis and setting the assumption

- 7.8 After excluding any data that was not credible, there were 495 withdrawals in the pre-2015 schemes over 2012-16, with an average age on withdrawal of 35 years. These split out as 40 withdrawals from the 1992 Scheme and 455 withdrawals from the 2007 Scheme. For this split, those members who moved to the 2015 Scheme before leaving are allocated to their pre-2015 scheme.
- 7.9 The 40 withdrawals of the 1992 Scheme members in Wales equates to an approximate average withdrawal rate of 0.8% pa over the four-year period 2012-16. This is approximately double the rate that was expected over the period based on the 2012 assumption.
- 7.10 The withdrawal data for the 2007 Scheme does not contain a credible split between withdrawals for regular and retained firefighters. Therefore, we have compared the total withdrawal rate in the 2007 Scheme against that expected, with the expected rate based on the use of the separate withdrawal assumption for regular and retained 2007 Scheme members.
- 7.11 This showed that the 455 withdrawals of the 2007 Scheme members in Wales equates to an approximate average withdrawal rate of 9.2% pa over the four-year period 2012-16. This is also about double the rate that was expected over the period based on the 2012 assumption.
- 7.12 Therefore, for both pre-2015 schemes there was a significantly higher number of withdrawals than expected under the 2012 valuation assumptions.
- 7.13 There are a number of reasons why events in the 2012-16 period may mean that levels of withdrawal during the period are atypical and would not be expected to be repeated in future. These events include:
- > The increases to member contributions over the period 2012-15.
  - > The introduction of the 2015 scheme on 1 April 2015.
  - > Continued public sector pay restraint.
- 7.14 All of these events could reasonably have led to higher withdrawals than expected. Given that withdrawal experience in the 2012-16 period is not expected to be a good indication of future rates of withdrawal, our provisional proposal is to maintain the existing assumption. This is in line with the proposal for the England Schemes which have also seen a substantially higher level of withdrawals over 2012-16 than expected.

*However, we would welcome input from stakeholders, particularly on:*

- > *Any additional sources of data which may help to inform the assumption.*
- > *Any views about whether the higher withdrawal rates in 2012-16 might be expected to be maintained in future years.*



- 7.15 There was insufficient data to perform a credible analysis on the withdrawal rates from the 2015 Scheme, separately from the pre-2015 schemes. We propose that members are assumed to withdraw at the same rates adopted for the 2007 Scheme. This is consistent with the approach at the 2012 valuation.
- 7.16 There was insufficient data to perform a credible analysis of the withdrawal rates for special retained members of the 2007 Scheme. As these members are accruing benefits similar in value to those from the 1992 Scheme and, by definition, have already been retained firefighters for at least 10 years (ie since before April 2006), we expect that they may be more likely to withdraw at lower rates, closer to those assumed for regular firefighters. Therefore, we propose that the withdrawal assumption for regular firefighters is adopted for the special retained members.
- 7.17 There was insufficient data to perform a credible analysis on withdrawal rates of female firefighters. We propose that the same withdrawal rates are adopted for both male and female members.

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## 8 Death before retirement

*This chapter sets out our recommendation for the assumed rates of death before retirement, and summarises the analysis undertaken in order to inform that recommendation.*

### Proposed assumptions for 2016 valuation

- 8.1 We recommend a single set of assumptions for all members to allow for the possibility of death before retirement. Assumed rates of death before retirement increase with age but fewer than 0.5% of members are assumed to die before retirement each year, even at the highest ages. Sample rates are provided in Appendix A.

### Previous valuation assumptions

- 8.2 The proposed 2016 assumptions are the same as those adopted for the previous valuation.

### Use of the assumption

- 8.3 Death before retirement rates are used to allow for the possibility of deaths whilst in active service or whilst entitled to a deferred pension. The numbers of deaths observed annually, and the recommended rates to be assumed, are low, and thus this assumption has relatively little financial significance.

### Analysis and setting the assumption

- 8.4 After excluding any data that was not credible, there were 5 deaths in service in the Schemes over 2012-16, with an average age at death of 51 years.
- 8.5 As this is a very small number of deaths, the experience of the Schemes is not sufficient in isolation to set a robust assumption and so we have also considered the experience of the England Schemes, for which there were 47 deaths included in the equivalent analysis over 2012-16, with an average age at death of 47 years.
- 8.6 There is little experience in Wales to use as a firm base for this assumption. Therefore, we propose that the England assumption is adopted for the 2016 valuation. This is consistent with the structure of the assumptions used at the 2012 valuation, when the same death before retirement assumption was used in Wales and in England. This also means no change in the assumption from that used for the Schemes in 2012.



## 9 Promotional pay increases

*This chapter sets out our recommendation for the assumed promotional pay increases of active members, and summarises the analysis undertaken in order to inform that recommendation.*

### Proposed assumptions for 2016 valuation

- 9.1 We recommend assuming separate scales of promotional increases for regular firefighters and retained firefighters. The increases for regular firefighters are dependent on service and are steeper at shorter durations of service. The increases for retained firefighters are assumed to be dependent on age. Sample values from the scale are provided in Appendix A.
- 9.2 We recommend assuming that promotional pay increases for special retained members are equal to those of standard retained members.

### Previous assumption

- 9.3 For regular firefighters the assumption adopted for the 2012 valuation is the same as that recommended for the 2016 valuation. For retained firefighters, the 2012 valuation assumption allowed for a slightly lower level of increase at all years. There was no assumption for special retained members in the 2012 valuation, as these members did not exist in 2012.

### Use of the assumption

- 9.4 For members of the (final salary) 1992 and 2007 schemes, their benefits are linked to pay at or near retirement. Their pay will generally increase through a combination of general annual pay awards, promotional increases and any ad-hoc adjustments (eg due to changes in crewing arrangements). To calculate an estimate of the level of benefit payable in the future requires assumptions for each of these components. The assumption for general pay awards is directed by HMT. The assumption for promotional pay increases, and any other ad-hoc increases is set by the Welsh Ministers.
- 9.5 The impact on the cost of the Schemes of future pay increases will be more significant for those members with either full or tapered protection because they continue to accrue benefits linked to final pensionable pay for service beyond 31 March 2015.



### Analysis and setting the assumption

- 9.6 To formulate a recommended assumption for promotional pay increases, we compared the scheme data to the assumption adopted for the 2012 valuation using a 'profile analysis'. For regular members, the profile analysis considers the overall active membership as at 31 March 2016 and compares average (WTE<sup>24</sup>) pensionable pay at each length of service with that at other lengths of service. This analysis illustrates how average (WTE) pay varies by length of service. The profile analysis for retained firefighters is based on age rather than length of service. These differences in pay at each service length/age are then compared to the assumed promotional increases adopted for the 2012 valuation. The results of both profile analyses are discussed below.
- 9.7 The profile analysis does not capture the impact of any ad-hoc changes in pay, as discussed in paragraph 9.4, as that analysis looks at the profile of pay at one point in time. Any known future changes in pensionable pay can be included as a separate assumption, if required.
- 9.8 We have made no explicit allowance for the current period of pay restraint in our analysis, on the basis that promotional/progression increases have not been significantly affected by this, but we welcome any views from stakeholders on this assumption.

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<sup>24</sup> Whole-time equivalent



## Results of profile analysis for promotional pay increases

### *Regular firefighter members*

- 9.9 Graph 9.1 shows the change in average WTE pay for regular firefighters at each service length based on the 'profile analysis' of members at the valuation date (purple line).
- 9.10 This is compared with the assumed increase from the service related promotional scale adopted for the 2012 valuation in Wales (red line).

### **Graph 9.1: Change in average WTE pay at each service length for active population as at 31 March 2016 – Regular Firefighters**

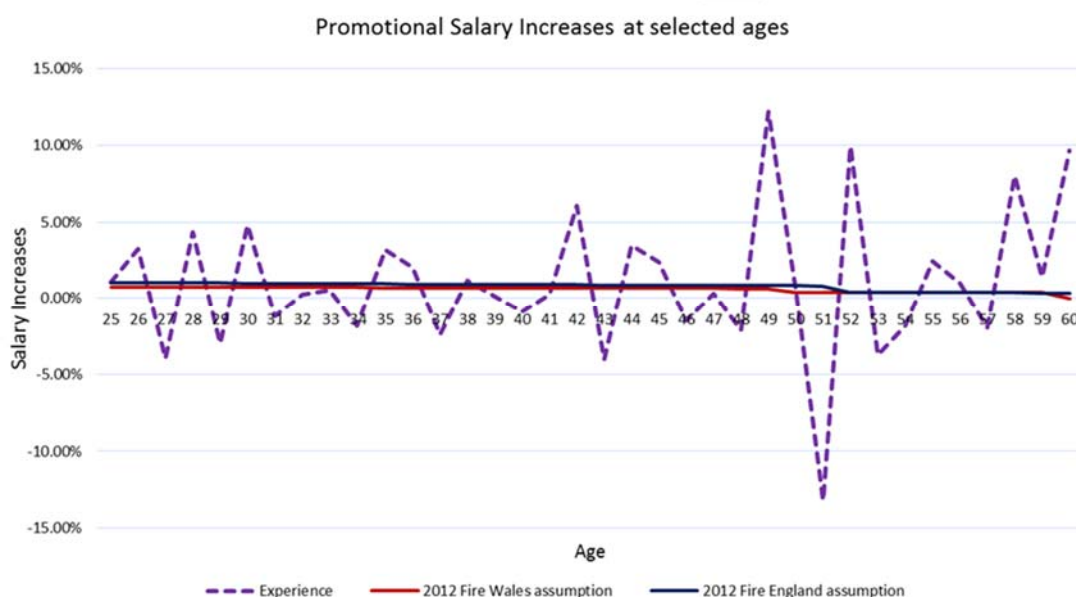




### Retained firefighter members

- 9.11 Graph 9.2 shows the change in average WTE pay of retained firefighters at each age based on the 'profile analysis' of members at the valuation date (purple line). This is compared with the assumed increase from the age related promotional scale adopted for the 2012 valuation in Wales (red line) and the assumption proposed in England (blue line).

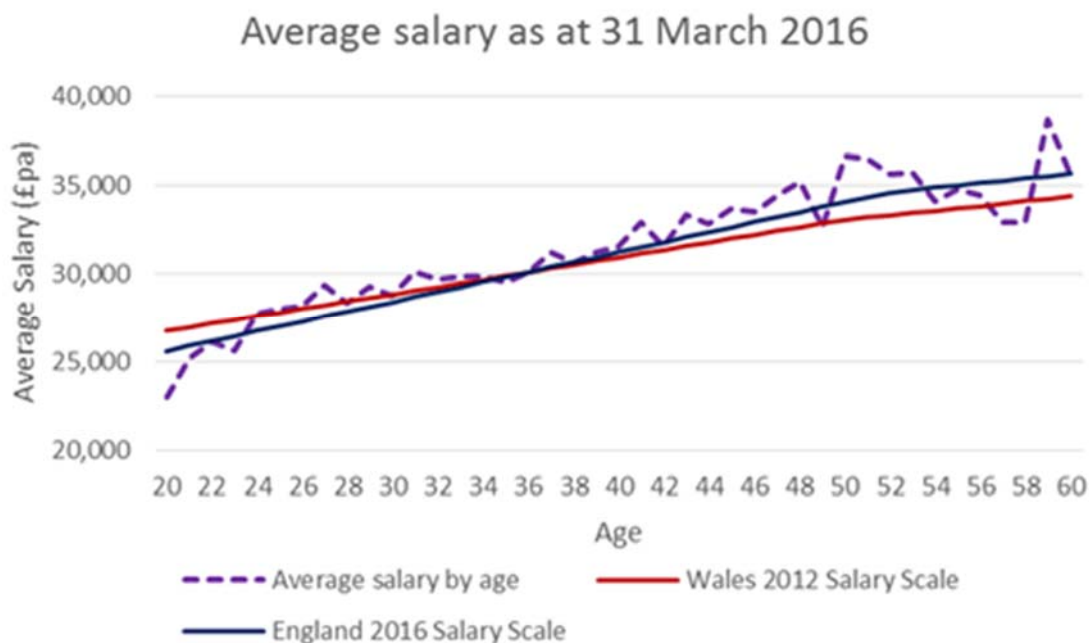
**Graph 9.2: Change in average WTE pay at each age for active population as at 31 March 2016 – Retained Firefighters**



- 9.12 Graph 9.3 below compares the average WTE pay of retained members as at 31 March 2016 for each age using the data provided, against the assumed salary using the age related promotional scale adopted for the 2012 valuation in Wales (red line) and the assumption proposed in England (blue line).
- 9.13 To produce this graph, the average salary for both of the assumption curves was set to equal to the average salary in the data for members aged 36, which is close to the average age of the retained membership, shows a salary of about £30,000 pa (so close to the level of a competent firefighter) and is a relatively central point of the experience curve. It should be noted that other graphs can be made, depending on which age is used as the base point for the comparison.



**Graph 9.3: Average WTE pay at each age for active population as at 31 March 2016 – Retained Firefighters**



### Comments on the analysis

- 9.14 The results of this analysis should be treated with some caution as the analysis is affected by the mixture of members at each service length and age. However, the profile analysis in Graph 9.1 shows that experience has been broadly in line with the 2012 assumption for regular members. We therefore propose that the 2012 assumption is maintained for regular members.
- 9.15 For retained members, Graph 9.2 shows that experience has been broadly in line with the 2012 assumption in Wales, but the proposed assumption for the England Schemes provides a similar fit to the data. Graph 9.3 allows a more detailed comparison of the two assumptions and shows a better alignment of the experience with the proposed 2016 assumption for England. We recognise that other comparisons could be made, but on balance, propose that the England assumption is adopted for the Schemes in Wales at the 2016 valuation. The assumption for promotional pay increases for retained members is not a material assumption for the valuation, as they only represent a small proportion of the total liabilities of the Schemes.
- 9.16 We recommend that the impact of any changes in crewing arrangements on pensionable pay is kept under review and the valuation assumption is updated to make allowance for ad-hoc increases in pensionable pay, if appropriate, when more information becomes available.

*We would welcome input from stakeholders on any additional sources of information which may help to inform the assumption about future increases to pensionable pay.*





## 10 Commutation of pension for cash at retirement

*This chapter sets out our recommendation for the assumed level of pension commutation at retirement (where this is not specified in the HM Treasury valuation directions), and summarises the analysis undertaken in order to inform that recommendation.*

[DN: HMT has yet to finalise the 2017 amendments to the valuation directions. This chapter has been drafted assuming that the directions in respect of commutation are unchanged from those used for the 2012 valuation.]

### Proposed assumptions for 2016 valuation

- 10.1 We recommend that members are assumed to commute the following proportions of their pensions for cash. The assumptions are the same for men and women.

**Table 10.1: Recommended commutation assumption for the 2016 valuation**

Member with service in the following schemes	1992 Scheme only	2007 Scheme only	2007 Scheme (Special Retained Members) only	2015 Scheme only
Scheme pension commuted from	1992	2007	Modified 2007	2015
All members	0%	15% <sup>25</sup>	0%	15% <sup>25</sup>

Member with service in the following schemes	Mixed 1992 Scheme and 2015 Scheme		Mixed 2007 Scheme and 2015 Scheme		Mixed 2007 Scheme (Special Retained) and 2015 Scheme	
	1992	2015	2007	2015	Modified 2007	2015
Scheme pension commuted from						
All members	0%	[0%]	15% <sup>25</sup>	15% <sup>25</sup>	0%	[0%]

### Previous valuation assumptions

- 10.2 The assumptions are unchanged from the previous valuation, other than the new assumption for special retained members. [DN: may need to be updated depending on final Directions or any change to the assumption for mixed service members.]

<sup>25</sup> Specified by HMT Directions



### Use of the assumption

- 10.3 In the 1992 Scheme, members have the option to commute pension for a cash lump sum at retirement. The terms under which this option is offered is such that the valuation of the benefits would be the same whether or not the allowance was made for members exercising these options. As such, for simplicity no allowance for members exercising these options is proposed for the valuation.
- 10.4 Commutation factors for special retained members are fixed and were set to reflect the commutation rates in the 1992 Scheme when the amendment order to introduce the modified scheme was made. As special retained members make up a small proportion of total liabilities of the Schemes and because the commutation factors are similar to the current 1992 Scheme factors, we propose that no allowance for special members commuting pension for a cash lump sum at retirement is adopted for the 2016 valuation. This is consistent with the approach for 1992 Scheme members. We do not expect this assumption to materially impact the valuation.
- 10.5 In the standard 2007 Scheme and the 2015 Scheme, members may commute part of their pension for a lump sum at a rate of £12 for each £1 of pension given up, up to a limit of 25% of their pension. For these members, the assumption regarding the amount of pension commuted is important because the value of the pension given up, as assessed using the actuarial assumptions underlying the valuation is, on average, more than £12 and so commutation has a significant impact on total liabilities, contribution rates and the cost cap.

### Derivation of proposed assumptions

- 10.6 For the reasons set out in paragraphs 10.3 and 10.4, for simplicity no allowance has been made for members commuting 1992 Scheme, or modified 2007 Scheme, pension for cash.
- 10.7 The assumption for commutation of standard 2007 Scheme and 2015 Scheme pension by members without service in other schemes **[is directed by HMT]**.
- 10.8 The recommended assumption for members with mixed 1992 Scheme and 2015 Scheme service is set by considering the potential behaviours of these members, in the absence of experience. 1992 Scheme members are entitled to commute up to a quarter of their pension (in general – alternative limits apply to some members) on actuarially equivalent terms. The terms available in the 1992 Scheme offer a significantly greater lump sum than would be available under the commutation terms of 12:1 offered in the 2015 Scheme. We would expect this to act as a substantial disincentive to commute pension in the 2015 Scheme, especially for those members with significant amounts of service in the 1992 Scheme (where the lump sum available from the 1992 Scheme is large). As such, we do not expect that former 1992 Scheme members will commute significant amounts of pension from the 2015 Scheme.



- 10.9 Likewise, we have assumed that mixed special retained 2007 Scheme and 2015 Scheme members will not commute 2015 Scheme pension, for the same reasons.

*We welcome input from stakeholders on any additional information which may help inform this assumption and views on the assumption that mixed 1992 Scheme and 2015 Scheme members might commute some of their 2015 Scheme pension.*

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## 11 Family statistics

*This chapter sets out our recommendation for the assumptions for dependants' pensions, and summarises the analysis undertaken in order to inform that recommendation.*

### Proposed assumptions for 2016 valuation

11.1 We recommend the following assumptions.

**Table 11.1: Recommended proportions married/partnered**

	1992 Scheme	2007 Scheme and 2015 Scheme
	Proportion married <sup>26</sup>	Proportion partnered <sup>26</sup>
<b>Age</b>		
<b>50</b>	75%	80%
<b>60</b>	75%	80%
<b>Current pensioners (sample)</b>		
<b>70</b>	75%	78%
<b>80</b>	63%	64%
<b>90</b>	36%	36%
<b>Future pensioners at retirement</b>	75%	80%

- > Members are assumed to be three years older than their partners.
- > No allowance is made for remarriage on the grounds of materiality.
- > All dependants are assumed to be the opposite sex to the member.

### Previous valuation assumptions

11.2 All family statistic assumptions are the same as those adopted for the 2012 valuation.

<sup>26</sup> The assumptions are the proportion married/proportion partnered at the valuation date, for current pensioners, or at retirement, for future pensioners.



### Use of the assumptions

- 11.3 Dependants' pensions<sup>27</sup> are provided to qualifying dependants on the death of a member. In the 1992 Scheme, dependants' pensions are payable to legal spouses and civil partners only. In the 2007 Scheme and 2015 Scheme, dependants' pensions are payable to qualifying partners as well as to legal spouses and civil partners. Assumptions are required for the proportion of members who are married or partnered to determine how many dependants' pensions will be paid. Assumptions are required about age differences between members and their spouses/partners as this affects how long dependants' pensions will be paid for.

### Analysis and approach to setting the assumptions

- 11.4 The experience of the Schemes is not sufficient in isolation to set robust assumptions and so we have also considered the experience of the England Schemes.
- 11.5 We have no reason to expect that family circumstances in the Welsh Schemes should be substantially different to those in the England Schemes. The assumption used for the 2012 valuations were consistent across the two schemes. We recommend that the family statistics assumptions should remain aligned to those proposed for the 2016 valuation of the England Schemes, where the proposal is to retain the assumptions adopted for the 2012 valuation.

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<sup>27</sup> Pensions are also payable to dependant children on a member's death but the costs of future children's pensions are not material overall and we therefore do not intend to make any allowance for them in the valuation.



## Appendix A: Details of assumptions

This appendix contains details of the recommended assumptions including sample rates and values.

