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Dear Colleague

**POLICE PENSIONS CIRCULAR No 2006/1  
THE POLICE PENSIONS SCHEME (PPS)**

**This circular should be brought to the immediate attention of force personnel officers, Human Resource Managers and the Pension Managers and administrators of the PPS.**

**A Tax changes affecting the period allowed to decide on commutation**

**B New Police Pension Scheme (Members Guidance)**

**C Template Letter for current serving officers re the New Police Pension Scheme (NPPS).**

**D Contacting current serving officers who have opted out of the PPS**

**E Part-Time Regulations- Option to maintain added years or buy back contributions at current rate.**

**A Tax changes affecting the period allowed to decide on commutation**

A number of public service schemes have rules or practice allowing members to commute part of their pension in retirement to provide a lump sum. Under the current tax legislation, such lump sums may be paid tax free. Under the simplified tax regime for registered pension schemes this will not be the case.

From 6 April 2006 (A-Day) a "pension commencement lump sum" (the commuted lump sum that a member receives and becomes entitled to it on the day he/she retires) must be requested **before** retirement and paid within 3 months of the retirement date on which the scheme member became entitled to it. This essentially means that:

Notice of commutation can no longer be given up to 6 months after retirement as is currently allowed under Regulation B7 of the Police Pension Regulation. The new allowable 3 month for lump sums

to be paid is intended to allow for any administrative delay in actually paying the pension commencement lump sum, not to allow the scheme member to give notice. This means that any officer who retires or has retired before 6 April 2006 will have to give notice of commutation before 6 April 2006. The arising lump sum will have to be put into payment by 5 July 2006 at the latest. Any officer who retires from 6 April 2006 will have to give notice of commutation prior to their retirement and have the pension commencement lump sum paid within 3 months of their retirement.

The consequence of NOT having a lump sum paid within the 3 months (or not getting the notice of commutation in before 6 April for those who have retired by then) is that the lump sum will no longer be considered a "pension commencement lump sum" and so becomes liable to a tax charge. The resulting reduced pension after commutation would also be treated as an unauthorised payment leading to a tax charge.

In order to allow officers to avoid being affected by the new tax rules police pension administrators should take the following urgent action:

- (a) contact urgently former active and deferred members who started taking a pension after 5 October 2005 but who have not yet decided to take any lump sum (if there are any in this category), to warn them that if they are planning to commute part of their pension they need to give formal notice by 5 April 2006;
- (b) ensure that any active or deferred members taking a pension between now and 5 April 2006 are warned that they have only until 5 April 2006 to give formal notice of their commutation decision if they don't wish to commute at the time the pension is first paid;
- (c) tell active and deferred members in general that from 6 April 2006 decisions to commute pension to lump sum must be taken at the time a pension is first awarded; and
- (d) amend any scheme literature as soon as possible to minimise the risk of members being misled and maladministration claims.

An amendment to the regulations will be made as soon as possible. Attached at Annex A is a note from HMRC giving greater detail on this particular matter.

## **B New Police Pension Scheme (Members Guidance)**

Attached as an accompanying document to this circular is the final version of the Members' Guide for the New Police Pension Scheme. This document has been developed through the Technical Working Group of the PNB and an early draft was previously issued for comment. The document is in word format to allow forces the opportunity of personalising the guidance for their own force however each force must include somewhere in the Guide - as an integral part of the text and before it is printed - the contact details for pensions administrators for their force. Forces may wish to liaise with other forces to arrange shared printing arrangements in order to reduce costs.

Forces are asked to note the following:

No other changes or additions should be made to the text, which is intended to be standard (apart from changes made by the insertion of the force pension administrators or page changes resulted from a change in format for printing purposes).

The Home Office plan to formally publish details of the new scheme on 9 March and it is proposed that a similar line should be taken in Scotland. Therefore police forces are requested **not** to release the Members' Guide before the formal publication date of 9 March.

This version of the NPPS Members' Guide is intended primarily for the introduction of the new scheme. However it will be due for amendment in October as a result of the need to consider the continued use of compulsory retirement ages for both the current and new schemes as a consequence of age discrimination legislation. It will be preferable for a revised version to be used to send to every serving officer as part of the options exercise in the Autumn and so we advise that you print enough copies of the current version of the Guide to cover new entrants over the next few months. Once you allow the Guide to become available, **from 9 March**, serving officers may ask for a copy in advance of the options exercise and if so we recommend that you provide one. You may also wish to place the guide on your website or intranet at that time. A copy will be placed on the SPPA website.

