Updated Q&A – July 2012

Final Agreement

What does today's announcement mean for civil servants?
The Government has taken the decision to move forward and implement the new 2015 scheme design and other related measures set out in the Proposed Final Agreement tabled on 9th March, subject to any issues that might arise from Equality Impact discussions. The majority of Civil Service unions have now completed consulting their membership on the proposals, and it has been concluded that there is sufficient trade union support to proceed.

Some trade unions are still balloting their members on workforce specific issues. The final arrangements for these staff will be confirmed in due course.

The final scheme design is similar to **nuvos**, which is the current defined benefit scheme that has been on offer to all staff starting since July 2007 (and which is also a career average scheme). The main points of the agreement, which will now be implemented are as follows:

i. A pension scheme design based on career average;

ii. An accrual rate of 2.32% (equivalent to (1/43.1) of pensionable earnings each year, a slight improvement on the position in **nuvos**;

iii. Average member contributions of 5.6%. This is slightly higher than the current contribution rate in **nuvos** of 3.5%, although this increased from April 2012; (see contributions section below)

iv. A Normal Pension Age (NPA) equal to State Pension Age (SPA), which applies both to active members and deferred members (for new scheme service only). If a member's SPA rises, then NPA will do so too for all post 2015 service. This is higher for many staff than the current NPA in **nuvos**, currently 65;

v. Revaluation of active members' benefits in line with CPI (any change in the method of indexation will be subject to consultation). This is the same as the current position in **nuvos**;

vi. Pensions in payment to increase in line with Prices (currently CPI). This is the same as the current position in **nuvos**;

vii. Benefits earned in deferment to increase in line with Prices (currently CPI). This is the same as the current position in **nuvos**;

viii. Optional lump sum commutation at a rate of 12:1, in accordance with HMRC limits and regulations. This is the same as the current position in **nuvos**;

ix. Spouses/Partner pension of three-eighths of pension. This is the same as the current position in **nuvos**;

x. Lump-sum on death in service of 2 times salary or 5 times the pension accrued in the scheme. This is the same as the current position in **nuvos**;

xi. Ill-health benefits in line with those in **nuvos**;

xii. Actuarially fair early/late retirement factors on a cost-neutral basis;

xiii. An employer contribution cap and floor to provide backstop protection to the taxpayer against unforeseen costs and risks (see Annex B). This floor will also allow for an improvement in member benefits if the value of the scheme falls beyond a fixed level;

xiv. Abatement will not apply for post-2015 service in the new scheme when members return from retirement. Abatement rules for the current schemes will continue to apply.

xv. Partial retirement rules for service in the new scheme will follow existing partial retirement rules. Members with service in both the existing and the new scheme will be able to apply for partial retirement under each scheme, under the limits that exist in current schemes.

xvi. Members will be able to take any pension they have accrued under their existing schemes, in the same way as now, without having to also take any new scheme pension at the same time, under the limits that exist in current schemes

xvii. For members wishing to retire before their State Pension Age, there will be an opportunity to pay additional contributions to fund earlier retirement of up to 3 years without an actuarial reduction. Contributions will ordinarily be payable by members, but individual employers will be able to choose to provide a contribution in very limited and exceptional circumstances, that must be approved by the Cabinet Office.

xviii. Existing Added Years contracts will continue in the new scheme. The additional service will apply to the current scheme;

xix. Added Pension arrangements will continue;

xx. Members who leave the new scheme and return within 5 years will have their deferred benefits increased as if they had been an active member; and

xxi. The Public Sector Transfer Club will continue, and consideration will be given to the best method of operation in the reformed schemes, following further discussion with Trade Unions.

Protection for those close to retirement: As announced on 2 November, for those members who, on 1 April 2012, have 10 years or less of their current Normal Pension Age will see no change to when they can retire, nor any reduction in the amount of pension they receive at their Normal Pension Age. This will be achieved by leaving such staff in their existing scheme up to and including the point at which they draw their pension and all scheme rules current in 2015 will apply.

