Home Office Circular on long term pension reform

The Reform Design Framework (RDF) for a new police pension scheme to come into effect on 1 April 2015 was published on 4 September 2012. The RDF (which can be found at https://www.gov.uk/police-pension-reform) set out the Government's final position on the main elements of the scheme design, including principles on protection of accrued rights and protection for those closest to retirement.

As set out in the RDF, the core parameters for the new scheme are:

- a pension scheme design based on career average revalued earnings ("CARE");
- a Normal Pension Age of 60;
- a provisional accrual rate of 1/55.3 of pensionable earnings each year, subject to agreement on the outstanding issues;
- a revaluation rate of active members' benefits in line with the Consumer Prices Index (CPI) + 1.25%;
- pensions in payment and deferred benefits to increase in line with CPI;
- average member contributions of 13.7%;
- retirement from the scheme's minimum pension age of 55, built around the scheme's Normal Pension Age of 60;
- a deferred pension age equal to the individual's State Pension Age;
- an optional lump sum by commutation at a rate of £12 for every £1 per annum of pension foregone in accordance with HMRC limits and regulations.

The RDF set out full statutory protection for accrued rights for members who transfer to the CARE scheme as follows:

- all benefits accrued under final salary arrangements will be linked to the member's final salary, in accordance with the rules of the member's current schemes, when they leave the reformed scheme;
- full recognition of a member's expectation to double accrual for service accrued under the Police Pension Scheme 1987 ('the 1987 scheme'), so that a member's full continuous pensionable service upon retirement will be used to calculate an averaged accrual rate to be applied to service accrued under the 1987 scheme;
- members of the 1987 scheme to be able to access their 1987 scheme benefits when they retire at or after that scheme's ordinary pension age (i.e. from 30 years' pensionable service; age 50 with 25 or more years' pensionable service; or the member's voluntary retirement age), subject, where appropriate, to abatement rules for that scheme. Pensionable service for the purpose of calculating the ordinary pension age will include any continuous pensionable service accrued under both the 1987 scheme and the 2015 scheme;

- members of the Police Pension Scheme 2006 (‘the 2006 scheme’) to 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);
- members will continue to have access to an actuarially assessed commutation factor for benefits accrued under the 1987 scheme.

The RDF set out the statutory transitional and tapered protection for certain categories of members as follows:

- transitional protection for all active 2006 scheme members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age (i.e. age 55). They 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;
- transitional protection for 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 a maximum unreduced pension. They 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 those members remaining in their current scheme until they retire;
- there will be a further period of tapered protection for up to 4 years for scheme members. Members who are within 4 years of qualifying for transitional protection, as of 1 April 2012, will have limited protection so that on average for every month closer to qualifying for transitional protection they gain about 53 days of protection. The period of protected service for any member under these tapering arrangements will have finished by 31 March 2022. At the end of the protected period, they will be transferred into the new pension scheme arrangements. Further details on how the tapered protection will apply are set out in the RDF.

The RDF made clear that there was further detail to be resolved in finalising the scheme. This Circular sets out the Government’s position on some of that detail, including further information about how transitional arrangements will apply. This is intended for member information: the final scheme rules will be set out in forthcoming regulations.

Consultation with the Police Negotiating Board on the detail of the scheme is continuing, and we will provide further information on those issues that remain outstanding in due course.

1. Career average revalued earnings (CARE) schemes and revaluation

1.1 How does a CARE scheme work?

In a final salary scheme such as the 1987 scheme or the 2006 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, for a full-time officer:

- if you are in the 1987 scheme, you receive a pension calculated as ((1/60 x the number of years served up to 20) + (2/60 x the number of years served between 20 and 30 years)) x average pensionable pay (which is generally the pensionable pay the officer has received over the preceding 12 months)
- if you are in the 2006 scheme, you receive a pension calculated as 1/70 x average pensionable pay x years (up to a maximum of 35 years)

In a CARE scheme, each year you build up a 'pot' of pension based on your salary in that year. At the end of each year, the pot is increased (or *revalued*) 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 pots of pension they have built up each year throughout their career. A pension at that level is then payable for life. The pension is also uprated each year.

1.2 What is an accrual rate? How will pensions increase over time in the 2015 scheme?

The accrual rate is the proportion of pensionable pay that each year of membership adds to your pension. It is not the only element that determines the amount of pension you receive on retirement, but it is a major factor.

