

Police Officer Pensions

Affordability of Current Schemes

Edward Boyd

Introduction

The cost of public service pensions has risen significantly over the past decade to £32 billion a year in 2008-9.¹ The Treasury believe that *“reforms to date have been insufficient to reverse the increase in costs of public service schemes from rising longevity.”*²

At March 2010 the net UK liability for public service pensions (which has been estimated variously at £1,132 billion)³ was greater than our national debt (£777 billion) in 2009-10.⁴ The size of this liability, coupled with the poor state of public finances, creates an urgent need to reform public sector pensions.

The Coalition Government is pursuing reforms to reduce the cost of public sector pensions. They established an independent review led by Lord Hutton. Hutton’s recommendations included the introduction of tiered employee contribution rates; an increase in the Normal Pension Age for uniformed services to 60 years; and a switch from pensions based on a final salary to those based on career-average pay.⁵ The Coalition Government has also changed the indexation of public sector pensions from the Retail Price Index to the Consumer Price Index, from April 2011 onwards.

In this context, we analyse the current state of police officer pension schemes and determine what reforms might be necessary to put them on a sustainable

footing for the long-term. It is necessary to examine the benefits and burdens of the police pension schemes to determine if they are fair, and if so, if they are affordable for both officers and taxpayers.

Police Officer Pensions – An Overview

Two police pension schemes are in operation today – the Police Pension Scheme (PPS) which began in 1987 and the New Police Pension Scheme (NPPS) launched in 2006. Both provide for retirement at a relatively early age with a pension based on their final salary.

The average officer retirement age in 2010-11 was just 50.5 years.⁶ Both provide benefits for pensioners that are above the average in the private and public sectors. However officers do contribute a high proportion of their pay and work longer on average in their careers than all other public (and most private) sector workers.

The NPPS was designed to modernise *“...police pensions to make them more flexible and affordable for future entrants.”*⁷ However, the PPS is still the pension scheme for 91% of today’s officers. In practical terms this means that without reform of the PPS, until 2036 police officers can claim their full pension after 30 years of service, from age 48.5⁸ and with an annual pension income worth two thirds of final salary.

	Police Pension Scheme 1987	New Police Pension Scheme 2006
Eligibility	Joined up to 05-04-2006	Joined from 06-04-2006
Employee contribution rate	11% of salary	9.5% of salary
Maximum pension	2/3 final salary	1/2 final salary (+ 4 x lump sum)
Accrual rate	1/60th 20 years + 1/30th after 20	1/70th
Maximum service full pension	30 years	35 years
Earliest pension	48.5 (deferred 60)	55 (deferred 65)

Without reform of the current schemes, all officers in the PPS who receive their full pension entitlement (the majority of officers) will receive a pension worth at least £500,000 and up to £2,000,000 in 2009-10 prices.⁹ Furthermore these figures are likely to be an underestimate, as they do not take into account ancillary benefits, such as pension provision for dependents.¹⁰

Rank at retirement	Final salary	Lump sum at retirement	Annual Pension payment
Constable	£36,519	£124,692	£18,704
Inspector	£50,751	£173,287	£25,993
Chief Superintendent	£78,636	£268,498	£40,275
Chief Constable (N Yorks)	£133,068	£454,353	£68,153
Chief Constable (Kent)	£151,215	£516,315	£77,447

Source: Police Negotiating Board circular 10/12 and Policy Exchange calculations¹¹

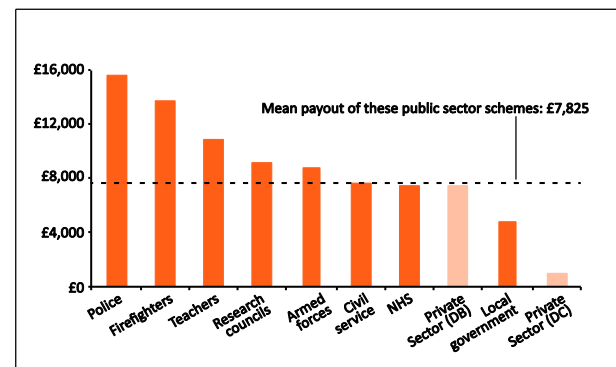
The case studies above illustrate what this looks like in practice. They are based on officers at the top of their pay scale with 30 years' service, retiring on the 1987 scheme at the age of 50 without allowances or performance related payments, on 1st January 2012. They assume police officers decide to commute the maximum proportion of their final salary into a lump sum – this is not taxable, unlike pension income.

The 2006 reforms reduced the generosity of police pensions. Police officers are able to claim their full pension from 55, after 35 years of service, and with an annual pension income of half of their final salary and a fixed lump sum of four times their annual pension.¹²

Benefits & Burdens of Police Pensions

In 2009-10 the average (mean) annual pension payment received by police officers in England and Wales was £15,600. This was higher, relative to all comparable groups in the public sector¹³ and significantly more than the average amount received from private sector pension schemes.¹⁴

Figure 1: Mean annual pension payment



Sources: Independent Public Service Pensions Commission: Interim Report, Lord Hutton, 2010, National Association of Pension Funds, 2010 and the Guardian, 2011

Comparing police pensions to those available in the private and public sectors is instructive.

The Private Sector

The private sector pension market is made up of defined benefit (DB) schemes, which typically promise to pay a pension linked to salary and length of service, and defined contribution (DC) schemes, which typically pay out a pension based on the value of a member's fund at retirement.

