

The Police Pension Scheme

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Agenda

- The Schemes
- The Costs
- The Benefits
- The Reforms



The 3 Schemes

- The Police Pension Scheme 1987
- The Police Pension Scheme 2006
- The Police Pension Scheme 2015



What do they have in common?

- Defined Benefit
- Unfunded
- Index-linked
- Statutory



Pensionable Service

- 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



Pensionable Pay

What is pensionable pay ?

- Basic Salary
- London Weighting
- Appropriate Temporary Salary

Pension Contributions

- 3 tiered bands based upon basic pay

Annual Rate of Basic Pay	1987 Scheme	2006 Scheme	2015 Scheme
	2016/17 Rate	2016/17 Rate	2016/17 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 Ages

Compulsory Retirement Ages

- Constable to Chief Inspector 60
- Superintendent to ACPO ranks 65

Retirement ages (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 ages (continued)

When Can I retire? – The 2006 Scheme

- Compulsory Retirement Age
- Age 55

Retirement ages (continued)

When Can I retire? – The 2015 Scheme

- Normal Pension Age (NPA) 60
- Normal Minimum Pension Age (NMPA) 55

Officer's with at least 2 years' qualifying service can retire from NPA with immediate access to their pension (or NMPA, but subject to actuarial reduction).

Early Leavers

- Refund - less than 2 years service.
- Deferred Pension – at least 2 years service (but before an eligible retirement date); payable from:
 - 1987 Scheme – age 60
 - 2006 Scheme – age 65
 - 2015 Scheme – the officer's individual State Pension Age (SPA).

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

The Pension Calculation - 2015 Scheme

- For every year of pensionable service, you will accrue an earned pension equivalent to 1/55.3th of your Pensionable Earnings for that year.
- This goes into a 'pot' of earned pension, which builds up each year as more is added.
- The accrued earned pension in the 'pension pot' is uprated each year in line with CPI + 1.25%.
- No upper limit to service that can be accrued.

Commutation - 1987 Scheme

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 (continued)

- 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 - 2015 Scheme

At retirement, officers have the option to commute pension in exchange for a lump sum.

- The maximum lump sum that can be paid is 25% of the 'cash value' of the annual pension at retirement.
- The commutation rate is £12 of lump sum for every £1 of annual pension given up.

Average Pensionable Pay (1987 & 2006 Scheme)

- 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

Example 1 – 1987 Scheme

- Officer retiring at age 60 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 60: 18.90
- Commutation lump sum: $£ 6,668 \times 18.90 = £ 126,025.20$

Example 2 – 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.

Example 3 – 2006 Scheme

- Officer retiring at age 60 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 4 – 2015 Scheme

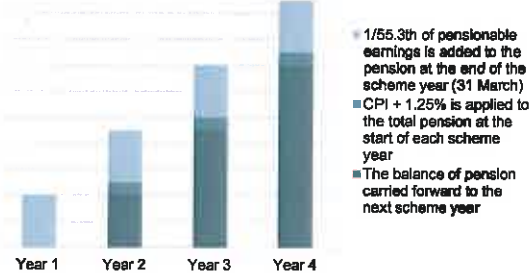
A 30 year old Active Member works full-time and earns £21,000 per year. Earned pension accrued over first Scheme Year is calculated as follows:

Year 1

Pensionable Earnings over the year: £21,000
Earned Pension account at end of Year 1: £379.75
(= $£ 21,000 \times 1/55.3\text{th}$)

Example 4 – 2015 Scheme (continued)

How the pension builds up



Example 4 – 2015 Scheme (continued)

Year 30

If Pensionable Earnings grow at 1% per year, and CPI growth is 2% per year throughout career, total earned pension account at the end of year 29 will be £20,146.80.

Increased Year 29 earned pension account: £20,801.57 (= £20,146.80 + 3.25%)

Accrued earned pension in Year 30 will then be calculated as follows:

Pensionable Earnings over the year: £28,024.58 (= £21,000 × 1.01²⁹)
 Addition to earned pension account: £506.77 (= £28,024.58 × 1/55.3th)
 Total earned pension account at end of Year 30: £21,308.34
 (= £20,801.57 + £506.77)

Example 4 – 2015 Scheme (continued)

- Annual pension at retirement: £21,308.34
- Max amount to be commuted: £7,607.08
- Max lump sum: £91,284.93 (= £7,607.08 × 12)
- Residual annual pension: £13,701.26 (= £21,308.34 - £7,607.08)

Reforms and how the Schemes Interact

- Full Protection
- Tapered Protection
- Transitional Protection
- All benefits accrued under the terms of the 1987 / 2006 Schemes are protected under the terms of that Scheme

Reforms and how the Schemes Interact (continued)

- Officer with 1987 & 2015 Scheme Membership
 - Retires at 30 years notional pensionable service date, aged 50
 - 1987 Scheme benefits payable immediately
 - 2015 Scheme benefits deferred until SPA (can be drawn from age 55 but with actuarial reduction for early payment based upon how much earlier than SPA payment occurs).