Members of staff who are less than a further 3 and a half years outside this protected group, will be eligible for an additional degree of protection, in the form of further accrual in their existing scheme. This protection will be tapered in a linear fashion depending on their age on 1 April 2012. Details are in Annex A. Such staff will be offered the option, before April 2015, to forego this transitional protection and move straight into the new scheme from April 2015.

Has this changed from 9th March position?
No, there have been no further changes to the final agreement from the Proposed Final Agreement. However, this is subject to the outcome of the Equality Impact Assessment discussions. Further discussions will be required with the unions on implementation and more detailed aspects of design.

What are the other benefits of the scheme

- There is no automatic lump sum although pension can be surrendered in return for a lump sum payment, as in **nuvos and premium**;
- The other benefits are the same as are provided by **nuvos** – e.g. spouse/partner pension, lump sum on death, ill health benefits.

What is an accrual rate?
The accrual rate is the amount of pension you build up each year towards your pension. It is not the only element that determines the amount of pension you receive on retirement, but it is a major factor.

It is expressed as a proportion of your salary and allows you to work out the value of your pension when it is paid out.

In the new 2015 scheme the accrual rate is 2.32% (slightly better than that for **nuvos**).

For the 2015 career average scheme, this means that you will build up a pension of 2.32% of your pensionable earnings for each year you were a member of the pension scheme. Each of these annual pension elements will then be uprated (in line with the CPI while you remained in service, and in line with prices after you left

the scheme). The Civil Service already has a career average scheme, **nuvos**, and the way pensions are increased will be the same as currently applies in **nuvos**.

For example, if you earn £25,000, **one year's** membership of the new pension scheme will entitle you to:

2.32% x £25,000 = £580 of pension.

This will be increased each year by the rate of the CPI and will be payable every year from when you retire.

Your total pension from the new scheme will be calculated by adding up the individual pension entitlements you will earn from each year of membership in the new scheme.

Why are we moving from "final salary" to "career average"

Lord Hutton recommended that public service pensions are based on career average earnings rather than your final salary.

Career average schemes, such as **nuvos**, provide pensions that are more proportionate to what members put in. Final salary schemes, such as **classic**, provide better benefits to members with good salary progression, subsidised by lesser benefits to members with "flat" careers. Members with low and moderate earnings therefore tend to get better benefits from a career average scheme than from a final salary scheme with the same overall average cost.

If you are already in **nuvos**, the pension rights you have built up already have been on a career average basis.

Career average schemes: How do they work?

In a **final salary** scheme, your pension is typically worked out as a fraction of your final salary for each year of service. 'Final salary' is generally the highest paid level of your last few years. For instance,

If you are in **premium** you receive a pension calculated as 1/60th x salary x years.

If you are in **classic**, you receive a pension calculated as 1/80th x salary x years. On top of this you get a lump sum on retirement of 3 x your pension.

In a **career average** scheme, each year you build up a slice of pension based on your salary in that year. At the end of each year, the 'slice' is increased – typically either to reflect price or earnings increases. When you finally leave, your total pension is calculated by adding up the slices you have built up.

Access to Pensions

Does this mean I now have to retire at state pension age?
Civil Servants will be able to start to draw their pension upon leaving employment and reaching minimum pension age. Any pension accrued before the introduction of the new scheme will be payable in full from their current pension age, subject to scheme rules on drawing pensions (for example, most pensions are only payable once you stop working). Any pension earned in the new scheme will be payable in full from State Pension Age, but individuals will still have a choice about when to retire. For example, it is possible to retire earlier, and have your pension fairly adjusted to reflect the fact that it will be in payment for longer.

Can people buy more pension and retire earlier?
Yes, staff will be able to buy both added pension (fixed amounts payable each year) and enter into arrangements to be able to leave earlier without the pension they have earned to that point being reduced (although the earliest staff will be able to go without reduction will be 65).

Protection for those close to retirement

What does this mean for people nearing retirement?
As announced on 2 November, for those members who, on 1 April 2012, have 10 years of less to their current Normal Pension Age will see no change to when they can retire, nor any reduction in the amount of pension they receive at their Normal Pension Age. Such members of staff will remain members of their existing scheme up to and including the point at which they draw their pension and all scheme rules current in 2015 will apply.

