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New 2015 Police Pension Scheme Seminar

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Agenda

- Introduction
- Pensions regulation
- CARE
- Who is affected
- How you are affected
- What you can do
- Conclusion & Questions
- Close

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Introduction

- Appointed by the Federation
- Well regarded
- Professional
- Qualified
- Impartial
- Generic information
- Free initial individual consultation

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Pensions Regulation

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Pensions – people are living longer!

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The Hutton Report

- Taking away final salary pension schemes
- Pay more
- Work longer
- Will alter pension and commutation

However…

"Pensions are long-term commitments and any reform I propose must protect the rights that public service workers have already accrued. The recommendations in my final report will ensure these rights are protected and I am taking advice on how this might best be defined. However I am clear that protecting accrued rights does not extend as far as protecting current terms for future pension accrual", Lord Hutton

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The Winsor Report

- Normal retirement age increased to 60
- 35 year contribution period (maybe more)!
- Can retire at 55 on reduced pension (4-5% reduction each year before 60)
- Increased pension contributions (13.7%)
- Average earnings from implementation to retirement used for benefit calculations

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Other recent pension changes

- Individuals can take more than 25% tax free lump sum from **Personal Pensions** as of 01/04/2015, taxed at their highest marginal rate
- The minimum age from which retirement benefits can be drawn will increase from age 55 to age 57 in 2028. Thereafter, it will increase in line with increases to state pension age, so that it is always 10 years below State Pension Age.
- There will be a ban on transfers from public sector defined benefit schemes to defined contribution schemes. Many defined benefit (DB) members may be attracted by the new flexibility in DC and as many of these schemes are unfunded, any mass exodus would cost the Treasury significant amounts.
- A consultation will take place to decide if there will be a ban on transfers from private sector DB schemes.
- A consultation will take place on whether to allow tax-relievable pension contributions to be made after age 75.

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Financial Planning

CARE

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CARE (Career Average Revalued Earnings)

- Run in a similar way to Final Salary schemes but differences in the way ‘pensionable earnings’ are calculated
- Offers you an income in retirement based on a proportion of your average earnings, after adjusting these for inflation, during the whole period of membership of the scheme
- Affects new Pension scheme only

Example:

Jean is about to retire. She has been a member of her employer's CARE scheme for 20 years. The scheme's accrual rate for building up pension is 1/55.3th for each year of membership. Jean's total revalued earnings are £420,000 over her period of membership of the scheme. After dividing her total revalued earnings by the 20 years that she was a scheme member, Jean's career average revalued earnings are £37,000 per year.

This means that Jean can receive a pension of £13,381 per year (20/55.3 x £37,000) from the scheme.

Who is affected?

Full Transitional Protection

- Some PPS 1987 and NPPS 2006 members will be able to remain in those schemes and not move across to the CARE 2015 Scheme. These members have Full Transitional Protection and they fall into this category because, on 1 April 2012, they were either:
- in PPS 1987 or NPPS 2006 and had 10 years or less to age 55; or
- in PPS 1987 and had 10 years or less to age 48 and were also 10 years or less from a maximum, unreduced 30 year pension.
- Part-time service is treated as full-time service for the purposes of calculating eligibility for Full Transitional Protection. This is separate to the calculation of Pensionable Service, which is still calculated on a pro-rata basis while a member works part-time. As an example:
- An officer who on 1 April 2012 had 15 years' full time service and 5 years' part-time service who had been in the PPS 1987 throughout would have a total of 20 years' service. S/he would therefore have Full Transitional Protection and would not join the CARE 2015 Scheme. (If his or her part-time service averaged 20 hours a week, s/he would have 17.5 years' Pensionable Service at 1 April 2012.)

Tapered Protection

- Members who are within 4 years of qualifying for Full Transitional Protection fall into the “Tapered Protection” category. This applies to Active Members:
- i) in the PPS 1987 and the NPPS 2006 who on 1 April 2012 were aged between 41 and 45 years;
- ii) in the PPS 1987 who on 1 April 2012 were 10 years or less from being able to retire on a maximum, unreduced pension and were aged between 34 and 38 years;
- iii) in the PPS 1987 who on 1 April 2012 were aged 38 or over (up to age 45) and were between 14 and 10 years from being able to retire on a maximum, unreduced 30 year pension;
- iv) in the PPS 1987 who on 1 April 2012 were aged less than 38 who were more than 10 years from being able to retire on a maximum, unreduced 30 year pension, where their age minus the years from being able to retire on a maximum, unreduced 30 year pension, was between 24 and 28 years.
- Part-time service is treated as full-time service for the purposes of calculating eligibility for Tapered Protection. This is separate to the calculation of Pensionable Service, which is still calculated on a pro-rata basis while a member works part-time. As an example:
- An officer who on 1 April 2012 had 8 years’ full time service and 10 years’ part-time service who had been in the PPS 1987 throughout would fall into Tapered Protection on the basis of having 18 years’ service. (If his or her part-time service averaged 20 hours a week, s/he would have 13 years’ Pensionable Service at 1 April 2012.)

What does Tapered Protection mean?