In the new police pension CARE scheme from 2015, the accrual rate will be 1/55.3 (equivalent to 1.81% of pensionable pay), with an in-service revaluation rate for active members of CPI +1.25%.

In the 2015 scheme, this means that you build up a pension pot of 1/55.3 of your pensionable pay for each year you are a member of the pension scheme. Each of these annual pension pots would then be uprated in line with CPI +1.25% whilst you are still an active scheme member and in line with prices (CPI since April 2011) after leaving the scheme.

For example, if in a given year you are earning £28,000, your pot for that year's membership of the new CARE pension scheme will initially be: 1/55.3 x £28,000 = £506 of annual pension

Assuming that you stay in the scheme to retirement, 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 from the beginning of that year until you retire, and assuming that CPI is around 2% per year, that year's pot would be worth around £697 per year at the time you retire.

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

1.3 At what time of the year will CARE benefits be uprated? Will it be immediately at the end of the financial year, or will the latest tranche of accrual only be subject to an increase a year after the period in which it was accrued?

CARE benefits for the whole of a financial year will be uprated immediately at the end of that financial year.

1.4 How are benefits accrued in the first year of service revalued?

Benefits accrued in the first scheme year of service are revalued in line with CPI + 1.25% on the following 1 April and at every 1 April thereafter while the member remains in active service.

1.5 How are benefits accrued in the final year of service revalued?

Benefits accrued in the final year of service are revalued along with all previous years' accrual at the following 1 April. The rate at which all these accruals are revalued will be based on CPI+ 1.25% but calculated proportional to how much of the year the officer is in service. If a large part of the final year to 1 April has been spent in service, the proportionate rate will be closer to CPI + 1.25%, and if a small part of the year has been spent in service the rate will be closer to CPI.

Total benefits will then be increased by CPI as from the date of leaving service every April thereafter, on the first Monday in the tax year (as applies to pensions in payment at present).

1.6 How will uprating operate for active members' accrual should CPI be negative in the future?

For the revaluation of active members' accruals, each year the Treasury will lay an order which will establish the changes in prices. This approach does allow for the possibility of revaluation of active members' accruals being negative. In the police CARE scheme, inflation would have to be less than -1.25% for that to occur.

The Government believes that if members can benefit from the upside risk of revaluation – which they will, since there are no plans to 'cap' the revaluation rates – it would be unfair for them to be shielded from the downside risk.

Imposing a revaluation floor would cause scheme costs to rise and might lead to a breach of the cost cap. If this were to be the case, it would likely lead to an increase in members' contribution rate or a reduction in the scheme accrual rate. So any benefit from shielding members from negative revaluation could ultimately be at the expense of higher contributions or lower accrual.

In practice, negative annual changes in prices have been rare during the last 100 years or so. Negative changes in prices should have no impact upon the total value of the pension when measured in terms of constant prices.

1.7 How will uprating operate for pensions in payment should CPI be negative in the future?

Public service pensions in payment are increased in line with the general change in the level of prices, as determined by the Secretary of State for Work and Pensions for the purposes of state second pensions. This is due to the statutory link between the uprating of public service pensions and state second pensions.

However, although it is up to the Secretary of State to determine the appropriate change in the level of prices, current provisions do not allow for the resulting uprating figure for pensions in payment to be negative. The Public Service Pensions Act 2013 does not change that.

When the general change in the level of prices was negative in 2009-2010 (RPI was -1.4% based on the September 2009 figures), state second pensions – and, therefore, public service pensions – were not reduced but were frozen at the April 2010 uprating. This was an increase in value in real (price) terms.

Therefore, although the revaluation factor for the accrual of pension might exceptionally be negative, the uprating figure applied to a pension in payment would, under present provisions, not be less than zero.

1.8 How will uprating operate for deferred pensions should CPI be negative in the future?

The uprating mechanism for deferred pensions is the same as that for pensions in payment.

<u>2. Calculation of accrued benefits</u>

2.1 For those officers with two pensions, one in either the 1987 or 2006 scheme and one in the 2015 scheme, at what time of the year will increases in their accrued benefits be calculated? This is particularly relevant for those with accrued benefits in the 1987 scheme where accrual increases with further service in the 2015 scheme, where the timing of the increase could have implications for tax (in particular annual allowance) calculations.

