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# **■ New Police Pension Scheme for Future Entrants**

A consultation document issued by the  
Home Office, the Scottish Executive  
and the Northern Ireland Office

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December 2003



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## Foreword by David Blunkett



Until now, change to the police pension scheme has been managed by evolution; elements of the scheme date back to the 1920s. It has, though, developed into a valuable and integral part of police officers' pay and conditions – the system of fast accrual of benefits after 20 years has

provided officers with a powerful incentive to continue in service, despite the demanding and often dangerous nature of the job. However, I believe that the time has now come to take a more fundamental look at the pension scheme to ensure that it can meet the needs of today's diverse workforce. A modern pension scheme needs to be able to adapt to officers' lifestyles and ways of working rather than the other way around; it needs to offer benefits that do not discriminate on the grounds of sex, age, sexual orientation or marital status.

That is why I am pleased to introduce this consultation paper, which sets out options as to what a new police pension scheme might look like – a scheme designed to address the needs of the police service and police officers in the twenty-first century. I believe that the options set out here strike the right balance between bringing about the changes needed to modernise the police pension scheme whilst continuing to recognise the unique role of police officers in protecting our communities from crime, disorder, anti-social behaviour and the threat of terrorism. But the purpose of consultation is to seek your views on these proposals – pensions are such an important issue that I am determined to ensure that we get this right.

As well as providing options for change to the basic design of the police pension scheme, this paper also puts forward proposals for reforming the system of financing police pensions. This is so as to make pensions expenditure more easily predictable and to separate it more clearly from operational policing costs – helping police authorities and forces in their financial planning.

This paper makes it absolutely clear that any new police pension scheme will not affect the entitlement of existing officers to remain in the current scheme. However, nor will our proposals prevent officers from transferring to the new scheme if it would better suit their needs – perhaps in being more affordable, or in terms of offering survivor benefits for unmarried or same-sex partners.

I hope that people will find this paper informative and helpful and that it will prompt a constructive debate about the best way forward. Our aim is to introduce a new police pension scheme for new entrants to the service by April 2006 – one that will serve officers and the service well for years to come. I am very grateful to you for your contribution to helping us to do this.

A handwritten signature of David Blunkett in blue ink.

David Blunkett  
December 2003

# Executive Summary

## Introduction

- 1 The Government has confirmed its commitment, in both the Police Reform White Paper of December 2001 and the National Policing Plan of November 2002, to considering options for modernising police pensions to make them more flexible and affordable for future entrants. It is proposed that the new scheme should be introduced for new entrants to Home Department forces in England and Wales and in Scotland, and also to the Police Service of Northern Ireland by no later than April 2006. This consultation document therefore launches a UK-wide consultation exercise.

## Status of existing officers

- 2 The Government has made it clear that police officers serving at present will be able to remain in the current scheme if they wish and that their ability to retire with an immediate pension after 30 years' service or with a pension payable from age 50 after 25 years' service will not be affected by the introduction of a new scheme.
- 3 Arrangements will also need to be put in place to enable members of the current scheme to elect to transfer to the new scheme. The timing of when this facility will be available needs to be considered further in view of the care required in enabling such officers to reach an informed choice. The Government believes that the new scheme will be an attractive option for a number of serving officers.

## New entrants

- 4 If the change to the minimum pension age proposed in the Inland Revenue Consultation Document: *Simplifying the taxation of pensions* comes into effect in April 2005, new entrants would not be able to retire with an immediate pension until the age of 55. The new pension scheme would address this issue. However, if it is not ready for full implementation in April 2005 alternative arrangements would be necessary for new entrants who come on or after that date but before the start-up of the new scheme. One possibility would be to give such new entrants membership of the new scheme in advance of

it being fully operational. The alternative would be to let such new entrants still join the current pension scheme with the same entitlements as at present except for a minimum pension age of 55 and a deferred pension age of 65.

## Key aims of a new scheme

- 5 The Police Pension Scheme is an important part of the reward and remuneration package of officers, which recognises the demands of police work. The current scheme provides a valuable package of benefits which compares very well with those of most schemes in other areas of employment. However, over recent years there have been many developments which make it desirable that the police pension arrangements that are to apply to officers serving during this century should be modernised. Although a pension scheme still needs to provide security in retirement, it now needs to cater for a more diverse workforce and to support management in meeting a wider range of recruitment and retention requirements and in providing greater scope for flexibility in benefits and careers. Also relevant to the introduction of a new scheme are the major developments in the legal and social framework of society and in government policy – the need to avoid discrimination on grounds of sex, sexual orientation, and age, the need to adapt to increasing life expectancy and to reflect policies on increasing working lifetimes and pension ages. There is also the need to ensure that a pension scheme for the police provides value for money and remains affordable to members and taxpayers.
- 6 The introduction of a new scheme for future entrants to the police service therefore provides an excellent opportunity to support the police reform programme, which aims to make the police service better able to reduce crime and provide safety throughout our communities, by helping to broaden the appeal of the service and by recruiting and retaining officers of the right calibre, for example by increasing take-home pay. The Government's aims for a new police pension scheme are that it should offer significant improvements for the police service in terms of:
  - improving retention of skills and experience;

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- facilitating greater flexibility in police career patterns;
- encouraging and supporting increased diversity; and
- making the security offered by a pension more affordable for officers and forces.

### Outline of the new scheme for future entrants

- 7 It is proposed that the new Police Pension Scheme should be a final salary scheme. The long-term security provided by a final salary scheme will help to moderate pressures on the police pay bill, since for example there will be less need for officers to make additional savings for the future. It will also encourage officers to stay for a full career. A defined contribution scheme has not been ruled out as an alternative, but it is not proposed that this consultation exercise should dwell in detail on such an option to the detriment of progress with a new final salary scheme.
- 8 It is proposed that a maximum pension under the new scheme should be built up over 35 years. It is considered that a 35-year accrual period will be compatible with future fitness levels and 35 years will also accord with the wider Government policy of raising the minimum possible pension age from 50 to 55. All else being equal, the longer the time taken to build up a maximum pension, the less expensive the scheme is likely to be. The proposed scheme would cost around 28-29% of pay. The officer would pay 9-9.5% and the employer around 18.5-19.5%, with contribution rates regularly reviewed in the light of, for example, changes in life expectancy. The proposed employee contribution rate compares very well with the 11% paid at present under the current Police Pension Scheme.

### Main features

- 9 Within the framework proposed above, the new scheme would have the following main features:
- a full pension, excluding lump sum, of half final salary;
  - a fixed lump sum in addition to the pension;
  - even build-up of benefits over a career – no accelerated accrual after 20 years;

- a minimum pension age of 55 and a deferred pension age of 65 (consistent with government policy on extending working lifetimes and higher public sector pension ages);
- life-long survivor benefits (i.e. no cessation on remarriage or co-habitation with a new partner);
- survivor benefits for unmarried partners; and
- two tiers of ill-health benefits – depending on the severity of disablement for work.

### Other features

- 10 Other proposed key features are:
- a pension lump sum of four times pension, giving a maximum of twice the final salary – although less than the present maximum police pension lump sum of about 2.5 times final salary for those who retire by age 51, this is more than some officers currently receive and compares favourably with the maximum of 1.5 times final salary lump sums in other public service schemes.
  - a survivor's pension in respect of an officer accruing the full pension of half final salary would be at the rate of 25% of final salary rather than the present 33%. This reflects changing lifestyles with financial inter-dependence, a feature of modern relationships, and enables the scheme's costs to be kept down.
  - a lump sum death-in-service grant of three times final salary – instead of twice final salary at present.

### Helping to meet key aims

- 11 The Government believes that such a scheme will continue to compare very well with schemes elsewhere, while enabling pension provision for future entrants to meet its key policy aims in the following ways:

#### Affordability

- With increasing longevity the value of benefits accruing under the current 30-year scheme is already estimated at about 36% of pay. The new scheme would be about a fifth less expensive than the current scheme in the long term – an estimated saving of 7% of payroll. A graph giving a broad idea of the cost implications is at Appendix C.

### Retention

- A 30-year scheme, however amended, could not retain officers as effectively or efficiently as a 35-year scheme. Although we do not favour introducing a 40-year scheme at this point, it cannot be ruled out as an option for later entrants if their projected fitness levels improve further or the nature of policing changes.
- The current lump sum militates against retention since the amount of lump sum received for every £100 of pension surrendered decreases with age. A fixed lump sum would avoid this deterrent to remaining in service.

### Flexibility and Modernity

- The present system of dual accrual, with fast accrual of pension rights after 20 years' service, disadvantages late entrants and those who take career breaks since the benefits are "end-loaded". A uniform-accrual scheme would resolve this problem.
- Pensions accrual on a uniform basis and over 35 years would also make some officers more willing to consider leaving the service if they would ideally prefer not to make policing their life's career. If necessary, such exits could also attract separate resettlement packages.
- The current scheme cannot differentiate between levels of ill health. Two tiers would allow suitable benefits for ill-health pensioners disabled from taking any new career and those able to work, although not with the level of fitness required in the police.

### Diversity

- There is increasing pressure to allow officers in unmarried relationships to provide benefits for their partners in the same way as married officers and to pay survivor benefits for life. For example, partners tend now to be financially interdependent and may expect that a surviving spouse or partner's pension should continue regardless of remarriage or a new partnership, since he or she will still be expected to provide financial support in the new relationship.

### Financing police pensions

- 12 To coincide with the introduction of a new pension scheme it is proposed to introduce a reformed system of financing police pensions. A recent joint Home Office/Treasury review has recommended a system under which police authorities pay employer and employee contributions into a local pensions account, which would be topped up as necessary by central government to meet the costs of pensions in payment.
- 13 An official group is now working up the details for introducing the new system. It is important that the introduction of a new pension scheme should not be a burden to the police service. Under the new financing arrangements it is proposed that police authorities would continue to administer police pensions. However, their operational budgets would be better safeguarded as employer contributions would be paid from them rather than annual payments of ordinary retirement pensions net of employee contributions (income from which might fall due to the reforms discussed here). This will happen in two ways:
  - Budgets will be protected from changes in pensions expenditure caused by year to year fluctuations in normal retirement;
  - Instead of operational budgets bearing the cost of paying retired officers' pensions (which are set to increase over the next 20 years or so) net of employee contributions, they will bear the employer's share of accruing pensions costs for currently serving officers.