### Pensioner mortality

**Table A1: Baseline mortality assumptions**

Baseline mortality	Standard table <sup>28</sup>	Adjustment
Current pensioners in normal health and ill-health	S2NMA	113%
Future pensioners in normal health and ill-health	S2NMA	113%
Dependants	S2DFA	100%

As specified by HM Treasury, future improvements in mortality will be assumed to be in line with those underlying the latest ONS population projections.

<sup>28</sup> From the 'S2' series of standard tables published by the CMI and based on the experience of self-administered pension schemes. Separate tables are available, including those based on experience of members retiring in normal health, ill-health and for dependants.

### Age retirement from service

**Table A2: Age retirement rates for 1992 scheme protected members, tapered members and unprotected members with more than 16 years' service at 31 March 2012**

<i>Age at joining</i>	<i>18</i>	<i>19</i>	<i>20</i>	<i>21</i>	<i>22</i>	<i>23</i>	<i>24</i>	<i>25</i>	<i>26</i>	<i>27</i>	<i>28</i>	<i>29</i>	<i>30 and over</i>
<b>Age</b>													
<b>50</b>	0.795	0.795	0.795	0.250	0.250	0.250	0.250	0.250	0.000	0.000	0.000	0.000	0.000
<b>51</b>	0.490	0.490	0.490	0.795	0.020	0.020	0.020	0.020	0.050	0.000	0.000	0.000	0.000
<b>52</b>	0.490	0.490	0.490	0.490	0.915	0.020	0.020	0.020	0.020	0.050	0.000	0.000	0.000
<b>53</b>	0.490	0.490	0.490	0.490	0.490	0.975	0.020	0.020	0.020	0.020	0.050	0.000	0.000
<b>54</b>	0.490	0.490	0.490	0.490	0.490	0.490	0.975	0.020	0.020	0.020	0.020	0.050	0.000
<b>55</b>	0.660	0.660	0.660	0.680	0.705	0.725	0.750	0.975	0.410	0.410	0.410	0.410	0.410
<b>56</b>	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.975	0.410	0.410	0.410	0.410
<b>57</b>	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.975	0.410	0.410	0.410
<b>58</b>	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.975	0.410	0.410
<b>59</b>	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.975	0.410
<b>60 and over</b>	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

**Table A3: Age retirement rates for 1992 scheme unprotected members with less than 16 years' service at 31 March 2012**

<i>Age at joining</i>	<i>18</i>	<i>19</i>	<i>20</i>	<i>21</i>	<i>22</i>	<i>23</i>	<i>24</i>	<i>25</i>	<i>26</i>	<i>27</i>	<i>28</i>	<i>29</i>	<i>30 and over</i>
<b>Age</b>													
<b>50</b>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>51</b>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>52</b>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>53</b>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>54</b>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>55</b>	0.995	0.995	0.995	0.993	0.995	0.997	0.996	0.983	0.472	0.462	0.451	0.440	0.410
<b>56</b>	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.975	0.410	0.410	0.410	0.410
<b>57</b>	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.975	0.410	0.410	0.410
<b>58</b>	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.975	0.410	0.410
<b>59</b>	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.655	0.975	0.410
<b>60 and over</b>	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000





**Table A4: Age retirement rates for 2007 Scheme members and new entrants to the 2015 Scheme**

Retirement Age	2007 Scheme Standard (protected and unprotected)	2007 Scheme Special (protected and unprotected)	2015 Scheme (new entrants)
55	-	1.00	0.25
56	-	-	-
57	-	-	-
58	-	-	-
59	-	-	-
60	1.00	-	1.00

#### III-health retirement from service

**Table A5: III-health retirement rates for all members**

Age	III-health retirement rate
20	0.00008
25	0.00016
30	0.00031
35	0.00063
40	0.00128
45	0.00260
50	0.00526
55*	0.01023
59*	0.01139

\*rates are zero if above the retirement age of the relevant scheme



## Voluntary withdrawal from service

**Table A6: Withdrawal rates for all members**

Age	Withdrawal rate		
	1992 scheme	2007 Scheme and 2015 Scheme - Regular and Special Retained	2007 Scheme and 2015 Scheme - Standard Retained
20	0.0106	0.0106	0.0954
25	0.0106	0.0106	0.0954
30	0.0106	0.0106	0.0954
35	0.0098	0.0098	0.0882
40	0.0061	0.0061	0.0549
45	0.0034	0.0034	0.0306
50	0.0019*	0.0019	0.0171
55	0.0000	0.0000	0.0000

\* Rates are zero at age 50 if the member is eligible to retire on an unreduced pension

## Death before retirement

**Table A7: Death before retirement rates for all members**

Age	Death before retirement
20	0.00014
25	0.00015
30	0.00021
35	0.00028
40	0.00038
45	0.00054
50	0.00079
55	0.00128
60	0.00196
65	0.00308



## Promotional pay increases

**Table A8: Promotional salary scales for Regular firefighter members**

The proposed salary scale shows assumed pay progression in excess of general wage inflation in comparison to an index base of 100 at entry.

Service (years)	Promotional Pay for Regular Firefighters
0	100.0
5	140.4
10	145.4
15	152.2
20	161.6
25	171.1
30	183.6
35	190.1
40	190.1

**Table A9: Promotional salary scales for Retained firefighter members (standard and special)**

The proposed salary scale shows assumed pay progression in excess of general wage inflation with an index base of 100 at age 18.

Age	Promotional Pay for Retained Firefighters
20	102.2
25	107.7
30	113.2
35	118.7
40	124.2
45	129.7
50	135.2
55	137.7
60	140.2
65	142.7



## Commutation of pension for cash at retirement

**Table A10: Recommended commutation assumptions for the 2016 valuation**

Members are assumed to commute the following proportions of their pensions for cash

Member with service in the following schemes	1992 Scheme only	2007 Scheme only	2007 Scheme (Special Retained Members) only	2015 Scheme only
Scheme pension commuted from	1992	2007	Modified 2007	2015
All members	0%	15%	0%	15%

Member with service in the following schemes	Mixed 1992 Scheme and 2015 Scheme		Mixed 2007 Scheme and 2015 Scheme		Mixed 2007 Scheme (Special Retained) and 2015 Scheme	
	1992	2015	2007	2015	Modified 2007	2015
Scheme pension commuted from						
All members	0%	[0%]	15%	15%	0%	[0%]

## Family statistics

**Table A11: Recommended proportion married or partnered at retirement for future pensioners**

Proportion married	Proportion married or partnered
75%	80%

**Table A12: Recommended proportion married or partnered for current pensioners (at the valuation date)**

Age	Proportion married	Proportion married or partnered
50	75%	80%
60	75%	80%
70	75%	78%
80	63%	64%
90	36%	36%

Males are assumed to be three years older than their female partners.



## Appendix B: Modelling approach and minor assumptions

### Active membership projections

- B.1 Direction 11<sup>29</sup> requires the actuary to use the 'projected unit methodology' to calculate the valuation results. The valuation results require the calculation of the cost of benefit accrual over periods after the effective date (31 March 2016). The expected cost of benefits provided to members remaining in the 1992 Scheme and 2007 Scheme under the provisions of transitional protection differs from the expected cost of providing members with benefits in the 2015 Scheme. Further, the expected cost of providing benefits varies for members in the 1992 Scheme and 2007 Scheme. This implicitly requires the actuary to estimate the membership at future dates in order to determine the valuation results.
- B.2 Since the majority of members (around 70%) were accruing benefits in the 2015 Scheme at the effective date, and further, given that the remaining members continuing to accrue benefits in the pre-2015 schemes are expected to rapidly decline to close to nil over the future periods being considered in this valuation, a pragmatic approach to estimating the future membership of each section/scheme over the relevant future periods is suitable.
- B.3 The approach taken has 3 component assumptions:
- > Members of the 1992 Scheme and 2007 Scheme at the valuation date are assumed to retire in line with recent experience.
  - > The overall profile of the membership in terms of average age and pay distribution is assumed to remain constant over the period.

These assumptions enable the average cost of accrual based on the proportions of members in each section/scheme in any period to be determined.

- > The overall active membership will be in receipt of pensionable pay for each relevant year equal to that assumed by the Welsh Government for forecasting purposes.

This assumption is required only to determine any contributions required for past service adjustments.

<sup>29</sup> The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 (as amended).



### **Grouping of individual active member records**

- B.4 Individual active members have been grouped together for the purposes of calculating liabilities. This grouping is necessary to accommodate the volume of data within our valuation system. The approach taken to grouping the data has been tested to ensure it does not result in any distortion of the valuation results. The groupings are made for protection status (ie protected, tapered or unprotected), section/scheme (ie 1992 Scheme, 2007 Scheme, 2015 Scheme and Modified 2007 Scheme), age, State Pension age and service.

### **Accrual cost methodology**

- B.5 When determining the costs of accrual as required by Directions 27(1) (d) and 40(1) the cost for members in each group at each relevant date (as identified from the membership projections) has been determined for each age and that rate has been applied to the total pensionable pay at each age to determine the average for the membership as a whole at each date. The cost over each relevant period has been taken as the average of the cost at the start and end of each period. The calculation allows for mortality improvements assuming the calculation date is the midpoint of each period.
- B.6 Direction 11 requires use of the projected unit methodology to determine the valuation results. Directions 14, 16 and 17 specify some modifications to the financial assumptions in the short term. An implication of the short term modifications is that the projected unit methodology is expected to result in an increasing standard contribution rate over successive periods. For example the cost of accrual over the period 2015 - 2019 is lower than that over the period 2019 - 2023 (ignoring any redistribution of members into the 2015 Scheme). This effect is not immaterial for final salary benefits, but has no effect on the cost cap calculation since short term assumptions are explicitly disregarded for this purpose in Direction 40.
- B.7 Non-accruing benefits such as lump sums payable on death in service have been recognised only when a benefit payment is expected.
- B.8 Members accruing or expecting to accrue benefits at double rate (in the 1992 Scheme) are treated as though the overall expected benefit accrues uniformly over all service.



### **Guaranteed Minimum Pensions (GMPs)**

- B.9 A global adjustment was applied to reduce the past service liability in respect of estimated GMP entitlements. The reduction is equivalent to a reduction in the contribution rate of around 1% over the 15 year period from the implementation date. This estimation has no impact on the calculation of the cost cap.

### **Public Service Transfer Club (PSTC)**

- B.10 Allowance has been made for the potential additional liabilities arising from inward transfers on PSTC terms (because the transfer value is usually less than the cost of providing the service credit granted). If volumes of transfers continue at historic levels the financial impact is expected to be equivalent to an employer contribution cost of 1% of pay.

### **General pay increases**

- B.11 Direction 17 sets out the general pay increases that are to be assumed for valuation purposes.

### **Final pensionable pay**

- B.12 All liabilities have been based on pensionable pay at the effective date as provided by administrators. No explicit allowance has been made for the impact of prior years' earnings resulting in higher final pensionable pay for particular members since this effect is not expected to impact a material number of members.

### **Dependants' pensions**

- B.13 No allowance has been taken for short term dependant pensions or children's pensions (other than those already in payment), on ground of immateriality.

### **Expenses**

- B.14 No allowance has been made for expenses. Expenses are outside the valuation framework.



### Early retirement factors

- B.15 When modelling retirement from the 2007 and 2015 schemes before Normal Pension Age, where an actuarial reduction would be applied, early retirement factors have been set equal to current factors (applied for the appropriate period before the normal pension age).
- B.16 There is no option to retire from active service with actuarially reduced benefits in the 1992 Scheme.

### Added Years

- B.17 In certain limited circumstances firefighters can purchase additional service. The added years data supplied to GAD could not be easily associated with the main pension data for firefighters who had purchased this option. Further, from the 2012 valuation, added years were deemed not to have a significant impact on the valuation results. As such, a pragmatic approach has been used to model added years in which an adjustment has been applied to increase the overall active members' liability to allow for added years which represents around 1% of past service liability.

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## Appendix C: Relative importance of assumptions

C.1 The Directions require the employer contribution rate and employer cost cap to be estimated to the nearest 0.1% of pensionable payroll. This is a required level of accuracy for a particular calculation and based on a particular set of assumptions. We show in Table C1 an indication of the sensitivity of the valuation results to the particular assumptions under consideration. This table is taken from the report on the valuation of the Schemes as at 31 March 2012 and the figures quoted are with reference to the 2012 valuation results.

**Table C1: Sensitivity of valuation results to assumptions set by Welsh Ministers**

	Addition to past service liabilities	Addition to contribution rate for future accrual (% of pensionable pay)	Combined addition to employer contribution rate <sup>30</sup> (% of pensionable pay)	Addition to proposed employer cost cap (% of pensionable pay)
(i) <b>New entrant profile*</b> : new joiners assumed 2 years older on average	No impact	0.1%	0.1%	0.1%
(ii) <b>Mortality rates*</b> :				
(a) pensioners subject to mortality rates 5% heavier than assumed <sup>31</sup>	(£8m)	(0.2%)	(1.4%)	(0.2%)
(b) 5% more deaths before retirement than currently assumed	Not material	Not material	Not material	Not material
(iii) <b>Age retirement rates</b> :				
All new entrants to the 2015 Scheme retire at age 55	No impact	Not material	Not material	Not material
(iv) <b>Commutation*</b> (other than as directed): all unprotected members of the 1992 Scheme commute 15% of 2015 scheme pension	No impact	(0.5%)	(0.5%)	No impact
(v) <b>Ill health retirements*</b>				
(a) Rate of ill health retirements: 20% higher numbers of members assumed to retire on ill health grounds than currently assumed	Not material	0.1%	0.1%	0.1%

<sup>30</sup> Combined effect of additions for past service, underpayment of contributions over 2012-15 (not shown separately) and future accrual.

<sup>31</sup> Broadly speaking this is equivalent to assuming members spend half a year less in retirement.



(b) Severity of ill health retirements: 5% more members assumed to receive upper tier benefits than currently assumed	No impact	Not material	Not material	Not material
<b>(vi) Members' dependants*</b>				
(a) proportions partnered: 5% more members assumed to have qualifying partners at death	£4m	0.2%	0.8%	0.2%
(b) age difference between member and partner: dependants assumed to be 1 year older than that based on current assumption	(£4m)	(0.1%)	(0.7%)	(0.1%)
<b>(vii) Withdrawal*:</b> withdrawal rates 5% higher than assumed	Not material	Not material	(0.1%)	Not material
<b>(viii) Promotional pay increases*:</b> promotional pay increases 0.5% per annum higher on average than assumed	£15m	0.2%	2.8%	No impact

\* Opposite changes in the assumptions will produce approximately equal and opposite changes in the valuation results.

Changes are considered to be 'Not material' if their impact on past service liabilities is less than £1 million, or their impact on contribution rates is less than 0.05% of pensionable pay.

C.2 In each variant of Table C1 the sensitivity shown is in relation only to the change in the assumption described. The impact of a combination of assumption changes will not necessarily equate to the sum of the relevant rows above.

## **FIREFIGHTERS' PENSION SCHEME ADVISORY BOARD FOR WALES**

Steve Pomeroy  
Head of Fire Services Branch  
Community Safety Division  
Welsh Government  
Rhydycar  
Merthyr Tydfil

[Steve.pomeroy@gov.wales](mailto:Steve.pomeroy@gov.wales)

21 December 2017

Dear Mr Pomeroy

At the meeting of the Firefighters' Pension Scheme Advisory Board for Wales on 27 November, we received and considered the draft 2016 valuation assumptions prepared by GAD for consultation prior to their agreement by Welsh Ministers.

Our observations, comments and requests are set out in the attached response to that consultation. The response is supported by both the employee and employer representatives on the Board.

Yours sincerely



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

## **FIREFIGHTER PENSION SCHEME ADVISORY BOARD FOR WALES – RESPONSE TO CONSULTATION ON 2016 VALUATION ASSUMPTIONS**

The valuation assumptions are covered under 7 key areas and we have set out our response against each of these :

- Pensioner Mortality
- Age Retirement
- Ill Health Retirement
- Voluntary Withdrawal
- Death Before Retirement
- Promotional Pay
- Commutation
- Family Statistics

The SAB also considered two further issues:

### **Gender**

The SAB notes the position set out at paragraph 3.7 regarding using the same assumptions for women and men throughout. The SAB notes GAD's reasoning for this approach given the limited data available and the limited impact on the valuation because of low numbers (1% of pensioners). However the SAB ask that this approach be kept under review for future valuations.

### **Use of English Data for the Welsh Assumptions**

GAD indicate that, in a number of areas, the data available to analyse the experience of the schemes is limited compared with the corresponding schemes in England. Where this is the case, and GAD's view is that there is no reason why the experience in the two schemes should be different, GAD have considered the conclusions reached based on the England Scheme experience in formulating recommendations for the Welsh Scheme.

The SAB note this position but believe that differences that affect the scheme, however marginal, should be given due consideration. Specific issues relating to Welsh data have been raised throughout the response.

#### **1. Pensioner Mortality**

The SAB note that an assumption based on actual Wales data would cost less given the higher general population death rate in Wales. However SAB also notes and accepts that there were insufficient pensioner deaths in the schemes between 2012 and 2016 to provide a robust analysis. The SAB therefore accept the proposal to use the same mortality assumption as England but ask that this be reconsidered at the next valuation.

The SAB note the change from a "lives" analysis in 2012 to an "amounts" analysis in 2016, and agree that this is a more accurate approach.

The SAB request that Treasury update their regulations to include the use of 2016 ONS data, as this has a material and positive impact on the GAD assumption.

## 2. Age Retirement

1992 Scheme with long service	1992 Scheme unprotected with short service	2007 Scheme –Standard members	2007 Scheme - special members	2015 Scheme
Age and Service based rates with many retiring at 30 years service and all by age 60	None before age 55. Age and service based rates with many retiring at 55 and all by 60.	All retire at 60	All retire at 55	25% Retire at 55 and 75% at 60
New assumption – in line with English scheme	New assumption – in line with English scheme	No change from 2012	New	No change from 2012

The SAB note the amended assumption for the 1992 scheme to bring it in line with the assumption for the English Scheme. In this instance, given that the data for England and Wales is similar, and the cost impact of this assumption is not material to the valuation, the SAB are content with the proposed 1992 scheme assumption.

Employee members disagree with the assumption that all members of the 2007 scheme will retire at 60 and 75% of members of the 2015 scheme will retire at 60. Whilst the SAB appreciate that, again, the assumption would not impact materially on the costs of the scheme, the SAB feel it is important to recognise that the different early retirement factors in the 2015 Welsh scheme are likely to also make the experience different in Wales. The SAB recognise however that there is currently insufficient data to support this position.

## 3. Ill Health Retirement

The SAB note the proposal to maintain the 2012 assumptions for rates of ill-health retirement i.e. (Same for males and females – increasing by age : around 0.03% at age 30, 0.1% at age 40 and 0.5% at age 50 – less than 1.5% in total per annum). However, SAB has also noted that the number of ill health retirements has increased since the 2012 valuation and ask whether this trend needs to be considered further in this and future valuations. Data illustrating the increase is provided at Annex 1.

GAD refer to two contradictory sets of data in their draft report. The first data collected from FRAs as part of the wider valuation data collection shows 49% of ill-health retirements recorded as upper tier. However data submitted by FRAs to the

Welsh Government following the SAB on 29 September indicated 17% of ill-health retirements over that period were upper tier. GAD propose maintaining the 2012 figure of 40% because this figure falls between the two sets of conflicting data, because there is no reason why the proportion would be significantly different than in England, and because it has a low impact on the valuation anyway.

The SAB notes GAD's comment that the assumption has low materiality on the valuation results. However the SAB asks GAD to reconsider the 40% assumption of upper tier retirements (the same as the 2012 assumption) given that the latest data from FRAs in Wales suggests a much lower percentage.

#### **4. Voluntary Withdrawal**

The SAB note the proposal to maintain the 2012 assumption on the basis that higher withdrawal rates in the period 2012-16 were as a result of an exceptional set of circumstances, and unlikely to continue. The SAB is however not convinced that this is the case.

The SAB accepts that opt outs with longer membership have the most impact, and that the Welsh data indicates a high percentage of opt outs within three months of joining, and a high percentage of opt outs who are retained. The SAB monitors Opt Out data regularly, and will share future data with GAD.

The SAB notes that the independent actuarial advice in England confirmed that the proposed approach is relatively immaterial.

#### **5. Death Before Retirement**

The SAB note the proposal to maintain the 2012 assumption and make no further comment.

#### **6. Promotional Pay**

The SAB notes the proposal to maintain the 2012 assumption for regular firefighters, amend the assumption for retained firefighters to adopt the England assumption and use the assumption for special retained members. The SAB seek clarification on whether the change in legislation regarding temporary promotion applied from 2013 has been taken into account in the calculation of the assumption. This change means that temporary promotion is no longer included in the calculation of final salary.

