Police Mutual

# Let's Talk

## Pensions – September 2023

**Pensions have the reputation of being confusing, but they needn't be. Whether you are in the police pension scheme, police staff pension scheme or a different workplace pension, hopefully this guide will provide you with all the information you need about pensions.**

In simple terms, a pension is a tax-efficient way to save for your retirement. It aims to provide you with a source of income in later life. There are a few different types of pensions but the majority of people will have a workplace pension and will also be entitled to the State Pension.

The earlier you start saving into a pension the better chance you will have of achieving the lifestyle you want in later life.


**A working individual makes National Insurance contributions to get the State Pension. The amount of benefit received will depend on the amount of NI contributions made. For the current tax year, 2023-24 the full new State Pension is £203.85 per week.**

## State Pensions

The Government will pay you a secure regular income when you reach the State Pension age.

When you receive your State Pension will depend on when you were born and this age is regularly reviewed to make sure that the State Pension is affordable and fair. People are living longer, and spending a larger proportion of their adult life in retirement than in the past. When the State Pension was introduced in 1948, a 65-year-old could expect to spend 13.5 years in receipt of it, this has been increasing ever since. Currently, for most people their pension age with be between 67 and 68, click **here** to check out your State Pension age.

The amount you receive will depend on certain factors, including the number of years in which you've made National Insurance contributions and the date you reach the State Pension age. Click **here** for a pension forecast from the government's website.

Your State Pension age may be different to the age you can take your workplace pension, which can usually be taken between the ages of 55 and 75.

The new State Pension came into effect in 2016, replacing the basic State Pension which existed before it. Which pension you will be paid will depend on whether you reached State Pension age before the new State Pension came into force. For more details on each scheme, click **here** for the new scheme and **here** for the previous scheme.

# Workplace pensions

To encourage people to save for retirement the Government offers tax incentives.

If you're a UK taxpayer, in the tax year 2023-24 you'll get tax relief on pension contributions of up to 100% of your earnings or a £60,000 annual allowance, whichever is lower.

- **For example, if you earn £30,000 but put £35,000 into your pension pot (using money for another source), you'll only get tax relief on £30,000.**
- **Similarly, if you earn £70,000 and want to put that amount in your pension scheme in a single year, you'll normally only get tax relief on £60,000.**

Any contributions you make over this limit won't attract tax relief and will be added to your other income and be subject to income tax at the rate that applies to you. In the majority of cases you can carry forward unused allowances from the previous three years, as long as you were a member of a pension scheme during that time.

If you have no earnings or earn less than £3,600, you can still pay into a pension scheme and qualify for tax relief on your contributions up to £2,880.

There is a limit on the value of pension benefits that you can draw benefits from without having to pay a tax charge and this is known as the lifetime allowance. For the current tax year (2023-24) the lifetime allowance is £1,073,100.

The lifetime allowance is set to be abolished in April 2024.

Workplace pension schemes are provided by employers. Your pension pot is based on contributions taken directly from your wages, as well as your employer's contributions.

There are two main types of workplace pension, also known as occupational or company pension schemes. These are either a defined benefit or final salary scheme, like the police pension scheme, which provides benefits linked to your salary when you retire. Or a defined contribution or money purchase scheme, where your and your employer's contribution combine to build up a pot of money. This pot is then used to invest and provide a regularly income for you to use during your retirement.



## Police Pension Schemes

**The police pension schemes have many benefits including:**

- **Guaranteed pension**
- **Index Linked – CPI (Consumer Price Index)**
- **Death in service benefits**
- **Surviving Spouse / Partner / Children's pensions payable in the event of death***
- **Allows for the provision of an ill-health pension**

## There are different police pension schemes and you may have been in more than one

### The 1987 to 2006 scheme:

Police officers contributed between 11%-15.05% (depending on year and salary) of their pay to the scheme.