### Consultation process

- 14 Responses are requested by 11 March 2004. Guidance is provided in Section 7 on how to send in responses, and the addresses to send them to, depending on which part of the UK they relate to. For ease of reference, the section also sets out a numbered list of the specific issues on which comments are invited.

### Timetable

- 15 After the conclusion of this consultation exercise it is proposed to work up the main details of the new scheme by October 2004 with a view to completion of consultation with the Police

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Negotiating Board on these by the end of 2004. Draft regulations would be produced soon after and by no later than April 2005, with a view to completion of the consultation exercise by no later than July 2005 and ideally sooner. This should allow almost a year for the relevant software to be developed and the other administrative changes to be put in place for the new scheme to be fully operational. If the new regulations are not ready for implementation by April 2005 they might be applied on an interim basis to those recruited from April 2005.



## Section 1

# Introduction

### Reasons for a new scheme

- 1 The fact that the Police Pension Scheme may no longer meet the needs of a modern police service and the rising cost of police pensions have been key drivers in recent years for conducting a review of police pensions. Against this background the Government has confirmed its commitment, in both the Police Reform White Paper of December 2001 and the National Policing Plan of November 2002, to considering options for modernising police pensions to make them more flexible and affordable for future entrants.
- 2 The priority for the Government is that any modernisation of police pension arrangements should bring early and direct benefits for the police reform programme. The changes should help to recruit and retain officers of the right calibre, for example by increasing take-home pay, and by allowing for greater diversity in backgrounds and careers because pensions would be less dependent on age at entry. The changes should also facilitate greater flexibility over exit points, allowing officers to leave early with a fair share of pension benefits.
- 3 Another consideration is that the police pension represents a very high proportion of police officers' total remuneration at present. The cost of pensions also has longer-term implications for the level of police grant. The Government and employers are looking for more cost-effective arrangements, which are more affordable for employers, taxpayers and police officers and which would free resources for tackling crime. The Government is also looking to ensure that police pensions design accords with its general policies on public service pensions and on taxation.

### Background to present consultation exercise

- 4 A review of the Police Pension Scheme was set up in 1993 but a report of the review was not published before the election in May 1997. The incoming Government decided a fresh start was required and that a consultation document should be issued to stimulate debate about

a modernised pension scheme for future police officers. The consultation document, published in 1998, suggested a pension of half final salary after 35 years (built up with credits of one 80th for each of the first 30 years and two 80ths for each of the last five) and a pension age of 55. This proposed scheme was estimated at that time to be worth overall around 24% of pay.

- 5 In the light of the consultation exercise the Government concluded that further work on the key details of a new scheme was needed before making firm proposals. Particular issues considered were whether it would be advisable for a new scheme to continue to make ages at which pension could be taken dependent on length of service and to offer a two-speed system of pension accrual.
- 6 During this period of further consideration police officers, management and police authorities have continued to call for change. Individual (and groups of) officers have sought improvements such as benefits for unmarried partners and lifetime pensions for spouses. Management has remained concerned at the rising cost of pensions and is also keen to tackle the perverse incentives in the present scheme for officers to retire while there is still a useful role for them to play in the police service, either with an ordinary pension after completing 30 years' service or with an enhanced ill-health pension.

### Government pensions policy

- 7 Meanwhile the pensions environment has also been changing. The Department for Work and Pensions Green Paper: *Simplicity, Security and Choice: working and saving for retirement*, and the Inland Revenue Consultation Document: *Simplifying the taxation of pensions* were published in December last year and the Government's response to the DWP Green Paper consultation: *Simplicity, Security and Choice: working and saving for retirement, Action on occupational pensions*, was published on 11 June. All three documents included proposals to raise pension ages in future. Such changes reflect the higher life expectancy and the growing demands for people to be able to work longer to save for retirement,

and fit into the general modernisation of pensions throughout the public sector.

- 8 The DWP Green Paper proposed a normal retirement age of 65 in public service schemes. It was acknowledged that physical requirements in services such as police and Armed Forces justify a lower normal pension age, but it was proposed to raise the age at which deferred pensions come into payment from 60 to 65. Those who leave these services early, and are no longer in that working environment, should have no more claim to an earlier pension than other public servants.
- 9 One proposal in the Inland Revenue Consultation Document was to raise the minimum pension age from 50 to 55 for all tax-approved schemes, including those for strenuous occupations, by 2010. Government policy continues to be that one pensions taxation regime should apply to both the public sector and the private sector. In future all schemes would be registered with the Inland Revenue and comply with the tax rules in order to obtain tax privileges such as tax free pension lump sums, tax relief on employee pension contributions and employer pension contributions which are not treated as earnings.
- 10 The Government's intention is that the new minimum pension age should apply to all new entrants to the public services from April 2005 and the new normal pension age of 65 for the majority of public services should apply to all new entrants by the end of 2006. However the Government is also considering under what conditions or incentives current public service pension scheme members with a pension age of 60 should at some point in the future move to a pension age of 65 as well. The position for currently serving police officers is set out in the next section.

## Section 2

# Status of Existing Police Officers

- 1 The then Minister of State at the Home Office, John Denham, wrote to the staff associations in December 2002 on the issues raised in the DWP and Inland Revenue consultation documents, stating that Ministers envisaged any change in pension ages being made in the context of reform to the current scheme.

### Continuing entitlement to membership of the current scheme

- 2 The proposed new scheme will apply to new entrants to the police. Although other serving officers may transfer to the new scheme, they need not do so. Any officers serving before the new scheme is introduced and who are members of the current Police Pension Scheme will be entitled to remain members of that scheme. Any officers who transferred between forces within Great Britain without a break in service would retain their membership of the current scheme. So would those who were on a period of formal secondment with a binding promise of return or who were on a career break under which they retained their membership of the Force and membership of the pension scheme. The position of transfers between Great Britain and Northern Ireland will need to be considered further. In cases where an officer left the service altogether the expectation is that he or she would be eligible for membership of just the new scheme on re-joining.

### Continuing entitlement to an ordinary police pension under the current scheme

- 3 **Currently serving officers who remain in the current police pension scheme will not be affected by changes to the pension age under the new scheme. Nor will the Government raise the minimum pension age to 55 for them.** Ministers believe that this will benefit both individual officers and the police service as a whole. It will give officers the reassurance they need to continue in their chosen career as planned, and will in turn help forces to retain skilled and experienced officers.

### Change in the normal pension age in the public sector to 65

- 4 The demands of police work make it reasonable for officers to be able to retire earlier than normal with an immediate and unreduced pension. However the same arguments do not apply to those who leave the service early and take up other work. Under the current scheme the pension age for officers who leave the service early with a deferred pension is 60, in line with the normal pension age for many other public servants. The Government has proposed a new normal pension age of 65 in public service schemes and the same pension age for those who leave the police, fire service and Armed Forces early with a deferred pension.

### Application of a change from 60 to 65 in the current Police Pension Scheme

- 5 It is Government policy that the new pension age of 65 across public service pension schemes should apply not just to new entrants by the end of 2006 but also to some existing staff, particularly those still relatively early on in their career. Such a change would apply only to pensionable service falling after a date to be set in the future. In the interests of consistency such a policy must apply across the public sector and include members of the current Police Pension Scheme, as well as members of the current fire and Armed Forces' schemes, who leave the service early.
- 6 If such a policy were applied to any current officers it would not affect the value of the entitlements to a deferred pension at 60 they have already built up and would not necessarily prevent officers who left the service after the date of change to age 65 from getting a pension at age 60 if they wished. An option would be to offer them a deferred pension at that age at a reduced rate in respect of the pensionable service falling after the date of the change.

- 7 The number of police officers who leave the service early is relatively small compared with the potential numbers affected by the proposed change in pension age in other public service schemes. **It is not proposed to apply such a change to the police service before there has been a full debate as to how this might be implemented across the public sector.**

### Effect of change in minimum pension age in 2005

- 8 If the change in the minimum pension age of new entrants to the public sector is duly made in April 2005 but the introduction of the new Police Pension Scheme is not completed until April 2006, consideration needs to be given to the position of new entrants to the police service between those two dates. One option would be to offer new entrants from April 2005 membership of the new scheme in advance of the administration systems for the new scheme being fully operational. This option would assume that by then the details of the new scheme would have been agreed and made public. However, although extending the new pension scheme to new entrants in advance of its full implementation has some administrative benefits, for example reducing the number of variations in pension terms that would have to be managed, it also risks some administrative problems, particularly if either pensions administrators or members of the new scheme are unclear about its provisions.
- 9 Another option would be to allow them to enter the existing scheme on exactly the same basis as pre-April entrants but with 55 as the earliest age at which they can draw an ordinary pension and the deferred pension age of 65, if they leave with less than 25 years' service, while leaving all their other benefits as they are. Although adapting the current scheme would involve a new entrant at age 20 serving for an extra five years before being able to retire with an immediate pension, anyone entering the service at age 25 or over who accrues a full pension entitlement would not be affected. Moreover, this option should not deter younger entrants if there were an opportunity to transfer over to the new scheme in due course. **Comments are invited on which of the two options is to be preferred.**

### Facilities for transferring to the new Police Pension Scheme

- 10 Although there will be no compulsion to join the new Police Pension Scheme it is intended that all officers serving at the time the new scheme is opened to existing officers should be eligible to transfer into it. It is unlikely that arrangements will be in place for existing officers to make such a transfer immediately after the new scheme is introduced in April 2005 or April 2006, since each officer will need to be given a clear idea of the choice he or she is making, and it may take time to prepare the necessary individual information packs. **However, once the details of the new scheme have been settled it will be possible to work out the arrangements for offering transfers into it and the appropriate conversion rate to be used in such transfers – i.e. the amount of years of pensionable service in the new scheme bought by every year in the old scheme.**

## Section 3

# Policy Objectives for a New Scheme

- 1 The current Police Pension Scheme has provided valuable pension benefits to individual officers but does not seem to meet the needs of the service in the 21st century, particularly in recruiting, retaining and managing what will be an increasingly diverse workforce. Taking into account the concerns voiced by police service stakeholders as well as the published Government policy aims, it is proposed that the following need to be key policy objectives for any new police pensions arrangements if they are to be attractive, effective and sustainable:
  - improved retention – keeping a final salary scheme will help recruitment and retention, but the current scheme gives officers little incentive to stay beyond the 30-year point, and its ill-health retirement benefits also provide an expensive early exit route which has proved attractive to many officers;
  - flexibility and modernity – the current system of dual accrual is inflexible in that it can penalise late joiners and those taking career breaks and reduces the willingness of officers to consider a change of career; all this sets the police pension arrangements unnecessarily far apart from other schemes and may hamper ongoing workforce modernisation; in particular, the system of dual accrual limits the scope for developing initiatives to enhance mobility and dynamism at the top of the service;
  - increased affordability – the present scheme has an employee contribution rate, which is intended to cover a third of total cost, currently set at 11% of pay, and a notional employer contribution rate which is already more than twice this and expected to rise further with continuing increases in life expectancy. If the opportunity exists to sensibly reduce the cost of the scheme to employers, taxpayers and officers, it should be taken;
  - diversity – the current scheme provides well for the married officer but not for those in other relationships and, as noted above, dual accrual was not designed with the needs of late entrants and those taking career breaks in mind.
- 2 With each of the four key policy objectives listed above in mind the following are suggested as the key elements in any new pension scheme if it is to prove successful.