#### **7. Commutation**

GAD propose maintaining the 2012 assumptions as follows :-

1992 only	2006 only	Special Retained Members Only	2015 Scheme Only	Mixed 1992 and 2015 Scheme Members	Mixed 2006 and 2015 Scheme Members	Mixed Special retained members and 2015 Scheme Members
0%	15%	0%	15%	0% / 0%	15% / 15%	0% / 0%

The SAB notes and accept the 0% in respect of the 1992 scheme based on the fact that commutation in the 1992 scheme is actuarially neutral.

The SAB however questions the assumptions set in Treasury regulations for the 2006, 2015 and mixed 2006-2015 schemes, and ask that Treasury revisit these for the 2016 valuation.

The SAB also request that the mixed 1992-2015 assumption also be revisited. The SAB notes GAD's view that the number of members that will commute from the 2015 element will be very low given the less favourable terms within that scheme. However evidence suggests that many firefighters do in fact take the maximum commutation available even where their entitlement is reduced by for instance tax charges.

Evidence to support this position is set out in the table below :-

#### Commutation Data 2012 Onwards

	South Wales	Mid and West Wales	North Wales
No of retirements since 2012	244	79	46
Of these no where firefighters commuted the maximum tax free lump sum	184	56	35
Of these number where firefighter commuted the maximum lump sum even where a higher tax charge was incurred.	50	23	11

## **8. Family Statistics**

The SAB note the proposals and have no further comment.



**III Health Data**

	Mid and West Wales FRA					North Wales FRA					South Wales FRA				
	Higher	Lower	Total	Membership	%	Higher	Lower	Total	Membership	%	Higher	Lower	Total	Membership	%
2008-09	2	0	2	781	0.25608195				489	0	0	0	0	1208	0
2009-10	0	1	1	768	0.13020833				469	0	2	0	2	1209	0.16542597
2010-11	1	0	1	811	0.12330456				488	0	2	0	2		
2011-12	0	0	0	809	0	0	1	1	537	0.18621974	0	2	2	1205	0.1659751
2012-13	0	0	0	890	0	0	1	1	497	0.20120724	0	4	4	1185	0.33755274
2013-14	2	1	3	890	0.33707865	0	1	1	461	0.21691974	0	1	1	1191	0.08396306
2014-15	1	1	2	1049	0.19065777	1	0	1	489	0.20449898	1	3	4	1157	0.34572169
2015-16	1	5	6	1056	0.56818182	0	4	4	475	0.84210526	0	10	10	2019	0.4952947
2016-17	2	3	5	1071	0.46685341	1	1	2	525	0.38095238	0	5	5	1199	0.41701418



**SOUTH WALES FIRE & RESCUE AUTHORITY  
LOCAL PENSION BOARD COMMITTEE**

AGENDA ITEM NO 8  
26 FEBRUARY 2018

REPORT OF THE ASSISTANT CHIEF OFFICER PEOPLE SERVICES

**WELSH GOVERNMENT'S CONSULTATION ON AMENDMENTS TO  
FIREFIGHTERS' PENSION SCHEMES IN WALES – DECEMBER 2017**

**SUMMARY**

This report updates Members on the Welsh Government's Consultation on Amendments to the Firefighters' Pension Schemes in Wales, which would allow surviving spouses or civil partners of qualifying Firefighters, to retain their entitlement to a survivor's pension should they remarry or enter into a new civil partnership.

The consultation also covers proposed minor amendments to the 1992, 2007, and 2015 Schemes.

**RECOMMENDATION**

1. That Members note the content of the consultation document, and the formal response made on behalf of the Fire & Rescue Authority.
2. That Members receive a further report on the outcomes of the consultation process, and amendments to the Firefighters' Pension Schemes once they are finalised.

**1. BACKGROUND**

1.1 The Welsh Government issued a consultation document on 28 September, 2017, requiring a response by 21 December, 2017, consulting on amendments to the Firefighters' Pension Schemes in Wales on:-

- Survivor benefits under the 1992 Firefighters' Pension Scheme, and 2007 Compensation Scheme, and other minor amendments to the 1992 and 2007 Firefighters' Pension Schemes.
- Minor Amendments to the 2015 Firefighters' Pension Scheme, and Transitional Arrangements.

1.2 The full consultation document is attached to the report as Appendix 1.

**2. ISSUES**

2.1 The formal Consultation Response Form detailing the Fire Authority's response to the consultation document is attached to the report as Appendix 2.

- 2.2 The main proposed change in the consultation document relates to survivors benefits under the 1992 Pension Scheme and 2007 Compensation Scheme, which is the loss of benefits on remarriage or entering into a new civil partnership.
- 2.3 The Welsh Government's preferred option is Option 2 in the consultation document, to introduce a provision permitting survivors who remarry or enter into a civil partnership on or after a specified date, in the past 1 April 2015, to retain their entitlement to survivors benefits, and in addition to reinstate lost benefits to all survivors who had remarried or entered into a civil partnership before that date, with these benefits being reinstated as from 1 April, 2015.
- 2.4 A query has been raised around the reinstating of these benefits from a set date of 1 April 2015, and whether this would provide consistency with the Supreme Court's rulings in the cases of Walker and Brewster.
- 2.5 Therefore, the Welsh Government are reconsidering whether or not full retrospection of Option 1, to introduce a provision that would reverse the existing provisions completely with no qualifying date, is more appropriate. This would mean all those who had their benefits withdrawn would have them restored and backdated to the point of withdrawal.
- 2.6 Officers are currently preparing the requested details to inform the Welsh Government's deliberations on this matter. A further report will be presented to the Local Pension Board when the final outcome and amendments to the Firefighters' Pension Schemes of the consultation are finalised.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 Dependent on the outcome of the consultation process, and amendments to the Firefighters' Pension Schemes, there are likely to be financial implications for the Fire & Rescue Authority. These costs will need to be calculated at the time of implementation based on the number of cases that may have been affected by the current rules.

### **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 is an adverse impact on individuals affected by the loss of survivor benefits following remarriage or entering into a civil partnership.

## 5. RECOMMENDATIONS

- 5.1 That Members note the content of the consultation document and the formal response made on behalf of the Fire & Rescue Authority.
- 5.2 That Members receive a further report on the outcomes of the consultation process and amendments to the Firefighters' Pension Schemes once they are finalised.

<b>Contact Officer:</b>	<b>Background Papers:</b>
ACO Mark Malson Acting Director of People Services	Appendix 1 – WG Consultation on Amendments to the Firefighters Pension Schemes in Wales Appendix 2 – Consultation Response Form





Welsh Government  
Consultation Document

**Consultation on amendments to firefighter pension schemes in Wales**

- **Survivor benefits under The 1992 Firefighters' Pension Scheme and 2007 Compensation Scheme, and other minor amendments to the 1992 and 2007 Firefighters' Pension Schemes.**
- **Minor amendments to the 2015 Firefighters' Pension Scheme and Transitional Arrangements.**

Date of issue: 28 September 2017

Action required: Responses by 21 December 2017

Mae'r ddogfen yma hefyd ar gael yn Gymraeg.  
This document is also available in Welsh.

- Overview** We are consulting on amendments to the 1992 Firefighter Pension Scheme and 2007 Compensation Scheme which would allow surviving spouses or civil partners of qualifying firefighters to retain their entitlement to a survivors' pension should they remarry or enter into a new civil partnership.
- The consultation also covers proposed minor amendments to the 1992, 2007 and 2015 Schemes.
- How to respond** To respond to this consultation, please complete the online form which can be accessed here:
- Alternatively, respondents may use the separate response form provided, which can be emailed to [fire@gov.wales](mailto:fire@gov.wales)
- or sent to the address below.
- The closing date for responses is **Thursday 21 December 2017**
- Further information and related documents** **Large print, Braille and alternative language versions of this document are available on request.**
- Consultation web address:  
<https://consultations.gov.wales/consultations/amendments-firefighter-pension-schemes-wales>
- Contact details** For further information:
- Fire Services Branch  
Community Safety Division  
Welsh Government  
Rhydycar  
Merthyr Tydfil  
CF48 1UZ
- email: [fire@gov.wales](mailto:fire@gov.wales)
- Tel: 0300 062 8226
- Data protection** How the views and information you give us will be used
- Any response you send us will be seen in full by Welsh Government staff dealing with the issues which this consultation is about. It may also be seen by other Welsh Government staff to help them plan future consultations.



The Welsh Government intends to publish a summary of the responses to this document. We may also publish responses in full. Normally, the name and address (or part of the address) of the person or organisation who sent the response are published with the response. This helps to show that the consultation was carried out properly. If you do not want your name or address published, please tell us this in writing when you send your response. We will then blank them out.

Names or addresses we blank out might still get published later, though we do not think this would happen very often. The Freedom of Information Act 2000 and the Environmental Information Regulations 2004 allow the public to ask to see information held by many public bodies, including the Welsh Government. This includes information which has not been published. However, the law also allows us to withhold information in some circumstances. If anyone asks to see information we have withheld, we will have to decide whether to release it or not. If someone has asked for their name and address not to be published, that is an important fact we would take into account. However, there might sometimes be important reasons why we would have to reveal someone's name and address, even though they have asked for them not to be published. We would get in touch with the person and ask their views before we finally decided to reveal the information.

## **CONSULTATION ON AMENDMENTS TO:-**

- **SURVIVORS' BENEFITS UNDER THE 1992 FIREFIGHTERS' PENSION SCHEME AND 2007 COMPENSATION SCHEME, AND OTHER MINOR AMENDMENTS TO THE 1992 AND 2007 FIREFIGHTERS' PENSION SCHEMES**
- **MINOR AMENDMENTS TO THE 2015 FIREFIGHTERS' PENSION SCHEME AND TRANSITIONAL ARRANGEMENTS**

## **INTRODUCTION**

1. This consultation seeks views on amendments to the various firefighter pension schemes and the 2007 Firefighters' Compensation scheme. The most significant proposed changes would amend the 1992 Scheme and the Compensation Scheme to allow surviving spouses and civil partners of qualifying firefighters to keep their benefits should they remarry or enter into a new civil partnership. Other proposed changes are to amend minor errors in the schemes. They also clarify the transitional provision made by the Firefighters' Pension (Wales) Scheme (Amendment and Transitional Provisions) Order 2016 to make it clear that they do not apply to employer contributions or to additional pension benefit contributions.
2. More details of the proposed amendments are set out below.

## **THE DRAFT FIREFIGHTERS' PENSION SCHEMES AND COMPENSATION SCHEME (WALES) (AMENDMENT) ORDER 2018 (Annex 2)**

### **Survivors' Benefits under the 1992 Firefighters' Pension Scheme and the Compensation Scheme**

3. In the event of a member's death, the 1992 Scheme provides for the payment of certain benefits and awards to that member's spouse or civil partner ('survivors' benefits). Separately, the Compensation Scheme, which applies to all members (or those eligible to be members) of the firefighters' pensions schemes, provides compensation in the case of firefighters who die or are injured on duty. In the case of death, the spouses, civil partners or dependents of such persons receive compensation: the Scheme provides awards (known as Special or Augmented awards) for spouses and civil partners of all firefighters who die in certain circumstances.
4. Surviving spouses and civil partners of firefighters in the 1992 Scheme currently lose their survivors' benefits if they remarry or enter a new civil partnership. However, Fire and Rescue Authorities (FRAs) have discretion to pay the whole or part of the benefit as they see fit if that marriage or civil partnership subsequently comes to an end. Similar provisions also apply to any benefits paid under the Compensation Scheme to the surviving spouses and civil partners of 1992 Scheme members (or the survivors of those who were eligible to join the 1992 Scheme but chose not to).
5. The Welsh Government believes these provisions, many of which predate devolution, are unjustifiably harsh. They penalise the bereaved partners of firefighters simply for forming a new permanent relationship. In doing so, they may discriminate unreasonably on the grounds of marital status. This is because bereaved people who are single, or who enter a new relationship without marrying or forming a civil partnership, suffer no loss of benefits. The provisions may also discriminate indirectly on the grounds of

religious belief, where such belief precludes cohabitation without marriage or civil partnership. The case for change is particularly strong in light of the high risks of death which firefighters face as an everyday part of their jobs. We have therefore produced draft legislation to amend the 1992 Scheme and the Compensation Scheme to allow survivors of qualifying firefighters to keep their benefits if they remarry or enter into a new civil partnership.

6. As this is arguably a continuing injustice to bereaved people, there is a case in principle for making these changes retrospective, ie restoring (and possibly backdating) survivor benefits which have already been withdrawn from people who have remarried or formed new civil partnerships. We describe more detailed options for doing that below :-

**Option 1** - introduce a provision that would reverse the existing provision completely with no qualifying date. Survivors' pensions and awards would no longer be withdrawn on remarriage, or registration of a civil partnership, and survivor pensions previously withdrawn at any point would be reinstated, including entitlement to any outstanding injury gratuity, with full backdating to the point of withdrawal.

**Option 2** – introduce a provision permitting survivors who remarry or enter into a civil partnership on or after a specified date in the past (1 April 2015) to retain their entitlement to survivors' benefits, and in addition reinstate lost benefits to all survivors who had remarried or entered into a civil partnership before that date, with those benefits being reinstated as from 1 April 2015. This option, however, would not provide for full backdating of entitlement to the point of withdrawal. The Scottish Government has adopted this option for the equivalent scheme in Scotland, and this is broadly the timeframe that the attached draft Order proposes for Wales, although the eligibility criteria are not the same.

**Option 3** - allow survivors who remarry or enter into a civil partnership on or after a specified date in the past (1 April 2015) to retain their entitlement. This would benefit those individuals who remarry or enter into a civil partnership after that date. This option would not reinstate any benefits that had already been withdrawn prior to that date, nor would it benefit anyone who remarried or entered a new civil partnership before then. This is the option that the Home Office has consulted on for the equivalent scheme in England.

**Option 4** - allow survivors who remarry or enter into a civil partnership on or after a specified date in the future (say 1 April 2018) to retain their entitlement to pension benefits. This rule would benefit those individuals, who remarry or enter into a civil partnership after a set future date, but not those who have already done so by a date in the past, say 1 April 2015, and this option would not reinstate any benefits that have already been withdrawn.

7. Under options 3 or 4, the Order would include a provision saving the FRAs' existing discretion to reinstate payments to a bereaved person who lost them on remarriage or forming a new civil partnership, but whose marriage or civil partnership was later dissolved (or who was bereaved again). Such payments could be backdated to the point of dissolution or bereavement, whenever that occurred. This would be done by including provision in article 4 in the draft Order, which revokes rule 5 of Part 3 of the 2007 Compensation Scheme.

8. To illustrate the differences between these options, the following table uses the examples of three hypothetical bereaved partners who remarry or enter a new civil partnership on (a) 1 July 2012; (b) 1 July 2015; and (c) 1 July 2018.

<b>Date of remarriage / new civil partnership</b>	<b>Current position</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>	<b>Option 4</b>
<b>1 July 2012</b>	Benefits were withdrawn on 1 July 2012	Benefits reinstated and backdated to 1 July 2012	Benefits reinstated and backdated to 1 April 2015	No reinstatement of benefits	No reinstatement of benefits
<b>1 July 2015</b>	Benefits were withdrawn on 1 July 2015	Benefits reinstated and backdated to 1 July 2015	Benefits reinstated and backdated to 1 July 2015	Benefits reinstated and backdated to 1 July 2015	No reinstatement of benefits
<b>1 July 2018</b>	Benefits will be withdrawn on 1 July 2018	Benefits not withdrawn on 1 July 2018	Benefits not withdrawn on 1 July 2018	Benefits not withdrawn on 1 July 2018	Benefits not withdrawn on 1 July 2018

9. These options are, broadly, in decreasing order of generosity: option 1 provides the greatest level of provision, including backdated provision, and option 4 provides the least.
10. On those grounds, option 1 might be seen as the most desirable. Certainly, it fully addresses what might be seen as a historic unfairness to bereaved partners. However, it would impose possibly significant consequential costs on FRAs. This is because special and augmented awards on death as a result of a qualifying injury are funded directly from FRA budgets and not pension funds. The Welsh Government is sceptical about adopting this approach at a time when budgets for front-line services are under significant pressure. However, it could be viable if it were clear that the retrospective cost burdens were limited or manageable.
11. Option 2 would reduce those costs by only backdating withdrawn benefits to 1 April 2015. It would still provide some retrospective benefit to all bereaved partners who have had their benefits withdrawn, while also protecting those benefits for those who remarry or form a new civil partnership in the future. On current evidence, the Welsh Government favours this option.
12. The Welsh Government does not favour options 3 or 4. Option 3 would make an arbitrary distinction between bereaved people based on the date in the past on which they remarried or formed a new civil partnership. Someone who did so on 31 March 2015 would not benefit at all; while someone who did so on 1 April that year would benefit fully. Yet neither could have been aware of this at the time. And option 4 does nothing to correct the harsh treatment of bereaved people up to now: it would only benefit those who remarried or formed a new civil partnership in the future.
13. The Draft Order attached at Annex 2 would make these changes. Similar changes have been made to the equivalent schemes in Scotland by the Scottish Government; the Home Office has consulted on changes in England.

14. Article 2 sets out the circumstances in which a surviving spouse or civil partner's entitlement to a pension or gratuity under Part C of the 1992 Scheme continues following that person's marriage, remarriage, formation of a civil partnership or subsequent civil partnership on or after 1 April 2015. It also reinstates pensions which have been withdrawn due to existing legislation with effect from that date. It sets out that these provisions apply to the spouse or civil partner of a member of the 1992 scheme where that member died as a result of an injury received in the exercise of their duties as a firefighter, or whilst travelling to or from work.
15. The 2007 Compensation Scheme superseded corresponding provisions of the Firefighters' Pension Scheme 1992. Article 4(2) amends the transitional arrangements in article 4 of the 2007 Compensation Scheme Order so that equivalent provision will apply to special and augmented awards under the 1992 Scheme that relate to determinations or decisions made before 1 April 2006 relevant to whether death has been occasioned by a qualifying injury.
16. Article 4(3) of the draft Order revokes rule 5 of Part 3 of the Compensation Scheme so as to allow a person entitled to a pension or gratuity under that scheme to retain it following marriage, remarriage or forming a civil partnership with effect from 1 April 2015. Benefits withdrawn prior to that date due to operation of the scheme are reinstated with effect from that date.

#### **Firefighters' Pension Scheme (Amendment and Transitional Provisions)(Wales) Order 2016 (Pension Contributions Holiday)**

17. The above Order corrected an anomaly in the Firefighters' Pension (Wales) Scheme 1992 whereby those members who joined the Fire Service between the ages of 18 and 20 and accrue 30 years pensionable service had to continue paying contributions beyond that point, and until they reach age 50, even though they could not accrue any further pension benefits in return. The Order provided that contributions need not be paid after reaching 30 years' service, and for refunds of any contributions paid after reaching 30 years' service.
18. The proposed provision at Articles 2 and 5 makes it clear that the provisions in the 2016 Order do not apply to employers' contributions or to employees' additional pension benefit contributions.

#### **Other Minor Amendments**

19. Other proposed amendments to the 1992 Scheme and the 2007 Pensions Scheme are also set out in the draft Order at Articles 2(2), 2(4), 2(5) and 3. For ease of reference these are detailed at Annex 1.

#### **Firefighters' Pension Scheme 2007: Nomination of Cohabiting Partners**

20. Circular W-FRSC(2017) 01, issued by the Welsh Government on 8 March 2017, provided details of the recent Supreme Court ruling in the case of Brewster<sup>1</sup>. This held that the Northern Ireland Local Government Pension Scheme had unlawfully denied a cohabiting partner (otherwise eligible under Scheme Regulations) a survivor's pension

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<sup>1</sup> [2017] UKSC 8

solely because her deceased partner had allegedly not completed a nomination form in her favour, as the scheme rules required. In light of this judgment, it is highly likely that the courts would find similar provisions in other pension schemes to be unlawful.

21. The Firefighters' Pension Scheme 2007 (and as a result 2014 modified scheme) currently provides that, on death of a scheme member, a cohabiting partner would be entitled to a survivor's pension provided the member had completed a nomination form. Circular W-FRSC(2017)05, dated 3 April 2017, indicated that the Welsh Government would amend the 2007 Scheme to reflect the Brewster judgement in due course. This will mean removing the requirement for scheme members to nominate a cohabiting partner to receive survivor benefits; and providing that any person who can show that s/he was in a qualifying relationship with a deceased scheme member at the time of death will be eligible to receive such benefits, regardless of any prior nomination. These provisions will have retrospective effect from the point that the 2007 Scheme came into force.
22. We plan to include such an amendment in the Firefighters' Pensions Schemes and Compensation Scheme (Wales) (Amendment) Order 2018. However we do not believe there is a need to consult on this amendment, given that we will merely be reflecting the judgment of the Supreme Court. Therefore, we will draft the relevant article during the consultation period, and include it in the final order made by the Welsh Ministers.
23. Other firefighters' pension schemes in Wales are not affected by the Brewster judgment. The 1992 Scheme only pays survivor benefits to spouses or civil partners; and the 2015 Scheme pays them to cohabiting partners without any requirement for a nomination form.

