

7 Tweedside Park
Tweedbank
GALASHIELS
TD1 3TE

Police Consultees

www.sppa.gov.uk

Tel: 01896 892471
Fax: 01896 893214
policepensionsreform@scotland.gsi.gov.uk

7 October 2011

Dear Colleague

Police Pension Scheme Consultation – Employee contribution increases

In his address to Parliament on 21 September on the Scottish Spending Review 2011, the Cabinet Secretary for Finance, Employment and Sustainable Growth, John Swinney, announced the Scottish Government's decision to reluctantly apply employee contribution increases for the NHS, Teachers', Police and Firefighters' schemes in Scotland.

Attached is a copy of the consultation on proposed increases to employee contribution rates effective from April 2012 for the Police Pension schemes in Scotland.

Responses should be sent by email to: policepensionsreform@scotland.gsi.gov.uk or by mail to the following address no later than 17 November 2011:

Police Pension Reform
Policy Branch
SPPA
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

A copy of the consultation documentation is also available on the Agency's website at www.sppa.gov.uk/police/consultations

Yours faithfully



Chad Dawtry
Director of Policy
SPPA



POLICE PENSION SCHEME (PPS) AND THE NEW POLICE PENSION SCHEME (NPPS)

CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES EFFECTIVE FROM APRIL 2012

1. Purpose

This is a consultation by the Scottish Government on proposals for potential increases in the level of contributions scheme members will be required to make to the police pension schemes in Scotland from 1 April 2012.

This consultation will run for six weeks, from **7 October 2011** to **17 November 2011**. The Scottish Government invites views on the proposals contained in this document; the questions it poses; and related issues which consultees believe should have a bearing on the implementation of these proposals.

The Scottish Government will continue to discuss the proposals outlined in this document with representatives of Scottish police stakeholders.

2. Background

Occupational pensions policy is reserved to Westminster. The UK Government is committed to a programme of reform of public service pensions, which draws on conclusions and recommendations made by Lord Hutton of Furness in his independent review of public service pension schemes commissioned by the Chancellor of the Exchequer in June 2010. The UK Government has made it clear that it expects its proposals to apply to public service schemes across the UK, including those in Scotland.

Broadly, the UK Government's proposed reforms incorporate:

- ◆ increases in the amount public servants will be required to pay towards their pensions from April 2012; and

- ◆ longer-term reforms to redesign the content and governance of public service pension schemes, which are expected to apply from April 2015.

This consultation is solely concerned with the first of these proposed reforms – increases in employee contribution rates which might apply to the police pension scheme in Scotland.

The UK Government has made clear its intention that public sector workers should pay an average of 3.2% of pay more for their pensions by April 2014. It intends to introduce increases progressively – so that lower paid workers receive some protection and higher earners pay proportionately more for their pensions. It also intends to introduce these increases in three increments: 40% from April 2012; a further 40% from April 2013 and the final 20% from April 2014.

This consultation concerns the increases which might apply from April 2012 for the police pension schemes in Scotland only.

In due course, the Scottish Government will consult on proposals for potential second and third year increases and on any proposals for longer-term reforms of public sector pension schemes in Scotland.

3. The Scottish Government's position on employee contribution rate increases

The Scottish Government remains committed to public service pension schemes that are affordable, sustainable and fair for public service workers and taxpayers alike. It recognises the importance of ensuring that those who have devoted their working life to public service are able to enjoy good quality pensions in retirement alongside its role of ensuring that public finances are used constructively and for the good of Scotland's communities.

Against that context, the Scottish Government has made it very clear that at a time of pay constraint and pressure on household finances - and in the absence of clear evidence of immediate need – the UK Government's policy of increasing employee contributions is unwarranted and disruptive.

However, despite repeated representations to the UK Government to allow a different course of action to be taken in Scotland, Her Majesty's Treasury has reiterated its intention that, should increases not be applied in Scotland, the Scottish budget will be reduced by £8.4 million per month.

