NARPO INITIAL RESPONSE TO HUTTON REVIEW

Lord Hutton
Independent Public Service Pensions Commission
1 Horse Guards Road
London
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Dear Lord Hutton

NARPO RESPONSE TO INTERIM REVIEW CALL FOR EVIDENCE

About the National Association of Retired Police Officers

The National Association of Retired Police Officers (NARPO) is a member organisation founded in 1919 to represent the interests of former police officers of all ranks from Police Forces in England and Wales, their widows, widowers and former partners. Currently we have in excess of 79,000 members in over 100 local branches throughout England and Wales. Our principle aim is to safeguard the rights of members and promote measures for their welfare, with particular regards to pensions.

Introduction

NARPO is pleased to take this opportunity to submit evidence to the Commission. Whilst we acknowledge that the main focus of the Commission will be on current and future arrangements for current public service schemes, including the Police Pension Scheme, recent events have convinced us that we need to participate in your review. We also believe that we have considerable knowledge of how police pensions work in practice, which may assist the Commission in its work.

Accrued Rights

We note that the terms of reference for the Hutton Commission begin with the following:-

To conduct a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights.

We had therefore assumed that accrued rights of public service pensioners, including police pensioners, would be protected. This has clearly not been the case as already, prior to any consultation and any careful consideration by the Commission, the indexation arrangements for all public sector pensions have been changed to the detriment of all those in receipt of those pensions. We will expand on this point further but would value the Commission's view on this matter and believe that any interim and final report will be incomplete without reference to the merits and propriety of this change. We would like the Commission to consider this in the context of cost of a police pension to the individual understanding that, contrary to Press and other speculation, police pensions are not gold plated and have in the main been paid for by a contribution of 11% of total salary throughout a police career. A point we will also expand on later.

Move from RPI to CPI

Indexation of pensions in payment to the Retail Prices Index (RPI), has been in place since the implementation of the Pensions (Increase) Act 1971. Police pensioners have planned their retirements on the assumption that they would have RPI-linked pensions throughout retirement.

In what amounted to a one line announcement in the June 2010 Emergency Budget, linking future increases to the state second pension to the Consumer Price Index (CPI), public service pensions, including police pensions, were effectively moved to the same index consequential on a legislative link. We believe that many in receipt of a police pension were unaware of this legislative link and are still coming to terms with understanding the current situation in respect of their future index linking. We at NARPO were entirely surprised by the announcement as we believed that both constituent parties to the Coalition Government had made firm promises on the retention of the then current index linking to RPI as an accrued benefit, prior to the election.

We do not intend to go into great detail about the very predictable effect of moving police and other public service pensions from RPI to CPI, as we are sure the Commission will be well aware that RPI figures are usually significantly ahead of the CPI figure. In fact in the previous 20 years CPI has only been ahead of RPI on 5 occasions and that overall RPI tends to outstrip CPI by an average of around 2% per annum. We are aware that Government understands this situation as it is clear they intend to save significant amounts of money at the expense of former police officers, their widows and others on public service pensions.

Rationale behind the move to CPI

We understand that the Government intends to move state benefits and state pension indexation from RPI to CPI. We do not accept, however, that the CPI is an appropriate measure of inflation in respect of pensions. Whilst there is some merit in the Government argument, as we understand it, that because many on state benefits receive some support on housing costs, those on state benefit receive, in effect, a double benefit if RPI, which includes housing costs, is used to index those benefits. This argument cannot apply to those in receipt of pensions, as for most on a pension housing costs are a very significant part of their living costs.

In addition, there is considerable evidence that for many older people ‘inflation’ costs are well above RPI and a move to CPI will further disadvantage them.

In respect of the state pension, the Government have made a triple guarantee that indexation will be either ‘inflation’, wage rises or 2.5%, whichever is the greater. This will cushion state pensions to some degree from the change. No such cushion has been offered to police and other public service pensioners, who will be the major losers in this indexation change. It is particularly unfortunate for police and other public service pensioners that the Government have chosen to make this change following a year when the RPI delivered no increase to their pension. For many a below expected rise in the immediate future years will create real financial difficulties.

It is also interesting to note that prior to the election CPI was described by most commentators as used for ‘international comparisons’ rather than for any ‘internal’ purpose.

In short we believe that the only reason for a move from RPI to CPI is to save money.

Reasonable Expectations

Prior to the election, Press speculation, misrepresentation and attacks on public service pensions had led our members to question whether their pension rights were safe. As well as pursuing our own efforts to ascertain the views of all main parties on the topic of public service pensions, NARPO engaged with all the main parties through our membership of the Public Services Pensioners' Council (PSPC). On behalf of the PSPC the Civil Service Pensioners' Alliance sought clarification on index-linking from each of the three main political parties to protect accrued rights.