### **THE FIREFIGHTERS' PENSION SCHEME (WALES) (AMENDMENT) REGULATIONS 2018 (Annex 3)**

24. Following the introduction of the Firefighters' Pension Scheme for Wales in 2015, a number of minor amendments have been identified in relation to the Firefighters' Pension Scheme (Wales) Regulations 2015, and the provisions governing the transfer of members from the 1992 Scheme and the 2006 Scheme to the 2015 Scheme.
25. The proposals are for the firefighters' pension schemes to be amended as set out in the draft Order at Annex 3 and as follows:-

**Regulation 4** of the draft Order amends Regulation 80A of the 2015 Regulations (inserted by Schedule 1 to the Firefighters Pension Scheme (Wales)(Transitional and Consequential Provisions) Regulations 2015). This deals with transition members' entitlement to commute part of any lower tier ill-health pension that they may be awarded into a lump sum. As currently framed, the regulation sets out certain provisions relating to the commutation of a lump sum for members who have transitioned from the 2006 Scheme to the 2015 Scheme. The proposed amendment completes the legal provisions for members who have transitioned from the 1992 Scheme.

**Regulation 8(3)** amends Paragraphs 37 and 38 of Schedule 2 to the 2015 Regulations (inserted by Schedule 1 of the Firefighters Pension Scheme (Wales)(Transitional and Consequential Provisions) Regulations 2015). These provisions deal with the position of members who are being considered for ill-health retirement by an independent qualified

medical practitioner at the time of their transition date, and who subsequently continue as active members of the 2015 Scheme. Such members join the 2015 Scheme at the time specified under these provisions. Provision about the position of members who are being considered for ill-health retirement by an independent qualified medical practitioner at the time of their transition date, who are subsequently granted an ill-health award and consequently retire requires amendment. Under the proposed amendments to paragraphs 37 and 38, such members would remain in their original pension scheme, avoiding the necessity for a minimal period of membership of the 2015 Scheme. This amendment will take effect from the time the Order at Annex 3 comes into force.

## **NEXT STEPS**

26. The Welsh Government invites consultees' views and any evidence relating to all aspects of this consultation by 21 December 2017. In particular comments are welcomed on the following questions:

### **Question 1**

Paragraph 6 of the consultation document provides 4 potential options regarding retrospective application of the provisions relating to survivors benefits on remarriage or civil partnerships. Do you have any views on these options, including any views on cost implications for FRAs?

### **Question 2**

Bearing in mind your response to Question 1 do you have any views on the amendments set out in Articles 2, 4(2) and 4(3) of the Draft Order at Annex 2 – The Firefighter's Pension Schemes and Compensation Scheme (Wales) (Amendment) Order 2018. These are drafted using the principles set out in option 2 of the consultation?

### **Question 3**

Do you have any views on the other Articles in the draft Firefighter's Pension Schemes and Compensation Scheme (Wales) (Amendment) Order 2018 at Annex 2 which relate to the Firefighters' Pension Scheme (Amendment and Transitional Provisions)(Wales) Order 2016 (Pension Contributions Holiday) and other minor amendments ?

### **Question 4**

Do you have any views on the draft regulations set out in the draft Order at Annex 3 - The Firefighters' Pension Scheme (Wales) (Amendment) Regulations 2018?

### **Question 5**

We do not believe that this policy affects opportunities for people to use Welsh or treats the language less favourably than English, or that it could be reformulated or revised to have positive effects. If you disagree, we would welcome your comments on this issue.

### **Question 6**

We have asked a number of questions, but are there any other issues you would like to raise in this area?





## Consultation response form

APPENDIX 2

### Consultation on Amendments to Firefighter Pension Schemes in Wales

Please return this form to reach the Welsh Government no later than **Thursday 21 December 2017**.

If you have any questions, please email: [fire@gov.wales](mailto:fire@gov.wales)

<b>Consultation on Amendments to Firefighter Pension Schemes in Wales</b>	
<b>Date</b>	11 December 2017
<b>Name</b>	Mark Malson
<b>Organisation</b>	South Wales Fire & Rescue Authority
<b>Address</b>	South Wales Fire & Rescue Service Headquarters Forest View Business park Llantrisant CF72 8LX
<b>Email address</b>	M-Malson@SouthWales-fire.gov.uk
<b>Telephone</b>	01443 232024

#### Consultation question

- Paragraph 6 of the consultation document provides 4 potential options regarding retrospective application of the provisions relating to survivors benefits on remarriage or civil partnerships. Do you have any views on these options, including any views on cost implications for FRAs?

Comments:

*The South Wales Fire & Rescue Authority is of the view that in light of the recent legal determinations, notably 'Walker' and 'Brewster' that there should be consistency in the application of the 'reinstatement date' to minimise the cost impact on the scheme, and to ensure consistency with previous rulings.*

*We advocate that all pension scheme members should be treated equally, and consistently with the current Treasury policy, including the exclusion of payments from impacting the cost-cap mechanism.*

2. Bearing in mind your response to Question 1 do you have any views on the amendments set out in Articles 2, 4(2) and 4(3) of the Draft Order at Annex 2 – The Firefighter’s Pension Schemes and Compensation Scheme (Wales) (Amendment) Order 2018. These are drafted using the principles set out in option 2 of the consultation?

Comments:

*The South Wales Fire & Rescue Authority notes that the conditions established in Option 2 accords with the principles of advocated and adopted for other devolved Firefighters’ Pension Schemes. We acknowledge that as such it does not provide for full backdating of entitlement to the point of withdrawal.*

*We considered the four options set out in the consultation document, and advocate not making any major changes which would adversely affect the future viability of the Fire Schemes or alternative significantly impact the current employer contribution mechanism. We believe that Option 1 is financially and administratively impractical. Option 3 as proposed and consulted upon by the Home Office has an inequitable impact on those who remarry or enter into a civil partnership on or after 1 April 2015. Finally given that Option 4 would not reinstate any benefits that have already been withdrawn cannot be supported as it could be subject to legal challenge in the future.*

3. Do you have any views on the other Articles in the draft Firefighter’s Pension Schemes and Compensation Scheme (Wales) (Amendment) Order 2018 at Annex 2 which relate to the Firefighters’ Pension Scheme (Amendment and Transitional Provisions)(Wales) Order 2016 (Pension Contributions Holiday) and other minor amendments ?

Comments:

*The South Wales Fire & Rescue Authority notes the proposals set out in aforementioned Orders, and the associated other minor amendments, and has no comment thereon.*

4. Do you have any views on the draft regulations set out in the draft Order at Annex 3 - The Firefighters’ Pension Scheme (Wales) (Amendment) Regulations 2018?

Comments:

*The South Wales Fire & Rescue Authority notes the proposals relating to the transfer of members from the 1992 Scheme and the 2006 Scheme to the 2015 Scheme. We consider that in practical and pragmatic terms it is*

*advisable for scheme members who are granted an ill-health award should remain within the terms of their original pension scheme, avoiding the condition for a minimal period membership of the 2015 Scheme. The situation remains that all ill-health cases and associated pressures on both the viability of the pension scheme and funding pressures should continue to be monitored and evaluated at the All Wales Scheme Advisory Board.*

5. We do not believe that this policy affects opportunities for people to use Welsh or treats the language less favourably than English, or that it could be reformulated or revised to have positive effects. If you disagree, we would welcome your comments on this issue.

Comments:

*The South Wales Fire & Rescue Authority has no comment to offer in light of the Welsh Language Impact Assessment.*

6. We have asked a number of questions, but are there any other issues you would like to raise in this area?

Comments:

*The South Wales Fire & Rescue Authority has identified that the Equality Impact Assessment suggests that the scheme is managed, overseen, and reviewed as necessary, by a statutory Scheme Advisory Board, comprising employer and employee representatives, with an independent chair. However, the Board's terms of reference states that its function is: to advise the Responsible Authority (Welsh Ministers), on the desirability of changes to the scheme, and any connected Scheme. Consequently, we are concerned that the EIA does not accurately reflect the situation.*



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

AGENDA ITEM NO 9  
26 FEBRUARY 2018

**PENSIONS TAX AWARENESS SEMINAR**

**SUMMARY**

This report provides Members of the Local Pension Board with an update on the Local Government Association Pension Tax Awareness Seminar in respect of the tax implications for Firefighters' Pension Scheme members of Annual Allowance (AA) and Lifetime Allowance (LTA), and Fixed and Individual Protections.

**RECOMMENDATION**

That Members accept the report and the information contained therein.

**1. BACKGROUND**

- 1.1 On Monday, 8 January, 2018, Members of the Local Pension Board and officers attended the Local Government Association sponsored Pensions Tax Awareness Seminar, facilitated by Barnett Waddingham in Cheltenham.
- 1.2 The seminar was aimed at Pension Scheme Managers, Pension Board Members, Employers and Members of the Firefighters' Pension Schemes.
- 1.3 The agenda for the day was set against the Firefighters' Pension Schemes and the tax implications for Scheme Members in relation to tax related Annual Allowance and Lifetime Allowance, and the availability of Fixed and Individual Protections.
- 1.4 A full copy of the seminars PowerPoint presentation is attached to this report as Appendix 1.

**2. ISSUES**

**2.1 Annual Allowances (AA)**

- 2.1.1 The Annual Allowance is the maximum amount of tax free pension savings allowed in a year, and is currently set at £40,000 per annum. The Annual Allowance can be tapered for those earning more than £150,000 p.a. from £40,000 to £10,000. The Pension Input Amount (PIA) for defined benefit pension schemes (like the Firefighters' Pension Schemes) is the maximum increase in pension after inflation set by the Consumer Price Index (CPI). The

year is the period known as the Pension Input Period (PIP) and runs from 6 April to 5 April each year.

2.1.2 The basic calculation for Annual Allowance is:-

Annual Pension x 16 + any compulsory lump sum at the end of the year  
 Annual Pension x 16 + any compulsory lump sum at start of year + CPI

2.1.3 Any unused Annual Allowance from the previous three tax years can be carried forward. The objective of this is to prevent an Annual Allowance tax charge in the current year, and to smooth out any spikes in increased earnings.

2.1.4 The application of the Annual Allowance works by in the first instance applying the current in-year allowance, and then where required use unused allowance from the earliest tax year available.

2.1.5 The Annual Allowance tax charge is applied to the pension savings in excess of the Annual Allowance and any carry forward available. The tax rate applied is the individual's marginal rate of tax, e.g. 40%. The tax charge is paid directly to HMRC, and must be declared on the Self-Assessment Tax Return.

2.1.6 There is the ability where the tax charge is over £2,000 for the pension scheme member to elect for the pension scheme to pay the tax charge. This is known as 'Scheme Pays'. The scheme will then pay the charge on behalf of the member. Once the scheme member elects to do this it cannot be withdrawn.

2.1.7 Where this occurs in the Firefighters' Pension Schemes this tax charge is 'debit revalued' to retirement, taking into account inflation and retirement age based on guidance and factors to calculate an annual allowance debit set by the Government Actuary's Department (GAD). The debit figure is then applied to the individual's pension on retirement, and before commutation of any pension into a lump sum.

2.1.8 The Pension Scheme Administrator must provide the Pension Savings Statement to the scheme member by 6 October of each year, and the pension scheme member must submit their Self-Assessment Tax Return stating how the Annual Allowance tax will be paid to HMRC by 31 January.

## 2.2 Lifetime Allowance (LTA)

2.2.1 The Lifetime Allowance is the amount of tax free pension savings allowed over an individual's lifetime, measure upon the actual entitlement to pension received on retirement. This is known as a Benefit Crystallisation Event. With effect from 6 April, 2018, the Lifetime Allowance will be set at £1,030,000.

2.2.2 The basic calculation for Lifetime Allowance is:-

Annual Pension (on retirement) x 20 + Lump Sum

The maximum tax free lump sum payment is set at a quarter of the Lifetime Allowance, i.e. £257,500. The commutation of annual pension into a lump sum will reduce or increase the value of the Lifetime Allowance.

2.2.3 The Lifetime Allowance tax charges are set at:-

- Excess lump sum – 55% (this can be deducted from a lump sum)
- Excess pension – 25% of value of PAYE on pension (the pension can be reduced in accordance with scheme specific GAD factors)

2.2.4 Where Lifetime Allowance tax charges are incurred there is the option of electing for 'Scheme Pays' in the same manner that is applied for the Annual Allowance as described above.

2.2.5 For the Firefighters' Pension Scheme 1992 there are two potential tax issues:- the first where the pension commencement lump sum commutation factor is over 20 could incur a potential unauthorised payment that could lead to the Fire Authority incurring a tax charge at 25%, as well as the individual at 55%. The second, where there is a loss of the Protected Pension Age (PPA), for example where the individual retires from a Firefighter role under 55 years of age (the normal age of retirement in the 1992 Scheme), but continues to work or is re-engaged in the same or similar role.

## 2.3 Fixed and Individual Protections

2.3.1 On 5 April, 2014, the Lifetime Allowance was set at £1.5 million. On 6 April, 2014, the Lifetime Allowance reduced to £1.25 million. Therefore, HMRC introduced the 'Fixed Protection 2014', and 'Individual Protection 2014'. The same occurred in 2016 when the Lifetime Allowance reduced from £1.25 million to £1 million.

2.3.2 On both occasions individuals could apply for both protections. However, precedence is given to the fixed protections unless that protection is lost when the individual would revert to the individual protection. This would occur where further benefits are accrued in the scheme.

### **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 the information contained therein.

<b>Contact Officer:</b>	<b>Background Papers:</b>
ACO Mark Malson Acting Director of People Services	Appendix 1 – Pension Tax Awareness Seminar – PowerPoint Presentation





# Pensions Tax Awareness

Scheme Manager, Pension Board,  
Employer  
Firefighters Pension Schemes

**Annemarie Allen**  
**Associate, Senior Pensions Consultant**

# Agenda

- Setting the scene
- Annual allowance - AA
- Lifetime allowance - LTA
- Freedom & Choice & Money Purchase AA
- Pensions tax relief
- Considerations for stakeholders
- Questions & discussion

# Annual Allowance

- **What and how much is it?**
  - Pension Input Amounts & Pension Input Periods
- **Recent changes**
  - Alignment, transitional arrangements & tapered AA
- **How does it work?**
  - Calculating annual pensions savings
  - Carry forward of allowance
  - Tax charges
  - “Scheme Pays” - meeting tax bills from your pension
- **Who might be affected?**

# Lifetime Allowance

- **What and how much is it?**
  - When is it applied
- **Recent and future changes**
- **How does it work?**
  - Calculating the lifetime value of your benefits
  - Tax charges
  - Meeting tax bills from the pension fund
  - Protections
- **Who might be affected?**

# Setting the scene

110 **A Day and All That**

## Pre 2006

- 8 different tax regimes
- Much complexity



## 2006 “A Day” Simplification

- AA £215,000 for 2006/07
- LTA £1.5M for 2006/07
- Primary Protection available if over LTA
- Enhanced Protection if likely to be over LTA
- Lump Sum Protection available if over set levels
- Annual allowance:
  - 2007/08 £225,000
  - 2008/09 £235,000
  - 2009/10 £245,000
  - 2010/11 £255,000
- Lifetime allowance
  - 2007/08 £1.6M
  - 2008/09 £1.65M
  - 2009/10 £1.75M
  - 2010/11 £1.8M
  - 2011/12 £1.8M



## 2011 New regime

- Lower AA £50,000 wef 2011/12
- New pension savings valuation method
- Lower LTA £1.5M wef 2012/13
- Ability to carry forward unused AA - Notional method 3 years to 2010/2011
- New tax rate – marginal rate
- Ability to meet large tax bills from pension fund
- New “Fixed Protection”



## 2014 Some changes

- wef 6/4/14
- AA reduced to £40,000
- LTA reduced to £1.25M
- New “Fixed Protection 2014”
- New “Individual Protection 2014”
- Primary & Enhanced Protection, if no lump sum protection, tax free lump sum maintained at  $\frac{1}{4}$  x £1.5M

## 6 April 2015 Pension Freedom Day

- MPAA - Money purchase annual allowance

# More recent & further changes

- **Annual Allowance**
- 2015/2016 pension input periods aligned
- 2016/2017 tapered annual allowance introduced
- 2017/2018 MPAA reduced
  
- **Lifetime Allowance**
- 6 April 2016 reduced to £1,000,000
- Maximum tax free lump sum reduced to £250,000
- Fixed Protection 2016 & Individual Protection 2016 introduced
  
- 6 April 2018 increasing to £1,030,000



- Maximum tax free lump sum increasing to £257,500

# Types of Pension Schemes & Arrangements

- **Defined Benefit (DB)**

EG Firefighters' Pension Schemes: 1992, 2006, 2015

- **Money Purchase**

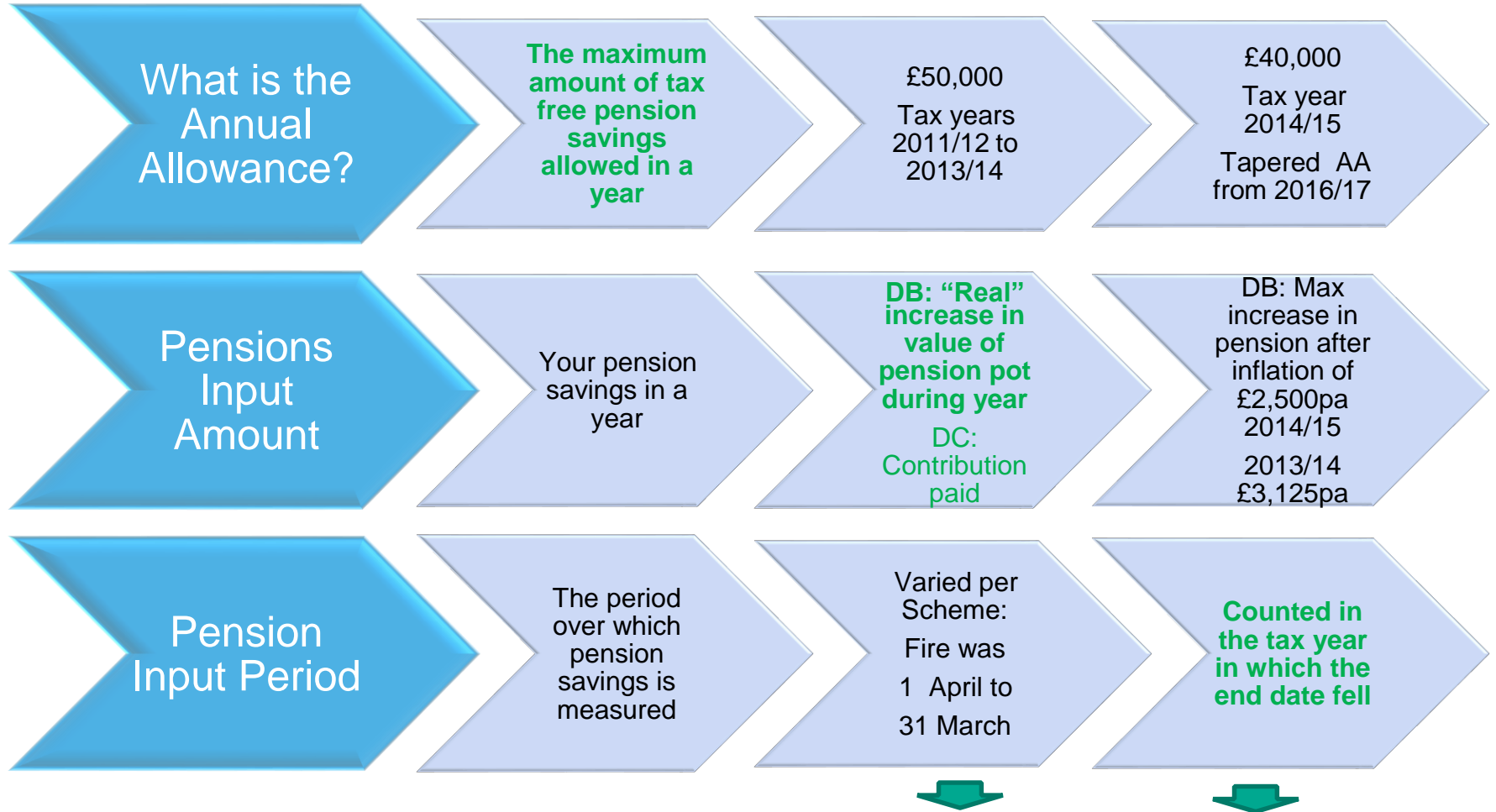
Also known as Defined Contribution (DC)

## 114 EG Additional Voluntary Contributions (AVCs)

- **Pensions Tax**
- Methodologies vary between types
- Some provisions & factors can vary between Schemes