- A member who is covered by Tapered Protection will continue to accrue Pensionable Service in their current scheme for a limited period of time after 1 April 2015. Once the member's Tapered Protection expires, they will be moved into the CARE 2015 Scheme. The underlying principle is that the closer a member is to qualifying for Full Transitional Protection, the more additional service s/he will be allowed to accrue in his or her existing scheme. This is intended to avoid what would otherwise be a "cliff edge" where a couple of days' service would make the difference between Full Transitional Protection and no protection. The minimum additional period in the current schemes will be 54 days and the last possible day of Tapered Protection will be 31 March 2022.
- Members will have a two-part pension based on service in both the PPS 1987 or NPPS 2006 and the CARE 2015 Scheme.

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What does Tapered Protection mean?

- 1987 Transition Members (i.e. members with accrued benefits under the 1987 Scheme) will be able to access those benefits when they are eligible to retire under the 1987 Scheme on a maximum, unreduced pension (i.e. with 30 years’ pensionable service; age 50 with 25 or more years’ pensionable service; or at the member’s voluntary retirement age), subject to abatement rules for that scheme (the temporary reduction in pension payments which may be imposed by a Police Pension Authority if a member is re-engaged after retirement. This does not apply to the 2015 Scheme). For a Transition Member with continuity of service, pensionable service for the purpose of calculating entitlement to benefits under the 1987 Scheme will include the total period of continuous pensionable service under both the 1987 Scheme and the 2015 Scheme.

- 2006 Transition Members (i.e. members with accrued benefits under the 2006 Scheme) will be able to access their benefits under that scheme when they retire at or after that scheme’s normal pension age (i.e. age 55).

How are you affected?

When can I retire?

- The Normal Pension Age under the scheme is age 60, but you can retire from active membership at any time from age 55 if you wish to do so. However, if you retire before age 60 and take your pension immediately then your pension will be reduced to take account of early payment before age 60. The reduction will be calculated on an actuarial basis but typically would be between 4% and 5% for each year by which your pension commences before age 60. If you retire before 60 and do not take your pension immediately it will be payable from State Pension Age.

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Your accrued rights in the PPS 1987 will be protected in the following ways:

- the PPS 1987 pension will be calculated by reference to the final salary rules of that scheme i.e. calculated by reference to the final salary at the time of retirement ("Final Final" Salary) and not by reference to your salary at the point you move into the CARE 2015 Scheme;
- the accrual rate will not simply be 60ths, but instead will be weighted to reflect the expectation of double accrual. This is known as "Weighted Accrual"
- the PPS 1987 scheme pension can be accessed at the age/service point which applies in the PPS 1987

- However, it is important to note that:
- these rights could be severely affected if you opt out (before or after moving into the CARE 2015 Scheme). If you are considering opting out you should seek confirmation of the implications of doing so from your pensions' administrator and take independent financial advice before doing so; and
- the PPS 1987 pension can only be accessed by retiring. It will not be possible to take your PPS 1987 pension and continue to serve as a police officer.

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When can I access my PPS 1987 pension if joined the 2015 scheme?

- At the same age/service point that would have applied in PPS 1987. Therefore:
- Immediately after 30 years' Pensionable Service; or
- From age 50 with at least 25 years' Pensionable Service; or
- From your voluntary retirement age as per Regulation A4 of the Police Pensions Regulations 1987. This will be age 55 for constables, sergeants and MPS inspecting ranks and age 60 for the inspecting ranks outside the MPS.
- However, this is dependent on continuing to be a member of the CARE 2015 Scheme and the pension cannot be paid before retirement from the force.
- **PPS 1987 pensions will not be paid before retirement from the force.**

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What will happen if I have PPS 1987 service and move into the CARE 2015 Scheme but decide to retire before age 55 to access my PPS 1987 pension?

- You will have two pensions as follows:
- The PPS 1987 pension, based on PPS 1987 service to 1 April 2015 plus any additional Tapered Protection service, will become payable (if you retire) at the same age/service point it would have done under PPS 1987 (e.g. immediately on 30 years' service, from age 50 with 25 years' service etc.).
- The PPS 1987 pension will be based on the Final Final Salary at the point of retiring and on the basis of Weighted Accrual.
- The CARE 2015 Scheme pension will not be payable until State Pension Age (unless it is taken early with Actuarial Reduction from that age).

What will happen if I move into the CARE 2015 Scheme from the PPS 1987 and then retire at/after age 55, but before age 60?

- Your PPS 1987 pension will be payable in the same way as in the previous question.
- However, the CARE 2015 Scheme pension can be taken immediately, with Actuarial Reduction calculated from age 60 (rather than from State Pension Age). If the CARE 2015 Scheme pension is not taken immediately it will be payable from State Pension Age.

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- **When I move into the CARE 2015 Scheme, what happens to my accrued NPPS 2006 service?**
- Your accrued rights in the NPPS 2006 will be protected in the following ways:
- The NPPS 2006 pension and lump sum will be calculated by reference to the final salary rules of that scheme i.e. calculated by reference to the final salary at the time of retirement (“Final Final” Salary) and not by reference to your salary at the point you move into the CARE 2015 Scheme;
- The NPPS 2006 scheme pension can be accessed at 55.

