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Guidance

## Police pension reform

How and why police pensions are being reformed, and how the changes will affect officers' pensions.

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In March 2011, Lord Hutton published his final conclusions on public service pensions reform, which the government accepted. The government wants to make sure that police officers continue to have access to a pension that is among the very best available. However, reform is inevitable because people are living longer. Many now spend more time in retirement than they did in work.

## Long-term reform

The government understands how concerned people are about their pensions and is committed to ensuring that public service pensions will remain among the very best available providing a guaranteed pension level for all employees.

However, we have to acknowledge that people are living much longer and we need reform to make public service pensions sustainable. It is for this reason the government commissioned Lord Hutton to conduct an [independent review into the future of public service pensions](#).

The government has been committed to reaching a fair outcome on police pensions reform, to ensure that police officers have access to affordable and sustainable pensions in the future which are amongst the best available.

The Home Secretary has carefully considered the representations made during consultation with the [Police Negotiating Board](#). She has made a [written ministerial statement](#) and has now published a core design for a new police pension scheme as set out in the [reform design framework](#). The [pension reform overview](#) gives a brief summary of the core design, and there is a list of frequently asked questions on the left hand side of the page.

You can see how this new design affects you if you are a police officer by looking at the [worked examples](#) or by using the [pension calculator](#).

The [verification report](#) has been produced by the [Government Actuary's Department](#) and contains their verification that the new scheme design is within the cost ceiling and sets out the data, methodology and assumptions used in determining the value of the Reference Scheme and the new scheme design.

## Valuation

The Government Actuaries Department has completed a valuation of the Police Pension Schemes as of 31 March 2012. The valuation report can be read below, along with associated documents:

- [actuarial valuation report as at 31 March 2012](#)
- [advice on assumptions](#)
- [membership data](#)
- [methodology](#)
- [data used for experience analysis](#)
- [assessment of actuarial liability as at 31 March 2008](#)

## How your pension will change

We believe 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 (CARE) scheme model in the future.

The current final salary police pension schemes will close from April 2015, with future accrual based on the new CARE 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 protection 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.

A number of [case study examples](#) showing illustrative pension benefits are available, and there is also a [pensions calculator](#) providing estimates of future pension benefits.

## Why you should 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.

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

## How 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 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  $((1/60 \text{th} \times \text{the number of years up to 20}) + (2/60 \times \text{the number of years served between 20 and 30 years})) \times \text{final pensionable pay}$
- 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.

## **Accrual 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 1/55.3th (equivalent to around 1.81%), with a revaluation rate for active members based on the Consumer Prices Index (CPI) +1.25%.

In a career average scheme, this means that you build up a pension pot of 1/55.3th of your pensionable earnings for each year you are a member of the pension scheme. Each of these annual pension elements would then be uprated 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:  $1/55.3\text{th} \times £28,000 = £506$  of annual pension

The pot will increase year on year by the rate of CPI + 1.25% until you retire and your pension comes into payment. So, if it is 10 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 you retire.

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

## **Case for reform**

### **Why the government is 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.

### **Why Lord Hutton said the current arrangements are unsustainable**

With better healthcare and improved lifestyles the average 60 year old is expected to live 10 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.

### **Why Lord Hutton believes 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.

### **How this fits 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.

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.

### **Introducing redundancy**

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.

### **Find out more**

A number of case study examples showing illustrative pension benefits are available, and you can also use a pensions calculator to provide estimates of future pension benefits.

Police officers who wish to find out more detail about their personal pension situation and entitlements in the current arrangements should contact their local pension administrator. Further information about more detailed transitional and implementation issues about the arrangements from 2015, which are still to be finalised, will be made available in due course.

Members of police staff who wish to find out more about reform of their pensions can find more information of the relevant websites:

[Local Government Pension Scheme](#) for police staff in all forces apart from the Metropolitan Police.

[Civil Service Pension Scheme](#) for police staff in the Metropolitan Police.

## **Access to pensions**

### **Normal Pension Age**

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 (see question 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:

#### **Part 1**

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 Age.

#### **Part 2**

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.

### **Adjustments made if you take your pension before 60**

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 (ie 60) to balance the extra years' pension payments they would receive compared to if they had retired at Normal Pension Age.

While 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.

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% (ie 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 (ie the individual's State Pension Age).

### **What happens if you leave between 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 (ie the individual's State Pension Age). Access to pension before that will involve actuarial reduction based on the scheme's deferred pension age.

### **Protection for those within 10 years of retirement**

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

- all active 2006 scheme members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age (ie 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
- 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

### **If you 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 above) 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. 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.

### **What happens if you opt out of your 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.

### **Double accrual**

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 30 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 Police Pension Scheme 1987 accrued rights**

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

1987 scheme pension = number of years service in 1987 scheme x weighted accrual rate x final salary

The weighted accrual rate would be calculated as follows:

weighted accrual rate = ((number of years that were or would have been at single accrual rate x single accrual rate) + (number of years that were or would have been at double accrual rate x double accrual rate)) / total number of years service

For the calculation of the weighted accrual rate, the first 20 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 10 years would count as being at the double accrual rate (2/60ths). No more than a total of 30 years' service will count towards the weighted accrual rate.

## **How the new scheme will affect you if you work part-time**

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**

### **How much you 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 contribution rates in the 1987 and 2006 schemes on 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 from 2013 to 2014, 2014 to 2015 and in the new scheme.

### **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 (ie 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% tax relief on their pension contributions (as contributions are paid before tax).

## **Not just a tax on public servants**

With better healthcare and improved lifestyles the average 60 year old is expected to live 10 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.

## Reducing police bureaucracy

Read about [reducing police bureaucracy](#) on the National Archives website.

## Decision of the Pensions Ombudsman and members who retired between 2001 and 2006

The Pensions Ombudsman issued his final determination in the case of Milne v the Government Actuary's Department (GAD) on 13 May 2015.

The government accepts that there are other firefighters and also police officers who are affected by the principles set out in the Ombudsman's determination. Those police officers who retired between 1 December 2001 and 30 November 2006 who are due redress will be contacted by their police force in due course to discuss the appropriate payment in their case.

The tables of factors to be used in calculating redress have been prepared by GAD and supplied to the Home Office. The [tables of factors are available online](#), alongside detailed guidance for scheme administrators to help them calculate the amounts owed to individuals. This guidance has been issued to police forces in England and Wales, who will now be in a position to start calculating the payments due. This process will, understandably, take time, but the government expects that pensions administrators will make the majority of calculations by December 2015 and the majority of payments by April 2016. The government would like to thank those affected for their patience in this matter.

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