When you take your police Pension you will be given the option of being able to take up to 25% of your pension fund as a tax-free lump sum payment, subject to HMRC rules, this is called your commutation. This means you can release some of your money without having to pay tax on it, you may want to do this to pay off debts or a mortgage, pay for a planned expense or to invest for growth or a regular return. For more details see below.

If you do decide to take a lump sum payment it's worth bearing in mind that your regular monthly pension payment will be lower.

For full details of the 1987 scheme, speak to your force pension department or click **here**.

### The 2006 to March 2015 scheme:

Police officers contribute between 9.5%-12.75% (depending on year and salary) of their pay into the scheme and will be entitled to a tax free lump sum of 4 times their annual pension, subject to HMRC rules.

For full details of the 2006 scheme, speak to your force pension department or click **here**.

Any officers who joined this scheme will have moved to the current scheme in April 2015 unless they were protected due to age.

### The Career Average Revalued Earnings (CARE) scheme came into force from April 2015.

A Career Average Revalued Earnings (CARE) pension scheme means that you will build a pension equal to 1/55.3 of your Pensionable Earnings for each year of service, which is then added to your pension account.

Police officers contribute around between 12.44%-13.78% (depending on salary) of their earnings each year. This is increased in line with CPI plus 1.25% to maintain the value of the pension earned. When you retire the total pension is calculated depending on the number of years you have served.

At retirement you can exchange pension for a one off lump sum; for every £1 of pension you give up, you will receive £12 of lump sum (up to a maximum of 25% of your total pension pot).

## Commutation

**When you retire, you may be unsure if you should you take a lump sum and this will depend on your own personal situation, your financial position and your plans for the future.**

You may want to consider the following:

- Will paying off any debts you have with your commutation reduce your outgoings by more than the amount of pension you will be giving up?
- As you'll be retiring at a younger age than most, do you want a lump sum to spend and enjoy?
- Are you planning to start a second career or new business? If so, will you need all the income the full pension will give you? Could you invest some of the money now to use at a later date, when you're ready to finish working all together?
- Are you prepared to take a lower monthly income in return for having access to a lump sum?
- Do you know that the survivor's pension will be the same whether you have commuted or not?

If you are unsure of how much to commute, try our Commutation Planner Tool **here**.

**Please make sure you are aware of your pension scheme rules and obtain an up to date illustration from your pension administrator prior to making any decisions about your pension and retirement.**

## The McCloud remedy

The McCloud remedy removes the age discrimination that was judged to have arisen in public service pension schemes, including the NHS Pension Scheme. The discrimination resulted from allowing older members to remain in their legacy schemes rather than being moved to the 2015 Scheme when it was introduced. For more details of the McCloud remedy click **here**.

## Medical retirement

**The arrangements for medical retirement and ill-health pensions are extremely complicated and it's best to check with the full details of the scheme you are in by clicking on the links above.**

With regards to your police pension, it's important that you understand the facts before you make any decisions. **GOV.UK** has a **police pension's calculator,** which gives you the ability to see an illustration of your projected pension benefits. The calculator is for guidance only, and only offers estimates, for up to date and accurate figures please contact your pension administrator. It is not intended to provide you with financial advice, but it may help give you a general idea of your annual pension amount.

## Police Staff Pension Schemes

There are significant benefits to the police staff pension scheme:

- **Guaranteed Pension**
- **Pension Index Linked – CPI (Consumer Price Index)**
- **Death in service benefits – 3 x salary**
- **Surviving Spouse/Partner/Children's pensions payable in the event of death***
- **Allows for the provision of ill-health pension**

# There are different police staff pension schemes and you may have been in more than one of the schemes

## LGPS (Pre 2008) scheme:

This is a final salary scheme. Contributions were set at 6% of pensionable salary and include a lump sum of 3 times their annual pension. Subject to HMRC rules.

Anyone who joined this scheme will have moved to the new scheme in April 2008.

## The April 2008 to March 2014 scheme:

This is a final salary scheme. Contributions varied depending on your salary, from 5.5% to 12% of your pensionable income. A lump sum can be chosen by surrendering £1 of annual income for each £12 of lump sum. Subject to HMRC rules.

