

Scottish Firefighters' Pension Scheme Advisory Board

MINUTES

Date: 11 December 2018

Location: Victoria Quay, Edinburgh

Chair: Lorimer Mackenzie (SPPA)

Attendees: Nicola Hector (Scottish Fire and Rescue Service) by audioconference
Gordon McQuade (Fire Brigades Union)
Chris Mulholland (Government's Actuary Department) by audioconference
George Russell (Government's Actuary Department)
Sean Starbuck (Fire Brigades Union)

Apologies: Clair Alcock (Local Government Association)
Anne Buchanan (Scottish Fire and Rescue Service)
Chris McGlone (Fire Brigades Union)
Fiona McOmish (Scottish Fire and Rescue Service)
Glyn Morgan (Fire Officers' Association)
Ade Robinson (Fire Officers' Association)

Secretariat: Clare Moffat (SPPA)

Scottish Government/Scottish Public Pensions Agency Officials:

Claire McGow (SPPA)

Jim Preston (SPPA)

Derek Smith (SG)

Apologies: Lorna Smith (Scottish Government)

1. Welcome and introductions

1.1 The Chair welcomed everyone to the Scheme Advisory Board (SAB) meeting.

2. Conflicts of interest & minutes of previous meeting

2.1 No new conflicts of interest declared.

2.2 Minutes of previous meeting (14/11/2018) were accepted without change. SPPA to publish at earliest convenience.

3. Scheme Valuation

3.1 The Chair thanked members for their responses to the default and choice options proposed at the previous meeting (action point 45 - 2018/05) noting that, in addition to the default A1 –

improvement of accrual rate to 1/52.6, employee side support a choice exercise offering C1 or A2 as follows:

- (a) C1 – improve accrual rate to 1/57.0 to meet 50% of the breach and reduce member contributions by average 3% of salary to meet the remaining 50% of the breach (2015 members only), **OR**
- (b) A2 – improve accrual rate to 1/56.3 and improve commutation rate to 20:1, with member contributions remaining at average 13% of pay.

The Chair also noted that employer members did not support C1 which would require changes to SFRS systems, additional SG funding, would increase SG administration costs and complicate options for employees. The employers supported A2.

3.2 The Chair reminded the SAB that the rectification option decided upon would be in place until there was a reason to revisit, which would not necessarily be in four years' time.

3.3 The Chair asked the FBU members to clarify how the choice exercise would work. They advised that mechanics were discussed at Cost Effectiveness Committee (CEC), where an administration expert indicated that individual options could be implemented each year (active members and new starts). The Chair outlined that this would result in some members subsidising others i.e. the members who chose to reduce their contributions would be subsidised by others in the scheme and affect the operational budget and highlighted challenges of communicating this. The FBU countered that they viewed the choice exercise as a means of offering scheme flexibility which would encourage employees to join the scheme and confirmed that FBU would encourage members to select default option to increase their accrual rate and advise others to seek independent financial advice to select a flexible option which suited their circumstances.

3.4 The Chair confirmed that all scheme SABs were interested in scheme participation rates with actions on work plans to investigate and review evidence available on opt outs. Evidence to date indicated that participation was not price sensitive although that was not definitive. All boards would commit to consider options (e.g. 50/50) over the next 18 months.

3.5 The Board discussed the proposals agreed by SABs in the rest of the UK – England proposed to reduce accrual and improve ERFs, Wales proposed to reduce member contributions and improve commutation rates, with similar action in Northern Ireland – whilst noting the parallels and comparisons.

3.6 When asked to clarify their view, the SFRS members reiterated that the employer could not support a change of member contributions because of funding concerns and administration complexities for SPPA and SFRS Payroll, but supported the proposals to improve the accrual rate with/without increased commutation rates. SPPA outlined that SPPA Customer Service had concerns with the administration and management of choice exercises, costs incurred to change the administration system and adding further complexity to retirement calculations.

3.7 The Chair confirmed that C1 was not an option which the SAB could recommend as agreement could not be reached on the reduction of member contributions. Following a discussion around the SAB's mechanism to reach consensus, with the Chair reaffirming that all members had expressed their views without agreement reached. SPPA confirmed the procedure as "reaching agreement endorsed by all members of the Board".

3.8 The Chair explained that once agreement was reached, SPPA would prepare a confidential briefing to the Minister clearly stating all SAB members' viewpoints. SAB members would have sight of the summarising covering letter from the Chair.

3.9 The Board considered the likely costings of the choice variants. Scottish Government confirmed that there was no extra SG funding available to cover any extra costs incurred by cost cap rectification, any additional costs would come from the SFRS budget.

SAB members from the FBU left the room for five minutes to discuss options in private before returning to summarise that they strongly endorsed an option which offered flexibility for members to reduce contributions and claimed this would encourage new members to the scheme. The Chair confirmed this proposal could not be taken as advice from the SAB because of the lack of consensus. SPPA highlighted that even if agreement were reached, a proposal might well not be approved because of the costs.

3.10 SAB members agreed they could support A2 – improve accrual rate to 1/56.3 and improve commutation rate to 20:1, with member contributions remaining at average 13% of pay.