If a member, who is protected, chooses to work beyond their normal pension age, they will continue to build up benefits in their current scheme, as per current scheme rules.

Members of staff who are less than a further 3 and a half years outside this protected group, will be eligible for an additional degree of protection, in the form of further accrual in their existing scheme. This protection will be tapered in a linear fashion depending on their age on 1 April 2012. More details are at Annex A.

It has been estimated that some 180,000 people will fall within the 10 year protection and around a further 70,000 will be within the taper arrangements.[1]This is a little over 40% of the workforce, based on the latest figures we have.

[1] These figures are approximate and are based on the latest figures for civil service membership and have been extrapolated to take account of those organisations that belong to the scheme under schedule 1 of the Superannuation Act.

Can those who are within 10 years of current pension age opt to move to the new 2015 scheme?
No, For individuals who are within the 10 year protection group, they may already have planned their retirement based on their current pension arrangements . There may be cases where somebody working beyond their Normal Pension Age may increase their benefits by moving to the 2015 new scheme . If this were allowed it would mean the benefits of the 2015 scheme would need to be reduced to meet this cost, thereby reducing the overall generosity of the new 2015 scheme going forwards. It is not considered fair to allow those who already receive generous benefits under current arrangements to increase their benefits at the expense of younger colleagues and the future workforce.

Employee's contributions in the new scheme

When will I know how much I will be paying from 2015?
The table below is the indicative proposal on member contributions:

Annual pensionable salary (full time equivalent basis)	Contribution rate (% of pensionable pay) before tax relief
Up to and including £21,000	4.6%
£21,001 - £45,000	5.45%
£45,001 - £149,999	7.35%
£150,000 and above	9.0%

This proposal will see the majority of staff pay less than the average of 5.6% and the highest paid will pay a larger proportion of their salary after tax. We will though need to revisit this proposal in 2014 to take into account the experience of the increases in 2012, 2013, 2014 as well as any changes in salary distribution and tax arrangements.

Is there any protection for the lowest paid?
Career average schemes provide a more equitable outcome in terms of the level of contributions made for pension received than in final salary schemes.

In addition, the proposed structure of the employee contribution rate means that the lowest paid staff pay proportionally lower contributions.

This new average rate of 5.6% is effectively a pay cut as a result of the announcement to limit pay rises to 1% of paybill.
This contribution rate will be the average for the workforce when the new scheme is introduced. We have set out above how this might be shared between staff. The

new scheme will not be introduced until 2015; no decisions on pay have yet been made for that year.

How can there be no change for those within 10 years of pension age if the contribution increases are to apply?
The Government offer is that such staff will see no increase in the age at which they will be able to draw their full pension, nor any decrease in the level of that pension. The offer did not extend to not being affected by the change in contributions, which have been introduced to rebalance the proportion of costs met by the employer (ultimately the taxpayer) and scheme membership.

Currently only the highest paid civil servants are due to pay more than 5%, isn't this a tax on civil servants?
No. Over the past years the employer has borne an increasing proportion of the costs for the pension. The increases in contributions and the longer term reform is intended to rebalance the level of payments between employee and employer (ultimately the taxpayer) to make civil service pensions affordable and sustainable in the long term.

The Government will review the impact of April's increases, including opt outs and equality before taking final decisions on how future increases will be delivered. Interested parties will have the opportunity to provide evidence and views to the Government.

Will there be further discussions with trade unions?
Yes, there will be further discussions on scheme implementation, the outcome of the Equality Impact Assessment and also the further planned increases in member contributions in 2013-14 and 2014-15.

The new scheme will cover the whole of the Civil Service and not differentiate between members of different unions (or those who are not union members at all).

What will happen next?

What time scales are there for implementation?
The Government intends to ensure that the new scheme is in place in time for service to start to accrue from April 2015.

Why should I remain a member of the Civil Service pension scheme?

- A Civil Service pension is still a very effective way to save for your retirement.