### Features to promote retention and affordability

#### Scheme length of service and cost

- 3 The central issues for any final salary pension scheme are the rate at which benefits are built up – accrual rate – and the consequent cost of providing those benefits. The rate of benefit build-up can also be expressed as the length of service required to build up a full pension – the accrual period.
- 4 The idea of a standard career is becoming less relevant to modern working patterns. However, there is an argument that an employee who joins at the age of 20, and who wishes to stay the course, should not be expected to work for longer than consistent with continuing reasonable health in order to accrue a full pension. There is a need therefore to build any new final-salary scheme for the police on a structure which suits conditions in the service over the coming years.
- 5 Life expectancy has continued to rise. An increasing proportion of life spent in retirement necessarily increases pension costs. A better balance is achieved by increasing the accrual period and the minimum retirement age. Apart from the cost implications, which would be of concern to both police authorities and officers, there is also the question whether a 30-year scheme, however amended could retain officers as effectively as, say, a 35-year scheme or a 40-year scheme.



### Pension ages

- 6 Any consideration of the length of accrual period has to take account of the Government's wider pensions policy. That includes encouraging longer working lifetimes, raising the normal pension age for new entrants to public service schemes from 60 to 65 by 2006, and requiring that members of tax-approved schemes should have a minimum pension age of 55 by 2010. The only exception would be for members of existing schemes (in particular those for the uniformed services), where existing members at the time the new tax regime is introduced in April 2005 would be allowed to continue to take pensions before age 55. However other aspects of the new tax regime would apply to them.
- 7 In order to comply with this policy a new scheme will need to have a minimum pension age of 55 and a deferred pension age of 65. We see a new scheme as a good opportunity to introduce a higher minimum pension age to reflect the changes in life expectancy and the need to retain skilled officers more effectively.

### Features to promote flexibility and modernity

- 8 There are certain core elements that will need to be incorporated into any scheme to give police authorities and senior officers the necessary tools for career management, and officers a satisfactory range and scale of benefits to make a new scheme sustainable.

### Single pension age

- 9 A major feature in a modernised pension scheme is that it should give everyone in a particular category of employment, no matter when they enter, the same rights for each year of service completed. This is a prerequisite for a more diversified and flexible recruitment policy. It also accommodates those who take career breaks either for personal reasons or as part of sponsored career development.

### Survivor benefits for unmarried partners and for life

- 10 Not all heterosexual couples wish to marry and same-sex partners currently have no such opportunity, although Government proposals on civil partnerships may make it possible to register a legally binding commitment with

responsibilities mirroring those of marriage. However the pension provisions for the police might be seen as increasingly outdated and inflexible if they continued to exclude officers who do not wish to marry or register their partnership from survivor benefits for their partners. Similarly there is a case for allowing survivor benefits to be paid for life.

- 11 The current system was originally based on the premise that a wife was, by definition, dependent on her husband and should be provided for unless she remarries and thereby becomes dependent on her new husband. This has survived the extension of widows' benefits to widowers, but looks increasingly outdated now that couples are more likely to be financially interdependent. By the same token a surviving partner can be expected to contribute their share financially to any new relationship formed after the death of the other partner.

### Features to promote retention and flexibility

#### A standard lump sum

- 12 The current scheme provides for a tax free lump sum to be paid if an officer surrenders a part of his or her pension and has it converted (or "commuted") into a lump sum. The scheme militates against officers remaining beyond 30 years by offering a sliding scale of factors used to calculate the amount of lump sum received for every £100 of pension commuted. The younger you are the higher the factor. This reflects the fact that the younger you are the more years' pension payments you are likely to be giving up, but it is another incentive to leave the service as early as possible. Different factors for men and women, with women having higher factors since they live longer on average, also cause male officers to feel disadvantaged. A single commutation factor applicable at all ages or a fixed lump sum would avoid these drawbacks.

#### Two-tier ill-health benefits

- 13 The current scheme is inflexible in its benefits and as a management tool since it is not able to differentiate between levels of ill health. Currently any officer who is permanently unable to perform the ordinary duties of a member of the force, if medically retired, is entitled to an immediate pension with generous enhancements.

- 14 The review of public sector ill-health pensions in July 2000 recommended a two-tier system for services, like the police, with high fitness standards. This allows the distinction to be made between those leavers who are unlikely to ever work full-time again (and therefore need such enhancements) and those who no longer meet the high standards of fitness for that job but who have a reasonable prospect of starting on a new career and being able to add to their pension benefits.
- 15 There is also the consideration that the uneven way in which enhancements increase under the current system creates points at which there is little incentive to remain further in the force. A smoother progression of enhancements for those unable to take regular full-time employment is arguably fairer to the officer and avoids perverse incentives to leave the service at any given point.

## Section 4

# Basic Type and Structure of a New Scheme

- 1 This section considers the basic type of scheme that might be provided and how some basic features might relate to developments in police careers and demographic features such as longevity.

### Money purchase or defined benefits?

#### Flexibility to suit modern working patterns

- 2 A more flexible pension scheme can offer members more choice and supports a greater diversity of entrants and career patterns in the service. The most flexible option available is a money purchase scheme or defined contribution (DC) scheme, where officers can choose how much they contribute, and when and what type of annuity will be bought with their investment. This may be attractive to a different set of entrants, for example those joining for a short period. However, the lack of certainty over benefits will discourage most officers, so at best it would be a helpful complement to the main Police Pension Scheme for those officers who do not intend staying in the police long-term and want to build up their individual pensions savings.
- 3 A specific defined contribution pension scheme would impose a range of practical constraints and costs. A more attractive and more flexible option might be to follow the example of the Civil Service and use a panel of stakeholder providers from which an officer could choose. Contributions from both employer and officer would then be put in a stand-alone scheme in the name of the officer.
- 4 However, depending on how it is designed, a defined benefit scheme can offer a good degree of flexibility. Under the current scheme those wanting to take career breaks or join the service later stand to benefit less from the link between pension age and length of scheme membership and may have less opportunity to benefit from the higher accrual rate after 20 years.
- 5 Apart from being inherently fairer, breaking the link between pension age and length of scheme membership and applying uniform accrual would

greatly facilitate flexible working patterns. In particular, it should help to make officers more willing to consider a change during their careers. For example, the pension age of officers who took a career break to develop their careers outside the service and then rejoined would not be affected. All of this would help broaden the range of experience within the ranks and the leadership of the police service and also help to enhance mobility and dynamism throughout the service.

- 6 Although applying a minimum retirement age of 55 or 60 might make a new 30-year scheme less expensive than the current scheme, it would still be costly, would lack flexibility for a police career and would not do much to encourage longer working lifetimes. It would not be suitable for officers who joined at, say, 20 and who would have accrued an entitlement to a full pension by 50. A longer period of service, such as 35 years, is necessary in order to spread the costs more evenly for the officer and the service, and to encourage retention.

#### Defined benefit options

- 7 A defined benefit scheme need not be a final salary scheme. There are a number of other options that might be alternatives to the final salary scheme, for example “career average” schemes. A career average scheme pays benefits based on a proportion of the salary earned in every year of scheme membership, with each year’s earnings being re-valued up to the date of retirement to allow for inflation. A career average scheme can be funded at a lower cost than a final salary scheme but with the same headline accrual rate, depending on the provisions for up-rating each year’s benefit accrual, or can offer scope for higher accrual.
- 8 However, in the absence of a clear case for such alternatives, it is proposed that the new scheme should be linked to salary at or towards the end of an officer’s police career, since that seems to suit the service best, given its specified pay and rank scales and its in-built incentive to serve longer in order to gain a higher pension.



- 9 It is recommended that the new Police Pension Scheme should be a defined benefit scheme based on final salary. Comments are invited on this recommendation and on whether there is a case for an alternative defined benefit option.**

#### Defined contribution

**10** In a defined contribution scheme employers and employees pay a specified level of contributions to an individual's pension fund. The benefits that can be bought from those accumulated contributions depend on the level of investment returns on the fund and market annuity rates, so the employee bears the associated risks although some risks might continue to be borne by the employer, or separately insured, such as a minimum level of benefit in cases of ill-health retirement or death in service.

**11** Employers decide the level of contributions, which may include an element of matching contributions payable by the employee, with the risks of what benefits can be bought with those contributions left with the employee. A money purchase arrangement can be modified to give a low-cost scheme, for example by scaling down all contribution rates with a commensurate scaling down of potential benefits. However, this would lead to greater pressure on pay claims if the employer contribution rates were considerably reduced by comparison with defined benefit equivalents.

**12 A defined contribution scheme is not recommended for the police service as the basis for new police pension arrangements, but it might be an attractive alternative to members who do not want to pay the employee contributions necessary for a defined benefit scheme.**

**13** Such an alternative might also commend itself to those who want a more flexible scheme as part of their individual lifetime pensions savings, for instance if they are likely to leave at a relatively young age. Some early leavers in a defined benefit scheme (for example, who leave after around 5 years) may find it poor value as the deferred benefits may be valued at less than the cash total of the member's own contributions. A money purchase scheme might therefore be attractive, although it is recognised that care must be taken in offering such an alternative, to encourage officers to make adequate provision for their

pensions. One scheme design option is to have an age-related contribution scale so that benefits are broadly equivalent to those received under a defined benefit scheme.

