

Frequently Asked Questions

Q1. How will my pension change?

The Government believes there is a strong case for reform of pensions across the public services. Police pensions, like others in the public service, will be based on a career average scheme model in the future. The current final salary police pension schemes will close from April 2015, with future accrual based on the new career average model. Under the new arrangements, the Normal Pension Age for police officers will increase to age 60, compared to a Normal Pension Age for most public servants linked to state pension age (planned to rise in stages to 68).

However, there will also be protection¹ for those officers closest to retirement, who will be entitled to remain in their current police pension scheme beyond 2015. This will depend on the age and length of service of each officer.

More details on the future scheme design and on the transitional protection arrangements can be found below. A number of case study examples showing illustrative pension benefits can also be found here . A pensions calculator providing estimates of future pension benefits is also available here

Q2. Why should I remain a member of the police pension scheme?

There are many good reasons for police officers to remain a member of the police pension scheme, for instance:

- A public service pension is still a very effective way to save for your retirement.
- A new scheme will still provide a guaranteed level of pension – calculated as a fraction of your salary and uprated each year – not an unknown amount based on investment returns.
- In addition to your own contribution, your employer makes a significant contribution towards your pension.
- You receive tax relief on your pension contributions and you also pay a lower rate of national insurance contribution if you are a member of a contracted out public service pension scheme such as the police pension scheme.
- Your pension scheme provides valuable benefits for you and your family such as ill-health pensions and payments after your death.

Before making final decisions about whether to remain in or opt out of any pension scheme, individuals are encouraged to seek their own independent financial advice, based on their own personal situation.

Q3. Why are we moving to a career average scheme?

Career average schemes provide a more equitable outcome than final salary schemes. Final salary schemes, such as the Police Pension Scheme 1987 and New Police Pension Scheme 2006, provide better benefits to members with high levels of salary progression, effectively subsidised by lower benefits to members with flatter careers. Members with incomes that do not substantially increase

¹ See below for further detail on transitional protection and tapering arrangements for transitional protection.

towards the end of their career tend to get proportionately better benefits from a career average scheme than from a final salary scheme.²

Q4. How do career average schemes work?

In a final salary scheme, your pension is typically worked out as a fraction of your final salary for each year of pensionable service. The 'final salary' used is generally the highest paid level of your last few years. For instance,

- If you are in the Police Pension Scheme 1987, you receive a pension calculated as $((1/60^{\text{th}} \times \text{the number of years up to 20}) + (2/60 \times \text{the number of years between 20 and 30 years})) \times \text{final pensionable pay}$.
- If you are in the New Police Pension Scheme 2006, you receive a pension calculated as $1/70^{\text{th}} \times \text{final pensionable pay} \times \text{years (up to a maximum of 35 years)}$.

In a career average scheme, each year you build up a 'slice' of pension based on your salary in that year. At the end of each year, the slice is increased in line with the revaluation rate used for that scheme – typically either prices or earnings increases - to maintain the value of the pension earned. When a member finally retires, their total pension is calculated by adding up the slices of pension they have built up each year throughout their career.

Q5. What is an accrual rate and revaluation rate?

The accrual rate is the amount of pension you build up each year. It is not the only element that determines the amount of pension you receive on retirement, but it is a major factor. It is expressed as a proportion of your pensionable pay.

In the new police pension scheme from 2015, the Government is proposing a provisional accrual rate of $1/55.3^{\text{th}}$ (equivalent to around 1.81%), with a revaluation rate for active members³ based on the Consumer Prices Index +1.25%.

In a career average scheme, this means that you build up a pension pot of $1/55.3^{\text{th}}$ of your pensionable earnings for each year you are a member of the pension scheme. Each of these annual pension pots would then be updated in line with CPI +1.25%, for active scheme members, and in line with prices (currently CPI) after the member leaves the scheme.

