Major changes to pension scheme - how will you be affected?

**On 1 April 2015 a major change will take place to the Police Pension Scheme with a new career average scheme taking the place of the existing 1987 and 2006 schemes. This article will provide you with information to explain how these changes will affect you.**

A number of officers won’t be affected by these changes at all and will continue in their current schemes until they retire and others will be protected for a set period of time, under tapering arrangements, based on length of service and age.

Full protection is given to members of the 1987 Police Pension Scheme 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.

With regard to members in the 2006 scheme, full protection is afforded to members who, as of 1 April 2012, have 10 years or less to their current normal pension age (i.e. age 55).

Tapering protection is afforded to those within four years of full protection. Officers gain about 53 days of protection in their existing schemes for every month they are above the lower limit that applies in their case. The exact length of this tapered protection can be calculated by using the Government’s Police Pensions Reform calculator available at the following link and entering your details.

https://www.gov.uk/government/publications/pension-reform-calculator

The main difference between the two existing schemes and the 2015 scheme is that the pension is moving from a final salary scheme to one based on an officer’s career average salary.

Officers will find themselves in four main groups and will be affected in different ways according to which group they sit in. These groups can quickly be described as:

1. In the 1987 Police Pension Scheme (PPS) and fully protected

2. In the 1987 PPS with tapered or no protection

3. In the 2006 New Police Pension Scheme (NPPS) with full protection

4. In the 2006 NPPS with tapered or no protection.

Taking each of these in turn:

1. As a 1987 PPS scheme member, an officer accrues 1/60th of their final salary for every year of service up to 20 years ‘service and 2/60ths of their final salary for the final 10 years (double accrual). This means that at 30 years an officer can retire with a pension totalling 20/60ths + 20/60ths i.e. two thirds of their final salary.

2. Officers with tapered or no protection in the 1987 scheme will transfer into the 2015 scheme on their appropriate date and contributions will then be made into the 2015 career average scheme at a rate of 13.7 per cent of their salary. The accrual rate in this new scheme is approximately 1.81 per cent of an officer’s pensionable earnings each year. If we think of these amounts of money being placed in a savings account and earning interest then each year the savings will earn interest at a rate of inflation (CPI) plus 1.25 per cent thereby keeping pace with the cost of living. Recognition is also paid to 1987 Police Pension Scheme members’ expectation to double accrual by adjusting the accrual rates for officers who remain in the 2015 scheme until retirement after their tapering protection ends. This is quite a complicated calculation to work out but basically means that an officer in this grou p e.g. with 22 years’ service at the point they transfer into the 2015 scheme would achieve 22/45ths of their final salary after 30 years rather than 24/60ths that they had actually accrued at that point. The final pension received will be a combination of accrued rights in the 1987 scheme plus that of the 2015 scheme.

3. As a 2006 NPPS member an officer accrues at a rate of 1/70th of their final salary for every year of service up to 35 years so after 35 years an officer can retire with a pension of 35/70ths i.e. half of their final salary (plus a lump sum of four times their pension.)

4. Officers with tapered or no protection in the 2006 scheme will transfer into the 2015 scheme on their appropriate date and contributions will then be made into the 2015 career average scheme at a rate of 13.7 per cent of their salary. The accrual rate in this new scheme is approximately 1.81 per cent of an officer’s pensionable earnings each year. If we think of these amounts of money being placed in a savings account and earning interest then each year the savings will earn interest at a rate of inflation (CPI) plus 1.25 per cent thereby keeping pace with the cost of living. The final pension received will be a combination of accrued rights in the 2006 scheme plus that of the 2015 scheme.

There is still the ability to commute a percentage of your pension (up to 25 per cent) to give a lump sum and reduced pension upon retirement. The commutation factors for the 1987 scheme are based on an actuarial table issued by the Government and can be found at:

**https://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/100505/gad-commutation-retirement.pdf**

The commutation factor is based on your age at retirement and reduces the older you are. For example at the age of 55 the commutation factor is 20.5 but reduces month by month to 18.6 when you reach the age of 60. This means that for every £1 of pension commuted on retirement at 55 you received £20.50 as a lump sum.

The 2006 pension scheme does not require commutation to receive a lump sum as this is provided for within the terms and conditions of the scheme and is worth four times the value of the annual pension. For example if your pension is £10,000 you receive a lump sum of £40,000.

The 2015 scheme will work in a similar way to the 1987 pension with a lump sum being achieved by commuting a portion of your annual pension (up to 25 per cent). The commutation factor, however, is not governed by age and is a flat figure of 12 whenever you choose to retire. For example, if you retire with a pension of £10,000 per annum and you commute 25 per cent of this you would have a pension of £7,500 per annum and a lump sum of £30,000 (£2,500 x 12).

In the 2015 scheme, the normal and expected retirement age at which the full benefits from the scheme can be drawn is 60 but officers can choose to retire after the age of 55 subject to actuarial reduction meaning a reduction of between four and five per cent per year of the benefit that would have been available at the age of 60.

In lights of the changes being made to the pension scheme, you may be asking yourself if it is still worth paying into 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.

There are, however, many good reasons why police officers should remain a member of the Police Pension Schemes, for instance:

It is still a very effective way to save for your retirement

The 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 as a member of the schemes

The pension schemes provide valuable benefits for you and your family such as ill-health pensions and payments after your death.

The actual regulations governing the implementation of the new pension scheme have not yet been published and are expected in the autumn. They will include such things as the conditions upon which officers can retire on ill-health grounds, which are currently unknown. As soon as the regulations are published, we will be issuing guidance in relation to them.

Further details about how the change to pension regulations will affect you can be found out by visiting **www.gov.uk/police-pension-reform**