MODEL LETTER FOR HR DIRECTORS TO SEND TO STAFF COVERED BY THE CIVIL SERVICE PENSION SCHEME

YOUR CIVIL SERVICE PENSION AND THE PRE-BUDGET REPORT

Some media coverage of the Chancellor's recent pre-Budget report has mentioned cuts to public service pensions. This is not correct. Cabinet Office has asked me to write to you to explain what the Chancellor said and what it means for your pension arrangements.

The Chancellor said: *"… by 2012 contributions by the state to public service pensions for teachers, local government, NHS and the civil service will be capped – saving around £1bn a year. Public sector workers will make a greater contribution to the increasing value of pensions, with those earning over £100,000 paying more."*

Cost-sharing and capping – from April 2012

When we reformed the Civil Service pension arrangements recently we included a commitment to share future increases (and decreases) in scheme costs between active scheme members and their employers and to cap the average employer contribution at 20% of pay (it is currently 18.9%). Cabinet Office told you about this in Pension Reform Newsletter 4, issued in October 2008 and available at http://www.civilservice.gov.uk/Assets/EPN229_reform_newsletter_tcm6-5345.pdf

The next valuation of the Civil Service pension scheme will look at the state of the scheme at 31 March 2010. We don't know what the valuation will show but, as life expectancy is continuing to improve and we are paying pensions for longer, it is more likely than not that costs will increase – this is the assumption that the Chancellor made in his speech. If that turns out to be the case then the cost increase will be shared between employers and employees. The example below shows how this would work:

<u>Example</u> Suppose that the 2010 valuation shows that Civil Service pension scheme costs have increased by 1% of pensionable pay. This increase would be shared 50:50 and employer contributions would rise from an average of 18.9% of pay to 19.4% of pay. Cabinet Office would consider options for handling the 0.5% that needs to be paid for by employees. This could be dealt with by increasing member contributions and/or by changing the benefit structure for future service.

Any changes will take effect from April 2012, following consultation with the trades unions.

Senior staff to pay higher pension contributions – from April 2012

The Government has made a policy statement that, when implementing cost-sharing and capping, public service schemes should require senior staff to pay a higher level of contribution than other scheme members. For the Civil Service scheme, our timetable means that any increased contributions would apply from April 2012.

Separately, and following up its announcement in Budget 2009, the Government has launched a consultation on options for restricting pensions tax relief from April 2011 for anyone (not just public servants) with an income of over £130,000 a year. Cabinet Office will provide senior staff with further information shortly.

Conclusion and Next Steps

The Chancellor's statement confirms the Government's commitment to our pension arrangements and reiterates existing policy that the schemes have to be both affordable now and sustainable in the future.

Cabinet Office will keep members and the Civil Service trades unions informed about the outcome of the scheme valuation. In practice, discussions about the impact of the valuation are likely to take place during 2011, with the final position being clear by December 2011.

If you have any queries about anything in this letter, please contact **[your HR contact]**

[HR DIRECTOR]