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AQW/36364/11-15

Mr Paul Givan (Lagan Valley) has asked:

To ask the Minister of Justice what consideration has been given to transitional or provisional arrangements for PSNI officers pensions compared to England and Wales; and to detail these considerations.

ANSWER

The reforms of police pensions, including the transitional and provisional arrangements for PSNI officers, are part of the wider reforms to public sector pensions, agreed by the Assembly when it passed the Public Sector Pensions Act (NI) 2014. The changes to police pensions were also agreed nationally through the Police Negotiating Board and are, therefore, in line with changes being introduced in Great Britain.

Information circulars PPSD 04/13 & PPSD 05/13 provide details on transitional and provisional arrangements for PSNI officers' pensions. I have placed copies in the Assembly Library

DAVID FORD MLA

POLICING POLICY AND STRATEGY DIVISION CIRCULAR 04/2013

PPSD 04/2013 **Date of Issue: 07 May 2013**

THIS CIRCULAR provides information about PSNI pension reform and details how and why the pension scheme is being reformed, and how these changes may affect PSNI officers.

FROM: Police Human Resources Policy Branch, DOJ

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FOR MORE INFORMATION or FURTHER COPIES OF THIS CIRCULAR PLEASE CONTACT:

THIS CIRCULAR IS ADDRESSED TO: The Chief Constable
Chairperson of Northern Ireland Policing Board
Director Human Resources, PSNI
Chief Police Officers' Staff Association
Superintendents' Association (NI)
Police Federation (NI)

Department of Justice (NI) PSNI Pension Reform

To: **Chief Constable and Chair of Northern Ireland Policing Board and members of Police Staff Associations.**

This information circular outlines the NI Assembly decision to reform public sector pensions and how the Minister proposes to effect these changes with regard to PSNI officers' pensions so that PSNI officers continue to have access to a pension that is among the very best available, while taking into account that reform is inevitable because people are living longer. Many PSNI officers now spend more time in retirement than they did in work.

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WHY THE NI ASSEMBLY IS REFORMING PUBLIC SERVICE PENSIONS

2. In March 2011, Lord Hutton published his final conclusions on public service pension's reform; the findings of which were accepted by the Northern Ireland Executive. Lord Hutton, in his independent review of public service pensions, concluded that 'current scheme designs are not sufficiently robust to ensure the sustainability of public service pensions, and that change is needed to 'make public service pension schemes simpler and more transparent, and fairer to those on low and moderate earnings'.

3. The NI Executive is working to make public service pensions fairer and more sustainable over the long term. On 8 March 2012 the Executive considered the UK government's policy for a new Career Average Revalued Earnings (CARE) scheme model for all public sector pension schemes (including the Police Service of Northern Ireland (PSNI) and agreed to adopt this approach consistently for each of the different public sector pension schemes in line with their equivalent schemes in Great Britain and not to adopt different approaches for Northern Ireland.

4. All public service workers are being asked to take their share of the burden and are facing changes to their pensions so it would not be right to exempt the PSNI from these difficult decisions. PSNI officers have, and will continue in having access to a valuable pension scheme which is among the very best available anywhere

5. In his review Lord Hutton considered that there needs to be a fairer balance between what employees contribute to their own pensions and what other taxpayers pay. If not, taxpayers will be paying for pensions they cannot possibly hope to receive themselves for generations to come.

6. The current final salary arrangements of most pension schemes also give more benefit, in relative terms, to those on higher salaries and those with better career progression. Schemes for the future should ensure that the pension that members get out is a fairer reflection of what they have put in across their entire working career.

7. Final salary schemes mean that 'high fliers' receive almost twice as much pension for every £100 of their contributions than people on 'flat' careers. The Executive does not consider it right that lower paid employees should subsidies the pension entitlement of more highly paid staff and is therefore proposing a 'career average' scheme, where every year of salary counts towards a pension, rather than just the last few years. With better healthcare and improved lifestyles the average 60 year old is expected to live 10 years longer now than they did in the 1970s, causing the cost of providing public service pensions to rise.

8. As recommended by Lord Hutton's report a future Normal Pension Age of 60 for regular PSNI officers has been included in the proposed reformed scheme design which has been considered at the Police Negotiating Board.

9. Further information about more detailed transitional and implementation issues about the arrangements from 2015, which are still to be finalised, will be made available in due course. Representations made during consultation with the Police Negotiating Board have been considered.

10. Following constructive discussions in the Police Negotiating Board (PNB), the Minister of Justice considered the Home Secretary's Reform Design Framework document on the core parameters for reforms to the PSNI pension scheme.

11. Mindful of the Executive's decision of 8 March 2012 and having given due consideration to the UK Government's 'Police Pension Scheme: Reform Design Framework', David Ford as Justice Minster has decided to adopt the same approach for the reform of the PSNI pension scheme. This will maintain parity of terms and conditions for police pensions between the PSNI and police forces in England and Wales; allow interoperability between forces and also permit PSNI officers to gain experience in other police forces. The Scottish Government is also giving similar consideration to this proposal for pension reform.

12. The pension reform overview (*at Appendix A*) gives a brief summary of this core design.

HOW A PSNI OFFICER'S PENSION WILL CHANGE

13. The NI Executive believes there is a strong case for reform of pensions across the public services. PSNI pensions, like others in the public service, will be based on a Career Average Revalued Earnings scheme model (CARE) in the future.

14. The current final salary PSNI pension schemes will close from April 2015, with future accrual based on the new CARE model. Under the new arrangements, the Normal Pension Age for PSNI officers will increase to age 60, as compared to a Normal Pension Age for most public servants linked to state pension age (*planned to rise in stages to 68).*

15. However, there will also be protection for those PSNI officers closest to retirement, who will be entitled to remain in their current PSNI pension scheme beyond 2015. This will depend on the age and length of service of each PSNI officer.

16. A number of examples have been provided at Appendix 2 (*prepared by the Home Office*) to give an illustration of the type of pension outcomes which may occur in the new PSNI Care pension scheme. It should be noted however that the CARE Scheme in Northern Ireland will be subject to the terms laid down in Public Service Pensions (NI) Act, currently being drafted.

REASONING FOR REMAINING A MEMBER OF THE PSNI PENSION SCHEME

17. There are many good reasons for PSNI officers to remain a member of the PSNI pension scheme, for instance:

    - a public service pension is still a very effective way to save for retirement.

    - a new scheme will still provide a guaranteed level of pension - calculated as a fraction of a PSNI officer's salary and updated each year *[not an unknown amount based on investment returns].*

    - The Northern Ireland Policing Board will also make a significant contribution towards the pension.

- Tax relief is payable on pension contributions and PSNI officers pay a lower rate of national insurance contribution if they are members of a contracted out public service pension scheme, such as the PSNI pension scheme

- The pension scheme also provides valuable benefits for the PSNI officer and their family such as ill-health pensions and payments after the PSNI officer's death.

18. All PSNI officers are strongly encouraged to seek their own independent financial advice, based on their own personal situation before making final decisions on any pension scheme.

WHY THE PSNI ARE MOVING TO A CAREER AVERAGE SCHEME

19. The Department of Justice is committed to reaching a fair outcome on PSNI pensions reform, to ensure that all PSNI officers have access to affordable and sustainable pensions in the future which are amongst the best available.

20. Career average schemes provide a more equitable outcome than final salary schemes. Final salary schemes, such as the 1988 Police Pension Scheme and 2006 New Police Pension Scheme, provide better benefits to PSNI officers with high levels of salary progression, effectively subsidised by lower benefits to those with flatter careers.

21. PSNI officers with incomes that do not substantially increase towards the end of their career tend to get proportionately better benefits from a career average scheme than from a final salary scheme.

HOW CAREER AVERAGE SCHEMES WORK

22. In a final salary scheme, a PSNI officer's pension is typically worked out as a fraction of their final salary for each year of service. The 'final salary' used is generally the highest paid level of the last few years.

    For instance:

    - if a member of the 1988 Police Pension Scheme, they receive a pension calculated as ((1/60th **x** the number of years up to 20) **+** (2/60 **x** the number of years served between 20 and 30 years)) **x** final pensionable pay

    - if a member of the 2006 New Police Pension Scheme, they receive a pension calculated as 1/70th **x** final pensionable pay **x** years (up to a maximum of 35 years).

23. In a career average scheme, a 'slice' of pension is built up each year based on the PSNI officer's salary in that year. At the end of each year, the slice is increased in line with the revaluation rate used for that scheme - typically either prices or earnings increases - to maintain the value of the pension earned. When the PSNI officer finally retires, their total pension is calculated by adding up the slices of pension they have built up each year throughout their career.

ACCRUAL AND REVALUATION RATE

24. The accrual rate is the amount of pension built up each year. It is not the only element that determines the amount of pension received on retirement, but it is a major factor and is expressed as a proportion of the member's pensionable pay.

25. In the 2015 PSNI CARE scheme, the department is proposing a provisional accrual rate of 1/55.3th (equivalent to around 1.81%), with a revaluation rate for active members based on the Consumer Prices Index (CPI) +1.25%.

26. In a career average scheme, this means that a pension pot of 1/55.3th of the member's pensionable earnings is built up for each year that PSNI officer is a member of the pension scheme. Each of these annual pension elements would then be uprated in line with CPI +1.25%, for active scheme members, and in line with prices (currently CPI) after the member leaves the scheme.

27. For example, if in a given year a member earns £28,000, the pot for that year's membership of the new pension scheme will initially be: 1/55.3th x £28,000 = £506 of annual pension.

28. The pot will increase year on year by the rate of CPI + 1.25% until retirement and the pension comes into payment. So, if it is 10 years until retirement, and assuming that CPI is around 2% per year, that year's pot would be worth £675 per year at the time of retirement.

29. The total pension from the new scheme is calculated by adding up the individual pension pots earned from each year of membership in the new scheme.

NORMAL PENSION AGE

30. The Normal Pension Age in the 2015 CARE scheme is age 60. However, PSNI officers will be able to start to draw actuarially reduced pension, if they retire after reaching the minimum pension age (55).

31. PSNI officers will continue to have a lower Normal Pension Age than most other public sector schemes which are linked to the State Pension Age. The new CARE scheme will not be introduced until April 2015,

32. The following members <u>will not be affected</u> by the introduction of the new CARE scheme

    - Anyone leaving the scheme.

    - Members who are <u>within 10 years of retirement as of 1 April 2012</u> will also see no change in when they can retire, nor the amount of pension they had expected to receive. They will continue as a member of their current scheme until they retire.

PROTECTION FOR THOSE WITHIN 10 YEARS OF RETIREMENT

33. There will be statutory based transitional protection for certain categories of members, as follows:

    (i) all <u>active</u> 2006 scheme members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age (i.e. age 55) will see no change:-

    - in when they can retire,
    - nor any decrease in the amount of pension they receive at their current Normal Pension Age.

    this protection will be achieved by the member remaining in their current scheme until they retire;

    (ii) all <u>active</u> 1988 scheme members who, as of 1 April 2012,

    - have 10 years or less to age 55;
    - or have 10 years or less to age 48 and are 10 years or less from being eligible for a maximum unreduced pension,

    will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age

    this protection will be achieved by the member remaining in their current scheme until they retire.

PROTECTION FOR THOSE WHO FALL OUTSIDE THAT 10 YEAR TRANSITIONAL PROTECTION

34. Scheme members who on 1 April 2012, are within 4 years of qualifying for transitional protection will continue to accrue pension in their existing schemes **on a tapered basis**.

35. Members benefiting from tapered protection will move into the 2015 scheme from their own, personal date, based on their date of birth and length of service.

