Principal Civil Service Pension Scheme

Consultation on proposed increases to employee contribution rates effective from April 2013

November 2012
Civil Service Pension Reform

Introduction

1. This consultation covers the second year of the planned increases in employee pension contributions. The increases covered by this consultation will take effect from April 2013. We will undertake a third consultation during 2013, in light of the accumulated data on staff opting out of the scheme, on the increases to apply from April 2014.

2. This consultation does not cover the reforms to the pension scheme to take effect from April 2015.

The case for increasing contributions

3. The case for increasing employee contributions was set out last year in the consultation on the contribution increases that took effect from April 2012. This case also applies to the further increases to take effect from April 2013.

4. Annual expenditure on public service pensions over the last decade has increased by a third, to £32bn. Lord Hutton’s Independent Public Service Pensions Commission was invited to consider the case for delivering savings on public service pensions within the spending review period.

5. Lord Hutton outlined in his report the strong case for changing public sector pensions. In particular, people are living much longer than previous generations – the average 60 year old is living ten years longer now than they did in the 1970s. More of people’s lives are now being spent in retirement – between 40 to 45% of adult life compared with around 30% for pensioners in the 1950s.

6. This means pensions are costing more and as Lord Hutton said in his report, “these costs have generally fallen to the taxpayer”. But taxpayers can’t be expected to bear all the cost of increased longevity. It is unfair to expect the private sector to work longer and pay higher taxes so that the public sector can retire earlier and receive disproportionately better pensions.

7. In Chapter 8 of their interim report, Lord Hutton’s Commission considered different options for delivering savings, including reducing the level of benefits being paid out and/or increasing the contributions being paid by active scheme members. The Commission reached the conclusion that, “If the Government wishes to make savings in the short-term it will be more effective to increase member contributions rather than alter the benefit structure”.

8. These increases are needed for there to be a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension. Employers of members of the Civil Service pension scheme continue to make pension contributions averaging just under 19% of pay, while scheme members now contribute between 1.5% and 5.9% of pay, depending on their scheme and salary.

9. The Government’s proposal to increase contributions is based on this analysis and the clear rationale set out in the Commission’s interim report published in October 2010. A copy is available via the HM Treasury website at: www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

1 “Principal Civil Service Pension Scheme: Consultation on proposed increases to employee contribution rates effective from April 2012, 28 July 2011”
10. The Government therefore announced in the 2010 Spending Review that public sector workers would be asked to contribute more for their pensions. In particular, the Spending Review set out plans for savings of £2.8bn per year to be realised by 2014-15. To deliver these savings the Civil Service pension scheme, like other public service schemes, should deliver savings equivalent to an average increase of 3.2 percentage points in employee contributions by 2014-15. The first stage of this was achieved from April 2012 though an average increase in employee contributions of 1.28% of salary.

This consultation concerns proposed increases relating to 2013-14 only.

11. In the Chief Secretary’s Written Ministerial Statement published on the 19th July 2011, the Government set out its preferred parameters for scheme design to achieve these savings as:

- Those earning less than £15,000 (full-time equivalent rate) will pay nothing extra;
- Those earning up to £21,000 (full-time equivalent) will pay no more than 0.6% of pay extra in 2012-13 (and no more than 1.5% of pay extra in total by 2014-15);
- Higher earners will pay extra, but no more than 2.4% of pay in 2012-13 (and no more than 6% of pay extra in total by 2014-15).

12. These principles reflect the Government’s wish to protect the lower paid; apply the increases progressively; and, limit opt outs from the pension schemes.

13. A copy of the Chief Secretary’s Statement can be found at: www.hm-treasury.gov.uk/d/wms_pensions_190711.pdf

Our preferred approach for the Civil Service Scheme

14. For the Civil Service scheme, the Government’s preferred approach remains consistent with that adopted in April 2012. We therefore propose to continue with the following principles:

a) An individual’s additional contribution rate will be determined by their annual full-time equivalent amount of pensionable earnings. This ensures that all staff will continue to have the same hourly rate of pay on both a gross and net of pension contribution basis;

b) The additional contribution rate for an individual will apply to all of their pensionable earnings