For example, if in a given year you are earning £28,000, your pot for that year's membership of the new pension scheme will initially be:

$$1/55.3^{\text{th}} \times \text{£}28,000 = \text{£}506 \text{ of annual pension.}$$

The pot will increase year on year by the rate of CPI + 1.25% each year until you retire and your pension comes into payment. So, if it is ten years until you retire, and assuming that CPI is around 2% per year, that year's pot would be worth £675 per year at the time that you retire.

Your total pension from the new scheme is calculated by adding up the individual pension pots you earn from each year of membership in the new scheme

² This is illustrated by work carried out by the Pensions Policy Institute for the Independent Public Service Pensions Commission, as described in the Commission's Final Report.

³ Active members are those who have not opted out and are still paying contributions to the scheme.

ACCESS TO PENSIONS

Q6. Does the Normal Pension Age in the 2015 scheme mean I now will have to wait to retire at 60?

The Normal Pension Age in the 2015 scheme is age 60. However, police officers will be able to start to draw their pension, with a reduction, if they retire after reaching minimum pension age (55). Police officers will continue to have a lower Normal Pension Age than most other public servants, for whom it is linked to the State Pension Age.

The new scheme will not be introduced until April 2015, and so anyone leaving the scheme before then will not be affected. Members who are within 10 years of retirement as of 1 April 2012 (as described in the answer to Q9 below) will also see no change in when they can retire, nor the amount of pension they had expected to receive. They will continue as a member of their current scheme until they retire.

Members benefiting from tapered protection will move into the 2015 scheme from their own, personal date based on their date of birth and length of service.

People working on beyond 2015, and who do not benefit from full transitional protection, will have a '2-part' pension, as follows:

- The first part will reflect their service in their current scheme up to 2015 (or later if the member benefits from tapered protection) and be based on their final salary at the point that they actually retire or, in the case of a deferred pension, when the member leaves the scheme. Members will be able to retire and take this pension from their current scheme's Normal Pension Age⁴.
- The second part will reflect pension earned from 2015 in the new scheme (or later if the member benefits from tapered protection) and will be payable in full on retirement from that scheme's Normal Pension Age of 60. Members will still have a choice about when to retire, as this pension can be taken from the scheme's minimum pension age of 55 but with a reduction.

Q7. If I take my pension before 60, what adjustments are made to it?

Any pension earned in the new scheme will be payable in full on retirement from the age of 60, provided individuals are active members of the scheme at the time. However, if members wish to retire and take their pension earlier, they can do so from the age of 55 with a reduction. The reduction is to recognise that the pension is in payment earlier and therefore is to be paid for longer.

The scheme design permits those officers who remain in the pension scheme to retire and take their pension from age 55, with the pension reduced based on the length of time between retirement and the scheme's Normal Pension Age (i.e. 60) to balance the extra years' pension payments they would receive compared to if they had retired at Normal Pension Age.

Whilst it is not possible to say what the reduction will be (as it will be determined regularly on an actuarial basis), the rule of thumb for an actuarial reduction is considered to be between 4% and 5% for each year that the pension is taken early.

⁴ In the 2006 Scheme, NPA is age 55. In the 1987 scheme there is no NPA – instead it will be when they reach the age and pensionable service that would, if they had remained in the 1987 scheme, have meant that they could have retired with an immediate pension.

For example, if a member wishes to retire and take their pension from age 57, they will have their pension reduced from their Normal Pension Age of 60. Their reduction in pension is likely to be in the order of 12% to 14% (i.e. a cumulative 3 year reduction on the basis of between a 4% and 5% actuarial reduction per annum).

It is important to note that a deferred pension taken early from the 1987 and 2006 schemes will continue to be actuarially reduced from that scheme's deferred pension age in accordance with each scheme's rules.

If a member wishes not to take their pension and to continue to work beyond the 2015 scheme's Normal Pension Age, then the scheme will recognise that the pension will be in payment later, and will provide an actuarial enhancement to the pension from the scheme's Normal Pension Age. This will be costed on similar terms to the actuarial reduction.

