

## LONG TERM REFORM OF POLICE PENSIONS

### FREQUENTLY ASKED QUESTIONS

The Home Secretary announced the Government's position on the long term reform of police pensions on 4<sup>th</sup> September 2012.

Pensions are a central part of police officers' terms and conditions and a matter of the utmost concern to our members. Members having committed to a career as a police officer with the responsibility and restrictions that this entails are entitled to expect a decent standard of living in retirement, at an age before the rigours of the job are likely to become too great.

The Government's reform of the police pension schemes was never going to be welcome. We understand that many members are angry at the Home Secretary's decision on how this reform will impact on police pensions from April 2015.

However disappointed and angry you may be, it is important that Federation representatives and members understand the position as much as possible. This means understanding the legal position, the negotiating position and the outcome.

We are committed to ensuring that our representatives and members have as much information as possible to enable them to understand the implications of the changes that have been announced and have produced this FAQ document, which sets out the answers to the questions that have been raised so far.

**The answers given represent our best understanding of the position at the date of drafting following the Home Secretary's announcement. It is important to understand that the precise and final position on many of the questions will depend on the legal provisions (including the terms of the relevant Act of Parliament and regulations). Members should not make any decisions on the basis of the information contained in this document, without first seeking specific confirmation of the details of the impact of the changes in their personal circumstances from their force pensions administrator. Any member considering opting out of the pension scheme should seek their own independent financial advice before reaching their decision.**

The questions are organised under the following headings:

- Public service pension reform
- The legal framework
- The Police Negotiating Board process
- The new career average ("CARE") scheme
- Transitional arrangements
- Opting out
- Part time service
- Career breaks

We hope this FAQ document is useful. We will consider updating it in the light of any relevant developments or as further questions arise.

## **Public service pension reform**

### **1. Why are pensions being reformed?**

The Government appointed the former Labour Cabinet Minister, Lord Hutton, to undertake a detailed review of public service pensions. Lord Hutton produced an interim report in October 2010 and his final report in March 2011 recommending significant changes to all public service pension schemes.

Neither of the Hutton reports addresses the specific issue of the police pension arrangements in any detail. The reports dealt with public service pensions generally.

Hutton's main recommendation was that existing public service pension schemes should be replaced by new schemes known as "career average" schemes, in contrast to current "final salary" schemes. It was recommended that the new schemes be introduced by 2015.

His other recommendations included:

- making the age at which a pension can be drawn (Normal Pension Age or NPA) the State Pension Age in most public service pension schemes. (The State Pension Age is currently expected to increase to 67 and subsequently to 68);
- having a Normal Pension Age of 60 for uniformed services (including the police); and
- full protection for pensions already earned (sometimes called accrued rights).

The Government accepted the Hutton recommendations as a basis for consultation and undertook discussions in relation to the public service pension schemes, including the police service.

### **2. What are the main differences between the Government's final position on the police scheme and the Government's final position on the other main public service pension schemes?**

The main differences are as follows:

- The cost ceiling (i.e. the total cost of employer and member contributions) is higher in the police scheme than any of the other main public service schemes.
- Member contributions are higher than any of the other main public service schemes.
- The different schemes have different accrual rates and indexing measures.
- Police officers have a Normal Pension Age of 60, compared with State Pension Age (due to rise to 67 and then 68) in most other schemes.
- Police officers who serve until 55 can take an immediate pension on retirement (actuarially reduced calculated from 60 not State Pension Age). No other scheme has this.

## **The legal framework**

### **3. Can the Government introduce the changes to police pensions?**

In short, if the Government is determined to bring in the changes they are able to do so. Further details are available in Ian Rennie's statement at:

<http://www.polfed.org/mediacenter/E81D95CC43DF4F68ABEECBFAA7E8729F.asp>

### **4. Doesn't section 2 Police Pensions Act 1976 prevent the changes applying to existing members?**

Section 2 of the Police Pensions Act 1976 currently prevents the proposals being implemented.

The Home Secretary has indicated that the Government will make the necessary legislative changes to allow the proposals for the police scheme to be implemented as part of the various legal changes needed to bring in new public service pension schemes.

We will consider the detail and the legality of any amendment when it is proposed.

### **5. Do the age discrimination laws prevent the changes?**

We are advised that the changes are likely to be regarded as justifiable, in part because of the tapering provisions.

### **6. Can't we stop the changes by arguing that our pensions have been mis-sold?**

In relation to the legal position on a collective level, during the discussions at PNB we have been closely advised by our lawyers as to all potential avenues for challenge, including legitimate expectation, general "mis-selling" and human rights. We have been clearly advised that such arguments will not prevent the Government from making the changes if it is determined to do so.

