

Police Negotiating Board Staff Side submission to the HMT/HMRC Discussion Document on the Restriction of Pensions Tax Relief

1. Introduction

1.1 This response is on behalf of the Staff Side of the Police Negotiating Board (PNB). The PNB is a statutory body, established by Act of Parliament in 1980, that exists to negotiate the pay and terms and conditions of all police officers in the UK. The PNB consists of an Official Side, a Staff Side and an Independent Chair and Secretariat. Police pensions are dealt with through the Pensions Review Working Party of the PNB, which was established in 2004.

1.2. Staff Side consists of the police officer staff associations which represent all ranks in all police forces in England and Wales, Scotland and Northern Ireland (See Appendix A for a list of constituent organisations). In total Staff Side represents in excess of 165,000 police officers.

1.3 Staff Side fully appreciates the current economic climate. However, we do not consider it reasonable to change the existing provisions for pensions' tax relief to the potential detriment of many thousands of police officers.

1.4 The Chief Police Officers' Staff Association, who have contributed to this joint response, additionally have some specific concerns regarding the potentially serious adverse impact of the proposals upon their membership and therefore are submitting a separate supplementary note to complement this submission.

2. Impact upon Police Officers

2.1 We are not experts in the field of pension taxation. Nor have we had the opportunity, due to the short timescale for responses, to consult an actuary. However, based on our understanding of the Government's proposals we believe that whereas the current arrangements affect some of the highest earners in the police service, such as senior colleagues in certain Association of Chief Police Officer (ACPO) positions, the Government's proposals could potentially affect all ranks – from ACPO-level to police constable.

2.2 As an example, taking a constable who will have 21 years' pensionable service in a provincial force on 1 September 2010, his/her average pensionable pay at that point will be £36,792. Taking into account the third (and last) year of the current police officers' pay agreement, the officer's average pensionable pay at 22 years' service (in September 2011) will be £37,731 and the officer's subsequent increase in annual pension will be £1,602.

2.3 Under the present system this amount would be multiplied by 10 to equal £16,020 – well below the 2010 Annual Allowance (AA) of £255,000. However, were the flat-rate factor for Defined Benefit (DB) schemes to be increased to 20 and the AA reduced to £30,000 this moderate earner would be penalised.

2.4 Let us instead consider a sergeant who will have 25 years' pensionable service on 1 September 2010 and who was promoted to the rank on 1 September 2004. Again taking into account the third year of the pay increase, his/her annual pensions' increase will be £1,933 when he/she reaches 26 years' pensionable service. If the flat-rate factor for DB schemes was increased to 20 and the AA reduced to £35,000 this officer would incur a tax charge.

2.5 The superintending ranks would also be affected by the Government's proposals. An officer who will have 18 years' pensionable service on 1 September 2010 and who was promoted to the rank of superintendent in September 2009 would have a pension value of £18,225. After accruing 19 years' pensionable service in September next year (and taking into account the forthcoming pay increase), this amount will rise to £20,542 – a difference of £2,317. Implementing a flat-rate factor of 20 and reducing the AA to £45,000 would disadvantage this officer.

2.6 (Please note we have focused our calculations on the older Police Pension Scheme (PPS) 1987 as the New Police Pension Scheme (NPPS) 2006 has only been open for four years. Appendix B contains details of the calculations relating to the three examples cited above).

2.7 It is therefore not the case that only high earners and those who receive a promotion would be affected by the suggested changes. Regrettably the proposals could also capture the superintending ranks (of superintendent and chief superintendent) and the federated ranks (of constable, sergeant, inspector and chief inspector). We believe this would be an unintended consequence of the Government's aim to restrict pensions' tax relief for high earners.

2.8 Commentators in the financial services industry, such as Mercer, have reported concerns that large numbers of long-serving DB pension members could be affected by these proposals. Mercer also points out that the proposed new system could capture those on middle incomes as well as unfairly taxing past service and early retirements. We share these concerns.

3. Relationship to the Hutton Review

3.1 We note the discussion document's proposal that sponsoring employers of DB schemes could consider amending scheme design to help reduce the risk of low to medium earners receiving large one-off increases to the value of their pension.

3.2 However, we fail to understand how this review of pensions tax relief in general, and the specific proposal that defined benefit schemes be redesigned to protect low to medium earners, can take place without reference to Lord Hutton's Independent Review of Public Service Pensions Provision which is conducting its own "fundamental structural review of public service pension provision". Consequently we have concerns about the potential overlap of these two consultation processes. A particular issue is

that any comments made in this submission are based upon the design, contribution and accrual rates of the two current police pension schemes. However, there is the potential for these to change as result of Lord Hutton's review.

3.3 In addition, the coalition government has indicated that police pay, which is ordinarily negotiated through the PNB, is soon to be subject to a wide ranging review conducted by or on behalf of the Home Office. We would have concerns about the inter-relationship between both Lord Hutton's pensions review and the Home Office pay and conditions review, and the suggestion in the discussion document that employers might cap increases in pensionable pay or limit accrual so that employees' increase in pension entitlements does not exceed the Annual Allowance.

