

SCOTTISH FIREFIGHTERS PENSION SCHEME ADVISORY BOARD FPS SAB

Minutes

Date: 14th
November 2018

Location: St Andrew's House, Edinburgh

Chair: Jim Preston (SPPA)

Attendees: Ade Robinson (FOA)
Chris McGlone (FBU)
Chris Mulholland (GAD) by audioconference
Clair Alcock (LGA) by audioconference
Fiona McOmish (SFRS) by audioconference
George Russell (GAD)
Gordon McQuade (FBU)
Nicola Hector (SFRS)
Sean Starbuck (FBU)

Apologies: Anne Buchanan (SFRS)
Glyn Morgan (FOA)

Secretariat: Clare Moffat (SPPA)

**Scottish
Government/SPPA
officials** Claire McGow (SPPA)
Derek Smith (SG)

Apologies: Lorimer Mackenzie (SPPA)
Lorna Smith (SG)

1. Welcome and introductions

The Chair welcomed everyone to the Scheme Advisory Board (SAB) meeting and thanked SAB members for rescheduling.

2. Conflicts of interest & minutes of previous meeting

2.1 No conflicts of interest declared.

2.2 Minutes of previous meeting (01/11/2018) were accepted without change.
SPPA to publish at earliest convenience.

3. Scheme valuation

3.1 The Chair introduced 'Firefighters' Pension Scheme (Scotland): Cost Cap Rectification' paper of 12/11/2018 which GAD presented, showing the effect of the options requested at the previous meeting on 01/11/2018.

3.2 GAD confirmed that the options with reduced member contributions (i.e. B1, C1, D1, E1, B2, C2, D2 & E2), it is assumed that the reduced contributions would apply across all active members in all schemes. However, there may be a way to restrict contribution reductions to only the active 2015 CARE members which result in a higher reduction, e.g. option C1 would see an average reduction of 3% rather than 2.8% if this corrective action was restricted to 2015 members.

3.3 GAD outlined the considerations listed on page 2, explaining that clarification would be needed to take calculations any further – e.g. whether protected members be excluded from the exercise. FBU acknowledged the significant work undertaken by GAD which has provided a number of clear and detailed options. The FBU updated the SAB on work that had been discussed at the English Cost Effectiveness Committee (CEC) held on 12/11/2018. The CEC has still to report its recommendations to the English SAB but it is looking for flexibilities that will help those on low pay and those affected or likely to be affected by Annual Allowance charges. Options are set out in the First Actuarial paper commissioned by the CEC which will be shared with the SAB. The FBU reiterated the established aim of maintaining consistency across all UK wide schemes where that is possible. The SAB and GAD agreed their actuarial papers could also be shared with counterpart UK SABs.

3.3 DS explained that as the Scottish government fully funded both employer contributions and the top up required between total contributions paid and pensions paid out the only variable is the income received from employees. A reduction in employee contributions will require the Scottish government to meet that shortfall from its budget impacting on funds available for other areas of the service. A full reduction of 5.2% would result in a cost of £7m per year which would be in addition to the recent increases in lump sum factors arising from the discount rate change. The FBU confirmed its request for options which would offer flexibility for members, specifically for contribution rates and commutation rates, and their desire for a change in the scheme's Normal Pension Age (NPA). The Chair reminded SAB that the NPA for the 2015 scheme is provided by the Public Service Pensions Act 2013 which is reserved and therefore out with the control of Scottish Ministers

3.4 General discussion followed with concerns raised over future Annual Allowance changes, scheme costs and current uncertainty of the Home Office's position. The Chair highlighted the considerable difficulties of communicating, implementing and administering choice exercises, as well as the time and financial constraints associated with rectifying the cost cap breach. Any changes to rectify the cost cap would apply from 01/04/2019 but how long those changes would apply for would depend on any future cost cap (or its revised equivalent) being breached in the future.

3.5 The FBU confirmed their preferred option would be to provide a 5.2% reduction to member contributions i.e. fixed option E1. The FOA agreed that this option was preferred. This option would rectify the cost cap breach in full but would incur an annual cost to SG of £7m which the staff side acknowledged would be unlikely to be accepted by Scottish Ministers given the previously highlighted financial constraints which apply across each of the schemes affected by a cost cap breach.

The FBU left the room for five minutes to discuss alternative options in private, before returning to discuss and summarise that:

(i) the FBU would promote the default option of A1 - accrual rate increase to 1/52.6 to meet breach in full - encouraging members to maximise benefits available at retirement, but would seek an option to be offered to members as follows:

(ii) a choice of:

(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.

3.6 The Chair highlighted that if a choice exercise was agreed a clear, concise communications exercise would be required to enable members to make an informed decision on options available and queried if this choice exercise and Employer Payroll departments would be able to action the member selections by 01/04/2019. The timeframes are tight, and a backdating exercise may be required with deferment of the new rates for six months. LGA suggested non-monthly uploading of employer returns may allow enough time for choice selection and that similar communications have ran in the past (e.g. special member exercise).

3.7 A general discussion followed around the costs of the options suggested, with FBU acknowledging the need to balance costs with member benefit. The Chair queried if more than one non-default option was required. FBU confirmed their position for C1 or A2 and outlined that, if pushed for only one option in addition to the default, they would select C2 – improve accrual rate to 1/59 to meet 50% of cost cap breach and improve commutation rate to 20:1 to meet remaining 50% of the breach, despite the considerable costs of C2 due to higher commutation rate. Following discussion, the Chair summarised that A1, the default option, would automatically be applied (promoted by staff side) unless a member chose not to accept. If a member did not wish to accept the default, the choice of C1 or A2 would be offered. The SFRS would like time to consider these options further so it was agreed that all members should consider for one more week and comment to SPPA by 23/11/2018. The FBU believe that take up of option C1 would be around 10%, reducing the risk of high cost impacts for the Scottish government. It feels that lowering contribution rates would help reduce potential opt outs from both high and low earners which would reduce the cost impact to the Scottish government. The Chair highlighted the potential difficulty and impact on scheme membership if contribution rates were to be increased in the future in the event of a further cost cap breach.

3.8 The Chair will liaise with SPPA Fire Administration to discuss the implementation of these options, with particular focus on the system complexity and statutory requirements. The Chair acknowledged all schemes' viewpoint, outlining he will consider SAB options against scheme costs with principled approach across all schemes. The Chair also confirmed that any additional funding that may arise from the discount rate is not yet clear.

3.9 The Chair confirmed that if agreement reached following SFRS's consideration of options, SPPA will confirm SAB's recommendations week commencing 26/11/2018. If agreement is not reached, another meeting will be scheduled.

Action Point

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.

4. AOB

4.1 FBU raised the success at tribunal of the O'Brien case which may have an impact on RDS Firefighters who have service before 01/07/2000. The Chair thanked the FBU for the information and confirmed SPPA will expect a letter in due course.

5. Future meeting dates

5.1 A further meeting will be scheduled if the SAB do not reach an agreement on the options discussed.