In 2009-10 the mean police officer pension payment (£15,600) was more than double that for those in private sector defined benefit schemes (£7,500 per year).¹⁵ In 2010, only 11% of private sector pension members were in a defined benefit scheme¹⁶ and the opportunity to enrol on these schemes is now rated by experts as “nil,”¹⁷ with those who receive a pension mostly being enrolled onto defined contribution schemes. Moreover, further closures are due as a quarter of employers with defined benefit liabilities are looking to buy-out or buy-in all of these liabilities over the next five years.¹⁸

Private sector defined contribution schemes are significantly less generous. The average private sector defined contribution (money purchase) pension pot is estimated at around £28,000,¹⁹ which buys an inflation-linked annual income of around £1,050. This is 15 times smaller than the average police pension.

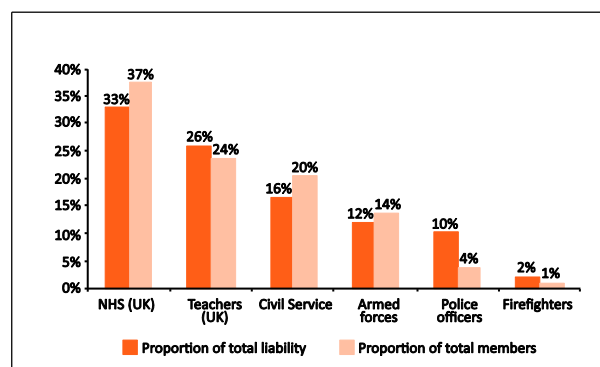
Public Sector Comparison

The average annual pension payment for officers (£15,600) is £8,100 (108%) more than the NHS; £8,000 (105%) more than the civil service; £6,800 (77%) more than the armed forces; £4,800 (44%) more than teachers; and £1,800 (13%) more than firefighters. Overall, police officers receive annual payments that are double the average in the public sector.

Unfunded schemes	Pension liability (£ bn)	Total scheme participants
NHS	328.7	2.53
Teachers	258.2	1.60
Civil Service	163.5	1.38
Armed Forces	120.7	0.93
Police	101.6	0.27
Firefighters	21.1	0.06
TOTAL	993.8	6.77

The six largest unfunded public sector schemes (NHS, Teachers, Civil Service, Armed Forces, Police Officer and Firefighter) have a combined liability of £994 billion (2009-10).^{20 21 22}

Figure 2: Discrepancy between total liabilities and members of unfunded public sector pension schemes



Sources: Whole of Government Accounts, HMT, 2010; Resource Accounts for the NHS Teachers, Civil Service and Armed Forces schemes; and Government Actuary Department for firefighters and police officers²³

Of the 6.8 million members²⁴ in these six unfunded public sector pension schemes, only 4% (268,000) are from the police officer pension schemes, yet those 4% comprise 10% (£102 billion) of the entire liability. If the liability was spread equally, the police’s share would be just £39 billion.

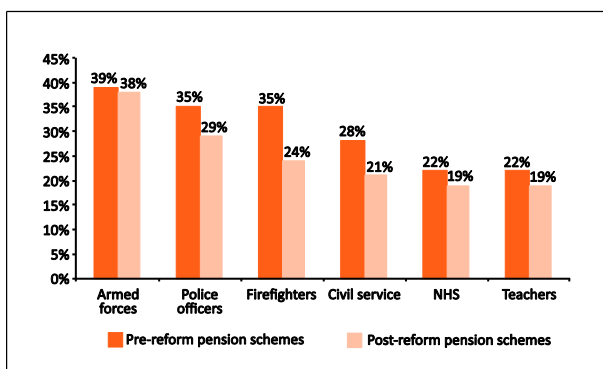
The greater pension benefits that police officers receive is in part a reflection of their higher contribution rates and the fact that, on average, they work longer in their profession than other workers in the public sector.

	Employee contributions	Average career length (years)
Armed forces	0%	10
Civil service	1.5% - 3.5%	13
Firefighters	8.5% - 11%	18
NHS	5% - 8.5%	11
Police officers	9.5% - 11%	25
Teachers	6.4%	23

Sources: Independent Public Service Pensions Commission: Final Report, Lord Hutton, 2011; Public sector pension contributions, House of Commons Library, December 2011; and Public Service Pension Reform – 2010 onwards, House of Commons Library, 2012

Despite this, police officer pensions are still generous when measured on a per year basis. Each year a police officer on the PPS works they accrue pension benefits worth an average of 35% (29% in the NPPS) of that year's salary, on top of their own contributions.²⁵ The Pension Policy Institute refers to this measure as the "average effective employee benefit rate." Firefighters on their pre-reform scheme also receive 35% (24% in their post-reform scheme).²⁶ Those on civil service, teacher and NHS schemes receive significantly less on average in both pre- and post-reform schemes.

Figure 3: Average effective employee benefit rate

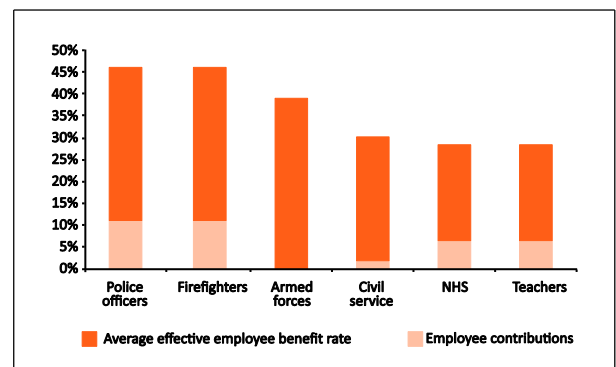


Source: Pensions Policy Institute, 2010

The armed forces receive pension benefits totalling the highest proportion of their salary (39% in their pre-reform scheme and 38% in their post-reform scheme) and pay no employee contributions. This is designed to reflect the uniquely challenging work that they do, the risks they are exposed to, and their relatively short career lengths.