Such a reduction would reduce the level of public sector employment and run contrary to the direction of the Scottish Government's employment policy. In light of the UK Government's position, the Scottish Government has concluded that, regrettably, it has no choice other than to apply the increases in employee pension contributions the UK Government has proposed from April 2012, unless it can persuade the UK Government to change direction.

4. Principles

The Scottish Government takes its commitment to affordability, sustainability and fairness in public sector pension deals seriously. In developing the range of proposed increases, it has therefore paid considerable attention to protecting the low paid; minimising the risk of opt outs from the scheme; and ensuring that the additional burdens fall on those with the greatest ability to meet them, so that higher paid members pay proportionately more.

Our proposals on protection include:

- ◆ reinforcing the importance the Scottish Government attaches to the Scottish Living Wage, by ensuring that full time scheme members earning less than £15,000 a year will face no increases at all;
- ◆ offering partial protection to the newest members of the scheme to reduce the risk of opt-out.

Additionally, the Scottish Government is aiming to ensure that no-one in Scotland pays higher levels of contributions than their UK counterparts.

In these ways, the Scottish Government is endeavouring to make these changes as fair as possible.

As a starting point, the rates set out in this document are those which are currently being consulted upon for the schemes in England and Wales. We welcome consultees views on how

appropriate these rates will be in the context of the requirement to deliver the overall level of savings required by the UK Government.

5. Increase of contributions 2012-13

The Scottish Government's proposed new rates for both schemes are set out the tables below, and as mentioned above are based on the proposed increases recently issued by the Home Office. HM Treasury expect that the increased contributions should deliver a yield which represents an average increase of 3.2% of pensionable pay by 2014/15 delivered in 3 tranches of 40%, 80% and 100% of savings. This consultation proposes rates for 2012/13 only.

6. Proposals for the PPS and NPPS

Due to the levels of police officer pay the Scottish Government's principal on fully protecting those full time employees who earn less than £15,000 will not apply. As part of the aim to protect low paid and aim to minimise the possible level of opt outs the Home Office proposals seek to apply a lower rate of increase to the NPPS compared to the PPS. This reflects that the lower levels of starting pay will only apply to the NPPS as the PPS was closed to new members from April 2006.

The proposed employee contribution commencing from 1 April 2012 are as follows:

Police Pension Scheme (in Scotland)

Pensionable pay band (wholetime equivalent pay)	Current contribution rate	Proposed additional rate	Revised contribution
Up to and including £26,999	11%	0.6%	11.6%
£27,000 and up to and including £59,999	11%	1.25%	12.25%
More than £60,000	11%	1.5%	12.5%

New Police Pension Scheme (in Scotland)

Pensionable pay band (wholetime equivalent pay)	Current contribution rate	Proposed additional rate	Revised contribution
Up to and including £26,999	9.5%	0.6%	10.1%
£27,000 and up to and including £59,999	9.5%	1.0%	10.5%
More than £60,000	9.5%	1.25%	10.75%

Tier 1 covers those on a salary of less than £27,000 equivalent to a Constable with less than two years service

Tier 2 covers those on a salary of more than £27,000 but less than £60,000 equivalent to a Constable with two years or more up to Chief Inspector

Tier 3 covers those on a salary of £60,000 and over equivalent to Superintendent and above.

EXAMPLE 1 PPS

An officer earning £28,000 would pay the following:

Current contribution rate	11%
Proposed contribution rate	12.25%
Current annual contributions	£3,080
Proposed annual contributions	£3,430

EXAMPLE 2 NPPS

An officer earning £28,000 would pay the following:

Current contribution rate	9.5%
Proposed contribution rate	10.5%
Current annual contributions	£2,660
Proposed annual contributions	£2,940

In the above examples if the member was part-time earning £14,000 the contribution rate would be determined by the whole time equivalent rate i.e. £28,000 which would mean that the contribution percentage rates payable would be shown as above but they would be deducted from the officer's part-time pay.

