

**EXPLANATORY MEMORANDUM TO
THE POLICE PENSIONS REGULATIONS 2015**

2015 No. 445

1. This explanatory memorandum has been prepared by the Home Office and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 The Police Pensions Regulations 2015 (“the Regulations”) make provision in relation to the new police pension scheme (“the 2015 Police Pension Scheme”) to be established under the Public Service Pensions Act 2013 (“the 2013 Act”). They enable a new pension scheme for police officers in England and Wales to take effect from 1 April 2015.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None

4. Legislative Context

4.1 The Regulations implement reforms under the 2013 Act in respect of members of a police force in England and Wales.

4.2 The 2013 Act was enacted in response to the recommendations of the Independent Public Service Pensions Commission (The Commission) led by Lord Hutton of Furness. The Commission published its final report on 10 March 2011. The report recommends a series of changes to public service pension provision in order to preserve the sustainability of the pension schemes in the long term together with a more balanced distribution of costs between the members of the scheme and, via the employer, the taxpayer.

4.3 Under the 2013 Act, new pension schemes (“new schemes”) are being established for persons in public service, by regulations (“scheme regulations”) made under section 1 of that Act. To date, scheme regulations have been made to establish pension schemes for teachers in England and Wales: the Teachers’ Pension Scheme Regulations 2014 (S.I. 2014/512); for civil servants and other Crown employees: the Public Service (Civil Servants and Others) Pensions Regulations 2014 (S.I. 2014/1964); for the armed forces: the Armed Forces Pension Regulations (S.I. 2014/2336); and for firefighters in England: the Firefighters’ Pension Scheme (England) Regulations 2014 (S.I. 2014/2848).

5. Territorial Extent and Application

5.1 This instrument extends to England and Wales

6. European Convention on Human Rights

6.1 As the instrument is subject to the negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 The cost of paying for public service pensions has risen significantly in recent years. This increase in the burden on taxpayers and employers, alongside questions about the fairness and sustainability of these pensions, led to the Government setting up the Commission. The Commission was tasked with undertaking an independent review of public service pensions and to then make recommendations about how such pensions should be reformed so as to be sustainable and affordable in the long term as well as continuing to be fair to the workforce.

7.2 Following the publication of the final report of the Commission, the Government accepted its recommendations as the basis for discussions with public service workers, trade unions and other member representative bodies. In November 2011, following the discussions, the Government set out its preferred pension scheme design as the framework to inform further discussions. Representative organisations and trade unions were invited to suggest changes to the Government's preferred scheme design on a workforce specific basis and within the cost ceilings. This led to the publication of scheme specific designs for each of the new schemes.

7.3 The government has been committed to reaching a fair outcome on police pension reform, to ensure that police officers have access to affordable and sustainable pensions in the future which reflect the nature of the work of a police officer. The Home Secretary carefully considered representations made during consultation with the former Police Negotiating Board (PNB) and subsequently the Police Advisory Board for England and Wales (PABEW), which includes both employer and police officer representatives. In September 2012 the Home Secretary made a Written Ministerial Statement and published a core design for the new police pension scheme which was set out in the Reform Design Framework.

7.4 The main parameters of the 2015 Police Pension Scheme are set out below.

- (a) a pension scheme design based on career average revalued earnings;
- (b) an accrual rate of 1/55.3 of pensionable earnings each year;
- (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 CPI;
- (f) average member contributions of 13.7% across all police pension schemes in England and Wales from April 2015 (i.e. 1987, 2006 and 2015 schemes);

- (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) a Normal Pension Age of 60;
- (i) late retirement factors for members retiring from active service to be actuarially neutral from Normal Pension Age;
- (j) a deferred pension age equal to the individual's State Pension Age;
- (k) optional lump sum by commutation at a rate of £12 for every £1 per annum of pension exchanged in accordance with HMRC limits and regulations;
- (l) abatement in existing schemes to continue;
- (m) ill-health retirement benefits based on the arrangements in the 2006 police pensions scheme;
- (n) all other ancillary benefits to be based on those contained in the 2006 police pensions scheme;
- (o) 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;
- (p) members transferring between public service schemes would be treated as having continuous active service;
- (q) an employer cost cap and floor.

7.5 This instrument creates the reformed pension scheme for members of a police force in England and Wales. It gives effect to the position set out in the Reform Design Framework in line with the recommendations of the Commission.