Example:
Bob has base pay of £25,000 a year and he receives pensionable allowances of £3,000 a year. Bob will pay additional contributions appropriate to the band for £28,000.
Jayne works part-time – 3 days a week. Her actual salary is £12,000. Jayne will pay additional contributions on £12,000 but at the rate which applies to a salary of £20,000 (Jayne’s full-time equivalent rate)
Tony has base pay of £17,500 and earns a further £4,000 in overtime. As overtime is not pensionable, Tony will pay additional contributions on his base pay and set at the rate which applies to a salary of £17,500.

c) An individual’s additional contribution rate will usually be fixed for the full financial year
To ensure that the system is understandable and does not give rise to unduly perverse outcomes, the additional contribution rate applicable to an individual will usually be fixed throughout the year\(^2\), determined by the position (full-time pay plus pensionable allowances that go with the post) as at 31 March immediately preceding the year in question. The rate will be re-assessed during the year only in the following circumstances:

- Change to the full-time equivalent pay rate other than as a result of the annual pay review process. So, for example, the contribution rate would be re-assessed on promotion, but not on receipt of a short-term pensionable allowance (expected to last for no more than six months)

- Change to permanent pensionable allowance(s) – except where the rate of an allowance is changed on a blanket basis across the workforce

**Example**

Barbara works part-time. Her full-time rate of pay is £20,000pa. In September Barbara is promoted to a post paying £22,000pa (full-time rate). For the period from April until her promotion, Barbara will pay extra pension contributions at the rate applicable to a salary of £20,000. From the date of her promotion, Barbara will pay extra pension contributions at the rate applicable to pay of £22,000.

d) The additional pension contributions will apply only where an individual is accruing benefits – so will not apply where someone has reached maximum accrual. Maximum accrual is 45 years’ reckonable service in **classic**, **premium** and **classic plus** and a pension of 75% of pay in **nuvos**.

**Example**

Edward is aged 64 and has already built up 45 years of reckonable service in **classic**. Edward cannot build up any more pensionable service and he will not pay the additional pension contributions.

e) Pre-Fresh Start prison officers and other individuals with accelerated rates of pension accrual will pay additional contributions on their pensionable pay in the same way as colleagues building up standard benefits.

f) Additional contributions will apply to scheme benefits in general and will only be refundable in circumstances where benefits are given up in exchange for a short-service refund. Individuals in the **classic** section, who are neither married nor in a civil partnership both on leaving the scheme and at the time of retirement, currently receive a partial refund of their contributions; this is because these contributions are intended to provide benefits for survivors. The additional contributions are intended to reflect the extra costs associated with pensions generally, and will not be refunded in this way. The additional contributions made by members of **classic** will be refundable only in the same circumstances as apply in **premium** and **nuvos** – that is, where individuals leave the scheme with insufficient service to qualify for a pension (generally 2 years).

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\(^2\) “Year” means financial year starting in April
Our preferred approach for the Civil Service Scheme – additional contribution rates

15. Consistent with the principles set out above, we propose the following structure for the increase in pension contributions – these would all be on top of the rates being paid by members since April 2012.

<table>
<thead>
<tr>
<th>Full-time pay range</th>
<th>Proposed additional rate for 2013-14</th>
<th>Proposed total increase since April 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £15,000pa</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>£15,001 - £21,000</td>
<td>0.6%</td>
<td>1.2%</td>
</tr>
<tr>
<td>£21,001 - £30,000</td>
<td>1.18%</td>
<td>2.38%</td>
</tr>
<tr>
<td>£30,001 - £50,000</td>
<td>1.57%</td>
<td>3.17%</td>
</tr>
<tr>
<td>£50,001 - £60,000</td>
<td>1.96%</td>
<td>3.96%</td>
</tr>
<tr>
<td>Over £60,000</td>
<td>2.35%</td>
<td>4.75%</td>
</tr>
</tbody>
</table>

16. These rates will further increase employee contributions by an average of 1.28 percentage points above the rates that came into effect in April 2012.

17. Our proposal includes leaving the pay ranges unchanged from last year but having slightly lower increases for each of these ranges than those that took effect from April 2012. The exception is for those earning between £15,001 and £21,000 whose increases are limited in any case.