Combining this with employee contributions, each year police officers or firefighters on the pre-reform pension scheme work, they accrue an average of 46% of that year's salary in future pension benefits. This compares with 39% for those in the armed forces, 30.1% for civil servants,²⁷ 28.5% for employees of the NHS²⁸ and 28.4% for teachers.

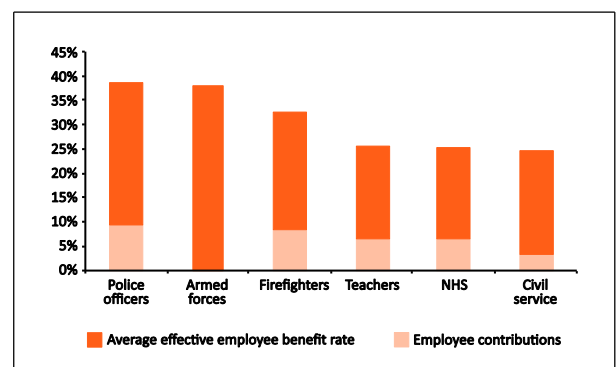
Figure 4: Average value of the pension accrued each year, as a proportion of salary (pre-reform schemes)



Sources: Pensions Policy Institute, 2010 and Public Service Pension Reform – 2010 onwards, House of Commons Library, 2012

On the post-reform pension schemes, this figure drops to an average of 38.5% for police officers, 38% for those in the armed forces, 32.5% for firefighters, and around 25.5% for teachers, civil servants and employees in the NHS.²⁹

Figure 5: Average value of the pension accrued each year, as a proportion of salary (post-reform schemes)



Sources: Pensions Policy Institute, 2010 and Public Service Pension Reform – 2010 onwards, House of Commons Library, 2012

So whilst police officers contribute a large proportion of their salary they accrue significant pension benefits per year in return for that contribution.

Disproportionate Gains for Senior Ranks

The benefits of police officer pensions are not split evenly. Because they are based on an officer's final salary – rather than career-average pay – those who finish their police employment on a higher salary will accrue a more generous pension, relative to the

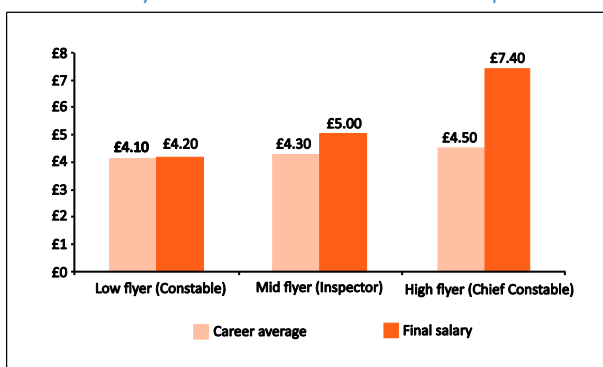
contributions they made. Pensions received by senior officers are therefore disproportionately high relative to colleagues who retire at lower ranks within a force.

Public sector workers who experience high salary growth can currently benefit from almost twice as much per £1 of pension contribution relative to those who experience low salary growth.³⁰ To demonstrate this we have modelled the career of three illustrative officers: a low, mid, and high flyer (see case studies), and compared the benefits received from the final salary scheme to the benefits received from a career-average scheme for each officer.

	Employee Contributions (2010-11 earnings terms)	Career average pension pot value	Final salary pension pot value
Low flyer (Constable)	£122,239	£506,019	£509,280
Mid flyer (Inspector)	£136,127	£580,520	£686,747
High flyer (Chief Constable)	£237,114	£1,067,605	£1,764,046

Every Constable in the 1987 scheme receives at least £4 for every £1 invested after 30 years of service; Chief Constables receive around £7.5 for every £1 invested.

Figure 6: Comparison of the return from every £1 invested by the illustrative officers in their pension



Source: Policy Exchange, 2011³¹

In 2010-11, 76% of officers were Constables. An officer who remains a Constable for their entire career would lose less than 1% of the value of their pension if payments were based on career-average, whilst a Chief Constable would lose around 39% of their pension value.

Police officer case studies

The first officer, Frank, enjoyed frontline work and chose to remain as a Constable for his entire career. He progressed up the pay scale one grade at a time to get to the top after 15 years of service, at which point he remained at the top of the pay scales, claimed a yearly performance payment (the consolidated performance payment between 1997 and 2002 and the competency related threshold payment between 2003 and 2011) and finished on a final salary of £37,731. Over his career Frank paid in 11% employee contribution each year, which totalled £122,239 (in 2010-11 earnings terms). Retiring in 2011, aged 50 and with 30 years of service, Frank commuted the maximum amount possible into his lump sum and received £128,830 and an annual income of £19,325. The value of Frank's pension pot is £509,280, excluding ancillary benefits.

The second officer, Jessica, climbed the ranks more quickly. She spent 13 years as a Constable, 9 years as a Sergeant and 8 years as an Inspector. Having risen to the top of the Inspector pay scale, she received a competency related threshold payment in her final 4 years as an Inspector and finished on a final salary of £51,963. Jessica paid 11% employee contributions each year, which totalled £136,127 over 30 years of service (in 2010-11 earnings terms). Retiring in 2011 at age 50, Jessica commuted the maximum possible and received a lump sum of £177,425 and an annual income of £26,614. The value of Jessica's pension pot is £686,747, excluding ancillary benefits.