- The new scheme will keep a guaranteed level of pension – calculated as a fraction of your salary, not an uncertain amount based on investment returns.

- Your employer will still meet the bulk of the cost of providing your pension.

- Your pension scheme also still provides valuable benefits for you and your family such as ill-health pensions and payments after your death.

What will the introduction of the new scheme mean for me?

If on 1 April 2012, you have 10 years of less to your current pension age, you will see no change to when you can retire, nor any decrease in the amount of pension you receive at their Normal Pension Age.

If you are within a further 3.5 years outside this protected group, you will be eligible for an additional degree of protection, in the form of further accrual in your existing scheme. This protection will be tapered in a linear fashion depending on your age on 1 April 2012. See Annex A.

For those not within 10 years of their current pension age, your Civil Service pension will be in **two parts**:

- **Part 1** – **current scheme** - what you have earned in your current pension scheme to 2015
- **Part 2** – **new scheme** - what you earn in your new scheme pension after the changes come into force in 2015

You will still be able to retire and take Part 1 of your pension at the Normal Pension Age of your current scheme (60 for **classic**, **classic plus** and **premium**; 65 for **nuvos**) and, for final salary schemes, this will be calculated using your final pensionable salary at this date or the point at which you leave the Civil Service, not the date of the change (eg 2015). The age at which you could draw Part 2 (without any reduction for early payment) will be the same as your State Pension Age. It may be possible to take your pension earlier, but at a reduced rate.

Example

George is in **classic**. He is currently 45 and has 25 years service (in 2011). The New 2015 Scheme has a pension age equivalent to the State Pension Age. In 2015, when the New Scheme starts, George is 49 and has built up 29 years' service in **classic**.

In 2027 George decides to retire aged 61. He draws his **classic** pension, reflecting 29 years' service and his 'final salary' when he retires. George also has a New Scheme pension based on 12 years' service (from age 49 to age 61). George's New Scheme pension will be paid in full when he reaches his State Pension Age. Or, if the New Scheme rules allow, he could be able to draw his New Scheme pension immediately, but reduced to reflect the fact that he is claiming it early.

There is a calculator that will allow you to see a projection of the impact of the changes on your own circumstances.

Background

What is the Hutton Review?

In June 2010 the Government commissioned former Work and Pensions Secretary, Lord Hutton, to conduct an independent review into the long term future of public service pensions.

The review covered the pension schemes for the NHS, Armed Forces (officers and other ranks), Civil Service, Local Government, Firefighters, Police, Judiciary and Teachers.

In Budget 2011, the Government accepted Lord Hutton's recommendations as the basis for discussions with trade unions and others.

Why is the Government reforming Public Service Pensions?

The Government is working to make public service pensions fairer and more sustainable over the long term. Lord Hutton concluded that "current scheme designs are not sufficiently robust to ensure the sustainability of public service pensions", and that change is needed to "make public service pension schemes simpler and more transparent, and fairer to those on low and moderate earnings".

Final salary schemes mean that high fliers (ie. people who have been promoted several times over the course of their careers) receive almost twice as much pension for every £100 of their contributions than people on more modest salaries. It is not right that lower paid employees should subsidise the pension entitlement of senior staff. The Government is therefore proposing a "career average" scheme, where every year of your salary will count towards your pension, rather than just the last few years.

Why did Lord Hutton say that the current arrangements are unsustainable?

With better healthcare and improved lifestyles, many people can expect to spend as much as 40% of their adult life in retirement. People are also living longer - the average 60 year old is living ten years longer now than they did in the 70s.

This means public service pensions are costing more – £32bn in 2008-09, an increase of a third over the last decade which is more than we spend on police, prisons and the courts**.**

Because of the 'cap and share' arrangements introduced following pension reforms agreed with the Trade Unions in 2007, benefit changes and/or contribution increases were anticipated to be required from April 2012. HM Treasury estimated that £1bn of savings from cap and share would apply from April 2012 and scored these in the Pre Budget Report 2009.