3.11 The Chair acknowledged the powerful case made by the FBU to reduce member contributions which would be reflected in the briefing to Ministers.

3.12 The Chair outlined SPPA's willingness to support the SAB with communication challenges and issues. SPPA could assist by showing advantages and issues raised across the four SABs. SPPA suggested that whilst the membership had a good understanding of the scheme, communications needed to show the value of the accrual rate given up to obtain the larger lump sums (e.g. the pension given up over lifetime at 12:1 compared to selecting commutation rate of 20:1); the immediate benefits were for the few tapered members who would join the 2015 scheme on/after April 2019, short-term benefits for older members closer to retirement age, with the long-term benefits being realised if the option remained in place indefinitely.

Action Point

GAD to provide figures to illustrate comparisons of member with reduced accrual rate of 1/56.3 to increase commutation to 20:1 against member with improved accrual rate of 1/52.6

Chris McGlone (FBU) joined the meeting.

3.13 Members asked the Chair to clarify the voting system. The Chair confirmed that there was no block voting at SAB, nor was the SAB a forum for bilateral negotiation. The Chair encouraged all members to discuss issues to reach consensus. SPPA confirmed that SAB is not required to have equal numbers of staff and employer members, with quorum reached when 50% of Board members attended with at least one representative from each representative group.

3.14 Members from the FBU confirmed that the FBU would not support a single default position and requested that SAB recommend a choice of A2 for members who did not wish to accept A1, reassuring the SAB that the FBU would advise members to select improved accrual rate. DS queried how members could decide on commutation choice at the time of joining, when retirement could be 30-40 years in the future. The FBU outlined that if a member elected to accept a lower accrual rate in favour of higher commutation rate of 20:1, this indicated their intention to take a larger lump sum. The Chair remarked that future contribution rates would be determined by the number of people who elect to have a higher commutation rate and asked if there was enough evidence available to understand the behaviours of members aged 20-mid 30s.

3.15 The FBU acknowledged that whilst this would add a layer of complexity to the scheme, it offered members a choice to suit their individual circumstances and reassured SAB that a large majority of FBU members sought independent financial advice before taking such decisions, so were well informed.

3.16 The Chair summarised the proposal; the SAB recommend that members accept A1 (default) with a choice to opt out to select A2 on an individual basis for those in the scheme at 01/04/2019 and new entrants thereafter. Board members confirmed that they were content with this.

3.17 The Chair reminded SAB that SPPA might need to coordinate decisions across four schemes to help all SAB members prepare, to ensure that all were in the same position, and reassured SAB that SPPA would notify them if any changes arose which might affect their decision.

4. Any other business

4.1 Staff members raised concern over the differing levels of contribution and attendance from SAB members. The Chair explained that SPPA were mindful of members' commitments when scheduling meetings, agreed to take feedback on board and confirmed that meetings would resume quarterly with the next meeting to be held February/March 2019. SAB members might request a meeting earlier, if desired.

5. Dates of future meetings

5.1 The next meeting will be scheduled for February/March 2019.

**These minutes were approved on 24 October 2019 as a correct record
of the meeting held on 11 December 2018.**

Scottish Firefighters' Pension Scheme Advisory Board

Action Ref.	Action	Action Owner and date raised	Latest position	Status
46	GAD to provide figures to illustrate comparisons of member with reduced accrual rate of 1/56.3 to increase commutation to 20:1 against member with improved accrual rate of 1/52.6	2018/06 11/12/2018		New
45	SAB to consider default and choice options and provide any comments to SPPA by CoP 23/11/2018. Following review of feedback received 23/11/2018, another meeting should be scheduled if agreement is not reached.	2018/05 14/11/2018	Actioned - meeting scheduled for 14/12/2018	Closed

44	<p>GAD to provide costings on variety of options before next meeting on 14/11/2018:</p> <p>(a) increase CARE accrual rate to 1/52.6 to rectify cost cap (default option)</p> <p>(b) reduce member contributions by 5.2% of pay to rectify cost cap</p> <p>(c) (i) increase CARE accrual rate to rectify ¾ of cost cap breach (3.9%) and reduce member contributions to rectify ¼ of cost cap breach (1.3%)</p> <p>(ii) increase CARE accrual rate to rectify ½ of cost cap breach (2.6%) and reduce member contributions to rectify ½ of cost cap breach (2.6%)</p> <p>(iii) increase CARE accrual rate to rectify ¼ of cost cap breach (1.3%) and reduce member contributions to rectify ¾ of cost cap breach (3.9%)</p> <p>(d) offer members a choice* of:</p> <p>(i) continue current member contribution with increased accrual rate of 1/52.6 (i.e. pay the same for improved benefits), or</p> <p>(ii) reduce member contribution by 5.2% and maintain accrual rate of 1/61.6 (i.e. pay less for same benefits)</p> <p><i>* based on confirmation that this could not be excluded from any contribution reduction under the terms of the directions</i></p> <p>(e) Increase CARE commutation rate from 12:1 to 20:1 (40% of cost cap breach) and increase CARE accrual rate to level necessary to rectify remaining cost cap breach (approx. 60%)</p>	2018/04	Actioned	Closed
43	SPPA to add review of contribution rates from April 2018 to Work Plan	2018/03	Actioned	Closed
42	GAD to summarise worked examples if accrual rate is adjusted to 52.6 by next SAB meeting on 01/11/2018.	2018/02	Actioned	Closed