We welcomed the fact that all three parties gave their assurances that there were no plans to change index-linking arrangements. At a meeting held on 30 March 2010, Angela Eagle said on behalf of the Labour Party *"Following the agreement for change reached with the unions in 2007, we are satisfied that public sector pensions are affordable, sustainable and fair.* ***We have no plans to change the current index-linking arrangements.****"*

In a letter dated 27 April 2010, Philip Hammond the then Shadow Chief Secretary to the Treasury, wrote in a letter to the Civil Service Pensioners' Alliance that: *"Indexation of pensions in payment is an established part of pensions legislation.* ***The Conservative Party has no plans to change the current index-linking of public sector pensions in payment.*** *We agree with the view that the right to indexation of pensions already accrued is part of the accrued pension rights and those rights will be protected."*

The then Liberal Democrat Shadow Pensions Minister, and now Pensions Minister, Steve Webb MP also said in a letter dated 12 April 2010: *"We are very clear that all accrued rights should be honoured: a pension promise made should be a pension promise kept. Therefore we would not make any changes to pension rights that have already been built up.* ***I have confirmed that I regard accrued index-linked rights as protected****."*

At the Public Service Pensioners' Council's Pre Election Conference in March 2010, all three pensions spokespeople (Angela Eagle MP, Nigel Waterson MP and Steve Webb MP) stressed that any changes to public sector pensions would have a long lead-in time and would be subject to full consultation.

We have no doubt that the Commission will see how these comments led us to reassure our members about their accrued rights including indexation to the RPI. Members of the Police Schemes would have got further reassurances, if required, from the literature published by the Home Office advising members about the terms of the two current police pension schemes, the 1987 scheme and the 2006 scheme. Separate booklets exist for each separate scheme. I have included the relevant parts of that advice below, which is still available on the Home Office web site:-

Police Pension Scheme 1987

12.4 Pensions increase with inflation
Pensions in payment are increased annually in line with inflation. These increases are paid to all pensioners aged 55 or over and ensure that the benefit maintains its original buying power.

Deferred pensions are also increased to maintain their value up to the date they become payable.
Inflation increases will also be paid:

- *to you before you reach the age of 55 if you retired on grounds of ill-health or injury, or occupation and□ are totally disabled from any□ therefore unable to earn a living; and*
- *to your survivors who are in receipt of survivor benefits.*

When the pension increase becomes payable it will take account of the movement in the retail price index (RPI) since the date of your retirement. Subsequent increases take place in April of each year and are based on the rise in the RPI in the 12 months up to the end of the previous September.

Survivors' pensions attract the pension increase as soon as they come into payment.

A deferred pension coming into payment at age 60 will attract the pensions increase but if it is paid before age 55 due to permanent disablement it will not be increased until age 55 unless you are disabled from regular full-time work of any kind.

Police Pension Scheme 2006

12.4 Pensions increase with inflation
Pensions in payment are increased annually in line with inflation. These increases are paid to all pensioners aged 55 or over and ensure that the benefit maintains its original buying power. Deferred pensions are also increased to maintain their value up to the date they become payable.
Inflation increases will also be paid:

- *to you before you reach the age of 55 if you are in receipt of an ill-health pension; and*
- *to your survivors who are in receipt of survivor benefits.*

When the pension increase becomes payable it will take account of the movement in the retail price index (RPI) since the date of your retirement. Subsequent increases take place in April of each year and are based on the rise in the RPI in the 12 months up to the end of the previous September. Survivors' pensions attract the pension increase as soon as they come into payment.
A deferred pension will attract the pensions increase and if it is paid before age 55 due to permanent disablement for any regular employment it will be increased immediately.

We are sure the Commission will note the specific reference to RPI in the advice to both schemes.

We are sure that the Commission will see that this has led our members, police pensioners, and other public service pensioners to a reasonable expectation that indexation to the RPI was safe and would continue. We are convinced that comments from all party representatives at the PSPC election manifesto launch about consultation and long lead-in times to change, recognised this ‘reasonable expectation’ point, which appears to have been lost in Government.

Conclusion

NARPO believes that the switch in indexation arrangements for public service pensions from RPI to CPI will significantly affect the quality of life of all police pensioners, particularly the more elderly, who are likely to have retired on relatively low incomes, and older widows.

We note that the Commission’s terms of reference refer to “protecting accrued rights”. We would seek some clarification as to how the Commission interprets this part of its remit, as it seems overwhelmingly clear to us that accrued rights have not been protected.

NARPO understand the Commission is being asked to conduct a fundamental structural review of public service pensions, while protecting accrued rights. We believe that in its first report it must address the question of the move from RPI to CPI, and whether this constitutes an interference with accrued rights. NARPO believe that it is in the Commission’s own interest to address this question as to ignore this subject, particularly against a background of assurances on the specific issue of index linking by both parties in the Coalition Government, risks damaging the perceived independence of the Commission in the eyes of all police and public service pensioners, which is bound to lessen the credibility of its final report.

