Police Federation
Of England and Wales

Ffederasiwn Heddlu
Lloegr a Chymru

FROM THE GENERAL SECRETARY'S OFFICE

IR/sg

17 February 2014

JBB CIRCULAR NO :   004/2014

To: The Chairman and Secretary
       All Branch Boards

Dear Colleagues,

PENSIONS' TAX RELIEF: THE ANNUAL ALLOWANCE

In March 2011 we issued a briefing note to JBBs on the changes to the Annual Allowance which came into effect from 6 April 2011.The purpose of this JBB Circular is to explain further changes to the Annual Allowance which will come into effect from 6 April 2014.

If members are considering making any financial decisions based upon this document we strongly recommend that they first seek independent financial advice on the current situation and on their individual circumstances.

Please be aware that this circular is intended to draw members' attention to the issue. It is not intended to be advice or guidance on a particular member's circumstances and it does not constitute financial advice.

Under the current taxation of pensions' regime:
- The Annual Allowance for 2013-14 is £50,000; and
- The Lifetime Allowance for 2013-14 is £1.5m.

However, from 6 April 2014:

- The Annual Allowance will reduce to £40,000; and
- The Lifetime Allowance will reduce to £1.25m.

IMPACT ON POLICE OFFICERS

As the Annual Allowance (AA) is being reduced from £50,000 to £40,000, more people will be liable for a tax charge. However, we do not consider that large numbers of the Federated Ranks will be affected by the tax implications of the reduced AA. It is likely that affected Federated Ranks' members will be those who are promoted or experience a similar significant increase in pensionable pay, and also have long pensionable service (and therefore have higher pension accrual rates eg, Police Pension Scheme 1987 Members who are double accruing). In addition, members who are at risk of breaching the AA are able to roll forward up to three years' of unused AA allowance to cover the shortfall. This is a helpful source of mitigating the AA charge, particularly when it is caused by a one-off event such as a promotion. See p3, *What happens if pension savings are above the AA?* for more information on this provision.

We would suggest that members who are promoted or experience a similar significant increase in pensionable pay (see p5, *Events which can affect the closing value*, for further details) and have long pensionable service should check their position as they may be liable for a tax charge.

It is anticipated that colleagues in the superintending and chief officer ranks will be more immediately affected by the changes to the AA.

Pensions' administrators should automatically inform members who breach the AA.

Please see Annex A for illustrative examples of how the reduced AA might affect members.

FREQUENTLY ASKED QUESTIONS
What is the Annual Allowance?

There is no limit on the amount that can be saved in a pension scheme, but there is a limit on the amount which receives tax relief each year. The Annual Allowance (AA) is the maximum amount of pension savings an individual can accrue each year that receives tax relief. The effect of the AA tax charge is to remove tax relief on any pension savings over the available AA.

Determining pensions savings for final salary schemes such as the PPS 1987 and the NPPS 2006 is more complex than just calculating the amount of contributions a member had paid. Pension savings in the PPS 1987 or NPPS 2006 is broadly determined by the increase in the value the pension over a specific period of time known as the Pension Input Period. For further details see p4, *How do I work out the value of my pension savings?*

The AA only applies to active benefits accrued during the relevant year. All deferred/frozen benefits accrued prior to this are not included in the AA test provided increases in deferment do not exceed certain limits – see p5, *Times when the AA will not apply*.

What is a Pension Input Period (PIP)?
The year in which the benefits earned are compared against the AA will be based on the scheme's current 'pension input period' (PIP), rather than the tax year. The PIP for Police Pension Scheme (PPS) 1987 members is 1 April – 31 March. The PIP for New Police Pension Scheme (NPPS) 2006 members is 6 April – 5 April.

As the AA will be reduced from £50,000 to £40,000 more people will be affected by it. Consequently, there is a need to measure benefit accrual over the correct period.

It is useful to note that the accrued pension used at the start of the PIP is increased by inflation. This means that accrued benefits are "inflation proofed". Assuming inflation is positive, this will reduce the increase in accrual and potentially the tax payable. The example given under *How do I work out the value of my pension savings?* on p4 shows how the accrued pension at the start of the PIP is inflation proofed.

Will the force's pensions' administrator let individuals know if they have breached the AA?
Members will automatically be informed by their pensions' administrator if they breach the AA so that they can report this on their Self Assessment tax return.