36. PSNI officers working on beyond 2015, who do not benefit from <u>full</u> transitional protection, will have the following '2-part' pension.

    - *Part 1*
    The first part will reflect member's service in their current scheme up to 2015 (*or from a later date if the member benefits from tapered protection*) and be based on the member's final salary at the point that they actually retire or, in the case of a deferred pension, when the member leaves the scheme. Members will be able to retire and take this pension from their current scheme's Normal Pension Age.

    - *Part 2*
    The second part will reflect pension earned from 2015 (*or from a later date if the member benefits from tapered protection*) in the CARE Scheme and will be payable in full on retirement from that scheme's Normal Pension Age of 60.

37. PSNI officers will still have a choice about when to retire, as this pension can be taken from the scheme's minimum pension age of 55, but with actuarial reduction.

TAPERED PROTECTION

38. Members will gain about 53 days of protection in their existing schemes for every month they are above the lower limit that applies in their case. **The last possible day of protected service for any such member will be 31 March 2022. (***Tables are available in the reform design framework at Appendix 1(Annex A).)*

39. This will apply to <u>active</u> members:

    - in the 1988 scheme and the 2006 scheme who on 1 April 2012 are aged between 41 and 45 years and who on 1 April 2012 are 10 years or less from being able to retire on a maximum, unreduced pension and are aged between 34 and 38 years;

    - in the 1988 scheme who on 1 April 2012 are aged 38 or over (up to age 45) and are between 14 and 10 years from being able to retire on a maximum, unreduced pension;

    - in the 1988 scheme who on 1 April 2012 are aged less than 38 who are more than 10 years from being able to retire on a maximum, unreduced pension, where their age minus the years from being able to retire on a maximum, unreduced pension, is between 24 and 28 years

40. Members qualifying for tapered protection will be able to take their 'Part 1' pension at the age at which they were expecting, including any additional accrual they build up post 2015, **subject to abatement rules**.

41. After members are transferred into the new pension scheme, they will accrue their 'Part 2' pension in that scheme.

42. Once a member's tapered protection expires, they will be transferred into the new pension scheme.

TAKING A PENSION BEFORE 60

43. Any pension earned in the CARE scheme will be payable in full on retirement from the age of 60, <u>provided</u> individuals are active members of the scheme at the time.

44. Members may retire and take their pension from age 55, but with an actuarial reduction to their pension. This reduction takes account of the fact that this pension is in payment earlier and therefore is to be paid for longer and is adjusted to account for the extra years pension is paid compared to a member who retires at 60 (Normal Pension Age). While it is not possible to say what the reduction will be *(this will determined regularly on an actuarial basis*), a rule of thumb for an actuarial reduction is considered to be between 4% and 5% for each year that the pension is taken early.

    - *For example*, if a member wishes to retire and take their pension from age 57, their pension will be reduced from their Normal Pension Age of 60. The reduction in this pension is likely to be in the order of 12% to 14% (*i.e. a cumulative 3 year reduction on the basis of between 4% and 5% actuarial reductions per annum*).

DEFERRED MEMBERS

45. If a member leaves the CARE scheme between age 55 and age 60, they will become a deferred member. Deferred members are able to access their unreduced pension at on the scheme's deferred pension age (i.e. the individual's State Pension Age). Access to pension before that will involve actuarial reduction based on the scheme's deferred pension age.

46. Deferred members will not be eligible for access to the enhanced early retirement terms, and their actuarial reduction will be based on the scheme's deferred pension age (i.e. the individual's State Pension Age).

DEFERRED PENSIONS IN 1988 OR 2006 SCHEMES

47. It should be noted that a deferred pension taken early from the 1988 and 2006 schemes will continue to be actuarially reduced from that respective scheme's deferred pension age, in accordance with the scheme's rules.

WORKING BEYOND NORMAL PENSION AGE

48. If PSNI officers decide not to take their pension and continue working beyond the CARE scheme's Normal Pension Age, then the scheme will recognise that the pension will be in payment later, and will provide an actuarial enhancement to the pension from the scheme's Normal Pension Age. This will be costed on similar terms to the actuarial reduction.

WHAT HAPPENS IF PSNI OFFICERS OPT OUT OF THE 1988 SCHEME

49. The 1988 scheme is a closed scheme.

    (i) PSNI officers will not be able to opt back into that scheme.

    (i) PSNI officers will, instead, become a deferred pensioner and their 1988 scheme pension will be paid at age 60.

50. As the PSNI officer <u>cannot</u> opt back in, they will lose any access to the final salary link for the service accrued under the 1988 scheme;

    (i) Any prospective double accrual enhancement; and

    (ii) The ability to take their pension from age 50 with 25 years pensionable service.

    (iii) The PSNI officer will, however, be eligible to join the 2006 scheme up until 31 March 2015, or the new 2015 scheme from 1 April 2015.

WHAT HAPPENS IF PSNI OFFICERS OPT OUT OF THE 2006 SCHEME

51. If PSNI officers decide to opt out of the 2006 scheme, the current scheme rules allow them to opt back in, however should they change their mind later.

(i) Any period of opted-out service will never count towards their pension.

(ii) If the PSNI officer does not opt back in to the 2006 Scheme, he/she would not be able to take his/her full pension until age 65 under the terms of that scheme ;and

(iii) The PSNI officer would lose the link to his/her final salary for the service accrued under the scheme.

(iv) He/she will be eligible to opt back in until 31 March 2015.

OPTING OUT AND TRANSITIONAL PROTECTION

52. If a member has qualified for the transitional protection or tapering arrangements and opts-out during the period in which they are covered by these arrangements the **PSNI officer will lose any future protection**.

53. Should the PSNI officer then wish to re-join the scheme they will be enrolled into the 2015 CARE scheme.

54. PSNI officers who opt out will also –

    (i) Be liable for tax on the elements of their salary which was previously paid as contributions,

    (ii) Be required to pay a higher rate of national insurance, as they will be contracted back into the state second pension; and

    (iii) Lose the benefit of the employer's contribution to their pension.

55. Before making final decisions about whether to remain in or opt out of any pension scheme, individual PSNI officers are strongly encouraged to seek their own independent financial advice, based on their own personal situation.

DOUBLE ACCRUAL

56. The mechanism for protecting accrued rights in the 1988 Police Pension Scheme accurately mirrors the expectation that scheme members may have to a faster accrual rate with increased service. For those PSNI officers who remain in service after the scheme has closed (*or, if applicable, after their tapered protection ends*), the number of years that they have built up in the closed scheme remains the same - but the accrual rate applied to the years that they have built up gradually increases to reflect what it would have been had the scheme remained open.

57. The maximum accrual rate of 1/45th is reached after 30 years' total service, reflecting both the maximum benefit that they could have had from the period of double accrual and the time at which scheme members would have reached full entitlement.

58. The accrual design of the 1988 scheme is unusual compared to most other public service schemes. This specific arrangement has been designed to reflect the UK government's commitment to honour accrued rights in full for the police pension scheme.

HOW TO CALCULATE 1988 PSNI PENSION SCHEME ACCRUED RIGHTS

59. The accrued pension that an PSNI officer would receive under these terms would be calculated as follows:-

1988 Scheme Pension = *((No of years service in 1988 scheme)* × (*weighted accrual rate)* × *(final salary))*

60. The weighted accrual rate would be calculated as follows:

$$\textbf{Weighted Accrual Rate} = \frac{((\text{No of years that were/would have been at single accrual rate}) \times (\text{single accrual rate}) + (\text{No of years that were/would have been at double accrual rate}) \times (\text{double accrual rate}))}{\text{Total number of year's service}}$$

(a) In calculating the weighted accrual rate, the first 20 years of a scheme member's service - regardless of whether it was pre or post reform - would count as being at the single accrual rate (1/60th).

(b) The next 10 years would count as being at the double accrual rate (2/60ths). No more than a total of 30 years' service will count towards the weighted accrual rate.

HOW THE NEW SCHEME WILL AFFECT REGULAR PSNI OFFICERS WHO WORK PART-TIME

61. The 2015 scheme pension benefits available to those who work part-time will be broadly as now. Approved part-time working will be counted as pensionable service on a pro-rata basis based on actual hours worked as a proportion of full-time work. Contributions will also be collected on a pro-rata basis.

62. Some of the details of the reforms for part-time workers - for example, transitional protection and tapering - are pending further discussion.

HOW THE SCHEME WILL AFFECT YOU AS A MEMBER OF THE PART TIME RESERVE

63. The 2015 scheme pension benefits available to those who work for the Part Time Reserve will be broadly as now. Some of the details of the reforms for members of the part-time reserve are pending further discussion.

CONTRIBUTION RATES FROM 2015

64. While the structure of employee contribution rates from 2015 has yet to be finalised, the Reform Design Framework provides for an on average employee contribution rate of 13.7%, equal to the expected *average* contribution rates in the 1988 and 2006 schemes on 31 March 2015. This structure may include some protections for lower paid staff (i.e. lower contributions). There will remain a strong economic rationale to stay saving in a PSNI pension, with the pension remaining amongst the very best available.

65. PSNI Officers should consider carefully the range of benefits available from their scheme, including; ill-health payments, death-in-service lump sums paid to the member's family (tax free) and an employer contribution that is higher than the member's own contribution. It is also important to consider that everyone paying tax will receive at least 20% tax relief on their pension contributions (as pension contributions are paid before tax).

66. Before making final decisions about any pension scheme, individual PSNI officers are strongly encouraged to seek their own independent financial advice, based on their own personal situation.

Appendix 1

Police Pension Scheme: Reform Design Framework

This document sets out the framework for the parameters to govern new police pension scheme design in England Wales and Northern Ireland, to be introduced from April 2015 ('the 2015 scheme'). The Scottish Government are also giving consideration to the Reform Design Framework.

This document sets out the final position on the main elements of scheme design, following discussions in the Police Negotiating Board (PNB) where further work has taken place on the detail of the scheme on the basis of this framework.

Accrued rights protection guarantee

1. There will be full statutory protection for accrued rights for all members as follows:

- all benefits accrued under final salary arrangements will be linked to the member's final salary, in accordance with the rules of the member's current schemes, when they leave the reformed scheme.
- full recognition of a member's expectation of double accrual for service accrued under the Police Pension Scheme 1988 ('the 1988 scheme'), so that a member's full continuous pensionable service upon retirement will be used to calculate an averaged accrual rate to be applied to service accrued under the 1988 scheme.
- members of the 1988 scheme to be able to access their 1988 scheme benefits when they retire at that scheme's ordinary pension age (i.e. from 30 years' pensionable service; age 50 with 25 or more years' pensionable service; or the member's voluntary retirement age[1]), subject to abatement rules for that scheme. Pensionable service for the purpose of calculating the ordinary pension age will include any continuous pensionable service accrued under both the 1988 scheme and the 2015 scheme.
- members of the Police Pension Scheme 2006 ('the 2006 scheme') to be able to access their benefits under that scheme when they retire at that scheme's normal pension age (i.e. age 55).
- members will continue to have access to an actuarially assessed commutation factor for benefits accrued under the 1988 scheme.

Transitional protection

2. There will be statutory based transitional protections for certain categories of members, as follows:

- all active 2006 scheme members who, as of 1 April 2012, have 10 years or less to their current Normal Pension Age (i.e. age 55) will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by the member remaining in their current scheme until they retire.
- all active 1988 scheme members who, as of 1 April 2012, have 10 years or less to age 55 or have 10 years or less to age 48 and are 10 years or less from a maximum unreduced pension, will see no change in when they can retire, nor any decrease in the amount of

[1] Age 55 for all constables and sergeants, and all federated and superintending ranks in the Metropolitan Police; age 57 for deputy assistant commissioners and commanders in the Metropolitan Police; and age 60 for all other inspectors and superintendents, and the commissioner, deputy commissioner and assistant commissioners of the Metropolitan Police.