### **C Template Letter for current serving officers re the New Police Pension Scheme (NPPS)**

Attached at Annex B is a template letter for forces to issue to all current serving members. The issue should also include those officers on career breaks and those who have opted out of the scheme (see D below). This letter provides serving officers advance notice of the introduction of the new scheme, of the NPPS Members' Guide and of the options exercise which will allow current PPS members to transfer to the NPPS. Also enclosed at Annex B is a set of Frequently Asked Questions and a comparison table between the current and new schemes which should be issued with each letter issued. Once again you may wish to place both the FAQ and comparison table on website or intranet

### **D Contacting current serving officers who have opted out of the PPS.**

The critical impact of the NPPS on any current officer who has opted out is that on 5 April 2006 the PPS will effectively close to new members and as a consequence any request to rejoin the PPS made after that date would not be possible. Any request to rejoin made on or after the 6 April 2006 will only be considered for entry into the NPPS. Hence, if any officer wishes to rejoin the PPS an application to join must be made no later than 5 April 2006.

Unless already done so police forces should now take action to identify any current serving officer who has opted out of the PPS. This should be a relatively easy exercise given the small number of officers concerned. A suggested template letter for making contact with the officer is attached at Annex C. It is recommended that the officer confirms receipt of this letter and a record is kept on the officer's file. This will ensure that any request to rejoin the PPS post 5 April 2006 based on ignorance of the changes can be refused.

When an application to rejoin the PPS is received before 6 April 2006 but due to the process of considering the request, i.e. health checks being undertaken, a decision is not made until after 5 April 2006 then if it is agreed that the officer can rejoin the pension scheme it will be the PPS the officer rejoins as the application was made on time. It is therefore important to clearly log the date of receipt of all applications to avoid possible grounds for dispute.

### **E Part-Time Regulations- Option to maintain added years or buy back contributions at current rate.**

The Police Pensions (Part-time Service) Amendment (Scotland (Regulations) 2005 came into force on 14<sup>th</sup> November 2005. Instructions on the changes being introduced and what police forces needed to do were issued under SPPA Police Circular 2005/5 issued on 18 August 2005. One of the changes automatically amends the rate of contribution being paid by officers either buying back service under Regulation G6 in respect of widowers' benefits or those officers buying additional years who become part-time. The amendment ensures that the relevant contribution is maintained at the

equivalent full-time rate rather than being paid at a reduced percentage rate based on the revised lower salary.

Part-time officers who were currently paying these contributions were allowed to elect to maintain the lower part-time salary contribution rate but with the understanding that any resulting service purchased is reckonable on a pro-rata basis. There was a time limit of 3 months from the Regulations coming into force for the officer to make this election. SPPA Police Circular 2005/5 was issued on 18 August 2005 to ensure that police forces could identify those officers concerned to ensure they would be able to benefit from the maximum 3 month period allowed by the regulations.

The Scottish Police Federation has raised concerns regarding the actual time limits some officers have been given to decide on whether or not to make an election. Although the Regulations do not formally provide for any police discretion on the three month time limit police forces should give careful consideration to any cases where officers have not received a period of three months from being told of the changes being made and the end of the formal three month time limit on 13<sup>th</sup> February. Any officer who is affected by this change and who has not been given an opportunity to make an election could clearly argue that they have been put at a disadvantage and seek to challenge this especially as there was sufficient time for officers to be notified in good time.

Yours sincerely

A handwritten signature in blue ink that reads "J. Preston". The signature is written in a cursive, slightly slanted style.

**Jim Preston**

## Commutation of pension in retirement for lump sums

### Background

A number of public service schemes have rules or practice allowing members to commute part of their pension in retirement to provide a lump sum. Under the current tax legislation, such lump sums may be paid tax free. Under the simplified tax regime for registered pension schemes this will not be the case. Position after A Day.

The only lump sum that may be paid in connection with the member becoming entitled to a scheme pension is a pension commencement lump sum (PCLS) – s.166(1)(a) FA04.

To be a PCLS, a lump sum must satisfy the conditions set out in paragraph 1(1) of Schedule 28 to FA04.

One condition is that the member must become entitled to the lump sum in connection with the member becoming entitled to a relevant pension (which includes a scheme pension).

S.166(2)(a) provides that a person becomes entitled to a PCLS immediately before becoming entitled to the pension in connection with which it is paid. And a person becomes entitled to a pension when the person **first** acquires an actual right to receive the pension (s.166(3)(b)).

HMRC's interpretation of the above is that commutation of a pension to provide a PCLS must be done at the time of entitlement to a pension first arises.

The scheme than has a period of 3 months in which to pay the lump sum derived by the commutation of pension if it is to be a PCLS. The 3 month rule is intended to cater for possible administrative delays in paying a lump sum, not to permit commutation after retirement.

Accordingly, a lump sum paid by commutation of a pension already in payment cannot be a PCLS. It will be an unauthorised payment and the tax charges for unauthorised payments will apply as appropriate.

In addition, the scheme pension payable at 6 April 2006 will be reduced following commutation. This reduction will fall foul of paragraph 2(3)(b) of Schedule 28 which provides that a reduced pension ceases to be a scheme pension. Since the reduction will not fall within any of the excluded categories set out at sub-paragraph (4), the unauthorised payment tax charges will also apply in respect of the reduced pension.