7.6 Specifically Part 3 sets up the governance arrangements for the scheme while Parts 4 and 5 describe eligibility for membership and how benefits accrue. Part 7 provides details on retirement benefits, including ill health retirement, Part 8 provides for benefits for pension credit members, Part 9 covers the benefits payable in the case of the death of a member, Part 10 puts the contributions structure in place, Part 11 covers transfers into, and out of, the scheme and Part 12 puts in place the measures to control the future costs of the scheme.

7.7 Of specific interest may be Part 5 which sets out the basic operation of the career average scheme. This provides for a member to build up a pension each year calculated as 1/55.3 of their pensionable earnings. The amount of accrued pension is specified in a pension account and, at the start of each scheme year (1 April), indexation is applied.

7.8 Indexation is only applied to the accounts of active members (that is those members who are participating in the scheme and paying contributions). The pensions of deferred members (members who have ceased to be active members but have not claimed payment of benefits) and pensioner members (members who have drawn their pensions) are increased each year under the provisions of the Pensions (Increase) Act 1971. The rate of indexation for active members will be equal to the change in prices as provided for in an order made by Her Majesty's Treasury under the 2013 Act.

- Consolidation

7.9 These are the first Police Pension Scheme Regulations created under the powers provided by the 2013 Act. There is no requirement to consolidate these regulations.

8. Consultation outcome

8.1 Under section 21 of the 2013 Act, the Minister responsible for making the regulations must consult those persons the Minister considers likely to be affected by the regulations, or the representatives of those persons.

8.2 The Home Office held a formal consultation with the PABEW for 8 weeks ending on 12th December 2014. One formal response was received from the Police Federation of England and Wales (PFEW). In advance of the formal consultation period, the government had correspondence and meetings with the Police Federation on key areas of policy development such as ill health retirement and employee contribution rates. In addition to the formal consultation, the government has been in continuous consultation with the PNB and subsequently PABEW on the development of police pension reform since October 2011. This has included quarterly meetings with the full Police Negotiating Board, subsequently the Police Advisory Board, and additional quarterly meetings with the Pensions Technical Working Group to work through the detail of the policy and the regulations. In addition to the formal consultation, the Police Federation have been given opportunities to comment on versions of the developing draft regulations on an ongoing basis.

8.3 The Police Federation raised concerns about the proposal to have tiered employee contribution rates as they did not consider this necessary for a Career Average Revalued Earnings (CARE) scheme. After consultation with Ministers, the Home Office responded that tiered contribution rates would remain a feature of the Police Pension Scheme in order to protect the lowest paid officers from being disproportionately impacted by pension reform and to remain consistent with other public sector schemes in their use of tiered contribution rates. The Home Office has committed to reviewing this decision at the next scheme valuation which would consider contribution rates to take effect from April 2018.

8.4 The Police Federation also raised concerns about the requirement for a member to claim their pension, where the member is physically or mentally incapable of doing so. In response we decided to provide that a member who is compulsorily retired on medical grounds is taken to have claimed payment of the pension as from the day the member is required to retire.

8.5 The Police Federation requested greater clarity on the meaning of permanent in the term 'permanently medically unfit'. The regulations have been clarified to provide that a member is permanently medically unfit if the medical unfitness is likely to continue until the member reaches normal pension age or the member dies, if the member is likely to die before reaching normal pension age.

8.6 The Police Federation also suggested a number of amendments relating to points of technical detail which have been reflected in the regulations.

9. Guidance

9.1 The Home Office has prepared guidance for scheme members in consultation with the Police Federation and guidance for scheme administrators, developed with the Government Actuary's Department. Both guidance documents will be published during March 2015.

10. Impact

10.1 The impact on business, charities or voluntary bodies is nil.

10.2 The impact on the public sector is nil. The regulations replace previous pension arrangements for the police.

10.3 An Impact Assessment has not been prepared for this instrument, given the above.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & review

12.1 The instrument includes a requirement for the new pension scheme to be subject to regular actuarial valuations. The instrument also includes provisions requiring changes to the scheme to be made if the costs of the scheme move outside of a fixed range.

13. Contact

Angela Chadha at the Home Office Tel: 0207 035 3710 or email:
Angela.Chadha@homeoffice.gsi.gov.uk can answer any queries regarding the instrument.