The third officer, Ben, was one of the brightest and best police officers in his force and rose to become Chief Constable of Lancashire in 2009. He retired in 2011 on a final salary of £151,215. On his journey to Chief Constable, Ben spent 5 years as a Constable, 3 years as a Sergeant, 4 years as an Inspector, 3 years as a Chief Inspector, 4 years as Superintendent, 3 years as Chief Superintendent, 3 years as Assistant Chief Constable and 2 years as Deputy Chief Constable. In total Ben contributed £237,114 into his pension (in 2010-11 earnings terms). Retiring at age 50, Ben commuted the maximum amount possible and received a lump sum of £516,315 and an annual income of £77,447. The value of Ben's pension pot is £1,764,046, excluding ancillary benefits.

Affordability of Police Pensions

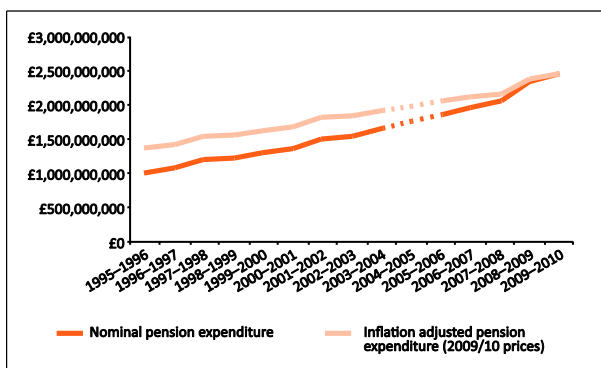
There are effectively two contributors to the (unfunded) police officer pension schemes: taxpayers (through Police Authority expenditure and Home Office grants) and police officers. It is crucial to ensure affordability to both taxpayers and police officers.

Rising Expenditure

The total expenditure on police officer pensions has risen significantly over the past 15 years, growing in nominal terms from less than £1 billion to almost £2.5 billion per year. Accounting for inflation this is a 79% increase between 1995-6 and 2009-10.

(£ million)	1995-1996	2002-2003	2009-2010
Employee contributions (2009-10 prices)	422	477	558
Taxpayer contributions (2009-10 prices)	951	1,362	1,900

Figure 7: Total police officer pension expenditure (1995-6 – 2009-10)

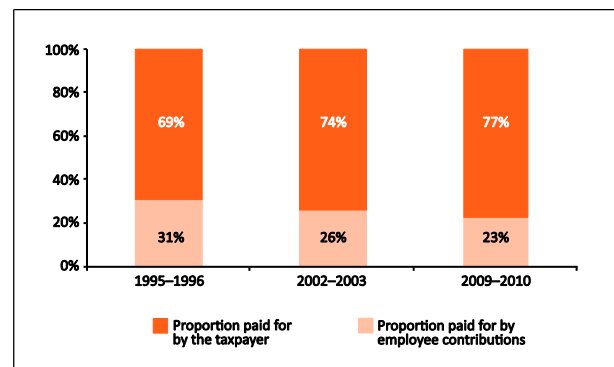


Sources: CIPFA Police Actuals 2009-10, Home Office, Hansard and Police Expenditure, 1999-2009, Kings College London^{32 33 34}

Contributions from the taxpayer doubled in real terms from £951 million in 1995-6 to £1,900 million in 2009-10. This increase in cost is equivalent to hiring 17,500 more officers. The increased taxpayer contributions between 2002-3 and 2009-10 was equivalent to hiring 9,900 more officers.³⁵

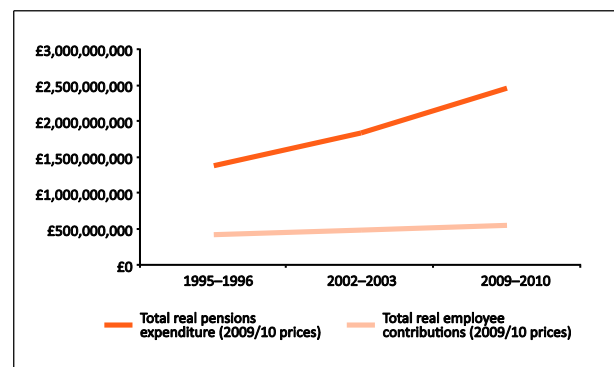
Over the same period, real employee contributions increased by only a third (32%) from £422 million to £558 million. As a result the proportion of pension expenditure paid for by police officers fell from almost a third (31%) in 1995-6 to under a quarter (23%) in 2009-10. As the cost of police officer pensions has increased, the bill has increasingly been picked up by taxpayers, rather than police officers.

Figure 8: Proportion of police officer pension expenditure met by employee contributions and taxpayer funding



Sources: CIPFA Police Actuals 2009-10, Home Office, Hansard and Police Expenditure, 1999-2009, Kings College London

Figure 9: Total real employee contributions relative to pension expenditure



Sources: Home Office and CIPFA, 2009-10

In 2009-10 each household in England and Wales paid £612 per year for policing as a whole. Of this, £83 (£1 in every £7) was spent on police officer pensions,³⁶ despite police officers making up only 59% of total

police personnel in 2009-10.³⁷ A decade ago (2001-2) each household paid £431 per year for policing as a whole and £52 (£1 in every £8) was spent on police officer pensions.³⁸ As Policy Exchange has previously highlighted, the scale of taxpayer funding for public sector pensions mean that we have an “*unjust situation where private sector workers will be paying more towards public pensions than they save for themselves.*”³⁹

