

ESSEX FIRE AUTHORITY

Essex County Fire & Rescue Service



MEETING

**Audit, Governance & Review
Committee**

AGENDA ITEM

12

MEETING DATE

21st January 2015

REPORT NUMBER

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SUBJECT

Pension Governance

REPORT BY

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Development

PRESENTED BY

Lindsey Stafford-Scott, Director of Human Resources and Organisation
Development

SUMMARY

The purpose of this report is to provide information to Members regarding the governance arrangements of pension arrangements within the Authority. In addition this report will update Members regarding the pending changes to the pension arrangements for Firefighters in April 2015.

RECOMMENDATIONS

Members of the Audit, Governance and Review Committee are asked to:

1. Note the content of the report and the activity in 2014 related to the governance of pension arrangements and to note the activity pending in 2015 to ensure the effective introduction of the Pension Board and the new Firefighters' Pension Scheme
2. Note the need for a further report to update Members on the arrangements for the Fire Scheme Pension Board and to receive information regarding the proposed terms of reference for the Board and membership.

BACKGROUND

Currently the Fire Service is the scheme employer for three pension schemes. The Firefighters' Pension Scheme 1992, the New Firefighters' Pension Scheme 2006 and the Local Government Pension Scheme 2014.

The Local Government Pension Scheme changed in April 2014. The main changes to the scheme are as outlined in the following overview:

- CARE scheme (Career Average Revalued Earnings)
- An amended accrual rate of 1/49th

- Annual revaluation by CPI
- Normal retirement age is state pension age
- Voluntary retirement from age 55 (without employer consent but with reduction to benefits)
- Benefits accrued prior to 1st April 2014 are protected
- Protection is in place for those within 10 years of retirement in April 2012
- Pensionable pay is actual pay
- Average member contribution is 6.5 %

Despite the Scheme regulations being delayed and not advised to employers until mid-March, the new scheme was introduced by the HR service and Payroll in time for April's pay and each employee received an individual letter advising of the new pensionable pay arrangements and their contribution rate.

Training has been provided to the HR teams on the pension implications of HR processes such as redundancy, ill health retirement and business efficiency. An overview is being maintained of scheme arrangements to ensure efficiency of processes.

Activity has been undertaken to ensure that the two firefighter schemes (the 1992 and 2006 scheme) already in place are being managed appropriately. This scrutiny has revealed some areas where the scheme rules have been interpreted incorrectly or where there has been an anomaly in the application of the regulations.

As a result of this the following activity has taken place in the latter part of 2014:

- A review of the application of the Finance Act 2004 regarding Protected Pension Age arrangements for members of the Firefighters Pension Scheme 1992
- A review of the legislation changes to the Fire Schemes in July 2013 and in particular a closer scrutiny of pensionable pay arrangements and abatement for both Fire pension schemes.

There is a specific complaints process related to pension scheme administration which is called the Internal Dispute Resolution Procedure (IDRP). Should any employee who is a member of a pension scheme have a specific complaint about their pension arrangements, they will be directed to use this process. For Firefighters at Stage one of the process the complaint will be heard by the Chief Fire Officer. Any Stage two complaint will be heard by a panel of Members. For members of the Local Government Pension Scheme a Stage one complaint is reviewed by the West Yorkshire Pension Fund, with whom we have a review arrangement for the IDRP process. A Stage two complaint will be heard by the Director for Essex Legal Services.

The retained modified scheme

During 2014 the Authority has been managing the arrangements for the introduction of a new national scheme which provides access to a modified scheme for retained firefighters employed by the Essex Fire Authority between 1st July 2000 and 5 April 2006. The exercise to write to individuals who were employed between this period has been undertaken during 2014 and has a statutory deadline for completion of 1st April 2015.

The Authority has written to 761 individuals setting out the terms of the scheme and seeking their expression of interest. Of these 244 individuals have responded and calculations are being provided to enable them to understand the cost of joining the scheme.