Employee pension scheme contributions are deducted from gross pay before income tax is deducted which provides for tax relief on those contributions. In the above examples the actual additional cost to the police officer is estimated to be as shown in the tables below. These are for illustrative purposes only and assume lower rate tax relief of 20%. The net impact of the proposed increases would be determined by the individuals own circumstances.

EXAMPLE 1 PPS

A police officer earning £28,000 would pay the following:

Current contribution rate	11%
Proposed contribution rate	12.25%
Current monthly cost before tax relief	£257
Current monthly net of tax relief	£206
Proposed monthly before tax relief	£286
Proposed monthly cost net of tax relief	£229
Estimated net monthly increase	£23

EXAMPLE 2 NPPS

A police officer earning £28,000 would pay the following:

Current contribution rate	9.5%
Proposed contribution rate	10.5%
Current monthly cost before tax relief	£222
Current monthly net of tax relief	£178
Proposed monthly before tax relief	£245
Proposed monthly cost net of tax relief	£196
Estimated net monthly increase	£18

7. Consultation questions and how to respond

SPPA would welcome views about the proposals for the protection of the low paid and the maximum increase for higher earners. We would also welcome views about how the new tiered contributions

should be set and any administration issues that may need consideration.

We would like you to consider these questions specifically when answering the consultation:

Question 1 Should we adopt the England and Wales proposals or adjust them to reflect circumstances in Scotland (any adjustments would need to achieve the required additional contribution yield for 2012/13)?

Question 2 - How might any Scotland specific adjustments fit with our policy of adopting common salary scales/terms and conditions across the UK?

Question 3 – How might any Scotland specific adjustments be set to ensure that no-one in Scotland pays higher levels of contributions than their UK counterparts?

Question 4 – Do the proposed tiered employee contributions from April 2012 achieve the appropriate balance between:

- Minimising potential opt out from the scheme;
- Protecting those on lower incomes;
- Ensuring that they are set progressively, so that higher earners pay proportionately more?

Question 5 – Do you consider that there are any potential equality issues? For example, is there anything in the proposals that might result in individual groups being disproportionately affected by the proposed contribution tiering?

Question 6 – Are there any other specific issues around these potential increases that you would like the Scottish Government to consider?

Administration implications of tiered contributions.

It is hoped that the introduction of a number of tiers will not create a disproportionate administrative burden on employers. The following is the proposed outline on how contribution tiers will be allocated and when they may be changed during the year.

To ensure that scheme members understand how tiered contribution rates operate, the proposal is that the contribution rate applicable for the year will be set at the beginning of the year and, subject to significant salary-increases or decreases, would remain throughout 2012-13. It is proposed that an individual scheme member's contribution rate would be set using their Whole Time Equivalent (WTE) salary as at 31 March 2012. i.e. if a scheme member is earning £30,000 on that date that is the rate that will be used to determine the contribution rate for 2012/13.

The exception to this would be where a scheme member has a significant pay increase or decrease during the year after the contribution rate had been set and where it may be appropriate to reset their contribution rate to ensure fairness between scheme members on the same salary. However, the threshold for reviewing a scheme member's contribution rate needs to balance equity and fairness against the administrative burden. SPPA would welcome views on what that threshold should be.

For new scheme members appointed during the year it is proposed that their contribution rate would be determined by reference to their WTE salary on appointment.

Question 7 – From an administration perspective, are there any particular issues that need to be taken into account in introducing a tiered system for the police schemes?

Question 8 – If the contribution rate is set for each year, do you think it would be appropriate to review this for significant changes in salary? If so, what threshold should be used?

Question 9 – Do you consider that the proposals for determining the contribution rate for new officers are appropriate?

A full Equality Impact Assessment evaluating the approach proposed for the Scottish Police Pensions Schemes in the above tables will be published in due course.

This consultation does not invite comments on the contribution rates in 2013-14 and 2014-15 as these will be the subject of further discussion with Trade Unions. This consultation concerns proposed increases relating to 2012-13 only.

The closing date for receipt of comments is 17 November 2011.