Deferred members will not be eligible for access to the enhanced early retirement terms, and their actuarial reduction will be based on the scheme's deferred pension age (i.e. the individual's State Pension Age).

Q8. What happens if I leave between age 55 and 60?

You would become a deferred member. Deferred members are able to access their unreduced pension at on the scheme's deferred pension age (i.e. the individual's State Pension Age). Access to pension before that will involve actuarial reduction based on the scheme's deferred pension age.

Q9. What about protection for those within ten years of retirement?

There will be statutory based transitional protection for certain categories of members, as follows:

- a. all active 2006 scheme members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age (i.e. age 55) will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by the member remaining in their current scheme until they retire.
- b. all active 1987 scheme 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 being eligible for a maximum unreduced pension, will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by the member remaining in their current scheme until they retire.

Q10. What if I fall outside that 10 year transitional protection?

Scheme members who, on 1 April 2012, are within 4 years of qualifying for transitional protection as described in Q9 will continue to accrue pension in their existing schemes on a tapered basis. They gain about 53 days of protection in their existing schemes for every month they are above the lower limit that applies in their case, [as set out in the tables below]. The last possible day of protected service for any such member will be 31 March 2022.

This will apply to active members:

- in the **1987 scheme** and the **2006 scheme** who on 1 April 2012 are aged between 41 and 45 years;

- in the **1987 scheme** who on 1 April 2012 are 10 years or less from being able to retire on a maximum, unreduced pension and are aged between 34 and 38 years.
- in the **1987 scheme** who on 1 April 2012 are aged 38 or over (up to age 45) and are between 14 and 10 years from being able to retire on a maximum, unreduced pension;
- in the **1987 scheme** who on 1 April 2012 are aged less than 38 who are more than 10 years from being able to retire on a maximum, unreduced pension, where their age minus the years from being able to retire on a maximum, unreduced pension, is between 24 and 28 years.

Once a member's tapered protection expires, they will be transferred into the new pension scheme.

Members qualifying for tapered protection will be able to take their 'Part 1' pension at the age at which they were expecting, including any additional accrual they build up post 2015, subject to abatement rules. After members are transferred into the new pension scheme, they will accrue their 'Part 2' pension in that scheme.

Tables are available in the Reform Design Framework (RDF) at <http://www.homeoffice.gov.uk/pension-reform> for details.

Q11. What happens if I opt out of my current scheme?

This depends on which scheme you are in.

As the 1987 scheme is a closed scheme, if you opt out, you will not be able to opt back into that scheme. You will, instead, become a deferred pensioner and your 1987 scheme pension will be paid at age 60. As you cannot opt back in, you will lose any access to the final salary link for the service you have accrued under the scheme, any prospective double accrual enhancement and the ability to take your pension from age 50 with 25 years pensionable service. You will, however, be eligible to join the 2006 scheme up until 31 March 2015, or the new 2015 scheme from 1 April 2015.

If you decide to opt out of the 2006 scheme, the current scheme rules allow you to opt back in if you change your mind later. But any period of opted-out service will never count towards your pension. If you do not opt back in to the 2006 Scheme, you would not be able to take your full pension until age 65 under the terms of that scheme and you would lose the link to your final salary for the service you have accrued under the scheme. You will be eligible to opt back in until 31 March 2015.

If you qualify for the transitional protection or tapering arrangements and you opt-out during the period in which you are covered by them, you will lose any future protection. If you then wanted to re-join the scheme you would be enrolled into the 2015 scheme.

You will also need to start paying tax on the elements of your salary that you previously paid as contributions, and you will need to pay a higher rate of national insurance as you will be contracted back into the state second pension. You would also lose the benefit of your employer's contribution to your pension.

Before making final decisions about whether to remain in or opt out of any pension scheme, individuals are encouraged to seek their own independent financial advice, based on their own personal situation.