- However, it is important to note that:
- The ability to access the pension at the age 55 point depends on remaining in the CARE 2015 Scheme once you are moved over to it; and
- The NPPS 2006 pension can only be accessed by retiring. It will not be possible to take your NPPS 2006 pension and continue to serve as a police officer.

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- **When I move into the CARE 2015 Scheme, what happens to my accrued NPPS 2006 service?**
- Your accrued rights in the NPPS 2006 will be protected in the following ways:
- The NPPS 2006 pension and lump sum will be calculated by reference to the final salary rules of that scheme i.e. calculated by reference to the final salary at the time of retirement (“Final Final” Salary) and not by reference to your salary at the point you move into the CARE 2015 Scheme;
- The NPPS 2006 scheme pension can be accessed at 55.

- However, it is important to note that:
- The ability to access the pension at the age 55 point depends on remaining in the CARE 2015 Scheme once you are moved over to it; and
- The NPPS 2006 pension can only be accessed by retiring. It will not be possible to take your NPPS 2006 pension and continue to serve as a police officer.
- NPPS 2006 pensions will not be paid before retirement.

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Commuting Lump Sums

- Under the rules of the PPS 1987 members can permanently exchange ("commute") part of their pension for a cash lump sum. The lump sum is tax free and its value is based on age-based commutation factors prepared by the scheme actuary. In most circumstances members can commute up to 25% of their gross annual pension for a lump sum. However, in certain circumstances commutation is limited to 2.25x the gross annual pension.
- The PPS 1987 rules will still apply to the commutation of the PPS 1987 pension. This means that:
- The PPS 1987 pension will be calculated with Weighted Accrual and using the Final Final Salary at the point of retirement, as appropriate;
- Whether a member can commute 25% of that pension or a sum limited to 2.25x his/her gross annual pension will depend (as now) on his or her circumstances;
- For the purpose of determining whether a member has sufficient service to be able to commute 25% rather than 2.25x pension, time spent in the CARE 2015 Scheme will count. (NB This does not mean that any of the CARE 2015 Scheme pension will be commuted on PPS 1987 terms); and
- The PPS 1987 commutation factors will continue to be on the basis of actuarial tables prepared from time to time by the scheme actuary.

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Commuting Lump Sums

- Under the rules of the new 2015 scheme, you may choose to permanently exchange or “commute” part of the pension you have built up under the CARE 2015 Scheme for a tax free lump sum. If you do this then for every £1 of pension you give up you will be paid a lump sum of £12. You cannot commute more than 25% of your annual pension. Please note that any decision to commute must be taken before the date of your retirement and that your force pensions’ administrator will need you to complete appropriate paperwork in order to record that decision.

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What contributions do I pay?

- The amount of contributions you pay depends upon the level of your Pensionable Earnings as follows:
- If your Pensionable Earnings do not exceed £27,000 (Tier 1) then you pay 12.44% of your Pensionable Earnings;
- If your Pensionable Earnings are more than £27,000 but less than £60,000 (Tier 2), then you pay 13.44% of your Pensionable Earnings; and
- If your Pensionable Earnings are £60,000 or more (Tier 3) then you pay 13.78% of your Pensionable Earnings.

What you can do?

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- Remain in the new scheme
- Opt out of the new scheme
- Fund a personal pension
- Fund additional contributions
- Invest elsewhere
- Complain/appeal

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Remain in the new scheme

- Still very good ‘Guaranteed’ benefits
- Based on Final Salary
- Tax relief on contributions
- Employers’ contributions
- Ill Health and Death in Service
- NRA 60

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Opt out of the new scheme

- No employers' contributions
- Pay more tax
- Forfeit benefits, i.e. DIS, ill health etc.
- Reduced lump sum options at retirement
- Cannot claim 1987 scheme benefits until 60 or 2006 scheme benefits until 65

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Fund a personal pension

- Receive tax relief on contributions
- Receive benefits from age 55 (at present)
- Flexible
- No employers’ contributions
- Not based on Final Salary
- Additional costs for ‘other’ benefits

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Fund additional contributions

- you can choose to make extra payments to increase:

- Your retirement benefits for a period of service; or

- Your retirement benefits and the benefits payable on your death (other than the lump sum death grant) for a period of service.

- You can make the extra payments periodically or, provided you have been an Active Member of the 2015 CARE scheme for at least twelve months, as a lump sum.
- There are limits as to how much you can pay extra.

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Invest elsewhere

- Where?
- Is it secure?
- Invest in property?
- Risk

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Complain/appeal

This is a statement from the National Police Federation:

We have sought leading counsel's advice on whether there are legal challenges available to us to stop the CARE 2015 Scheme being introduced or to prevent it being applied to existing members. The answer is that there is no challenge available to us. We have considered all possible avenues, but in particular:

- *Section 2, Police Pensions Act 1976*
- *Age discrimination*
- *Legitimate expectation, mis-selling and human rights*

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Conclusion

- Still a very good scheme
- Understand consequences if opting out
- Seek advice
- Don’t leave it too late
- Must fit within your particular circumstances

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Questions