It is most unlikely that that individual claims for compensation for "mis-selling" will succeed. Further Q&A on this issue will follow in due course.

## **The Police Negotiating Board process**

### **7. What was the original proposal?**

The Home Secretary set out her proposals for what was called "the reference scheme" in a letter dated 27 March 2012, a copy of which is available at:

[http://www.polfed.org/Letter\\_HS\\_to\\_John\\_Randall\\_Pensions\\_270312.pdf](http://www.polfed.org/Letter_HS_to_John_Randall_Pensions_270312.pdf)

## **8. What was the Federation's response to the consultation process?**

The Federation, as the biggest component part of the Staff Side of the Police Negotiating Board, set out its response to the proposal in great detail in a letter dated 22 June. A copy is available at:

[http://www.polfed.org/Letter\\_HS\\_to\\_SS\\_response\\_to\\_pensions\\_220612.pdf](http://www.polfed.org/Letter_HS_to_SS_response_to_pensions_220612.pdf)

Amongst other points, the response:

- emphasised the importance of pensions to police officers and the unique features of police service;
- argued for the application of any changes to new joiners only;
- sought the best possible transitional arrangements;
- protested about contribution levels; and
- expressed grave concern at the proposal that police officers would have to serve until 60 or otherwise would only be entitled to their pension at State Pension Age (currently due to rise to 67 and subsequently expected to rise to 68).

It became clear that if Staff Side did not engage in discussions about members' priorities after that response, then the Home Secretary would impose the reference scheme set out in her letter of 27 March.

## **9. What would the reference scheme have meant?**

The details are set out in the Home Secretary's letter of 27 March.

In particular it would have meant that any member who joins the new career average scheme would have had to serve until 60 in order to be entitled to that pension from retirement and a member who left before 60 would not be entitled to their pension until State Pension Age (currently expected to rise to 67 and then to 68).

## **10. Why did the Federation not refer the matter to the Police Arbitration Tribunal?**

Pensions are non-negotiable and not subject to arbitration. The Government is only required to consult the Police Federation in respect of police pensions.

## **11. What are the differences between the reference scheme and the details announced by the Home Secretary?**

The main differences are as follows:

- any member who serves until at least 55 will be able from that point to retire and take their career average pension immediately, actuarially reduced from 60 (rather than from State Pension Age); and
- improved transitional arrangements, outside the cost of the new scheme, in particular:
  - an extension of full protection to members of the 1987 Police Pension Scheme and aged 38 or over and 10 years or less away from being able to retire with a maximum 30 year pension; and
  - tapering protection to those within four years of full protection.

## **12. Why are the new arrangements not just applying to new joiners?**

Following the Hutton Report, the Government is committed to moving all existing members of public service pension schemes, including the police, into new career average pension schemes by 2015 (other than those who are subject to full transitional protection).

We argued that this was inappropriate, but the Government was not prepared to make an exception for police officers.

We have at all times considered the scope for legal challenge to the Government's approach. (See questions on "The legal framework" above.)

## **13. Could we not just have paid higher contributions to keep PPS/NPPS open?**

We have expressed serious concern about the unaffordable levels of contributions. In any event the Home Office made it clear that even if some members were prepared to pay even higher levels, there was no scope to keep PPS and/or NPPS open.

### **The new career average ("CARE") pension scheme**

## **14. What is a career average pension scheme and how is it different from a final salary scheme?**

In a final salary scheme the pension is calculated by reference to pensionable service and final salary (as defined in the relevant rules). In the PPS members' pensions are calculated by reference to the appropriate number of sixtieths (with the right to commute some pension for a lump sum). In the NPPS members' pensions are calculated by reference to the appropriate number of seventieths (with a lump sum as well).

In a career average scheme, each year the member earns a "slice" of pension, calculated by the accrual rate. The provisional accrual rate for the new scheme is 1/55.3, which means that each year a member will earn a pension of 1/55.3<sup>rd</sup> of his or her salary that year. That slice is then uprated by reference to an indexing measure. In the new scheme the indexing measure is CPI + 1.25% during pensionable service.

Both final salary and career average schemes are "defined benefit" schemes, where members' benefits are fixed by reference to the relevant rules. This is in contrast to "defined contribution" pensions. In defined contribution pensions, the amount of contributions (either member or employer only or both) is fixed and the pension that results depends on the investment performance of the fund.

## **15. What does CARE mean?**

It stands for "career average revalued earnings", meaning a pension scheme where pensions are calculated on the basis explained in the previous question, with a slice of pension being earned each year which is then revalued by reference to an indexing measure.