Why did Lord Hutton believe that the current arrangements are unfair?
Lord Hutton considered that there needs to be a fairer balance between what employees contribute to their own pensions and what other taxpayers pay. If not, taxpayers will be paying for pensions they cannot possibly hope to receive themselves for generations to come.

The current final salary arrangements of most pension schemes also give more benefit, in relative terms, to those on higher salaries and those with better career progression. Schemes for the future should ensure that what pension members get out is a fairer reflection of what they have put in across their entire working career.

Who is affected?
The reforms proposed by Lord Hutton affect the NHS, Armed Forces (officers and other ranks), Civil Service, Local Government, Firefighters, Police, Judiciary and Teachers, although the Armed Forces are exempt from the increase in contributions. The MPs' scheme is not covered by Lord Hutton's reforms, but the Prime Minister has made clear that it should not be exempt from change.

What happens to the pension I have built up?
The pension and lump sum you have already earned, you will keep. Your benefits earned through past years of service - 'accrued rights' – will be protected. This means that your pension for your past service will be worked out on the same basis as now and will also keep the same pension age as now (60 for most civil servants). On top of this, the Government has confirmed that, for those in **classic**, **classic plus** and **premium**, the "final salary" link will continue for the years of service earned up to the date of change. Lord Hutton suggested introducing new schemes in 2015. Employees close to retirement now will therefore see little, if any, change to their pension as the bulk of their pension will be on the current terms, with only a small pension on the new terms.

Can I buy more pension and retire earlier?
Yes, staff will be able to buy both added pension (fixed amounts payable each year) and enter into arrangements to be able to leave earlier without the pension they have earned to that point being reduced (although the earliest staff will be able to go without reduction will be 65).

CASE STUDIES

Assumptions:

- Pension amounts are shown in terms of projected salary at retirement. This includes an allowance for career progression, but does not allow for any general pay increases.

- Future general pay increases are assumed to be 4.25 per cent a year. Price inflation as measured by the CPI is assumed to be 2 per cent a year.

- No allowance has been made for career breaks.

- Members who are currently in the **classic** section of PCSPS are assumed to exchange part of their post-2015 pension for a lump sum at a rate of 12:1, such that the total lump sum benefit payable is the same as it would have been if the scheme had not changed.

- The new scheme benefit calculations are based on the proposed scheme design (pension age equal to the State Pension Age, career average benefits with indexation in line with CPI, accrual rate of 2.32%).

Case Study 1: Carol

- 45 years old at 1 April 2015 (when the scheme changes)
- Member of the **classic** section of PCSPS
- 21 years' service as at 1 April 2015
- Earning £30,000 a year as at 1 April 2015
- State Pension Age is 67

What is the position for Carol before the pension reforms?

- **No change:** If the scheme didn't change she may get a pension of **£14,000** a year when she retires at age 60, plus a lump sum of **£42,000**.

What options are available to Carol after the pension reforms?

- **Work to 67:** If she decided to work to 67 she may increase her pension to **£19,416** a year, plus a lump sum of **£42,000**. These amounts include her **classic** service and her service in the new scheme. But working to this age is her choice.
- **Keep expected pension amount:** If Carol wanted to keep the pension amount expected before the scheme changed she may need to work to age **60 years and 11 months**.

IMPORTANT NOTE: All of the above illustrative pension figures are based on the assumptions set out above.

Case Study 2: Dave

- 33 years old at 1 April 2015 (when the scheme changes)
- Member of the **premium** section of PCSPS
- 10 years' service as at 1 April 2015
- Earning £22,000 a year as at 1 April 2015
- State Pension Age is 68

What is the position for Dave before the pension reforms?

- **No change:** If the scheme didn't change he may get a pension of **£16,437** a year when he retires at age 60.

What options are available to Dave after the pension reforms?

- **Work to 68:** If he decided to work to 68 he may increase his pension to **£19,278** a year. This amount includes his **premium** service and his service in the new scheme. But working to this age is his choice.
- **Keep expected pension amount:** If Dave wanted to keep the pension amount expected before the scheme changed he may need to work to age **65**.

