



Home Office

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Mr Ian Rennie
Staff Side Secretary
Police Negotiating Board
Federation House
Highbury Drive
Leatherhead
Surrey
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29 July 2011

Dear Ian,

PROPOSED INCREASES TO POLICE PENSION CONTRIBUTION RATES

As you will be aware, the Government has given a commitment to review the long-term affordability and sustainability of public service pensions. The Independent Public Service Pensions Commission, chaired by Lord Hutton, concluded in its report that reform is needed. The Government accepted Lord Hutton's recommendations as a basis for consultation with public sector workers and trade unions on long-term reform of pension arrangements.

Ahead of longer term reform, the Commission made clear that there is a rationale for increasing pension scheme member contributions to ensure a fairer distribution of costs between taxpayers and members. The Government announced plans to make £2.8bn savings per year by 2014-15 through increasing public service employee pension contributions.

The case for increasing contributions

Expenditure on public service pensions over the last decade has increased by a third to £32bn per year, and is expected to rise to nearly £34bn per year by 2015-16. Pensions are costing more and, as Lord Hutton stated in his report, these costs have generally fallen to the taxpayer.

There needs to be a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension. Police authorities currently contribute 24.2 per cent towards police officers' pensions, whilst officers contribute either 9.5 or 11 per cent themselves.

The Government announced in the Spending Review that public sector workers would therefore be asked to contribute more for their pensions. This set out plans for savings of £2.8bn per year to be realised by 2014-15, requiring each public sector pension scheme, including the police pension scheme, to find savings equivalent to an average increase of 3.2 per cent in employee contributions over the same period. Although this will mean that most officers will pay more into their police pension, most can also expect to live longer in retirement than previous generations.

The police pension scheme therefore remains very attractive compared with pension provisions available in the private sector. There is a significant contribution from police authorities and it is good value for its members.

Consultation with the Police Negotiating Board

Following the commitments made by the Government in the Spending Review, public service pension schemes are designing and consulting on proposals to deliver the relevant share of the £2.8bn savings required by 2014-15.

The expectation is for the savings to be made by gradually increasing member contribution rates over a three year period to 2014-15.

A detailed proposal in respect of the police pension schemes can be found at Annex A, with illustrations of how the increases could affect individual officers at Annex B. The proposal reflects the principles in the Written Ministerial Statement made to Parliament by the Chief Secretary to the Treasury on 19 July and previous Government announcements. Increases in the proposal are structured such that:

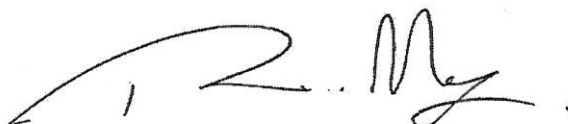
- low earners are protected;
- higher earners pay more; and
- any increase in the rate of opt-out from pension schemes is minimised.

I would welcome your views on the proposal by the end of September. I understand that there is a technical pension discussion for PNB scheduled for 15 September, which will give the opportunity for you to raise issues with my officials. I would be grateful if you would address comments in writing to Peter Spreadbury, 6th Floor, Fry Building, 2 Marsham Street, London SW1P 4DF or

peter.spreadbury@homeoffice.gsi.gov.uk.

I have written in similar terms to the Official Side and am copying this letter to Paul McKeever and John Randall.

Yours ever,

A handwritten signature in black ink, appearing to read 'T. May', with a large, sweeping flourish at the end.