Anyone who joined this scheme will have moved to the new scheme in April 2014/2015.

## The Career Average Revealed Earnings (CARE) scheme from April 2014 in England & Wales and April 2015 in Scotland and Northern Ireland:

A CARE pension scheme means that you will build a pension equal to 1/55.3 of your Pensionable Earnings for each year of service, which is then added to your pension account. This is increased at the end of each year in line with CPI plus 1.25% to maintain the value of the pension earned. When you retire the total pension is calculated depending on the number of years you have served and the amount in your pension account.

Contributions vary depending on your salary, from 5.5% to 12.5% of your earnings each year. When you retire the total pension is calculated depending on the number of years you have served.

A lump sum can be chosen by surrendering £1 of annual income for each £12 of lump sum, subject to HMRC rules.

If you are struggling to afford this level of contributions you do have the option to pay half % as a regular deduction.

You can choose to take your pension between the age of 55 and 75. For more details click **here**. For tools and calculators click **here**.

## Civil Service Pension Scheme Pre July 2007 scheme:

Most people would have been a member of Premium or Classic pension schemes. Members who joined before 2002 were members of the "classic" scheme which has a Normal Pension Age of 60 and is final salary linked. The contribution was free to the member but a contribution of 1.50% was made for the Widows Pension Scheme. Members joining between 2002 and 2007 joined the "premium" pension scheme which has a Normal Pension Age of 60 and is final salary linked. The premium scheme was contributory, and provides a spouse pension which is whole life.

## The 30 July 2007 to 31 March 2015 scheme:

Most people will have joined the NUVOS scheme during this period. Contributions vary depending on your salary, from 3.5% to 8.25% of your pensionable income. A lump sum can be chosen by surrendering £1 of annual income for each £12 of lump sum. Subject to HMRC rules. Anyone who joined this scheme will have moved to the new scheme in April 2015 unless the individual is a protected member.

## The Career Average Revealed Earnings scheme (APLHA) from April 2015 in England & Wales:

Contributions vary depending on your salary, from 4.6% to 8.05% of your earnings each year. This slice is increased in line with CPI to maintain the value of the pension earned. When you retire the total pension is calculated depending on the number of years you have served.

A lump sum can be chosen by surrendering £1 of annual income for each £12 of lump sum, subject to HMRC rules. You can choose to take your pension between the age of 55 and 75

You also have the choice of joining the Partnership Pension which is a defined contribution scheme which is managed by Legal & General.

Pension calculators can be found on Pension calculators - Civil Service Pension Scheme

**For more details of the schemes please contact your force pensions departments.**

# Other Workplace pensions

All employers must offer a pension scheme that's subject to minimum regulatory and governance requirements. This is known as automatic enrolment. They must also contribute a set proportion of your wage to your pension pot.

## If you change jobs, you can either:

- **leave the pension in your old employer's scheme and access it once you reach the scheme's pension age or**
- **transfer money to your new workplace pension scheme. This isn't possible for all schemes so talk to your pension provider or an independent financial adviser about your options.**

If you've lost track of old pensions or you're not sure if you were enrolled in an old workplace pension scheme, there are different ways you can find them, click **here** for more details.

When you get to retirement age you may have pensions from previous careers, you will need to contact each provider for more details of their values and when they will be payable.

## How do I access my pension?

Changes introduced from April 2015 give you freedom over how you can use your pension pot(s) if you're 55 or over and have a defined contribution scheme (based on how much has been paid into your pot from you and your employer).

Whether you plan to retire fully, to cut back your hours gradually or to carry on working for longer, you can now tailor when and how you use your pension and when you stop saving into it to fit with your particular retirement journey.

Under these rules you can mix and match any of the options below, using different parts of one pension pot or using separate or combined pots.

You'll be automatically enrolled into a scheme if:

- **you're aged over 22**
- **you're under State Pension age**
- **you earn more than £10,000 a year**
- **you're not already in a workplace pension scheme**
- **you work in the UK**

If you've been automatically enrolled you and your employer must pay a percentage of your earnings into your workplace pension scheme.