* It should be noted that representatives from Northern Ireland Police Associations, the Department and the Board are members of PNB

pension they receive at their current Normal Pension Age. This protection will be achieved by the member remaining in their current scheme until they retire.

- there will be a further period of tapered protection for up to 4 years for scheme members. Members who are within 4 years of qualifying for transitional protection, as of 1 April 2012, will have limited protection so that on average for every month closer to qualifying for transitional protection they gain about 53 days of protection. The period of protected service for any member under these tapering arrangements will have finished by 31 March 2022. At the end of the protected period, they will be transferred into the 2015 scheme arrangements. .

Main scheme design parameters for a new scheme design

3. The main parameters of the new scheme design from 2015 are set out below.

a. a pension scheme design based on career average revalued earnings;

b. a provisional accrual rate of 1/55.3 of pensionable earnings each year, subject to agreement on the outstanding issues set out in Annex B;

c. there will be no cap on how much pension can be accrued;

d. a revaluation rate of active members' benefits in line with the Consumer Prices Index (CPI) + 1.25%;

e. pensions in payment and deferred benefits to increase in line with the Consumer Prices Index (CPI);

f. average member contributions of 13.7% from April 2015. As announced by the Chief Secretary to the Treasury on 20 December, the UK Government will review the effect of membership opt-outs, before taking final decisions on how future increases will be delivered 2014-15, and in the 2015 scheme.;

g. flexible retirement from the scheme's minimum pension age of 55, built around the scheme's Normal Pension Age of 60 – for all active members aged 55 or more at retirement, scheme benefits taken before Normal Pension Age will be actuarially reduced with reference to the scheme's Normal Pension Age, rather than the deferred pension age;

h. the Normal Pension Age of 60 will be subject to regular review, which will also consider the linked early retirement facility described at (g). These reviews will consider the increasing State Pension Age and any changes to it, alongside evidence from interested parties, including staff associations and employers. It will consider if the Normal Pension Age of 60 remains relevant, taking account of the economical, efficient and effective management of the police service, the changing profile of the workforce and the occupational demands of, and fitness standards for, police officer roles;

i. this regular review will be informed by scheme data and experience;

j. late retirement factors for members retiring from active service to be actuarially neutral from Normal Pension Age;

k. a deferred pension age equal to the individual's State Pension Age;

l. optional lump sum by commutation at a rate of £12 for every £1 per annum of pension foregone in accordance with HMRC limits and regulations;

m. abatement in existing schemes to continue;

n. ill-health retirement benefits to be based on the arrangements in the 2006 scheme;

o. all other ancillary benefits to be based on those contained in the 2006 scheme;

p. members rejoining after a period of deferment of less than 5 years can link new service with previous service, as if they had always been an active member;

q. members transferring between public service schemes would be treated as having continuous active service;

r. an employer cost cap and floor.

4. For the purposes of the reform design process for 2015, the UK Government previously set out the gross cost ceiling of 28.0% and the net cost ceiling of 14.3%. A report by the scheme actuary for the Home Office verified that the expected cost of the proposed scheme design above is within the cost ceiling for the police pension scheme. Considerations for Northern Ireland cost cap arrangements are outlined in Annex B.

5. The scheme design parameters have been reviewed by HM Treasury who have agreed the approach taken to risk management. DFP have agreed to this approach iro police pensions.

6. This framework also covers arrangements for an employers cost cap and floor, and a 25 year guarantee.

Annex A

Tapering

1988 and 2006 schemes, to age 45

Date of Birth		Age at 1 Apr 2012		Days of protection	Age at end of protection				Date of end of protection
					From		To		
From	To	year	month		year	month	year	month	
02/04/1967	01/05/1967	44	11	2557	54	11	55	0	31/03/2022
02/05/1967	01/06/1967	44	10	2504	54	8	54	9	06/02/2022
02/06/1967	01/07/1967	44	9	2450	54	5	54	6	14/12/2021
02/07/1967	01/08/1967	44	8	2398	54	3	54	4	23/10/2021
02/08/1967	01/09/1967	44	7	2343	54	0	54	1	29/08/2021
02/09/1967	01/10/1967	44	6	2289	53	9	53	10	06/07/2021
02/10/1967	01/11/1967	44	5	2237	53	6	53	7	15/05/2021
02/11/1967	01/12/1967	44	4	2182	53	4	53	5	21/03/2021
02/12/1967	01/01/1968	44	3	2130	53	1	53	2	28/01/2021
02/01/1968	01/02/1968	44	2	2076	52	10	52	11	05/12/2020
02/02/1968	01/03/1968	44	1	2021	52	7	52	8	11/10/2020
02/03/1968	01/04/1968	44	0	1971	52	5	52	6	22/08/2020
02/04/1968	01/05/1968	43	11	1916	52	2	52	3	28/06/2020
02/05/1968	01/06/1968	43	10	1864	51	11	52	0	07/05/2020
02/06/1968	01/07/1968	43	9	1810	51	8	51	9	14/03/2020
02/07/1968	01/08/1968	43	8	1757	51	6	51	7	21/01/2020
02/08/1968	01/09/1968	43	7	1703	51	3	51	4	28/11/2019
02/09/1968	01/10/1968	43	6	1649	51	0	51	1	05/10/2019
02/10/1968	01/11/1968	43	5	1596	50	9	50	10	13/08/2019
02/11/1968	01/12/1968	43	4	1542	50	7	50	8	20/06/2019
02/12/1968	01/01/1969	43	3	1489	50	4	50	5	28/04/2019
02/01/1969	01/02/1969	43	2	1435	50	1	50	2	05/03/2019
02/02/1969	01/03/1969	43	1	1381	49	10	49	11	10/01/2019
02/03/1969	01/04/1969	43	0	1332	49	8	49	9	22/11/2018
02/04/1969	01/05/1969	42	11	1278	49	5	49	6	29/09/2018
02/05/1969	01/06/1969	42	10	1225	49	2	49	3	07/08/2018
02/06/1969	01/07/1969	42	9	1171	48	11	49	0	14/06/2018
02/07/1969	01/08/1969	42	8	1118	48	9	48	10	22/04/2018
02/08/1969	01/09/1969	42	7	1064	48	6	48	7	27/02/2018
02/09/1969	01/10/1969	42	6	1010	48	3	48	4	04/01/2018
02/10/1969	01/11/1969	42	5	957	48	0	48	1	12/11/2017
02/11/1969	01/12/1969	42	4	903	47	10	47	11	19/09/2017
02/12/1969	01/01/1970	42	3	851	47	7	47	8	29/07/2017
02/01/1970	01/02/1970	42	2	796	47	4	47	5	04/06/2017
02/02/1970	01/03/1970	42	1	742	47	1	47	2	11/04/2017
02/03/1970	01/04/1970	42	0	693	46	11	47	0	21/02/2017
02/04/1970	01/05/1970	41	11	639	46	8	46	9	29/12/2016
02/05/1970	01/06/1970	41	10	586	46	5	46	6	06/11/2016

Date of Birth		Age at 1 Apr 2012		Days of protection	Age at end of protection				Date of end of protection
					From		To		
From	To	year	month		year	month	year	month	
02/06/1970	01/07/1970	41	9	532	46	2	46	3	13/09/2016
02/07/1970	01/08/1970	41	8	480	46	0	46	1	23/07/2016
02/08/1970	01/09/1970	41	7	425	45	9	45	10	29/05/2016
02/09/1970	01/10/1970	41	6	371	45	6	45	7	05/04/2016
02/10/1970	01/11/1970	41	5	319	45	3	45	4	13/02/2016
02/11/1970	01/12/1970	41	4	264	45	1	45	2	20/12/2015
02/12/1970	01/01/1971	41	3	212	44	10	44	11	29/10/2015
02/01/1971	01/02/1971	41	2	158	44	7	44	8	05/09/2015
02/02/1971	01/03/1971	41	1	103	44	4	44	5	12/07/2015
02/03/1971	01/04/1971	41	0	54	44	2	44	3	24/05/2015

Tapering – **1988 scheme before age 38, with 20+ years**

Date of Birth		Age at 1 Apr 2012		Days of protection	Age at end of protection		Date of end of protection
					From	To	
From	To	year	month		years	years	
02/04/1974	01/05/1974	37	11	2557	47.92	48.00	31/03/2022
02/05/1974	01/06/1974	37	10	2504	47.69	47.77	06/02/2022
02/06/1974	01/07/1974	37	9	2450	47.46	47.54	14/12/2021
02/07/1974	01/08/1974	37	8	2398	47.23	47.31	23/10/2021
02/08/1974	01/09/1974	37	7	2343	47.00	47.08	29/08/2021
02/09/1974	01/10/1974	37	6	2289	46.77	46.84	06/07/2021
02/10/1974	01/11/1974	37	5	2237	46.54	46.62	15/05/2021
02/11/1974	01/12/1974	37	4	2182	46.31	46.38	21/03/2021
02/12/1974	01/01/1975	37	3	2130	46.08	46.16	28/01/2021
02/01/1975	01/02/1975	37	2	2076	45.85	45.93	05/12/2020
02/02/1975	01/03/1975	37	1	2021	45.62	45.69	11/10/2020
02/03/1975	01/04/1975	37	0	1971	45.40	45.48	22/08/2020
02/04/1975	01/05/1975	36	11	1916	45.16	45.24	28/06/2020
02/05/1975	01/06/1975	36	10	1864	44.94	45.02	07/05/2020
02/06/1975	01/07/1975	36	9	1810	44.71	44.79	14/03/2020
02/07/1975	01/08/1975	36	8	1757	44.48	44.56	21/01/2020
02/08/1975	01/09/1975	36	7	1703	44.24	44.33	28/11/2019
02/09/1975	01/10/1975	36	6	1649	44.01	44.09	05/10/2019
02/10/1975	01/11/1975	36	5	1596	43.78	43.87	13/08/2019
02/11/1975	01/12/1975	36	4	1542	43.55	43.63	20/06/2019
02/12/1975	01/01/1976	36	3	1489	43.32	43.41	28/04/2019
02/01/1976	01/02/1976	36	2	1435	43.09	43.17	05/03/2019
02/02/1976	01/03/1976	36	1	1381	42.86	42.94	10/01/2019
02/03/1976	01/04/1976	36	0	1332	42.64	42.73	22/11/2018
02/04/1976	01/05/1976	35	11	1278	42.41	42.49	29/09/2018
02/05/1976	01/06/1976	35	10	1225	42.18	42.27	07/08/2018