The scheme provides an accrual rate of 1/45th, a normal pension age of 55 years and a deferred pension age of 60 years which will be attractive to many.

Essex Fire Authority is largely adhering to timescale for the introduction of this pension scheme. Any delays are minor and are related to outstanding queries about the scheme regulation which have been lodged with the Department for Communities and Local Government. We are aware that other authorities are behind with their implementation and emergency legislation may be introduced to automatically provisionally enrol employees in the scheme for those authorities who are behind with their implementation timetable.

Administering Authority arrangements

Currently the Authority contracts with the Essex Pension Fund to provide the administering arrangements for the Fire Pension Schemes. This is managed by a Service Level Agreement which is negotiated annually.

Whilst it is recognised that in the past, the channels of communication between the Authority and the Essex Pension Fund were not as effective as they could have been, and that this has led to some misunderstanding about the application of relevant legislation, the relationship and communication with the Essex Pension Fund has improved markedly in recent months. Weekly conference calls are held for the project management of the retained modified scheme and a monthly meeting is held between officers of the Fire Authority and officers of the Essex Pension Fund. This has helped ensure a good channel of communication and information flow and has strengthened the understanding of decisions which the Authority needs to make in the effective management of pension arrangements, particularly for the Fire Pension Schemes.

The Service Level Agreement with the Essex Pension Fund for the administration of the Authority's Fire Pension Schemes will be renegotiated shortly for the financial year 2015 – 2016.

Essex Pension Fund provides the administration for the Local Government Pension Scheme. The LGPS is a funded scheme and the cost of administering the scheme is borne by the scheme and the Fire Authority is a participating employer in the scheme. Currently the Fire Authority has the right to appoint a member to the existing Pension Board.

Developments in 2015

There are a number of developments in 2015 for Members to note.

The most notable of course is the introduction of a new Fire Pension Scheme in April 2015.

The main scheme regulations are as outlined in the following overview:

- CARE scheme (Career Average Revalued Earnings)
- An accrual rate of 1/59.7th (2006 scheme is 1/60th, 1992 scheme is 1/60th and 2/60th for the last ten years before retirement)
- Normal pension age of 60 with early retirement terms from age 55 e.g. 21.8 % reduction if benefits taken at age 55 compared to 40.5% in the FPS 2006 scheme and approximately 40% in the LGPS
- Deferred pension age will be state pension age for those who have no protection within either the 1992 or 2006 scheme.
- Employee contribution rates. The current 1992 and 2006 scheme rates will remain in place for members who remain in the schemes. For example the FPS contribution rate is 14.2% for those earning more than £21,000 and up to £30,000, for the NFPS this rate is 10.4%. In the new scheme the rate for 2015-2016 will be 10.0% for those earning up to £27,000 and for those earning over £27,000 and up to £50,000 this rate will be 12.25%.
- Protections. For a member of the 1992 scheme, full protection is given if at 1st April 2012 the member were aged 45 or over. For a member of the 2006 scheme full

protection is given if at 1st April 2012 the member is age 50 or over. Tapered protections apply for both schemes. No firefighter will work beyond their current expected pension age until 2022.

- The Government has committed that the reforms put in place will last for at least 25 years.

The Authority is awaiting the scheme regulations to enable it to plan for the implementation of the new scheme with effect from 1st April 2015. The regulations are critical to enable our payroll provider to configure the SAP payroll system for the new scheme. There is a risk that late notification of the regulations will have an impact on the Authority's ability to have a smooth introduction of the new scheme.

Whilst the scheme is within the responsibility of the Department of Communities and Local Government, the small resources which are available in this department has meant that it is difficult to obtain timely practical advice on pension scheme matters. This also affects our Administering Authority although they do have more regular access to DCLG officers by the forum of a Technical working group on Fire Pension Scheme matters.

There are five developments which will help with pension scheme administration in the future.