# Annual Allowance

# Annual Allowance



Aligned to the tax year from 2015/16

# Recent Changes

- **2016/2017**
- Introduction of a tapered annual allowance for “high income individuals”
- Alignment of Pension Input Periods to the tax year

- Announced in the Budget on 8 July 2015 with



transitional arrangements

## Recent Changes

- **2015/2016 Transitional Arrangements**
- 2 mini tax years
- 2 Pension Input Periods in the Fire Schemes:

1 April 2015 to 8 July 2015

9 July 2015 to 5 April 2016

- Up to £80,000 annual allowance for some
- Increase opening balance by 2.5% not 1.2%

## **The Tapered Annual Allowance**

**Commenced 2016/2017**

- **'Threshold income'** of £110,000
- Under? - annual allowance automatically remains at £40,000
- Over? - calculate if tapered annual allowance applies

- **'Adjusted income'** of over £150,000
- £40,000 annual allowance reduced by £1 for every £2 that adjusted income exceeds £150,000
- Maximum reduction £30,000,
- Minimum annual allowance £10,000
- £210,000 adjusted income = £10,000 annual allowance

## Summary Definitions

**Threshold Income**

**£110,000**

- **Includes:**
- **salary / bonuses / pension income in payment**
- **P11d earnings**
- **interest on savings**



- **rental income**
- **dividend payments**
- salary sacrificed in pension arrangement set up or increased after 9/7/2015

**Adjusted Income**

**£150,000**

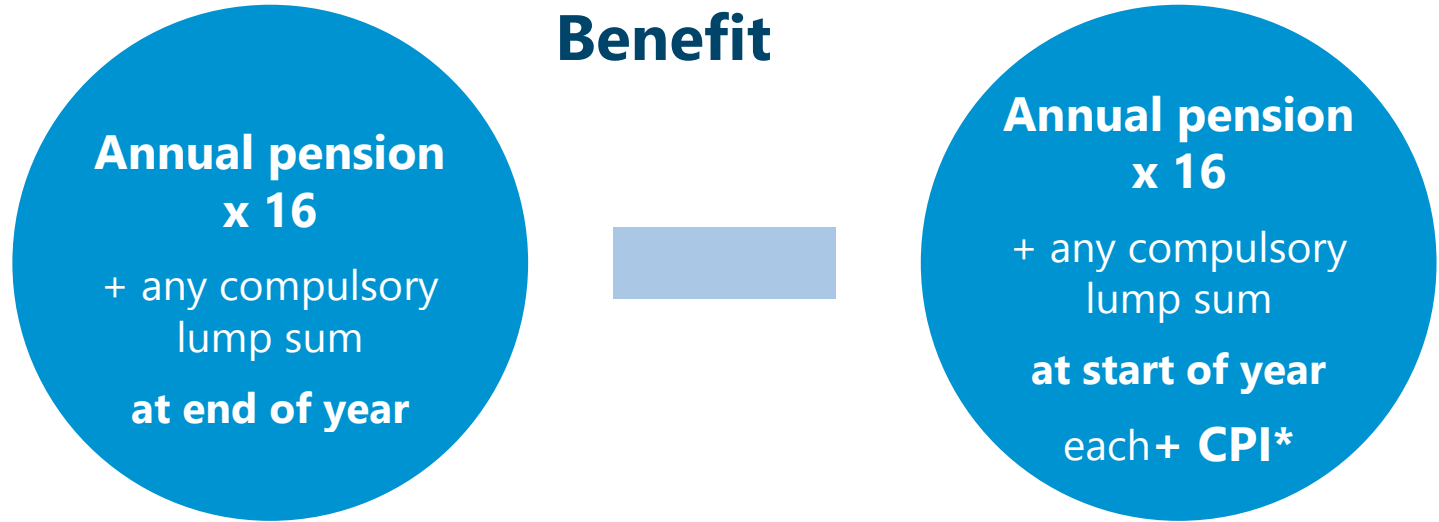
**Threshold income plus:**

- **total pension contributions to a Defined Contribution arrangement – e.g. FSAVCs**
- **total pensions accrual in a Defined Benefit scheme – e.g. Fire Pension Schemes**

# Calculating Pension Savings

## Defined

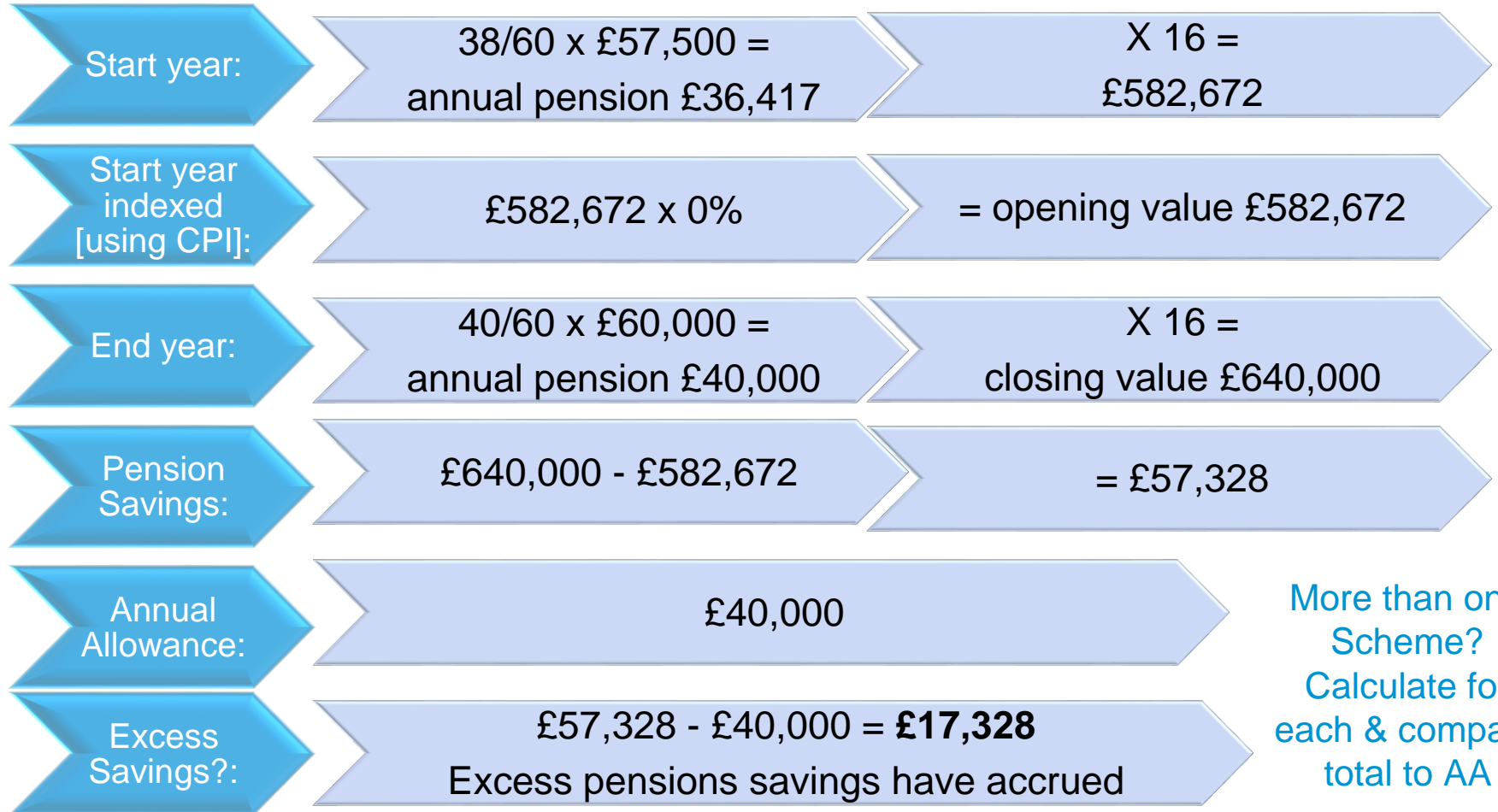
Simplistic case



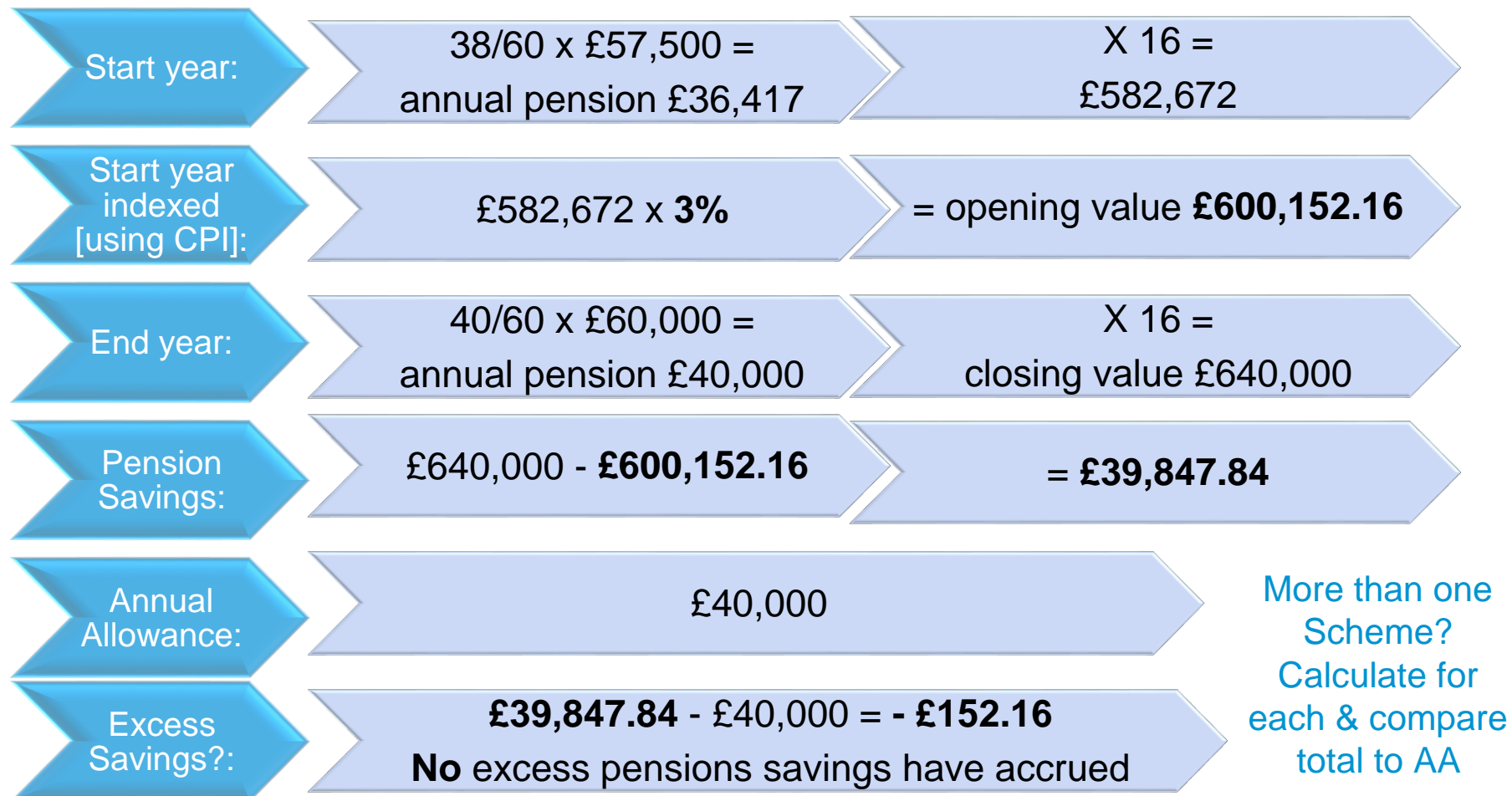
## Money Purchase



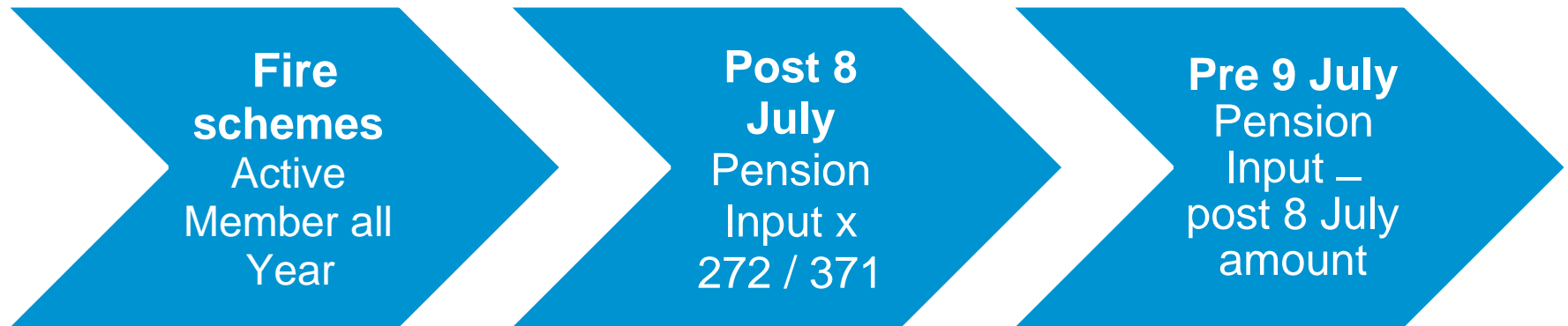
# Calculating Pension Savings 2016/2017




# Pension Savings Had CPI been 3%



# Apportion Defined Benefit Savings in 2015/2016 only



# Applying the Annual Allowance in 2015/2016 only

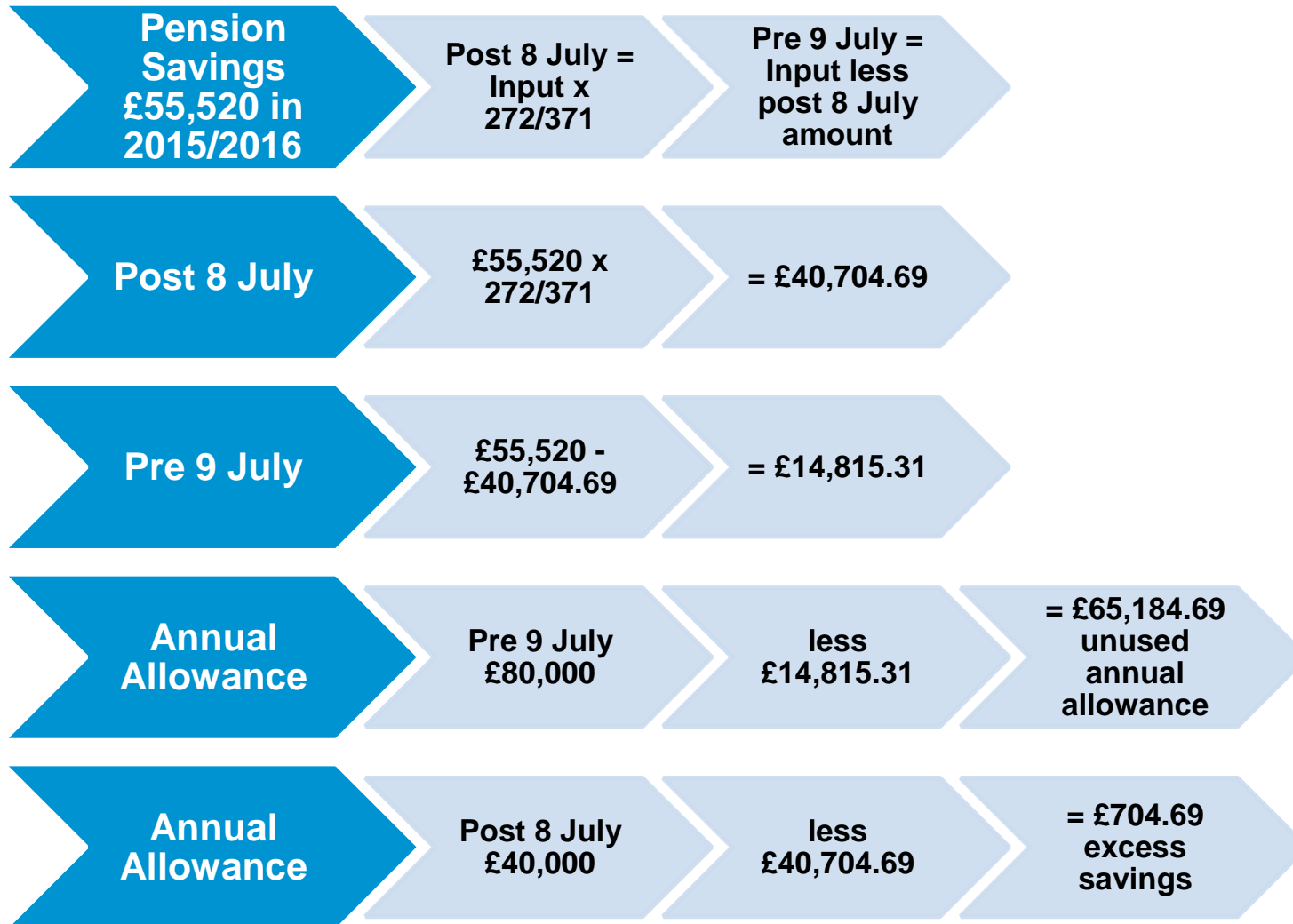


Annual allowance  
pre  
9 July =  
£80,000

Annual allowance  
post  
8 July =  
£0

plus  
lesser of  
unused  
pre 9 July  
allowance  
and  
£40,000

## **Apportioning Pension Savings & Applying the Annual Allowance 2015/2016**



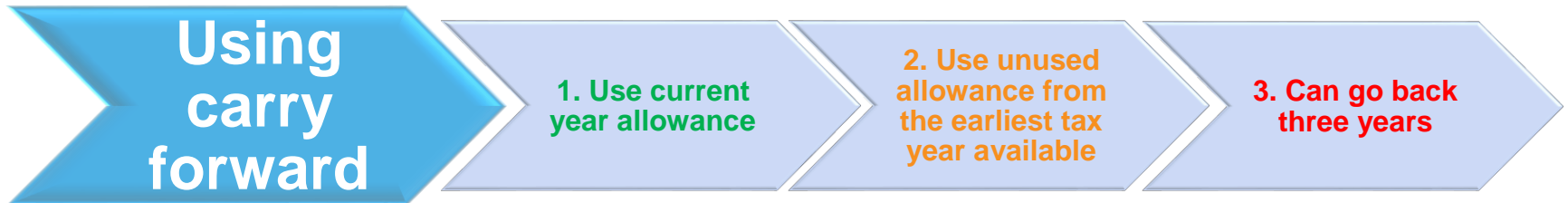
Member has benefited from £54,815.31 Annual Allowance in this transitional year