Schemes which currently have a rule permitting commutation of a pension in payment may therefore wish to amend their rules to provide that, from 6 April 2006, notice of commutation must be given before the member's intended date of taking their scheme pension.

HMRC do not consider there is a case for transitionally protecting the option to commute in retirement. Such an option has never been allowed under HMRC's requirements for discretionary approval where lump sum benefits must normally be paid only once and at the time of retirement - it is a relic of the era when statutory schemes did not have to meet any HMRC requirements or conditions to qualify for tax reliefs.

HMRC has considered whether a degree of protection (for commutation by pre-A Day pensioners before 6 July 2006) is afforded by paragraph 2 of the Pipeline Lump Sums draft regulations (which are available on the HMRC website at [www.hmrc.gov.uk/pensionschemes/draftregs.htm](http://www.hmrc.gov.uk/pensionschemes/draftregs.htm)).

Our view is that where a valid notice to commute part of the member's pension is received before 6 April 2006, an entitlement arises to a lump sum at that time so paragraph 2 will apply. Provided the lump sum is paid before 6 July 2006, the lump sum will be a PCLS. And the resulting reduction in the scheme pension will not fall foul of paragraph 2(3)(b) of Schedule 28 as the member will only have been entitled to the reduced pension at 6 April 2006.

But where the notice is not received until on or after 6 April 2006 the lump sum will fall outside the lump sum payments covered by the regulations because it is not a lump sum to which the member became entitled before 6 April 2006 as required by paragraph 2(1)(c). This is because the member is entitled to all their benefits in pension form at 5 April 2006. And the reduced pension will also be an unauthorised payment.

So, with regard to members who retire before 6 April 2006 and have not already given notice of commutation, they will need to give notice before 6 April to avoid giving rise to unauthorised payments and consequent tax charges.

## **1. New Police Pension Scheme – draft text of letter to all officers about the new scheme, the options exercise and other related issues**

### **NEW POLICE PENSION SCHEME 2006**

As you may know, a New Police Pension Scheme (NPPS) will come into effect on 6 April this year for new entrants to the police service on or after that date. The purpose of this letter is to alert you to the introduction of the new scheme, to explain briefly what it might mean for you as an officer already in service and to explain the next steps.

All new entrants to the service from 6 April will join NPPS. Members of the current Police Pension Scheme (PPS) will remain in PPS, but they will also have an opportunity later this year to transfer to NPPS if they wish.

If you choose to remain in PPS then the introduction of the new scheme should have little or no impact on you. There are some changes to the existing scheme happening at the same time, which are dealt with further below, but these are limited and largely technical.

All serving officers are members of PPS unless they have elected by notice in writing not to pay pension contributions and have thereby opted out of the scheme (or never joined). If you have made such an election, and it is still in force, you will need to cancel it before 6 April in order to be able re-join PPS. From 6 April onwards, if you are opted out of PPS you would be eligible only to join the new scheme. If you have made an election not to pay pension contributions, which remains in force, you should have received a separate letter explaining what you need to do, and by when, to re-join the current scheme. If you have not received such a letter, or if you are in any doubt about your position, then you should contact your force's pensions administrator without delay since if you do not rejoin the current scheme before 6 April it will be too late for you to do so.

### **Officers on career breaks**

Officers taking an approved career break will continue in membership of the current scheme. However, if you were simply to leave the police service and then rejoin the force on or after 6 April 2006, you would have to join the new scheme. The period of your career break cannot count as pensionable service.

### **Frequently Asked Questions and comparison between the two schemes**

This letter is accompanied by a set of Frequently Asked Questions and a table summarising the main differences between PPS and NPPS. These two documents should tell you what you need to know about the new scheme at this stage. More detailed information will become available in the run-up to 6 April and later in the year when all officers who were in the service before 6 April will be given the option of transferring to NPPS - the 'options exercise'.

## Members' Guide for NPPS

A full Members' Guide for NPPS will be published in early March. It will be given to new entrants joining the force on or after 6 April and will be available to serving officers on intranet sites or in hard copy on request. A hard copy will be sent to every officer when the 'options exercise' begins in the Autumn of this year.

### Transferring to NPPS: the 'options exercise'

You will have plenty of time to decide whether to stay in PPS or transfer to the new scheme. In the Autumn there will be a three-month long opportunity for members of PPS to transfer to the new scheme. Members of PPS who transfer to NPPS in the options exercise will have their decision backdated so that it becomes effective from 6 April 2006, with adjustments to contributions paid since then. In the run-up to this exercise (around October 2006), you will be given a detailed pack of information which will include Members' Guides for both schemes, a personal forecast of the pension you could be expected to receive under each scheme and other information to help you make a decision. You do not need to decide until the Autumn whether to stay in PPS or transfer across, but you may wish to start thinking now about what is best for you.

### Pensions for partners who are neither married nor in a civil partnership

This section applies only to those who have a partner to whom they are not married and with whom they are not in a civil partnership.