Date of Birth		Age at 1 Apr 2012		Days of protection	Age at end of protection		Date of end of protection
					From	To	
From	To	year	month		years	years	
02/06/1976	01/07/1976	35	9	1171	41.95	42.03	14/06/2018
02/07/1976	01/08/1976	35	8	1118	41.72	41.81	22/04/2018
02/08/1976	01/09/1976	35	7	1064	41.49	41.57	27/02/2018
02/09/1976	01/10/1976	35	6	1010	41.26	41.34	04/01/2018
02/10/1976	01/11/1976	35	5	957	41.03	41.11	12/11/2017
02/11/1976	01/12/1976	35	4	903	40.80	40.88	19/09/2017
02/12/1976	01/01/1977	35	3	851	40.57	40.66	29/07/2017
02/01/1977	01/02/1977	35	2	796	40.34	40.42	04/06/2017
02/02/1977	01/03/1977	35	1	742	40.11	40.19	11/04/2017
02/03/1977	01/04/1977	35	0	693	39.90	39.98	21/02/2017
02/04/1977	01/05/1977	34	11	639	39.67	39.75	29/12/2016
02/05/1977	01/06/1977	34	10	586	39.44	39.52	06/11/2016
02/06/1977	01/07/1977	34	9	532	39.21	39.29	13/09/2016
02/07/1977	01/08/1977	34	8	480	38.98	39.06	23/07/2016
02/08/1977	01/09/1977	34	7	425	38.74	38.83	29/05/2016
02/09/1977	01/10/1977	34	6	371	38.51	38.59	05/04/2016
02/10/1977	01/11/1977	34	5	319	38.29	38.37	13/02/2016
02/11/1977	01/12/1977	34	4	264	38.05	38.13	20/12/2015
02/12/1977	01/01/1978	34	3	212	37.83	37.91	29/10/2015
02/01/1978	01/02/1978	34	2	158	37.59	37.68	05/09/2015
02/02/1978	01/03/1978	34	1	103	37.37	37.44	12/07/2015
02/03/1978	01/04/1978	34	0	54	37.15	37.23	24/05/2015

Tapering – 1988 scheme before 20 years, aged 38+

Service start date		Yrs at 1 Apr 2012		Days of protection	Yrs at end of protection		Date of end of protection
					From	To	
From	To	year	month		years	years	
02/04/1992	01/05/1992	19	11	2557	29.92	30.00	31/03/2022
02/05/1992	01/06/1992	19	10	2504	29.69	29.77	06/02/2022
02/06/1992	01/07/1992	19	9	2450	29.46	29.54	14/12/2021
02/07/1992	01/08/1992	19	8	2398	29.23	29.31	23/10/2021
02/08/1992	01/09/1992	19	7	2343	28.99	29.08	29/08/2021
02/09/1992	01/10/1992	19	6	2289	28.76	28.84	06/07/2021
02/10/1992	01/11/1992	19	5	2237	28.54	28.62	15/05/2021
02/11/1992	01/12/1992	19	4	2182	28.30	28.38	21/03/2021
02/12/1992	01/01/1993	19	3	2130	28.08	28.16	28/01/2021
02/01/1993	01/02/1993	19	2	2076	27.84	27.93	05/12/2020
02/02/1993	01/03/1993	19	1	2021	27.62	27.69	11/10/2020
02/03/1993	01/04/1993	19	0	1971	27.39	27.48	22/08/2020
02/04/1993	01/05/1993	18	11	1916	27.16	27.24	28/06/2020
02/05/1993	01/06/1993	18	10	1864	26.93	27.02	07/05/2020
02/06/1993	01/07/1993	18	9	1810	26.70	26.78	14/03/2020
02/07/1993	01/08/1993	18	8	1757	26.48	26.56	21/01/2020
02/08/1993	01/09/1993	18	7	1703	26.24	26.32	28/11/2019
02/09/1993	01/10/1993	18	6	1649	26.01	26.09	05/10/2019
02/10/1993	01/11/1993	18	5	1596	25.78	25.86	13/08/2019
02/11/1993	01/12/1993	18	4	1542	25.55	25.63	20/06/2019
02/12/1993	01/01/1994	18	3	1489	25.32	25.40	28/04/2019
02/01/1994	01/02/1994	18	2	1435	25.09	25.17	05/03/2019
02/02/1994	01/03/1994	18	1	1381	24.87	24.94	10/01/2019
02/03/1994	01/04/1994	18	0	1332	24.65	24.73	22/11/2018
02/04/1994	01/05/1994	17	11	1278	24.42	24.50	29/09/2018
02/05/1994	01/06/1994	17	10	1225	24.19	24.27	07/08/2018
02/06/1994	01/07/1994	17	9	1171	23.96	24.04	14/06/2018
02/07/1994	01/08/1994	17	8	1118	23.73	23.81	22/04/2018
02/08/1994	01/09/1994	17	7	1064	23.49	23.58	27/02/2018
02/09/1994	01/10/1994	17	6	1010	23.26	23.34	04/01/2018
02/10/1994	01/11/1994	17	5	957	23.03	23.12	12/11/2017
02/11/1994	01/12/1994	17	4	903	22.80	22.88	19/09/2017
02/12/1994	01/01/1995	17	3	851	22.58	22.66	29/07/2017
02/01/1995	01/02/1995	17	2	796	22.34	22.42	04/06/2017
02/02/1995	01/03/1995	17	1	742	22.12	22.19	11/04/2017
02/03/1995	01/04/1995	17	0	693	21.90	21.98	21/02/2017
02/04/1995	01/05/1995	16	11	639	21.67	21.75	29/12/2016
02/05/1995	01/06/1995	16	10	586	21.44	21.52	06/11/2016
02/06/1995	01/07/1995	16	9	532	21.21	21.29	13/09/2016

Service start date		Yrs at 1 Apr 2012		Days of protection	Yrs at end of protection		Date of end of protection
					From	To	
From	To	year	month		years	years	
02/07/1995	01/08/1995	16	8	480	20.98	21.06	23/07/2016
02/08/1995	01/09/1995	16	7	425	20.74	20.83	29/05/2016
02/09/1995	01/10/1995	16	6	371	20.51	20.59	05/04/2016
02/10/1995	01/11/1995	16	5	319	20.29	20.37	13/02/2016
02/11/1995	01/12/1995	16	4	264	20.05	20.13	20/12/2015
02/12/1995	01/01/1996	16	3	212	19.83	19.91	29/10/2015
02/01/1996	01/02/1996	16	2	158	19.59	19.68	05/09/2015
02/02/1996	01/03/1996	16	1	103	19.36	19.44	12/07/2015
02/03/1996	01/04/1996	16	0	54	19.15	19.23	24/05/2015

Tapering – **1988 scheme before age 38 and 20 years**

Yrs/Age at 1 Apr 2012	37&11	37&10	37&9	37&8	37&7	37&6	37&5	37&4	37&3	37&2	37&1	37&0	36&11	36&10	36&9	36&8	36&7	36&6	36&5	36&4	36&3	36&2	36&1	36&0	35&11	35&10	35&9	35&8	35&7	35&6	35&5	35&4	35&3	35&2	35&1	35&0	34&11	34&10	34&9	34&8	34&7	34&6	34&5	34&4	34&3	34&2	34&1	34&0
19&11	2504	2450	2398	2343	2289	2237	2182	2130	2076	2021	1971	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54	
19&10	2450	2398	2343	2289	2237	2182	2130	2076	2021	1971	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54		
19&9	2398	2343	2289	2237	2182	2130	2076	2021	1971	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54			
19&8	2343	2289	2237	2182	2130	2076	2021	1971	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54				
19&7	2289	2237	2182	2130	2076	2021	1971	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54					
19&6	2237	2182	2130	2076	2021	1971	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54						
19&5	2182	2130	2076	2021	1971	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54							
19&4	2130	2076	2021	1971	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54								
19&3	2076	2021	1971	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54									
19&2	2021	1971	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54										
19&1	1971	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54											
19&0	1916	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54												
18&11	1864	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54													
18&10	1810	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54														
18&9	1757	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54															
18&8	1703	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																
18&7	1649	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																	
18&6	1596	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																		
18&5	1542	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																			
18&4	1489	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																				
18&3	1435	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																					
18&2	1381	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																						
18&1	1332	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																							
18&0	1278	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																								
17&11	1225	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																									
17&10	1171	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																										
17&9	1118	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																											
17&8	1064	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																												
17&7	1010	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																													
17&6	957	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																														
17&5	903	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																															
17&4	851	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																																
17&3	796	742	693	639	586	532	480	425	371	319	264	212	158	103	54																																	
17&2	742	693	639	586	532	480	425	371	319	264	212	158	103	54																																		
17&1	693	639	586	532	480	425	371	319	264	212	158	103	54																																			
17&0	639	586	532	480	425	371	319	264	212	158	103	54																																				
16&11	586	532	480	425	371	319	264	212	158	103	54																																					
16&10	532	480	425	371	319	264	212	158	103	54																																						
16&9	480	425	371	319	264	212	158	103	54																																							
16&8	425	371	319	264	212	158	103	54																																								
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Annex B

Employer cost cap and floor, opt out review and 25 year guarantee

Employer cost cap and floor

1. The following cost cap arrangements for Northern Ireland are currently under consideration.

   - An employer cost cap will be introduced to cover unforeseen events and trends that lead to significant changes in scheme costs. The employer cost cap is intended to provide backstop protection to the taxpayer to ensure that risks associated with pension provision are shared between employers and scheme members. This means that changes to contribution rates due to 'member costs' will be controlled by the cap. The cap will be set with reference to the results of the first valuation of the reformed schemes.

   - So that small fluctuations in scheme costs do not lead to frequent small changes in the scheme after each valuation, there will be a two percentage point margin above and below the cap. The upper margin will form a 'ceiling' on the employer contribution rate, with the lower margin forming a 'floor'.

   - Action will be required to restore costs to the level of the cap if the scheme costs move above the 'ceiling' or below the 'floor'. This may be achieved via adjustments to member benefits accruing in respect of future service, adjustments to member contributions, or via some other method. The employer cost cap will be symmetrical so that, if reduction in member costs fall below the 'floor', members' benefits will be improved.

   - Cost pressures which arise from financial or technical changes, including changes to the discount rate, will be met by employers. The cost cap will control the risk associated with 'member costs', such as changes in costs such as actual or assumed longevity, of careers or the age and gender mix of the workforce

   - As only active members will see their benefits or contributions adjusted if the ceiling or floor is breached, the Government considers that it would be unfair to control all of the costs associated with pensioner and deferred members of the existing pension schemes. These elements of costs will therefore not be controlled by the cost cap mechanism.

     - The cost cap will control all other member cost risks, including the past and future service cost risks associated with: Active members of the reformed schemes, including any service they have in the existing schemes;

     - Deferred and pensioner members of the reformed schemes; and

- Transitionally protected active members of the existing schemes.

- Scheme valuations will take place periodically to assess how the cost of the scheme has increased or reduced. In the event that member costs drive the cost of the scheme above the cap or below the floor, there will be a period of consultation with relevant groups before changes are made to bring costs within the cap and floor. If agreement cannot be reached through consultation, the accrual rate will be adjusted as an automatic default.

<u>Opt out review</u>

2. The UK Government has advised devolved administrations that if they do not adhere consistently to the policy framework for all their public service schemes they will have to bear the cost of any exceptions from the block finances allocated from Central Government.

3. At its meeting of 22 September 2011, the Executive having given consideration to the UK Government's proposals agreed with respect to Public Service Pensions to commit to the principle of delivering the targeted level of savings to the cost of public sector pension schemes in Northern Ireland, subject to the details of how those savings will be delivered being worked through over time; to adopt this approach consistently for each of the different public sector pension schemes; and to authorise engagement with the unions to discuss a graduated approach which protects lower paid public sector workers.

4. The Department of Justice being responsible for the police pension schemes in Northern Ireland, has taken forward work on the detail of proposals for increased member contribution rates and the relevant consultative process, and continues to take account of developments following the consultations in equivalent schemes in Great Britain, to ensure parity between police pension schemes in Great Britain and Northern Ireland. Consultation on implementation of contribution increases for 2014/15 will occur at Police Negotiation Board and will include consideration of the impact of the 2012-13 contribution increases(including on opt-out) before final decisions are taken on how future increases will be delivered.

<u>25 year guarantee</u>

5. The UK Government has set out an offer on public service pensions that is fair and sustainable, and one that can endure for 25 years. This means that no changes to scheme design, benefits or contribution rates should be necessary for 25 years outside of the processes agreed for the cost cap. To give substance to this, the UK Government has included provisions on the face of the forthcoming Public Service Pensions Bill to ensure a high bar is set for future UK Governments to change the design of the schemes. Consideration is being given to include similar provisions in the Public Service Pensions Act (Northern Ireland).