- 14** The main purpose of the present exercise is to find the successor to the current Police Pension Scheme. It is not proposed to explore the possibilities of a defined contribution option in further detail at this stage, since that should not detract from the main purpose. **Comments are invited on whether further work should be carried out on a defined contribution alternative once the new scheme has been introduced, in order to provide greater choice to police officers in future.**

#### Main features of a new defined-benefit scheme

- 15** A modernised defined benefit scheme would need to have a common set of features, necessary to fit in with wider pensions modernisation and to meet the policy or objectives or legal obligations set out previously, as follows:
- uniform accrual;
  - a minimum pension age of 55;
  - a deferred pension age of 65;
  - life-long survivor benefits for spouses and unmarried partners in a long-term relationship (i.e. no cessation on remarriage or co-habitation with a new partner).

The next section discusses the other key elements of the scheme and the options for their most effective inclusion, but the most fundamental feature is length of service for a maximum pension – the accrual period.

#### Length of accrual period

- 16** Two main options have been considered for a defined benefit scheme:
- 1 a 35-year scheme; and
  - 2 a 40-year scheme.

An updated 30-year scheme has been considered but would be more expensive than the current scheme unless benefits were scaled down to considerably below current levels and would not

be readily compatible with policies to extend working lifetimes and increase pension ages.

- 17 The difference in scheme design between a 35- and a 40-year scheme can be seen in the accrual rates:
- Officers accrue their pension over 35 years: this could be either at 1/70th if there is to be a fixed lump sum paid in addition or at 1/52½th per year of service if the lump sum is an option available by commutation.
  - Officers accrue their pension over 40 years: this could be either at 1/80th if there is to be a fixed lump sum paid in addition or at 1/60th per year of service if the lump sum is an option available by commutation.
- 18 Having a longer period of service during which officers could accrue a pension would help the service retain skills and experience. The pension scheme is a key management tool in this respect. For example, currently the majority of officers retire soon after completing 30 years' service when a full unreduced pension becomes available (or earlier if they leave on ill health grounds). At its simplest, a 35 or 40-year scheme would encourage officers to remain in service for longer. From a wider perspective, much work has been done to encourage employers to retain and recruit older workers, for reasons such as a shortage of workers in younger age groups, the cost of paying pensions to people in their 50s and early 60s, older workers wanting to remain in service and equality issues.
- 19 The implementation of the EU Employment Directive 2000/78/EC into UK legislation will mean that conditions of employment will no longer be able to provide for compulsory retirement purely on grounds of age. Officers who want to stay on beyond the age of 55 or 60 will be able to do so unless there are specific reasons to the contrary. A policy of retention needs, however, to be set in the context of maintaining the effectiveness of the force and enabling younger officers to progress, particularly if compulsory retirement ages fall foul of age discrimination law. The pension scheme has to be designed to support the conditions of employment. There will still be value in setting a standard length for a police career which enables officers to leave with a target pension before their fitness for duty can be expected to diminish significantly.
- 20 Home Office researchers have pointed to work that shows that the trend in healthy life expectancy has continued to improve steadily over the last 20 years, in line with improvements with life expectancy, although not as fast. Healthy life expectancy is defined as “expected years of life in good or fairly good health” and is used primarily for assessing healthcare needs. Male healthy life expectancy increased by around 2½ years between 1981 and 1997, compared with an increase of four years in male life expectancy. Although the concept of healthy life expectancy is not directly related to ability to work, it suggests a trend which supports a move from a 30-year scheme to a 35-year scheme, even if not conclusively supporting a move to a 40-year scheme.
- 21 In addition to general trends in better health, it is expected that the service will continue to apply and develop the strategy for a healthy police service in order to improve health and fitness levels and resilience amongst officers. A 35-year accrual period should mean that the great majority of officers will be able to leave the service in their mid to late fifties with either a full or a substantial pension. Those who joined too late for a full pension by age 55 would have the opportunity to buy added years if they could not transfer in pensionable service relating to other employment to make up the gap.
- 22 It is considered that the right balance lies in opting for a 35-year scheme which would enable officers to retire with either a full or substantial pension between the ages 55 to 60.**

#### Better management of the police career

- 23 There is a likelihood that forces which have made significant advances in the civilianisation of business areas will be appointing civilian staff to roles that had previously provided opportunities for the placement of police officers on restricted duties. This provides management with a challenge to ensure that those who are not fit for the full range of duties are retained in a way which still provides them with a real opportunity to make a contribution as police officers. However, the same need to bring the best out of officers applies throughout the service and not just to those able to do limited duties. If skilled and experienced officers are to be retained in the service effectively their progress needs to be kept under review in order to ensure as far as possible

that they are carrying out duties commensurate with their experience and aptitudes and which enable them to develop further. The case for this is arguably strengthened by the proposal to introduce a pension which assumes a full career of 35 years.

- 24 The service has procedures for tackling poor performance and has recently extended these to deal with poor attendance. These procedures will often result in improvements in performance and attendance, but for the cases where there is little prospect of such success it would be preferable if exits from the service were managed before needing to resort to such measures. Of the 6,007 officers who ceased to serve in England and Wales in 2001/02, 3,004 (50%) went on ordinary retirement, 1,798 (30%) resigned or were dismissed, and 1,114 (18.5%) were medically retired. Compared with overall police numbers of 129,603 at 31 March 2002, this is a high level of retention which is in many ways highly desirable. However, it remains open to question whether the present pension scheme puts undue pressure on officers to soldier on for a full career, whether or not they are still suited to, or motivated for, continuing service.
- 25 One possibility would be to enhance, in parallel with the new pension scheme, the annual performance review process with a more strategic view of an officer's progress and future in the service being taken, say, every five years. The immediate purpose of such reviews would be to map out future postings in order to develop the officer's skills and experience and to meet the operational needs of the force, but there will be cases where an honourable exit looks the best option, before the officer's health or motivation dips to a level which requires action.
- 26 One option to facilitate an officer leaving early with dignity would be a resettlement package. A resettlement package could include training, career advice, assistance with removals etc., to assist the process of finding new employment. It is also for consideration whether there is a case for including a resettlement gratuity, paid separately from the pension. Such gratuities are payable to those leaving the Armed Forces (which often means leaving military accommodation) but it is arguable that the amount of resettlement assistance needed by a police officer is appreciably less. Moreover, seeking

outside employment is not the only option. This facility should be seen as complementing an increasing number of alternative employment options offered within the extended police family.

- 27 **It is recommended that further work is carried out on the question of strategic career reviews and resettlement packages once HMIC (Her Majesty's Inspectorate of Constabulary) has concluded its thematic review of civilianisation and the workforce modernisation agenda has been taken forward. Comments are, however, invited on these issues.**

#### Interchange at the end of one's career

- 28 With the development of the extended police family, there is growing scope for flexibility and interchange between the various branches of that family. One issue is whether it would help or hinder interchange if, say, police officers and community support officers, who are members of the Local Government Pension Scheme, had the same standard length of service (the LGPS is a 40-year scheme with a normal pension age of 65). At first sight this might strengthen the case for moving to a 40-year scheme for the police. However, the major obstacle to interchange is likely to be the pay differential between police officers and other staff working in the policing area. If police officers are paid more than most equivalent civilians, then interchange will be most attractive at the end of a career, particularly if the officer can retire with a pension and draw on that to make good the lower civilian pay.

#### Flexible retirement

- 29 There is also the possibility of using the proposed new flexibilities under tax and pensions law to allow management to offer some officers the possibility of taking part pension while continuing to work and perhaps build up further pension. That might be helpful if it were thought desirable in future to encourage some officers to step down in rank and/or work part-time. This will need to be considered further in longer-term planning for police careers and manpower numbers (for example, if in the light of age discrimination legislation and success in increasing police numbers, it were possible that in some years the police service might have too many older officers, some of whom we wanted to retain but in a lesser capacity than at present).

Keeping the 35-year accrual period under review

**30** Although the case for a 40-year scheme has not been made for police officers, there would be value in keeping this under review in the light of progress with workforce modernisation and the duties police officers will be expected to perform in future. **It is also recommended that the case for a 40-year scheme needs to be kept under review in the event that there were to be an operational case for it.**

## Section 5

# Key Elements of a New Police Pension Scheme

- 1 This Section looks at some of the key options for scheme design.

The following features would benefit from further discussion:

- the issue of how the pension lump sum should be calculated;
- the treatment of ill-health benefits;
- survivor benefits for unmarried partners;
- the size of survivor benefits; and
- the lump-sum death-in-service grant.

### A fixed or variable lump sum

- 2 There are two main options for offering a lump sum with a pension on retirement. It can either be awarded as a standard benefit in addition to a pension or offered as in the form of optional commutation – surrendering part of a pension in order to convert it into a lump sum. The size of the lump sum can vary, ranging from the fixed lump sum of 1½ times final salary paid in most public service schemes to payments of over twice final salary often paid in the current Police Pension Scheme. In order to be tax free under the proposed new pensions tax regime a lump sum cannot exceed 25% of the value of benefits taken at a particular time and the total pension benefits cannot exceed £1.4 million.
- 3 The present Police Pension Scheme provides commutation factors on a sliding scale set according to a person's sex and age at the time of receiving a pension, to ensure that the lump sum is broadly equivalent to the value of pension being given up. Age-related factors will make such a pension scheme more expensive than one with a fixed lump sum and will also require review whenever the mortality rates change. They are also administratively complex and provide perverse incentives to leave as early as possible.
- 4 Most public service schemes have fixed lump sums with a separate accrual rate, i.e. no commutation factor, of three times the accrual rate of the pension. In the case of a 35-year police scheme, with pension accrual at 1/70th a year, that would mean the lump sum accrued at 3/70ths a year. The Government has announced that the new Armed Forces Pension Scheme would provide a fixed lump sum accruing at 3/70ths a year. The civil service, however, recently moved to a standard commutation factor of 12:1 for the new part of the scheme. In the private sector, commutation is commonly offered at a fixed rate of exchange. This option may appear to offer greater flexibility for the scheme member but experience both in the public and private sectors suggests that nearly all those with the option choose to exercise it.
- 5 A fixed lump sum or an optional lump sum based on a fixed commutation factor appears to be a better option in terms of retention and affordability than an optional lump sum based on age-related factors. For example, it protects older retirees from smaller lump sums and makes it easier to estimate and manage costs. The arguments for fixed lump sums as against optional commutation include:
  - a fixed lump sum paid in addition to the pension is easier to administer than optional commutation;
  - although it may seem to offer members less choice, it is possible to offer reverse commutation of lump sum to pension;
  - experience suggests that even a fixed commutation factor may become subject to pressure to be reviewed and increased;
  - optional commutation is likely to be in practice more expensive than a fixed lump sum; and
  - it introduces differences between the benefits of members falling on either side of any change in commutation factor.
- 6 A maximum lump sum of 1½ times final salary would not be as large as the current maximum lump sum for officers, which can exceed 2½ times final salary, in the case of some women officers. It should be remembered, however, that not all officers qualify for payments of that size. Some retiring before 30 years of service will have their lump sum limited to 2¼ times their



pre-commutation pension, the equivalent of three times the commuted pension, in some cases working out at just under 1½ times final salary.