Factors Driving Pension Costs

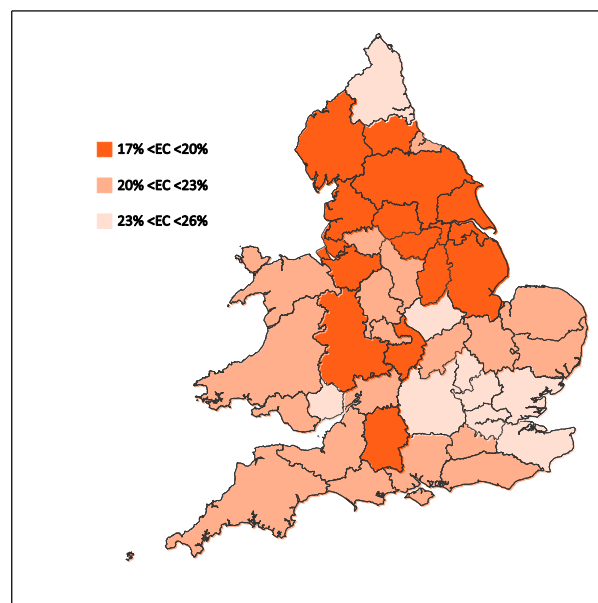
There are three principal drivers of the increased public expenditure on police officer pension schemes:

- **Reduced employee contributions** in the reformed 2006 pension scheme
- **Increased life expectancy** resulting in a longer payment period for police pensioners
- **A lower proportion of active members** relative to pensioners

1. Reduced employee contributions

All officers on the New Police Pension Scheme – currently accounting for 13,000 officers⁴⁰ – pay employee contributions of 9.5%, compared with 11% for those who are on the Police Pension Scheme (1987). The reduction in employee contributions lowers the proportion of pension liabilities that are met from employees. This effect will increase over the medium term as officers contributing 11% retire and new officers, contributing 9.5%, are recruited. Over the longer term, the reduced generosity of the New Police Pension Scheme will cancel out the reduction in employee contributions, but until then the 2006 reforms will increase the proportion of pension liabilities met by taxpayers.

Police officer pension fund: employee contributions (EC)



Currently, 14 forces (one third of all forces) have employee contributions providing less than a fifth of their police pension costs (see supplementary tables). The difference between police forces is largely down to variations in their recruitment profiles over the past 60 years, rather than any strategic decisions made by Chief Constables or Police Authorities.

2. Increased Life Expectancy

Since the introduction of the 1987 pension scheme, overall life expectancy in the UK has increased by 7 years for men and 5 for women from 72 to 79 years and from 78 to 83 respectively.⁴¹ Yet the number of years’ service needed to claim a full pension has remained unchanged at 30 years, ensuring that the average retirement age has remained fairly static.

There is no evidence to suggest that police officers, by the nature of the health implications of their career, live (on average) fewer years in retirement than the general population. If we assume that police officers have the same life expectancy as the general

population, by 2018 the average male officer who retires after 30 years' service is expected to have more years in retirement (30.2 years) than they served. This was true of females as of 2004, when the average female officer lived in retirement for 30.5 years.⁴²

Moreover, many police officers do not cease working when they retire, but instead go on to work full or part-time in roles where they can use their police skills. For some, this means a second career in the private security sector, where one major corporation, G4S, already have 18,000 officers on their employee database – the majority of whom are retired officers from forces in the UK.

3. Lower Proportion of Active Members

As the police officer pension schemes are unfunded 'pay-as-you-go' schemes, the pension payments of today's pensioners are paid for by the funds raised by today's Home Office grants and Police Authority and officer contributions. As officer (and police authority) contributions are dependent upon the number of employees, the fewer officers there are (relative to the number of pensioners that need paying) the greater the dependency on direct Home Office, and thereby taxpayer, funding.

The ratio of pensioners per active – and therefore contributing – members is high. In 2008 there were 144,000 active members, 20,000 deferred members and 104,000 pensioners.⁴³ Thus in 2008 for every active member there were 0.72 pensioners (note that this excludes dependents' pensions).

In 2011, a Policy Exchange Freedom of Information request revealed that this ratio has increased to around 0.89 (see supplementary tables). This is based

on the 20 forces who replied explicitly excluding dependent's pensions. Lincolnshire – at 1.29 – had the highest number of pensioners per active member and both Lincolnshire and Durham have more pensioner members than their combined number of active and deferred members. Using the available data on the proportion of dependent's pensions relative to retired officer's pensions (to net out dependent's pensions for those forces we know included them) and the ratio of pensioner members to active members we estimate that there are roughly 118,000 current police officer pensioners (excluding dependents).

Improving Affordability

The Coalition Government and Hutton's independent review of public sector pensions have identified three main options to reduce the size of police officer pension liabilities:

- Raising the Normal Pension Age
- Pensions based on career-average pay
- Raising employee contributions

Raising the Normal Pension Age

Lord Hutton suggested an increase in the police pension age for uniformed services to 60 years.⁴⁴ This would require an adjustment of the schemes respective accrual rates to ensure that officers reached their full pension entitlement at 60 and not before. This change would bring police officers in-line with firefighters and will still allow them to retire 5 years earlier than the State Pension Age in 2012.

In light of the employability of officers post 30 years' service and in the absence of evidence that police officers have a lower life expectancy than the general population, this seems justified. The argument that officers cannot serve in a 'frontline role' up to 60 years

ignores the scope for wider roles in the service (of which there are more than there used to be), and the fact that, as the average age of a recruit to policing is now 28,⁴⁵ most newly recruited officer will not be able to claim their full pension until aged 63 and may therefore already be set to serve in a police role until that age.