Reforms and how the Schemes Interact (continued)

- Officer with 1987 & 2015 Scheme Membership
 - Retires with over 30 years notional pensionable service, aged 55
 - 1987 Scheme benefits payable immediately
 - 2015 Scheme benefits payable immediately, but with actuarial reduction for early payment based upon how much earlier than NPA payment occurs).

Reforms and how the Schemes Interact (continued)

- Officer with 1987 & 2015 Scheme Membership
 - Retires with over 30 years notional pensionable service, aged 60
- 1987 Scheme benefits payable immediately
- 2015 Scheme benefits payable immediately and unreduced.

Death & Survivor Benefits

Lump Sum Death Grant

- 1987 Scheme – 2 x pensionable pay
- 2006 & 2015 Schemes – 3 x pensionable pay

- 1987 Scheme – paid to spouse / civil partner or to estate.
- 2006 & 2015 Schemes – paid to spouse / civil partner / co-habiting partner / nominee / estate.

Death & Survivor Benefits

Survivor Pension

- A survivor's pension generally equivalent to half of the officer's pension entitlement
 - 1987 Scheme – spouse or civil partners only
 - 2006 & 2015 Schemes – spouse / civil partner / co-habiting partners
- Dependant children under the age of 23 may qualify for a pension.

Transferring-out

- Officers moving to another Home Office force will have their benefits automatically transferred with them – Interforce Transfer.
- May be able to transfer your accrued pension benefits to another Defined Benefit pension scheme.

Annual Allowance

- 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
- 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

Retirement Procedures

- 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

Other Features – Unpaid Leave

- Your accrual of pension may be affected by periods of unpaid leave. You can elect to pay the contributions that would otherwise have been due for the following periods of leave:
 - Unpaid adoption leave;
 - Unpaid maternity leave;
 - Unpaid parental leave;
 - Unpaid maternity support leave;
 - Unpaid adoption support leave; &
 - Unpaid sick leave of 6 months or less.

Unpaid Leave (continued)

- You must notify the Pensions Office of your wish to pay contributions for unpaid periods within 3 months of your return to work.
- The contributions must be paid within 6 months of the date you are informed of the amount to be paid.
- Contributions cannot be paid in respect of unpaid career breaks.

Other Features – Increasing Benefits

- You may opt to make added pension payments in order to increase:
 - Your retirement benefits for a period of service; or
 - Your retirement benefits and death benefits for a period of service.
- Added pension payments can be made by:
 - Periodical payments; or
 - A lump sum payment.
- The maximum amount of added pension that can be purchased is £6,500.00. This limit is reviewed annually by HM Treasury.
- Will affect pension growth for Annual Allowance purposes.

Other Features – Ill Health Retirement

Two potential tiers (2006 & 2015 Schemes):

- Lower tier ill-health pension
 - You are declared permanently medically unfit for the ordinary duties of a member of the police force, but not permanently medically unfit for any regular employment.
- Enhanced upper tier ill-health pension
 - You are declared permanently medically unfit for the ordinary duties of a member of the police force and also permanently medically unfit for any regular employment.

Other Features – Opting-out

- Schemes are not compulsory, can elect to opt-out
- Opt-out forms available from the Pensions Office
- Number of different considerations: lump sum death grant; net pay; pay awards
- Auto-enrolment every 3 years

Other Features – 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 Benefit Statements



- Issued each year
- Based upon service and pay up to 31 March of that year
- Sent via internal post to the department held on HR / Payroll system

Useful Links



- Home Office Guides
<https://www.gov.uk/government/collections/police-pension-schemes>
- Pension Tracing Service
<https://www.gov.uk/find-pension-contact-details>
- State Pensions
<https://www.gov.uk/state-pension/overview>
<https://www.gov.uk/state-pension-age>

Any Questions?

