PENSIONS UPDATE - 19th March 2013

- *-There are no confirmed details at present as to how the changes will affect any officer who has worked part time at any point during their service. (The effect of changes on part time workers is still being discussed within Police Negotiating Board)*
- *The fine detail of all of the proposals outlined in the update of May 2012 is still subject of discussion by PNB. We expect the technical detail of the new scheme to be published in late Autumn 2013.*

PENSIONS UPDATE - 14th May 2012

The 1987 and the 2006 Police Pensions Schemes will effectively cease to exist from April 2015.

They will be replaced by a new Police Pension Scheme

The details currently proposed are:

- -A career average re-valued earnings (CARE) pension scheme.
- -An accrual rate of 1/57ths.
- -A normal pension age of 60.
- -Earnings revaluation of past CARE service for active members.
- -Pensions in payment and in deferment indexed by CPI.
- -Average member contributions should be assumed to be 3.2 percentage points above their current weighted average level.
- -No fixed lump sums, but an optional commutation with a 12.1 factor for converting pension to lump sum.
- -Ancillary benefits (ill-health, death and survivors benefits) that match provision in schemes that are currently open to new members (e.g. a lower tier ill health pensioner receives an unreduced CARE pension, a partner receives same proportion of member's pension as now, based on member's pension after any optional commutation).Members re-joining after a period of deferment of less than 5 years can link new service with previous service, as if they had always been an active member (so previous accruals are indexed by earnings for that period of deferment).
- -Members transferring between public service schemes would be treated as having continuous active service (which would include those transferring between schemes who had re-joined public service after a gap of less than 5 years).

Transition Arrangements

There will be a transition arrangement to protect those with less than 10 years to retirement.

Those covered by the transition arrangement should see no change in their normal pension age of 55, nor any decrease in the amount they would receive at that time.

The transition arrangement only applies to:

For those in the 1987 Scheme:

- -Aged over 45 in April 2012, or
- -Aged over 40 in April 2012, and able to retire within the next 10 years on a maximum unreduced pension.

For those in the 2006 Scheme:

- Aged over 45 in April 2012

Protection of Accrued Rights

It has been proposed that the rights accrued under the existing pension schemes will be protected when officers move to the new pension scheme. The proposal on how this protection will work is:

The mechanism for protecting accrued rights in the 1987 Scheme accurately mirrors the expectation that scheme members may have a faster accrual rate with increased service. For those police officers who remain in service after the scheme has closed, 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.

Scheme members would still be able to take their pre-reform pension if they retire at the age they were expecting to, provided they had completed the appropriate amount of service.

The design of the 1987 scheme is unusual compared to other Public Sector Service Schemes. We have designed this specific arrangement, in agreement with Treasury, 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:

1987 scheme pension = no. years' service in 1987 scheme pre-reform

x

Weighted accrual rate

x

Final salary

The weighted accrual rate would be calculated as follows:

Weighted accrual rate = ((no. years that were or would have been at single accrual rate x single accrual rate)

+

(no. years that were or would have been at double accrual rate x double accrual rate))

+

Total no. 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.

The following examples illustrate how this would work in practice. The figures used (e.g. final salary) are for ease of calculation and illustration. You should also note that these illustrations only show pension benefits created under these accrued rights terms from the 1897 scheme. These illustrations do not include pension benefits which would be built up in a new, reformed scheme, i.e. from 2015 onwards, which would be available in addition to the illustrated benefits.

Illustrative Examples

Example 1

A police officer who is a member of the 1987 Police Pension Scheme has 15 years' service when they move to the new scheme They continue to work for another 15 years, making a total of 30 years, before retiring.

Their pension would be calculated as follows:

Weighted accrual rate = ((20 yrs x 1/60th) + (10 yrs x 2/60ths) + 30 yrs)

= 1.33/60ths or 1/45th

1987 scheme pension = 15 years x 1.33/60ths x final salary

= 20/60ths x final salary

This officer's pension would be 33% larger with this arrangement than if no mechanism was in place to enhance the accrual rate. For an officer on a final salary of £40,000, their 1987 scheme pension would be £13,333 rather than £10,000 per year.

Example 2

A police officer works for 10 years in the 1987 scheme, and then moves to the new scheme, where they work another 15 years, making a total of 25 years, before retiring.

Their pension would be calculated as follows:

Weighted accrual rate = ((20 yrs x 1/60th) + (5 yrs x 2/60ths) + 25 yrs)

= 1.2/60ths or 1/50th

1987 scheme pension = 10 years x 1.2/60ths x final salary

= 12/60ths x final salary

This officer's pension would be 20% larger with this arrangement than if no mechanism was in place to enhance the accrual rate. For an officer on a final salary of £40,000, their 1987 scheme pension would be £8,000 rather than £6,667 per year.

Basic comparison between the 3 Pension Schemes

1987 Scheme	2006 Scheme	New Proposals
Final Salary Scheme	Final Salary Scheme	Career Average Salary Scheme
Retire at 55, or Retire after 30 years, or Retire after 25 years if aged over 50	Retire at 55	Retire at 60
Accrual at 1/60 for first 20 years, Then at 2/60 for remaining 10 years	Accrual at 1/70 for 35 years	Accrual at 1/57
Option to commute up to 25% of pension for a lump sum at a rate of between 23.5:1 to 16.4:1, dependent upon age between 48 and 65	Payment of a lump sum of 4 times your annual pension	Option to commute a proportion of pension for a lump sum at a rate of 12:1
Surviving partner pension of 50% of your maximum pension. Taking commutation has no impact on this figure	Surviving partner pension of 50% of your pension.	Surviving partner pension of 50% of your pension. If commutation is taken the figure remaining after commutation will be the one used

There are many questions which remain unanswered, and we are not in a position to identify what the effects of any changes will be for a specific individual.

Please remember, that what is included above is merely an opening proposal, which much of the details still to be fleshed out, and hopefully many of the points being available for negotiation.

Let me end with the following message from Ian Rennie, the General Secretary of the Police Federation of England and Wales:

"Dear Colleague

It is important to understand that we are now entering an extensive period of consultation on these proposals and will be providing a formal response to the Home Secretary's letter by 22nd June. Whilst it is difficult for me to provide you with any certainty about the future police pension scheme at this time, I can assure you that with the support of our advisors we will be doing our very best for the future pensions of police officers.

It is important that you help us influence both the future of Police Pensions and the wider debate on the Government's policing agenda and its detrimental impact on the service."

Bob Brown

Joint Branch Board Chairman

Sussex Police Federation