

# **Reforms to the Civil Service Pension Scheme**

Update: February 2012



# Purpose of this pack

- To update scheme members on latest position on reforms to Civil Service pension arrangements.
- This covers both the increases to contributions that will begin to take effect from April 2012 and the new pension scheme to be introduced in 2015.



# Back to basics – the main Civil Service schemes at the moment

- Around 60% of staff are in **classic** (Final Salary; Pension Age 60; this closed to new staff in 2002).
- Around 25% of staff are in **premium** (Final Salary; Pension Age 60; this closed to new staff in 2007).
- Around 15% of staff are in **nuvos** (Career Average; Pension Age 65; this is the current open scheme but will close in 2015).
- The smaller **classic plus** scheme will be affected by these reforms, those in the **partnership** scheme will not.



# Back to basics – how the main schemes work

You receive an annual pension and optional cash lump (automatic in **classic**) when you retire based on:



**Your  
pay**



**How long you  
have been in the  
scheme\***



**Pension  
accrual rates**



# Back to basics - **classic** pension examples



$$\times 18 \times 1/80 =$$



pension plus



$$\times 18 \times 3/80 =$$



lump sum



# Back to basics – **premium** scheme example

$$\text{£}25,000 \times 18 \times 1/60 =$$



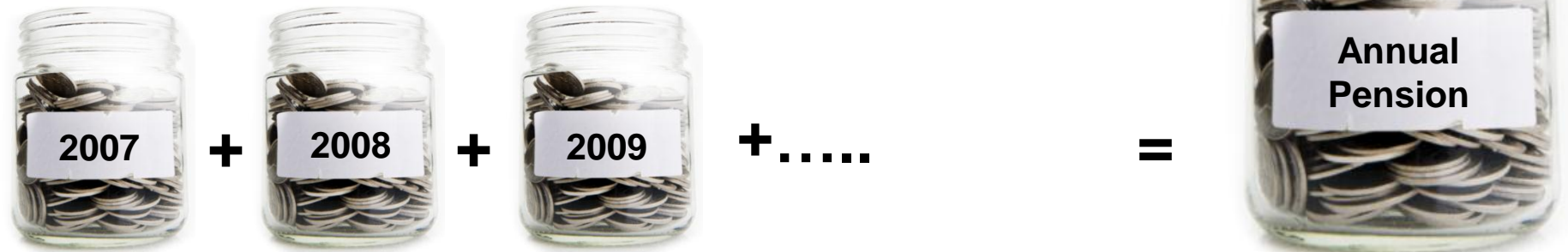
- It is possible to convert some of this pension into a tax free lump sum at a rate of 12:1.



# Back to basics – **nuvos**

- Career average pension scheme:
  - Annual pension calculated each year you are a member:

1. Pay each year x 2.3% (equivalent to 1/43)
2. Increased in line with CPI to retirement
3. Add each year's total to get annual pension



# What are the changes?

- Each of the main public service pension schemes will increase member contributions by an average of 3.2 percentage points over three years, starting from 1 April 2012.
- The increase from April 2012 will be average 1.3 percentage points, depending on your salary (see details below).
- There will be further increases from April 2013 and April 2014, subject to consultation.
- In April 2015 a new pension scheme will be introduced.





# Why are the changes taking place?

- In the 2011 Budget the Government accepted the recommendations from Lord Hutton's independent review of public service pension schemes.
- Lord Hutton highlighted the fact that people are living longer – the average 60 year old is living ten years longer now than they did in the 1970s, when the **classic** scheme was designed.
- He also highlighted that in the past, improvements to life expectancy had been mostly paid for by taxpayers as a whole rather than scheme members, and there was a case for rebalancing contributions in the short term.



# classic - contribution increase from 1 April 2012

- Those who are members of the **classic** scheme will contribute at these rates:

Full time pay range	Current classic contribution rate	Contribution rate 2012	Additional percentage point contribution rate 2012 (net of tax relief, where applicable)
Up to £15,000pa	1.5%	1.5%	0
£15,001 - £21,000	1.5%	2.1%	0.48
£21,001 - £30,000	1.5%	2.7%	0.96
£30,001 - £50,000	1.5%	3.1%	1.28 / 0.96 as a result of higher rate tax relief
£50,001 - £60,000	1.5%	3.5%	1.20
Over £60,000	1.5%	3.9%	1.44



# premium, nuvos and classic plus - contribution increase from 1 April 2012

- Members of the premium, classic plus and nuvos schemes will pay contributions at these rates:

Full time pay range	Current premium, nuvos and classic plus contributions	Contribution rate 2012	Additional percentage point contribution rate 2012 (net of tax relief, where applicable)
Up to £15,000pa	3.5%	3.5%	0
£15,001 - £21,000	3.5%	4.1%	0.48
£21,001 - £30,000	3.5%	4.7%	0.96
£30,001 - £50,000	3.5%	5.1%	1.28 / 0.96 as a result of higher rate tax relief
£50,001 - £60,000	3.5%	5.5%	1.20
Over £60,000	3.5%	5.9%	1.44



# What's happening from 1 April 2015?

- There will be a new scheme for most staff for their service post-2015. Discussions on key design features have been settled, but the final details are subject to change following further discussions with Trade Unions.
- Members within 10 years of their current scheme pension age on 1 April 2012 will be able to remain in their current scheme until they retire (though they will pay the higher contributions).
- Those just outside this (a further 3½ years from 1 April 2012) will be able to remain in their current scheme for a further amount of time that will depend on their age.
- Everyone will keep their service in their existing schemes up to April 2015 and this will become payable at their current pension age.



# What will the new scheme look like?

- The pension will be based on your average salary from 2015 onwards (not when you joined the Civil Service).
- It will be modelled on the existing career average scheme we have in the Civil Service – **nuvos**.
- The pension age of the scheme will be equal to your own individual State Pension Age (65 to 68, depending on when you were born).
- The average member contribution will be around 5.6%. Employers will still meet the bulk of the cost of your civil service pension.



# How does the new scheme compare with the existing ones?

- The Government is asking public service workers to contribute more into their schemes and to wait a bit longer before their pension benefits become payable in full.
- However, Lord Hutton concluded that career average schemes are fairer to staff with more modest salary growth.
- The Government has protected those closest to retirement from any reduction in their benefits, and most low and middle income earners working a full career will receive pension benefits at least as good, if not better, than they get now.



# What happens next?

## Contribution Increases 2012, 2013, 2014

- Member contributions will increase from 1 April 2012.
- There will be further increases from 1 April 2013 and 1 April 2014, following further consultation.

## The new pension scheme from 2015

- Discussions with Trade Unions are continuing on the remaining details of the new scheme.
- Once discussions have concluded further communications will follow, explaining more details of the changes.



# Ongoing benefits of the Civil Service pension scheme

- A Civil Service pension will remain a very effective way to save for your retirement and the benefits will remain far greater than those on offer from most other employers.
- Your Civil Service pension will continue to be a guaranteed amount – 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 your Civil Service pension.
- Your pension scheme provides valuable additional benefits for you and your family including death in service payments and dependants' pensions.





# Find out more

- Civil Service Pensions Reform Page-  
[www.civilservice.gov.uk/pensions/reform](http://www.civilservice.gov.uk/pensions/reform)
- Lord Hutton's Independent Review –  
[www.hm-treasury.gov.uk/indreview\\_johnhutton\\_pensions.htm](http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm)
- 2012 employee contributions increase information and calculator –  
[www.civilservice.gov.uk/pensions/reform/governments-response-contribution-consultation](http://www.civilservice.gov.uk/pensions/reform/governments-response-contribution-consultation)