Increases in accrued benefits in the 1987 or 2006 schemes will be calculated at the end of each financial year, or part way through the year if a scheme member retires or otherwise leaves the police pension scheme of which they are currently a member. So, for a scheme member with pension accrued in both 1987 and 2015 schemes, the value of their 1987 scheme pension would be recalculated at the beginning of each tax year, unless they retire or leave the pension scheme part way through the year.

3. Part time service, and transitional and tapered protection

3.1 How is length of service measured for part-time workers in the 1987 scheme for the purposes of qualification for transitional and tapered protection?

Length of service for both part-time and full-time workers will be measured in calendar years to establish eligibility for transitional and tapered protection.

So a part-time member working 50% of full-time hours over a period of 25 years should be treated the same as a full-time member working over the same period. For the purposes of eligibility for the 10 year full protection period or the tapered protection period, both should be treated as having 25 (calendar) years' service (rather than 12.5 and 25 years of pensionable service respectively). Both would then be eligible for full protection.

3.2 Does an officer's working pattern affect how any tapered protection applies to them? If they are part-time, is the period of any tapered protection longer or shorter than that for a full-time worker?

The period of tapered protection is the same, regardless of working pattern. So, for example, a part-time worker with seven years' tapered protection would move to the 2015 scheme on the same date as a full-time worker with seven years' tapered protection.

The purpose of transitional and tapered protection is to ensure that those closest to retirement with least opportunity to adjust are protected. That rationale applies equally to full and part time workers.

This issue affects part-time workers in other public service schemes in the same way. The position here is consistent with the approach taken across Government.

3.3 If an officer with tapered protection chooses to change their working pattern after the protection has been calculated but before the period of protection begins, does that affect the period of protection?

No, any period of tapered protection will be unaffected by working pattern. So, for example, if an officer working full-time with seven years' tapered protection were to change to part-time working, the date at which they would move to the 2015 scheme would be unaffected.

4. Part time service and accrued rights in the 1987 scheme

4.1 How does the formula for double accrual in the 1987 scheme apply to those with part-time service?

The RDF made clear that there will be full statutory protection for accrued rights for all members, including full recognition of the expectation of double accrual for service accrued under the 1987 scheme. A formula for calculating how this protection applies to those officers who have worked full-time throughout their careers was given on the Police Pension Reform page of the gov.uk website. However, further work was required to develop a formula that could apply to those with part-time service.

We have developed a new formula for calculating the protection of double accrual to better accommodate the situation of those with part-time service. For full-time workers, the new formula works in exactly the same way as the original formula. The new formula recognises that, for the purposes of calculating the protection of double accrual, part-time and full-time service should be treated in the same way. This means that the accrual rate that applies to a member with some part-time service will be the same as it would have been had all the service been full-time.

The new formula for calculating an officer's accrual in the 1987 scheme is:

accrual = n x r/q

where:

n = the accrual that the officer would have built up had they remained in the 1987 scheme service until the end of their service, and had they been full-time throughout

For this part of the calculation:

- *service in the 2015 scheme should be counted together with service in the 1987 scheme; and*
- *any periods of part-time service should be taken as if they were periods of full-time service; and*
- *the maximum accrual of 2/3 (i.e. 40/60) applies.*

r = pensionable (also known as reckonable) service in the 1987 scheme

For this part of the calculation:

- *service in the 2015 scheme should <u>not</u> be included;*
- *part-time service should <u>not</u> be treated as full-time service; and*
- *the limit of 30 years' service applies.*

q = calendar years of service in either the 1987 scheme or the 2015 scheme

For this part of the calculation:

- *service in the 2015 scheme <u>should</u> be included;*
- *part-time service <u>should</u> be treated as full-time service; and*
- *the limit of 30 years' service applies.*

To calculate the officer's 1987 scheme pension the accrual is multiplied by average pensionable pay (which is generally the pensionable pay the officer has received over the preceding 12 months). For those working part-time, the calculation for average pensionable pay uses the full-time equivalent rate of their pensionable pay.

Example 1: An officer working full-time with 15 years in the 1987 scheme and 10 years in the 2015 scheme.

n is the accrual as if the member has been in the 1987 scheme for the full 25 years

= 20 years at 1/60 and 5 years at 2/60

= 20/60 + 10/60

= 30/60 (=1/2)

It makes the calculation below easier to express the top part of this fraction as number of years' service.

