



By e mail only

Pensions Consultation 2015
Pensions' and Savings Team
HM Treasury
1 Horse Guards' Road
London SW1A 2HQ

25th September 2015

Dear Sir/Madam,

STRENGTHENING THE INCENTIVE TO SAVE: A CONSULTATION ON PENSIONS' TAX RELIEF

We write on behalf of our members in relation to the above consultation.

Background

Our four associations collectively are the sole representative bodies for police officers in the each of the following ranks and jurisdictions:

- Assistant Chief Constables/Commanders through to and including Chief Constables and Commissioners across England, Wales, Scotland and Northern Ireland (Chief Police Officers' Staff Association/CPOSA)
- Superintendents and Chief Superintendents in England and Wales (Police Superintendents' Association of England & Wales/PSAEW)
- Superintendents and Chief Superintendents in Scotland (Association of Scottish Police Superintendents/ASPS)
- Superintendents and Chief Superintendents in Northern Ireland (Superintendents' Association of Northern Ireland/SANI)

In total, our four associations represent around 1,800 members. Our members, collectively, account for 1% of the most senior police officers within the Police Service.

Summary of our position

Subject to our more detailed comments below, we believe that the current Exempt – Exempt – Taxed (EET) system remains fit for purpose. It is, in our view, both simple and effective and should be retained.

- There are three occupational police pension schemes. The Police Pension Scheme (PPS) 1987 and the New Police Pension Scheme (NPPS) 2006, both of which are final salary schemes and are closed to new members. The Police Pension Scheme (PPS) 2015 is a Career Average Revalued Earnings (CARE) scheme and is the only scheme open to new members. The majority of our current members belong to the 1987 Scheme, although some have already been transferred into the 2015 Scheme.
- Our members already pay very high contribution rates. Those in the 1987 Scheme currently pay 15.05% of earnings, whilst those in the 2015 Scheme pay 13.78%. Their National Insurance Contributions (NICs) will increase by 1.4% next year as a result of the abolition of contracting-out. We believe that introducing a further change so that pension scheme contributions are paid from taxed income will act as a huge disincentive for officers to join and/or remain members of the police schemes. We believe that this could in turn affect the viability of the police pension schemes.
- We do not consider that any fundamental change to the system of tax relief for pension schemes to move to a Taxed – Exempt – Exempt (TEE) basis would increase the incentive for people to save into pension schemes. In fact, we consider that it would have exactly the opposite effect for police officers as it would make membership of the three police pension schemes referred to above even less affordable. In our view, should such a change be introduced, it would lead to fewer police officers joining the newly introduced 2015 career average pension scheme and existing members withdrawing from the pension schemes purely on the basis of affordability. This would lead to an overall reduction in pension scheme membership, call into question the continued viability of such schemes and ultimately lead to an increased burden upon the State.
- We are opposed to any further lowering of the Annual Allowance (AA) or the Lifetime Allowance (LTA). The reductions in AA which have been implemented so far already disproportionately impact on members of the Police Pension Scheme 1987 due to the double accrual after twenty years of service. We advocate its abolition for defined benefit (DB) schemes such as the police pension schemes. We will comment on this further later in our submission.

1. To what extent does the complexity of the current system undermine the incentive for individuals to save into a pension?

Notwithstanding the complexity arising from the ‘A Day’ changes and the reduction in both the levels of AA and LTA, our members do understand the current tax regime, albeit they regard it as unfair. We consider that the current system is simple and not, as some commentators would suggest, overcomplicated and difficult to understand. We believe that the perception of complication is a result of lack of comprehension and the persistent changes that have been introduced, for example in relation to AA and LTA, rather than as a result of any fundamental flaws with the system itself.

The existence of AA and LTA thresholds does act as a disincentive. Some of our members choose not to seek further promotion, or transfer to a more challenging force, in order to avoid incurring AA/LTA taxation. This cannot be in the public interest. The most able and capable officers should be available to take on the most challenging posts.

A particular unfairness with AA applies to those of our members who take a temporary promotion when not in the period of their police service (the last three years) upon which their pension will ultimately be based. The notional increase in the value of their pension pot can result in an AA charge being incurred when, in the event of them reverting to their substantive rank, they will actually gain no additional pensionable benefit.

Whilst HM Treasury stated in October 2010 that it would permit schemes to smooth pay spikes, the Home Office took the view that it was only for private Defined Benefit (DB) schemes. We did confirm that it applied also to public sector pension schemes, however, the Home Office then stated they would not agree to any changes to the police pension regulations if it would result in less tax being collected by HMRC. This we consider unfair. It also serves as a disincentive.

The closed 1987 scheme (to which most our members belong) has a dual accrual structure. This accrual mechanism is only of benefit to the employer up to the point at which an officer achieves maximum pensionable service when it is equalised and is intended to penalise early leavers. This, together with the police pay mechanism being based on incremental progression rather than 'spot' salaries (with the exception of Chief Constables and Deputy Chief Constables), leaves our members acutely vulnerable to incurring an AA charge. In some cases, this can occur simply as a result of each transition through a pay band.