The scheme administrator will provide information on the pension input amount for the relevant Pension Input Period (PIP) (or the pension input amount for the PIPs ending in any of the three previous tax years), plus the AA for the tax year in which the relevant PIP ends. This will be provided in a 'pensions savings statement.'

If members don't receive a pensions savings statement they can still ask their pensions' administrator to provide them with the relevant information.

When will pensions savings be tested against the new AA of £40,000?
The AA reduces to £40,000 from 6 April 2014 onwards. It is pensions savings with Pension Input Periods (PIPs) ending on or after 6 April 2014 (when the change takes place) that are tested against the £40,000 AA. PIPs which end before 6 April 2014 will be tested against the £50,000 AA. This means that the PIP 1 April 2013 to 31 March 2014 (for the PPS 1987) and the PIP 6 April 2013 to 5 April 2014 (for the NPPS 2006) will be tested against the current AA of £50,000.

However, the PIP 1 April 2014 to 31 March 2015 (PPS 1987) and PIP 6 April 2014 to 5 April 2015 will be tested against the new AA of £40,000.

What happens if pension savings are above the AA?
Even if pension savings are more than £40,000 in a single year, members will not incur a charge if they haven't used their entire AA from the previous three years. The unused AA can be carried forward automatically – members don't need to make a claim to HMRC.

In addition, there are no changes to the carry forward rules as a result of the reduction of the AA to £40,000. This means that for the 2014-15 tax year members can carry forward up to £50,000 unused annual allowances from the tax years 2011-12, 2012-13 and 2013-14. For 2015-16 members can carry forward up to £50,000 unused annual allowances from 2012-13 and 2013-14 and £40,000 from 2014-15. And from 2016-17 members can carry forward up to £50,000 from 2013-14 and £40,000 from 2014-15 and 2015-16.

An illustration of the carrying forward of unused AA can be found in Annex A, Example 3.

If, after taking into account any unused AA from the past three years, a member still exceeds the AA they will be taxed on the amount above the AA. This will be at the member's marginal rate of income tax, e.g. if they earn enough to pay 40% tax, then this rate of tax will also apply to the value of the pension accrual in excess of the AA.

If a member is due to pay an AA charge they must complete a Self- Assessment tax return. A member who doesn't normally complete a Self- Assessment tax return will have to register with HMRC in order to complete one.

If a member can't get accurate details about their pensions savings figure they can estimate the amount on their tax return in the 'any other information' section and provide a date by which they expect to have the final figures. Members are able to amend their tax return, to include the final figures, if this is done within 12 months of submitting the original tax return. If the final figure is more than the estimate the member will have to pay any extra tax which is due and also pay interest on the late payment of that tax.

Individuals whose AA charges exceed £2,000 in any one year will be able to elect to meet the full value of the charge from their pension benefits. The pensions' administrator will pay the tax charge for the member and in return the member's pension will be reduced. This is commonly known as "scheme pays". For further information please contact your pensions' administrator.

How do individuals work out the value of their pension savings?
Some examples of how to work out the value of pensions savings are provided at Annex A.

Firstly, calculate the amount of the annual pension on the first date of the Pension Input Period (PIP). This is 1 April for PPS 1987 members and 6 April for NPPS 2006 members. Say, for example, that this comes to £12,000.

Next, multiply the annual amount of the pension by 16. This is the factor used to value pensions in defined benefit schemes, such as the police pension schemes i.e. £12,000 x16 = £192,000. Members of the NPPS 2006 will now also need to add the value of the separate lump sum to which they would be entitled upon retirement.

This whole amount is then increased by the 12 month increase in the CPI to the September before the start of the tax year for which the AA is being calculated. This ensures that accrued benefits are "inflation proofed" i.e. (assuming a CPI of 2.2%) £192,000 x1.022 = ***£196,224***

Then calculate the closing value at the end of the PIP (31 March for PPS 1987 members, 5 April for NPPS 2006 members). This is done by taking the amount of the pension on 31 March/5 April and multiplying it by the defined benefit factor of 16 e.g. £13,000 x16 = ***£208,000***. At this point NPPS 2006 members would also need to add the amount of the promised lump sum.

The increase in the value of the pension is therefore the value at the close of the PIP minus the value at the start of the PIP e.g. £208,000 - £196,224 = **£11,776**.

This figure is less than the current AA of £50,000 and the new AA value of £40,000. Therefore there will be no tax charge.

Please note that the AA applies to <u>all</u> registered pension arrangements a member participates in, not just their police pension.

