

Firefighters' Pension Scheme Advisory Board for Wales

8 July 2024

Microsoft Teams

<p>Actions from meeting on 4 May 2023</p> <p>AGENDA ITEM 3 - CONSULTATION ON REMEDYING AGE DISCRIMINATION IN FIREFIGHTERS' PENSIONS IN WALES 2023.</p> <ul style="list-style-type: none">• Welsh Government to consider effect of WASPI legal action on deferred pension entitlement.	<p>Ongoing.</p>
<p>Actions from meeting on 03 November 2023</p> <p>AGENDA ITEM 3 – SCHEME DATA</p> <ul style="list-style-type: none">• Secretariat to merge and analyse opt out data in order to ascertain whether there were clear trends emerging and provide an update at a future SABW meeting.	<p>Ongoing. An update will be provided at the next meeting.</p>
<p>Actions from meeting on 30 April 2024</p> <p>AGENDA ITEM 3 – 2020 FINAL VALUATION RESULTS</p> <ul style="list-style-type: none">• Secretariat to clarify with HM Treasury whether or not the scheme would be	<p>Awaiting clarification from HMT</p>

required to achieve the yield of 13.2% over a 3 or 4 year period.	
<p>Actions from meeting on 8 July 2024</p> <p>AGENDA ITEM 3 – CHANGES TO THE EMPLOYEE CONTRIBUTION RATE STRUCTURE.</p> <ul style="list-style-type: none"> • Welsh Government to request GAD to produce illustrative examples to include within the consultation document. • Members to provide any further comments on the proposed options following the meeting. <p>AGENDA ITEM 4- A.O.B</p> <ul style="list-style-type: none"> • Secretariat to arrange a meeting to discuss changes to the employee contribution rate structure. 	<p>Complete. Consultation document includes examples for each option and grade.</p> <p>Complete. No further comments were provided by SABW Members following the meeting.</p> <p>Complete.</p>

Note of Meeting

Present

Michael Prior

Chair

Employee Members

Ade Robinson

Fire Officers Association

Stuart Millington

Fire Leaders' Association

Cerith Griffiths

Fire Brigades Union

Employer Members

Cllr Kim Broom

Mid and West Wales FRA

Cllr John Brynmor Hughes

North Wales FRA

Alison Reed

South Wales FRA

Others in attendance

Helen MacArthur

North Wales FRA

Sarah Tillman

Mid and West Wales FRA

Justine Harries

Mid and West Wales FRA

Mydrian Harries

Mid and West Wales FRA

Rebecca Marfleet

North Wales FRA

Tara Atkins

Local Government Association

WG Officials

Steve Pomeroy

Welsh Government

Natalie Spiller

Welsh Government

Steffan Herdman

Welsh Government

APOLOGIES

Kim Jeal

South Wales FRA

Mark Miles

Mid and West Wales FRA

Nicola Westcott

Mid and West Wales FRA

Tristan Ashby

Fire and Rescue Services Association

Claire Johnson

Local Government Association

Mark Rowe

Fire Brigades Union

1. AGENDA ITEM 1 – WELCOME AND INTRODUCTIONS

1.1 The Chair welcomed everyone to the meeting, which would focus on proposed changes to the current employee contribution rate structure. Members were informed that the meeting would be recorded in order to assist with the minutes and deleted following members agreement of the accuracy of the minutes.

1.2 Apologies were presented for Tristan Ashby, Mark Miles, Mark Rowe and Claire Johnson. The Chair welcomed Brian Allan and Charlotte White to the meeting who were attending on behalf of the Government Actuary's Department ("GAD").

1.3 Members confirmed that they had no conflicts of interest to declare.

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

2.1 The Chair referred to the notes of the previous meeting held on 28 July and invited members to agree them for accuracy. The note was agreed as a true record.

2.2 An update on the actions from the previous meeting, and outstanding actions from earlier meetings was provided as a front page to the notes. No further comments were provided.

AGENDA ITEM 3 – Employee Contribution Rate Structure

3.1 Steve Pomeroy reminded members of the discussions held at the last SABW meeting on the 30 April. GAD had provided a presentation outlining some examples of the potential changes to the employee contribution rate structure that could be introduced from 1 April 2025 to ensure the firefighters pension scheme achieves a yield of 13.2% at the next valuation exercise and members had provided their initial views on possible options. This meeting would allow for a more detailed discussion around the principles for change and the potential options for achieving the 13.2% yield. Members were urged to provide comments in order to help shape the Welsh Government's consultation which would be published early October.

