To: **Office of Police and Crime Commissioner – Performance Meeting**

Date: **19 December 2016**

By: **Paul Bundy**

Title: **Pension Arrangements**

Purpose of Report/Issue:

This report provides an overview of the pension arrangements provided for employees of Surrey Police.

Introduction/Background:

Pension provision is provided to all employees with a police officer pension scheme, various versions over time, and a police staff scheme which is the Local Government Pension Scheme. Both schemes are defined benefit schemes but operate under different regulations and financial arrangements.

Pension Arrangements

As part of the terms and conditions of employment of its officers and other employees, the PCC and Chief Constable offer retirement benefits.

The Force participates in two pension schemes:

- **The Local Government Pension Scheme (LGPS)** for police staff employees, administered locally by Surrey County Council – this is a funded defined benefit scheme, meaning that the Force and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. Up to 31 March 2014 the scheme was based on final salary but from 1 April 2014 the scheme has been based on career average revalued earnings also referred to as a CARE scheme.

The LGPS has been amended over time with changes to benefits and contribution rates, up to March 2008 the contribution rate for each year worked was 1/80 which in practice means that when a member retires their final salary is multiplied by this fraction to arrive at their annual pension payment; subsequently it became 1/60. However at 1st April 2014 when the CARE Scheme commenced the contribution rate became 1/49. This scheme values the salary for each year, the rate is multiplied by the salary earned in the year, this is uplifted each year for inflation and added to the next year of accrued benefit. The normal retirement age is 65 and employees make contributions on a sliding scale dependent on earnings ranging from 5.5% to 12.5%.

The value of the police staff pension scheme is assessed triennially and the employer's contribution is adjusted in line with the actuary's recommendations. The aim is to reach a position where the assets are equal in value of the liabilities, where this is not the case the actuary will set a recovery rate to achieve a balanced funded scheme over 20 years. The latest triennial valuation completed in April 2013 resulted in employer's contributions being increased in April 2014 from 12% to 17.7%. The next triennial valuation is due for April 2017 and the indications are that the employer's contribution rate will remain the same with an increase in the liability recovery amount from £1m to £1.2m. During 2015/16 the PCC made payments totalling £5.5m to the Surrey Local Government Pension Scheme to reduce the Pension Scheme Deficit.

- **The Police Pension Scheme for police officers** – this is an unfunded defined benefit final salary scheme, the funding arrangements of which are contained in the Police Pension Fund Regulations 2007 (SI 2007/1932). The Force and employees pay contributions into the fund during the year, there are no investment assets built up to meet the pension liabilities and payments are paid as they fall due. The regulations require that if the pension fund account does not have enough funds to meet the cost of pensions in any year, the amount required to meet the deficit must be transferred from the Force to the pension fund account. Subject to Parliamentary scrutiny and approval, up to 100% of this amount is then recouped by the Force in the form of a top-up grant paid by Central Government. Conversely, if the police pension fund account is in surplus for the year, the surplus is required to be transferred from the pension fund account to the Force, which in turn is required to pay the amount to Central Government.

For the police officers pension fund, the employer's contribution rate is presently set at 21.3%. Under current legislation, any costs that are over or under the employer's contribution are met by the Home Office or returned to them.

Police officer injury benefits do not feed into this mechanism and are met by the police budget. Similarly for "Ill Health" retirements an initial charge is made on the Force and paid into the fund to meet these benefits and the future "Ill Health" pension payments for the officer are met by the fund.

There are three versions of the police pension scheme in operation with key points below;

The 2015 Scheme is a CARE defined benefit scheme and each year a member in the scheme will earn a fraction of pensionable earnings 1/55.3 for each year which will be revalued each year until retirement. The normal retirement age is 60 with a minimum retirement age of 55. The officer's contribution is dependent on earnings level and range from 12.44% up to 13.78%. Up to 25% of the pension can be exchanged (commuted) for a lump sum.

The 2006 Scheme (also called the New Police Pension Scheme NPPS) is a final salary defined benefit scheme with each year providing 1/70 of final salary up to a maximum of 35/70. The officer's contribution is 9.5% of salary and pension is payable at age of 55. The lump sum equates to four times the annual pension which can be exchanged for a higher annual pension.

The 1987 Scheme (also known as Police Pension Scheme PPS) is a final salary defined benefit scheme providing 1/60 of final salary in the first 20 years of service and 2/60 in the final 10 years of service. The officer's contribution is 11% of salary and pension is payable from the age of 50. There is an option to commute (exchange) part of the pension for a tax free lump sum

For accounting purposes the costs of retirement benefits are recognised when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out. The balance sheet will show a significant deficit which is attributable to the pension liability of both schemes, although the majority is the unfunded Police Officer scheme.

Governance

The Pensions Regulator is responsible for overseeing and regulating public service pension schemes. The Chief Constable as the employer is the Scheme Manager who is required to establish a Pensions Board to assist the Scheme Manager to secure compliance with scheme regulations, other governance and administration regulations and the requirements of the Pensions Regulator.

The Police Officer Pension Schemes Board was formed in 2015 and is required to have an equal representation from members and employer.

The Police Staff is catered for by the Local Pension Board operated by Surrey County Council with employer representation from Surrey Police.

Risks:

The economic climate has a significant bearing on the valuations of pension schemes and when the factors to value assets and liabilities move in a negative fashion the future costs of pensions could have a financial impact. The future financial planning has to take account of this possibility.

Attachments/ Background Papers:

Local Government Pension Scheme Regulations

Police Pension Scheme Regulations

The Pensions Regulator guidance

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