IMPORTANT NOTE: All of the above illustrative pension figures are based on the assumptions set out above.

Case Study 3: Elizabeth

- 29 years old at 1 April 2015 (when the scheme changes)
- Member of the **nuvos** section of PCSPS
- Accrued pension of £3,000 a year as at 1 April 2015
- Earning £18,000 a year as at 1 April 2015
- State Pension Age is 68

What is the position for Elizabeth before the pension reforms?

- **No change:** If the scheme didn't change she may get a pension of **£13,874** a year when she retires at age 65.

What options are available to Elizabeth after the pension reforms?

- **Work to 68:** If she decided to work to 68 she may increase her pension to **£14,839** a year. This amount includes her **nuvos** service and her service in the new scheme. But working to this age is her choice.

- **Keep expected pension amount:** If Elizabeth wanted to keep the pension amount expected before the scheme changed she may need to work to age **66 years and 11 months**.

IMPORTANT NOTE: All of the above illustrative pension figures are based on the assumptions set out above.

Short term reforms

What are the short term changes?

The Government has already changed the measure of inflation used to revalue and index pensions from the retail price index (RPI) to the consumer price index (CPI). The Government has increased employee contributions for 2012-13, and further increases will be made in 2013-14 and 2014-15. Details of the structure of these increases will be confirmed following further union discussions, including reviewing opt-outs.

RPI to CPI changes

The June Budget announced that from April 2011 the indexation of benefits, tax credits and the State Second Pension will be based on the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI). This change will also apply to public service pensions through the statutory link to the indexation of the additional pensions in long-term benefits. This link has been in place since 1979.

The Government considers that CPI, already used to set the inflation target for the Bank of England, is the appropriate index to use going forward, and will provide protection against inflation. Unlike the RPI, the way the index is constructed is designed to take account of the fact that consumers will tend to 'shop around', switching to cheaper alternatives when relative prices for similar goods change.
CPI measures the change in the cost of a basket of products and services including energy, food and transportation. The CPI includes rent and regular maintenance but does not include all housing costs.

In September 2010 (used to uprate pensions in April 2011), CPI was 3.1%, while RPI was 4.6%. The next inflation figures will be released in 18 October 2011.

Increasing employee contributions

Cabinet Office consulted on the preferred approach to the implementation of additional employee pension contributions from April 2012[2]. On 16 December 2011 we set out the response to this consultation and the decision on the approach to be taken. There is a calculator that can help you assess the impact of Cabinet Office's announcement on your monthly take-home pay at www.civilservice.gov.uk

What happens between the contribution increases in April 2012, and the new scheme expected to be introduced in 2015?

Further increases to employee contributions are expected to be needed to deliver the savings that each scheme has been asked to make of the Spending Review period. We don't yet know what the further increases in 2013/14 and 2014/15 might be structured, but after the full three years, the average increase will be 3.2% of pay. Some will see a larger rise than this and others will see a smaller rise.

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[2] The consultation document can be found at www.civilservice.gov.uk.

Annex A: Additional Tapering for Transitional Protection

1. Scheme members in **classic** and **premium** who on 1 April 2012 are between 46 years and 6 months and 50 (or who are in **nuvos** and aged between 51 years and 6 months and 55) will have a choice to continue to accrue additional pension in their existing schemes, on a tapered basis. They will accrue for two months in their existing schemes for every month they are older than 46 years and 6 months (51 years and 6 months for **nuvos**), as set out in the table below.

2. Staff in this 'tapering group' will be able to take their "Part 1" pension at their current Normal Pension Age, including any additional accrual they build up post 2015. If they remained an active member after the transitional protection has ended, they will then begin to accrue "Part 2" pension in the new scheme, which will become payable in full from the NPA of the new scheme (or taken early with an actuarial reduction).