3.2 SP advised the Local Government Association ("LGA") had shared a presentation that had been produced by First Actuarial for the English SAB meeting which took place on the 18 June. The document has been circulated to Members ahead of the meeting, however as the document had been produced for England, members were advised not to rely on this for the Welsh schemes. The document set out the following principles that might underpin the new rates:

- Protection of lower-paid members.
- Include an element of uprating, to ensure pay awards do not undermine the agreed objectives.
- Do not discourage career progression.
- Reduce the risk of opt-outs from the scheme, across the whole membership.
- Able to be administered effectively, allowing for the local nature of Scheme administration.

3.3 SP welcomed comments on what principles they considered the most important to adopt when devising a new contribution structure. Members were advised that due to pre-election restrictions, the Home Office had been unable to progress with their consultation on this issue. As a result, it was unclear which option Home Office would adopt. However, SP advised that given that the gap in yield was different for all nations it may not be appropriate to follow the same

approach as England. Members were subsequently asked to consider how important they viewed consistency with the other nations. Both employee and employer representatives agreed that remaining consistent with other nations, particularly England, would be preferred.

3.4 Brian Allen and Charlotte White (GAD) presented an interactive tool to assist members' understanding of the proposed options. GAD welcomed suggestions from members regarding potential models which could be fed into the tool to demonstrate the impact of different structures on the yield and the subsequent adjustments that would need to be made to the rates to achieve the required 13.2% yield. The current contribution structure required scheme members to pay contributions based on a sliding scale of rates linked to their pensionable earnings. The aggregate amount collected across members added up to the target yield of 13.2%. This approach was known as 'tiered contributions' and was the method adopted across most public service pension schemes.

3.5 Members were informed that there were a number of other models that could be adopted:

- **Contributions based on marginal rates** (similar in principle to income tax bands): – This model is advantageous to higher earners but would dampen the impact of employee rate increases on promotion.
Changing from wholetime equivalent to actual salary – This model had particular relevance for the Retained Duty System ("RDS"). There was likely that higher overall increase in the rates would be needed for this model. The impact was likely to be much more significant in Wales given the much higher proportion of RDS firefighters (around 55%, compared to 30% in England).
- **Linking contributions to grade structure** – tying member contribution rates to the firefighters' grading structure as identified in the Firefighters' Terms and Conditions "Grey Book".

3.6 BA advised that when designing a new structure it was important to ensure that "cliff edges" did not occur, which would potentially prevent individuals from gaining promotion. In addition, members should also consider a structure that would allow for contribution rates to be uprated automatically to take into account future pay increases. This would prevent the need for a further in depth review on an annual basis.

3.7 GAD had requested the FRAS to provide revised pensionable pay data by the 12 July in order to complete their member contribution review. The updated data would thus ensure that the tool could accurately calculate how each option for change would achieve the target yield, BA advised that results shown today could subsequently vary once the tool had been updated with the revised data.

3.8 CW advised that using the current structure, roughly 85% of the workforce fell into salary band 2. Increasing the current contribution rate structure by 0.2% would subsequently result in a decrease in net pay of around £4 - £5 per month based on earnings of £35,000. CW advised that there were however, a number of alternative options available in order to achieve this figure:

- Change the gaps between rates.
- Change salary bands.
- Change from actual to wholetime equivalent pay.
- Change the number of salary bands.
- Apply an annual increase.

3.9 CW advised that a potential option would be to apply a marginal approach, which was similar to the structure used to calculate income tax. Under this system, all members would pay the band 1 rate of contributions on the proportion of their salary up to the top of band 1, the band 2 rate of contributions on the proportion of their salary between the top of band 1 and the top of band 2, and so on. This would moderate the distorting effect of pay on promotion and of some pay awards and means that the effective contribution rate increased gradually as salary increased, rather than on a stepped basis. However, one potential drawback was that it could be complicated to administer.

3.10 Members discussed the option of using a structure that would be based on actual pay rather than full time equivalent pay. SP raised concerns around this option as it could lead to a significant increase in contributions for employees at all grades. CW demonstrated that if the current structure was adjusted to use actual pay rather than whole time equivalent pay, the yield would reduce further.