# Carry Forward of Allowance

Using unused annual allowance from the previous three tax years

Objective: to prevent an annual allowance tax charge in the current tax year

Smooth out spikes



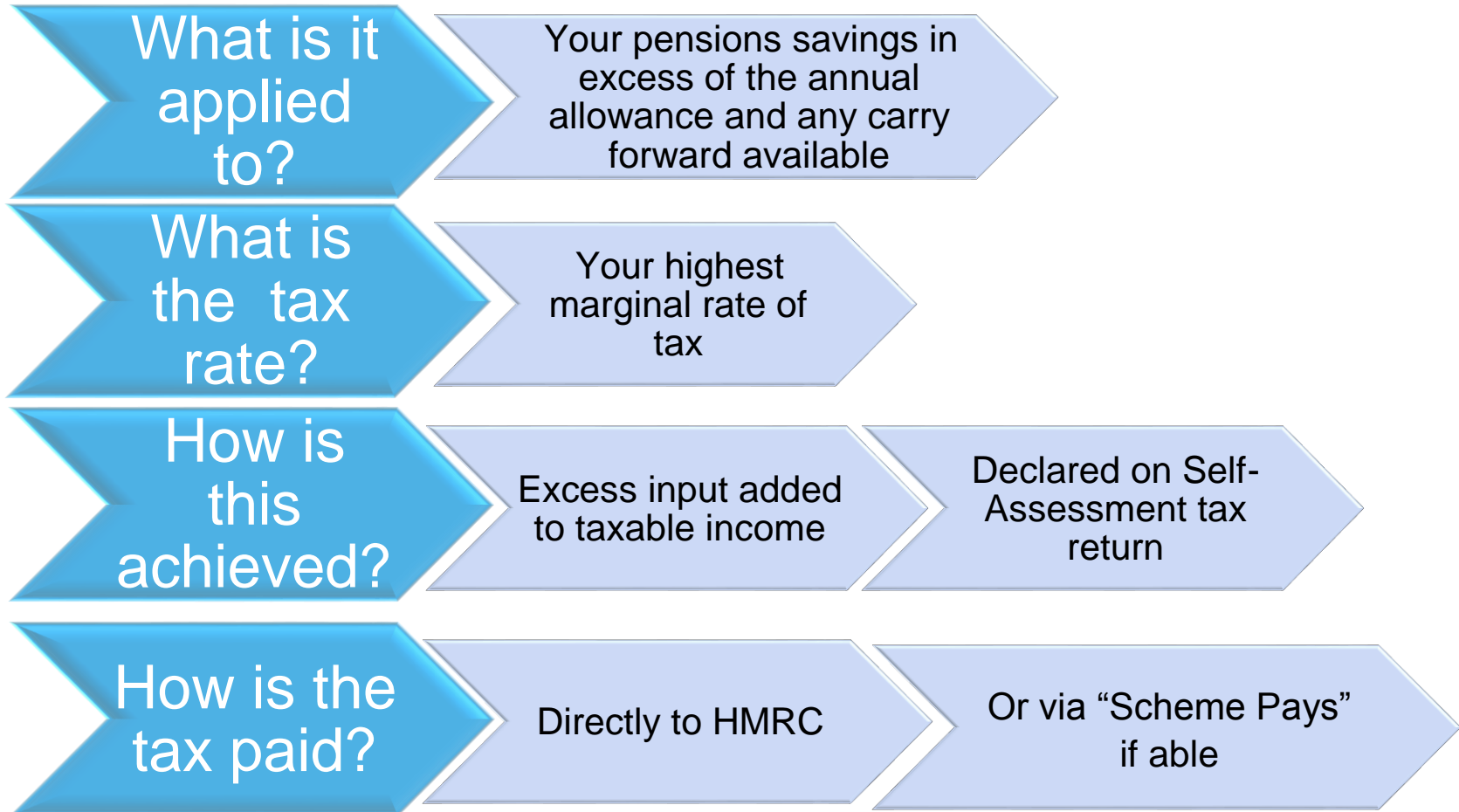


# Carry Forward Example

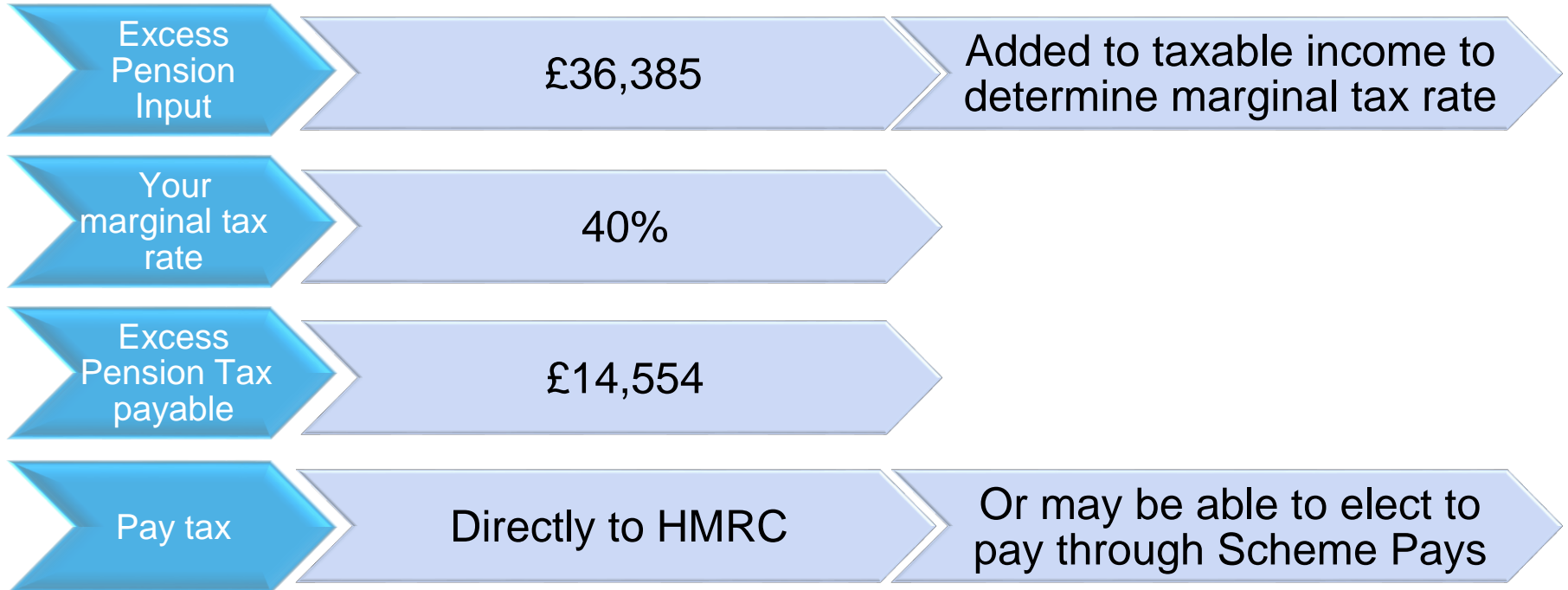
Tax Year	Annual Allowance	C/F Allowance	Pension Input Amount	Remaining Allowance to C/F from Year	Tax Payable
2011/2012	£50,000	£nil	£20,000	£30,000 £15,000 used 2014/15 = <del>£15,000</del> left	No
2012/2013	£50,000	£30,000	£50,000	£nil	No
2013/2014	£50,000	£30,000	£45,000	£5,000 used in 2015/2016	No

<b>2014/2015</b>	<b>£40,000</b>	+ £30,000 + £nil + £5,000	<b>£55,000</b>	<b>£nil</b>	<b>No</b>
<b>2015/2016</b> Post 8/7/2015	<b>£40,000</b> Max post 8/7/2015	+ £nil + £5,000 + £nil	<b>£50,151</b>	<b>£nil</b>	<b>Yes on £5,151</b>
<b>2016/2017</b>	<b>£40,000</b>	<b>£nil</b>	<b>£30,400</b>	<b>£9,600</b>	<b>No</b>

# Annual Allowance Tax Charge



# Calculating Excess Pension Tax



# Mandatory Scheme

## Pays

**Cannot withdraw election**

**“the deduction must be on a basis that is just and reasonable having regard to normal actuarial practice”**

**Amount of tax is over £2,000**

**In any one Scheme:  
On savings exceeding  
normal annual allowance**

**Actuarial reduction to  
member’s benefits - a  
pensions debit**

**Government Actuary’s  
Department (GAD)**

**Guidance & factors to  
calculate an annual  
allowance debit**

**Member elects prior to the  
strict annual deadline. If  
retiring must elect before  
they are entitled to receive  
their benefits**

**Calculation to be  
determined by each  
Scheme’s actuary**

**Principle: debit revalued to  
retirement for inflation &  
retirement age/reason to  
repay over expected time on  
pension**

**Scheme will then pay charge  
on member’s behalf**

Applied to pension before  
commutation & LTA  
calculated

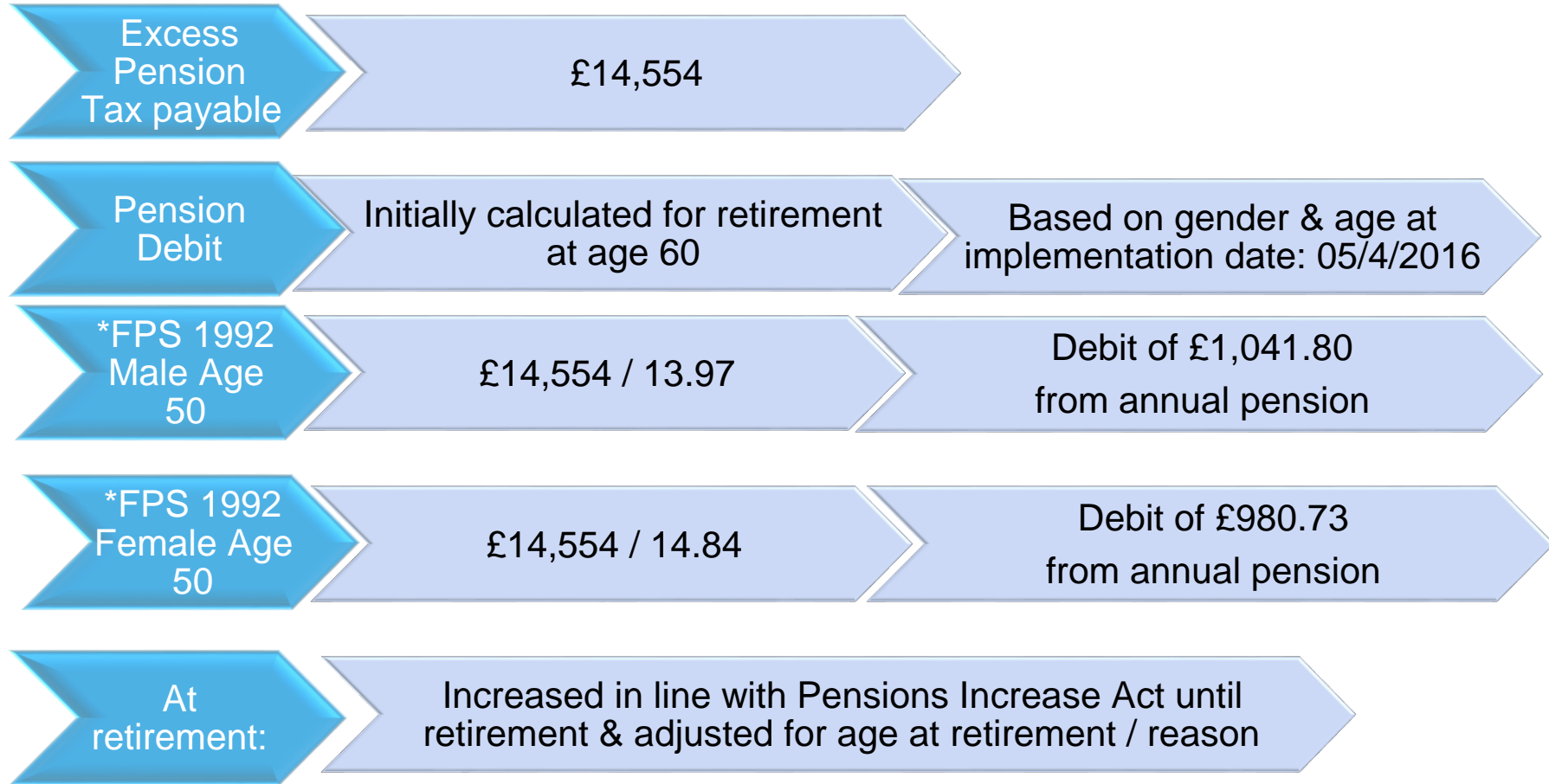
25

# Voluntary Scheme Pays

- Useful where Mandatory Scheme Pays does not apply.  
e.g.:
- where tapered AA applies
- or tax bill of up to £13,500 may need to be met directly
- member is in two schemes which together, but not individually, exceed their AA

- Subject to legal ability & choice of Scheme to use
- LGA legal advice
- Fire Regulation changes?
- Policy
  
- Recovered from pension in same way as Mandatory Scheme Pays. However:
- pension tax must be paid by 31 January after tax year
- earlier deadlines required to elect

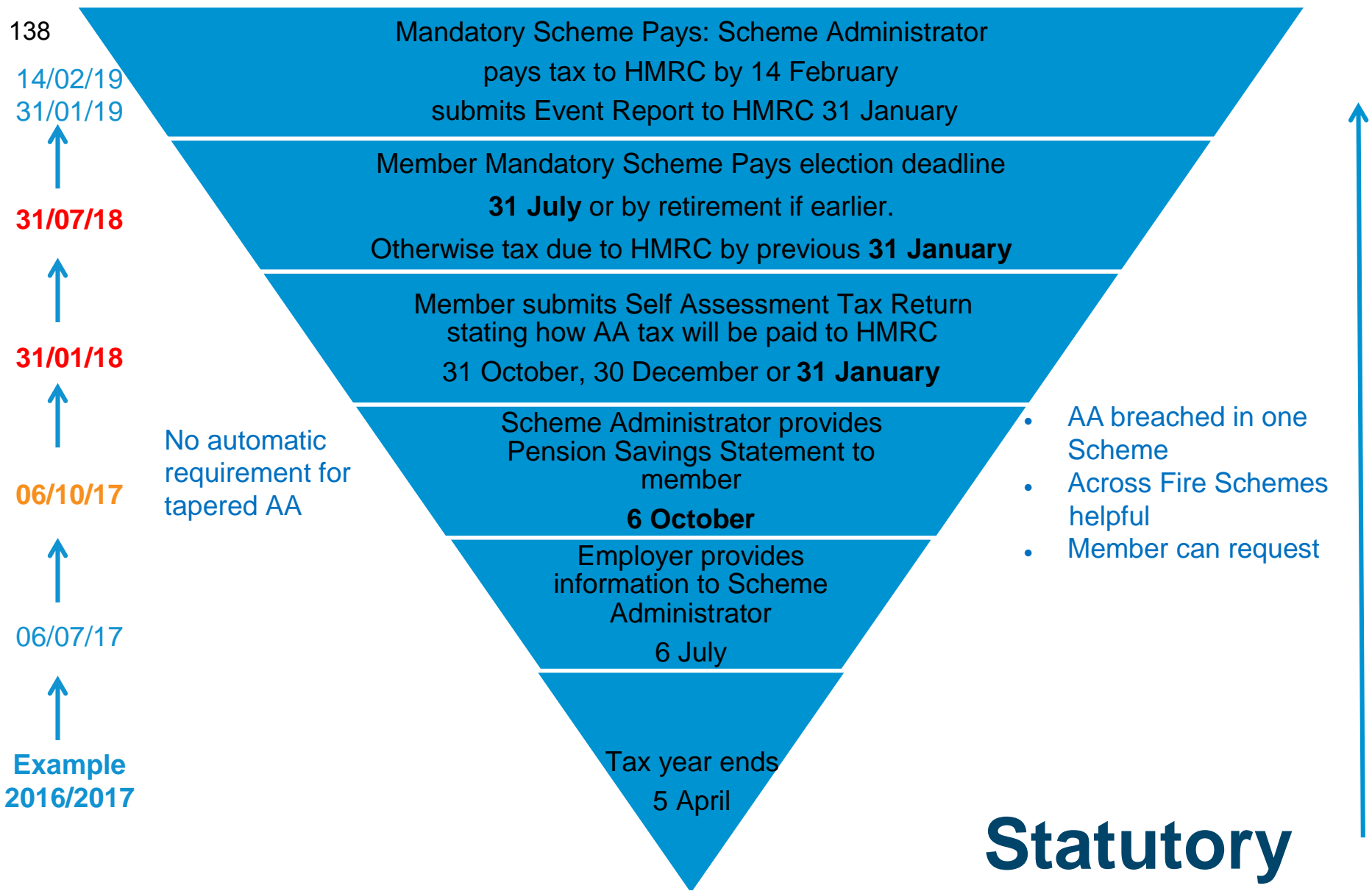
# Calculating AA Pension Debit 2015/2016



\*GAD factors can change



# Annual AA Information & Deadlines



138

14/02/19  
31/01/19

31/07/18

31/01/18

06/10/17

06/07/17

Example  
2016/2017

Mandatory Scheme Pays: Scheme Administrator  
pays tax to HMRC by 14 February  
submits Event Report to HMRC 31 January

Member Mandatory Scheme Pays election deadline  
**31 July** or by retirement if earlier.  
Otherwise tax due to HMRC by previous **31 January**

Member submits Self Assessment Tax Return  
stating how AA tax will be paid to HMRC  
31 October, 30 December or **31 January**

Scheme Administrator provides  
Pension Savings Statement to  
member  
**6 October**

Employer provides  
information to Scheme  
Administrator  
6 July

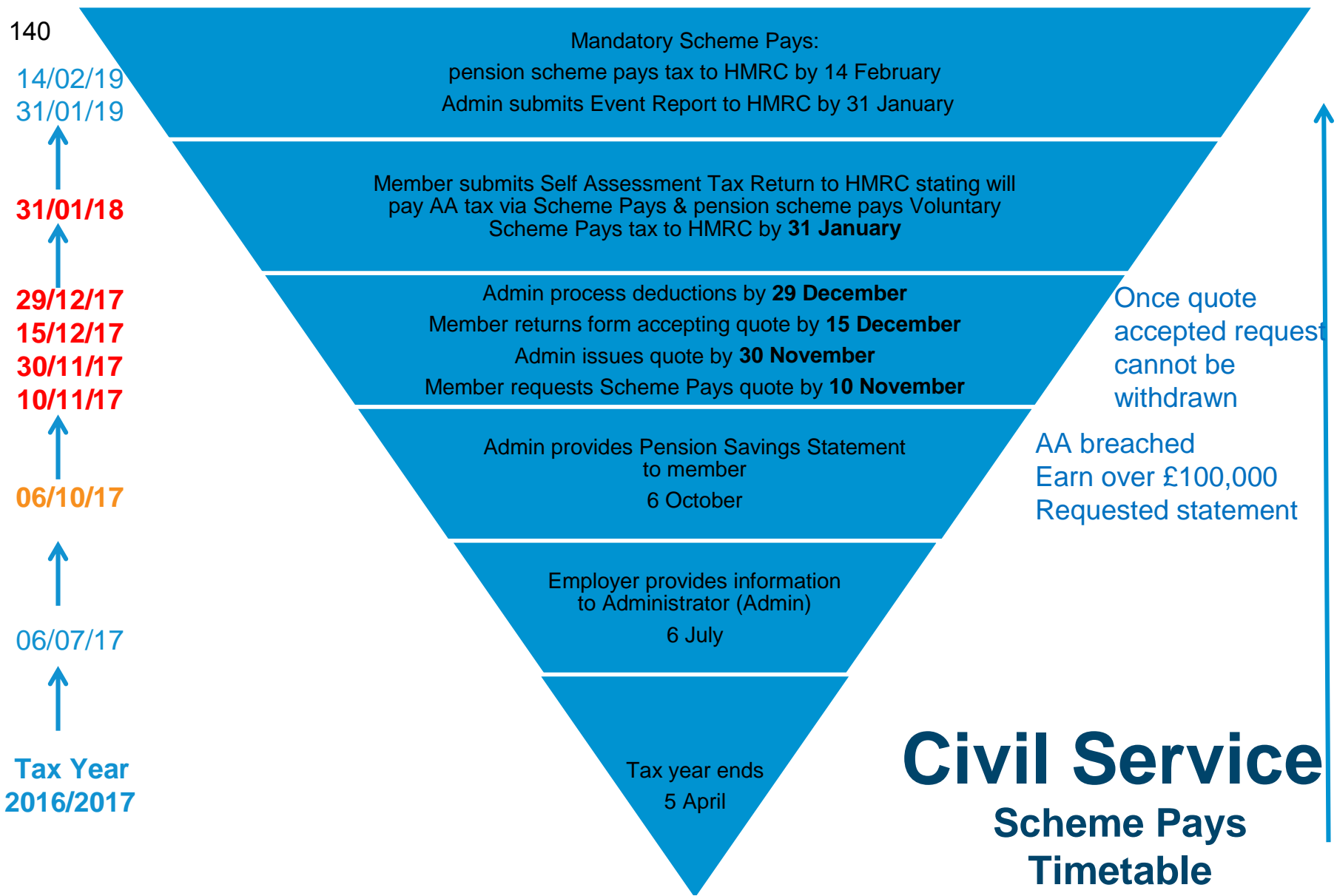
Tax year ends  
5 April

No automatic  
requirement for  
tapered AA

- AA breached in one Scheme
- Across Fire Schemes helpful
- Member can request

Statutory

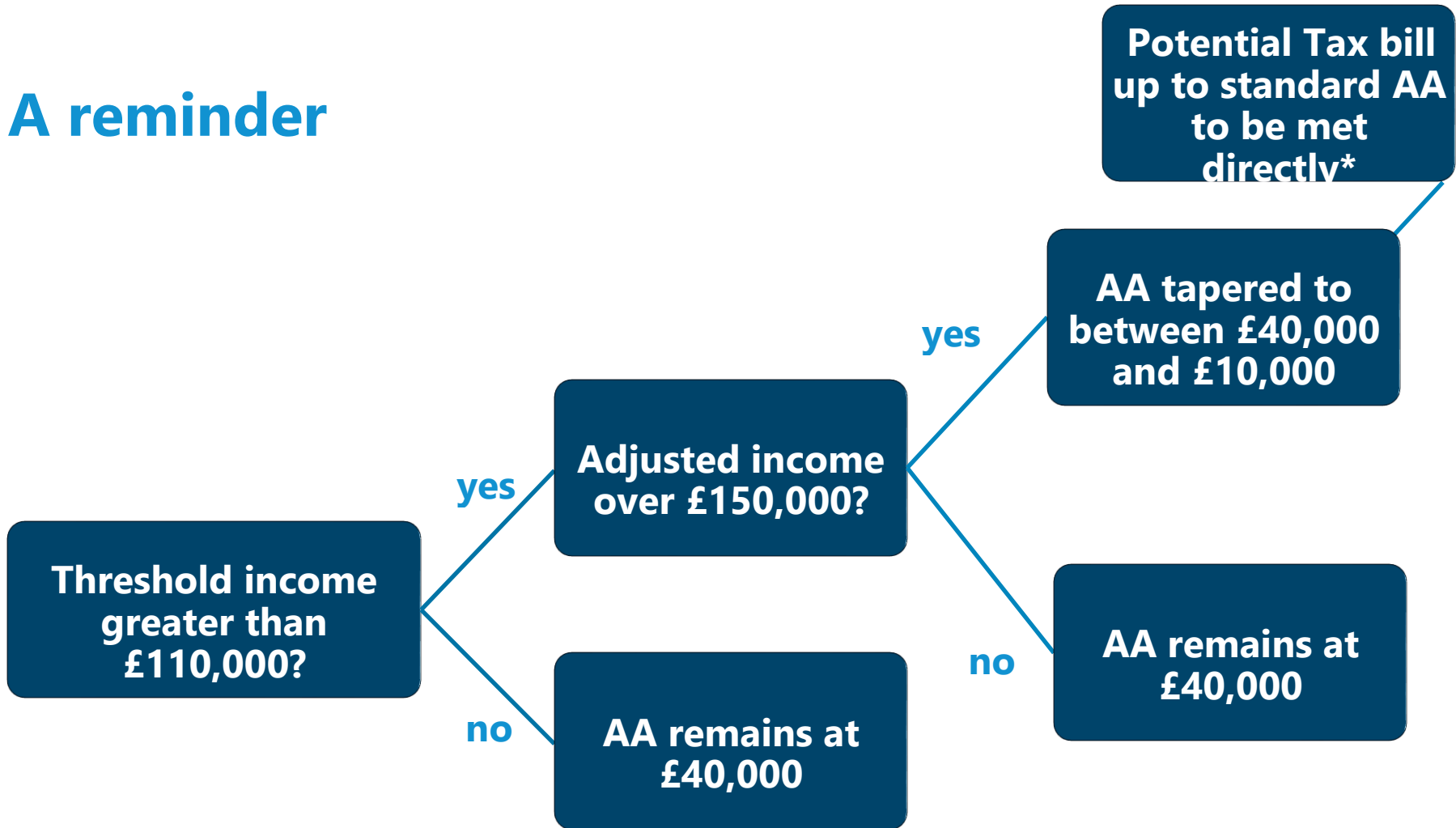
# VSP Example Information & Deadlines





# Who is Affected by the Taper?

## A reminder



\* Fire maybe - Voluntary Scheme Pays Policy?<sup>143</sup>

# Lifetime Allowance



# Lifetime Allowance (LTA)

- Maximum amount of tax free pension saving allowed over an individual's lifetime
- Measured upon actual entitlement to receive benefits
- 20 x pension + lump sum
- Commutation of pension for lump sum reduces or increases value
- $\frac{1}{4}$  of available LTA