It is our view that, in comparison with other public sector schemes, the police cohort is treated unfairly.

2. Do respondents believe that a simpler system is likely to result in greater engagement with pension saving? If so, how could the system be simplified to strengthen the incentive for individuals to save into a pension?

The government's stated aim is to improve the incentive for people to save into a pension scheme and thereby provide themselves with a suitable income in retirement. We do not believe that moving to a TEE system, and thus deducting pension contributions from already taxed income, would encourage people to save. In fact, in our view, it would do the very opposite. If pension contributions were to be deducted from taxed income people would find it even more difficult to find the money to contribute to pension schemes. If they then failed to join and/or remain a member of a pension scheme then ultimately their lack of income in retirement may lead to an increased burden upon the State. Although relatively higher earners, this applies as much to our members as it does the wider working population.

We are of the view that the abolition of AA tax in circumstances where the pay structure is subject to parliamentary regulations would remove an injustice, a barrier to progression and would also simplify taxation matters. We are also of the view that officers who are subject to a tiered pay structure should be allowed to use their maximum tier at their current rank as the reference point for LTA protection. We have explained this in detail to HMRC following the announcement of the reduction in LTA to £1m and in advance of the publication of any protection arrangements. We do not yet know whether our views will be taken into account.

3. Would an alternative system allow individuals to take greater personal responsibility for saving an adequate amount for retirement, particularly in the context of the shift to defined contribution pensions?

The review of public sector pensions carried out by Lord Hutton recommended an end to final salary pension schemes and a move to those based upon career average revalued earnings (CARE). He did not recommend that DB schemes be discontinued. As commented previously, a CARE scheme was introduced for police officers in 2015. Although only a minority of our members as yet have been moved into this new scheme, this will change over time. The CARE scheme is a DB scheme. Any tax relief mechanisms will need to take account of DC and DB pension schemes continuing to co-exist for the foreseeable future.

4. Would an alternative system allow individuals to plan better for how they use their savings in retirement?

We have not seen any evidence that this would be the case.

5. Should the government consider differential treatment for defined benefit and defined contribution pensions? If so, how should each be treated?

The public service remains the largest area of continued defined benefit pension schemes. It is unlikely that government would wish to allow benefits arising from contributions already paid, and upon which tax relief has already been granted, to also receive tax relief on pensions in payment as this would provide double tax relief. It is therefore assumed that a mechanism for apportioning benefits accrued 'pre' and 'post' change in any tax system would need to be created in order to ensure this did not take place. Whilst this may be relatively easy to achieve in respect of DC schemes, this is not the case in respect of DB schemes, particularly those which are final salary linked. In order to overcome this problem, dual systems of tax relief would be required. This is unlikely, in our view, to achieve the stated aim of removing complexity.

We acknowledge that there is a move away from DB to DC schemes. It is our view that the suggestions made in this consultation lend themselves more readily to DC schemes than they do to those remaining DB schemes. There is an argument that the two could be treated differently. However, this could prove problematic if people moved between schemes creating additional complexity and confusion.

We have commented elsewhere on AA. It is our view that AA is not appropriate for DB schemes and should be removed. Intended to curb excessive corporate tax relief, it has had an unintended and entirely disproportionate impact upon middle earners, particularly for members of pension schemes that do not feature a uniform rate of accrual.

6. What administrative barriers exist to reforming the system of pensions tax, particularly in the context of automatic enrolment? How could these best be overcome?

Auto-enrolment is not yet fully embedded and the public do not have an effective understanding of the system works and of the benefits it provides. Further education in this respect is required. We do not consider that changing to a TEE system will address this problem. It is our view that this would be disproportionate and would instead lead to further lack of trust in pension systems. It most certainly would not serve to incentivise people to invest in pension provision.

7. How should employer pension contributions be treated under any reform of pensions tax relief?

Police employers currently pay 21.3% in pension contributions and their NICs will increase by 3.4% with effect from April 2016. Police forces have experienced significant cuts in funding during the previous Comprehensive Spending Review (CSR). Further cuts of equal, if not greater magnitude, are anticipated in the soon to be announced CSR. Should tax and NICs reliefs that exist under the current EET system also be removed in respect of employer contributions to pension schemes as part of any shift to a TEE system, then affordability will certainly be an issue for police employers.

8. How can the government make sure that any reform of pensions tax relief is sustainable for the future?

We do not feel qualified to express a view on this.

Yours faithfully,



Mark Polin
Chief Constable,
Chair, CPOSA



Tim Jackson
Chief Superintendent
National Secretary, PSAEW



Niven Rennie
Chief Superintendent
President, ASPSP



Nigel Grimshaw
Chief Superintendent
President, SANI