Events which can affect the closing value
Some events can cause the closing value of benefits to be larger or smaller than usual. These include:
- Promotion;
- Transferring pensionable service into or out of a pension scheme;
- Ill health retirement other than retirement due to severe ill health (see next section);
- Having a pension debit or credit attached to benefits as a result of pension-sharing on divorce;
- Your pension benefits incurring a Lifetime Allowance (LTA) charge because, for instance, an individual took receipt of their pension and the value of this exceeded the LTA (see below).

Times when the AA will not apply
Aside from not breaching the AA, there are three other times where part or all of a member's pension savings will not count towards the AA for that tax year. These are:
- If the member dies;
- If the member retires due to severe ill-health. This can mean that a member has less than one year to live or that the member is not able to continue in their current job and is not likely to be able to do any type of gainful work, at any time up to State Pension Age, to the extent that it is significant. For more details on HMRC's definition of severe ill health please see the link below: http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm06105030.htm; or
- If the member is a deferred member whose benefits do not increase: i) beyond certain levels required by the pension scheme rules in force on 14 October 2010; or ii) beyond the increase in the Consumer Prices Index (CPI) over the twelve month period ending with a month that falls within the pension input period (the pension administrator will choose the month).

What is the Lifetime Allowance (LTA)?
There is a limit on the value of retirement benefits that can be drawn from approved pension schemes before tax penalties apply. The limit is called the Lifetime Allowance (LTA) and applies to all registered pension arrangements a member participates in, not just their police pension. The LTA is tested at certain key events[1], the main one being when an individual takes their pension benefits at retirement. A tax charge is payable on any excess over the LTA.

The LTA is currently £1.5m, but from 6 April 2014 it will reduce to £1.25m.

In order to work out the value of retirement benefits an individual multiplies the amount of their annual police pension on retirement (for instance, £25,000) by a defined benefit factor of 20 i.e. £25,000 x20 = £500,000. At this point NPPS 2006 members would also need to add the amount of their promised lump sum.

£500,000 is less than the current LTA of £1.5m and the new LTA of £1.25m. Therefore no tax charge is incurred.

This means that only PPS 1987 members whose annual pension benefits are £75,000 or more at retirement are currently affected by the LTA. For those who retire on or after 6 April 2014 this amount will reduce to £62,500. *These figures ignore any PPS 1987 commutation as different figures apply if commuting a PPS 1987 pension. Members in this situation should obtain independent financial advice on their individual situation.*

For the NPPS 2006 this means that members whose annual pension benefits (i.e. annual pension on retirement plus the amount of the promised lump sum) are £75,000 or more at retirement are currently affected by the LTA. For those who retire on or after 6 April 2014 this amount will reduce to £62,500.

The value of any pension savings above the allowance will be subject to a LTA charge. The charge is 55% if the benefits above the LTA are paid as a lump sum and 25% if they are paid from annual pension income.

For members who have already built up savings of more than £1.25m or have planned to do so, there is a new form of protection available called Fixed Protection 2014 (FP2014). There are time limits for applying for FP2014. Further details on this and other forms of protection can be found on the HMRC website:
http://www.hmrc.gov.uk/pensionschemes/fp2014guidance.pdf
http://www.hmrc.gov.uk/pensionschemes/pension-savings-la.htm#6

Additional Voluntary Contributions (AVCs)
Additional Voluntary Contributions (AVCs) are considered differently under the AA and the LTA. The AA doesn't include investment returns and therefore includes the value of the actual AVC when it is made. The LTA however does include investment returns and therefore includes the value of the AVCs at the point of benefit crystallisation.

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[1] For details of other events which must be tested against the Annual Allowance see:
http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM11102020.htm

How will the Annual Allowance provisions apply to the new Career Average Re-valued Earnings (CARE) police pension scheme?

In April 2015 the PPS 1987 and NPPS 2006 will close and be replaced by a CARE police pension scheme. Members of the PPS 1987 and the NPPS 2006 who are closest to retirement will receive transitional protection. Further information can be found on the PFEW and Home Office websites:

http://www.polfed.org/campaigning/Pensions.aspx
https://www.gov.uk/police-pension-reform

Pension benefits accrue differently in a CARE scheme compared with final salary schemes like the PPS 1987 or the NPPS 2006. We will issue information relating to how the Annual Allowance (AA) provisions apply to the police CARE scheme, and to members with service in both the PPS/NPPS and the CARE scheme, before April 2015.

