

FINANCIAL IMPLICATIONS OF WITHDRAWING FROM THE OLD POLICE PENSION AFTER COMPLETING 30 YEARS OF SERVICE



Officers opting to work on beyond 30 years of service question whether they get any benefit of continuing to pay 11% of salary into the Old Police Pension Scheme.

It used to be argued that their starting pension would continue to increase in line with police pay but what if there is a pay freeze?

Forces Financial are specialist advisers to police officers, we have had many discussions with officers contemplating this question. We hope you may find the following information of use however, it is essential that you check how this information relates to your own personal situation before acting upon it.

This document is provided for your information and should not be interpreted as specific advice.

EFFECT	WHAT THIS MEANS TO YOU
You lose the 2x Salary Death in Service Benefit (or 5x Salary Death on Duty Benefit)	<p>If you die before you draw your pension your estate/beneficiaries will receive no lump sum.</p> <p>Action – <i>If you are in good health you should be able to replace this cover at a relatively low cost.</i></p>
You no longer pay 11% of Salary	<p>Tax – Your pension contribution is paid from your salary before tax. If you stop paying it, you will receive a higher take home pay but you will be paying more tax.</p> <p>Action – <i>You could get the same tax relief by paying the same sum into a personal pension.</i></p> <p>National Insurance – Members of the police pension pay a lower level of national insurance (9.4% of banded earning rather than the usual 11%).</p> <p><i>If you leave the police pension you will revert to the higher 11% national insurance rate but this may also boost the amount of state pension you receive at your state retirement age.</i></p>
Your Pension is 'Frozen'	<p>Your starting pension will be linked to your average income at the date of leaving the scheme rather than your average income at the date you retire.</p> <p><i>So any pay rise after the date you opt out will be excluded from your pension calculation – including any increase resulting from a promotion to acting, temporary or permanent rank.</i></p>
Your retirement lump sum may decrease in value	<p>Similarly, if you opt out of the scheme any increase in pay will not be result in a higher level of commutation.</p> <p>However, regardless of whether you stay in or opt out of the police pension your commutation sum is based on your age when you start drawing your pension.</p> <p><i>You receive £19 of tax free cash for every £1 of annual pension you commute. This gradually reduces from retirement age 50, down to £14 for every £1 of annual pension commuted at a starting age of 65.</i></p>
If you die before you retire your spouse/civil partner will receive a pension of 50% of your un-commuted pension. There is no option to draw a lump sum	<p>Action - <i>If you are in good health you should be able to insure your life for a sum equal to the amount of the commutation for a relatively small monthly premium.</i></p>

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