## **16. What is CPI?**

It is the Consumer Prices Index, a measure of inflation.

### 17. Will my pension still be a fixed fraction of my final salary?

No. A member with maximum service under PPS would get a pension of 2/3rds of their final salary (subject to any commutation) and in NPPS a pension of ½ final salary. In a career average scheme the pension is not fixed as a fraction of final salary. It will be the total value of all the slices earned during service.

### 18. Does career average mean that my pension will be a fixed fraction of my average salary over my service?

No. It is not calculated by working out the average salary over a member's career at the end of service and then applying the relevant accrual rate.

The pension is the total of the annual "slices" of pension appropriately index linked.

### 19. How will indexation work?

While a member is in service and contributing to the pension, each year 1.25% will be added to the level of CPI and the total figure used.

For example:

- If CPI is 1%, the indexation will be 2.25%.
- If CPI is 2%, the indexation will be 3.25%.
- If CPI is 3%, the indexation will be 4.25%.

### 20. How does the career average work in practice?

Take a member earning £29,000 in year 1, £30,000 in year 2 and £31,000 in year 3 with CPI at 2%, the pension being earned would be as follows:

- In Year 1  $1/55.3 \times £29,000 = £524.42$
- In Year 2  $1/55.3 \times £30,000 = £542.50$
- In Year 3  $1/55.3 \times £31,000 = £560.58$

By the end of year 3 the pension entitlement would be:

- $£524.42 \times 1.0325 \times 1.0325 = £559.07$
- $£542.50 \times 1.0325 = £560.14$
- $£560.58 = £560.58$

Total = £1670.79

The figure of 1.0325 is used to increase the slice by CPI (in this case assumed to be 2%) + 1.25%, which gives a total of 3.25%.

That process continues throughout pensionable service. The final pension is the total of all the slices added together, that amount is payable as the annual pension (subject to an option to commute for a lump sum).

If CPI varies (which is likely to be the case from year to year), so will the indexing figure.

## **21. Will there be a lump sum under the new scheme?**

Members will have an option to commute (exchange) pension for a lump sum with fixed factors, each £1 of pension given up will give a lump sum of £12. Commutation will be subject to HMRC regulations and limits.

## **22. What will the position be in relation to ill health retirement in the new scheme?**

The position will be based on the approach in NPPS. It has not been dealt with in any detail.

Further information will be provided about this as soon as it is available.

## **23. When will the changes take effect?**

The Government intends the new scheme to begin in April 2015. Some members will not have to join the new scheme at that point (see “Transitional arrangements” below).

## **Transitional arrangements**

### **24. How do the transitional arrangements work?**

Serving members will fall into one of three main categories:

- those who benefit from “full protection”, who will not have to transfer into the new scheme;
- those who benefit from tapering protection, who will have to transfer into the new scheme, but not immediately; and
- those who are not protected, who will have to transfer into the new scheme when it is introduced in April 2015.

The position of each group (and in relation to opting out) is dealt with in more detail below.

Those members who are not fully protected, have their accrued rights in PPS and NPPS protected. This is dealt with below.

### **25. Who benefits from full protection?**

- PPS members who, as of 1 April 2012, have 10 years or less to age 55 or have 10 years or less to age 48 and are 10 years or less from a maximum unreduced pension; and
- NPPS members who as of 1 April 2012, have 10 years or less to age 55.

### **26. What does “full protection” mean?**

Fully protected members will see no change in when they can retire, nor any decrease in the amount of pension they receive. This will be achieved by remaining in their current scheme until they retire.

## **27. Who benefits from tapering protection?**

Members who are within 4 years of qualifying for transitional protection, as of 1 April 2012. Further details are in the tables at Annex A of the Reform Design Framework document at:

[http://www.polfed.org/20120904FINAL\\_Police\\_pensions\\_RDF.PDF](http://www.polfed.org/20120904FINAL_Police_pensions_RDF.PDF)

## **28. What does tapering protection mean?**

A member who is covered by the tapering protection will continue to accrue pensionable service in their current scheme for a limited period after April 2015.

The maximum additional period of service that will be accrued in this way will be 2557 days (7 years). The minimum additional period will be 54 days. The last possible day of such additional service will be 31 March 2022.

The underlying principle is that the closer a member is to full protection, the more additional service they will be allowed to accrue. This is intended to avoid what would otherwise be a “cliff edge”, where a couple of days service would make the difference between full protection and no protection.

At the end of any additional period, the member will transfer to the new scheme.

## **29. How do the tapering tables work?**

You first need to work out which table applies.

