


## The Police Pension Scheme

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### 2015 Scheme Reform


Full protection for those officers that were within 10 years of their expected retirement date as at 01 April 2012.

Tapered protection for those officers that missed this cut-off by up to a maximum of 4 years.




### The Police Pension Scheme Provisions

- Final Salary
- Unfunded
- Statutory
- Index-linked




### Service Accrual

- Police Service with :  
City of London or any other Home Office Force
- Transferred in service :  
from other occupational schemes or, other pension arrangements
- Enhancements as applied for ill health



### Service Accrual (cont.)

- Periods of part-time service are pro-rated.
  - 2 calendar years @ whole time = 2 reckonable years service
  - 2 calendar years @ 20:00/40:00 = 1 year reckonable service
  - 20 calendar years @ whole time + 10 calendar years @ 20:00/40:00 = 25 years reckonable service.
- Service breaks do not count.



## Pensionable Pay

### What is pensionable pay ?

- Basic Salary
- London Weighting
- Appropriate Temporary Salary

## Pension Contributions

- Contributions to PPS and NPPS increased with effect from 01 April 2012
- 3 tiered bands based upon basic pay

Annual Rate of Basic Pay	1987 Scheme	2006 Scheme	2015 Scheme
	2015/16 Rate	2015/16 Rate	2015/16 Rate
Less than £27,000	n/a	11.0%	12.44%
£27,000 - £60,000	14.25%	12.05%	13.44%
£60,000 +	15.05%	12.75%	13.78%

## Retirement Age

### Compulsory Retirement Ages

- Constable to Chief Inspector 60
- Superintendent to ACPO ranks 65
- Old compulsory retirement ages apply
  - For entitlement to pension
  - Ill-health service enhancement
  - Purchasing additional 60ths

## Retirement Age (continued)

### When Can I retire? – The 1987 Scheme

- Compulsory Retirement Age
- Age 55 (if this was your old compulsory retirement age)
- At any age with 30+ calendar years service
- Age 50 with 25+ calendar years service (but with restrictions to the maximum permitted lump sum)

## Retirement Age (continued)

### When Can I retire? – The 2006 Scheme

- Compulsory Retirement Age
- Age 55

## The Pension Calculation 1987 Scheme

- 1/60ths of average pensionable pay for each year of service for the first 20 years
  - 2/60ths of average pensionable pay for each year of service thereafter
  - Maximum service for pension = 30 years
- EXAMPLES
- 25 years service = 30/60ths
  - 30 years service = 40/60ths

## The Pension Calculation 2006 Scheme

- 1/70th of average pensionable pay for each year of service up to a maximum of 35 years
- Automatic lump sum of 4 times annual pension

## Average Pensionable Pay

- Average Pensionable Pay (APP)  
this is normally the pensionable pay received over your final year
  - Best of the last 3 years possible in the 1987 Scheme
  - Best of the last 10 years possible in the 2006 Scheme
- Example – if officer retires 30/06/2017, potential APP periods:
  - 01/07/2016 – 30/06/2017
  - 01/07/2015 – 30/06/2016
  - 01/07/2014 – 30/06/2015

## COMMUTATION – 1987 Scheme

### Your Lump Sum Options

Officers may commute up to 1/4 of their pension if they:-

- can reckon 30 years calendar service, or
- are eligible to receive their pension because of their age or,
- have to retire because of ill-health

## COMMUTATION – 1987 Scheme

### Your Lump Sum Options

- Officers retiring with less than 30 years service and before their compulsory retirement age are limited to a lump sum of 2.25 times their annual pension.
- Commutation factors are age-related.

## Commutation – 1987 Scheme

### Authorised / Tax Free lump sum?

- HM Revenue & Customs regulations state that to be an authorised payment, the lump sum must not exceed 25% of the officer's crystallised benefits.
- Crystallised benefits: (residual pension X 20) + commutation lump sum
- PPS commutation factors do, in some circumstances, provide a lump sum that will exceed this figure.
- Lump sums that exceed this figure will suffer a tax charge on the unauthorised excess

## Example 1 – 2006 Scheme

- Officer retiring at age 55 with 35 years service
- Average pensionable pay: £ 40,008.00
- Annual Pension  
 $1/70 \times 35 \times £40,008.00 = £20,004.00$
- Automatic Lump Sum  
 $4/70 \times 35 \times £40,008.00 = £80,016.00$

### Example 2 – 1987 Scheme

- Officer retiring at age 58 with 30 years service
- Average pensionable pay: £ 40,008.00
- $40/60 \times £ 40,008.00 = £ 26,672.00$  Gross Pension
- Maximum amount for commutation: £ 6,668.00
- Residual pension: **£ 20,004.00 p.a.**
- Commutation factor at age 58: 19.70
- Commutation lump sum:  $£ 6,668 \times 19.70 = £ 131,359.60$
- Value of crystallised benefits:
- $(£ 20,004.00 \times 20) + £ 131,359.60 = £ 531,439.60$
- Max authorised lump sum:  $£ 531,439.60 \times 25\%$   
= £ 132,859.90 therefore no charge on lump sum