- 7 The ability to take a valuable lump sum is considered to be a key feature for any new police scheme. However, making the lump sum too large would reduce the incentive to remain in service beyond the minimum pension age, since even an extra year's salary would be dwarfed by the lump sum. It is considered that the right balance would be struck by a lump sum of twice the final salary for an officer qualifying for a full pension. This could be provided by means of a fixed lump sum paid in addition to a half final-salary pension. Alternatively there might be optional commutation of a part of the final-salary pension. We have included illustrative costs in the table at Appendix B based on optional commutation with a fixed factor unrelated to age of either 12:1 or 14:1.
- 8 **It is recommended that officers entitled to a full pension should be paid a fixed lump sum of twice final salary. Comments are invited on this and on whether there is a case for optional commutation or for either a smaller or larger lump sum.**

### One or two-tier ill-health benefits

- 9 As mentioned in the last section, the recent review of public sector ill-health pensions recommended a two-tier system for services, like the police, with high fitness standards. The current scheme is inflexible in its benefits and as a management tool since it is not able to differentiate between levels of ill health. Currently any officer who is permanently unable to perform the ordinary duties of a member of the force, if medically retired, is entitled to an immediate pension with generous enhancements.
- 10 Although an enhanced pension is appropriate for those who cannot earn an alternative living, those who can take alternative regular full-time employment require only limited continuing support from the Police Pension Scheme. An ability to continue in full-time employment brings with it the means not only of earning a reasonable living but also of accruing further pension benefits.
- 11 **It is proposed that officers who are still able to take regular full-time employment should leave with an immediate unenhanced**

**pension. This would serve as a cushion between the salary on leaving the police and a potentially lower paid job outside. For officers who are permanently disabled from taking regular full-time employment there should still be a system of enhancements to compensate for this loss.**

### Scale of enhancements

- 12 It also needs to be considered whether the present system of enhancements serves either the police service or individual officers as well as it could. An alternative to the present cliff edges to enhancements, which provide little incentive to remain beyond 10 years or later, beyond 26½ years, would be a smooth curve of enhancements. A scale which involved topping up the accrued pension with half the additional pension the officer would have built up by normal pension age would provide someone having to retire early on in their career with particularly valuable support for the rest of his or her life. It would also serve as a subtle aid to retention since it would always be beneficial for an officer to remain in the force, without there ever being a significant shortfall in pension for going at one point rather than one just later.
- 13 **It is proposed that the enhancements should be based on half the prospective service to normal pension age. Comments are invited on this proposal and on any alternatives that might be considered.**

### Survivor benefits for unmarried partners

- 14 Under the present Police Pension Scheme, only spouses are entitled to survivor benefits. Government proposals on civil partnerships for same-sex couples would give registered partners a status akin to that of a married partner. This includes a proposal that for future service members of public service pension schemes will earn an entitlement to survivor benefits, including a survivor pension, for a civil partner in the same way as for a married partner.
- 15 Widening the scope of survivors' benefits is likely to be an attractive feature for officers. The proposed scheme would extend survivors' pensions to unmarried, including same-sex, partners for life provided they were financially interdependent with the scheme member, whether the marriage or other partnership was formed before or after retirement.

16 Safeguards would be needed to ensure that partnerships were real and binding commitments (rather than artificial devices to obtain pension benefits for friends and relatives who are not financially dependent). It is proposed that the new scheme would provide for a partner's pension only if at the time of death:

- the partner had been nominated and a joint declaration of partnership had been completed;
- the officer and partner were living together in an exclusive committed long term relationship (of at least two years);
- the officer and partner were free to marry (or would have been able to if they had not been the same sex); and
- either the officer's partner was financially dependent on the officer or the two were financially interdependent.

17 It would also be prudent to include arrangements, common in pension schemes, to ensure that where there is a very significant age gap between the scheme member and the partner/spouse the potential survivor does not benefit unduly and, for example, to guard against artificial "death-bed" marriages. It is proposed that in the case of partners (both married and unmarried) who are more than 12 years younger than the officer, the partner's pension should be reduced by 2½% for every year or part year the age gap exceeds 12 years, up to a maximum of 50%. Also, if the member and a surviving spouse married less than six months before the member's death without having, for example, satisfied the conditions that would have applied to an unmarried partner's pension, the police authority would be given discretion not to pay a spouse's pension.

18 **It is proposed that the new scheme should extend survivor benefits to unmarried and same-sex partnerships for life and that safeguards should be put in place to limit these benefits to genuine partners and to limit the age gap between scheme member and survivor.** Such safeguards have already been applied when extending unmarried partner benefits to the civil service.

### Scale of survivors' pensions

19 Under the new proposal, the survivor's pension in respect of an officer accruing the full pension

would be at the rate of 25% of final salary rather than the present 33%. This reflects changing lifestyles with financial interdependence over dependence a feature of modern relationships. It also helps to mitigate the added costs involved in extending survivor benefits to unmarried partners and making them payable for life. The extension of such survivor pensions to unmarried partners, plus the payment of survivors' pensions for life regardless of remarriage or cohabitation, is estimated to cost an extra 0.55% of pay. However, it is estimated that paying all survivors' pensions at a rate corresponding to 33% of final salary for an officer with a 2/3 of pay pension, rather than 25% of final salary, would cost an additional 0.7% of pay on top of the costs for the 35-year scheme shown in Appendix B.

### Death in service benefits

20 Death in service benefits under the current scheme include a lump-sum death grant for all in-service deaths of twice the annual value of the officer's pensionable pay. These lump sums are payable in addition to a widow or widower's pension and any other dependant's benefits where applicable. The surviving spouse's pension is normally half the pension the officer would have received if he or she had been medically retired and not died in service.

21 The death-in-service lump sum provides a valuable extra benefit where an officer dies in service. There is a strong case for providing a larger lump sum to help the bereaved spouse or partner over the distress and challenges caused by death in service, bearing in mind that such a death prevents the receipt of a pension lump sum in the ordinary way. It is proposed to raise the pension scheme death in service lump sum from twice to three times the officer's pensionable pay.

22 Another means of improving flexibility is to enable officers to nominate the people or charities they would wish their death grant to be paid to. One possibility would be for the death grant to be paid to the surviving spouse or partner in the absence of the officer making a nomination otherwise. The drawback to nominations is that such forms can become out of date. However, this can be tackled by regular reminders coupled with providing the police authority with the discretion not to act on the

officer's nomination if it appears inequitable to do so. Giving the police authority discretion is likely to mean that the lump-sum payments would not attract inheritance tax.

**23 In the case of death in service, it is proposed that the surviving spouse or partner should receive a pension equal to half the ill-health pension the officer would have received, had he or she been permanently disabled for regular full-time employment. It is also proposed to raise the lump-sum grant for death in service to three times the officer's pensionable pay and to introduce a system for nominating beneficiaries other than the surviving spouse or partner, with the police authority making the payment at its discretion. Comments are invited on these proposals.**

**24** The current police injury arrangements provide for additional benefits for any death as a result of an injury in the execution of duty, where death occurs within one year of the injury. The death gratuity payable in such cases would increase the lump-sum death grant to the lesser of either five times the annual value of the officer's pensionable pay or four times his total remuneration during the last 12 months as an officer and his or her total pension contributions for that period. A widow or widower would receive a special award of 45% of the officer's average pensionable pay where death is as a result of an injury in the execution of duty. The special award would be augmented to 50% where death occurred in particular circumstances such as in the course of trying to save another's life.

**25** The issue of injury benefits lies outside the scope of this consultation exercise, but it is recognised that if there is a case for modernising pension provisions there is also a case for modernising injury provisions in the context of a review of such awards.

### Contribution Rates

**26** Members of most public service pension schemes, including the Police Pension Scheme, have been expected to meet broadly one third of the cost of benefits. The police and fire schemes contribution rates have been specifically altered in the past to achieve this. Officers' contribution rates for the new scheme would need to be set according to the option chosen. Assuming in the

case of each option a spread of retirements between the ages of 55 and 60 (i.e. the central column in the table at Appendix B) the officer contribution rate could be, say:

- 9%-9.25% of pay out of a total cost of around 27.7% of pay for a new 35-year scheme; or
- 8%-8.25% of pay out of a total cost of around 24.5% of pay for a new 40-year scheme.

**27** The precise contribution rate would depend on the details of the package involved. However, the aim would be to have an officer contribution rate of no more than around 9% of pay out of a total cost of well under 30% if this exercise is to deliver a new scheme which is truly more affordable for officers and the service as a whole.

### Costs

**28** The estimated cost of the recommended option would be between 27.7% and 29% of pensionable pay, depending on whether officers will generally retire at age 55 or between the ages of 55 and 60. **On that basis it is suggested that the officer contribution rate should be around 9%-9.5%, with the employer meeting the balance of the cost of between 18.5% to 19.5% of pay. It is also recommended that these contribution rates should be regularly reviewed in the light of changes to factors affecting the costs of benefits, such as further increases in longevity. As part of this process the operational and organisational case for a 40-year scheme also needs to be kept under review. Comments are invited on these proposals.**

### Conclusions

**29** A 35-year scheme, as well as being a more effective retention measure, is necessary to balance the greater demands from members and managers for a more affordable scheme against the background of increasing costs through rising life expectancy. For example, male life expectancy increased by around 4 years between 1981 and 1997.