APPENDIX 2

Illustrative Examples

The following examples prepared by the Home Office are being provided to give an illustration of the type of pension outcomes which may occur in the new PSNI Care scheme.

However the Scheme in Northern Ireland will be subject to the terms laid down in Public Service Pensions (NI) Act which is currently being drafted.

The following examples show illustrative pension outcomes for a range of individuals based on their date of birth and entry point into the scheme. They show some of the options available to these members in accessing their 1988 Police Pension Scheme benefits and their benefits under the 2015 scheme. The figures are in current earnings terms and based on the salary rates paid to PSNI officers today. They are indicative and should be treated as such.

The calculations assume that the member remains a constable throughout their career, earning the maximum salary (£36,519 on current salary rates) and that the members' date of birth and date of joining the scheme are assumed to be on the 1 April of the relevant year. (SPA means State Pension Age.)

1. Member who joined the 1988 PPS in 1993, aged 20.

The member has 22 years' service in the 1988 scheme and is aged 42 in 2015. The member qualifies for tapered protection, which ends on 22 August 2020. The member has a number of options available for retirement under the new scheme:

a. retire at age 60 with a total pension of £30,100 pa (PPS pension of £22,200 pa and 2015 pension of £7,900 pa)

b. retire at age 55 with a total pension of £26,000 pa (PPS pension of £22,200 pa and 2015 pension of £3,800 pa)

c. retire at age 50 with a PPS pension of £22,200 pa and a deferred 2015 pension (payable from age 55 of £900 pa or from age 67 (SPA) of £1,200 pa).

2. Member who joined the 1988 PPS in 1993, aged 25.

The member has 22 years' service in the 1988 scheme and is aged 47 in 2015.

The member qualifies for tapered protection, which ends on 22 August 2020.

The member has a number of options available for retirement under the new scheme:

a. retire at age 60 with a total pension of £27,100 pa (PPS pension of £22,200 pa and 2015 pension of £4,900 pa)

b. retire at age 55 with a total pension of £23,500 pa (PPS pension of £22,200 pa and 2015 pension of £1,300 pa)

c. retire at age 50 with a PPS pension of £18,300 pa. As this retirement would be before the end of protection no new scheme benefits would be accrued.

3. Member who joined the 1988 PPS in 1993, aged 30.

The member has 22 years' service in the 1988 scheme and is aged 52 in 2015.

The member

- qualifies for full protection.
- remains in the 1988 scheme.

4. Member who joined the 1988 PPS in 1997, aged 20.

The member has 18 years' service in the 1988 scheme and is aged 38 in 2015.

The member does not qualify for full, or tapered protection.

The member has a number of options available for retirement under the new scheme:

a. retire at age 60 with a total pension of £27,700 pa (PPS pension of £14,600 pa and 2015 pension of £13,100 pa)

b. retire at age 55 with a total pension of £22,700 pa (PPS pension of £14,600 pa and 2015 pension of £8,100 pa)

c. retire at age 50 with a PPS pension of £14,600 pa and a deferred 2015 pension (payable from age 55 of £3,700 pa or from age 67 (SPA) of £5,100 pa).

5. Member who joined the 1988 PPS in 1997, aged 25.

The member has 18 years' service in the 1988 scheme and is aged 43 in 2015.

The member does not qualify for full, or tapered protection.

The member has a number of options available for retirement under the new scheme:

a. retire at age 60 with a total pension of £25,000 pa (PPS pension of £14,600 pa and 2015 pension of £10,400 pa)

b. retire at age 55 with a total pension of £20,500 pa (PPS pension of £14,600 pa and 2015 pension of £5,900 pa)

c. retire at age 50 with a PPS pension of £13,100 pa and a deferred 2015 pension (payable from age 55 of £2,200 pa or from age 67 (SPA) of £3,100 pa).

6. Member who joined the 1988 PPS in 1997, aged 30.

The member has 18 years' service in the 1988 scheme and is aged 48 in 2015.

The member

- qualifies for full protection
- remains in the 1988 scheme.

7. Member who joined the 1988 PPS in 2000, aged 20.

The member has 15 years' service in the 1988 scheme and is aged 35 in 2015.

The member does not qualify for full, or tapered protection.

The member has a number of options available for retirement under the new scheme:

a. retire at age 60 with a total pension of £26,900 pa (PPS pension of £12,200 pa and 2015 pension of £14,700 pa)

b. retire at age 55 with a total pension of £21,600 pa (PPS pension of £12,200 pa and 2015 pension of £9,400 pa)

c. retire at age 50 with a PPS pension of £12,200 pa and a deferred 2015 pension (payable from age 55 of £4,400 pa or from age 68 (SPA) of £6,200 pa).

8. Member who joined the 1988 PPS in 2000, aged 27

The member has 15 years' service in the 1988 scheme and is aged 42 in 2015.

The member does not qualify for full, or tapered protection.

The member has a number of options available for retirement under the new scheme:

a. retire at age 60 with a total pension of £23,100 pa (PPS pension of £12,200 pa and 2015 pension of £10,900 pa)

b. retire at age 55 with a total pension of £18,000 pa (PPS pension of £11,700 pa and 2015 pension of £6,300 pa)

c. retire from age 52 with a PPS pension of £11,000 pa and a deferred 2015 pension (payable from age 55 of £3,300 pa

9. Member who joined the 2006 NPPS in 2007, aged 20.

The member has 8 years' service in the 2006 scheme and is aged 28 in 2015.

The member does not qualify for full, or tapered protection.

The member has a number of options available for retirement under the new scheme:

a. retire at age 60 with a total pension of £22,400 pa (NPPS pension of £4,200 pa and 2015 pension of £18,200 pa)

b. retire at age 55 with a total pension of £16,500 pa (NPPS pension of £4,200 pa and 2015 pension of £12,300 pa)

c. retire at age 55 with a NPPS pension of £4,200 pa and a deferred 2015 pension (payable from age 68 (SPA) of £11,800 pa).

10. Member who joined the 2006 NPPS in 2007, aged 25.

The member has 8 years' service in the 2006 scheme and is aged 33 in 2015.

The member does not qualify for full, or tapered protection.

The member has a number of options available for retirement under the new scheme:

a. retire at age 60 with a total pension of £19,900 pa (NPPS pension of £4,200 pa and 2015 pension of £15,700 pa)

b. retire at age 55 with a total pension of £14,500 pa (NPPS pension of £4,200 pa and 2015 pension of £10,300 pa)

c. retire at age 55 with a NPPS pension of £4,200 pa and a deferred 2015 pension (payable from age 68 (SPA) of £9,800 pa).

11. Member who joined the 2006 NPPS in 2007, aged 30.

The member has 8 years' service in the 2006 scheme and is aged 38 in 2015.

The member does not qualify for full, or tapered protection.

The member has a number of options available for retirement under the new scheme:

a. retire at age 60 with a total pension of £17,300 pa (NPPS pension of £4,200 pa and 2015 pension of £13,100 pa)

b. retire at age 55 with a total pension of £12,300 pa (NPPS pension of £4,200 pa and 2015 pension of £8,100 pa)

c. retire at age 55 with a NPPS pension of £4,200 pa and a deferred 2015 pension (payable from age 67 (SPA) of £7,900 pa).

12. Member who joined the 2006 NPPS in 2007, aged 40.

The member has 8 years' service in the 2006 scheme and is aged 48 in 2015.

The member qualifies for full protection. The member remains in the 2006 scheme.

Note on calculations

- The calculations use the current maximum salary for a PSNI constable without promotion (working full time with no career break).

- Salaries are assumed to increase at 1% per annum in excess of the CARE scheme in-service revaluation rate.

- Deferred pensions will be revalued from the point of deferment until taken in line with the Pension Increase Act (currently in line with the Consumer Prices index)

Department of Justice
www.dojni.gov.uk

POLICING POLICY AND STRATEGY DIVISION CIRCULAR 05/2013

PPSD 05/2013 **Date of Issue: 19 November 2013**

This information circular provides further detail on proposals for PSNI long term pension reform.

FROM: Police Powers and HR Policy Branch, DOJ

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THIS CIRCULAR IS ADDRESSED TO: The Chief Constable, PSNI
Chairperson of Northern Ireland Policing Board
Director Human Resources, PSNI
Chief Police Officers' Staff Association
Superintendents' Association (NI)
Police Federation (NI)

Department of Justice PSNI Pension Reform

To: **Chief Constable and Chair of Northern Ireland Policing Board and members of Police Staff Associations.**

On 7 May 2013, the Department issued information circular (PPSD 04/2013) which gave details of a proposal for a Reform Design Framework (RDF) for a new Career Average Revalued Earnings (CARE) police pension scheme to come into effect on 1 April 2015. The RDF made it clear that there was further detail to be resolved in finalising the scheme.

This information circular sets out the Minister's position* on some of that detail and includes further information on how transitional arrangements will apply. Consultation on those issues within the 2015 scheme which remain outstanding continues at the Police Negotiating Board (PNB).

(**It should be noted that the final scheme is subject to any changes made to the Public Service Pensions Bill currently making its passage through the Northern Ireland Assembly before receiving Royal Assent. It is this Bill which sets out the parameters for all Public Sector pension schemes in Northern Ireland including the PSNI*)

For clarity:

Information in this circular (and also in PPSD Information Circular 04/2013) relating to the New CARE Police Pension Scheme will apply to all members of the Police Service of Northern Ireland (PSNI) and the Police Service of Northern Ireland Reserve.

Issues relating to transitional protection and tapering only apply to members of the PSNI who were members of the Police Pension Scheme (1988) or the New Police Pension Scheme (2006) on 1 April 2012.

To assist the reading of this document, a glossary explaining some of the specialist terminology used in relation to pensions is included on page 29.

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Long term Pension reform

Mindful of the Executive's decision of 8 March 2012 and, having given due consideration to the UK Government's 'Police Pension Scheme: Reform Design Framework', the Minister of Justice has decided to adopt the same approach for the reform of the Police Service of Northern Ireland (PSNI) pension scheme.

The Reformed Design Framework (RDF) for the proposed new police pensions scheme to come into effect on 1 April 2015 *(as detailed in information circular PPSD 04/2013),* sets out the main elements of the scheme design. It included principles on protection of accrued rights and protection for those closest to retirement and advised that further detail remained to be resolved in finalising the scheme.

Reformed Design Framework - core parameters

As set out in the RDF the core parameters for the new scheme are:

- a pension scheme design based on career average revalued earnings;
- a Normal Pension Age of 60;
- a provisional accrual rate of $^{1}/_{55.3}$ of pensionable earnings each year, *subject* to agreement on the outstanding issues;
- a revaluation rate of active members' benefits in line with the Consumer Price Index (CPI) + 1.25%;
- pensions in payment and deferred benefits to increase in line with CPI;
- average member contributions of 13.7%;
- Flexible retirement from the scheme's minimum pension age of 55, built around the scheme's Normal Pension Age of 60;
- a deferred pension age equal to the individual's State Pension Age;
- an optional lump sum by commutation at a rate of £12 for every £1 per annum of pension foregone in accordance with Her Majesty's Revenue & Customs (HMRC) limits and regulations.