An important new feature of NPPS is the provision for the payment of a pension for life to a police officer's partner, even if they are not married to each other or in a civil partnership with each other, in the event of the officer's death. Such a benefit is not payable in PPS, where adult survivor pensions are paid only to those who are married or in a civil partnership. Payment of a pension to a partner who was not married or in a civil partnership will not be automatic: you must satisfy a number of conditions and complete the necessary documentation. In particular, you and your partner must have completed and sent to your pensions administrator a joint declaration form to confirm that you are living together, that your partner is financially dependent on you (or both of you are financially interdependent), your relationship is exclusive, committed and long-term and that a number of other conditions apply.

Declaration forms (with more detailed guidance) will be available from your pensions administrator from 6 April and may be completed and returned immediately. Completing a form at this stage does not commit you to joining NPPS. If you do not opt to transfer to NPPS your declaration form will simply lapse at the end of the options period.

If you are living with a partner who is not married to you or in a civil partnership with you then you are strongly advised to consider completing a declaration form without waiting to decide whether or not to join NPPS, as this will help to protect your partner's position. **If you were to die between 6 April and the 'options exercise' in the Autumn, your partner would be able to submit a claim for a pension under NPPS but only if you had jointly completed a declaration form.** The police authority would then consider the claim and determine whether an award should be made.



## Changes to tax legislation from 6 April

A number of changes to tax legislation will come into effect on 6 April, commonly referred to in this context as 'A-day'. These changes are unrelated to the introduction of NPPS on the same date. One change to note is that you will be able to pay pensions contributions (to any pension schemes to which you belong) totalling more than 15% of your pensionable pay (although you cannot pay more than the basic 11% pension contribution into PPS). This means, for instance, that you will be able to pay more than 4% of your pay in additional voluntary contributions if you wish.

The major change to tax law is the introduction of a "lifetime allowance" as an overall limit on pension benefits. As this has been set at a high level it will not affect the vast majority of PPS members, but it is possible for a few officers who are very senior or who have other very large pension benefits outside the police scheme to exceed the new HM Revenue and Customs (HMRC) "lifetime allowance". For example, the lifetime allowance in 2006/07 is £1,500,000 and would be exceeded if an officer had built up total pension rights of more than £75,000 a year (including benefits earned in another scheme and transferred to the PPS). Pension benefits from all sources are taken into account in assessing whether you exceed the lifetime allowance. If these circumstances apply to you, you may want to take action to protect your pension position, but it is unlikely that you will need to do anything immediately as you have until April 2009 to register for protection with HMRC. Force pensions administrators have written to all senior officers giving further information and you can obtain a copy of that letter from your administrator if you require further information.

## Changes to the current pension scheme

A number of amendments to the PPS Regulations have to be made from 6 April as a consequence of the A-day tax changes. These are largely technical and do not affect the vast majority of PPS benefits. In particular, the retirement ages and the ill-health retirement arrangements in PPS will not change. **But one change you will need to be aware of is that after 6 April, if you stay in the current scheme and you want to commute part of your pension for a lump sum, you will have to make the decision before you retire** (at present you can decide before or for up to 6 months after you retire, but the new tax legislation will prevent that). The full list of changes will be published closer to 6 April.

## Injury awards Regulations

There will also be a new set of injury awards regulations from 6 April for both PPS and NPPS. These introduce nothing new – the Home Office has had to strip out all the regulations relating to injury awards from the main PPS Regulations and consolidate them separately as a requirement of the A-day changes (so that injury awards, which are not pension scheme benefits, are separate from the pension scheme). There are plans for a review of the injury awards provisions later this year, but not in time for 6 April. No changes will be made before a public consultation exercise has been completed.

## Further information

If you would like any further information on any of the issues covered in this notice, you should contact your force's pensions administrator at.....

# **The New Police Pension Scheme 2006**

## **Frequently Asked Questions**

**2.**

## **A. Questions relevant to existing police officers**

- A1. Are the current scheme regulations going to be changed so that pensions cannot be paid before age 55?

No. The earliest retirement ages in the current scheme will not change. Officers who are members of the current scheme on 5 April 2006 will continue to have the right to retire at age 50 if they have 25 years' service (or at age 48½ if they have 30 years' service) and this will be the case as long as they remain in the current scheme.

- A2. Will a two-tier system of ill-health pensions be introduced in the current scheme?

No. The present scale of benefits will continue to apply to all those medically retired under the current Police Pension Scheme.

- A3. If I am a member of the current scheme, and I take a career break which finishes after April 2006, which pension scheme do I join when I return to work?

If you are taking an approved career break, you will continue in membership of the current scheme. However, if you were simply to leave the police service and then rejoin the force on or after 6 April 2006, you would have to join the new pension scheme. The period of your career break cannot count as pensionable service.

- A4. Will there be compulsory retirement ages based on rank in the new scheme? If there are changes, will the current scheme be amended in line?

