

1. AGENDA ITEM 1 – WELCOME AND INTRODUCTIONS

1.1 Michael Prior asked for recognition of the significant work undertaken by firefighters during the storms on the previous two weeks to be recorded in the notes of the meeting, and for FRA attendees to pass the gratitude of the SAB on to operational staff.

1.2 MP welcomed attendees, particularly the scheme administrators who were attending to provide their views on the Treasury proposals, Karl Bescoby from Aquila Heywood to respond to questions regarding software development, and Jan Claisse and Neil Hawthorne from GAD to respond to questions regarding scheme costs (inc employer and employee contributions relating to proposed remedy options).

1.3 Apologies for absence were received from Cllr Claire Mills, Cllr Brian Apsley, Mark Miles, Ade Robinson, Catherine Black and Cerys Myers.

2. AGENDA ITEM 2 – NOTES FROM LAST MEETING AND MATTERS ARISING

2.1 The notes of the last meeting were agreed as an accurate record of discussions.

2.2 There were four action points :-

- Two related to inviting additional representatives to this meeting – GAD colleagues, a representative from the software provider, and a Treasury representative. Jan Claisse, Neil Hawthorne and Karl Bescoby had already been introduced. Members noted that Treasury officials had been invited but were unable to attend.
- A further action related to Annual Benefit Statements. At the last meeting Clair Alcock had indicated that the SABE were considering providing scheme administrators with consistent advice on how to reference remedy in the ABSs for 2019-20. Scheme Administrators in Wales had indicated that a consistent position for Wales would also be useful.

Clair provided an update on progress. Consideration had been given to how the impact of remedy might be reflected – whether statements should reflect accrued benefits to date with no projection at this stage, or whether accrued benefits and projections based on remedy options should be set out. It had been agreed that, without clarity on remedy, neither of these options was viable. Instead it was likely that SABE advice would be for ABSs to continue to provide information based on current scheme rules, but include a statement to indicate that remedy would be reflected in future ABSs. Administrator colleagues confirmed that there was precedent for ABSs being issued using existing scheme rules when plans for scheme changes were known but not yet introduced by legislation.

Clair confirmed that following agreement from SABE at their meeting in March, this advice would be included in a future monthly FPS Bulletin. Whilst all

members probably received copies of the bulletin automatically the secretariat would circulate drawing attention to any particular reference to ABSs.

ACTION : Secretariat to circulate relevant FPS Bulletin with reference to Annual Benefit Statements to members and administrators.

- Members had also agreed that the secretariat could share the SABW's initial views with colleagues in HM Treasury. Kerry had advised Treasury that there were differing opinions regarding immediate and deferred choice with employee representatives believing that deferred choice lessened the risk of employees making wrong choices, and employers and administrators being particularly concerned about the complication, administrative burden and cost implications of deferred choice. Treasury had also been advised that SAB had raised concerns regarding the lack of clarity around key issues such as the end of remedy period and tax implications, and that SAB had questioned whether decisions had already been made on their preferred remedy. Treasury had been clear that the reason for the lack of detail was because it was genuinely engaging with stakeholders at a very early stage, and that it had not made any decisions on a preferred approach in advance of this engagement.

3. AGENDA ITEM 3 – PUBLIC SERVICE PENSIONS: WORKING PROPOSALS FOR TRANSITIONAL ARRANGEMENTS TO THE 2015 PENSION SCHEMES

3.1 Members noted that several pieces of information had been circulated to support discussion at the meeting. These were :-

- A breakdown of firefighter pension scheme membership data for Wales, across the 3 schemes, and by duty system.
- A copy of the employee and employer contribution rates for Welsh Schemes.
- A list of the questions that SABE had presented for discussion with Home Office and GAD.

3.2 Clair Alcock provided a recap of the Treasury remedy proposals in the format of an overall cost versus risk analysis. Members noted that the general emerging view in the English meetings was that concerns regarding future risk outweighed the cost implications of implementing deferred choice. However the significant impact on costs and administration had to be recognised.

Issues Regarding Software

3.3 Members then raised specific software issues with Karl Bescoby from Aquila Heywood. Karl confirmed the following :-

- Both proposals (immediate or deferred choice) would require a software system capable of calculating both final salary and career average benefits.
- Aquila Heywood were confident that they could provide the system required but it would take time to design and therefore clarity on what was required needed to be provided as soon as possible.

- Karl suggested a timeframe of up to 12 months to develop, although this could be done stage by stage. It was noted that a longer timeframe would though be better, providing a more realistic timeframe for testing etc.
- It was noted that modelling would be the same irrespective of immediate or deferred choice.

Valuation Issues

3.4 Jan Claisse and Neil Hawthorne attended the meeting to respond to questions regarding valuation. GAD indicated that their approach to the valuation process was based strictly on Treasury set directions. Under the immediate choice option GAD's valuations would be undertaken in a similar way to the current approach. Once members' decisions were made only one asset of assumptions would be required. Under deferred choice they would need to value members' both options and use the highest cost for the valuation period. Employee and employer contribution rates would probably need to be adjusted for the contribution period, and it was noted that the best choice for members would result in higher costs for both employers and employees. Deferred choice would add more uncertainty to the valuation process, although this uncertainty would clearly reduce over time.