FURTHER INFORMATION

HMRC's website contains a large amount of information about the Annual Allowance:

http://www.hmrc.gov.uk/pensionschemes/aa-ps.htm

Please note that this document does not constitute financial advice and is not intended as advice or guidance to be relied upon in any individual case. We would strongly recommend members seek independent financial advice on their own individual circumstances. The examples provided at Annex A are for illustrative purposes only.

Yours sincerely

IAN RENNIE
GENERAL SECRETARY

ABBREVIATIONS

AA	Annual Allowance
AVC	Additional Voluntary Contributions
CARE	Career Average-Revalued Earnings
CPI	Consumer Prices Index
CRTP	Competence-related Threshold Payment
FP	Fixed Protection
HMRC	Her Majesty's Revenue & Customs
HMT	Her Majesty's Treasury
HOC	Home Office Circular
LTA	Lifetime Allowance
MPS	Metropolitan Police Service
NPPS 2006	The New Police Pension Scheme, governed by the Police Pension Regulations 2006
PIP	Pension Input Period
PPS 1987	The older Police Pension Scheme, governed by the Police Pensions Regulations 1987

CALCULATING THE INCREASE IN THE VALUE OF PENSION SAVINGS

Please find below eight examples of how the reduction in the Annual Allowance (AA) might affect police officers of various ranks.

We do not consider that large numbers of the Federated Ranks will be affected by the tax implications of the reduced AA. It is likely that affected Federated Ranks' members will be those who are promoted or experience a similar significant increase in pensionable pay, and also have long pensionable service (and therefore have higher pension accrual rates e.g. PPS Members who are double accruing). In addition, members who are at risk of breaching the AA are able to roll forward up to three years' of unused AA allowance to cover the shortfall. This is a helpful source of mitigating the AA charge, particularly when caused by a one-off event such as a promotion. See p3 for more information on this provision.

Please note that these illustrations assume a CPI increase of 2.2% for revaluing benefits. (2.2% was the CPI figure for the year to September 2012.)

The Pensions Input Period (PIP) for PPS 1987 members is 1 April to 31 March. The PIP for NPPS 2006 members is 6 April to 5 April.

These illustrations relate to PIPs which end before 6 April 2014. Therefore the pensions increase during these PIPs would be measured against the current AA of £50,000. However, we have also measured them against the new AA of £40,000 to show what impact the reduction in the AA could have.

Example 1
In April 2013 the pensionable pay of a provincial constable with 6 years' service was £31,917. The officer has 6 years' pensionable service in the NPPS 2006, which equates to a pension of 6/70ths of final salary.

6/70 x £31,917   = an annual pension of £2,736

This amount is multiplied by the defined benefit factor of x16:
£2,736 x 16   = £43,776

The lump sum due would also need to be added to this amount:

£2,736 x 4   = lump sum of £10,944
£43,776 + £10,944   = £54,720

And then increased by CPI of 2.2%
£52,720 x1.022 (CPI)   = £55,924

By April 2014 the value of the officer's pension has grown due to a pay increase, incremental progression and longer pensionable service. The officer's pensionable pay is now £33,030 and s/he has 7 years' service, which equates to a pension of 7/70ths of final salary.

7/70 x £33,030   = an annual pension of £3,303

This is multiplied by the defined benefit factor of x16:
£3,303 x 16   = £52,848

Add the lump sum element of the pension:
£3,303 x 4   = £13,212
£52,848 + £13,212   = £66,060

The increase in the value of the pension is therefore:
£66,060 - £55,924   = **£10,136** which is below the current AA of £50,000 and the new AA of £40,000

Example 2

In April 2013 the pensionable pay of a top of scale constable in a provincial force and in receipt of CRTP was £37,419. The officer has 25 years' service in the PPS 1987 which equates to a pension of 30/60ths of final salary.

30/60ths x £37,419   = annual pension of £18,710

This amount is multiplied by the defined benefit factor of x16:
£18,710 x 16   = £299,360

And then increased by CPI of 2.2%
£299,360 x1.022 (CPI)   = £305,946

By March 2014 the value of the officer's pension has grown due to a pay increase and longer pensionable service. His/her pensionable pay is now £37,485 and s/he has 26 years' service, which equates to a pension of 32/60ths of final salary.