Compulsory retirement ages under the new scheme will, at least initially, be the same as in the current scheme. There is a need for review in this area which results from age discrimination law, not from changes to pensions, and the details of any changes still have to be worked out and put to the PNB. The existing compulsory retirement ages by rank are subject to review and may change before the end of 2006. Whatever is decided, the same compulsory retirement ages will apply both to the current scheme and the new scheme.

- A5. Existing officers will have a choice to move across to the new scheme – will there be a time limit for making a decision?

Yes. The time limit, and the start and end dates for the "transfer window" have not yet been finally decided, but it is likely to be a three-month period commencing in Autumn 2006. It is planned to have detailed information about the new scheme available to all officers well in advance of the start of the transfer window. We are also considering at present exactly what information each officer will receive at the start of the transfer window in the form of individual personal projections of benefits in both schemes, so that all existing officers will be able to make an informed choice about whether or not to transfer across.

A6. Why would an existing officer want to move from the old to the new scheme?

The benefits in the new scheme may be attractive to some officers, depending on their individual circumstances, e.g.

- lower contribution rate;
- improved death in service lump sum death grant;
- lifelong benefits for surviving spouses and civil partners, regardless of remarriage or cohabitation;
- benefits for other partners, also payable for life (subject to the officer and partner satisfying certain conditions and completing the necessary documentation);
- even build-up of pension rights (uniform accrual) throughout one's service (instead of double accrual after 20 years' service), which may be better for late joiners.

Officers will need to consider their individual circumstances carefully before making any decision. Police authorities will be able to answer questions and give information to help you to decide, but they are not allowed to give financial advice (so they cannot advise you on which course of action to take).

A7. So why won't all officers want to move to the new scheme?

Many officers will find some of the features of the new scheme less attractive than the current scheme, e.g.

- the increase in the earliest retirement age to 55;
- increase in the time it takes to accrue a full pension from 30 to 35 years' pensionable service;
- smaller lump sum for those who can commute a quarter of their pension under the current scheme;
- smaller survivor benefits for spouses, civil partners and children.
- the introduction of a two-tier system of ill-health benefits;
- the single accrual rate will not be such an attraction for those officers who expect to benefit from double accrual after 20 years.

A8. I have read that the Government is planning to reconsider its proposed changes to public sector pension schemes. Will this affect the New Police Scheme?

The new scheme will have a deferred pension age of 65, which is in line with the normal pension age in the new forty-year schemes being introduced elsewhere in the public sector.

A9. If I use the transfer window to move from the current scheme to the new scheme, how will my years of service in the old scheme be credited to the new scheme?

There will be a conversion rate giving service credits for officers transferring from the current scheme to the new scheme. There will be a sliding scale of conversion rates

based on the relative accrual rates of the two schemes and the age of entry. Full details will be available before the transfer window begins.

A10. I have opted out of the current scheme – can I re-join the current scheme after April 2006?

No. You can re-join the current scheme up to and including 5 April 2006. After that date, you are eligible only to join the new scheme. The terms on which you do so, and your ability to transfer any pensionable service from the current scheme to the new, will depend on your individual circumstances.

A11. If I opt out of the current scheme on or after 6 April 2006, what happens if I wish to re-join?

You can only join the new scheme. Again, the terms on which you join, including your ability to transfer any pensionable service from the current scheme to the new, will depend on your individual circumstances.

A12. If I am a member of the current scheme and intend to stay in that scheme, is there anything that I need to do before April 2006?

It is possible for a few officers who are very senior or who have other very large pension benefits outside the police scheme to exceed the new HM Revenue and Customs (HMRC) “lifetime allowance”. If these circumstances apply to you, you may want to take action to protect your pension position. You have until April 2009 to register for protection with HMRC. For example, the lifetime allowance in 2006/07 is £1,500,000 and would be exceeded if an officer had built up rights to a pension in the Police Pension Scheme of more than £75,000 a year. Force pensions administrators have written to all senior officers giving further information.

## B. Questions about the new scheme

### B1. What are the main features of the new scheme?

- Like the current scheme, it is a “final salary” scheme, which means that your pension is calculated as a proportion of your “final pensionable pay” which is generally earnings in your last year of service as a member of the scheme.
- The pension that you will receive depends on your pensionable service, which for most officers will be the length of service in the police force for which they have paid pension contributions. Approved part-time working is counted as pensionable service on a pro-rata basis.
- The maximum pension that you can receive is half final pensionable pay, and is payable when you have the maximum possible pensionable service of 35 years.
- A tax free lump sum of four times’ pension will be paid to you in addition to your pension.
- Your pension is subject to tax, but it will not be reduced when you start to receive any State Pension to which you may be entitled.
- Your pension is increased in April each year in relation to increases in retail prices
- As well as paying a pension to you, the scheme will also pay benefits to certain other people if you die (whether you die in service or after you have retired); pensions for surviving spouses and partners are payable for life.
- It is possible for a pension to be paid to a partner who is neither a spouse nor a civil partner, but only if specific conditions are met.
- The earliest age at which you can normally retire is 55. You must retire before your compulsory retirement age unless a special arrangement has been agreed by your police authority.
- It is possible to retire early on the grounds of ill-health if specific conditions are satisfied.
- You can pay more money to buy additional pension benefits in the police scheme (if you are not already entitled to receive a maximum pension); you can also make your own independent arrangements for a separate personal pension.
- The normal contribution rate is 9.5% of pensionable pay. If you are ineligible for an ill-health pension and similar benefits, your contribution rate is reduced to 6%.
- You can opt out of the scheme and opt back in again, but if you opt out a second time you cannot re-join.