41	GAD to provide figures to illustrate impact of options available to re-set the cost cap: <ul style="list-style-type: none"> • with worked examples of lower range earner, mid-range earner and higher earner, and also • how increasing the accrual rate may affect the impact of the AA 	2018/01	Actioned	Closed
40	SPPA to circulate Scheme Participation rates quarterly.	2017/13		Closed
39	SAB to make any comments on proposed changes to restricted commutation within 21 days	2017/12	Actioned – SPPA to issue formal response	Closed
38	SPPA to locate historic FPC papers on abatement	2017/11	Unable to locate – for discussion	Closed
37	SAB to pass any comments on the draft amendment order by 8 November 2017	2017/10	Actioned	Closed
36	SPPA to issue details of the Police pension scheme contribution rates	2017/09	Actioned	Closed
35	SPPA to request modellers from GAD to see if contribution tiers could be flattened.	2017/08	Ongoing – to be discussed	Open
34	SPPA requested any comments on the proposed change to the IDR process by sent to Lorraine Gallagher	2017/07	Actioned	Closed
33	GAD asked that any comments on the assumptions be fed back to SPPA by 17 November	2017/06	Actioned	Closed
32	SPPA to investigate and report back to the group regarding funding for SAB actuarial and legal advice	2017/05	Carry forward	Open
31	SPPA and SG colleagues to meet and discuss proposals for change to SFRS so that consequential pension costs can be assessed	2017/04	ongoing	Open
30	SPPA to investigate if data can be broken down to include the number of members in each scheme	2017/03	Actioned and will be included in all participation data	Closed

29	Clarify guidance regarding quorum to SAB within TOR and report findings to the group	2017/02	Actioned	Closed
28	Secretariat to amend the attendees listed in the minutes	2017/01	Actioned	Closed
27	Secretariat to email the group to advise when minutes have been published to website. Added to open action 2015/7	2015/27	Actioned	Closed
26	SPPA to discuss communications issues with Operations directorate although this is the area of work for Pension Boards.	2015/26	On-going if required	Closed
25	FBU to write to SPPA to request further investigation on club transfers into the modified scheme and will also engage methods to provide figures of affected members to SPPA.	2015/25	On-going	Closed
24	SPPA have given agreement to investigate issues surrounding transfers from 2006 to the 2015 scheme.	2015/24	Awaiting further paper from FBU	Closed
23	FBU to provide comments on the pensionable pay and this item will be carried forward to the agenda for the next meeting.	2015/23	On hold at FBU's request	Open
22	Finalised draft member communication will be shared by SPPA with FBU relating to contracting out.	2015/22	Issued	Closed
21	Updated Action Log will be issued to members proceeding meetings.	2015/21		Closed
20	Holding lines relating to 18-20 issue to be refreshed on the web	2015/20		Closed
19	Ensure all members of the group have been issued with the slide presentation.	2015/19		Closed
18	Chad to feed back to the group the parties who were involved in the customer service review	2015/18		Closed
17	SPPA/SG to establish what participation data is currently provided by SFRS.	2015/17		Closed

16	SPPA to advise the group of the position with the Police scheme regarding removable allowances.	2015/16	Actioned	Closed
15	SPPA to confirm details of when refunds are expected to commence and how tax relief payments to HMRC will be managed	2015/15	Actioned	Closed
14	Chair to continue discussion with SAB member regarding potential conflict of interest	2015/14	Actioned	Closed
13	Secretariat to send a list of proposed dates in September	2015/13	Actioned	Closed
12	FBU to provide a paper to the Scheme Advisory Board on the issue of 2006 transfers into the 2015 scheme	2015/12	Issued – further action in AP 2015/24	Closed
11	SPPA to organise training session on regulations	2015/11	Actioned	Closed
10	Agenda's to be published on the SPPA website	2015/10	Actioned	Closed
9	Minutes to be actions/outcomes based.	2015/09	Completed	Closed
8	Secretariat to circulate draft media and publications policies to SAB members for comment once drafted.	2015/08	Actioned	Closed
7	Secretariat to ensure that approved agendas, minutes and Work Plan are shared with the Pension Board and published on the SPPA website, as appropriate.	2015/07	On-going Minutes to be approved by SAB prior to publishing	Closed
6	SPPA to publish the 2012 valuation report and supporting papers on the SPPA website	2015/06	Actioned	Closed
5	SPPA to provide answers to questions raised, for example through discussion with GAD	2015/05	No questions	Closed
4	Board members to submit questions on the valuations, the associated published papers or the presentation to the secretariat	2015/04	No questions	Closed

3	Members to provide views on need to have standing orders as part of the meeting process.	2015/03	Members to discuss Agenda item	Closed
2	Future meetings to be located in Edinburgh	2015/02	Secretariat will arrange	Closed
1	SPPA to organise and agree background scheme briefing for members	2015/1	Actioned	Closed