- The first is the establishment of a fixed term appointment at the Local Government Association of a Firefighters Pension Adviser whose remit is to help plan for the new scheme introduction as well as consider the Governance arrangements related to the Fire Schemes. The Fire Authority is contributing a small cost to this resource as are other Fire Authorities within the country. This role will provide the development of scheme guides related to the new scheme as well as terms of reference for the new Pension Boards. The Local Government Pension Scheme has developed good scheme guides for use by Human Resources and Payroll and historically have good resources within the Local Government Association for the oversight of the scheme.
- Secondly, it is recognised that there is a need to collaborate across Fire Authority's to ensure that we can support each other in pension administration matters by sharing good practice, learning and resources such as communications, draft letters, guides etc. The Essex Fire Authority has taken the lead on establishing this regional group with membership from Norfolk, Suffolk, Hertfordshire, Cambridgeshire, Bedfordshire and Kent and the first meeting was hosted at Kelvedon Park on the 8th January.
- It is proposed that a representative of a Fire Authority in the region will attend the regular technical working group meetings which will ensure that the views of an employer are fed into this group as well as facilitate reporting from the group to employers.
- The SAP development project aims to redesign the core build of SAP to reflect the business accurately and will ensure that systems can be configured to capture data on pension arrangements more accurately and will facilitate reporting on pension issues. This will be essential for providing reports to the new Pension Board.
- Finally a new permanent role of Pension Manager has been established within the Fire Authority which will provide effective and proactive management of Pension arrangements with the Authority (which by April 2015 will cover five pension schemes) reporting to the Director of Human Resources and Organisation Development. The selection for this role has concluded and the new employee will commence with the Fire Authority at the end of February/beginning of March.

It is thought that it is an appropriate time to commission an external audit of pension arrangements within the Authority. This will review the application of regulation, policies and internal controls in place and assess against requirements of Fire Pension Schemes following historic change. It will also assess the appropriateness of policies and revisions to planned

procedures scheduled for the new scheme changes. The audit will be undertaken by KPMG with a view to conclude during March.

Pension Boards

April 2015 will see the introduction of Pension Boards for all Public Sector Pension Schemes. There are draft regulations for the Firefighters' Pension Schemes in England which comply with the requirements in the Public Service Pensions Act 2013 to establish new arrangements for governance, including a mechanism to control future costs of the scheme. The regulation will set up two new bodies which will be made up of employer and scheme member representatives. The first of these two bodies is a national Scheme Advisory Board. The Boards' primary role is to provide the Secretary of State for the Department for Communities and Local Government with advice on desirable changes to the Scheme's regulation, when requested.

Secondly, the draft regulations set out that a local Pension Board should be formed by each fire and rescue authority. These local Boards may be advised by the national Scheme Advisory Board and are there to assist the scheme manager in the efficient and effective administration of the pension scheme.

The draft terms of reference and administration arrangements for the Pension Board will be developed with a view to appointing members to the Board by April 2015. It is unclear at present if Fire Authorities will be able to share Pension Board arrangements as is the case with the Police Pension Scheme for example.

The draft regulations provide for an equal number of member and employer representatives and must consist of at least four members. Member (employee) representatives are appointed for the purpose of representing members of the Firefighters Pension Scheme. These may be, but are not limited to, trade union representatives. As the regulations stand, the member must be in scheme employment and therefore must be a firefighter who is currently employed by a fire and rescue authority. This means that former firefighters (which could include pensioner members if they are no longer employed as a firefighter) cannot be a member representative.

Employer representatives are appointed for the purpose of representing employers. These may be, but are not limited to, councillors or officers of the authority. However an officer or member of the authority which is responsible for making decisions on the pension scheme is not permitted to be a member of the Board as the Board may be scrutinising the decision of that officer or member. Therefore the Director of HR and OD cannot be a member of the Board.