= 25/50 (=1/2)

r = 15 years' pensionable service in the 1987 scheme

q = 25 years' combined service in the 1987 scheme and the 2015 scheme

Accrual = n x r/q

= 25/50 x 15/25

= 15/50

It can be helpful to think of this as 15 years' pensionable service in the 1987 scheme, with the accrual rate for each years' service rescaled from $1/60^{th}$s to $1/50^{th}$s to reflect the period where the member was in service in the 2015 scheme.

1987 scheme pension = 15/50 x average pensionable pay on leaving the service

Example 2: An officer with 15 years' service in the 1987 scheme and 10 years' service in the 2015 scheme who has worked part-time at 50% full-time equivalent throughout their career.

n is the accrual as if the member has been in the 1987 scheme for the full 25 years

= 20 years at 1/60 and 5 years at 2/60

= 20/60 + 10/60

= 30/60 (=1/2)

As above, expressing the top part of this fraction as number of years' service:

= 25/50 (=1/2)

r = 7.5 years' pensionable service in the 1987 scheme

q = 25 years combined service in the 1987 scheme and the 2015 scheme

Accrual = n x r/q

= 25/50 x 7.5/25

= 7.5/50

This can be thought of as 7.5 years' pensionable service in the 1987 scheme, with the accrual rate for each year's service rescaled from 1/60ths to 1/50ths to reflect the period where the member was in service in the 2015 scheme.

1987 scheme pension = 7.5/50 x average pensionable pay on leaving the service

Hence the improved weighting of the accrual rate is the same for full-time and part-time workers with the same length of service in calendar years, but the pensionable service reflects any periods of part-time working.

5. Career breaks and unpaid leave

5.1 What is the position for officers on a career break at April 2015?

Officers on career breaks of five years or less who do not qualify for transitional or tapered protection will go into the open scheme (i.e. the 2015 scheme) on their return. They will retain their pre-2015 accrued benefits and, as is the case with those with no career break, will then have a two-part pension.

Officers on career breaks of five years or less who qualify for transitional protection will return to the pension scheme that they left. Officers with tapered protection will also return to the pension scheme they left if they return within the period of tapered protection. The period of tapering will not be extended as a result of the career break: the tapered protection will expire at the same time as if there had been no career break.

Officers with tapered protection whose period of tapering runs out whilst they are on the break will go into the open scheme. The taper period cannot be deferred by a career break.

It is exceptional for officers to take career breaks of more than five years and this can only happen with the specific agreement of the chief officer. In such a case it must be clear that the officer has been on unpaid leave throughout, rather than service having ended with an expectation of rejoining. In those circumstances, the position of an officer returning from a career break of more than five years will be the same as that described above for a career break of five years or less.

5.2 How will the rules for pension buy-back of unpaid leave (e.g. unpaid maternity leave) work?

This is still to be determined and will be covered in future communications.

<u>6. Commutation</u>

6.1 How do the rules for commutation of 1987 scheme accrued rights apply for those without transitional protection?

Most members of the 1987 scheme can commute up to 25% of their pension to a lump sum. With some exceptions, a scheme member with an ordinary pension in respect of at least 25 but less than 30 years of pensionable service can commute to give a maximum lump sum of no more than 2.25 times the full amount of the gross annual pension.

Members without transitional protection who have been moved into the 2015 scheme with less than 30 years' service will reckon their 1987 and 2015 scheme service combined for the purposes of assessing how much of their 1987 pension can be exchanged for a lump sum. Commutation would then apply in the same way as it does currently.

Thus an officer with 15 years' service in the 1987 scheme and 15 years' service in the 2015 scheme would be able to commute up to the full 25% of their 1987 scheme pension. An officer aged 50 with 15 years' service in the 1987 scheme and 10 years' service in the 2015 scheme would be able to commute up to a maximum lump sum of no more than 2.25 times their gross annual pension under the 1987 scheme.

6.2 How does this apply to those with part-time service?

For the purposes of calculating how much of an officer's 1987 pension they can commute, periods of part-time working should be treated in the same way as periods of full-time working.

Thus an officer with 15 years' part-time service in the 1987 scheme and 15 years' part-time service in the 2015 scheme would be able to commute up to the full 25% of their 1987 scheme pension. An officer aged 50 with 15 years' part-time service in the 1987 scheme and 10 years' part-time service in the 2015 scheme would be able to commute up to a maximum lump sum of no more than 2.25 times their gross annual pension under the 1987 scheme.

6.3 For those with pensions in two schemes, how do commutation rules for the 1987 and 2006 scheme affect commutation limits for the 2015 scheme?

