



Home Office

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Ian Rennie
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(by e-mail only)

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Dear Ian

Accrued pension rights - Police Pension Scheme 1987

At the technical working group on 31 January I undertook to provide further explanation about how we propose to approach protection of the accrued rights of those officers in the 1987 scheme, including some worked examples.

The mechanism for protecting accrued rights in the 1987 scheme accurately mirrors the *expectation* that scheme members may have to a faster accrual rate with increased service. For those police officers who remain in service after the scheme has closed, 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.

The maximum accrual rate of 1/45th is reached after thirty 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.

Scheme members would still be able to take their pre-reform pension if they retire at the age they were expecting to, provided they had completed the appropriate amount of service.

As we have previously discussed, the accrual design of the 1987 scheme is unusual compared to other public service schemes. We have designed this specific arrangement, in agreement with Treasury, to reflect the Government's commitment to honour accrued rights in full for the police pension scheme. I trust you will agree that

this is therefore appropriate, honouring the Government's commitment to fair treatment, and recognise that this offers more valuable protection than is available to most others.

How to calculate PPS 1987 accrued rights

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

$$\begin{aligned} \text{1987 scheme pension} &= \text{no. years service in 1987 scheme pre-reform} \\ &\quad \times \\ &\quad \text{weighted accrual rate} \\ &\quad \times \\ &\quad \text{final salary} \end{aligned}$$

The weighted accrual rate would be calculated as follows:

$$\begin{aligned} \text{Weighted accrual rate} &= ((\text{no. years that were or would have been at single accrual rate} \\ &\quad \times \text{single accrual rate}) \\ &\quad + \\ &\quad (\text{no. years that were or would have been at double accrual rate} \\ &\quad \times \text{double accrual rate})) \\ &\quad + \\ &\quad \text{total no. of years service} \end{aligned}$$

For the calculation of the weighted accrual rate, the first twenty 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). The next ten 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.

The attached examples illustrate how this would work in practice. The figures used (e.g. final salary) are for ease of calculation and illustration. You should also note that these illustrations only show pension benefits created under these accrued rights terms from the 1987 scheme. These illustrations do not include pension benefits which would be built up in a new, reformed scheme, i.e. from 2015 onwards, which would be available in addition to the illustrated benefits. Of course, the nature of those benefits and the terms of that scheme will be the focus of our forthcoming discussions.

I hope this explanation is helpful. Please let me know if you would like any further clarification. I am copying this letter to Sarah Messenger and Bill Blase.

Yours sincerely,

Peter Spreadbury
Head of Police Pensions & Retirement Policy

Illustrative Examples

Example 1

A police officer who is a member of the 1987 police pension scheme has 15 years' service when she moves to the new scheme. She continues to work for another 15 years, making a total of 30 years, before retiring.

Her pension would be calculated as follows:

$$\begin{aligned}\text{Weighted accrual rate} &= ((20 \text{ yrs} \times 1/60^{\text{th}}) + (10 \text{ yrs} \times 2/60^{\text{th}}) \div 30 \text{ yrs}) \\ &= 1.33/60^{\text{th}}\text{s or } 1/45^{\text{th}} \\ \text{1987 scheme pension} &= 15 \text{ years} \times 1.33/60^{\text{th}}\text{s} \times \text{final salary} \\ &= 20/60^{\text{th}}\text{s} \times \text{final salary}\end{aligned}$$

This officer's pension would be 33% larger with this arrangement than if no mechanism was in place to enhance the accrual rate. For an officer on a final salary of £40,000, their 1987 scheme pension would be £13,333 rather than £10,000 per year – i.e. £3,333 per year more.

Example 2

A police officer works for 10 years in the 1987 scheme, and then moves to the new scheme, where he works another 15 years, making a total of 25 years, before retiring.

His pension would be calculated as follows:

$$\begin{aligned}\text{Weighted accrual rate} &= ((20 \text{ yrs} \times 1/60^{\text{th}}) + (5 \text{ yrs} \times 2/60^{\text{th}}) \div 25 \text{ yrs}) \\ &= 1.2/60^{\text{th}}\text{s or } 1/50^{\text{th}} \\ \text{1987 scheme pension} &= 10 \text{ years} \times 1.2/60^{\text{th}}\text{s} \times \text{final salary} \\ &= 12/60^{\text{th}}\text{s} \times \text{final salary}\end{aligned}$$

This officer's pension would be 20% larger with this arrangement than if no mechanism was in place to enhance the accrual rate. For an officer on a final salary of £40,000, their 1987 pension would be £8,000 rather than £6,667 per year – i.e. £1,333 per year more.