- 30 A 35-year scheme strikes the right balance in meeting the needs of a modern police service in terms of:
- supporting modernisation and diversity;
  - flexibility;
  - retention of skills and experience; and
  - affordability.
- 31 It should also be borne in mind that any reduction in contribution rates for officers will mean an increase in their take-home pay, which will also increase their options for additional pension provision, should they want this.
- 32 It is proposed that the most suitable package would entail a 35-year scheme based on 1/70th a year pension accrual and separate 4/70ths a year lump sum accrual. The full details are set out at Appendix A.**

## Section 6

# Costs and Wider Financial Implications

- 1 A crucial feature of the new scheme is that it should be more affordable than the present scheme. Because pension schemes vary in the benefits conferred and in contribution rates, among other things, comparison of the relative costs of different scheme designs is a complex matter. The measure most commonly used for this purpose is the *new entrant contribution rate*. This is the percentage of pensionable pay which, if paid throughout the career of the average new entrant, would cover the cost of his or her benefits if the actuarial assumptions were borne out in practice. This measure enables easy comparisons to be made between the relative values of the current scheme and the proposed scheme. If the police scheme were funded, this rate would be the total contributions required from police authorities and police officers (before any adjustment for any surplus or deficit in the scheme).
- 2 Since the police scheme is a pay-as-you-go scheme, it is recognised that the actual costs falling on police authorities would not be equivalent to the new entrant contribution rate in any one financial year. An estimate of the effect on the cash flows of police authorities if the proposed scheme were to be introduced is considered below, expressed as annual pensions expenditure as a percentage of pensionable payroll.

### Cost of present benefits

- 3 The main way to assess comparative pension costs is as a constant percentage of pay over the working life of a typical member – the new entrant contribution rate. The cost of the benefits accruing under the present scheme is estimated by the Government Actuary's Department (GAD) as 36% of pay on this basis. The estimated cost of benefits accruing under the Police Pension Scheme is now higher than when the cost was last estimated as 32% of pay. The increase is mainly attributable to the well-publicised increases in life expectancy in recent years.
- 4 GAD have not undertaken a full review of their actuarial assumptions for costing purposes. (There is at present no regular system to collect pension data from police forces, only specially-commissioned periodic data collection exercises. A current data collection exercise being conducted by Home Office and GAD will provide some more useful information in due course.) The 36% figure is therefore an updated estimate, based on information currently available.

### Cost of proposed new benefits

- 5 GAD have calculated the new entrant contribution rate for a new scheme with the main features proposed – 35 years for a full pension of half final salary plus a lump sum on retirement after 35 years of twice final salary – to be 29% of salary. This assessment and the cost of other options for a new scheme are discussed in Appendix B.

### Cash expenditure

- 6 The costs of police service pensions are met on a pay-as-you-go basis by police authorities. Expenditure on pension benefits comes out of their revenue budget. Accordingly, contributions made by employees count as income of police authorities. The difference between these two amounts is the net pensions expenditure, or the cash cost to the police authorities of paying pensions.
- 7 The cash costs of the scheme have been rising over the last few years, and will continue to rise in the short term. This growth in net expenditure arises because the scheme is not yet mature, so new pension awards exceed the pensions which cease to be paid, instead of being matched by them. It is a feature of pay-as-you-go schemes that expenditure increases with time until maturity is reached, as in the early years of the scheme neither the members' nor the employers' contributions are set aside as benefits accrue to meet the payments as they fall due in the future. As pay-as-you-go schemes mature the burden they place on revenue budgets becomes greater.

- 8 Forces in England and Wales estimate that in 2003/04 the net police pensions bill will be around £1.2 billion compared with a very broad estimate of £3.8 billion spent on pensionable pay. However, that measure of pensions' cost is largely determined by the officers already in retirement. GAD estimates that police pension expenditure will rise to over 50% of pensionable pay by 2020, which would equate to around £2 billion in terms of the present-day payroll.
- 9 The table at paragraph 13 below (and the chart at Appendix C) summarise GAD's estimates of pensions expenditure, net of members' contributions, over the next 70 years. These estimates are based on assumptions consistent with the new entrant contribution rate costings. One column in the table shows the costs of the existing police pension scheme if it continued unchanged throughout the period considered. For these figures, no allowance has been taken of the change to a minimum pension age of 55, which the Government proposes should apply whether or not a new pension scheme is introduced. The other set of figures relates to the new proposals, based on the assumption that a new pension scheme is introduced in 2005. Whether or not the new scheme will be introduced then or in 2006, the retirement age for new entrants in 2005/06 is assumed to be 55, whatever scheme they join. GAD has assumed that the new scheme will be in line with the main proposal – 35 years for a full pension of half final salary plus a lump sum on retirement after 35 years of twice final salary – with officers' contributions, to simplify matters, set at 9% of pensionable salary.
- 10 The estimates cover 70 years, to show the eventual difference between the costs of the old and the new schemes when they both settle to a long-term equilibrium position. This position is broadly reached when the last of the members of the original population and their dependants have died – in around 70 years' time (the estimates made in 1998 covered 50 years and so did not quite reach the long-term position where the full savings of introducing a new scheme are realised). The chart at Appendix C shows a dotted line after 50 years to emphasise that the estimates after that point are primarily driven by the long-term assumptions, and should be viewed as more theoretical long-term costs, rather than data-based projection-style estimates.
- 11 These estimates indicate that the net costs (after the officers' contributions) will not increase significantly in the early years of the scheme's operation. Although new entrants would be paying a lower contribution rate than existing officers, they will be a small proportion of the total force. Virtually all the expenditure on pensions in payment will relate to benefits for pensioners, deferred pensioners and existing scheme members who will receive benefits under the current scheme. New entrants to the service will be young, and unlikely to claim benefits in the early years of their careers. The net cost of the pensions in payment will increase over twenty years, as a greater proportion of the service pays lower contributions, but only a small proportion of the benefits relate to the new scheme. After around 30 years, a greater proportion of benefit expenditure will relate to members of the new scheme. The less expensive benefits will offset the lower contributions received.
- 12 Assuming total annual police pensionable pay is about £3.8bn, the maximum extra net expenditure on pensions in payment from introducing a new scheme would peak at around £40m a year in terms of the present-day payroll. By 2043 the picture would be quite different, with such pensions costs around £220m lower, in terms of the present-day payroll, as a result of the new scheme.
- 13 The estimates are only a guide to the likely pattern of expenditure in the future and are expressed as a percentage of police officer pensionable payroll. This is significantly lower than total police officer payroll costs (i.e. including overtime and other allowances) or the total costs of employing police officers (i.e. also including employers' National Insurance contributions). These costs are, of course, just measuring pensions in payment less officers' contributions, not the accruing long-term cost of the liabilities for pensions in payment and pensions to be paid in future. From the first year the new scheme is introduced accruing costs should be reduced below what they would otherwise have been.

Estimated Annual Cost of Police Pension Scheme Net of Employee Contributions

Estimated Net Outgoings (% of projected payroll)			
Year	Continuation of Current Police Pension Scheme	Proposed scheme (1/70ths accrual with 4/70ths lump sum and 9% officer contributions) for new entrants from 2005	Savings
2003	33.0%	33.0%	0.0%
2008	42.9%	43.5%	-0.6%
2013	47.5%	48.5%	-1.0%
2018	50.7%	51.8%	-1.1%
2023	51.3%	52.0%	-0.7%
2028	50.5%	50.8%	-0.3%
2033	50.2%	50.0%	0.2%
2038	50.2%	46.3%	3.9%
2043	50.1%	44.3%	5.8%
2048	49.6%	42.7%	6.9%
2053	48.4%	41.5%	6.9%
2058	48.4%	40.7%	7.7%
2063	48.4%	40.3%	8.1%
2068	48.4%	40.1%	8.3%
2073	48.4%	40.1%	8.3%

**Pensions financing reform**

**14** Whatever the precise level of increased costs in the medium term and reduced costs in the longer term, there is a strong case for reforming the current system of pensions finance in order to make pensions costs more predictable and manageable for police authorities and their forces. The National Policing Plan for 2003-2006 stated:

we will [...] seek to meet the needs of police authorities and chief officers for a scheme which brings certainty about the financial impact [of pensions] on individual police forces.

**15** One of the main concerns for police authorities which arose in connection with the review of police pensions during the 1990s was that the Police Pension Scheme should be funded, like the

Local Government Pension Scheme (LGPS). In view of this Home Office and Treasury Ministers agreed in 2000 that officials in the two Departments should produce an analysis of the range of options for the financing of both police and fire pensions (which were also a Home Office responsibility then).

**16** Although, for reasons of expense, a funded system was not recommended, the joint Home Office-Treasury official working party recommended to Ministers that change was desirable since there are serious shortcomings with the present arrangements.

- volatility in pensions expenditure arising from the uneven incidence of lump sum retirement payments;
- uncertainty about how the rising burdens of pensions expenditure is to be financed;

- uneven treatment between authorities;
- insufficient separation of pensions costs from other force expenditure, giving rise to headlines that expenditure on pensions will eat into resources available for their operational commitments.

### Proposed system

- 17** The Review recommended as a preferred option a system under which police authorities would continue to administer and pay police pensions, and any future pension arrangements for new entrants, but from a separate local pensions account. The account would be funded by the officers' employee contributions plus a new employer's contribution, which would be topped up as necessary by central government if that was not enough to meet the audited pensions bill. The centre would therefore reimburse actual pension costs met from the local pensions account other than a police authority's use of ill-health retirement or injury awards and other discretionary benefits. Government policy is, and will remain, to place responsibility for discretionary pension payments (such as ill-health pensions) on police authorities, but mandatory pensions expenditure is not intended to be a pressure on police authorities.
- 18** The Review considered the option of police pensions administered centrally by the Home Office in the way the Department for Education and Skills administers teachers' pensions. However, the Review did not recommend central administration since there would be few cost benefits from such a move. Police pensions are largely administered by the same officials who administer the LGPS pensions of civil staff. The way favoured by the Review also helps to avoid central government taking over decisions on retirement and ill-health retirement, which could undermine the specific operational responsibility of the chief constable. Moreover, it does not seem appropriate for there to be central administration of the pensions of one part of the police family, while pensions for all the other parts are handled locally.
- 19** Ministers have accepted the recommendation but it is recognised that a good deal of work needs to be put in to ensure that the change goes smoothly. The proposed change would take much of present pensions' funding out of the grant formula (to finance the central government top-up under the new scheme), leaving in the grant formula only funding to support the cost of employer contributions. Ministers have agreed that there should be a Working Group set up to identify and resolve potential implementation problems in order to ensure that the introduction of a new system has the confidence of both central and local government.
- 20** Although a funded scheme is not recommended, the proposed scheme would tackle the main problems of the current system identified at paragraph 16 above and should safeguard police authorities' budgets in two ways:
- budgets would be protected from year-to-year fluctuations in pensions expenditure caused by variations in normal retirements;
  - budgets will bear the accruing pension costs for currently serving officers instead of bearing the net costs of paying retired officers' pensions (which are set to increase over the coming years, as shown in the table earlier in this section, principally because of the rising number of pensioners but also because of the reduction in receipts from officers as more pay lower contributions under the new scheme).
- 21** It is proposed that the Working Group should meet soon to map out a proposed timetable for the intended change and to take the necessary preparatory work forward. The aim will be for the new finance system to be in place around the same time as the new Police Pension Scheme.

## Section 7

### How to Comment

- 1 Responses and comments on the issues raised in this UK-wide consultation exercise are required by **11 March 2004**.
- 2 We want this to be a genuine consultation in which police authorities, police forces, staff associations and all other organisations with an interest in police pensions have an opportunity to get involved in the debate.

#### How to comment

- 3 There are a variety of ways in which you can provide us with your views:

#### England and Wales

You can email us at: [policepensions.consultation@homeoffice.gsi.gov.uk](mailto:policepensions.consultation@homeoffice.gsi.gov.uk)

You can write to us at: Government Proposals for a New Police Pension Scheme

Police Pensions Section  
Police Personnel Unit  
5th Floor, West Wing  
50 Queen Anne's Gate  
London  
SW1H 9AT

#### Scotland

You can e-mail us at:  
[George.Vine@scotland.gsi.gov.uk](mailto:George.Vine@scotland.gsi.gov.uk)

You can write to us at: Comments on New Pension Scheme Consultation

Scottish Executive  
Justice Department  
Police Division 1  
Area 1WR  
St Andrew's House  
Regent Road  
Edinburgh, EH1 3DG

#### Northern Ireland

You can e-mail us at:  
[policepensions@nio.x.gsi.gov.uk](mailto:policepensions@nio.x.gsi.gov.uk)

You can write to us at: Comments on New Pension Scheme Consultation

Northern Ireland Office  
Police Division  
Block A  
Castle Buildings  
Stormont  
Belfast  
BT4 3SG

- 4 This consultation is being conducted in line with the Code of Practice on Written Consultation issued by the Cabinet Office. The Code criteria are set out in Appendix D. We may wish to publish responses to this consultation in due course, or deposit them in the libraries of the Houses of Parliament or the Department's library, unless we are asked specifically to treat a response as confidential. Confidential responses will be included in any published statistical summary of comments received and views expressed.

#### What happens next?

- 5 The responses we receive to this consultation will help to shape the new police pension scheme by April 2006. We will publish results of this consultation exercise as quickly as possible after March 2004.

#### Summary of proposals or invitations to comment

- 6 Comments may be made on any issue raised in the document but comments are invited in particular on the following, which have been numbered for ease of reference:



## Section 2 – Status of Existing Officers

**Issue 1.** If the minimum pension age of new entrants is changed in April 2005 but the new Police Pension Scheme is not fully introduced by then, one option would be to offer new entrants from that date membership of the new scheme in advance of it being fully operational. Another option would be to allow them to enter the existing scheme but with 55 as the earliest age at which they can draw an ordinary pension and the deferred pension age of 65, if they leave with less than 25 years' service. Comments are invited on which of the two options is to be preferred. *Paragraph 9.*

## Section 4 – Basic Type and Structure of a New Scheme

**Issue 2.** It is recommended that the new Police Pension Scheme should be a defined benefit scheme based on final salary. Comments are invited on this recommendation and on whether there is a case for an alternative defined benefit option. *Paragraph 9*

**Issue 3.** A defined contribution scheme is *not* recommended for the police service as the basis for new police pension arrangements, but it might be an attractive alternative to members who do not want to pay the employee contributions necessary for a defined benefit scheme. *Paragraph 12*

**Issue 4.** Comments are invited on whether further work should be carried out on a defined contribution alternative once the new scheme has been introduced, in order to provide greater choice to police officers in future. *Paragraph 14*

**Issue 5.** It is considered that the right balance lies in opting for a 35-year scheme which would enable officers to retire with either a full or substantial pension between the ages 55 to 60. *Paragraph 22*

**Issue 6.** It is recommended that further work is carried out on the question of strategic career reviews and resettlement packages once HMIC has concluded its thematic review of civilianisation and the workforce modernisation agenda has been taken forward. In the meantime, comments are invited on these issues. *Paragraph 27.*

**Issue 7.** It is also recommended that the case for a 40-year scheme needs to be kept under review in the event that there were ever to be an operational case for it. *Paragraph 30.*

## Section 5 – Key Elements of a New Police Pension Scheme

**Issue 8.** It is recommended that officers entitled to a full pension should be paid a fixed lump sum of twice final salary. Comments are invited on this and on whether there is a case for optional commutation or for either a smaller or larger lump sum. *Paragraph 8.*

**Issue 9.** It is proposed that officers who are still able to take regular full-time employment should leave with an immediate unenhanced pension. This would serve as a cushion between the salary on leaving the police and a potentially lower paid job outside. For officers who are permanently disabled from taking regular full-time employment there should still be a system of enhancements to compensate for this loss. *Paragraph 11*

**Issue 10.** It is proposed that the enhancements should be based on half the prospective service to normal pension age. Comments are invited on this proposal and on any alternatives that might be considered. *Paragraph 13*

**Issue 11.** It is proposed that the new scheme should extend survivor benefits to unmarried and same-sex partnerships and that all survivor benefits be payable for the lifetime of the survivor. It is further proposed that safeguards should be put in place to limit these benefits to genuine partners and to restrict benefits where there is a large age difference between scheme member and survivor. *Paragraph 18*

**Issue 12.** In the case of death in service, it is proposed that the surviving spouse or partner should receive a pension equal to half the ill-health pension the officer would have received, had he or she been permanently disabled for regular full-time employment. It is also proposed to raise the lump-sum grant for death in service to three times the officer's pensionable pay and to introduce a system for nominating beneficiaries other than the surviving spouse or partner, with the police authority making the payment at its discretion. Comments are invited on these proposals. *Paragraph 23*

**Issue 13.** The issue of injury benefits lies outside the scope of this consultation exercise, but it is recognised that if there is a case for modernising pension provisions there is also a case for modernising injury provisions in the context of a review of such awards. *Paragraph 25*

**Issue 14.** It is suggested that the officer contribution rate should be around 9%-9.5%, with the employer meeting the balance of the cost of between 18.5% to 19.5% of pay. It is also recommended that these contribution rates should be regularly reviewed in the light of changes to factors affecting the costs of benefits, such as further increases in longevity. As part of this process the operational and organisational case for a 40-year scheme also needs to be kept under review. Comments are invited on these proposals. *Paragraph 28.*

**Issue 15.** It is proposed that the most suitable package would entail a 35-year scheme based on 1/70th a year pension accrual and separate 4/70ths a year lump sum accrual. The details are set out at Appendix A. *Paragraph 30*



## Appendix A

### Current and Proposed Main Benefit Structures

	<b>Current Scheme 30-year scheme</b>	<b>1/70 + 4/70 35-year scheme</b>
Members' contributions	11%	9-9.5%
Age from which unreduced pension can be drawn	After 30 years' service at any age, or after 25 years' service at age 50 and above	55
Pension accrual rate on normal retirement	1/60 for 1st 20 yrs + 2/60 for each yr after 20 up to max of 40/60	1/70 for each year, up to max of 35/70
Lump sum on normal retirement	By commutation up to certain limits, at rates between 10.45 and 17.25:1 depending on age and sex	4 times pension
Final pensionable pay	Highest pensionable pay in each of the 3 last 12-month periods	The best of: <ul style="list-style-type: none"> <li>● pensionable pay in the last 12 months</li> <li>● pensionable pay in the best of the last 4 tax years</li> <li>● (pensionable pay + pensionable bonuses) averaged over any consecutive 3 tax years in the last 13 years</li> </ul> <p>pensionable pay earlier than last complete tax year adjusted by RPI to that year</p>

## Current and Proposed Main Benefit Structures

	<b>Current Scheme 30-year scheme</b>	<b>1/70 + 4/70 35-year scheme</b>
Early retirement on grounds of ill-health and ill-health enhancement	<p>Immediate pension calculated as for normal retirement</p> <p>+ enhancement not exceeding potential service up to 2/3rds</p> <p>Enhancement formula:</p> <p>2-5 yrs: no enhancement</p> <p>5-10 yrs: service doubled</p> <p>10-13 yrs: enhanced to 20 yrs</p> <p>over 13 yrs: enhanced by 7 yrs</p>	<p>Higher tier (permanently disabled for regular full-time employment): Immediate pension calculated as for normal retirement + enhancement not exceeding potential service up to maximum of ½ salary</p> <p>Enhancement formula:</p> <p>2-5 yrs: no enhancement</p> <p>After 5 yrs, half prospective service to NRA.</p> <p>Lower tier (unable to perform the normal duties of a police officer): Immediate pension calculated as for normal retirement</p>
Pension increases	In line with RPI, but not payable until age 55 except for ill-health retirements and survivors' pensions	In line with RPI
Leaving service with less than 2 yrs' service	Refund of contributions	Refund of contributions, or if leaving after 3 months' service, choice of refund or cash equivalent transfer value
Leaving service before compulsory retirement age with more than 2 yrs' service <sup>1</sup>	Deferred pension payable at age 60, calculated as proportion of pension earned by compulsory retirement age; or payable at age 55 after 25 yrs' service	Deferred pension payable at age 65, calculated on service to date
Death in service	Lump sum of 2x pay	Lump sum of 3x pay
Survivors' pension – following death in service or after ill-health retirement	Maximum of 33% of final salary, increased for 1st 13 wks (ill health enhancement applied)	Maximum of 25% of final salary (upper tier ill-health enhancements applied for death in service)
– following death after early or normal retirement or during deferred period	½ of pre-commutation pension, increased for 1st 13 wks	½ member's pension
Survivors' pension payable	to widow or widower, ceasing on remarriage	to financially inter-dependent partner (male or female), for life, but reduced by 2½% pa for partner more than 12 yrs younger up to max of 50%
	+ children's benefits	+ children's benefits

<sup>1</sup> Early payment of deferred pension under current scheme is if permanently disabled for police duties. Under proposed scheme this would be payable if permanently disabled for regular full-time employment.

## Appendix B

# Key Comparisons in Terms of Affordability

### Cost of proposed new benefits

- 1 The options shown in the table below range from a full pension of half final salary plus an additional fixed lump sum of three times the pension (i.e. 1.5x salary) to a full pension of 2/3 final salary with the option of commuting part of it for a lump sum up to four times the pension (i.e. 2x salary).
- 2 Each of the options has the features described in Sections 4 and 5 and set out at Appendix A. The costs for each are shown in terms of % of pensionable pay – ie the cost as a constant percentage of pay over the working life of a typical member that would be needed to fund the accrual of officers' pensions if the scheme were a funded arrangement. The leading scheme option is shown in bold. The range of costs in current cash terms, assuming an annual pensionable pay bill of £3.8 billion, would be from £1.15 billion for the most expensive option to £0.86 billion for the least expensive, with the leading option costing around £1.05 billion. It is important to note that these costs relate to the value of pension benefits accruing each year to serving officers – the actual cash expenditure on pensions under pay-as-you-go financing is governed by a range of other factors, primarily the pensions that were accrued by past officers.
- 3 The costs involved are also shown to vary according to the predicted age at which most officers are likely to retire. The table compares the cost of schemes assuming a pension age of 55 or of 60, as well as an option with a pension age of 60 but where officers are allowed to take unreduced pensions from age 55 (and so are assumed to retire at a range of ages between 55 and 60).
- 4 The table also includes three options involving optional commutation: the first two based on a factor of 12:1 and the last on a factor of 14:1. Each variation involves different amounts of pension being commuted in order to produce a maximum lump sum that might be allowed by the pension scheme rules. In view of this an

explanation is given immediately below of the amount of pension, in terms of a percentage of the original 2/3 pension, which would be left to a person after maximum commutation, to allow for comparison:

- a maximum lump sum of 1.5x salary at factor of 12:1 – with a commutation factor giving £12 towards the lump sum for every £1 of pension. A person entitled to a full pension of 2/3 final salary who commutes 3/16 (19%) of the pension will get a lump sum of 1.5x the salary, leaving him or her with a residual annual pension of 13/16 (81%) of the full 2/3 pension (or over half – 13/24 (54%) – the final salary). This option is much more expensive than the half final salary plus fixed lump sum of 1.5x option.
- a maximum lump sum of 2x salary at factor of 12:1 – A person who commutes 4/16 (25%) of the pension will get a lump sum of 2x the salary, leaving him or her with a residual annual pension of 12/16 (75%) of the full 2/3 pension (or half – 12/24 (50%) – the final salary). If everyone were to commute the maximum this would be exactly the same in effect and cost as the half final salary plus fixed lump sum of 2x salary option. However, the cost is assumed to be greater than for a fixed lump sum because in practice some will not commute in full.
- a maximum lump sum of 2x salary at factor of 14:1 – A person who commutes 3/14 (21%) of the pension will get a lump sum of 2x the salary, leaving him or her with a residual annual pension of 11/14 (79%) of the full 2/3 pension (or more than half – 11/21 (52%) – the final salary). This is significantly more expensive than the half final salary plus 2x salary fixed lump sum option.

**Key Comparisons in Terms of Affordability**

- 5 The table below shows the comparison of costs assuming in the case of optional commutation that 10% of officers do not commute in full.

**Estimated Annual Cost of Police Pension Scheme Net of Employee Contributions**

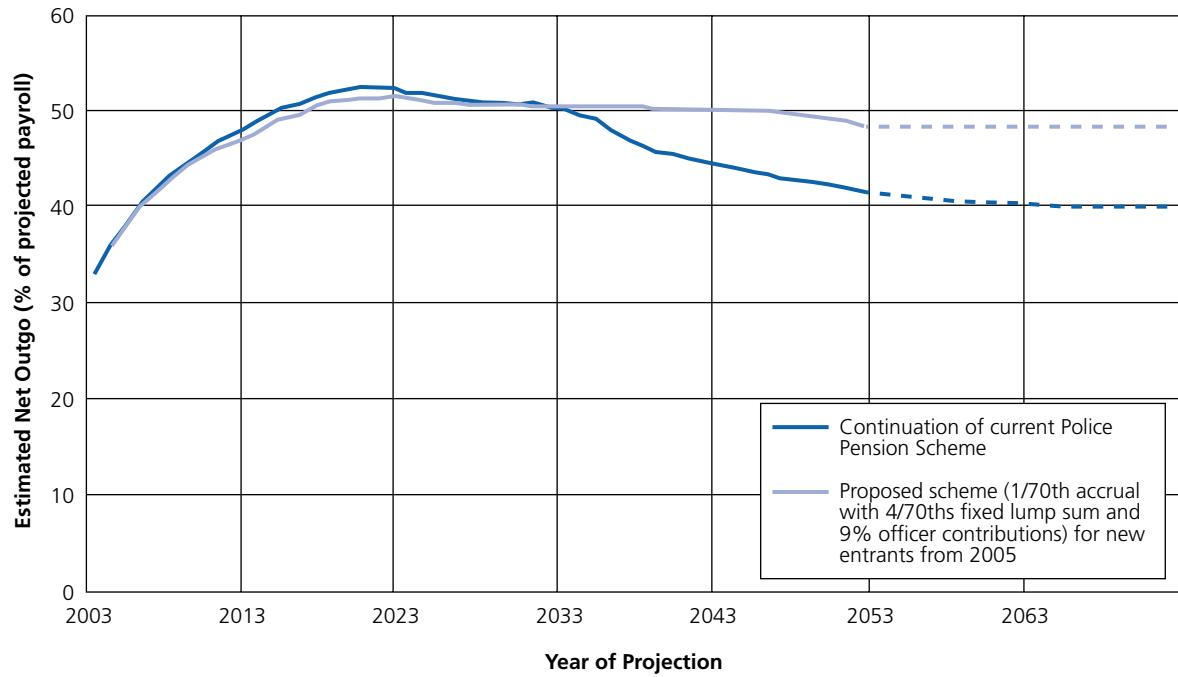
Proposed rate of accrual each year and maximum lump sum	Costs of new scheme proposals – % of pensionable pay		
	All normal retirements at 55	Normal retirements spread 55-60	All normal retirements at 60
35-year scheme			
1/70 + 1.5x salary fixed lump sum	27.80%	26.50%	25.40%
<b>1/70 + 2x salary fixed lump sum</b>	<b>29.00%</b>	<b>27.70%</b>	26.60%
1/52½ with commuted lump sum			
either of 1.5x salary at factor of 12:1	29.80%	28.40%	27.20%
or 2x salary at factor 12:1	29.20%	27.90%	26.80%
or 2x salary at factor of 14:1	30.20%	28.90%	27.70%
40-year scheme			
1/80 + 1.5x salary fixed lump sum	24.40%	23.50%	22.60%
1/80 + 2x salary fixed lump sum	25.50%	24.50%	23.70%
1/60 with commuted lump sum			
either of 1.5x salary at factor of 12:1	26.20%	25.20%	24.30%
or 2x salary at factor 12:1	25.70%	24.70%	23.90%
or 2x salary at factor of 14:1	26.60%	25.60%	24.70%

**Money purchase**

- 6 A money purchase scheme whose age-related contribution rate is such that it broadly reflects the cost of the benefits accruing in the alternative defined benefit scheme, would offer little cost savings. There would also be a considerable extra financing cost for several decades as contributions from employers and employees would have to be invested and so would not be available to offset the costs of pensions in payment.

## Appendix C

# Estimated Annual Cost of Police Pension Scheme Net of Employee Contributions





## Appendix D

# Consultation Criteria

The Code of Practice on Written Consultation issued by the Cabinet Office recommends the following criteria:

- A** Timing of consultation should be built into the planning process for a policy or service from the start, so that it has the best prospect of improving the proposals concerned, and so that sufficient time is left for it at each stage.
- B** It should be clear who is being consulted, about what questions, in what timescale and for what purpose.
- C** A consultation document should be as simple and concise as possible. It should include a summary, in two pages at most, of the main questions it seeks views on. It should make it as easy as possible for readers to respond, make contact or complain.
- D** Documents should be made widely available, with the fullest use of electronic means (though not to the exclusion of others), and effectively drawn to the attention of all interested groups and individuals.
- E** Sufficient time should be allowed for considered responses from all groups with an interest. Twelve weeks should be the standard minimum period for a consultation.
- F** Responses should be carefully and open-mindedly analysed, and the results made widely available, with an account of the views expressed, and reasons for decisions finally taken.
- G** Departments should monitor and evaluate consultations, designating a consultation co-ordinator who will ensure the lessons are disseminated.

The full code of practice is available at:

[www.cabinet-office.gov.uk/servicefirst/2000/consult/code/ConsultationCode.htm](http://www.cabinet-office.gov.uk/servicefirst/2000/consult/code/ConsultationCode.htm)

### Consultation Co-ordinator

If you have any complaints or comments about the consultation process, you should contact the Home Office consultation co-ordinator, Bruce Bebbington by email at: [bruce.bebbington@homeoffice.gsi.gov.uk](mailto:bruce.bebbington@homeoffice.gsi.gov.uk).

Alternatively, you may wish to write to:

Bruce Bebbington  
Consultation Co-ordinator  
Performance and Delivery Unit  
Home Office  
50 Queen Anne's Gate  
London SW1H 9AT