Members will be able to commute each portion of pension in line with the rules of that scheme and in total up to personal taxation limits.

7. Transitional and tapered protection

7.1 Which taper applies to a member if they are covered by two tapers?

There are, in effect, four tapers applying to the 1987 scheme, as set out in Annex A of the RDF. In the same order they are:

1. a pure age taper applying to members aged between 41 and 45 irrespective of their service

2. an age taper applying to members aged between 34 and 38 who have at least 20 years' service

3. a service taper applying to members with between 16 and 20 years' service who are aged 38 and over

4. a corner taper for members close to the age and service tapers in 2 and 3 above. This can be considered as tapering on the basis of age and service since the member does not meet the service criterion in 2 to be tapered by age alone and does not meet the age criterion in 3 to be tapered by service alone.

It is possible for members to be covered by both tapers 1 and 3 above. Where this is the case, the most favourable taper applies to the member.

7.2 What is the position of, for example, a member who is aged 36.5 and has 17 years' service in the 1987 scheme at 1 April 2012 and therefore falls just outside any tapering – despite being within four years of the length of service criterion?

As set out in the fourth table in Annex A of the RDF, this member would not receive any protection.

7.3 Can a member who is entitled to tapering move to the 2015 scheme during the tapering period if they wish?

This will not be permitted: the option will not be available to scheme members.

Transitional and tapered protection is intended to offer certainty to members who are closest to retirement and have least opportunity to make alternative provision. The arrangements for the police scheme meet this purpose.

Allowing members the choice to opt out of transitional or tapered protection and into the new 2015 scheme would go beyond the principle of transitional and tapered protection. It would instead allow this group the opportunity to improve their benefits at an additional cost to the scheme.

7.4 Can those with transitional protection choose to move to the 2015 scheme?

Those with transitional protection will remain in their scheme even if they stay in their role after 31 March 2022. They will not be forced to leave the scheme they are members of; but neither will they have the option of moving to the 2015 scheme. As set out above, allowing members the choice to opt out of transitional protection and into the new 2015 scheme would give them the opportunity to improve their benefits at an additional cost to the scheme.

7.5 Will there be any restrictions on how much officers can accrue in the 2015 scheme? For example, will there be limits on officers whose tapered protection takes them to near 30 years in the 1987 scheme before being moved to the 2015 scheme?

There are no restrictions on accrual in the 2015 scheme. If an officer with tapered protection were to accrue, for example, 29 years' pensionable service in the 1987 scheme and then carry on working as a member of the 2015 scheme, there would be no maximum to what they could accrue in the 2015 scheme.

8. Opting out

Any scheme member considering opting out is strongly urged to take professional and independent financial advice before doing so. Police officer pensions will remain a valuable and effective way of saving for retirement. Officers will continue to benefit from significant employer contributions towards their pensions on top of their own contribution. It is difficult to envisage another investment which would provide the same guaranteed level of income for life in retirement, as well as the other benefits of an occupational pension scheme, in return for this contribution.

8.1 What is the position of those who have opted out of the 1987 scheme but would otherwise be covered by transitional or tapered protection?

If an officer in these circumstances were to opt back in or be auto-enrolled before 1 April 2015 then current arrangements mean that they would go into the 2006 scheme because the 1987 scheme is closed. Those with transitional protection would then remain in the 2006 scheme. The limit on maximum service across the 1987 and 2006 schemes would apply; it would not be possible to accrue more than the equivalent of the 30 year maximum in the 1987 scheme. Those with tapered protection would move to the 2015 scheme when their taper clock expires.

If an officer in these circumstances were to opt back in or be auto-enrolled after 1 April 2015 and within five years of having opted out they would be covered by current arrangements (i.e. they would go into the 2006 scheme because the 1987 scheme is closed). Those with transitional protection would remain in the 2006 scheme. Those with tapered protection would move to the 2015 scheme when their taper clock expires.

If an officer in these circumstances were to opt back in or be auto-enrolled after 1 April 2015 and more than five years after having opted out then they would go into the 2015 scheme.

The position of members with full pensionable service who have opted out of the 1987 scheme is covered in 8.7 below.

8.2 What is the position of those who have opted out of the 2006 scheme but would otherwise be covered by transitional or tapered protection?

If an officer in these circumstances were to opt back in or be auto-enrolled before 1 April 2015 then current arrangements mean that they would return to the 2006 scheme. Those with transitional protection would then remain in the 2006 scheme. Those with tapered protection would move to the 2015 scheme when their taper clock expires.