3.5 Sean Starbuck referred to the potential judicial review of the Treasury suspension of the cost cap mechanism. The FBU did not believe that transitional protection remedy should be included in the valuation process, and the outcome of the judicial review could impact on Treasury's future approach.

3.6 The data specification for the 2020 valuation was mostly the same as the 2016 valuation, although extra data requirements for salary and contribution information were included for those members effected by the transitional protection arrangements. The data specification had been circulated to scheme managers and administrators for comment. It was noted that Aquila Heywood had received a copy via the LGA.

3.7 Clair Alcock provided an update on the responses that SABE had received to their questions to Home Office/GAD. In response to the majority of questions it was clear that it was too early for GAD to make a judgement, as there was not enough clarity in the Treasury proposals at this time. The position would be dependent on Treasury directions and assumptions. The questions where other issues were raised were as follows :-

- **End of Remedy Period** – This remained unknown. Primary legislation, followed by secondary legislation would need to be introduced and the timetable for this was yet to be confirmed.
- **Tax Implications** – there was still no clarity on how annual allowance, lifetime allowance, unauthorised tax charges would be dealt with by HMRC, although it was hoped that some of these issues might be set out in the Treasury consultation.
- **Default Scheme** – Concern was raised regarding the proposal in the Treasury paper that all "in scope" members would be placed back into their legacy scheme as their default scheme for the remedy period, with members paying contributions for that scheme under the deferred choice option. Whilst almost all members

were better off with 1992 scheme benefits, the position between the 2007 and 2015 pension scheme was not as clear, with many members likely to receive greater benefits under the 2015 scheme. This would potentially mean two sets of contribution adjustments (and associated tax adjustments) being required for a group of members who were almost certainly better off in the new scheme.

There was some discussion about whether Treasury would provide flexibility for Responsible Authorities to make scheme specific provisions for issues such as “default scheme”, or whether they would want general consistency across all schemes on some of the fundamental principles. Reference was made to the different approach being taken for judges and LGPS, but given the lack of clarity on Treasury’s position regarding flexibility it was agreed that this point should be specifically raised as part of the SAB’s response.

ACTION : Default Scheme issues to be included in response to Treasury

Clair Alcock referred to some worked examples that had been produced for the SABE that illustrated the position. These indicated that 75-80% of 2006-2015 scheme members in England would be better off in the 2015 scheme for the remedy period. The examples were not however applicable to Wales. Welsh Government agreed to commission similar work from GAD provide evidence to support SAB views. This would be circulated to SAB members.

ACTION : Welsh Government officials to commission GAD to provide worked examples of benefits in Welsh Schemes for remedy period.

Issues specific to the Welsh Schemes

3.8 Early retirement Factors - Members discussed the potential impact of the more beneficial early retirement factors in the 2015 scheme in Wales and the resultant lower accrual rate. These were likely to further impact on members choices for the remedy period. It was expected these would be reflected in the GAD worked examples.

3.9 Scheme Membership - Members reviewed scheme membership data. The high ratio of RDS to wholetime firefighters in Wales was raised. Whilst the issues regarding choice were the same for RDS and whole-time firefighters, the workforce profile and behaviours did differ significantly between the two. Employers pointed out that there was a significant turnover in RDS firefighters, and that there were generally high scheme opt out rates for this duty system. It was suggested that RDS generally had a flatter career path than wholetime firefighters which meant CARE scheme benefits might be more beneficial. It was suggested that some RDS firefighters continued working until they were well past normal retirement age.

Response to Treasury

3.10 A further discussion took place regarding members preferred proposal. There remained a variety of views with no overall consensus from members.

3.11 Employer colleagues questioned whether deferred choice was above and beyond what Government needed to introduce to remedy discrimination, particularly given the cost implications. The issue of whether the deferred choice option would create a precedent for future scheme changes was also raised ie would members always be given a “best option” choice.

3.12 However it was suggested that there was potential for a further age discrimination case to be brought if members were only given immediate choice – ie older members were in a better position to make a correct decision – younger firefighters would know less about their future and so were more likely to make a wrong decision.

3.13 Members generally recognised the benefits of deferred choice for scheme members, but recognised the considerable costs and administrative burden that this would introduce. This was a particular issue for the firefighter schemes where the scheme managers were individual FRAs with individual scheme administrators. This meant that, as small organisations with limited resources, they were more vulnerable to the significant burdens that would be created than some of the larger public sector schemes which were managed and administered centrally.

3.14 The Chair pointed out that the SAB did not necessarily need to reach a consensus to feed back to Treasury – the purpose of these pre-consultation discussions was to highlight interested parties views on the technical issues relating to both options. Members would have the opportunity to reflect their organisation’s specific views further as part of the formal consultation process. It was agreed that the secretariat would draft a response to Treasury that reflected the range of conflicting views expressed by members across both the SAB’s meetings. This would be circulated to members for agreement.

ACTION : Secretariat to circulate draft to Treasury for members consideration.

AGENDA ITEM 4 - ANY OTHER BUSINESS

3.15 Members agreed that, given that SAB had met twice in February to discuss transitional protection remedy proposals, the meeting scheduled for 20 March to cover standard items of business should be cancelled and rescheduled for April/May.

ACTION : 20 March meeting cancelled. Secretariat to rearrange for April/May.