

Let's Talk

**Police
Mutual**

Police Pensions

September 2024

Pensions have the reputation of being confusing, but they needn't be.

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.



Workplace pensions

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

If you're a UK taxpayer, in the tax year 2024 - 25 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 now no overall maximum you can put into your pension however, there are limits as to how much you can exchange for a tax free lump sum.

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 you 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 maximum tax free lump sum possible is currently capped at £268,275 even if your pension is larger.

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 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.

Medical retirement

The arrangements for medical retirement and ill-health pensions are extremely complicated and it's best to check 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](https://www.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. This calculator does not apply to those individuals who are affected by the McCloud Remedy.

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 remedy applies to pension scheme members who were in pensionable public service both on or before 31 March 2012 and on or after 1 April 2015, including those with a gap in service of no longer than five years. Officers who joined from 1 April 2012 are not in scope for the remedy. For more details click [here](#).



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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