THE RT HON THERESA MAY MP

Annex A

Proposal to PNB on pension contributions for police officers

			2011/12	2012/13	2013/14	2014/15
Increase in officer contributions (compared to 2011/12)	Tier 1 - 1987 scheme		n/a	n/a	n/a	n/a
	Tier 1 - 2006 scheme		0	0.6	1.2	1.5
	Tier 2 - 1987 scheme		0	1.25	2.5	3.2
	Tier 2 - 2006 scheme		0	1	2.0	2.5
	Tier 3 - 1987 scheme		0	1.5	3.0	4.0
	Tier 3 - 2006 scheme		0	1.25	2.5	3.2
Total officer contributions - tier 1	1987 scheme	%	n/a	n/a	n/a	n/a
	2006 scheme	%	9.5	10.1	10.7	11.0
Total officer contributions - tier 2	1987 scheme	%	11	12.25	13.5	14.2
	2006 scheme	%	9.5	10.5	11.5	12.0
Total officer contributions - tier 3	1987 scheme	%	11	12.5	14.0	15.0
	2006 scheme	%	9.5	10.75	12.0	12.7

Tier 1 is those on a basic annual salary of under £27,000, equivalent to Constable with less than 2 years' service.

Tier 2 is those on a basic annual salary of more than £27,000 but less than £60,000, equivalent to Constable, with 2 years' service or more, to Chief Inspector.

Tier 3 is those on a basic annual salary of £60,000 and over, equivalent to Superintendent and above.

Annex B

Illustrations of proposed contribution increases

(NB. All figures gross, before tax is taken into account)

Constable (on joining)

Salary	£23,259		
Current pension contribution 9.5% (2006 scheme)	£2,210		
<i>Increase on current contribution</i>		<i>Total</i>	
Year 1	+0.6%	10.1%	£140
Year 2	+1.2%	10.7%	£279
Year 3	+1.5%	11.0%	£349
Pension contribution from 2014-15	11.0%		£2,558

Constable (in training/1-2 years' service)

Salary	£25,962		
Current pension contribution 9.5% (2006 scheme)	£2,466		
<i>Increase on current contribution</i>			
Year 1	+0.6%	10.1%	£156
Year 2	+1.2%	10.7%	£312
Year 3	+1.5%	11.0%	£389
Pension contribution from 2014-15	11.0%		£2,856

Constable (with 2 years' service)

Salary	£27,417		
Current pension contribution 9.5% (2006 scheme)	£2,605		
<i>Increase on current contribution</i>			
Year 1	+1.0%	10.5%	£274
Year 2	+2.0%	11.5%	£548
Year 3	+2.5%	12.0%	£685
Pension contribution from 2014-15	12.0%		£3,290

Constable (with 5 years' service)

Salary	£31,032		
Current pension contribution	9.5% (2006 scheme)		£2,948
<i>Increase on current contribution</i>			
Year 1	+1.0%	10.5%	£310
Year 2	+2.0%	11.5%	£621
Year 3	+2.5%	12.0%	£776
Pension contribution from 2014-15	12.0%		£3,724

Constable (top of pay range)

Salary	£36,519		
Current pension contribution	11.0% (1987 scheme)		£4,017
<i>Increase on current contribution</i>			
Year 1	+1.25%	12.25%	£456
Year 2	+2.5%	13.5%	£913
Year 3	+3.2%	14.2%	£1,169
Pension contribution from 2014-15	14.2%		£5,186

Sergeant (mid-range)

Salary	£39,033		
Current pension contribution	11.0% (1987 scheme)		£4,294
<i>Increase on current contribution</i>			
Year 1	+1.25%	12.25%	£488
Year 2	+2.5%	13.5%	£976
Year 3	+3.2%	14.2%	£1,249
Pension contribution from 2014-15	14.2%		£5,543

Inspector (mid range)

Salary			£49,428
Current pension contribution	11.0%	(1987 scheme)	£5,437
<i>Increase on current contribution</i>			
Year 1	+1.25%	12.25%	£618
Year 2	+2.5%	13.5%	£1,236
Year 3	+3.2%	14.2%	£1,582
Pension contribution from 2014-15	14.2%		£7,019

Superintendent (mid range)

Salary			£70,014
Current pension contribution	11.0%	(1987 scheme)	£7,702
<i>Increase on current contribution</i>			
Year 1	+1.5%	12.5%	£1,050
Year 2	+3.0%	14.0%	£2,100
Year 3	+4.0%	15.0%	£2,800
Pension contribution from 2014-15	15.0%		£10,502