Q12. Protecting accrued rights is all very well but I was expecting 10 years of double accrual – won't I lose out?

The mechanism for protecting accrued rights in the 1987 Police Pension Scheme accurately mirrors the *expectation* that scheme members may have to a faster accrual rate with increased service. For those police officers who remain in service after the scheme has closed (or, if applicable, after their tapered protection ends), the number of years that they have built up in the closed scheme remains the same – but the *accrual rate* applied to the years that they have built up gradually increases to reflect what it would have been had the scheme remained open.

The maximum accrual rate of 1/45th is reached after thirty years' total service, reflecting both the maximum benefit that they could have had from the period of double accrual and the time at which scheme members would have reached full entitlement.

The accrual design of the 1987 scheme is unusual compared to most other public service schemes. We have designed this specific arrangement to reflect the Government's commitment to honour accrued rights in full for the police pension scheme.

How to calculate PPS 1987 accrued rights

The accrued pension that an officer would receive under these terms would be calculated as follows:

$$\begin{aligned}
 \text{1987 scheme pension} &= \text{no. years service in 1987 scheme}^5 \\
 &\quad \times \\
 &\quad \text{weighted accrual rate} \\
 &\quad \times \\
 &\quad \text{final salary}
 \end{aligned}$$

The weighted accrual rate would be calculated as follows:

$$\begin{aligned}
 \text{Weighted accrual rate} &= ((\text{no. years that were or would have been at single accrual rate} \times \text{single} \\
 &\quad \text{accrual rate}) \\
 &\quad + \\
 &\quad (\text{no. years that were or would have been at double accrual rate} \times \text{double} \\
 &\quad \text{accrual rate})) \\
 &\quad \div \\
 &\quad \text{total no. of years service}
 \end{aligned}$$

For the calculation of the weighted accrual rate, the first twenty years of a scheme member's service – regardless of whether it was pre or post reform – would count as being at the single accrual rate (1/60th). The next ten years would count as being at the double accrual rate (2/60^{ths}). No more than a total of 30 years' service will count towards the weighted accrual rate.

Q13. I work part-time – how will the new scheme affect me?

⁵ For most members this will be their pre-reform pensionable service; for members who benefit from tapered protection it will include the pensionable service built up under tapered protection.

The 2015 scheme pension benefits available to those who work part-time will be broadly as now. Approved part-time working will be counted as pensionable service on a pro-rata basis based on actual hours worked as a proportion of full-time work. Contributions will also be collected on a pro-rata basis.

Some of the details of the reforms for part-time workers – for example, transitional protection and tapering – are pending further discussion.

CONTRIBUTIONS

Q14. When will I know how much I will be paying from 2015?

The Reform Design Framework provides for an employee contribution rate of 13.7% on average, equal to the expected average of contribution rates in the 1987 and 2006 schemes on the 31 March 2015. The structure of employee contribution rates from 2015 is not yet known as the Government will review the impact of the 2012-13 contribution changes, including the effect of membership opt-outs, before taking final decisions on how future increases will be delivered in 2013-14, 2014-15, and in the new scheme.

Q15. Will there be any protection in the 2015 scheme for the lowest paid?

The structure of the employee contribution rate has yet to be finalised and will be announced in due course. This structure may include some protections for lower paid staff (i.e. lower contributions). There will remain a strong economic rationale to stay saving in a Police pension, with the pension remaining amongst the very best available. Members should consider carefully the range of benefits available from their scheme; including, ill-health payments, death-in-service lump sums paid to the member's family (tax free) and an employer contribution that is higher than the member's own contribution. It is also important to consider that everyone paying tax will receive at least 20 per cent tax relief on their pension contributions (as contributions are paid before tax).

Q16. Aren't the contribution increases not just a tax on public servants?

No. With better healthcare and improved lifestyles the average 60 year old is expected to live ten years longer now than they did in the 1970s causing the cost of providing public service pensions to rise.