Reformed Design Framework - statutory protection

The RDF set out full statutory protection for accrued rights for all members as follows:

- all benefits accrued under final salary arrangements will be linked to the member's final salary, in accordance with the rules of the member's current schemes, when they leave the reformed scheme;

- full recognition of a member's expectation to double accrual for service accrued under the Police Pension Scheme 1988 ('the 1988 scheme'), so that a member's full continuous pensionable service upon retirement will be used to calculate an averaged accrual rate to be applied to service accrued under the 1988 scheme;

- members of the 1988 scheme to be able to access their 1988 scheme benefits when they retire at that scheme's ordinary pension age (i.e. from 30 years' pensionable service; age 50 with 25 or more years' pensionable service; or the member's voluntary retirement age), subject to any abatement rules for that scheme (where appropriate). Pensionable service for the purpose of calculating the ordinary pension age will include any continuous pensionable service accrued under both the 1988 scheme and the 2015 scheme;

- members of the Police Pension Scheme 2006 ('the 2006 scheme') to be able to access their benefits under that scheme when they retire at that scheme's Normal Pension Age (i.e. age 55);

- members will continue to have access to an actuarially assessed commutation factor for benefits accrued under the 1988 scheme.

Reformed Design Framework – transitional protection

The RDF set out the statutory transitional protection for certain categories of members as follows:

- <u>all active 2006 scheme members</u> who, **as of 1 April 2012**, have 10 years or less to their current Normal Pension Age (*i.e. age 55*) will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by the member remaining in their current scheme until they retire;

- all active 1988 scheme members who, **as of 1 April 2012**,
  - have 10 years or less to age 55; or
  - are 10 years or less from a maximum unreduced pension and have 10 years or less to age 48,

  will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by those members remaining in their current scheme until they retire;

- there will be a further period of tapered protection for up to 4 years for scheme members. Members who are within 4 years of qualifying for transitional protection **as of 1 April 2012**, will have limited protection so that on average, for every month closer to qualifying for transitional protection, they gain approximately 53 days of protection. The period of protected service for any member under these tapering arrangements will have finished by 31 March 2022. At the end of the protected period, they will be transferred into the new pension scheme arrangements. Further details on how the tapered protection will apply are set out in the Reformed Design Framework (Information Circular PPSD 04/2013 refers).

Transitional and tapered protection for PSNI officers with part time service

Transitional protection applies only to officers who are members of the Police Service of Northern Ireland (PSNI)[1] who were active members of either the Police Pension Scheme (1988 scheme) or the New Police Pension Scheme (2006 scheme) as of 1 April 2012. The purpose of transitional protection is to allow a certain period of time for adjustments in advance of retirement.

Like their full time counterparts, length of service for those officers who work on a part time basis, will be measured in calendar years to establish eligibility for transitional protection.

Thus a member who works on a part time basis at 50% of full time hours, over a period of 25 years, should be treated the same as a full time member working the same period. For the purposes of eligibility for the 10 year full protection period or the tapered protection period, both should be treated as having 25 (calendar) years' service (*rather than 12.5 and 25 years of reckonable service respectively*). In this case both members will be eligible for full protection.

[1] *as defined under section 1(1) of the Police (Northern Ireland) Act 2000*

Effect of a PSNI officer's working pattern on the application of tapered transitional protection

The period of transitional protection for a PSNI officer is the same regardless of working pattern.

- For example

  A regular officer who works on a part time basis[2] with seven years tapered protection would move to the CARE scheme on the same basis as their full time counterpart with seven years tapered protection.

The purpose of the transitional protection is to ensure that those closest to retirement with least opportunity to adjust are protected. That rationale applies equally to full and part time workers.

The period of protection will be unaffected if a member with a tapered transitional protection chooses to change their working pattern after the protection has been calculated but before the period of protection begins.

- For example

  If a regular officer who works full time with seven years tapered protection were to change to working on a part time basis[2], the date at which they would move to the CARE Scheme would be unaffected.

This issue affects part time workers in other public service schemes in Northern Ireland in the same way and is consistent with the approach taken across other jurisdictions.

Application of accrued benefits formula for PSNI officers in the 1988 scheme with part time service[2]

The RDF makes it clear that there will be full statutory protection of accrued rights for all members including full recognition of the expectation of double accrual for service accrued under the 1988 scheme. Information Circular PPSD 04/2013 provided a formula for calculating how this protection applies to those officers who have worked full time throughout their careers, however further work was required to develop a formula that could apply to PSNI officers with part time service.

A new formula has been developed to calculate the protection of double accrual, to better accommodate the situation of those with part time service.

[2] *as defined under section 1(1) of the Police (Northern Ireland) Act 2000*

Full time officers may wish to note that the new formula works in exactly the same way as the original formula.

The new formula recognises that, for the purposes of calculating the protection of double accrual, both full and part time PSNI officers (*as defined under section 1(1) of the Police (Northern Ireland) Act 2000)* should be treated in the same way. This means that the accrual rate that applies to a member with some part time service will be the same as it would have been had all the service been full time.

The new formula for calculating an officer's accrual in the 1988 scheme

$$\textbf{Accrual} = n \times {}^{r}/_{q}$$

n = the accrual that the officer would have built up had they remained in the 1988 scheme until the end of their service, which had been full time throughout

For this part of the calculation:

- service in the 2015 scheme should be counted together with service in the 1988 scheme; and
- any periods of part time service should be taken as if they were periods of full time service; and
- the maximum accrual of ${}^{2}/_{3}$ (i.e. ${}^{40}/_{60}$) applies.

r = the period in years of their pensionable service (i.e. reckonable service)

For this part of the calculation:

- service in the 2015 scheme should <u>not</u> be included;
- part time service should <u>not</u> be treated as full time service; and
- the limit of 30 years' service applies.

q = calendar years of service in either the 1988 scheme or the 2015 scheme

For this part of the calculation:

- service in the 2015 scheme <u>should</u> be included;
- part time service <u>should</u> be treated as full time service; and
- the limit of 30 years' service applies.

To calculate the PSNI officer's 1988 scheme pension, the accrual is multiplied by average pensionable pay (*which is generally the pensionable pay the officer has* *received over the preceding 12 months*). For those working part time, the calculation for average pensionable pay uses the full time equivalent rate of their pensionable pay.

Example 1

An officer working full time with 15 years in the 1988 scheme and 10 years in the 2015 scheme.

n = is the accrual as if the member has been in the 1988 scheme for the full 25 years

$= 20$ years at $^{1}/_{60}$ and 5 years at $^{2}/_{60}$

$= {}^{20}/_{60} + {}^{10}/_{60}$

$= {}^{30}/_{60} \quad (= ½)$

It makes the calculation below easier to express the top part of this fraction as number of years' service.

$= {}^{25}/_{50} \ (= ½)$

r = 15 years' reckonable service in the 1988 scheme

q = 25 years' combined service in the 1988 scheme and the 2015 scheme

Accrual = **n x r/q**

$= {}^{25}/_{50} \times {}^{15}/_{25}$

$= {}^{15}/_{25}$

It can be helpful to think of this as 15 years' reckonable service in the 1988 scheme, with the accrual rate for each year's service rescaled from $^{1}/_{60\text{ths}}$ to $^{1}/_{50\text{ths}}$ to reflect the period where the member was in service in the 2015 scheme.

1988 scheme pension = $^{15}/_{50}$ **x** average pensionable pay on leaving the service

Example 2

A PSNI officer with 15 years' service in the 1988 scheme and 10 years' service in the 2015 scheme who has worked part time at 50% full time equivalent throughout their career.

n = is the accrual as if the member has been in the 1988 scheme for the full 25 years

= 20 years at $^{1}/_{60}$ and 5 years at $^{2}/_{60}$

= $^{20}/_{60}$ + $^{10}/_{60}$

= $^{30}/_{60}$ (= ½)

As above, expressing the top part of this fraction as number of years' service

= $\mathbf{^{25}/_{50}}$ (=1/2)

r = 7.5 years' reckonable service in the 1988 scheme

q = 25 years combined service in the 1988 scheme and the 2015 scheme

Accrual = n (what it would have been if no reform) x r/q (scaling down factor to reflect reform)

= $\mathbf{^{25}/_{50}}$ **x** $^{7.5}/_{50}$

= $\mathbf{^{7.5}/_{50}}$

This can be thought of as 7.5 years' reckonable service in the 1988 scheme, with the accrual rate for each year's service rescaled from 1/60ths to 1/50ths to reflect the period where the member was in service in the 2015 scheme.

1988 scheme pension = $\mathbf{^{7.5}/_{50}}$ x average pensionable pay on leaving the service

Hence the improved weighting of the accrual rate is the same for full time and part time workers with the same length of service in calendar years, but the pensionable service reflects any periods of part time working.

Career Average Revalued Earnings (CARE) schemes and revaluation

How the proposed CARE scheme works

In a final salary scheme, an officer's pension is typically worked out as a fraction of their final salary for each year of service. The 'final salary' used is generally the highest paid level of the last few years.

- For example

  For a full time officer:

- if the officer is a member of 1988 scheme, they receive a pension calculated as

  (($^{1}/_{60}$ X the number of years served up to 20) **+** ($^{2}/_{60}$ **x** the number of years served between 20 and 30 years)) **X** average pensionable pay (which is the pensionable pay the officer has received over the preceding 12 months)

- if a member of the 2006 scheme, the officer will receive a pension calculated as

  $^{1}/_{70}$ **x** average pensionable pay **X** years (up to a maximum of 35 years)

In a CARE scheme, each year a member builds up a 'pot' of pension based on their salary in that year.

At the end of each year, that pot is increased (or revalued) in line with the revaluation rate used for that scheme (typically either prices or earnings increases) to maintain the value of the pension earned.

When the member finally retires, their total pension is calculated by adding up all the pots of pension they have built up each year throughout their career. A pension at that level is then payable for life. The pension is also uprated each year.

Accrual Rates and how pensions will increase over time in the 2015 scheme

An 'accrual rate' is the proportion of pensionable pay that each year of membership adds to a member's pension. While this is not the only element that determines the amount of pension a member will receive on retirement, it is a major factor.

In the CARE police pension scheme, from 2015 the accrual rate is likely to be at $^{1}/_{55.3}$ (equivalent to around 1.81%), with a revaluation rate for active members based on the Consumer Price Index (CPI) +1.25%.

This means that in the 2015 scheme, an officer who is an active scheme member will build up a pension pot of $^{1}/_{55.3}$ of pensionable earnings for each year that they are a member of the pension scheme.

Each of these annual pension pots will then be uprated in line with CPI +1.25%, whilst they remain an active scheme member. However, after leaving the scheme, uprating will be in line with prices (currently CPI since April 2011).

- <u>For example</u>

  If in a given year a police officer earns £28,000, the 'pot' for that year's membership of the new pension scheme will initially be : -

  $^{1}/_{55.3}$ x £28,000 = £506 of annual pension

Assuming that the police officer remains in the scheme to retirement, the 'pot' will increase year on year by the rate of CPI + 1.25% until retirement, when their pension comes into payment.

So, if it is 10 years from the beginning of that year until that police officer retires and assuming that CPI is around 2% per year, that first year's pot may be worth around £697 per year on retirement.

The total pension from the new scheme is calculated by adding up the individual pension pots earned from each year of membership in the proposed new CARE scheme.

Timing of CARE benefits annual uprating

CARE benefits for the whole of a financial year will usually be uprated immediately at the end of that financial year.

Revaluation of benefits accrued in the first year of service

Benefits accrued in the first scheme year of service are revalued in line with CPI + 1.25% on the following 1 April and at every 1 April thereafter while the member remains in active service.

Revaluation of benefits accrued in the final year of service

Benefits accrued in the final year of service are revalued along with all previous years' accrual at the following 1 April. The rate at which all these accruals are revalued will be based on CPI + 1.25% and calculated proportionate to the period in the year the officer is in service.

