

POLICE NEGOTIATING BOARD

STAFF SIDE

Federation House, Highbury Drive, Leatherhead, Surrey KT22 7UY

Tel: 01372 352022

Our Ref: IR/sg

6 February 2014

Rt Hon Damian Green MP
Minister of State for Policing and Criminal Justice
Home Office
2 Marsham Street
London SW1P 4DF

Dear Minister,

POLICE PENSION CONTRIBUTION RATES

I write in response to your letter of 3 January 2014 to John Randall, Independent Chair of the Police Negotiating Board (PNB), enclosing your proposal for new member contribution rates with effect from 1 April 2014. This response is on behalf of the Staff Side of the PNB.

Introduction

Staff Side is extremely disappointed that the Government considers it necessary to implement a third year of contribution rate increases for police pension scheme members and this is compounded by the fact that the proposed rate of increases is higher than originally mooted in 2011. Any increase to the already extremely high contribution rates raises serious questions of fairness and affordability for our members which, in turn, may have various negative consequences.

Further, you will be aware that police officers, unlike other public service workers, are unable to take industrial action and do not have recourse to arbitration on pensions' matters. We ask that these restrictions are fully taken into account when considering our concerns on this matter.

Fairness

The PNB still does not have an up-to-date actuarial valuation of the police pension schemes and therefore any proposed contribution rate increases cannot be based on scheme costs. Instead, they are an unjustifiable, arbitrary levy on our members.

We acknowledge that Lord Hutton sought to achieve fairness between the taxpayer and public service pension scheme members. However, we would reiterate that this cannot be achieved without knowing the true cost of the police pension schemes as determined by an actuarial valuation.

Affordability

The proposed increase to contribution rates must be seen within the context of recent policies which have had a detrimental impact on the salary of police officers, such as:

- The lower starting salary for new entrants;
- The incremental progression freeze;
- A two year pay freeze followed by the Government's policy of public sector pay restraint; and
- The phasing out of Competence-Related Threshold Payments.

There are also external factors which (or which will soon) further reduce the take-home pay of our members. These include:

- The cost of living (taken as either CPI or RPI) running at a higher rate than earnings;
- The reduction of the Annual Allowance from £50,000 to £40,000, which will inevitably capture more police officers. Regrettably Police Pension Scheme (PPS) 1987 members are already disproportionately affected by the Annual Allowance due to the scheme's double accrual feature;
- The new child benefit restrictions; and
- The end of contracting-out of the State Second Pension in April 2016 (rather than April 2017 as originally envisaged), which will see members paying higher national insurance contributions.

Police officers already pay one of the highest contribution rates in the public and private sectors. New entrant members, it is suggested, will pay 11% in contributions at a time when their starting salary has been cut.

The majority of our members currently pay 13.5% and it is proposed that this amount increase to 14.25% at a time when CPI is 2%, RPI is 2.7% and the Government's public sector pay policy states that police officer salaries cannot rise beyond 1% this year.

Under this proposal senior officers, who contribute more to the schemes due to their higher salaries, will be expected to pay 15.05% in pension contributions. When the reduction to the Annual Allowance and the Lifetime Allowance tax charges are also taken into account we will see senior officers paying more in pension contributions as well as more in pensions-related taxation.

All of these factors have unavoidable implications for member affordability and their cumulative impact may well mean that members cannot additionally afford the revised contribution rates. If this is the case, members' only option will be to opt out of their pension scheme. This could have serious implications for the financial viability of the police pension schemes.

With regard to scheme affordability, it should be remembered that the introduction of the New Police Pension Scheme in 2006 made the provision of police pensions cheaper and sustainable, and it is clear that combined Police Pension Scheme (PPS) and New Police Pension Scheme (NPPS) costs are decreasing.

Moreover, the change to CPI from RPI for uprating public service pensions in payment has provided a saving for the Government. As an example, public service pensions in payment are to be increased this April by 2.7% (CPI as at September 2013), rather than by 3.2% (RPI as at September 2013).

Opt-outs

Although Home Office analysis suggests that the rate of opt-outs remains low, it must be recognised that any further increases from 1 April 2014, combined with lower take-home pay as described above, could exacerbate the problem. This issue must continue to be kept under review to meet the stated objective of maximum participation, whilst also ensuring the financial stability of the schemes.

Impact on Promotion

Staff Side remains concerned that the increase to contribution rates could also have serious implications for the willingness of officers to seek promotion to the higher ranks, particularly when combined with the forthcoming reduction to both the Annual Allowance and Lifetime Allowance. In our response to the 2013 contribution rate consultation we asked that the Home Office keep this issue under review and we would welcome an update.

Equality Issues

Staff Side would welcome sight of the Equality Impact Assessment which accompanies the policy of increasing member contribution rates with effect from 1 April 2014.

We remain concerned in particular with the fact that part-time officers' contribution rates are based on their Full-time Equivalent salary, despite the fact that many officers' actual salary would put them below the Government's lower limit of £15,000.

Future contribution rates

We understand that the question of member contribution rates from 1 April 2015 is an outstanding issue in the context of discussions on the Police Pension Scheme 2015. However, as explained in our letter to Joe Whittle of 21 January 2014, we are concerned about any potential "cross-subsidy" element of these proposed contribution rate increases.

This is because from 1 April 2015 the overwhelming majority, if not all, NPPS members who are protected from these increases will move to the Police Pension Scheme 2015. However, a significant proportion of members who it is proposed are subject to the additional increases will remain in the PPS or NPPS – either permanently or during a period of tapering protection. Any cross-subsidy element of the additional increase (to compensate for the protection of those NPPS members in tier 1) would seem to cease to be relevant on 1 April 2015. We would welcome your response on this point.