If an officer in these circumstances were to opt back in or be auto-enrolled after 1 April 2015 and more than five years after having opted out then they would go into the 2015 scheme.

8.3 What is the position of those in the 1987 scheme with transitional protection who opt out after 1 April 2015?

If an officer in these circumstances were to opt back in or be auto-enrolled within five years of having opted out they would be covered by current arrangements (i.e. they would go into the 2006 scheme because the 1987 scheme is closed). The limit on maximum service across the 1987 and 2006 schemes would apply; it would not be possible to accrue more than the equivalent of the 30 year maximum in the 1987 scheme. If they were to opt back in more than five years after having opted out then they would go into the 2015 scheme.

8.4 What is the position of those in the 1987 scheme with tapered protection who opt out after 1 April 2015?

If an officer in these circumstances with tapered protection were to opt back in before their taper clock expires and within five years of having opted out then they would they would be covered by current arrangements (i.e. they would go into the 2006 scheme because the 1987 scheme is closed). They would then move to the 2015 scheme when their taper clock expires. If they were to opt back in more than five years of having opted out then they would go into the 2015 scheme.

If an officer with tapered protection were to opt back in after their taper clock expires then they would move to the 2015 scheme.

8.5 What is the position of those in the 2006 scheme with transitional protection who opt out after 1 April 2015?

If an officer in these circumstances were to opt back in or be auto-enrolled within five years of having opted out they would be covered by current arrangements (i.e. they would return to the 2006 scheme). If they were to opt back in more than five years of having opted out then they would go into the 2015 scheme.

8.6 What is the position of those in the 2006 scheme with tapered protection who opt out after 1 April 2015?

If an officer in these circumstances were to opt back in before their taper clock expires and within five years of having opted out then they would they would be covered by current arrangements (i.e. they would return to the 2006 scheme). They would then move to the 2015 scheme when their taper clock expires. If they were to opt back in more than five years of having opted out then they would go into the 2015 scheme.

If an officer with tapered protection were to opt back in after their taper clock expires then they would move to the 2015 scheme.

8.7 Will members with full pensionable service who have opted out of the 1987 police pension scheme be able to join the 2015 scheme?

Such members would be in transitional protection. This means that if they were to opt back in within a five year period they would go into the 2006 scheme (because the 1987 scheme is closed). They would not be able to accrue further pensionable service because they would have reached the maximum.

If the opt out period were longer than five years they would go into the 2015 scheme. They would be able to accrue further pensionable service because there is no maximum for the 2015 scheme.

8.8 What is the position of a member who opts out of the 2015 scheme when they have reached the point at which they can draw their 1987 or 2006 scheme pension?

If such a member retires at that time then:

- they can take their 1987 or 2006 scheme benefits;
- if they are aged 60 or over then they could also immediately take their 2015 scheme benefits.
- if they are aged 55 or over but under 60 then they could either:
    - immediately take their 2015 scheme benefits with actuarial reduction from age 60 (see below for further explanation of actuarial reduction); or
    - become a deferred member of the 2015 scheme and receive 2015 scheme benefits at their state pension age or with actuarial reduction from state pension age at a later date;
- if they are aged under 55 then they would become a deferred member of the 2015 scheme and receive 2015 scheme benefits at their state pension age.

If they do not retire, they would, having opted out, become a deferred member of the 2015 scheme. They would remain able to retire and draw their 1987 or 2006 scheme pension at any subsequent time, although opting out may have some impact on that element of their pension – for example, the link with final salary could be affected.

9. Actuarial reduction

9.1 What is actuarial reduction and how does it work?

If a member of a pension scheme is able to retire and draw a pension earlier than their Normal Pension Age then, in some circumstances, their pension may be actuarially reduced. Actuarial reduction is calculated to take into account the fact that a scheme member would be drawing their pension over a longer period. Annual payments are reduced so that the expected combined value of payments received from the early retirement date is the same as the expected combined value of payments that would be made from Normal Pension Age.

A useful (but not exact) rule of thumb is that, for each year of actuarial reduction, a member's pension reduces by 5% to take into account the extra years of payment.