If a large part of the final year to 1 April has been spent in service, the proportionate rate will be closer to CPI + 1.25%, and if a small part of the year has been spent in service the rate will be closer to CPI.

Total benefits will then be increased by CPI as from the date of leaving service every April thereafter, on the first Monday in the tax year (as applies to pensions in payment at present).

Effect on accrual rates should CPI be negative

<u>How uprating of an active members' accrual will operate were CPI to be negative in the future</u>

Each year the Department of Finance and Personnel (DFP) will lay an order which will establish the changes in earnings or prices to allow for the revaluation of active members' accruals. This approach does allow for the possibility of revaluation of active members' accruals to be negative. In the CARE scheme, inflation would have to be less than -1.25% for that to occur.

The Northern Ireland Executive is of the view that if members can benefit from the upside risk of revaluation, which they will since there are no plans to 'cap' the revaluation rates, it would be unfair for them to be shielded from the downside risk.

Imposing a revaluation floor would cause scheme costs to rise and might lead to a breach of the cost cap. If this were to be the case, it would likely lead to an increase in members' contributions or a reduction in the scheme accrual rate.

So any benefit from shielding members from negative revaluation could ultimately be at the expense of higher contributions or lower accrual.

In practice, negative annual changes have been rare during the last 100 years or so. Negative changes in prices may have little or no impact upon the total value of the pension measured in terms of constant prices.

<u>How uprating of pensions in payment will operate were CPI to be negative in the future</u>

Public service pensions in payment are increased in line with the general change in the level of prices, as determined by the Department of Social Development for the purposes of state second pensions. This is due to the statutory link between the uprating of public service pensions and state second pensions.

Whilst DFP determine the appropriate change in the level of prices, current provisions do not allow for the resulting uprating figure for pensions in payment to be negative. The Public Service Pensions Bill in Northern Ireland does not change this.

When the general change in level of prices was negative in 2009-2010 (RPI was -1.4% based upon the September 2009 figures), second state pensions and therefore public service pensions **were not reduced** but were frozen at the April 2010 uprating. This was an increase in value in real (price) terms.

Whilst the revaluation factor for the accrual of pension might in exceptional circumstances be negative, the uprating figure applied to a pension would, under present provisions, not be less than zero.

<u>How uprating of deferred pensions will operate were CPI to be negative in the future</u>

The uprating mechanism for deferred pensions is the same as that for pensions in payment.

Calculation of accrued benefits - timing of uprating for those members with two pension pots

This is of interest to those police officers with two pension pots, one in either the 1988 or 2006 scheme and one in the CARE scheme.

Increases in accrued benefits in the 1988 or 2006 schemes will be calculated:

- at the end of each financial year; or
- part way through the year if a scheme member retires or otherwise leaves the police pension scheme of which they are currently a member.

So, for a scheme member with pension accrued in both 1988 and 2015 schemes, the value of their 1988 scheme pension would be recalculated at the beginning of each tax year, unless they retire or leave the pension scheme part way through the year.

Career Breaks

Officers on a career break at 2015

Officers who are on a career break of 5 years or less who *do not qualify* for transitional protection will go into to the open scheme (i.e. proposed CARE scheme). These officers will retain their pre-2015 accrued benefits and as is the case with no career break, will then have a two part pension.

Officers who are on a career break of 5 years or less who *qualify* for full transitional protection will return to the pension scheme that they left.

Officers who are on a career break of 5 years or less who *qualify* for tapered protection will also return to the pension scheme they left if they return within the period of tapered protection. The period of tapering **will not be extended as a result of the career break.** The tapered protection will expire at the same time as if there had been no career break.

Officers with tapered protection whose period of tapering runs out whilst they are on a career break will enter the open scheme on their return. The taper period cannot be deferred by a career break.

It is exceptional for any officer to take a career break exceeding 5 years. This can only occur with the specific agreement of the Chief Constable. In such a case it must be clear that the officer has been on unpaid leave throughout. In those circumstances the position of the officer returning from career break of more than five years will be the same as that described above for a career break of five years or less.

Buy back of unpaid leave

This is still to be determined and will be covered in future communications.

Commutation

Most members of the 1988 scheme can commute up to 25% of their pension to a lump sum. With some exceptions, a scheme member with an ordinary pension in respect of at least 25 years but less than 30 years of reckonable pensionable service can be commuted to give a maximum lump sum of no more than 2.25 times the full amount of the gross annual pension.

Rules for commutation of the 1988 scheme for those without transitional protection

<u>Officers with full time service</u>

Members without full transitional protection who have been transferred into the CARE scheme, with less than 30 years' service, will reckon their 1988 scheme and 2015 scheme service combined for the purposes of assessing how much of their 1988 pension can be exchanged for a lump sum. Commutation would apply in the same way as it does at present.

<u>Examples</u>

- An officer with 30 years' service:

  15 years' reckonable service in the 1988 scheme **+** 15 years' reckonable service in the CARE scheme would be able to commute up to the full 25% of their 1988 scheme pension.

- An officer aged 50 with 25 years' service:

  15 years' reckonable service in the 1988 scheme **+** 10 years' reckonable service in the CARE scheme would be able to commute up to a maximum lump sum of no more than 2.25 times his gross annual pension under the 1988 scheme pension.

Officers with part time service[3]

For the purposes of calculating how much of a PSNI officer's 1988 pension can be commuted, periods of part time working should be treated in the same way as periods of full time working.

Examples

- An officer with 30 years' part time service:
  15 years in the 1988 scheme **+** 15 years' part time service in the 2015 scheme would be able to commute up to the full 25% of their 1988 scheme pension.

- An officer aged 50 with 25 years' part time service:
  15 years' part time service in the 1988 scheme **+** 10 years' part time service in the 2015 scheme would be able to commute up to a maximum lump sum of no more than 2.25 times his gross annual pension under the 1988 scheme pension.

For members with pensions in two schemes

Members will be able to commute each portion of pension in line with the rules of that scheme and in total up to personal taxation limits.

Transitional Protection and tapering

Transitional protection is intended to offer certainty to members who are closest to retirement and have the least opportunity to make alternative provision. The arrangements for the police scheme meet this purpose.

Members who are entitled to tapering **will not** be permitted to move to the 2015 scheme during the tapering period. Allowing members the choice to opt out of transitional or tapered protection and into the new CARE scheme would go beyond the principle of transitional protection. It would instead allow this group the opportunity to improve their benefits at an additional cost to the scheme, above the agreed ceiling limit.
(Detailed Tables relating to tapering are included in the Information Circular PPSD 04/2013)

[3] *as defined under section 1(1) of the Police (Northern Ireland) Act 2000* .

Tapering - Four tapers apply in the 1988 scheme:

i. ***a pure age taper*** *applying to members aged between 41-45 irrespective of service.*

ii. ***an age taper*** *applying to members aged between 34 -38 with* *<u>at least</u>* *20 years' service.*

iii. ***A service taper*** *applying to members aged between 34-38 with* *<u>at least</u>* *20 years' service.*

iv. ***a corner taper*** *for members who are close to the age and service tapers in (ii) and (iii) above. This can be considered as tapering on the basis of age and service since the member does not meet either the service criterion in (ii) to be tapered by age alone, nor the age criterion in (iii) to be tapered by service alone.*

Where a member is covered by both tapers (i) and (iii); the taper which is most beneficial to the member is applied.

For example, where a member is aged 36.5 and has 17 years' service in the 1988 scheme at 1 April 2012 and is within four years of the length of service criterion - this member <u>would not</u> receive any protection as set out in the fourth table in Annex A of the RDF.

Members entitled to tapering who request to move into the CARE scheme during the tapering period

This option **will not be available** to scheme members. Members will not be permitted to move into the 2015 scheme during the tapering period.

Transitional protection is intended to offer certainty to members who are closest to retirement and have least opportunity to make alternative provision. The arrangements for the police scheme meet this purpose.

Allowing members the choice to opt out of transitional or tapered protection and into the new 2015 scheme would go beyond the principle of transitional protection. It would instead allow this group the opportunity to improve their benefits at an additional cost to the scheme.

Those with **full transitional protection** will remain within their existing scheme even if they stay in their role after 31 March 2022. These members will not be forced to leave that scheme but neither will they have the option of moving into the 2015 scheme.
As set out above, allowing members the choice to opt out of transitional protection and into the new 2015 scheme would give them the opportunity to improve their benefits at an additional cost to the scheme.

Accrual in the 2015 scheme

There are no restrictions on accrual in the 2015 scheme.

Accrual in the 2015 scheme for those with tapered protection

If an officer with tapered protection were to accrue 29 years of pensionable service in the 1988 scheme and then carried on working as a member of the 2015 scheme, there would be no maximum accrual in the 2015 scheme.

Opting Out

ANY SCHEME MEMBER CONSIDERING OPTING OUT IS STRONGLY URGED TO TAKE PROFESSIONAL AND INDEPENDENT FINANCIAL ADVICE BEFORE DOING SO

- ***Police officer pensions remain a valuable and effective way of saving for retirement. Officers will continue to benefit from significant employer contributions towards their pensions on top of their own contribution.***
- ***It is difficult to envisage another investment which would provide the same guaranteed level of income for life in retirement, as well as the other benefits of an occupational pension scheme, in return for this contribution.***

Transitional protection and tapering for those who have opted out of the 1988 scheme but would otherwise be covered by transitional protection

If an officer in these circumstances were to opt back in or to be automatically enrolled before 1 April 2015, they will be covered by current arrangements (*i.e. they would enter the 2006 scheme because the 1988 scheme is now a closed scheme*).

Those with transitional protection will remain in the 2006 scheme, however the limit on maximum service across the 1988 and 2006 schemes would apply; it will not be possible to accrue more than the equivalent of the 30 year maximum in the 1988 scheme. Those with tapered protection will move to the 2015 Scheme *when their taper clock expires.*

Where however an officer in these circumstances were to opt back in or be automatically enrolled after 1 April 2015, having opted out for more than five years they would go into the 2015 scheme.

The position of members with a full pensionable service who have opted out of the 1988 scheme is covered at page 23.

Transitional protection and tapering for those who have opted out of the 2006 scheme but would otherwise be covered by transitional protection

If an officer in these circumstances were to opt back in or be automatically enrolled before 1 April 2015 then current arrangements mean that they would return to the 2006 scheme. Those with transitional protection would then remain in the 2006 scheme. Those with tapered protection would move to the 2015 scheme when their taper clock expires.

If an officer *in these circumstances* were to opt back in or be automatically enrolled after 1 April 2015 and *more than* five years after having opted out, they would go into the 2015 scheme.

Transitional protection in the 1988 scheme for those who opt out after 1 April 2015

If an officer in these circumstances were to opt back in or be auto-enrolled **within five years of having opted out,** they would be covered by current arrangements (i.e. they would go into the 2006 scheme because the 1988 scheme is closed).

- The limit on maximum service across the 1988 and 2006 schemes would apply.
- It would not be possible to accrue more than the equivalent of the 30 year maximum in the 1988 scheme.

If the officer were to opt back in, having opted out for more than five years, they would go into the 2015 scheme.

Tapered protection in the 1988 scheme for those who opt out after 1 April 2015

If an officer in these circumstances with tapered protection were to opt back in before their taper clock expires and **within five years** of having opted out then they:

- would be covered by current arrangements (i.e. they would go into the 2006 scheme because the 1988 scheme is closed).
- would then move to the 2015 scheme when their taper clock expires.

If they were to opt back in **more than** five years of having opted out, they would go into the 2015 scheme.

If an officer with tapered protection were to opt back in <u>after</u> their taper clock expires they would move to the 2015 scheme.