Police Pension (Amendment) Regulations 2014

Without prejudice to the above concerns, we have no comments on the draft regulations.

Conclusion

Staff Side welcomes the opportunity to comment on proposed increases to member contribution rates. However, we continue to have serious reservations about the reason for the increases and their potential detrimental impact on both members and the police pension schemes themselves.

I look forward to receiving your response.

Yours sincerely

A handwritten signature in blue ink that reads "Ian Rennie". The signature is written in a cursive style with a large initial 'I'.

**IAN RENNIE
STAFF SIDE SECRETARY**



Home Office

Rt Hon Damian Green MP
MINISTER OF STATE FOR POLICING AND CRIMINAL JUSTICE
2 Marsham Street, London SW1P 4DF
www.homeoffice.gov.uk

John Randall
Independent Chair
Police Negotiating Board

[REDACTED]

Dear John,

03 JAN 2014

Police pension contribution rates

In 2011, the Home Secretary consulted the Police Negotiating Board (PNB) on an increase over three years in police officer pension contributions. The Home Secretary decided to implement the first year of increases from April 2012. A second year of increases was implemented from April 2013 following a further consultation. As the Home Secretary has made clear in her previous responses, the Government is committed to securing in full the savings announced at the 2010 Spending Review from increases in employee contributions for the unfunded public service pension schemes for 2014-15. I am therefore writing to ask the PNB to consider a proposal for new contribution rates, which would apply from April 2014.

Analysis of opt-outs

Officials have monitored opt-out data on a quarterly basis to assess the impact of contribution increases on the number of officers opting out from the pension scheme. Since last year the data collected has been broadened so that trends over a two year, rather than six month period can be analysed.

Thirty-three of the 43 police forces responded with a full data-set for the latest quarterly return on opt outs. Most of the largest forces were amongst those that responded, so the data available covered 79% (102,913) of the police officer workforce. The data covered those who had opted out in the last two years since July 2011 which provides a snapshot of any impact increases will have had on new joiners opting out.

Analysis showed that opt outs from the police pension scheme remain low. Based on recent data provided by police forces only 2.3% (2,385) of officers with less than thirty years service (when officers have accrued their maximum pension entitlement), have opted out of the police pension scheme.

I am aware of concerns that those at the start of their career might choose to opt out. However, analysis shows that the opt-out rate amongst new starters remains low. Of 3,900 officers with less than two years service only 78 (2%) had opted-out. This is similar to the rate for the workforce as a whole (2% for new starters compared to 2.3% for the total police workforce). As a proportion of the total workforce officers with less than two years service opting-out accounts for 0.08%. This does not indicate that there has been a significant increase in the number of new joiners opting out of the pension scheme.

Officials will be happy to discuss this analysis further. As part of the consultation, we would welcome any other evidence that PNB members may wish to offer.

The proposal for year three

Having considered this evidence and analysis, I am proposing to proceed with a third year of increases in contributions. This would mean officers increasing contributions, but to a lesser degree than last year. The proposals differ from those on which the Home Secretary consulted in 2011. This follows changes to the workforce profile since that time and the respective proportion of members in each of the 1987 and 2006 pension schemes. Adjusting the proposal to reflect these changes enable protection to continue for the lowest earners in the 2006 scheme. In real terms a 0.05 percentage point adjustment means that, a constable close to the top of their payscale earning £36,000, would pay an additional £18 per year pre-tax – approximately £12 per year after tax. The detailed proposals are given in Annex A to this letter. The draft amendment regulations reflecting the changes are given at Annex B.

I am aware that the proposed increase in pension contributions, which will affect workers across the public services, comes amid wider reform on police pensions, pay and conditions. However, I believe that there needs to be a fairer balance between what workers contribute and what other taxpayers pay towards a public service pension.

The police pension scheme will continue to include a significant employer contribution and will continue to remain very valuable compared with pension arrangements available to other workforces.

I would welcome any comments from PNB members on this matter by 7th February 2014. Home Office officials will be available to discuss these proposals with members of the PNB and written comments can be submitted to:
police.pensions@homeoffice.gsi.gov.uk

A final decision will be taken on this matter in time for changes to apply from 1 April 2014, taking into account any representations that are made during this consultation by PNB members.

Yours,


Rt Hon Damian Green MP

Annex A

			2011/12 (actual)	2012/13 (actual)	2013/14 (actual)	2014/15 (proposed)	
Increase in officer contributions (compared to 2012/13)			Tier 1 - 1987 scheme	n/a	n/a	n/a	n/a
			Tier 1 - 2006 scheme	0	0.60	1.20	1.50
			Tier 2 - 1987 scheme	0	1.25	2.50	3.25
			Tier 2 - 2006 scheme	0	1.00	2.00	2.55
			Tier 3 - 1987 scheme	0	1.50	3.00	4.05
			Tier 3 - 2006 scheme	0	1.25	2.50	3.25
Total officer contributions - tier 1	1987 scheme	%	n/a	n/a	n/a	n/a	
	2006 scheme	%	9.50	10.10	10.70	11.00	
Total officer contributions - tier 2	1987 scheme	%	11.00	12.25	13.50	14.25	
	2006 scheme	%	9.50	10.50	11.50	12.05	
Total officer contributions - tier 3	1987 scheme	%	11.00	12.50	14.00	15.05	
	2006 scheme	%	9.50	10.75	12.00	12.75	

Tier 1 is those on a basic annual salary of under £27,000

Tier 2 is those on a basic annual salary of more than £27,000 but less than £60,000

Tier 3 is those on a basic annual salary of £60,000 and over