<u>Tapering - **classic** and **premium**</u>

Age at 1 Apr 2012			Age at 1 Apr 2015			Months of protection		Age at end of protection			Date of end of protection
year	month		year	month				year	month		
49	11		52	11		82		59	9		Feb-22
49	10		52	10		80		59	6		Dec-21
49	9		52	9		78		59	3		Oct-21
49	8		52	8		76		59	0		Aug-21
49	7		52	7		74		58	9		Jun-21
49	6		52	6		72		58	6		Apr-21
49	5		52	5		70		58	3		Feb-21
49	4		52	4		68		58	0		Dec-20
49	3		52	3		66		57	9		Oct-20
49	2		52	2		64		57	6		Aug-20
49	1		52	1		62		57	3		Jun-20
49	0		52	0		60		57	0		Apr-20
48	11		51	11		58		56	9		Feb-20
48	10		51	10		56		56	6		Dec-19
48	9		51	9		54		56	3		Oct-19
48	8		51	8		52		56	0		Aug-19
48	7		51	7		50		55	9		Jun-19
48	6		51	6		48		55	6		Apr-19
48	5		51	5		46		55	3		Feb-19
48	4		51	4		44		55	0		Dec-18
48	3		51	3		42		54	9		Oct-18

48	2		51	2		40		54	6		Aug-18
48	1		51	1		38		54	3		Jun-18
48	0		51	0		36		54	0		Apr-18
47	11		50	11		34		53	9		Feb-18
47	10		50	10		32		53	6		Dec-17
47	9		50	9		30		53	3		Oct-17
47	8		50	8		28		53	0		Aug-17
47	7		50	7		26		52	9		Jun-17
47	6		50	6		24		52	6		Apr-17
47	5		50	5		22		52	3		Feb-17
47	4		50	4		20		52	0		Dec-16
47	3		50	3		18		51	9		Oct-16
47	2		50	2		16		51	6		Aug-16
47	1		50	1		14		51	3		Jun-16
47	0		50	0		12		51	0		Apr-16
46	11		49	11		10		50	9		Feb-16
46	10		49	10		8		50	6		Dec-15
46	9		49	9		6		50	3		Oct-15
46	8		49	8		4		50	0		Aug-15
46	7		49	7		2		49	9		Jun-15
46	6		49	6		0		49	6		Apr-15

Tapering – **nuvos**

Age at 1 Apr 2012			Age at 1 Apr 2015			Months of protection		Age at end of protection			Date of end of protection
year	month		year	month				year	month		
54	11		57	11		82		64	9		Feb-22
54	10		57	10		80		64	6		Dec-21
54	9		57	9		78		64	3		Oct-21
54	8		57	8		76		64	0		Aug-21
54	7		57	7		74		63	9		Jun-21
54	6		57	6		72		63	6		Apr-21
54	5		57	5		70		63	3		Feb-21
54	4		57	4		68		63	0		Dec-20
54	3		57	3		66		62	9		Oct-20
54	2		57	2		64		62	6		Aug-20
54	1		57	1		62		62	3		Jun-20
54	0		57	0		60		62	0		Apr-20
53	11		56	11		58		61	9		Feb-20
53	10		56	10		56		61	6		Dec-19

53	9		56	9		54		61	3		Oct-19
53	8		56	8		52		61	0		Aug-19
53	7		56	7		50		60	9		Jun-19
53	6		56	6		48		60	6		Apr-19
53	5		56	5		46		60	3		Feb-19
53	4		56	4		44		60	0		Dec-18
53	3		56	3		42		59	9		Oct-18
53	2		56	2		40		59	6		Aug-18
53	1		56	1		38		59	3		Jun-18
53	0		56	0		36		59	0		Apr-18
52	11		55	11		34		58	9		Feb-18
52	10		55	10		32		58	6		Dec-17
52	9		55	9		30		58	3		Oct-17
52	8		55	8		28		58	0		Aug-17
52	7		55	7		26		57	9		Jun-17
52	6		55	6		24		57	6		Apr-17
52	5		55	5		22		57	3		Feb-17
52	4		55	4		20		57	0		Dec-16
52	3		55	3		18		56	9		Oct-16
52	2		55	2		16		56	6		Aug-16
52	1		55	1		14		56	3		Jun-16
52	0		55	0		12		56	0		Apr-16
51	11		54	11		10		55	9		Feb-16
51	10		54	10		8		55	6		Dec-15
51	9		54	9		6		55	3		Oct-15
51	8		54	8		4		55	0		Aug-15
51	7		54	7		2		54	9		Jun-15
51	6		54	6		0		54	6		Apr-15