Pensions based on career-average pay

Final salary schemes skew the benefits in favour of senior officers. This approach is outdated, regressive and can be gamed (through temporary promotions late in a career). By moving away from this and towards a career-average scheme, the pension benefits would be more equitably spread across the police ranks. The effect of this will be hardly noticeable for most officers, although the future pension value of the most senior ACPO ranks would shrink by around a third.

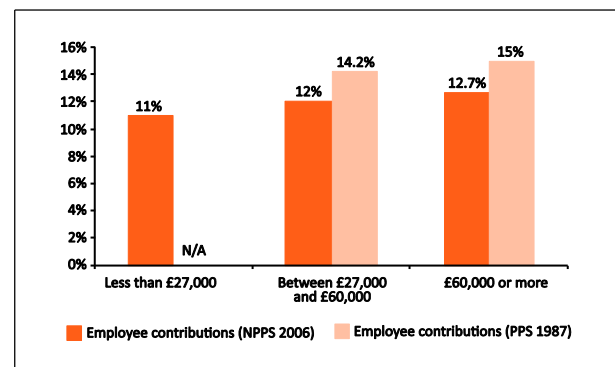
Raising employee contributions

The proportion of police pensions paid for by employee contributions has decreased significantly over recent years and made the schemes increasingly unaffordable for taxpayers.

The Home Secretary, Theresa May, has proposed to address this by introducing a tiered increase in employee contributions of between 1.5% and 4% depending on which scheme an officer is on and their pensionable pay.

The employee contributions would be increased in both schemes and those on the more generous PPS scheme would continue to contribute more than those on the less generous NPPS scheme. Officers on both schemes who earn a larger salary would carry a heavier burden, as shown in figure 10. The proposed changes would be implemented gradually over the next three years to 2014-15.

Figure 10: Proposed police officer employee contributions in 2014-15



Source: Letter from Home Secretary to the Police Negotiating Board, July 2011

At the extremes, by 2014-15 a Constable earning under £27,000, on the NPPS, would be asked to pay a contribution rate of 11% (up from 9.5%) and a senior officer earning more than £60,000, on the PPS, would be asked to pay a contribution rate of 15% (up from 11%).⁴⁶

The Home Secretary has already announced that the proposed increases for 2012-13 will be going ahead.⁴⁷ The Home Office is still to consult with the Police Negotiating Board over whether the planned future increases in 2013-14 and 2014-15 will go ahead.

Conclusion

For reasons beyond their control, the pension schemes offered to police officers have become increasingly unaffordable for taxpayers. In order to ensure a fair system that remains financially solvent in the long-term, police pensions need to be reformed to make them more sustainable for current and new members alike.

Due to the nature of their duties and the risks and obligations that police officers carry, it is reasonable to reward them with a pension scheme that is superior to

other public sector schemes. Reforms deemed necessary for other public sector schemes may not be appropriate for the police. However, the priority for any pension scheme, must be that it is affordable – both for the members of the scheme and the taxpayers who underwrite it. We therefore believe it is right that the Coalition Government are addressing the affordability concerns of police officer pensions.

There is a danger, however, that in making police pensions more affordable for taxpayers, the changes may make them unaffordable for police officers by introducing employee contribution rates of up to 15% of pensionable pay. This is especially true in the light of other pressures on officer's wage packets, such as the two-year pay freeze, changes to allowances, and the suspension of annual increments for all but the first three pay grades.

Yet if the increases in employee contributions are excluded from the reforms, the remaining changes (an increase in the Normal Pension Age to 60 and a move to a career-average scheme) are unlikely to be sufficient to ensure police pensions are affordable for the taxpayer. To ensure police pensions are affordable for both taxpayers and officers over the long-term, the Government therefore needs to look at more wholesale changes.

Recommendations

Police pension schemes are likely to remain comparatively generous but changes are still expected to be made – and need to be made – to reduce the burden on the taxpayer. Measures taken now to move to career average pay and to reflect longer life expectancy are justified.

But asking officers to work longer and pay more should only be viewed as a temporary fix, because even if these reforms were fully implemented, they would not put police pensions on a sustainable footing over the long-term. With continued increases in life-expectancy projected, and fewer active members as officer numbers reduce, police pensions would be likely to face another affordability crisis before today's youngest officers are due to reach retirement at around 2045.

Consequently, to make police pensions affordable for taxpayers, without making them unaffordable for police officers, the overall cost of police pensions will have to be reduced in the long-term. This could be done via a reduction in employee contributions proportional to a reduction in the pension income generated for officers in retirement.

The alternatives are to ask the taxpayer to assume a growing proportion of the liability or for police officers themselves to work beyond 60 (perhaps even 65), pay up to (and perhaps more than) 15% in wage contributions, or both. Therefore:

In the short-term:

- Police pensions should not be excluded from Hutton's recommendation to link pensions to career-average pay, and the standard police retirement age should be equalised with firefighters and raised to 60 years.
- Any increase in employee contributions should take into account the affordability for officers, particularly in the light of wider changes to their remuneration.