32/60ths x £37,485   = an annual pension of £19,992

This amount is multiplied by the defined benefit factor of x16:
£19,992 x 16   = £319,872

The increase in the value of the pension is therefore:
£319,872 – £305,946   = **£13,926**, which is below the current AA of £50,000 and would also be below the new AA of £40,000

Example 3
In April 2013 the pensionable pay of a top of scale constable in a provincial force and in receipt of CRTP is £37,419. The officer has 26 years' pensionable service in the PPS 1987, which equates to a pension of 32/60ths of final salary.

32/60 x £37,419 = an annual pension of £19,957

This amount is multiplied by the defined benefit factor of x16:
£19,957 x 16 = £319,312

And then increased by CPI of 2.2%
£319,312 x1.022 (CPI) = £326,337

By March 2014 the value of the officer's pension has grown due to a promotion to sergeant, a move to the MPS (which includes entitlement to London Weighting), the annual pay rise and longer pensionable service. The officer's pensionable pay is now £40,446 and s/he has 27 years' service, which equates to a pension of 34/60ths of final salary.

34/60 x £40,446 = an annual pension of £22,919

This is multiplied by the defined benefit factor of x16:
£22,919 x 16 = £366,704

The increase in the value of the pension is therefore:
£366,704 - £326,337 = £40,367 which is below the current AA of £50,000, but above the new AA of £40,000

In respect of breaching the new AA of £40,000; in this scenario, because it will be the first time the officer has breached the AA, s/he is likely to have unused AA from the last three years which could be carried forward to mitigate the charge.

Carrying forward unused AA: The member would need to use the current year's AA, followed by the unused AA from the previous three tax years, using the earliest tax year first. The member's pension savings for the previous three years are as follows:
2010-11: £24,500
2011-12: £11,500
2012-13: £4,500

The member can carry forward £109,500 unused AA to 2013-14 calculated as:

2010-11: £25,500 (i.e. £50,000 - £24,500)
2011-12: £38,500 (i.e. £50,000 - £11,500)
2012-13: £45,500 (i.e. £50,000 – £4,500)

So if the AA for 2013-14 had been £40,000 rather than £50,000, the officer would have breached the AA by £367, but they would have £40,000 plus £109,500 from the carried forward annual allowance (i.e. a total of £149,500) to mitigate the tax charge.

If there had been no carry-forward allowance and the member's marginal rate of tax is 40%, then the tax payable would have been £367 x 40% = £146.80.

Example 4

In April 2013 the pensionable pay of a top of scale sergeant in a provincial force and in receipt of CRTP was £41,940. The officer has 20 years' pensionable service in the PPS 1987, which equates to a pension of 20/60ths of final salary.

20/60 x £41,940   = an annual pension of £13,980

This amount is multiplied by the defined benefit factor of x16:
£13,980 x 16   = £223,680

And then increased by CPI of 2.2%
£223,680 x1.022 (CPI)   = £228,601

By March 2013 the value of the officer's pension has grown due to a promotion to Inspector, the annual pay rise and longer pensionable service. The officer's pensionable pay is now £47,256 and s/he has 21 years' service, which equates to a pension of 22/60ths of final saalry.

22/60 x £47,256   = an annual pension of £17,327

This is multiplied by the defined benefit factor of x16:
£17,327 x 16   = £277,232

The increase in the value of the pension is therefore:
£277,232 - £228,601   = **£48,631**, which is below the current AA of £50,000, but would be above the new AA of £40,000

In respect of breaching the new AA of £40,000; in this scenario, because it will be the first time the officer has breached the AA, s/he is likely to have unused AA from the last three years which could be carried forward to mitigate the charge. See Example 3 for details.

Example 5

In April 2013 the pensionable pay of a top of scale MPS chief inspector in receipt of CRTP was £59,107. The officer has 27 years' pensionable service in the PPS 1987, which equates to a pension of 34/60ths of final salary.

34/60 x £59,107   = an annual pension of £33,494

This amount is multiplied by the defined benefit factor of x16:
£33,494 x 16   = £535,904

And then increased by CPI of 2.2%
£535,904 x1.022 (CPI)   = £547,694

By March 2014 the value of the officer's pension has grown due to a pay increase and longer pensionable service. The chief inspector's pensionable pay is now £59,442 and s/he has 28 years' service, which equates to a pension of 36/60ths of final salary.