Known as a Benefit  
Crystallisation Event (BCE)

- 146
- Or  $\frac{1}{4}$  of benefits value crystallising if less
  - Unauthorised lump sums possible in 1992 Scheme

# Recent & Future Changes

With effect from 6 April 2016

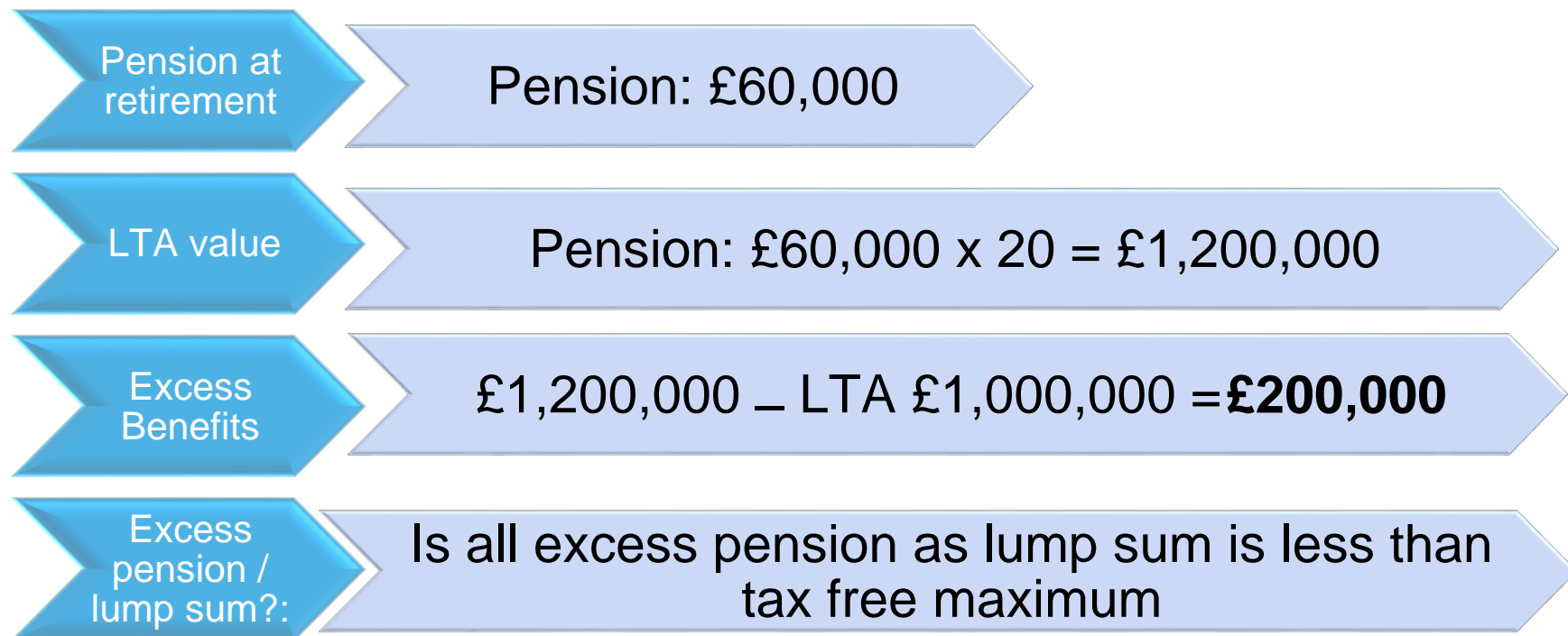
Calculation method unchanged

LTA increasing by CPI each year from 2018/2019

i.e. from 6 April 2018

£1,030,000 LTA; £257,500 tax free lump sum

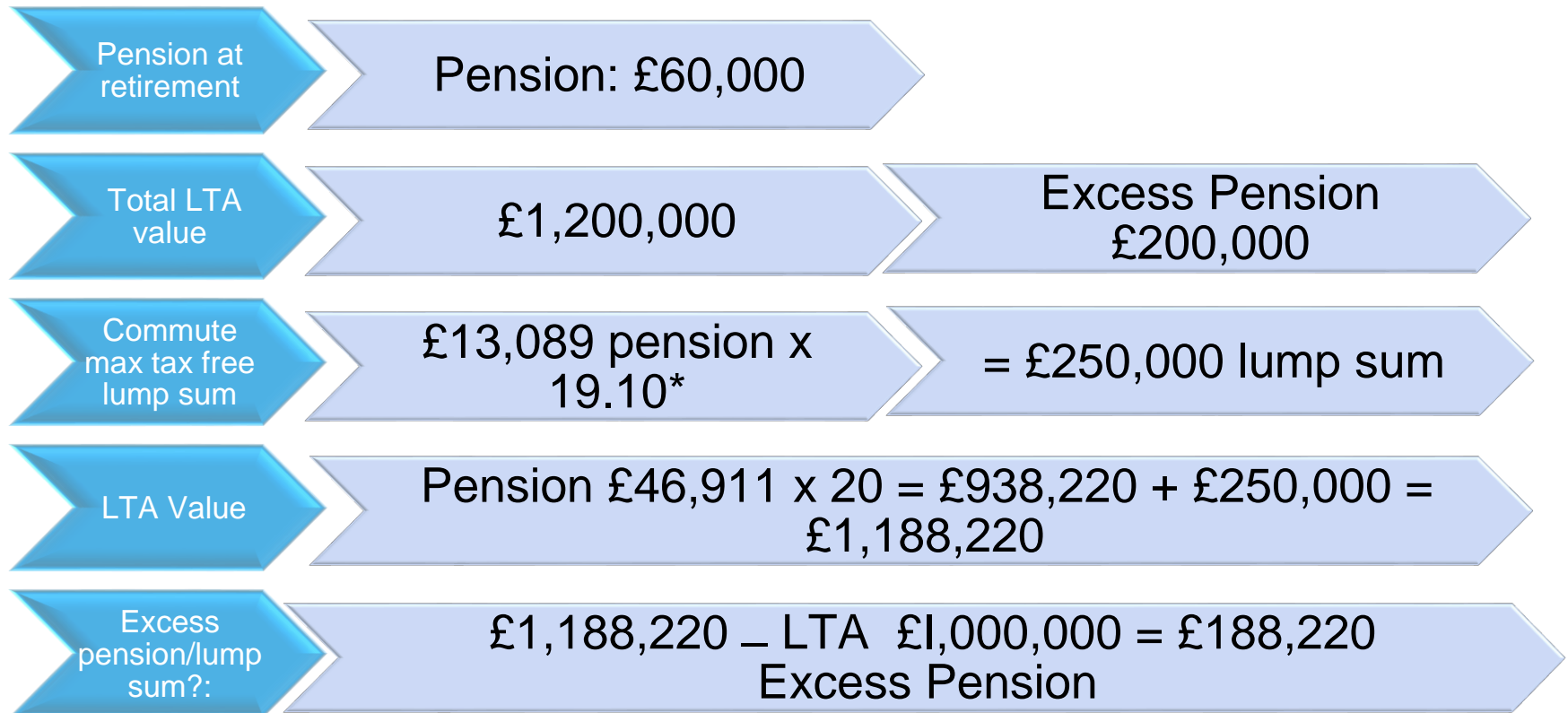
# Calculating LTA Benefit Value



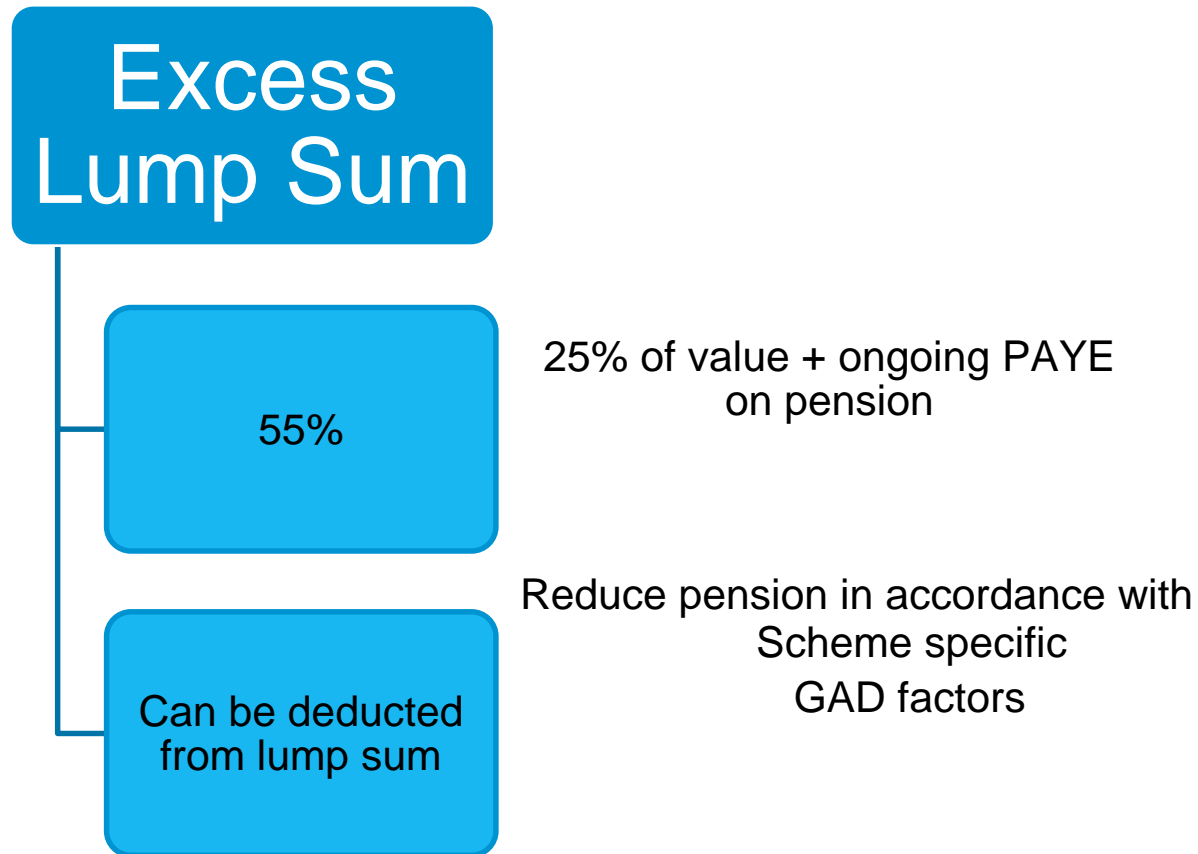
Check value at 5 April 2016 – IP2016?

# Calculating LTA Benefit Value

## Commutation to Change Value



# Lifetime Allowance Tax Charges



# Fire potential for unauthorised payments & charges

# FPS 1992 Pensions Tax Issues

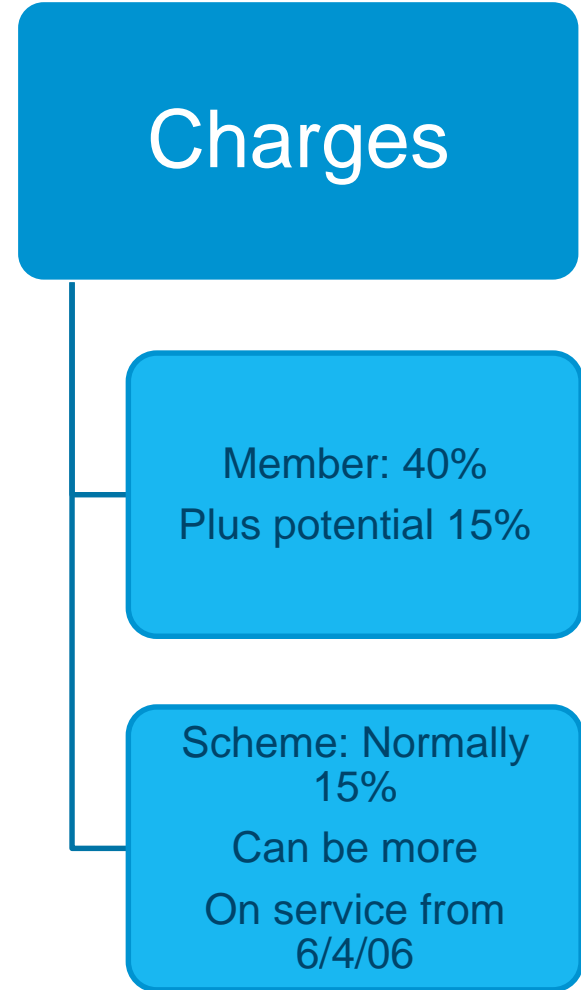
## Two Issues

**Pension  
Commencement  
Lump Sum**

Commutation      **Lump sum factors over 20**      25% rule  
mixed situations/views

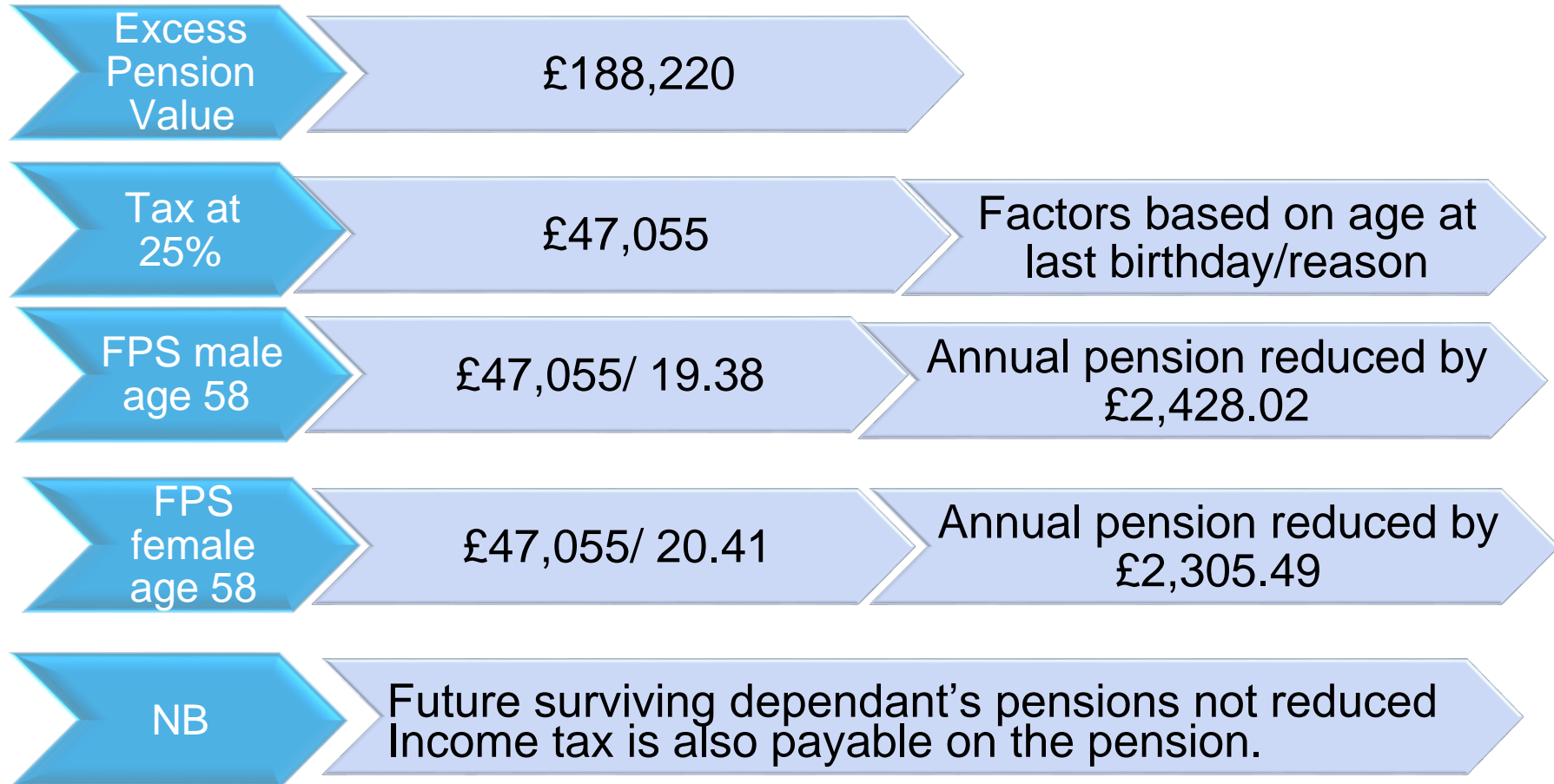
**Protected  
Pension Age**  
5 April 2006, if  
absolute right to