### B2. Will my pensionable service build up more quickly after I have 20 years’ service?

No – this is a major difference from the current scheme. Pensionable service will increase at exactly the same rate throughout your police career irrespective of how much has been built up so far.

### B3. If I am a serving officer in the new scheme and have 35 years’ pensionable service but do not want to retire immediately, what happens?

You can remain in the scheme until 55 or any later age at which you retire (subject to any compulsory retirement age for your rank and whether your force has agreed to an extension beyond any compulsory retirement age) and continue to pay pension contributions at the normal rate. This will give your family continued cover for the lump sum death grant, enable you to increase your pension in line with increases in your final salary and give you a continued right to retire at or after age 55 with an immediate pension (again, depending on any compulsory retirement age for your rank).

Alternatively, you can opt out of the new scheme, in which case you would cease to pay contributions, but there would be a number of implications which you would need to consider carefully. You would no longer be eligible for the lump sum death grant, for example, and payment of your pension would be deferred to age 65 – see Part D below.

**B4. If I leave the police service with an entitlement to a deferred pension, do I have to wait until I am 65 (if that is confirmed) to receive it?**

You do if you want to receive the full amount. The new scheme does allow a deferred pension to be paid from age 55 with “actuarial reduction” (to compensate for the fact that it will be paid earlier and for a longer period) but the reduction could be very considerable. The earlier the pension is paid, the greater the reduction. Your police authority will be able to give you an indication of the likely level of reduction.

**B5. How will the two-tier ill-health retirement system work?**

It is based on two levels of disability:

- permanent inability to perform the ordinary duties of a member of the force (which can lead to a standard ill-health pension)
- permanent inability to undertake any regular employment (which can lead to a standard ill-health pension plus an enhanced top-up ill-health pension).

The level of disability will be determined following a medical examination.

Even if you are determined to be permanently disabled it does not automatically mean that you will be retired on the grounds of ill-health. Your police authority will consider your overall capabilities to see whether there are alternative duties that you could undertake whilst remaining a police officer.

Ill-health pensions are payable immediately, based on your pensionable service for standard ill-health retirement, and on enhanced service for enhanced ill-health retirement. The effect of enhancement is to count up to half of the service that you would have been able to undertake between the date of ill-health retirement and your 55<sup>th</sup> birthday.

**B6. Why would I be ineligible for ill-health benefits?**

When you join the police service, or rejoin it after a break, or apply to rejoin the new Police Pension Scheme, you may be required to have a medical examination. This

is free of charge on initial appointment to the police service, but you will have to pay for it if you re-join the scheme after opting out. If, on the basis of the medical opinion, the police authority determines that the likely cost of paying an ill-health pension or similar benefits to you would be disproportionately high, you will be allowed to join the pension scheme but will not be entitled to receive an ill-health pension. (Exactly the same arrangements apply to the existing Police Pension Scheme). Your contribution rate will be reduced from 9.5% to 6%.

- B7. Will there be something equivalent to the present “additional sixtieths” arrangements in the new scheme?

Yes, there will be a facility which will be referred to as “added years”. You will be able to buy up to five “added years” of pensionable service (provided always that this does not increase your total pensionable service to more than 35 years).

- B8. Will there be an AVC arrangement like the current scheme?

No. New public sector pension schemes in general do not offer in-house AVC arrangements now that low-cost stakeholder pensions are generally available.

Officers should be aware that the new pension tax arrangements from 6 April 2006 will allow them to take out a personal pension in addition to their police pension and that they will (normally) be able to pay up to the whole of their taxable income as pension contributions and obtain tax relief. It follows that although there is no scheme AVC there will be much more flexibility to make additional pension arrangements outside the police scheme if officers wish.

3.

#### 4. **C. Questions about survivor pensions in the New Police Pension Scheme**

5.

- C1. What pensions will my survivors receive if I die?

There are three categories of adult survivors who can receive pension benefits after the death of a member of the NPPS: spouses, civil partners and in certain cases unmarried partners who are not in a civil partnership. The last category is dealt with in more detail in Question C2 below.

Any adult survivor to whom a pension is payable will receive a pension of half of your pension entitlement if you die while in receipt of a pension, or after leaving service without a transfer value having been paid, or if you have opted out of the scheme. If you die in service, then unless you have opted out the adult survivor pension is half what you would have had if you had been retired on ill health grounds with an enhanced top-up ill-health pension.