36/60 x £59,442   = an annual pension of £35,665

This is multiplied by the defined benefit factor of x16:
£35,665 x 16   = £570,640

The increase in the value of the pension is therefore
£570,640 - £547,694   = **£22,946**, which is below the current AA of £50,000 and below the new AA of £40,000

Example 6

In April 2013 the pensionable pay of a top of scale provincial chief inspector in receipt of CRTP was £54,819. The officer has 18 years' pensionable service in the PPS 1987, which equates to a pension of 18/60ths of final salary.

18/60 x £54,819   = an annual pension of £16,446

This amount is multiplied by the defined benefit factor of x16:
£16,446 x 16   = £263,136

And then increased by CPI of 2.2%
£263,136 x1.022 (CPI)   = £268,925

By March 2014 the value of the officer's pension has grown due to a promotion to Superintendent and longer pensionable service. The officer's pensionable pay is now £62,922 and s/he has 19 years' service, which equates to a pension of 19/60ths of final salary.

19/60 x £62,922   = an annual pension of £19,925

This is multiplied by the defined benefit factor of x16:
£19,925 x 16   = £318,800

The increase in the value of the pension is therefore:
£318,800 - £268,925   = **£49,875**, which is below the current AA of £50,000, but will be above the new AA of £40,000

In respect of breaching the new AA of £40,000; in this scenario, because it will be the first time the officer has breached the AA, s/he is likely to have unused AA from the last three years which could be carried forward to mitigate the charge. See Example 3 for details.

Example 7

In April 2013 the pensionable pay of a chief superintendent in the MPS on pay point 1 was £76,621. The officer has 21 years' pensionable service in the PPS 1987, which equates to a pension of 22/60ths of final salary.

22/60 x £76,621   = an annual pension of £28,094

This amount is multiplied by the defined benefit factor of x16:
£28,094 x 16   = £449,504

And then increased by CPI of 2.2%
£449,504 x1.022 (CPI)   = £459,393

By March 2014 the value of the officer's pension has grown due to a pay increase, incremental progression and longer pensionable service. The officer's pensionable pay is now £79,575 and s/he has 22 years' service, which equates to a pension of 24/60ths of final salary.

24/60 x £79,575   = an annual pension of £31,830

This is multiplied by the defined benefit factor of x16:
£31,830 x 16   = £509,280

The increase in the value of the pension is therefore:
£509,280 - £459,393   = **£49,887,** which is just below the current AA of £50,000 but would be above the new AA of £40,000

In respect of breaching the new AA of £40,000; in this scenario, because it will be the first time the officer has breached the AA, s/he is likely to have unused AA from the last three years which could be carried forward to mitigate the charge. See Example 3 for details.

Example 8

In April 2013 the pensionable pay of an assistant chief constable on pay point 1 was £90,726. The officer has 22 years' pensionable service in the PPS 1987, which equates to a pension of 24/60ths of final salary.

24/60 x £90,726   = an annual pension of £36,290

This amount is multiplied by the defined benefit factor of x16:
£36,290 x 16   = £580,640

And then increased by CPI of 2.2%
£580,640 x1.022 (CPI)   = £593,414

By March 2014 the value of the officer's pension has grown due to a pay increase, incremental progression and longer pensionable service. The officer's pensionable pay is now £94,692 and s/he has 23 years' service, which equates to a pension of 26/60ths of final salary.

26/60 x £94,692   = an annual pension of £41,033

This is multiplied by the defined benefit factor of x16:
£41,033 x 16   = £656,528

The increase in the value of the pension is therefore:
£656,528 - £593,414   = **£63,114** which is above the current AA of £50,000 and also the new AA of £40,000

If this officer has unused AA from the last three years he/she can carry it forward to the current tax year. If, after taking into account any unused AA from the past three years, the officer still exceeds the AA s/he will be taxed on the amount above the AA. See Example 3 for details.

Please note that there is a limit on the amount of salary that can count as the pensionable pay of a police officer who joined the PPS 1987 on or after 1 June 1989 (with certain exceptions – see HOC 2/2013[2]). This limit is called the 'earnings cap' and pension contributions are only paid on earnings up to the cap. The earnings cap is £123,600. We are aware that the Home Office intends to remove the earnings cap in future as it relates to an obsolete HMRC provision. The Home Office will bring to the Police Negotiating Board possible solutions for those cases where the earnings cap had been applied since 2011.

There is no earnings cap under the NPPS 2006.

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[2] https://www.gov.uk/government/publications/amendments-to-police-pension-scheme