**Pension**  
protected pension age lost retire

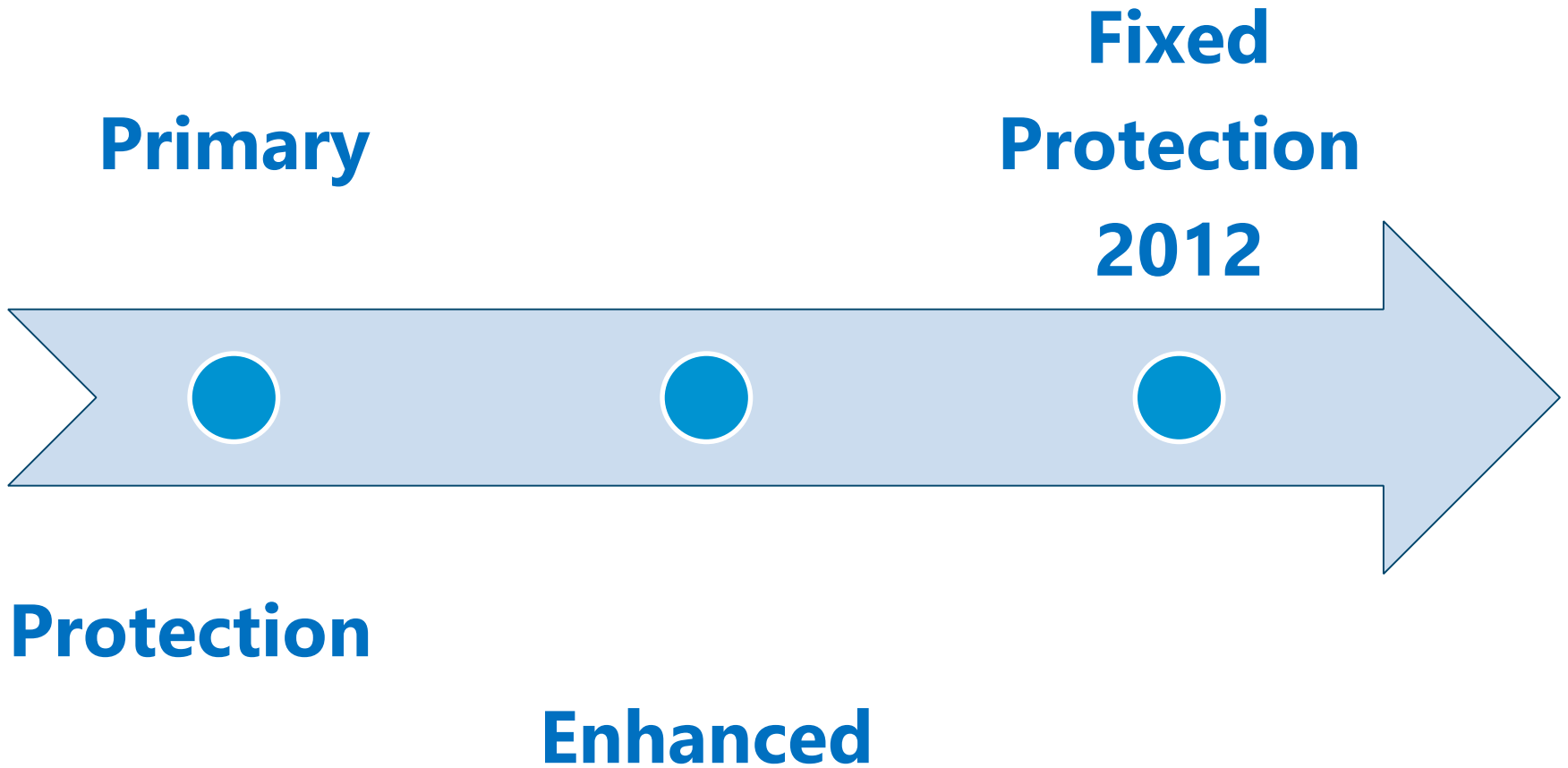




# Calculating LTA Pension Debit



# Protections



# Protection

## Protections 2014

Retain LTA of £1.5M HMRC if no existing protections Could apply on line or post to No further relevant benefit

If LTA exceeds FP2014 in the **accrual** **in place** future, LTA will apply **Deadline was 5 April 2014**

**Could have both, if so** & **FP2014 takes precedence,**  
**but if lost reverts to IP2014**

Available if LTA value of savings greater than £1.25M on 5 April 2014 & do not have Primary Protection

IP2014 LTA = value at 5 April 2014 or £1.5M if lower. Further benefit accrual allowed - are subject to LTA charges

Could apply from 18 August 2014

Deadline was 5 April 2017

# Protections 2016

Retain LTA of £1.25M

existing protections in place Apply on line to HMRC if no No further relevant benefit

If LTA exceeds FP2016 in the future, LTA will apply accrual No deadline before benefits crystallise – apply & obtain

Can have both, if so

&

## FP2016 takes precedence, 157 but if lost reverts to IP2016

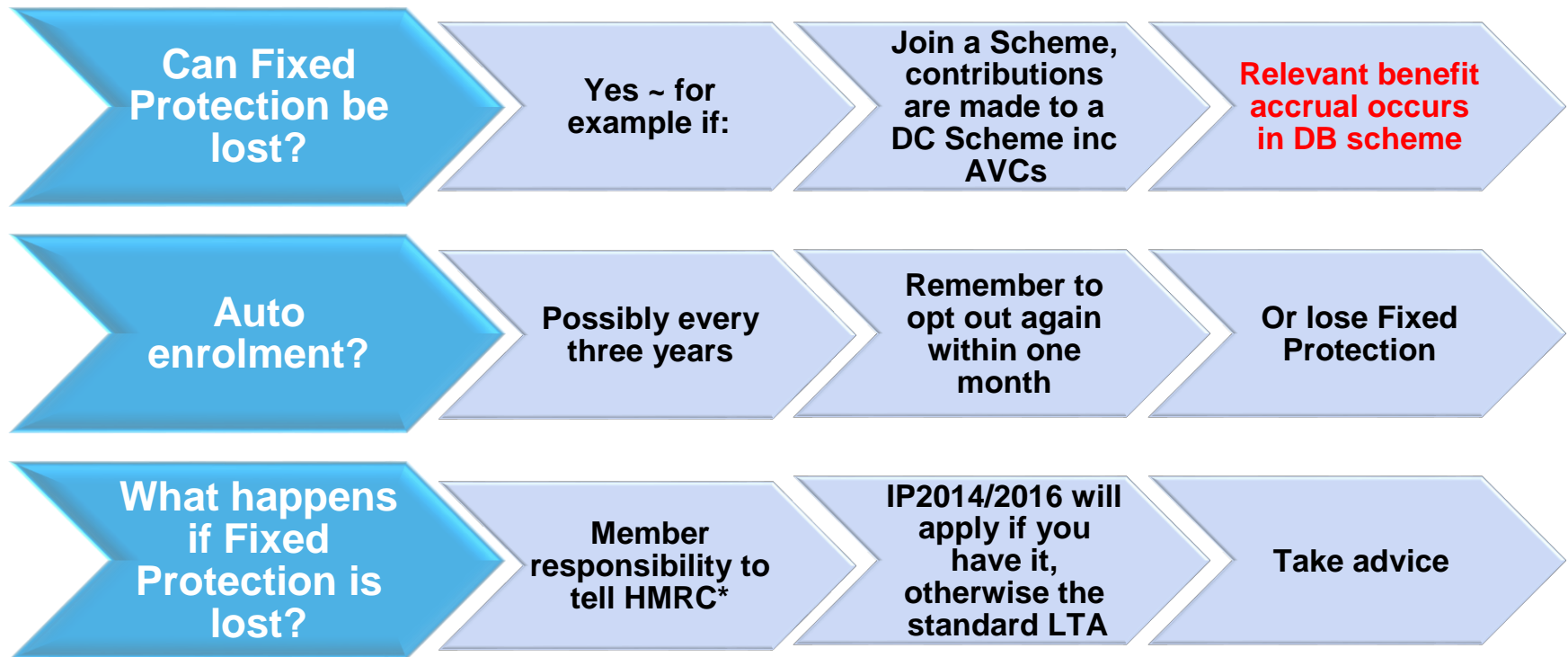
Available if LTA value of savings  
than £1M on 5 April 2016 or £1.25M if lower. Further  
& do not have Primary  
Protection or IP2014

IP2016 LTA = value at 5 April  
benefit accrual allowed - are  
subject to LTA charges

Apply on line to HMRC greater

**No deadline - apply & obtain  
before benefits crystallise**

# Fixed Protection 2014 / 2016



\*90 day limit. Fines can apply of up to £300 and £60 per day after initial penalty

# LTA Information

- Before retirement member provides LTA declaration & LTA protection reference
- On line protection checker for schemes
- Beware Benefit Crystallisation (BCE) Date
- Calculations take place as at BCE date
- Benefit Crystallisation Event Statement
- Issue within 3 months / annually, shows % of LTA used
- LTA Charge Statement

160 Issue within 3 months if tax charge, helps with tax return

Scheme Administrator submits HMRC Event & Accounting for Tax Reports

# Who Might be Affected?

Protections increase LTA – IP2016 still open





# Freedom and Choice

# What is Freedom and Choice?

- 2014 Budget announcement, commencing 6 April 2015
- Flexible access to **defined contribution** pension pots
- At age 55 and over
- Annuity no longer required
- Cash as and when you like

- 25% tax free\*, rest at marginal rate
- Free **guidance** available



Pension Freedom Day  
6 April 2015



\* Subject to LTA

# How does it apply to Public Sector



- ✘ **Defined benefit schemes** – no direct application

- ✓ But some able to transfer from defined benefit schemes to defined contribution arrangements, after taking **regulated advice**
- ✗ Apart from unfunded public sector pension schemes

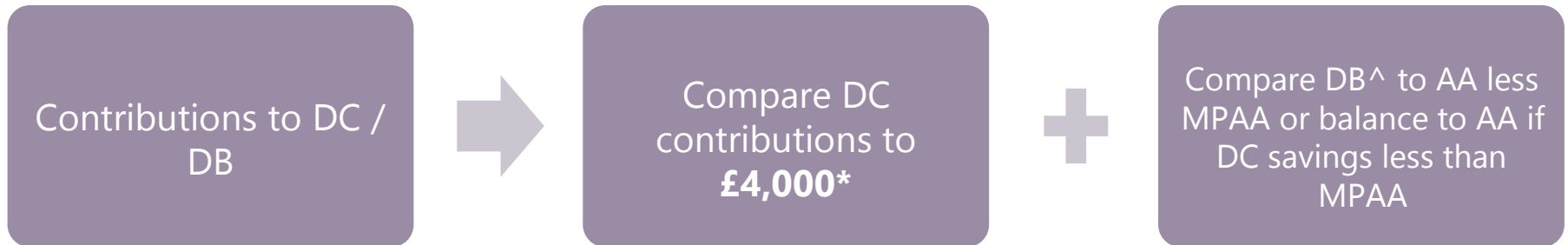
**Fire** ✗

# Money Purchase Annual Allowance



- Freedom & Choice
- With effect from 2015/2016
- Different Annual Allowance rules if flexible access used
- Complex

Assuming tapered annual allowance does not apply.



Use normal method if produces higher tax charge

No carry forward of MPAA

**\*£10,000 2015/2016 & 2016/2017**

**^ pension input amount**

# Pensions tax relief

# Pensions Tax Relief

## Current system

- Tax relief at marginal rate on pension contributions £500  
contributions cost where tax paid at:  
20% £400, 40% £300, 45% £275
- Pay tax on pension in payment
- Launched July 2015
- Closed 30 September 2015, many responses *“Strengthening the incentive to save: a consultation on*
- No news, much speculation *a consultation on*



- Government response promised in 2016 Budget *pensions tax relief*

# Pensions Tax Consultation

## A proposal

- No tax relief on pension contributions
- Tax free pension payments

## Outcome of consultation

- Press speculation; flat rate tax relief, Pension ISA, end of tax free lump sum

- Outcome - no change, but a new Lifetime ISA • One to keep an eye on!

# Pensions Tax Relief & other changes?

## Where next

- Generally considered not to have gone away
- In the difficult pile?
- Rumours ahead of autumn 2017 budget
- 22 November 2017

- Flat rate tax relief on contributions?
- Any other pension tax changes?
- One to keep an eye on!

*In the event –  
no change*

# Considerations for stakeholders

MEMBERS, SCHEME MANAGERS,  
PENSION BOARDS & EMPLOYERS

# Some Considerations for Members

- Compare tax paid v monetary benefits gained
  
- Access to benefits on redundancy?
- Ill health pensions?
- Life cover?
  
- Commutation: increase or reduction to LTA value
- In more than one Scheme? Effect of multiple crystallisations / order

# Some Actions for Members

1

- Collect information from current & previous pension schemes

2

- Check their annual allowance pension input amount
- Keep an eye on voluntary scheme pays developments

3

- Calculate their LTA amount
- Know their protections – check for IP2016

4

- Read information received, take advice?
- Keep an eye on changing legislation

5

- Make decisions, follow procedures & submit information on time
- Be aware of all deadlines and trigger dates, ask for information early

# Some Considerations for Scheme Managers / Board Members

- Alerting members, employers & payroll
- key issues at key times
- information required
- Annual & day to day processes
- meeting legal deadlines & information requirements
- Sufficient resource?
- peaks of work, increased scheme pays requests

- Effect on employees
- promotion and retirement decisions
- suggestions for scheme amendments
- information versus advice



# **Some Actions for Scheme Managers / Board Members**

1

- Review processes & information for compliance & best practice

2

- Monitor performance
- Consider breaches of the law / report material breaches

3

- Review pension administration staff resources & systems
- Training? Automation?

4

- Keep an eye on voluntary scheme pays developments
- Keep an eye on changing legislation / make suggestions?

5

- Employee education – to help understand facts versus custom
- Succession planning / feed back on pension tax consequences

# Questions & discussion



Remember, slides are high level, simplistic, summary only

# Regulatory information

- The information in this presentation is based on our understanding of current taxation law, proposed legislation and HM Revenue & Customs practice, which may be subject to future variation.
- This presentation is not intended to provide and must not be construed as regulated investment advice. Returns are not guaranteed and the value of investments may go down as well as up.
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**SOUTH WALES FIRE & RESCUE AUTHORITY  
LOCAL PENSION BOARD COMMITTEE**

AGENDA ITEM NO 10  
26 FEBRUARY 2018

REPORT OF THE ASSISTANT CHIEF OFFICER PEOPLE SERVICES

**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 2017/2018.

**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 2017/2018.

**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 2017/2018 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 2017/18
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## APPENDIX 1

**PROGRAMME OF WORK UNDERTAKEN BY THE  
LOCAL PENSION BOARD IN THE MUNICIPAL YEAR 2017/18**

<b>Report Name</b>	<b>Purpose of report</b>	<b>Date Presented</b>
Local Pension Board – Terms of Reference & Delegated Authorities	To inform Local Pension Board Members of the Board's responsibilities in relation to Terms & Delegated Authorities	3 July 2017
Firefighters Pensions Scheme – South Wales Fire & Rescue Authority	To inform Local Pension Board Members of the Board's responsibilities in relation to all Firefighters' Pension Schemes	3 July 2017
Firefighters' Pension Scheme 1992	To inform Local Pension Board Members of the scope and terms of the Firefighters' Pension Scheme 1992.	3 July 2017
Firefighters' Pension Scheme 2007	To inform Local Pension Board Members of the scope and terms of the Firefighters Pension Scheme 2007.	3 July 2017
Firefighters' Pension Scheme (Wales) 2015	To inform Local Pension Board Members of the scope and terms of the Firefighters' Pension Scheme	3 July 2017

	2015.	
Firefighters' Pension Scheme – Membership Data	To provide Local Pension Board Members with a data analysis of the composition of the Firefighters' Pension Schemes	16 October 2017
Managing Risks & Internal Controls	To enable Members to consider the Fire & Rescue Authority's and Fire & Rescue Service's pension scheme risk factors.	16 October 2017
Internal Disputes Resolution Procedure (IDRP)	To provide Local Pension Board Members with an analysis of IDRP cases that have been considered.	16 October 2017
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.	16 October 2017
Pension 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.	16 October 2017



Brief overview of the work and role of the Wales Scheme Advisory Board	To provide the Local Pension Board with an overview of role, remit and structure of the Firefighters' Scheme Advisory Board Wales.	26 February 2018
Summary of Scheme Advisory Board meeting held on 27 November 2017	The Scheme Advisory Board is the body established by the Welsh Government to oversee the various Firefighters' Pension Schemes in Wales. The purpose of this report was to appraise the Local Pension Board of the most recent SAB's discussions which could impact on the FRA's role as Pension Scheme Manager.	26 February 2018
Firefighters Pension Scheme Advisory Board Wales Draft report regarding GAD 2016 Valuation Assumptions	This report provides the Local Pension Board with the Scheme Advisory Board (Wales) response to the consultation on the 2016 Valuation assumptions prepared by the Government Actuarial Department for consultation prior to their agreement by Welsh Ministers.	26 February 2018
Consultation on Amendments to Firefighter Pension Schemes in Wales	This report detailed the response to the Welsh Government's Consultation on Amendments to the Firefighter pension Schemes in Wales on Survivors Benefits to the 1992 and 2007 Pension Schemes and minor amendments to the 2015 Pension	26 February 2018

	Scheme and Transitional Arrangements,	
Update on Tax Training Seminar for Local Pension Board Members	This report was to provide the Local Pension Board with details of the Pension tax Awareness Seminar held in Cheltenham in January 2018 for Pension Scheme Managers, Pension Board members, Employers and Fire Pension Scheme members.	26 February 2018
Summary of the Local Pension Board Work Programme	Report submitted to the Fire & Rescue Authority which sets out the Local Pension Board activity throughout 2017-2018	26 February 2018

**FORWARD WORK PROGRAMME FOR  
LOCAL PENSION BOARD 2017/2018**

<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 – Terms of Reference & Delegated Authorities	To inform Local Pension Board Members of the Board's responsibilities in relation to Terms & Delegated Authorities	ACO People Services  <b>Contact Officer:</b> Calvin Powell	3 July 2017	Presented
Firefighters' Pension Scheme – South Wales Fire & Rescue Authority	To inform Local Pension Board Members of the Board's responsibilities in relation to all Firefighters' Pension Schemes	ACO People Services  <b>Contact Officer:</b> Philip Haynes	3 July 2017	Presented
Firefighters' Pension Scheme 1992	To inform Local Pension Board Members of the scope and terms of the Firefighters' Pension Scheme 1992	ACO People Services  <b>Contact Officer:</b> Philip Haynes	3 July 2017	Presented

Report Name	Purpose of piece of work	Lead Director/ Contact Officer	Expected Date of Decision/ Submission/ Review	Progress
Firefighters' Pension Scheme 2007	To inform Local Pension Board Members of the scope and terms of the Firefighters' Pension Scheme 2007.	ACO People Services  <b>Contact Officer:</b> Philip Haynes	3 July 2017	Presented
Firefighters' Pension Scheme (Wales) 2015	To inform Local Pension Board Members of the scope and terms of the Firefighters' Pension Scheme 2015.	ACO People Services  <b>Contact Officer:</b> Philip Haynes	3 July 2017	Presented
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 Officers:</b> Julia Thompson/Philip Haynes	16 October 2017	Presented
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> Philip Haynes	16 October 2017	Presented

Report Name	Purpose of piece of work	Lead Director/ Contact Officer	Expected Date of Decision/ Submission/ Review	Progress
Internal Disputes Resolution Procedure (IDRP)	To provide Local Pension Board Members with an analysis of IDRP cases that have been considered	ACO People Services  <b>Contact Officers:</b> Julia Thompson/Philip Haynes	16 October 2017	Presented
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> Philip Haynes	16 October 2017	Presented
Pension 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> Philip Haynes	16 October 2017	Presented

Report Name	Purpose of piece of work	Lead Director/ Contact Officer	Expected Date of Decision/ Submission/ Review	Progress
Brief overview of the work and role of the Wales Scheme Advisory Board	To update Members	Chair of Firefighters Pension Scheme Wales Scheme Advisory Board  <b>Contact Officer:</b> Mr Michael Prior	26 February 2018	On agenda
Summary of Scheme Advisory Board meeting held on 27 November 2017	To update Members	A/ACO People Services  <b>Contact Officer:</b> Mark Malson	26 February 2018	On agenda
Firefighters Pension Scheme Advisory Board Wales Draft report regarding GAD 2016 Valuation Assumptions	To update Members	A/ACO People Services  <b>Contact Officer:</b> Mark Malson	26 February 2018	On agenda

<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>
Consultation on Amendments to Firefighter Pension Schemes in Wales	To update Members	A/ACO People Services  <b>Contact Officer:</b> Mark Malson	26 February 2018	On agenda
Update on Tax training Seminar for Local Pension Board members	To update Members	A/ACO People Services  <b>Contact Officer:</b> Mark Malson	26 February 2018	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 2017-2018	A/ACO People Services  <b>Contact Officer:</b> Mark Malson	26 February 2018	On agenda

**ACO Mark Malson – Acting Director of People Services**  
**Calvin Powell – Deputy Monitoring Officer**  
**Geraint Thomas- Head of Finance & Procurement**  
**Julia Thompson – Pensions Officer**





## AGENDA ITEM NO 12

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



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 16 October 2017</li> </ul>	3
5.	Brief overview of the work and role of the Wales Scheme Advisory Board – <b>To be presented on the day</b>	9
6.	All Wales Scheme Advisory Board - Update	11
7.	Scheme Advisory Board – Response to Welsh Ministers on the Government Actuary's Department GAD 2016 Valuation Assumptions	17
8.	Welsh Government's Consultation on Amendments to Firefighters' Pension Schemes in Wales – December 2017	83
9.	Pensions Tax Awareness Seminar	101
10.	Summary of the Local Pension Board Work Programme	181
11.	Forward Work Programme 2017-2018	187
12.	To consider any items of business that the Chairman deems urgent (Part 1 or 2)	193