18. The pie chart included in the background information document shows the proportion of Civil Servants in each of these pay ranges. They demonstrate that over a third (36%) of the Civil Service fall into the protected group (with either no increase or increases capped at a further 0.6 percentage points in 2013-14) and almost three-quarters (74%) of the Civil Service are paid at a full-time rate of £30,000 or less and so will see increases in contributions at less than the average rate (1.28 percentage points in 2013-14).

19. Our preferred approach means that members of the classic scheme would pay total contributions at these rates:

<table>
<thead>
<tr>
<th>Full-time pay range</th>
<th>Current classic contributions</th>
<th>Proposed contribution rate 2013-14</th>
<th>Proposed additional contribution rate 2013-14 (net of tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £15,000pa</td>
<td>1.5%</td>
<td>1.5%</td>
<td>0%</td>
</tr>
<tr>
<td>£15,001 - £21,000</td>
<td>2.1%</td>
<td>2.7%</td>
<td>0.48%</td>
</tr>
<tr>
<td>£21,001 - £30,000</td>
<td>2.7%</td>
<td>3.88%</td>
<td>0.94%</td>
</tr>
<tr>
<td>£30,001 - £50,000</td>
<td>3.1%</td>
<td>4.67%</td>
<td>1.25% / 0.94%</td>
</tr>
<tr>
<td>£50,001 - £60,000</td>
<td>3.5%</td>
<td>5.46%</td>
<td>1.18%</td>
</tr>
<tr>
<td>Over £60,000</td>
<td>3.9%</td>
<td>6.25%</td>
<td>1.41%</td>
</tr>
</tbody>
</table>

3 “PCSPS Consultation on proposed increases to employee contribution rates effective from April 2013: Background and further information”

4 Additional contribution rates shown for basic rate and higher rate taxpayers
and members of **premium, classic plus** and **nuvos** would pay contributions at these rates:

<table>
<thead>
<tr>
<th>Full-time pay range</th>
<th>Current premium, nuvos and classic plus contributions</th>
<th>Proposed contribution rate 2013-14</th>
<th>Proposed additional contribution rate 2013-14 (net of tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £15,000pa</td>
<td>3.5%</td>
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<td>5.9%</td>
<td>8.25%</td>
<td>1.41%</td>
</tr>
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</table>

20. The tables above show the effect before and after tax relief. At present, tax relief reduces the cost of pension contributions by 20% for basic rate taxpayers, by 40% for higher rate taxpayers and by 45% for additional rate taxpayers.

**Example**

Jane is a member of **classic** and earns £25,000 a year. At the moment, Jane pays contributions of 2.7% of pay. Under this approach, Jane’s contributions will rise to 3.88% in 2013-14.

The impact on Jane’s take-home monthly pay of the proposals (after tax relief at 20%) will be:

- Current monthly cost of pension = £45.00
- Monthly cost from April 2012 = £64.67

During this period, Jane carries on earning a pension based on her final salary. Jane’s pension has full price indexation and is safe because it is backed by the Government.

**What next?**

21. Section 1(3) of the Superannuation Act 1972 requires Cabinet Office to consult with persons affected (that is, scheme members) or their representatives before changes are made to the scheme. Accordingly, Cabinet Office is consulting all Civil Service trades unions and staff associations on this particular policy change – the introduction of additional employee pension contributions from April 2013.

22. Cabinet Office invites your views on:

a) our preferred approach to delivering the required savings by increasing contributions in 2013-14 to the PCSPS as set out in this document; and

b) other ways of delivering those savings by increasing contributions within the Government’s preferred approach to scheme design to ensure that there is a limited impact on lower earners from such increases

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5 Additional contribution rates shown for basic rate and higher rate taxpayers
23. Responses should be emailed to pensionreform@cabinet-office.gsi.gov.uk or posted to:

Pension Consultation
Cabinet Office
Area 4.19, 1 Horseguards Road
London
SW1A 2HQ

24. Cabinet Office will accept responses until 30 November 2012. Cabinet Office will then publish its response, which will give final details of the approach to be adopted. Cabinet Office will then consult formally, in line with the requirements of section 1(3) of the Superannuation Act 1972, on the technical amendments to the scheme rules to give effect to the policy as announced.