The pension will be reduced if your spouse or partner is more than twelve years younger than you. The pension may be withheld if you married or formed a civil partnership within six months prior to your death.

A surviving child may be eligible for a pension of a quarter of your pension entitlement, usually payable only up to the age of 18 unless he/she is in full-time education. If you leave one or two eligible children, each will receive half of what an



adult survivor would receive in the circumstances. If there are more than two eligible children then the amount for each will be a pension of half the entitlement that an adult survivor would have divided by the number of children. If the child receives income from training or employment then his/her pension will be reduced. All children's pensions cease on the child's 23<sup>rd</sup> birthday unless the child is disabled.

- C2. I live with my partner but we are not married or in a civil partnership. Will he/she automatically receive a pension from the new scheme if I die?

No, this will not be automatic. You and your partner must have completed an appropriate declaration form and sent it to your police authority. Your partner will also have to complete a claim form following your death and may be asked to provide supporting information to confirm the declarations which you both made. The declaration must confirm that you are cohabiting, that your relationship is exclusive and long-term, that your partner is financially dependent on you (or you are financially interdependent) and that neither of you is married to or is a partner of anyone else. A pension will only normally be paid to a partner if you have been cohabiting for at least two years, but the police authority may exercise discretion to pay a pension to a partner in a shorter relationship.

You do not have to wait for two years before you complete the declaration form – you are encouraged to complete one as soon as you believe that you are in a long-term committed relationship. It is your responsibility to keep this up-to-date if your circumstances change.

6.  
C3. Will there be a temporary increase in the rate of pension payable to a widow or child for the first 13 weeks, like the current scheme?

This is not part of the new scheme as currently drafted. If there is a future general policy decision which states that this should become a normal feature of public sector pension schemes, the position will be reconsidered.

- C4. If I die in service, is there a lump sum payable?

Yes, if you have not opted out of the scheme there is a lump sum death grant of three times your pay, and you are able to nominate a person that you would wish to receive it. If you do not nominate anyone, and you have no spouse, civil partner or other partner, the grant will be paid to your estate.

## **7. D. Questions about opting out of the New Police Pension Scheme**

### **D1. Can I opt out of the scheme at any time?**

You will be automatically admitted to the new pension scheme when you join the force but you can opt out at any time. If you do this within three months of joining the force your decision will be backdated to your date of appointment and any pension contributions that you have paid will be refunded to you. If you do opt out, you may re-join the scheme but if you opt out a second time you will not be able to rejoin again.

If you do opt out, it is entirely up to you whether you make alternative pension arrangements or do nothing. (This may change in the future if the Government alters the law to compel pension saving).

You are recommended to take independent financial advice before making any decisions and you are reminded that your police authority is unable to give financial advice – it can provide information about pension matters but cannot advise you as to what you should do.

### **D2. If I join the scheme, build up a number of years of pensionable service, opt out of the scheme or subsequently leave the police service, what happens to my pension?**

If you have at least two years' qualifying service, you will be entitled to a "deferred pension", which means that you will receive a police pension when you are 65 based on your pensionable service in the police.

You may be able to transfer your police pension rights into another pension scheme, if you join another scheme.

### **D3. If I opt out after completing 35 years' pensionable service and subsequently leave employment, when is my pension paid?**

Your deferred pension will be paid at age 65, even if you have 35 years' pensionable service.

### **D4. If I join the scheme, build up a number of years of pensionable service, opt out of the scheme and become disabled whilst I am still serving and have to retire, what happens to my pension?**

If you cannot perform the ordinary duties of a member of the force you will not be entitled to a standard ill-health pension. If you become incapable of any regular employment, you will be entitled to immediate payment of a deferred pension but this will only be based on your actual pensionable service with no enhancement.

### **D5. If I join the scheme, build up a number of years of pensionable service, opt out of the scheme and die in service, what happens to any pension payable to my survivors?**

There will be no lump sum death grant payable to your survivors. An adult survivor (a spouse or partner) will be entitled to a pension based on the deferred police pension that you would have been entitled to, which would normally have been payable to you at age 65.

# **Police Pensions – comparison of the key features of the current and new schemes**

The current Police Pension Scheme will close to new recruits on 5 April 2006. After that date, new recruits will join the New Police Pension Scheme. Serving officers who are in the current pension scheme will have an opportunity to transfer to the new scheme if they wish. This leaflet shows the main differences between the two schemes.

