

Police Federation
Of England and Wales



Ffederasiwn Heddlu
Lloegr a Chymru

Established by Act of Parliament

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FROM THE GENERAL SECRETARY'S OFFICE

AF/sjr

11 December 2015

To: All Joint Branch Board Chairman and Secretaries
Cc: Interim National Board

JBB CIRCULAR : 38-2015

Dear Colleagues

Changes arising from the abolition of Contracting-out and the introduction of the Single Tier State Pension.

The following circular contains information about a number of pension changes that will occur in April 2016. These relate to; National Insurance Contributions, the accrual of the new Single Tier State Pension and Guaranteed Minimum Pensions.

The intention is to set out what is currently known about these issues. However, to date there has been a somewhat frustrating lack of information from the Home Office on this. We have tried to obtain further information by writing to the Home Office and raising these matters in every appropriate forum (for example, as has been minuted at Police Advisory Board meetings). In correspondence to us, the Home Office have stated that they themselves await guidance from the Treasury. However, conscious of the fact that JBB Secretaries are likely to be asked questions on these issues, it seems appropriate to provide an update: this information will be revised as we find out more.

The changes will affect both serving officers, and retirees.

Background

In order to understand the impact of the forthcoming changes it will be useful to have some appreciation of how the existing system works.

Currently there are two elements of state pension provision. The first and lower tier is the basic state pension and all workers (including police officers) pay National Insurance Contributions towards the accrual of this benefit. There is also the upper tier of state pension provision previously (up until 6 April 2002) known as State Earnings Related Pension Scheme (SERPS) and more recently known as S2P (State Second Pension). In order to accrue this additional element of state pension, it is necessary to pay a higher rate of National Insurance Contributions.

However, since 6 April 1978 it has been possible for schemes to apply, on behalf of their members, to be contracted-out of the provision of the upper tier of state pension provision. In order to qualify to be contracted-out schemes had to promise to provide pensions that were at least as good as members would have received under SERPS/S2P. All of the police schemes under which police officers are accruing benefits (PPS 1987, NPPS 2006, and CARE 2015) are currently and always have been contracted-out, and provide pensions which are much better than would have been provided by the upper tier of state provision. As a result of being contracted-out both members and their employers currently pay National Insurance Contributions at a lower rate and members do not accrue any upper tier state pension.

On and from 6 April 2016 the law is changing, and it will no longer be possible for any scheme (be that in the public or private sector) and its members to be contracted-out. This change coincides with a further linked change from a two tier system to a single tier state pension which applies to anyone reaching state pension age on or after 6 April 2016.

Summary of the new single tier pension

- The new single tier state pension will only impact on men born on or after 6th April 1951 and women born on or after 6th April 1953, i.e. those people who reach state pension age (SPA) on or after 6th April 2016.
- Currently, in order to receive the full basic state pension of £115.95 per week (2015/16) a person will need to have accumulated 30 Qualifying Years.
- Qualifying Years for the purposes of both the existing state pension and the new single tier state pension are/will be those during which you have worked and paid NI contributions plus those for which you have received a credit (e.g. whilst a carer, raising children, sick, or unemployed) and those for which you have paid voluntary NI contributions.

- All three of the existing police pension schemes are currently contracted-out from the state second pension (formerly SERPS, now S2P) but this will cease (as contracting-out will cease to be available) with effect from 6th April 2016 to coincide with the introduction of the single tier state pension.
- For those reaching State Pension Age (SPA) on or after 6th April 2016 the new single tier state pension will apply.
- In order to receive the full amount of the new single tier state pension of £155.65 per week (2016/17), a person will need to have 35 Qualifying Years (see above).
- Those who have been contributing under the existing system, but who will ultimately retire under the new system and receive the new single tier state pension because they reach SPA on or after 6th April 2016, will be credited under the new system with a “Starting Amount” of Qualifying Years. This will determine the level of their pension.
- The “Starting Amount” will be based on an individual’s record of National Insurance Contributions paid and credits accrued before 6th April 2016, and will be the higher of what he/she would have got under the existing system accrued to date and what he/she would get under the new system if it had applied throughout their working life. This will be subject to a reduction equal to their state second pension if he/she has been contracted-out of that element of state provision. (This will apply to police officers).
- It is possible to accrue further Qualifying Years under the new system on top of the Starting Amount up until you reach SPA or attain the 35 Qualifying Years necessary for the “full” single tier state pension, and each additional Qualifying Year will add an amount equal to 1/35th of the full rate of the new single tier state pension to the Starting Amount.
- If your Starting Amount is greater than what you can achieve by way of the new single tier state pension, the excess is protected and paid in addition to the single tier state pension.
- At least 10 Qualifying Years will be needed in order to qualify for any level of new single tier state pension.
- The Qualifying Years required for a “full” pension will change from 30 under the existing system to 35 under the new system from 6th April 2016. The impact that this will have on serving and recently retired officers below SPA at that point will vary depending upon their individual circumstances (see above). The site accessible through the link below has other links to further resources to enable people to find out details of their entitlement. See this