The draft regulations currently state that it is for the scheme manager to determine the terms of appointment to the Board but in doing so, they must be satisfied that the individuals have the capacity and understanding to represent either the employer or scheme members, as appropriate. A training programme for Board members will be developed to commence before the first meeting of the Board. It is hoped that regional collaboration will be possible in the provision of training to Board members.

If a similar approach to that for the LGPS is taken, the guidance may suggest that having the local Pension Board 'established' doesn't mean all the members must be in place and suitably trained and the Board must meet by 1st April. However as a minimum we should aim to ensure that the terms of reference are in place and the Board's constitution has been approved by 1st April. There will therefore be a need for a further report to Members on this prior to April 2015.

Pension Board arrangements LGPS

The Essex Pension Fund has set up a small governance working group consisting of existing Board members. A special Pension Board meeting to discuss the outcomes of the Governance working group is being held on the 19th January where a decision will be made to recommend to full council in February.

Other issues for 2015

Opting out

Human Resources will monitor opting out rates for all pension schemes to consider if it can determine any increase in leavers from the Fire Pension Schemes because of the introduction of the new 2015 scheme. Regular communication will be available on the intranet and by direct mailing to any optant out to ensure they fully understand the benefits of the scheme they are considering leaving.

Pension liberation

With pension unlocking, a person aged 55 or over can release up to 25% of their total pension as a tax free lump sum. An individual unlocking their pension will almost certainly mean they will have less income in retirement and, as a result, unlocking is only suitable for a very limited number of people and circumstances. In the future individuals may be able to take more than 25% of their pension savings as a cash lump sum after the age of 55 – but this would not come into effect until at least April 2015. An individual unlocking their pension before the age of 55 may lose most of their retirement savings and may also receive tax charges of over half the value of their pension for taking an 'unauthorised payment'.

The Fire Authority will liaise with the Essex Pension Fund regarding any cases where there is a concern about pension transfer requests and consider issuing targeted communication to individuals who are considering liberating their pension.

RISK MANAGEMENT IMPLICATIONS

There are risks inherent to the management of pension scheme arrangements. The regulations are complex and require some interpretation to ensure compliance and good practice. The steps outlined in this paper are designed to minimize the risks in the management of pension arrangements.

There is a risk of failing to implement the new Fire Pension Scheme in time if regulations are delayed.

FINANCIAL IMPLICATIONS

The new role of Pension Manager will assist with the introduction of the new fire pension scheme. However as the appointment is unlikely to be before the end of February, there will be a continuation of the additional temporary resource within Human Resources to manage these arrangements until such time as the new employee is inducted into role.

The cost of the external audit arrangement will be funded from an SMB budget.

Individual pension complaints. In accordance with any complaint about employment matters the cost of settling pension complaints will be assessed against the risk of on-going litigation.

LEGAL IMPLICATIONS

Pension regulation is statutory and the duty of the Authority is to comply with regulation. It is recognized that complex regulation introduced with little lead in will pose a compliance risk. It is felt that the measures that Essex Fire Authority has put in place to date will mitigate this risk.

EQUALITY IMPLICATIONS

The Authority has responded to the consultation regarding the new Fire Scheme parameters and it is our view that the Scheme in its current form will disadvantage part time employees. Our model would indicate that a quarter of NFPS contributors would pay decreased employee contribution rates. Three quarters of NFPS contributors would pay increased contribution rates. This would therefore indicate that full time staff would benefit most from the new scheme.

There is little data available which would indicate if there are any additional equality issues within the new scheme.

The Fire Authority has responded to the Government Consultation on Fitness Standards and Assessment.

ENVIRONMENTAL IMPLICATIONS

A balance will be struck between the communication of new pension information to individuals electronically and in paper format. The overriding need is to ensure that all employees have accessible information. It is recognised that for some a paper format may be more accessible.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of appendices attached to this paper:	
List of background documents (not attached):	
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