The cost of public service pensions has increased by a third in the last 10 years to £32bn, and this increase has largely fallen to the taxpayer.

The increases in contributions and the longer term reform will rebalance costs between employee and employer (ultimately the taxpayer) to make public service pensions affordable and sustainable in the long term.

THE CASE FOR REFORM

Q17. Why is the Government reforming Public Service Pensions?

The Government is working to make public service pensions fairer and more sustainable over the long term. Lord Hutton, in his independent review of public service pensions, concluded that "current

scheme designs are not sufficiently robust to ensure the sustainability of public service pensions”, and that change is needed to “make public service pension schemes simpler and more transparent, and fairer to those on low and moderate earnings”.

Final salary schemes mean that ‘high fliers’ receive almost twice as much pension for every £100 of their contributions than people on ‘flat’ careers. The Government does not consider it right that lower paid employees should subsidise the pension entitlement of more highly paid staff. The Government is therefore proposing a ‘career average’ scheme, where every year of your salary will count towards your pension, rather than just the last few years.

Q18. Why did Lord Hutton say that the current arrangements are unsustainable?

With better healthcare and improved lifestyles the average 60 year old is expected to live ten years longer now than they did in the 1970s **causing the cost of providing public service pensions to rise.**

The cost of public service pensions has increased by a third in the last 10 years to £32bn, an increase of a third over the last decade which is more than we spend on police, prisons and the courts.

Q19. Why did Lord Hutton believe that the current arrangements are unfair?

Lord Hutton considered that there needs to be a fairer balance between what employees contribute to their own pensions and what other taxpayers pay. If not, taxpayers will be paying for pensions they cannot possibly hope to receive themselves for generations to come.

The current final salary arrangements of most pension schemes also give more benefit, in relative terms, to those on higher salaries and those with better career progression. Schemes for the future should ensure that the pension that members get out is a fairer reflection of what they have put in across their entire working career.

Q20. How does all this fit in with Winsor?

Existing police pay and conditions were designed more than 30 years ago so the Government asked Tom Winsor to carry out the Independent Review of Police Officer and Staff Remuneration and Conditions. His recommendations are about reforming pay and conditions so that they recognise the hardest-working officers and reward professional skills and continued development.

The terms of reference of Tom Winsor’s review asked him to have regard to Lord Hutton’s recommendations on Normal Pension Age for police officers in his wider considerations about officer career length and structure. In producing his final report in March 2012, Tom Winsor recommended a future Normal Pension Age of 60 for police officers. That was included in the Government’s proposed scheme design which has been considered by the Police Negotiating Board.

No final decisions have yet been taken on other elements of Tom Winsor’s Final Report, but they provide a good basis for discussion and consultation, including through the formal police negotiating machinery. We remain committed to constructive engagement with the service throughout this process, which is ongoing.

Q21. With Winsor and the cuts and now this, aren’t you singling out the police unfairly?

All public service workers are being asked to take their share of the burden and are facing changes to their pensions so it would not be right to exempt the police from difficult decisions we are having to

take. However, we have been clear that recommendations by Tom Winsor and other changes will be considered in the round. Police officers have, and will continue to have, access to a valuable pension scheme which is among the best available anywhere.

Q22. Are you introducing redundancy for the police?

The first Winsor report recommended a voluntary exit scheme, which has been agreed in principle by the Police Negotiating Board. The final Winsor report recommendations include the introduction of a system of compulsory severance for police officers, similar to redundancy. This proposal would give chief officers working with police authorities or Police and Crime Commissioners the flexibility to manage their workforce size, structure and composition, in line with other areas such as the Armed Forces and the prison service. Where work no longer exists, or it no longer needs to be carried out by a police officer, a force would have the ability to remove these posts.

This recommendation is subject to the statutory negotiating process, which is ongoing.

Roy Scanes

Secretary

Essex joint Branch Board

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