In the long-term:

- The Coalition Government should begin to design a New Model Police Pension scheme to create a sustainable solution for the long-term.
- The New Model Police Pension scheme should arise from wide consultation and fair negotiation.
- Such a scheme should embody some key reform principles to produce a balanced set of reforms:

Reform Principles

Policy Exchange would advocate the following principles for a New Model Police Pension Scheme:

- **Police pensions should remain more generous relative to other public sector schemes.** A revised New Model Police Pension scheme should take account of wider changes in the public sector, but be mindful of the distinct challenges that set policing apart. Most police officers will continue to incur risks to their personal safety and reduced employment rights that warrant recognition in higher retirement benefits, alongside firefighters and members of the armed forces.
- **A new scheme should apply to both officers and civilian police staff.** A New Model Police Pension Scheme should offer broadly similar terms for officers and police staff, with the latter able to join for the first time. The divide in pension arrangements between officers and staff (most of whom are members of the much less generous Local Government Pension Scheme) compounds the gap in remuneration which entrenches an operational segregation between skilled civilians and sworn personnel. As these roles converge, the future flexibility of the service demands a more equal remuneration scale and modern employment regulations for both officers and staff, and this cannot be achieved without a unified pension offering. This is consistent with the recommendations made in *Cost of the Cops* (Policy Exchange, 2011). Time spent as a frontline officer could still accrue a higher pension benefit, but staff would no longer be enlisted in a separate, poorer scheme. Unification of schemes would encourage workforce cohesion whilst respecting the role played by those exercising warranted powers.
- **Reforms should increase choice and flexibility.** The Home Office and HM Treasury should examine the case for bold reforms that expand personal choice: allowing pension benefits to be traded for uplifts in pay if officers choose, along with more options to change employment or leave the service without incurring a major penalty in the value of a pension already accrued.
- **Any reformed scheme should be phased in over time** and not apply to current scheme members who have less than 10 years of pensionable service remaining. This will ensure that serving police officers can continue to rely on a generous pension in their retirement, whilst those who come later will have prior notice of a revised scheme.

About the Author

Edward Boyd joined Policy Exchange's Crime and Justice Unit as a Research Fellow in January 2011. Prior to this, Edward co-founded Opportunity Unlocked – a social business designed to foster greater employment opportunities for prisoners. He has also worked for the National Policing Improvement Agency as a Strategy Advisor and the London School of Economics as a summer school teacher on bargaining and negotiation. He co-authored the Policy Exchange reports *Inside Job* (June 2011) and *Cost of the Cops* (September 2011) and is writing a report on measuring Chief Constable Performance with the Executive Session for Policing and Public Safety at Harvard University.

Acknowledgements

Policy Exchange would like to thank the Pensions Policy Institute, Professor Disney (Institute of Fiscal Studies), Harriet Waldegrave (Policy Exchange), officials at HM Treasury and the Home Office for their input and advice, and police forces in England & Wales for responding to our Freedom of Information requests.

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References

¹ Hutton, Lord J., 'Independent Public Service Pensions Commission: Interim Report,' October 2010

² 'Public Service Pensions: good pensions that last,' HM Treasury, November 2011

³ 'Whole of Government Accounts,' HM Treasury, March 2010

⁴ 'Reforming Public Sector Pensions,' Public Sector Pensions Commission, July 2010

⁵ Hutton, Lord J., 'Independent Public Service Pensions Commission: Final Report,' March 2011

⁶ Policy Exchange Freedom of Information request, 2011

⁷ Home Office Circular 044/2006 (www.homeoffice.gov.uk/about-us/corporate-publications-strategy/home-office-circulars/circulars-2006/044-2006)

⁸ Some police officers can claim their full pension from 46 years if they transferred in service but this is only true for a relatively small number of officers

⁹ This and all other equivalent private sector pension pot sums have been modeled by estimating the total lump sum available to a police officer if they were able to (and chose to) commute the entirety of their pension into a lump sum. This uses the Government Actuary Department's 'Commutation on Retirement' figures for the Police Pension Scheme 1987, released on 20 April 2011 (www.homeoffice.gov.uk/about-us/corporate-publications-strategy/home-office-circulars/circulars-2011/008-2011/gad-commutation-retirement?view=Binary). An adjustment has been made allowing for the difference in tax treatment of lump sums (tax-free) and annual pension income (subject to income tax). The following assumptions were made for this adjustment: an officer's pension income is their sole form of income; personal tax allowances and income tax rates will remain constant (at 2011/12 rates) over an officer's retirement; and officers will live to 80 years.

¹⁰ To judge the scale of the underestimation, the Treasury suggests that the pension of a Chief Constable would be worth around £3 million, whilst our estimate puts the most expensive Chief Constable pension at just £2 million (www.telegraph.co.uk/news/politics/8607277/Public-sector-strike-500000-pension-pot-of-striking-teachers-revealed.html)

¹¹ Policy Exchange calculations on the lump sum at retirement and the annual pension payment were calculated using the standard methodology laid out by the Government Actuary Department's 'Commutation on Retirement' figures for the Police Pension Scheme 1987, released on 20 April 2011 (www.homeoffice.gov.uk/about-us/corporate-publications-strategy/home-office-circulars/circulars-2011/008-2011/gad-commutation-retirement?view=Binary)

¹² Please note the following amendment: the words "annual pension" have replaced the words "final salary." No assumptions, calculations or recommendations were predicated on this and we apologise for the mistake. The first table on page 2 has also been amended to reflect this change.

¹³ The judiciary have been excluded given the uniqueness of their pension scheme members: they are a small top tier of a highly-skilled profession and are therefore not comparable

¹⁴ Care should be taken when interpreting these figures as they include those who work part-time or for short periods, which are variable across professions

¹⁵ National Association of Pension Funds Annual Survey, 2010

¹⁶ Emmerson, C. and Jin, W., 'Public Sector pensions and pay, chapter 5' Institute for Fiscal Studies, 2012 (www.ifs.org.uk/budgets/gb2012/12chap5.pdf)

¹⁷ The National Association of Pension Funds, 2010

¹⁸ 'Workplace pensions: challenging times,' Association of Consulting Actuaries, January 2012

¹⁹ Figures by the firm Hargreaves Lansdown. Also reported by the Guardian (www.guardian.co.uk/politics/reality-check-with-polly-curtis/2011/nov/25/public-sector-pensions-pensions)

²⁰ 'Whole of Government Accounts,' HM Treasury, March 2010

²¹ The discount rate used to underpin each scheme, which has a significant impact on the perceived size of the liability, varies depending on whether they are locally administered (police and firefighters) who rely on the administering authority's/actuary's judgment as to the rate required under accounting standards; or nationally administered (NHS, Teachers, Civil Service and Armed Forces) for whom the discount rate is based on the yield of AA corporate bonds.