Transitional protection in the 2006 scheme for those who opt out after 1 April 2015

If an officer in these circumstances were to opt back in or be auto-enrolled **within** five years of having opted out, they would be covered by current arrangements (i.e. they would return to the 2006 scheme).

If they were to opt back in **more than** five years since opting out, they would go into the 2015 scheme.

Tapered protection in the 2006 scheme for those who opt out after 1 April 2015

If an officer *in these circumstances* were to opt back in <u>before</u> their taper clock expires and <u>within</u> five years of having opted out, they would they would be covered by current arrangements (i.e. they would return to the 2006 scheme).

The officer would then move to the 2015 scheme when their taper clock expires.

If the officer were to opt back in <u>more than</u> five years of having opted out, they would go into the 2015 scheme.

If an officer with tapered protection were to opt back in <u>after</u> their taper clock expires they would move to the 2015 scheme.

Ability of members with full pensionable service who have opted out of the 1988 pension scheme to join the 2015 scheme.

Such members would be in transitional protection. This means that if they were to opt back in <u>within</u> a five year period they would go into the 2006 scheme as the 1988 scheme is closed. These members will not be able to accrue further pensionable service because they have reached the maximum.

If the opt out period were longer than five years, these officers would go into the CARE scheme. They would be able to accrue further pensionable service as there is no maximum for the 2015 scheme.

Members opting out of the 2015 scheme when either the 1988 or 2006 scheme pension can be drawn

If a member retires at that time then:

- they can draw their 1988 or 2006 scheme benefits.

- If they are aged 60 or over at this time the member could also immediately take their 2015 scheme benefits.

- If the member is aged 55 or over and under 60, the following options are available:

    - ♦ either immediately take the 2015 scheme benefits with actuarial reduction from age 60 (*see below for further explanation of actuarial reduction*); or

    - ♦ become a deferred member of the 2015 scheme and receive 2015 scheme benefits at their state pension age or with actuarial reduction from state pension age at a later date.

- If the member is under age 55 they would become a deferred member of the 2015 scheme and receive 2015 scheme benefits at their **state pension age**.

If the member **does not** retire:

They would, having opted out, become a deferred member of the 2015 scheme. They would remain able to retire and draw their 1988 or 2006 scheme pension at any subsequent time, although opting out may have some impact on that element of their pension. For example, the link with final salary could be affected.

Actuarial Reduction

The RDF for the 2015 scheme includes a facility for police officers to retire from age 55 and to draw their pension with actuarial reduction based on the Normal Pension Age of 60.

Actuarial reduction is calculated to take into account of the increase in the period over which a scheme member would be drawing their pension. Annual payments are reduced so that the expected combined value of payments received from the early retirement date, is the same as the expected combined value of payments that would be made from Normal Pension Age.

While not exact, a useful rule of thumb is that for each year of actuarial reduction, a member's pension reduces by 5% to take account the extra years of payment.

- For example

  An officer retires at age 55 and draws their pension straight away.

  This means that they receive five extra years' pension payments (than if they had retired at Normal Pension Age of 60), which would be balanced out by a reduction in the level of annual pension payments by about 23%.
  (n.b. five years reduction of 5% p.a equates to an overall reduction of 23% because (100% x 95% x 95% x 95% x 95% x95% = 77%))

  At age 55, this officer has built up a 2015 scheme pension of £20,000 a year.

  After applying the actuarial reduction of 23%, the officer will then be able to draw a pension of £15,400 a year immediately (£20,000 x 77% = £15,400).

This arrangement is only available to **active** members (those currently paying contributions aged 55 and under 60 on retirement).

Those officers who:

- leave the scheme between age 55 and Normal Pension Age ;and
- choose not to draw their pension immediately, plus
- those who leave below age 55,

will become deferred scheme members with a pension age equivalent to their state pension age. This arrangement provides scheme members with more flexibility in their retirement options.

In those instances where a member of the 2015 scheme leaves before their normal or deferred pension age and their pension has been actuarially reduced, actuarial reduction will be applied before commutation. Commutation will then work in the same way as for a pension that has not been reduced.

Protected pension age

Protected pension ages will not be affected by the reforms; scheme members will retain their protection. This protection however will only apply to existing scheme benefits.

Members of existing schemes who currently have a protected pension age of 50 will retain this protection.

Pension transfers

Service transferred in (prior to 1 April 2012) does count for the purpose of assessing service in relation to transitional and tapered protection.

The Public Sector Transfer Club in relation to transitional and tapered protection

The Public Sector transfer club will continue to operate although the details of how it will work are still to be confirmed.
The principle behind transitional protection for those who voluntarily move between schemes is that it**:**

- protects what members would have got had they moved schemes prior to 1 April 2015; but
- does not necessarily mean that people who voluntarily move schemes get the same as they would have got had they remained as a transitionally protected member in the current scheme.

A two part test will apply, so that transitional protection will apply **only** to those who are eligible for protection in **both** their current scheme and the scheme they are moving to as at 1 April 2012.

On moving, the person would go into the same scheme they would currently be entitled to go into. For example, someone moving into the Civil Service would go into the Nuvos scheme (as would occur today).

The same position will apply to both those who transfer their service and those who leave it where it is.

Thus those protected in a scheme with a normal pension age of 60 (NPA 60 scheme) but who are below age 55 at 1 April 2012, would lose transitional protection if they moved into a scheme whose normal pension age is 65 (NPA 65 scheme) (i.e. Nuvos) because they would not have been protected in that particular scheme.

Those protected in an NPA 60 Scheme who also qualified for protection in an NPA 65 scheme would not retain an NPA of 60 on moving to an NPA 65 Scheme.

This meets the principle of transitional protection by ensuring that members who choose to move scheme will not lose out, relative to performing the same move prior to 2015 and equally will not be in a better position than those who moved before 2015.

Additional pension

Members will not be able to purchase added years in the 2015 scheme. The concept of additional years' service does not work in a career average scheme. However contracts or agreements to purchase added 1/60s in the 1988 scheme or added years in the 2006 scheme already in place with existing final salary scheme members will be honoured.

Purchase of additional pensions

Members will be able to purchase an additional amount of annual pension benefit. A limit to the amount of annual pensions that a person can buy will be set (to be determined – but of the order of £5,000 – £6,000 each year in retirement). The amount of pension purchased will be calculated in accordance with guidance from the Scheme Actuary.

Additional service purchased prior to 1 April 2012 - transitional and tapered protection

The issue as to whether additional service purchased by scheme members prior to 1 April 2012 will count for the purposes of assigning service in respect of transitional and tapered protection is still under consideration.

Existing contracts for purchase of Additional Service or Additional Voluntary Contributions

Members who are currently purchasing additional service or Additional Voluntary Contributions (AVC's) will be able to continue with their existing contracts.

It should be noted however that an option to cancel this election remains under consideration.

Death in service – lump sum death grant

The amount of death grant will be three times that of the deceased officers' pensionable pay expressed as an annual rate at the time of death or if the member was then absent from duty without pay, immediately before that absence began. The rules for determining the payee will be consistent with the 2006 scheme.

Equality considerations

Throughout this reform process the Department has made and continues to make careful consideration of the impact of the changes on different groups and in particular, the likely impact of the policy on equality of opportunity and good relations for the relevant categories under section 75 of the Northern Ireland Act 1998.

Progression of the 2015 scheme – next steps

Work on the detail of the CARE scheme is continuing. Issues that are still to be finalised include:

- how ill-health retirement will operate, including for those with transitional or tapered protection
- the detail of employee pension contributions
- the position of members who are subject to pension sharing orders
- transfers in and out of the 2015 scheme
- further detail on buying additional pension in the 2015 scheme
- survivors' pensions and death benefits
- pension forfeiture
- pension buy-back of unpaid leave
- abatement

Glossary

Some of the specialist terminology used in relation to pensions is explained below.

Abatement	The temporary reduction in pension payments which may be imposed by a police pension authority if a police officer is re-engaged after retirement.
Accrual rate	The accrual rate is the amount of pension you build up each year, expressed as a proportion of pensionable pay. In the new police pension scheme from 2015, the accrual rate is $^{1}/_{55.3}$ (equivalent to around 1.81%). In a career average scheme, this means that you build up a pension pot of $^{1}/_{55.3}$ of your pensionable earnings for each year you are a member of the pension scheme(also see revaluation rate).
Active member	A serving officer who is contributing to one of the police pension schemes.
Actuarial reduction	Pension earned in the new scheme will be payable in full on retirement from the age of 60, provided individuals are active members of the scheme at the time. However, if members wish to retire and take their pension earlier, they can do so from the age of 55 with actuarial reduction. This reduction is to recognise that the pension is in payment earlier and therefore is to be paid for longer. Whilst it is not possible to say what the reduction will be (as it will be determined regularly on an actuarial basis), the rule of thumb for an actuarial reduction is considered to be between 4% and 5% for each year that the pension is taken early.
Additional Voluntary Contributions	Personal pension contributions made by an officer to give pension benefits in addition to the police pension entitlement. This money purchase facility is no longer available but existing contracts may still be in place.
Approved career break	A period when your force has agreed that you can take extended unpaid leave with the right to return to work at the same rank as when you left. During this time, your continuity of service is maintained. Even though you are not paying pension contributions, and will not accrue pensionable service, you will remain a member of the scheme (unless you have opted out) and will be able to resume contributions on your return to work.
CARE	Career Average Revalued Earnings Pension Scheme – the proposed new police pension scheme to be introduced on 1 April 2015.
Club transfers	There are comparatively favourable terms under which service may be transferred into or out of the scheme from or to another public sector pension scheme which participates in the *Public Sector Transfer Club*.
Consumer Price Index	The Consumer Price Index is a measure of the price of goods and services used to estimate inflation. There are international standards set for inflation measures and the CPI complies with the

	European standards.
Cost Cap	A limit on the amount of money that a government department may spend. With regard to the pension scheme, an employer cost cap is to protect against unforeseen changes in scheme costs. The cost cap will provide backstop protection to the taxpayer, to ensure that the risks of increased costs are shared between scheme members and public service employers.
Deferred member	An individual who is entitled to a deferred pension.
Deferred pension	Pension rights held by someone who has left a pension scheme before the age at which a pension would normally be payable to them – these are deferred in the sense that they are not payable on leaving, but at a future date. In the 2015 scheme, deferred pensions are payable at state pension age unless you are permanently disabled for regular employment, with additional restrictions if you have left the service on disciplinary grounds.
HMRC	Her Majesty's Revenue & Customs, the Government department operating taxation. Taxation is a reserved matter.
Normal Pension Age (NPA)	The age at which a pension, other than an ill-health pension, is normally paid.
Part time officer	In this circular a part time officer relates to a member of the PSNI as defined under section 1(1) of the Police (Northern Ireland) Act 2000.
Part Time Reserve	In this circular a member of the Part Time Reserve refers to a member of the PSNI as defined under section 1(3) of The Police (Northern Ireland) Act 2000.
Pensionable pay	Elements of earnings which are pensionable and on which pension contributions are paid. Pensionable pay for police officers currently includes basic salary, London weighting, additional salary on temporary promotion and competence related threshold payments.
Pensionable Service	Pensionable service is the time a police officer is credited with as being an active member of their pension scheme.
Revaluation rate	In a Career Average Revalued Earnings scheme, you build up a pension pot of a fraction (see accrual rate) of your pensionable earnings for each year you are a member of the pension scheme. In the 2015 scheme, each of your annual pension pots is uprated in line with CPI +1.25%, for active scheme members, and in line with prices (currently CPI) for deferred members.
State Pension Age	The age at which an individual can claim his/her State Pension. It will be rising to 66, then 67, then 68 for both men and women.