4. "Spiky Benefits"

4.1 We have particular concerns that the discussion document suggests the redesign or withdrawal of benefits that cause spikes in accrual, such as enhanced early retirement terms or enhanced ill-health pensions. The document also suggests that it would not be appropriate to apply an exemption from the AA in respect of ill-health pensions. However, policing is a dangerous and physically demanding job. Police pension provision reflects the distinctive nature of policing. During the length of their career police officers undertake a wide variety of duties, often in circumstances which expose them to a high risk of injury, assault and even death.

4.2 According to research carried out for the Police Federation of England & Wales (PFEW), around two respondents in five stated that they had felt that there was at least one occasion in the preceding two years when their life was in serious danger as a result of a threat by a member of the public. Just over four in 10 respondents indicated that they had sustained an injury as a result of an assault by a member of the public, including while affecting an arrest¹.

4.3 In the Home Office-ACPO Objective Justification paper for the new Compulsory Retirement Ages, evidence provided by Force Medical Advisers (FMAs) showed an increased risk of injury because the unpredictable nature of policing could exacerbate existing age-related medical risks.²

4.4 In order to recruit and retain officers of the appropriate calibre who are willing to accept these hazards, members of a police pension scheme should be allowed to work towards, and benefit from, a reasonable retirement benefit. They must also be secure in the knowledge that, should their career be cut short by illness or injury, they will be appropriately supported.

4.5 In addition, a central early retirement enhancement is the Patten voluntary severance award available to officers in the Police Service of

¹ *Police Federation of England and Wales Survey of Members*, ERS Market Research, April 2006

² Home Office/ACPO Objective justification for the new Compulsory Retirement Ages (CRA), December 2006

Northern Ireland (PSNI). Where PSNI officers are “red ringed” and retained beyond 1 April 2011 due to the security situation they will retain the right to the Voluntary Severance Scheme, even though it will have concluded on 31 March 2011.

5. Conclusion

5.1 Staff Side is extremely concerned about these proposals in general and has particular concerns that they could capture many thousands of police officers. We believe this would be an unintended consequence of the Government’s aim to restrict pensions’ tax relief for high earners.

5.2 Due to these unintended consequences we do not agree that the flat-rate factor used for DB schemes should be increased. We also consider that the Government does not need to reduce the AA figure, and certainly not to a figure anything like as low as £45,000

5.3 Staff Side notes that the discussion on restricting pensions’ tax relief, which includes a suggestion that sponsoring employers consider redesigning DB schemes, is taking place at the same time as Lord Hutton’s review of public service pensions provision. We have particular concerns about the potential overlap of these two consultations.

5.4 Lastly, it is our view that failing to exempt early retirement terms or enhanced ill health pensions from the AA would negatively impact upon police officers, as would the redesign or withdrawal of these “spiky benefits”. Policing is a dangerous and physically demanding job and police officers must be secure in the knowledge that, should their career be cut short by illness or injury, they will be appropriately supported.

Ian Rennie
Secretary
PNB Staff Side

APPENDIX A

Staff Side Constituent Organisations

Chief Police Officers' Staff Association

Police Superintendents' Association of England and Wales

Police Federation of England and Wales

Scottish Chief Police Officers' Staff Association

Association of Scottish Police Superintendents

Scottish Police Federation

Superintendents' Association of Northern Ireland

Police Federation for Northern Ireland

APPENDIX B

EXAMPLES

Constable with 21 years' service in a provincial force:

1 September 2010

Basic pay (Sept '09 - Aug '10)	= £35,610
CRTP ³ (Sept '09 - Aug '10)	= £1,182
Average pensionable pay	= £36,792
21 years is 22/60ths	
£36,792 x 22/60	= annual pension of £13,490

1 September 2011

Basic pay (Sept '10 - Aug '11)	= £36,519
CRTP (Sept '10 - Aug '11)	= £1,212
Average pensionable pay	= £37,731
22 years is 24/60ths	
£37,731 x 24/60	= annual pension of £15,092

Pensions Increase is	
£15,092 - £13,490	= £1,602
x20 (flat rate factor)	= £32,048

Sergeant with 25 years' service in a provincial force:

1 September 2010

Basic pay (Sept '09 - Aug '10)	= £40,020
CRTP (Sept '09 - Aug '10)	= £1,182
Average pensionable pay	= £41,202
25 years is 30/60ths	
£41,202 x 30/60	= annual pension of £20,601

1 September 2011

Basic pay (Sept '10 - Aug '11)	= £41,040
CRTP (Sept '10 - Aug '11)	= £1,212
Average pensionable pay	= £42,252
26 years is 32/60ths	
£42,252 x 32/60	= annual pension of £22,534

Pensions Increase is	
£22,534 - £20,601	= £1,933
x20 (flat rate factor)	= £38,668

³ Competence-related threshold payment . Officers can access CRTP after one year at the top of their payscale.

Superintendent with 18 years' service in a provincial force:

1 September 2010

Basic pay (Sept '09 - Aug '10)	= £60,750
Average pensionable pay	= £60,750
18 years is 18/60ths	
£60,750 x 18/60	= annual pension of £18,225

1 September 2011

Basic pay (Sept '10 - Aug '11)	= £64,869
Average pensionable pay	= £64,869
19 years is 19/60ths	
£64,869 x 19/60	= annual pension of £20,542

Pensions Increase is	
£20,542 - £18,225	= £2,317
x20 (flat rate factor)	= £46,337