²² The public sector liability estimates include all future payment of pensions for all public sector pension schemes where the liability to pay the pension was incurred as a result of past employment. It excludes the expected value of the future pensions to current and future public service employees for employment after March 2010.

²³ All figures are for 2009-10 except for firefighters (2007) and police officers (2008). All figures exclude dependent's pensions except for the NHS, for which such figures are not available.

²⁴ Defined as all active, deferred and pensioner members (excluding those in receipt of dependents pensions, other than for the NHS figures)

²⁵ 'Public sector pension schemes: policy objectives and the options for the future,' Pensions Policy Institute, March 2010

²⁶ For more details on the pension reforms of other public sector pension schemes please see www.parliament.uk/briefing-papers/SN05298

²⁷ This is calculated using the mean employee contribution for civil service pensions of 2.1% (via a Policy Exchange calculation using data from www.parliament.uk/briefing-papers/SN03224)

²⁸ NHS employee contribution rate varies between 5% and 8.5%. The 6.5% rate is the median rate and is applicable for those who earn between £21,176 and £69,931 (2010/11)

(www.nhsbsa.nhs.uk/Documents/Pensions/Tiered_Employee_Contributions_2010-11_Factsheet.pdf)

²⁹ These figures are taken as the sum of the employee contributions and the average effective employee benefit rate as calculated by the Pensions Policy Institute ('An assessment of the Government's reforms to public sector pensions,' Pensions Policy Institute, 2008)

³⁰ Hutton, Lord J., 'Independent Public Service Pensions Commission: Interim Report,' October 2010

³¹ Note the following for the basis of the calculations: all pension contributions & earnings have been updated in line with the Annual Earnings Index from 1982 to 2009 and Average Weekly Earnings Index for 2010 and 2011; all pay settlements have been identified using Police Negotiating Board Circulars; and pension payouts and lump sums were calculated using the Government Actuary's Department Commutation on Retirement figures (www.polfed.org/PPS_commutation_guidance_20April2011.pdf)

³² Note that figures were not available for years 2003-4, 2004-5 and 2005-6. They have been assumed to be linear relative to the years 2002-3 and 2006-7.

³³ For sources please see the following links: <http://pxcri.me/gc>, <http://pxcri.me/gd> and <http://pxcri.me/ge>

³⁴ The total police officer pension expenditure is the total spend by police pension funds, including pension payments, lump sum commutations any surpluses paid to the Home Office, refunds of contributions and transfer values

³⁵ This is calculated using the 2009-10 average cost of an officer of £54,163 as reported in 'Cost of the Cops,' Policy Exchange, 2011

³⁶ There were 22,946,176 households in England and Wales in 2009-10 (see: www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-248983, www.gro-scotland.gov.uk/files2/stats/household-estimates/he-10/households-dwellings-est-2010.pdf and www.nisra.gov.uk/archive/demography/population/household/NI08_House_Projs.pdf)

³⁷ Total police expenditure (including both revenue and capital costs) was £14.05 billion in the same year and the total taxpayer expenditure on police officer pensions was £1.90 billion (CIPFA, 2011).

³⁸ See figures 1.11 and 1.13 of 'Cost of the Cops,' Policy Exchange, 2011

³⁸ There were 21,660,475 households in England and Wales in 2001 (see www.ons.gov.uk/ons/rel/census/census-2001-report-for-parliamentary-constituencies/report-for-parliamentary-constituencies/index.html). Total police expenditure was £9.34 billion (CIPFA 2002) and taxpayer expenditure on police officer pensions was £1.12 billion in the same year (Home Office: www.homeoffice.gov.uk/publications/police/central-gov-police-funding/cen-gov-police-rev-funding-data)

³⁹ Holmes, E. & Oakley, M., 'Public and private sector terms, conditions and the issue of fairness,' Policy Exchange, 2011

⁴⁰ Winsor, T., 'Independent Review of Police Officer and Staff Remuneration and Conditions, Part 1,' March 2011

⁴¹ 'Living longer and prospering,' The Oxford Institute of Ageing and Club Vita LLP, 2011

⁴² These figures assume the average retirement age between 2008/9 and 2010/11 of 50.6 remains constant

⁴³ Hansard, 15 Feb 2011 : Column 647W
(www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110215/text/110215w0001.htm)

⁴⁴ Hutton, Lord J., 'Independent Public Service Pensions Commission: Final Report,' March 2011

⁴⁵ www.thisislondon.co.uk/standard/article-23848848-forcing-police-recruits-to-work-for-nothing-will-damage-met.do

⁴⁶ Letter from Home Secretary to the Police Negotiating Board, July 2011 (www.glospolfed.org.uk/wp-content/uploads/Ian-Rennie-PNB-Proposed-Increases-to-Police-Pension-Contribution-Rates-29-July-11.pdf)

⁴⁷ Home Office circular 004/2012 (www.homeoffice.gov.uk/about-us/corporate-publications-strategy/home-office-circulars/circulars-2012/004-2012/)