Question	Current Police Pension Scheme	New Police Pension Scheme
Who can be a member of the scheme?	Police officers joining the force up to 5 April 2006	Police officers joining the force on 6 April 2006 or later Members of the Police Pension Scheme will have the opportunity to transfer to the new scheme shortly after its introduction
How much do I pay?	11% of your salary each month	9.5% of your salary each month
What is the maximum pension that I can get?	2/3 final salary, with option to exchange part of the pension for a lump sum	1/2 final salary plus fixed lump sum of 4 times the pension, with option to exchange part or all of the lump sum for extra pension
What is my final salary based on?	Highest pensionable pay in each of the last 3 years	Earnings over the last 10 years are taken into account
How long do I have to serve to get the maximum pension?	30 years	35 years
What is the earliest age that I can get my pension?	<ul style="list-style-type: none"> <li>• After 30 years' service – making the earliest age in effect 48½</li> <li>• 50 with 25 years' service</li> <li>• 55 with less than 25 years' service</li> <li>• 60 if leaving the police service before compulsory retirement age with less than 25 years' service</li> </ul>	<ul style="list-style-type: none"> <li>• 55</li> <li>• 65 if leaving the police service before age 55 or if opting out of the scheme</li> </ul>
Does my pension increase each year for inflation?	Yes - from age 55, or earlier if retiring on ill-health grounds	Yes - from age 55, or earlier if retiring on ill-health grounds
How is my pension accumulated?	Dual accrual: 1/60 of final salary for each of the first 20 years' service, and 2/60 for each of the final 10 years' service	Uniform accrual: 1/70 of final salary for each year of service

Question	Police Pension Scheme	New Police Pension Scheme
What are the arrangements for ill-health retirement?	Pension payable immediately Officers with five or more years' service receive enhanced pensions	Pension and lump sum payable immediately Enhanced pensions are only payable to officers who are incapable of any regular employment; others receive unenhanced pension
Can my partner get a pension when I die?	Only if he/she is married to you or is your civil partner. Pension stops if the partner remarries or cohabits	Pensions can also be paid to unmarried partners who are not civil partners if appropriate conditions are satisfied. Pension is payable for life
Are pensions payable to children?	Only to your legitimate or adopted children, and not to children of a marriage which took place after retirement, or to children adopted in retirement	To a natural child, stepchild or adopted child, or any other child who was dependent on you when you died (even if not related to you)
Are partner and children's pensions increased for the first 13 weeks?	Yes	No
What is the lump sum death grant if I die in service (providing you have not opted out)?	2 times pay	3 times pay
Can I pay in more money to increase my pension?	Yes – you can buy “added sixtieths” or contribute to the AVC scheme, subject to limits	Yes – you can buy “added years” subject to limits, although there is no AVC scheme linked to the new scheme

### Notes

1. You automatically join the new scheme if you are appointed as a police officer on or after 6 April 2006. You can opt out, if you wish, and you will be able to opt back in again. If you opt out a second time, you cannot rejoin.
2. The present compulsory retirement age by rank (e.g. age 55 for constables and sergeants) will apply to the new scheme initially but is under review. Any revision of compulsory retirement ages will apply to both old and new schemes.
3. From 6 April 2006 any police officer can pay into another pension scheme (such as a personal pension plan) as well as the police scheme.

## **8. New Police Pension Scheme – draft text of letter to officers who have opted out of the current scheme**

I am writing to you about the introduction of the New Police Pension Scheme (NPPS) and the impact this will have on any decision you may make about requesting to rejoin the current Police Pension Scheme (PPS).

You made an election under Regulation G4 of the Police Pensions Regulations to opt out of PPS. Under the Regulations, subject to conditions relating to age and health, you have the option to cancel this election and opt back into PPS. However, the introduction of NPPS from 6 April 2006 restricts the period when this can be done. From that date PPS will in effect close to new members, which includes current police officers who have opted out of PPS. If you are planning to opt back into PPS (and you meet the health and age requirements to allow your election to opt out to be cancelled) you must give written notice to the pensions administrator for your force no later than 5 April 2006. You may use the attached form for the purpose. Any request made after this date will not be considered for PPS and will only be considered for entry to NPPS.

**If you wish to apply to re-join the current Police Pension Scheme we must receive your notice to cancel your election to opt out of the scheme as soon as possible and in any event no later than 5 April 2006.**

An options exercise for currently serving officers will be carried out in the Autumn, whereby they can choose to transfer into NPPS and transfer over their PPS service. You will be able to take advantage of the terms offered under the options exercise to join NPPS, regardless of whether you decide to opt back in to PPS now. However, joining PPS for the time being will give you pensions cover until then.

If you have any queries on the issues covered in this letter, you should contact your force's pensions administrator at.....

## 9. Police Pension Scheme

*(Please delete as appropriate)*

- 1) I wish to cancel my election not to pay pension contributions, under regulation G4 of the Police Pensions Regulations 1987 and to join or re-join the Police Pension Scheme. I ask that arrangements are made for the necessary medical examination to permit this.

### 9.1 OR

- 2) I have read the letter of *[insert date of letter]* about the introduction of the New Police Pension Scheme. I do not wish to cancel my election not to pay pension contributions, under regulation G4 of the Police Pensions Regulations 1987, or to join or re-join the Police Pension Scheme.

Signed.....

Personal Number.....

Date.....

Please return this completed form **by 5 April 2006 at the latest** to: