

The Police Pension Scheme 2015 (the CARE 2015 Scheme)

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Taking CARE of your future!

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These Frequently Asked Questions are designed to help members understand the benefits provided under the Career Average Re-valued Earnings (CARE) 2015 Scheme, and dispel some of the misconceptions that remain about it. Whilst we are not able to give individuals financial advice, PFEW strongly believes that it is in the best interests of its members to join and continue in membership of the scheme to ensure that when the time comes to retire they have taken advantage of the valuable opportunity available to help provide an income for themselves during their retirement. PFEW recommends that anyone considering not joining the CARE 2015 Scheme, or who is considering opting out of membership, should take independent financial advice before making his/her decision.

We aim to be responsive to members' information needs. The FAQs reflect the sort of questions and comments that were raised by members responding to the PFEW Pay Survey.

NB – Please note that where figures are provided, these are for illustrative purposes only, have been rounded, and are approximate, and no reliance should be placed upon them in any individual circumstances.

CARE 2015 Scheme – FAQs

- 1. I've just looked at my latest benefit statement for the pension accrued to date, why does my CARE 2015 Scheme pension seem so low in comparison to my pension under my earlier police pension scheme?**

We believe this may cause undue concern, and is largely a function of the presentation of information differing between schemes. It is the result of a couple of factors. The main reason is due to how the CARE 2015 Scheme works in comparison to the earlier (1987 and 2006) final salary schemes. Under the CARE 2015 Scheme all accrued pension is subject to ongoing year on year increases, whereas accrual under the earlier schemes is based on your final pensionable earnings at the point of retirement. This inevitably makes the overall figures seem very different as it's a fundamental difference in the way benefits accrue and are

presented. For more details of how pension accrues under the CARE 2015 Scheme see FAQ number 2 below. Remember also that you have only been accruing pension under the CARE 2015 Scheme since April 2015 at the earliest and therefore the overall amount has not had time to build up.

2. So how does pension under the CARE 2015 Scheme build up?

During the first scheme year of your active membership you will accrue a block of pension which is $1/55.3$ of your pensionable earnings in that scheme year. At the start of the second scheme year of your membership the block of pension accrued in the first scheme year will be increased by the percentage of the annual movement in the Consumer Prices Index (CPI) plus 1.25%. During that second scheme year of active membership you will also accrue a second block of pension based on $1/55.3$ of your pensionable earnings during that second scheme year. At the end of the second scheme year the two blocks of pension will be added together and at the start of the third scheme year of your active membership the combined amount (of first and second year blocks) will be subject to an increase of CPI plus 1.25%. During that third year a further block of pension will be accrued and so on.

This process continues throughout your period of active membership of the CARE 2015 Scheme. So if you are a member for thirty years, you will accrue thirty blocks of pension which together will form your overall pension. The pension block you accrued in your first scheme year of active membership will have been increased annually thirty times by CPI plus 1.25% whereas the block of pension accrued in your thirtieth year of active membership will only be increased in this manner once.

So, for example, in the first year of active membership an officer working full-time earning £21,000 would accrue a pension block worth £379.75 per annum (i.e. $1/55.3$ of £21,000). If that officer remained an active member of the CARE 2015 Scheme for thirty years before retiring and during that period the annual movement in the CPI remained at a constant 2%, then at retirement that block of pension will have become worth £991.28 per annum.

If you cease to be an active member of the CARE 2015 Scheme other than as a result of retirement then your combined blocks of pension accrual will continue to be increased annually until your retirement but by the movement in CPI only (i.e. not by CPI plus 1.25%).

3. Where can I get an idea of what pension I might receive from the police scheme(s) when I choose to retire?

By their nature benefits under a CARE scheme are more difficult to predict than those under final salary schemes due to the unpredictability of various factors like the movement in the CPI. Although most benefit statements provided by forces' pensions administrators include some form of projection of benefits, for instance to

normal pension age (age 60), this is limited and does not allow members to explore different possible scenarios, e.g. changing potential retirement dates.

Following pressure from PFEW the Home Office agreed to provide a pensions' calculator for use by officers in England and Wales. A draft has been produced and commented on by PFEW. We are expecting the final version of the calculator to "go live" for use by officers in the near future. Access to this calculator is likely to be provided locally by your force, or possibly centrally via the Police Advisory Board of England and Wales/Scheme Advisory Board website.

The advantage of this new calculator is that it will provide members with a single, consistent and trusted method by which they may view their likely benefits at various ages at which they might choose to retire.

4. My change of membership from a final salary scheme to the CARE 2015 Scheme will mean I receive much lower benefits than I expected won't it?

Changes like this are never easy to digest, but it is very important to try and put things into context. Nobody is denying that the earlier final salary schemes provided excellent benefits. However, the CARE 2015 Scheme also provides a very good level of benefits. Under the CARE 2015 Scheme pension accrues at a rate of 1/55.3 for each year of membership as opposed to a rate of 1/70th under the final salary New Police Pension Scheme 2006 (NPPS 2006) or an initial rate of 1/60th under the final salary Police Pension Scheme 1987 (PPS 1987). Although under the CARE 2015 Scheme accrual is not all based on ultimate final earnings at retirement as it is in the earlier schemes, as described in FAQ number 2 above, each year of accrual under the CARE 2015 Scheme is subject to annual increases in value. Therefore, although the final benefit arising from a CARE scheme is less easy to predict than that from a final salary scheme due to factors like future movements in the CPI, the likelihood is, that for a member who remains a constable throughout his or her career, and who reaches the top of the pay scale through incremental progression, the ultimate benefits (pension/cash) that would be derived from the NPPS 2006 and the CARE 2015 Scheme would not differ greatly. That is to say, the pension from a final salary scheme with accrual of 1/70ths of final pensionable pay for a Constable who spends 28 years of a 35 year career at the top of the scale, compared to the pension he or she would accrue based on 1/55.3 of his or her pensionable earnings each year revalued until retirement under the CARE Scheme, is not likely to be very different.