3.11 Cllr Broom queried the administrative burden that would occur as a result of applying a marginal structure and also stressed that employees would need to be provided with some tangible examples to demonstrate the impact of each option on an employee's net pay.

3.12 Helen MacArthur advised that new rules would need to be embedded into the FRAs' payroll software. She felt that this was achievable but discussions with software providers would be required.

3.13 SP informed Members that in principle the Welsh Government would prefer to remain consistent with other UK nations as far as possible as there would be a potential for some criticism if the rate of net pay differed between nations. However, he stressed that the Welsh Government would take a different approach if appropriate.

3.14. The employee representatives agreed that consistency was ideal. Alison Reed also added that the new structure should be future proofed to ensure that further exercises to amend the rate and structure would not be required each year. In addition, Members queried whether the contribution rate would be reduced should the scheme achieve a yield of more than 13.2%. BA advised that it was unlikely that the yield would increase significantly as GAD undertook a check at the end of each valuation to review the yield. It would be possible to create a structure that would automatically uprate the contribution bandings in line with inflation, average weekly earnings, or in line with NJC pay agreements.

Commented [SP1]: BA?

3.15 Another potential option for change would be to link contributions to the grade structure set out under Section 3 of the Firefighters' Terms and Conditions of Service

("the Grey Book") rather than by financial banding. Linking contribution rates to grade would provide a clear and easy to understand structure that firefighters were already familiar with. In addition, salary bands uprate each year in line with National Joint Council pay awards. Under this option, salary increases for each grade would make no difference to contribution rates, so the structure would be automatically and permanently future-proofed.

3.16 Members raised the following points:

- Stuart Millington advised that the grade structure would be preferred as contributions would increase in line with pay progression and the structure would also be future proofed. SM suggested that 4 bands could be adopted (Firefighter; Crew Manager / Watch Manager; Station Manager / Group Manager; and Area Manager and above). Also, he also commented that individuals at Station Manager grade and above were paid an extra 20% Flexible Duty Allowance and this should be factored into the revised structure.
- Alison Reed advised that a structure based on grade would be preferred as it allowed for future proofing. In addition, she advised that it would be helpful for the Welsh Government to provide some tangible examples within the consultation document which would demonstrate the impact of each option on the employee contribution rate at each grade.
- Mydrian Harries also agreed that a structure based on grade would be preferred and agreed that some illustrative examples and clear communications should be provided to scheme members.
- Helen MacArthur agreed that a grade structure would be the best option. However, she commented that consideration should also be given to how this issue would be addressed by the other UK Nations and how any discrepancies in approach could impact on the number of cross border transfers.
- Cllr Broom queried how this option would impact Retained Duty System Firefighter and whether they would be required to pay higher contributions despite their salary being significantly less than their wholetime counterparts.
- Tara Atkins advised that the English SAB had very similar discussions at their last meeting. She advised that the employer representatives had been considering a marginal structure. The general election had however temporarily paused discussions. TA confirmed that the English SAB had not discussed the option to link contributions to the grade structure. She would discuss this further with colleagues at the LGA.

3.17 SP informed that the Welsh Government would be required to undertake a 12 week public consultation exercise on the proposed options discussed at the meeting. He anticipated that the consultation would be published in October to ensure that the revised employee contribution rate came into effect from 1 April 2025. SP urged Members to provide any further comments on the proposed options to the Secretariat following the meeting so that the Welsh Government could consider ahead of publication. SP confirmed that the Welsh Government would request GAD to produce a set of illustrative examples that would be included within the consultation document which would allow scheme members to clearly see the effect of each option on the contribution rate at each grade. A further meeting would be arranged once the consultation had been published to allow the Board to discuss the

proposals in greater detail and produce a collective response to the Welsh Government's consultation.

Action: Welsh Government to request GAD to produce illustrative examples to include within the consultation document.

Action: Members to provide any further comments on the proposed options following the meeting.

AGENDA ITEM 4 – ANY OTHER BUSINESS

Next Meeting

4.1 A further Board meeting would be scheduled once the consultation had been published to discuss the Welsh Government's consultation document regarding changes to the employee contribution rate structure. The Secretariat would be in touch in due course to ascertain Member availability.

Action: Secretariat to arrange a meeting to discuss changes to the employee contribution rate structure.