How much you pay and what counts as earnings depend on the pension scheme your employer has chosen. Ask your employer about your pension scheme rules.

In most automatic enrolment schemes, you'll make contributions based on your total earnings between £6,240 and £50,270 a year before tax. Your total earnings include:

- **salary or wages**
- **bonuses and commission**
- **overtime**
- **statutory sick pay**
- **statutory maternity, paternity or adoption pay**

You can opt out of the pension at any time, usually by completing a form and returning it to your employer or pension provider. If you opt out, your employer will be required to re-enrol you every three years, at which time you'll need to opt out again if you don't wish to save. If you can afford to, it's a good idea to join the scheme.

The Government has created automatic enrolment to encourage people to save additional money for retirement, as the State Pension alone is a low amount to live on for most people.

Currently the minimum contribution is 8%, this includes a minimum employee contributions of 5%.

In some schemes, your employer has the option to pay in more than the legal minimum. In these schemes, you can pay in less as long as your employer puts in enough to meet the total minimum contributions.

You and your employer may agree to use 'salary sacrifice' if you do this, you give up part of your salary and your employer pays this straight into your pension. In some cases, this will mean you and your employer pay less tax and National Insurance.

## Not all pension schemes and providers will offer every option, so it's best to check with your provider, the main options are below:

- **Leave your pension pot untouched** - You might be able to delay taking your pension until a later date. Your pot will then continues to grow tax-free, potentially providing more income once you access it.
- **Use your pot to buy a guaranteed income for life (an annuity)** - You can normally withdraw up to a quarter (25%) of your pot as a one-off tax-free lump sum then convert the rest into a taxable income for life called an annuity. There are different lifetime annuity options and features to choose from that affect how much income you would get. For example, you may want to choose to provide an income for life for a dependent after you die. For more details click here.
- **Use your pot to provide a flexible retirement income (pension drawdown)** - With this option you can normally take up to 25% of your pension pot, or of the amount you allocate for drawdown, as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income. Find out more here.
- **Take small cash sums from your pot** - You can use your existing pension pot to take cash as and when you need it and leave the rest untouched where it can continue to grow tax-free. For each cash withdrawal, normally the first 25% is tax-free and the rest counts as taxable income. There might be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year. Find out more here.
- **Take your whole pot as cash** - You could close your pension pot and take the whole amount as cash in one go if you wish. Normally, the first 25% will be tax-free and the rest will be taxed at your highest tax rate (by adding it to the rest of your income). There are many risks associated with cashing in your whole pot, so it's important to get financial advice before cashing in your whole pot. To find out more click here.
- **Mixing your options** - You don't have to choose one option when deciding how to access your pension, you can take a combination of 2 or more.

## Which option or combination is right for you will depend on:

- your age and health
- when you stop or reduce your work
- whether you have financial dependents
- your income objectives and attitude to risk
- the size of your pension pot and other savings
- whether your circumstances are likely to change in the future
- any pension or other savings your spouse or partner has, if relevant

You can also keep saving into a pension if you wish, and get tax relief up to age 75.

## Tax Free lump Sums

When you take your pension you will be given the option of being able to take up to 25% of your pension fund as a tax-free lump sum payment, subject to HMRC rules.

Your Police Pension may not be your only source of income, especially once you reach the state retirement age. You may have also paid into other schemes in the past or even been entitled to certain benefits. Click **here** to read about what other benefits you may be entitled to.

Pension income paid to you is normally treated as earned income for income tax purposes, although National Insurance contributions are not payable. For more details on tax and pensions click **here**.

Do you need some support in the build up to your retirement? For more details of the Police Mutual Pre-Retirement Courses click **here**.


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**For more information about the products and services available from Police Mutual:**

**Call us 01543 441630**
**Visit policemutual.co.uk**

**We're open from 9am - 5pm Mon - Fri**

*qualifying rules apply



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