5. Is the treatment of all members under the CARE 2015 Scheme fair?

It is commonly accepted within the pensions' industry that, due to their very nature, CARE schemes are fairer than final salary schemes because under them all members are treated in a more even handed manner. Unlike final salary schemes, CARE schemes do not unevenly favour those who progress through the ranks and earn more money at the end of their careers and who therefore have their whole

pension based on that larger salary. Under a CARE scheme all members of whatever rank, whether full-time or part-time and regardless of future career progression, pay contributions and accrue pension based on what they are paid in the given scheme year.

6. Is my pension under the police schemes secure?

As demonstrated by the enactment of the Public Service Pensions Act 2013 leading to the introduction of the CARE 2015 Scheme, it is always possible for a government to pass primary legislation which changes things for the future. However, as part of the introduction of the new CARE 2015 Scheme, changes - some required by law and others additional (which PFEW helped to secure via the consultation process) - were also made to preserve and protect benefits that had already accrued in the earlier final salary schemes, e.g. the link to “final final” salary, timing of access to benefits and weighted accrual for former members of the PPS 1987. Even if, at some point in the future, changes are made in respect of future accrual, benefits accrued before the change will be protected.

In more general terms, the police schemes are sponsored and backed by the Government. Therefore, unlike many private sector schemes where the employer fails and the members lose some or all of their benefits, this would not happen to the police schemes as the Treasury guarantees the funding for the schemes. So, yes, your pension is as secure as it possibly can be.

7. Police pension scheme contributions are difficult to afford, why are they so high?

All of the police schemes provide pensions which can be accessed either unreduced or only subject to limited reduction, at an earlier age than under most other pension schemes. This recognises the nature of a career in policing. However, it also means that those benefits are likely to be payable for a longer period of time between retirement and death and are therefore valuable and expensive to provide/fund. This high value and cost is reflected in the contribution levels which members are asked to pay. That value and cost is also reflected in the contributions that your employer pays towards your benefits which is currently 21.3% of each member’s pensionable earnings.

Remember also that not only does the CARE 2015 Scheme have a high accrual rate of 1/55.3 and access to payment from age 55, it also provides generous benefits if you are required to retire early due to ill-health as well as generous survivor benefits should you die.

8. Does the pension I will receive from the CARE 2015 Scheme represent good value for the contributions I pay?

The best way in which to show the merit of joining the scheme early and continuing in membership is to give an example (albeit slightly simplified) of what you will receive for the contributions you pay.

Someone joining the force and the CARE 2015 Scheme at the age of 30 and earning an initial salary of £21,000 in his or her first year would pay contributions at the rate of 12.44% under Tier 1 which would total £2,612.

As illustrated in the example given under FAQ number 2 above, the pension accrued in that first year will initially be worth £379.75 per annum.

If the officer continues as an active member for 30 years, and during that period CPI remains at a constant 2%, if he or she then retires at age 60 that first year of pension accrual will be paid to the member as £991.28 per annum within the overall pension.

If the officer then continues to receive his or her pension for the next 25 years before dying at age 85, and during that period CPI is assumed to have remained at a constant 2%, the amount of the pension the member will receive based on that £2,612 paid during his or her first year of membership *alone* will be approximately £31,750.

This is over 12 times (more than 1200%) the amount of the original contribution.

9. How do police pensions, including the CARE scheme, compare to others?

Generally, within the UK, pension provision has been moving at an ever increasing pace away from final salary schemes towards money purchase schemes for the last two or three decades. Money purchase schemes are those under which member and employer contributions are invested until retirement and then the final amount is used to purchase benefits, however, there is no guaranteed level of benefit. In the private sector there are now virtually no final salary (or even CARE) schemes that are still open to new members and very few under which benefits are still accruing. In the context of this shift in provision in the private sector, the change to the provision for public service workers could be seen as inevitable. Remembering that under money purchase schemes it is the member alone who bears all of the investment risk connected to market fluctuations as well as the disadvantages of the poor state of the annuity market (an annuity is the insurance product usually purchased to secure money purchase scheme benefits on retirement), the switch for public service workers from final salary provision to a CARE scheme under which the risk is still borne by the sponsoring employer could rightly be viewed as a good deal compared to the potential alternatives.

10. Where can I go to get more information about the CARE 2015 Scheme?

Further details about the CARE 2015 Scheme and the benefits it provides can be found in the Home Office's Members' Guide and the FAQs previously issued by PFEW. Links to these and to the Members' Guides for the PPS 1987 and the NPPS 2006 are shown below.

Links

<https://www.gov.uk/government/publications/police-pension-scheme-members-guide-october-2006>

<https://www.gov.uk/government/publications/npps-members-guide-march-2009>

<https://www.gov.uk/government/publications/the-police-pensions-scheme-2015-members-guide>

http://www.polfed.org/documents/Police_Pension_Scheme_2015_-_FAQs_V.2_-_27_March_2015_FINAL.pdf

http://www.polfed.org/documents/Purchase_of_additional_benefits_-_FAQ_wording_-_Aug_2016.pdf

If you have any questions about your individual pension provision, please contact your forces' pensions' administrator. Any pension issues arising should, in the first instance, be directed to your local Joint Branch Board Secretary.