Link:

<https://www.gov.uk/yourstatepension>

The immediate impacts

1. Impact on serving officers: National Insurance Contributions

Until April 2016 those officers who are members of the police schemes will have been contracted-out from the payment of national insurance contributions at the full rate.

The abolition of contracting-out means that on and from 6 April 2016 no scheme member will be able to pay National Insurance Contributions at the lower rate, but will instead pay at the same higher rate as everyone else in the UK. This means members of all the police schemes will be paying National Insurance Contributions at a rate which is 1.4% higher than they currently are, on earnings between the Lower Earnings Limit and the Upper Accrual Point (these are £155 and £770 per week for 2015/16).

This will affect the amount of take home pay. It should be for the Home Office and / or scheme administrators to inform members of this change: however we do not believe this has been the case.

The positive of this is that officers will henceforth have each year of scheme membership count in full towards the accrual of the new single tier state pension.

2. Impact on retirees: accrual of Single Tier State Pension

As has been acknowledged recently in the pensions press, the single tier state pension has been “mis-sold” to the general public - including to police officers - by the media. Many still believe that, if they reach state pension age on or after 6 April 2016, they will be entitled to the single tier state pension at its full rate (which will initially be £155.65 per week) provided they have worked and paid National Insurance Contributions for thirty years.

However, this is not the case. Where those reaching state pension age on or after 6 April 2016 (including police officers) have been members of contracted out-schemes, they have paid less than the full rate of National Insurance Contributions. So, the years of membership in police schemes will not count in full on a year for year basis towards what is now the thirty five Qualifying Year period necessary to receive the new single tier state pension, at its full rate.

However, members of the police schemes have not been informed about this matter even though it may mean that they receive less income in retirement from the State than they may have been expecting.

The PFEW has lobbied for information to be made available through the proper routes: via the Home Office and scheme administrators. In the absence of this, it seems sensible to provide some warning to our members, albeit we do not have the information that would be useful to help members make calculations.

3. Impact on retirees: Police Pension Scheme 1987 (PPS) Members with Guaranteed Minimum Pensions

Since April 2014 we have repeatedly raised concerns and asked for clarification of the situation relating to the indexation of Guaranteed Minimum Pensions (GMPs) accrued under the PPS up until 6 April 1997 for those members reaching state pension age on or after 6 April 2016. Our current understanding is that indexation on GMPs accrued between 6 April 1978 and 6 April 1988 and any indexation above the 3% which schemes are obliged to provide on GMPs accrued between 6 April 1988 and 6 April 1997 will no longer be provided by the State, but we await clarification on which body (if any) will be obliged to provide the indexation going forward.

The Home Office have not replied, other than to say they are working through this issue with the Treasury.

I have further raised this with all relevant parties.

Timing and Communication

We are now just four months away from the point at which these changes will come into effect, and we still have not received a substantive answer to our letters and, to the best of our knowledge, no information on the forthcoming changes has been issued to members of the police schemes by the Home Office. We have been continually told by the Home Office that the matter is under consideration, as is the best way in which to disseminate the appropriate information.

Due mainly to an upsurge in press articles on this matter we are now starting to receive a flow of queries on this subject, to which we are sometimes unable to give a full and comprehensive answer. A large part of the reason we raised these issues with the Home Office and have pursued a response was our hope that members would be informed by the Home Office as sponsors of the police schemes of the effect of these changes in a coordinated, comprehensive and timely manner. Sadly this has not happened. This, in our view, falls some way short of the standards of good governance now expected of those running pension schemes, including those in the public service sector. I have therefore written to the Home Office in those terms and copied Elizabeth France Independent Chair of the pension Scheme Advisory Board into the correspondence.

A House of Commons Briefing paper dated 4 December 2015 states that “The Work and Pensions Committee is currently conducting an inquiry into how the reforms are being communicated”. I intend to feed our concerns into that.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A Fittes', enclosed in a light grey rectangular box.

ANDY FITTES
General Secretary