Then, if one of the first two tables applies, find the appropriate row by reference to date of birth. If the third table applies, find the appropriate row by reference to service start date. If the fourth table applies, find the point where age and length of service meet.

Once that is done read across to the number of days of protection. Those will be additional days in the PPS/NPPS before transfer to the new scheme. The first three tables also include the date of transfer (which is the date of the end of protection).

## **30. What is happening to accrued rights for members who transfer into the new scheme?**

Members who are not fully protected will:

- if they do not benefit from tapered protection, transfer to the new scheme when it is introduced in April 2015; or
- if they do benefit from tapered protection, transfer to the new scheme after accruing the appropriate period of additional service in their current scheme.

In each case, such members' accrued rights are protected in the following way:

- the “old scheme” (PPS or NPPS) pension will be calculated by reference to the final salary rules of the old scheme. i.e. Calculated on the final salary at that time (“final final” salary) and not by reference to the salary at the point of joining the new scheme;



- for PPS members, the accrual rate will not simply be 60ths, it will be weighted to reflect the expectation of double accrual (see further details below);
- for PPS members, the old scheme pension can be accessed at the age/service point that would have applied in PPS (see examples below);
- for NPPS members, the old scheme pension can be accessed at 55.

On the last two points, there are two important caveats:

- the ability to access the pension at the PPS/NPPS age/service point will be conditional on continuing to contribute to the new pension scheme; and
- the PPS/NPPS pensions can only be accessed by retiring. It will not be possible to take the pension while continuing to work.

The interaction between taking the old scheme pension and the new scheme pension is dealt with in more detail below.

### **31. What about commutation of lump sums under the PPS?**

There is nothing specific in the documents issued by the Home Office about lump sums. Our expectation is that the same rules which currently apply will continue to apply as part of the protection for accrued rights, subject, as now, to any relevant HMRC rules.

Further information will be provided about this as soon as it is available.

### **32. How does the weighted accrual rate work?**

Weighted accrual is intended to address the expectation of PPS members to double accrual (i.e. of each year counting for 2/60ths) in the last 10 years.

The formula adopted means that the PPS service will have applied to it the average accrual rate that would have applied if the member's entire pensionable service (PPS and new scheme) had been in PPS. This is better than the simple application of 60ths would be.

In order to understand this, a useful starting point may be to consider the following examples under PPS, leaving aside the new scheme for a moment:

- a PPS member who serves for 20 years or less will have an accrual rate of 60ths;
- a PPS member who serves for 30 years will, because of double accrual, have an average accrual rate of 45ths (as 40/60ths is the same as 30/45ths);
- a PPS member who serves for between 20 and 30 years will have an average accrual rate somewhere between 45ths and 60ths.

The formula replicates the position in relation to average accrual rate and applies that to the member's PPS service.

The formula is

$$\begin{aligned} & \text{PPS pension} = \text{no. years service in 1987 scheme} \\ & \quad \times \\ & \quad \text{Weighted accrual rate} \\ & \quad \times \\ & \quad \text{Final salary} \end{aligned}$$

The weighted accrual rate is:

Years that were or would have been at single accrual rate x 1/60th  
+  
Years that were or would have been at double accrual rate x 2/60ths  
  
Divided by  
  
total no. of years service

(No more than a total of 30 years' service can count towards the weighted accrual rate.)

**33. When will a member of PPS who transfers to the new scheme be able to access their PPS pension?**

At the same age/service point that would have applied in PPS. Thus:

- immediately after 30 years' pensionable service; or
- from 50 with 25 years' pensionable service; or
- from their voluntary retirement age (see regulation A4 Police Pensions Regulations 1987).

However, this is dependent on continuing to be a member of the new scheme and the pension will not be payable before retirement.

**34. Can members take their PPS/NPPS pensions and carry on serving?**

No. Pensions will not be paid before retirement.

**35. What would happen if a member retired and rejoined?**

The power to "abate" payment (i.e. not to pay pension) during a further period of police service will be retained, and, we understand is likely to be applied.

It should be added that there would not be any right to rejoin after retirement.

**36. What will happen if a PPS member who joins the new scheme retires before 55?**

The member will have two pensions.

- The PPS pension, based on PPS service to 1 April 2015 and any additional tapering service, will become payable (if s/he retires) at the same age/service point it would have done under PPS (e.g. immediately on 30 years' service, from 50 with 25 years' service).

That pension will be based on the final salary at the point of retiring and on the basis of weighted accrual.

- The career average pension will not be payable until State Pension Age (unless it is taken early with actuarial reduction calculated from that age).

**37. What will happen if a PPS member who joins the new scheme retires at or after 55 (but before 60)?**

The PPS pension will be payable in the same way as the previous question.