> *Example*
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> *An officer retires at age 55 and draws their pension straight away. This would give them five extra years' pension payments than if they had retired at the Normal Pension Age of 60, which would be balanced by a reduction in the level of annual pension payments by about 23%. (NB five years' reduction of 5% per year equates to an overall reduction of 23% because 100% x 95% x 95% x 95% x 95% x 95% = 77%.)*
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> *At age 55, the officer has built up a 2015 scheme pension of £20,000 a year. After applying the actuarial reduction of 23%, the officer will then be able to draw a pension of £15,400 a year immediately (£20,000 x 77% = £15,400).*

9.2 How will actuarial reduction work in the 2015 scheme?

The Reform Design Framework for the 2015 scheme includes a facility for police officers to retire from age 55 and from that point to draw their pension with actuarial reduction based on the Normal Pension Age of 60.

The facility to draw a pension with actuarial reduction based on the scheme's Normal Pension Age is only available to active members – those currently paying contributions – aged over 55 and under 60 on retirement. Those who leave the scheme between age 55 and Normal Pension Age and choose not to draw their pension immediately, plus those who leave below age 55, will become deferred scheme members with a pension age equivalent to their state pension age. Deferred scheme members will still be able to draw their pension from age 55, but it will be with actuarial reduction from their state pension age rather than Normal Pension Age.

These arrangements provide scheme members with more flexibility in their retirement options.

9.3 How is commutation affected in those instances where a member of the 2015 scheme has left before their normal or deferred pension age and their pension has been actuarially reduced?

Actuarial reduction will be applied before commutation. Commutation will then work in the same way as for a pension that has not been reduced.

10. Protected pension age

10.1 What is the position of members of existing schemes who currently have a protected pension age of 50?

Protected pension ages will not be affected by the reforms: scheme members will retain their protection. (As would be expected, the protection will only apply to existing scheme benefits.)

11. Pension transfers

11.1 Does service transferred in (prior to 1 April 2012) count for the purposes of assessing service in relation to transitional and tapered protection?

Transferred in service does count for the purposes of assessing service in relation to transitional and tapered protection.

11.2 Will the Public Sector Transfer Club continue to operate?

Yes, though the details of how it will work are still to be confirmed.

11.3 How will it work in relation to transitional and tapered protection?

The principle behind transitional and tapered protection for those who voluntarily move between schemes is that it:

- protects what members would have got had they moved schemes prior to 1 April 2015; but
- does not necessarily mean that people who voluntarily move schemes get the same as they would have got had they stayed as a protected member in their current scheme.

A two part test will apply, so that transitional and tapered protection will apply only to those who are eligible for protection in both their current scheme and the scheme they are moving to as at 1 April 2012.

On moving, the person would go into the same scheme they would currently be entitled to go into. So someone moving to the Civil Service would go into Nuvos – as they would now. The same position will apply both to those who transfer their service and those who leave it where it is. Therefore those protected in an NPA 60 scheme but who were below age 55 as 1 April 2012 would lose transitional or tapered protection if they moved to an NPA 65 scheme (e.g. Nuvos) because they would not have been protected in that scheme; and those protected in an NPA 60 scheme who also qualified for protection in an NPA 65 scheme would not retain an NPA of 60 on moving to an NPA 65 scheme. This meets the principle of transitional and tapered protection by ensuring that members who choose to move schemes will not lose out relative to if they had performed the same move prior to 2015, and equally will not be in a better position than those who had moved before 2015.

12. Added 60ths, added years, AVCs and additional pension

12.1 Will members be able to buy added years in the 2015 scheme?

No, because the concept of additional years service does not work in a CARE scheme. However, contracts or agreements in place with existing final salary scheme members to purchase added 60ths or added years will be honoured.

12.2 So will members be able to buy any form of additional pension?

Yes, members will be able to purchase an additional amount of annual pension benefit. There will be a limit (to be determined, but of the order of £5,000 to £6,000 each year in retirement) of the amount of annual pension that a person can buy. The amount of pension that is purchased will be calculated in accordance with guidance from the scheme actuary.

12.3 Does additional service purchased by scheme members (prior to 1 April 2012) count for the purposes of assessing service in relation to transitional and tapered protection?

This is still under consideration.

12.4 Will members who are currently purchasing additional service or additional voluntary contributions (AVCs) be able to continue their elections?

Yes, they will be able to continue with their existing contracts.

12.5 Will members who are currently purchasing additional service be given an option to cancel their elections?

This is still under consideration.