ANNEX B: Employer cost cap and 25 year guarantee

Employer Cost Cap

1. As recommended by Lord Hutton, the Government proposes to introduce an employer cost cap. This would provide backstop protection for the taxpayer, protecting them from highly exceptional and unanticipated events which very significantly increase scheme costs. Accordingly, the Government believes this cap is highly unlikely to bite in the next 25 years.

2. The Government intends that only changes to scheme costs due to 'member costs', such as a dramatic change in longevity and as defined by previous cap and share arrangements, would be controlled by the cap. The employer cost cap will be symmetrical so that, if there are reductions in member costs such that the cost falls below a 'floor', the savings would go back into the scheme to the benefit of members, such as by improving members' benefits or reducing member contribution rates.

3. The employer cost cap will be set following a full actuarial valuation. The cap will be set at 2% above, and the floor set 2% below, the employer contribution rates calculated ahead of the introduction of the new scheme in 2015 and will be calculated on the basis that all members with transitional protection are in the new scheme. Caps will not be based on cost ceilings, but on the full actuarial valuation.

4. Detailed guidance will be developed based on the guidance that was produced for the cap and share arrangements; it will require adjustment to take account of the introduction of a cost floor which was not part of the cap and share arrangements.

5. The start of the process will be an actuarial valuation of the Civil Service pension scheme that will determine the cost of the scheme based on actuarial assumptions determined by the Minister, with input from the Scheme Actuary, the Treasury and the Governance Group.

6. At subsequent actuarial valuations, the actuary must produce a report that sets out the overall scheme cost and a statement on the movement in scheme costs since that first valuation. For the purposes of the cost cap and floor, only those scheme costs that are attributed to member costs will have an effect – for example, greatly improved life expectancy, changes in careers paths, age and gender mix.

7. In the previous cap and share regulations different cost categories were identified. The equivalent for the purposes of the cap and floor would be:

- Those costs that fall within the cap and floor; and
- Those that fall without the cap and floor.

8. As with cap and share, the employer will be responsible for any movement in scheme costs that the scheme actuary has listed in the statement of movement in scheme costs in the following categories:

a. changes to scheme administration costs;

b. changes to financial assumptions, such as a change in the discount rate;

c. changes to actuarial methodology; and

d. the effect of overpayments by employers.

9. This means that none of the above will have an effect on the cap and floor.

10. The changes in costs will be allocated in accordance with the principles set out above. As now, if there has been a change in the costs that fall to the scheme membership which have the effect of either increasing costs or reducing costs and the difference between the employer contribution rate at first valuation is greater than 2%, then the Governance Group will be invited to put forward proposals for handling the cost pressure/cost reduction, and there will be further discussion with the Trade Unions. Options may vary, but might include:

    a. Benefit design; and

    b. Member contribution rates.

11. If a decision cannot be reached about how rising or falling costs should be taken into account, then an automatic default will apply and the accrual rate will be adjusted accordingly.

12. Government has not yet determined further detail on the operation of the policy of the cost cap, such as whether any adjustment would be intended to return scheme costs back to their original 2015 level, or to another level. The development of this detail will be carried out following further discussion with Trades Unions in due course.

13. The timing of the first valuation will be subject to further consideration and discussion with the Trade Unions.

<u>25 year Guarantee</u>

14. The Chief Secretary set out to Parliament on 2 November 2011 an offer on public service pensions that is fair and sustainable, and one that can endure for 25 years. This means that no changes to scheme design, benefits or contribution rates should be necessary for 25 years outside of the processes agreed for the cost cap. To give substance to this, the Government intends to include provisions on the face of the forthcoming Public Service Pensions Bill to ensure a high bar is set for future Governments to change the design of the

schemes. The Chief Secretary will also give a commitment to Parliament of no more reform for 25 years.