The career average pension can be taken immediately, with actuarial reduction calculated from the age of 60 (rather than State Pension Age). If it is not taken immediately, it will be payable from State Pension Age.

**38. What does actuarial reduction mean?**

Where a pension is paid early, it is paid at a lower level to reflect the fact that it is paid for longer.

The intention is that the actuarially assessed value of the pension entitlement is the same.

**39. If a pension is actuarially reduced, is the reduction permanent?**

Yes, the reduction does not cease to apply when the member reaches the age from which reduction is calculated.

**40. What difference does actuarial reduction make?**

The Home Office has indicated that while it is not possible to give a fixed formula, a general “rule of thumb” is between 4% and 5% reduction for each year that the pension is taken early.

Clearly any member considering taking an actuarially reduced pension would need to obtain a precise calculation from their pension administrator before reaching a final decision.

**Opting out**

**41. What will happen if a member who is not fully protected does not join or opts out of the new scheme?**

Clearly they will not pay pension contributions and will not accrue any pension or be entitled to any other benefits (such as death benefit) under the new scheme.

They will also be treated as a deferred pensioner in PPS/NPPS. In PPS a deferred pension is not payable until 60. In NPPS a deferred pension is not paid until 65.

The position of a member who opts out of the new scheme when they have reached the point at which they could draw a PPS/NPPS pension is still to be clarified. Further information will be provided on this as soon as it is available.

**42. What happens if a member of PPS opts out before April 2015?**

They will not be able to opt back in. They will lose access to the “final final” salary link (i.e. the salary at the point of retirement) for their PPS service, they will not benefit from the weighted accrual and they will not be able to draw their PPS pension at the age/service point which would have applied under PPS. Instead they will become entitled to a deferred pension under PPS, which is not payable until 60.

They will however be able to opt into NPPS up to March 2015, although this is subject to some significant limitations and to join the new scheme from April 2015.

#### **43. What happens if a member of NPPS opts out before April 2015?**

Under the current regulations, members of NPPS can opt back in (although this is subject to some significant limitations). If they did not opt back in by April 2015 the "final final" salary link (i.e. the salary at the point of retirement) would be lost and they would not be able to draw their NPPS pension until 65.

#### **44. Would members be better off opting out and investing their contributions?**

The Federation cannot give financial advice. Any member thinking of opting out is strongly advised to take their own independent financial advice before doing so and to consider the following points:

- Under the new scheme the employer's contribution is 14.3% of pensionable pay. If a member opts out, this is lost.
- The consequences in relation to their accrued rights, i.e.:
  - The loss of the link to "final final" salary on retirement
  - (for members of PPS) the loss of weighted accrual
  - (for members benefitting from tapering or transitional protection) the loss of future protection
  - The loss of the ability to access the PPS/NPPS pension at the age/service point that would have applied in PPS (which includes at 30 years' service or 50 with 25 years' service) or NPPS (which would be 55).
- Other consequences including:
  - No access to ill health retirement benefits
  - No access to death benefit

#### **Part time service**

#### **45. What is the position of officers who are serving part time or who have had part time service?**

Most of the issues are likely to relate to transitional arrangements and the protection of accrued rights. The position under the new scheme should be dealt with on a pro-rata basis in a similar way as it is now.

The Federation has been concerned throughout the discussions at the PNB to ensure that officers with part time service are treated properly and made it clear that such officers must be treated no less favourably than officers whose service has been full time.

The precise way in which this will be achieved has not yet been determined. The Home Secretary's Reform Design Framework expressly states that the treatment of officers with part time service will be addressed in further discussions.

Further information will be provided about this as soon as it is available.

## **Career breaks**

### **46. What is the position of an officer who is currently on a career break?**

The position of such officers has not been expressly dealt with in the framework. We anticipate that the career break should generally not make any difference to the position (although these breaks in service will not count as pensionable service). There may however be issues, in particular, where a career break overlaps with a period of tapering protection.

Further information will be provided about this as soon as it is available.

### **47. What is the position of an officer who is considering going on a career break?**

The answer here is the same as the previous question. It is recommended that any member considering a career break seek full clarification of their pension position from the Force before making a decision to commence the break.

Further information will be provided about this as soon as it is available.

**We hope that this FAQ document is useful.**

**Further information on pensions is available from the Federation and Home Office websites at:**

<http://www.polfed.org/pensions.asp>

<http://www.homeoffice.gov.uk/police/police-pensions/pension-reform/>

**Members can also contact their force pensions administrator.**

**Ian Rennie**

**General Secretary**

**14<sup>th</sup> September 2012**