13. Death in service - lump sum death grant

13.1 How will the death in service lump sum grant operate?

The amount of death grant will be three times that of the deceased officer's pensionable pay, expressed as an annual rate, at the time of death or, if the member was then absent from duty without pay, immediately before that absence began. The rules for determining the payee will be the same as they are now under the 2006 scheme.

14. Next steps

Work on the detail of the scheme is continuing. Issues that are still to be finalised include:

- how ill-health retirement will operate, including for those with transitional or tapered protection
- the detail of member pension contributions
- the position of members who are subject to pension sharing orders
- transfers in and out of the 2015 scheme
- further detail on buying additional pension in the 2015 scheme
- survivors' pensions and death benefits
- pension forfeiture
- pension buy-back of unpaid leave
- abatement

15. Equality considerations

Throughout the reform process there has been and there continues to be careful consideration of the impact of the changes on different groups, and in particular those with protected characteristics under the Equality Act 2010. Consultation with police officer staff associations has informed this consideration.

16. Glossary

Some of the specialist terminology used in relation to pensions is explained below.

Abatement	The temporary reduction in pension payments which may be imposed by a police pension authority if a police officer is re-engaged after retirement.
Accrual rate	The accrual rate is the amount of pension you build up each year, expressed as a proportion of pensionable pay. In the new police pension scheme from 2015, the accrual rate is 1/55.3 (equivalent to around 1.81%). In a career average scheme, this means that you build up a pension pot of 1/55.3 of your pensionable earnings for each year you are a member of the pension scheme. (See also revaluation rate.)
Active member	A serving officer who is contributing to one of the police pension schemes.
Actuarial reduction	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 actuarial reduction. This reduction is to recognise that the pension is in payment earlier and therefore is to be paid for longer. Whilst it is not possible to say what the reduction will be

	(as it will determined regularly on an actuarial basis), the rule of thumb for an actuarial reduction is considered to be between 4% and 5% (cumulative) for each year that the pension is taken early.
Additional Voluntary Contributions (AVCs)	Personal pension contributions made by an officer to give pension benefits in addition to the police pension entitlement. This money purchase facility is no longer available but existing contracts may still be in place.
Approved career break	A period when your force has agreed that you can take extended unpaid leave with the right to return to work at the same rank as when you left. During this time, your continuity of service is maintained. Even though you are not paying pension contributions, and will not accrue pensionable service, you will remain a member of the scheme (unless you have opted out) and will be able to resume contributions on your return to work.
Cost cap	The Public Service Pensions Act 2013 specifies that schemes must set a cap on costs, expressed as a percentage of pensionable pay. If an actuarial valuation shows that the costs of a scheme have risen more than two per cent above the cap, or have fallen more than two per cent below the cap, action will be taken to return costs to the level of the cap. The Act provides for a procedure to allow stakeholders to reach agreement on the adjustments required before any change is made, with a default mechanism to act as a backstop if no agreement can be reached.
Club transfers	There are comparatively favourable terms under which service may be transferred into or out of the scheme from or to another public sector pension scheme which participates in the *Public Sector Transfer Club*.
Deferred pension	This is a general term referring to pension rights held by someone who has left a pension scheme before the age at which a pension would normally be payable to them – these are deferred in the sense that they are not payable on leaving but at a future date. It has a specific meaning in the 1987 scheme, as set out in Regulation B5 of the Police Pensions Regulations 1987. In the 2015 scheme, deferred pensions are payable at state pension age unless you are permanently disabled for regular employment, with additional restrictions if you have left the service on disciplinary grounds.
Deferred member	An individual who is entitled to a deferred pension.
HMRC	Her Majesty’s Revenue & Customs, the Government department operating taxation.
Normal Pension Age (NPA)	The age at which a pension other than an ill- health pension is normally paid.

Pensionable pay	Elements of earnings which are pensionable and on which pension contributions are paid. Pensionable pay for police officers currently includes basic salary, London weighting, pay on temporary salary, pay on temporary promotion and competence related threshold payments.
Pensionable service	Period of service that is used in the calculation of pension benefits.
Revaluation rate	In a career average revalued earnings scheme, you build up a pension pot of a fraction (see accrual rate) of your pensionable earnings for each year you are a member of the pension scheme. In the 2015 scheme, each of your annual pension pots is uprated in line with CPI +1.25%, for active scheme members, and in line with prices (CPI since April 2011) for deferred members.
State Pension Age	The age at which an individual can claim their State Pension. It will be rising to 66, then 67, then 68 for both men and women.