Responses should be made by completing the Consultation Response Form at Annex A either electronically at www.sppa.gov.uk/police/consultations and submitted to policepensionsreform@scotland.gsi.gov.uk

or by mail to:

Police Pension Scheme Reform
Policy Branch
SPPA
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

8. Next steps after the consultation ends

The Scottish Government will respond to this consultation by publishing draft regulations which will also be the subject of further consultation. In addition, a summary of the responses to this consultation will be made available on the SPPA website.

9. Confidentiality of information

We need to know how you wish your response to be handled and, in particular, whether you are happy for your response to be made public. Please complete and return the attached Respondent Information Form which forms part of the consultation questionnaire as this will ensure that we treat your response appropriately. If you ask for your response not to be published we will regard it as confidential, and we will treat it accordingly.

All respondents should be aware that the Scottish Government are subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

ANNEX A: CONSULTATION RESPONSE FORM POLICE PENSION SCHEME (SCOTLAND). CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES EFFECTIVE FROM 1 APRIL 2012: CONSULTATION RESPONSE FORM

Please Note this form should be returned with your response to ensure that we handle your response appropriately. An electronic version of the form can be accessed at www.sppa.gov.uk/police/consultations

1. Name/Organisation

Organisation Name

Title

Surname

Forename

2. Postal Address

Postcode	Phone	
Email		

3. Permissions - I am responding as... (please complete either sections (a), (b) and (d) or sections (c) and (d):

Individual or **Group/Organisation**

(a) Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish Government web site)?

Please state yes or no: _____

(b) Where confidentiality is not requested, we will make your responses available to the public on the following basis

Please state yes to one of the following:

Yes, make my response, name and address all available

or

Yes, make my response available, but not my name and address

or

Yes, make my response and name available, but not my address

(c) The name and address of your organisation **will be** made available to the public (in the Scottish Government library and/or on the Scottish Government web site).

Are you content for your **response** to be made available?

Please state yes or no:

(d) We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Please state yes or no:

CONSULTATION QUESTIONS

When responding to the following questions, please give reasons for your answers.

Within the context of the principles set out in the consultation document, your comments are invited on the preferred approach to delivering the required savings by increasing employee contributions to the Police Pension Scheme by the amounts set out in Table 1 below.

Proposed increases to contribution rates (before tax relief)			
Full Time Equivalent pensionable pay	Contribution rate 2011/12	Contribution rate 2012/13	Contribution rate increase in 2012/13
Up to and including £26,999	11%	11.6%	0.6%
£27,000 and up to and including £59,999	11%	12.25%	1.25%
More than £60,000	11%	12.5%	1.5%

Comment


Question 1: Should we adopt the England and Wales proposals or adjust them to reflect circumstances in Scotland as long as these still achieve the required additional contribution yield for 2012/13?

A large, empty rectangular box with a thin black border, occupying the upper half of the page. It is intended for a written response to the question below.

Question 2: How might any Scotland specific adjustments fit with our policy of having agreed common salary scales/terms and conditions across the UK?

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Question 3: How might any Scotland specific adjustments be set to ensure that no-one in Scotland pays higher levels of contributions than their UK counterparts?



Question 4: Do the proposed tiered employee contributions from April 2012 achieve the appropriate balance between:

- **Protecting the low paid;**
- **Minimizing potential opt out from the scheme;**
- **Ensuring that they are set progressively, so that higher earners pay proportionately more?**



Question 5: Do you consider that there are any potential equality issues? For example, is there anything in the proposals that might result in individual groups being disproportionately affected by the proposed contribution tiers?

Question 6: Are there any other specific issues around these potential increases that you would like the Scottish Government to consider?

Q7. From an administrative perspective, are there any particular issues that need to be taken into account in introducing a tiered system for the police schemes?

Q8. If the contribution rate is set for each year, do you think it would be appropriate to review this for significant changes in salary? If so, what threshold should be used?

Q9. Do you consider that the proposals for determining the contribution rate for new officers are appropriate?