### Example 3 – 1987 Scheme

- Officer retiring at age 50 with 30 years service
- average pensionable pay: £ 40,008.00
- $40/60 \times £ 40,008.00 = £ 26,672.00$  Gross Pension
- Commutation factor at age 50: 22.70

#### Maximum Scheme Lump Sum

- Gross pension: £ 26,672.00 p.a.
- Amount commuted: £ 6,668.00 p.a.
- Residual pension: £ 20,004.00 p.a.
- Max scheme lump sum: £ 151,363.60
- Value of crystallised benefits: £ 551,443.60
- Max authorised lump sum (25%): £ 137,860.90

### Example 3 (continued)

#### Charges Payable for Exceeding Authorised Lump Sum

- Unauthorised excess: £ 13,502.70
- Charge on excess (40%): £ 5,401.08
- Net commutation lump sum: **£ 145,962.52**
- Residual pension: **£ 20,004.00 p.a.**

### Example 3 (continued)

#### Maximum Authorised Lump Sum (without a tax charge)

- Gross pension: £ 26,672.00 p.a.
- Amount commuted: £ 6,054.94 p.a.
- Residual pension: £ 20,617.06 p.a.
- Commutation lump sum: £ 137,447.08
- Value of crystallised benefits: £ 549,788.28
- 25% of crystallised benefits: £ 137,447.07

### Example 4 – 1987 Scheme

- Officer retiring at age 50 with 25 years service
- Average pensionable pay: £ 40,008.00
- $30/60 \times £ 40,008.00 = £ 20,004.00$  p.a. Gross Pension
- Maximum lump sum limited to 2.25 X Gross Pension  
 $£ 20,004.00 \times 2.25 = £ 45,009.00$
- Commutation factor at age 50 = 22.70
- Amount required to be commuted for maximum lump sum  
 $£ 45,009.00 / 22.70 = £ 1,982.78$
- Residual pension:  
 $£ 20,004.00 - £ 1,982.78 = £ 18,021.22$  p.a.

### Pension Payments

- Commutation lump sum  
there is no right to payment on first day of pension, however we will always attempt to make payment within 5 working days of retirement
- Pensions are paid monthly in advance on the 6<sup>th</sup> of each month, or the next available working day
- Payslips  
only provided if your pension payment changes by at least £ 2.00 from one pay period to the next

## WHAT WILL I NEED TO DO ?

- Notify HR that you are retiring, they will then inform the Pensions Office.

You will need to complete and return the following forms :-

- An election form in respect of commutation
- Where applicable, a tax mandate allowing the City of London to pay any tax charges on your lump sum directly to HMRC on your behalf.

A form to provide the following:

- Home address after retirement
- Bank or building society account details (for payment of your pension)
- Marital status at retirement and photocopies of relevant certificates

## Post Retirement

- Change of address
- Change of bank details
  - signature required to make changes, we cannot accept e-mails from personal e-mail accounts.
- Life Certificates – sent to you periodically if you live overseas.
- Pensions Increase – index-linking takes effect from age 55

## Widow's, Widower's, Civil Partner's and Children's awards

- A pension for a widow, widower or surviving civil partner – normally half of the officer's pension entitlement (Post retirement marriage – only post 78/90 service)
  - This pension will cease on remarriage, the formation of a new civil partnership or cohabitation. – May be reinstated at the discretion of the Authority.
- Dependant children under the age of 23 may qualify for a pension.

## Re-Employment

- Protected Pension Ages & potential tax implications
- Officers that retire between the age of 50 and 55 and are then re-employed by the same 'sponsoring employer' must have a break in employment of at least 1 month (period may be extended to 6 months if new job is materially similar to original job).
- Each case assessed on an individual basis by HR and Pensions

## Annual Allowance / Tax Relief

- Annual Allowance - £40,000
- Pensions Input Period 06 April to 05 April
- Excess over allowance is taxable
- Carry forward 3 years of unused allowance
- Responsibility of officer to report details of any excess to HMRC
- PPS Pensions Input Amount provided with Annual Benefit Statement

## Lifetime Allowance

- Total value of your pension savings over a lifetime
- Benefits are measured against the LTA at the date of retirement – benefit crystallisation
- Pension accrual is calculated as:  
(annual pension X 20) + lump sum

## Lifetime Allowance - example

At the benefit crystallisation date:

Annual Pension = £ 20,004.00

Commutation Lump Sum = £ 132,026.40

Value of benefits:

$(£20,004.00 \times 20) + £132,026.40 = £532,106.40$

- the same calculation that is used to determine if there is a tax implication for the 1987 Scheme commutation lump sum.

## Lifetime Allowance

- LTA reduced to £1m w.e.f. 01/04/2016
- Protections available for people who may be affected by the reduction
  - Individual Protection 2016 – must have benefits in excess of £1m at 05/04/2016, but no limit on benefit growth after this date.

## SUMMARY

- Basic Benefit Entitlement
- Commutation
- Post Retirement Issues
- Survivor Benefits
- Re-Employment
- Annual Allowance
- Lifetime Allowance