Pensions for Current Serving Police Officers

Although NARPO exist mainly to support retired police officers and their survivors, we do have a considerable experience of police pensions. We are continually frustrated by articles in the ‘popular’ press about the value and cost of the police pension much of which is both misleading and uninformed and which results in a totally false impression of the current and, for that matter, the past situation in respect of police pensions and their costs, relative both to officer's contributions and other public sector schemes.

We are sure that the Commission will recognise the importance of a police pension scheme to both the recruitment and retention of high quality candidates for what is a vital and challenging role. The pension scheme should be seem as part of a total package designed to maintain the high quality of the British Police Service.

Whilst NARPO understand that the Commission is tasked:

'*To conduct a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights.'*

We are sure that the Commission will take note of the fact that the Police Pension Scheme, along with most others in the public sector, was reviewed and a new scheme introduced in 2006. Prior to that review and in 1998, the Government produced a consultation document on the future of the Police Pension scheme.

In that document the relative costs of schemes across the public sector were compared. Even a cursory glance at that comparison will show that police officers paid 11% of basic salary towards their pension, the highest level in the public sector.

A closer examination would show that with the total cost of the scheme at around 32% of basic salary, it was not, relative to total salary costs, the most expensive scheme in the public sector. Comparison with other public sector schemes would also show that employers paid a greater share of contributions towards their employees' pensions in most if not all other public sector pension provisions. This review document referred to the 1987 scheme.

It is worth noting that following the publication of this Government report negotiations on a new scheme started around 2001 but took some considerable time to complete primarily because of the complexity of the subject. A new police pension scheme was introduced for new recruits, allowing transfer into the new scheme to those then currently serving, in April 2006.

This new scheme recognised the physical requirements of policing, the need to continue to attract and retain quality recruits and affordability. It is less costly to officers at 9.5% of salary, still amongst the highest in the public sector, and proportionately less expensive to their employers. It requires that officers work at least 35 years before receiving a full pension but with less benefit to them than the previous scheme. However officers can retire at age 55 years with whatever benefit they have accrued, recognising the difficulties that many are likely to experience in continuing in front line policing at that age.

Central Government now meet the cost of the police pension bill leaving local Police Authorities to manage the finances for local policing.

As part of a general review of pension costs, the regularity of retirement on a medical pension in the police service was also considered at this time. It is probably true to say that during the late 1980’s and early 1990’s, the level on medical retirements in the police service was running at a peak of around 50% of all retirements. Some other public sector schemes had similar high levels of medical retirements over a similar period. In the Police Service these retirement were driven by a restructuring program that saw the introduction of none sworn support staff replacing police officers. In many industries the additional cost on the pension bill would be seen as a one off restructuring costs. However in the Police Service they have been used as a false illustration of the general ‘high’ costs of the pension scheme.

It is worth noting that the period of high levels of medical retirements was preceded by a long period of few medical retirements. Agreements reach at the time of the review of the pension has lead to the current approach to medical retirements in the service, where medical retirements are seen as a last option. This has resulted in a significant drop in those leaving the service in this way but to a significant increase in officers performing restricted duties.

The combination of a new scheme and a new approach to medical retirements will result in significant savings on future pension costs in the Police scheme but as the new scheme was only recently introduced it is difficult to calculate the full impact of these changes. We do believe that a long term approach to pension costs and affordability considering a projection of those costs as a percentage of Gross Domestic Product rather than them being seen as an instant current debt is the best way to consider affordability. The last Government position was that seen in this way although there would be a marginal rise in immediate future years in cost, in the longer term current public service pensions were 'affordable, sustainable and fair'. We are sure the Commission will need to consider these points in its interim and final reports.

Having gone through a significant review and restructuring of their pensions so recently, many police officers will have been planning their futures based on the current situation, particularly those nearing retirement, who will have little time to readjust plans should significant early changes be made to their current provisions.

The police pension is also tailored to the specific challenges of policing and any changes to the schemes would need to recognise these challenges. Whilst the Commission is tasked with looking at 'public services' schemes in the round, we hope that some recognition will be made of the fact that like the police scheme, many other schemes in the sector have not only gone through a recent restructuring but that each scheme is necessarily tailored to the needs of the particular part of the public sector it is designed to support. Any changes would also need to take into account compatibility and transferability between any new scheme and existing schemes, as did the recent changes to the police scheme, but also consider in detail and specifically how accrued rights are protected should there be significant changes to current arrangements. This would be bound to take considerable time and effort on the part of all parties involved.

Finally, it is our view in NARPO that as the police pension scheme has gone through a very recent review, which balanced the aims of providing a pension scheme which, as part of overall remuneration, continued to attract and retain a high level of suitable candidates for policing, whilst recognising the question of affordability to Government, any significant change to the scheme so soon, based solely on the need to make immediate cost savings, is unnecessary. In any event pensions are a long term endeavour, in which those who currently contribute need to have long term faith. We hope the Commission will in its reports recognise the need to reassure those, who are planning for later life by paying into a pension scheme, including public service schemes, they can continue to trust in those schemes.

Yours sincerely,

Clint Elliott QPM
Chief Executive