Q10. We also welcome suggestions on other ways of delivering the UK Government's required savings through increased employee contributions within the Scottish Government's preferred scheme design parameters. Please detail any suggestions below.

Please e-mail your response to
policepensionsreform@scotland.gsi.gov.uk

or mail to:

Police Pension Scheme Reform
Policy Branch
SPPA
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

Closing date for receipt of comments is 17 November 2011.

ANNEX B: CONSULTATION RESPONSE FORM NEW POLICE PENSION SCHEME (SCOTLAND). CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES EFFECTIVE FROM 1 APRIL 2012: CONSULTATION RESPONSE FORM

Please Note this form should be returned with your response to ensure that we handle your response appropriately. An electronic version of the form can be accessed at www.sppa.gov.uk/police/consultations

1. Name/Organisation

Organisation Name

Title

Surname

Forename

2. Postal Address

Postcode

Phone

Email

3. Permissions - I am responding as... (please complete either sections (a), (b) and (d) **or** sections (c) and (d):

Individual **or** **Group/Organisation**

(a) Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish Government web site)?

Please state yes or no: _____

(b) Where confidentiality is not requested, we will make your responses available to the public on the following basis

Please state yes to one of the following:

Yes, make my response, name and address all available

or

Yes, make my response available, but not my name and address

or

Yes, make my response and name available, but not my address

(c) The name and address of your organisation **will be** made available to the public (in the Scottish Government library and/or on the Scottish Government web site).

Are you content for your **response** to be made available?

Please state yes or no:

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Please state yes or no:

CONSULTATION QUESTIONS

When responding to the following questions, please give reasons for your answers.

Within the context of the principles set out in the consultation document, your comments are invited on the preferred approach to delivering the required savings by increasing employee contributions to the New Police Pension Scheme by the amounts set out in Table 1 below.

Proposed increases to contribution rates (before tax relief)			
Full Time Equivalent pensionable pay	Contribution rate 2011/12	Contribution rate 2012/13	Contribution rate increase in 2012/13
Up to and including £26,999	9.5%	10.1%	0.6%
£27,000 and up to and including £59,999	9.5%	10.5%	1.0%
More than £60,000	9.5%	10.75%	1.25%

Comment

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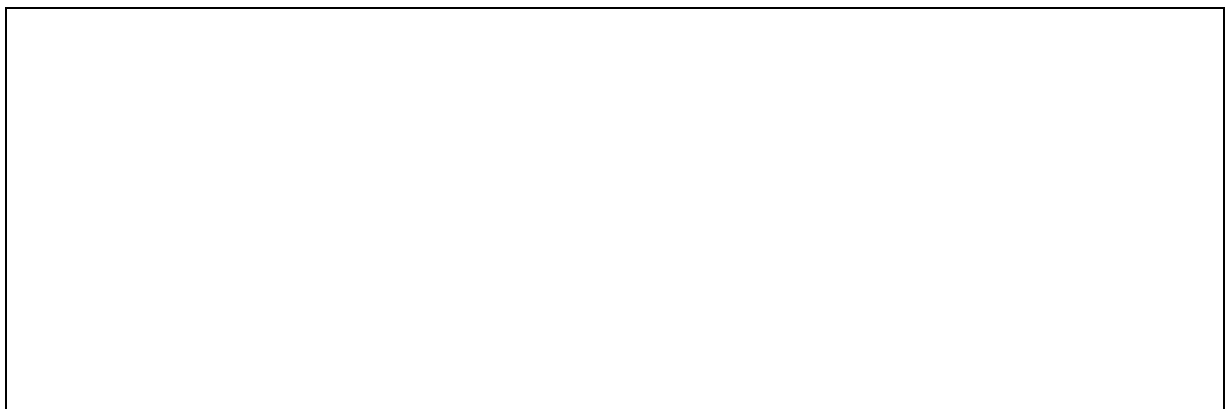
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Q9. Do you consider that the proposals for determining the contribution rate for new officers are appropriate?

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