

# Reforms to the Civil Service Pension Scheme

March 2012



# Purpose

- Update for scheme members on latest position on reforms to Civil Service pensions.
- Covers both the increases to contributions that will begin to take effect from April 2012 and the proposed new pension scheme to be introduced in 2015.
- Answer questions such as:
  - Why are pensions changing?
  - Will I be forced to work longer?
  - How much more will I have to pay?
  - Will my pension be lower under the new scheme?
  - What about the money I have already paid in and the benefits I've obtained?



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# 1. Why are Civil Service pensions changing?

- Changes based on an independent report published in March 2011.
- Key points included:

## **1. People are living longer compared with a few years ago:**

Extra years in retirement mean pensions cost more.

## **2. Pensions need to be sustainable:**

The costs of public service pensions must be affordable in the long term. Recent reforms have not achieved this.



## 2. The current schemes

### **classic**

- If you joined before October 2002 you are most likely to be in this scheme unless you opted to join premium or classic plus

#### Features:

- Final salary
- Pension based on 1/80<sup>th</sup>
- Lump sum
- Contribution – 1.5%

### **classic plus**

- You may have opted to move into this scheme when the classic scheme closed to new entrants

#### Features:

- Final salary – hybrid of classic and premium
- Pension based on 1/80<sup>th</sup> and 1/60<sup>th</sup>
- Lump sum
- Contribution - 3.5%

### **premium**

- If you joined between October 2002 and July 2007 you are most likely to be in this scheme

#### Features:

- Final salary
- Pension based on 1/60<sup>th</sup>
- Option for lump sum
- Contribution – 3.5%

### **nuvos**

- If you joined after July 2007 you are most likely to be in this scheme

#### Features:

- Career average scheme
- Contribution – 3.5%
- Option for lump sum



### 3. What is changing? Stages 1 and 2

#### Stage 1:

From April 2012: Scheme member contribution increases to current schemes:

- From 1 April 2012. Further increases are planned from April 2013 and April 2014
- You will stay in your current scheme during this period

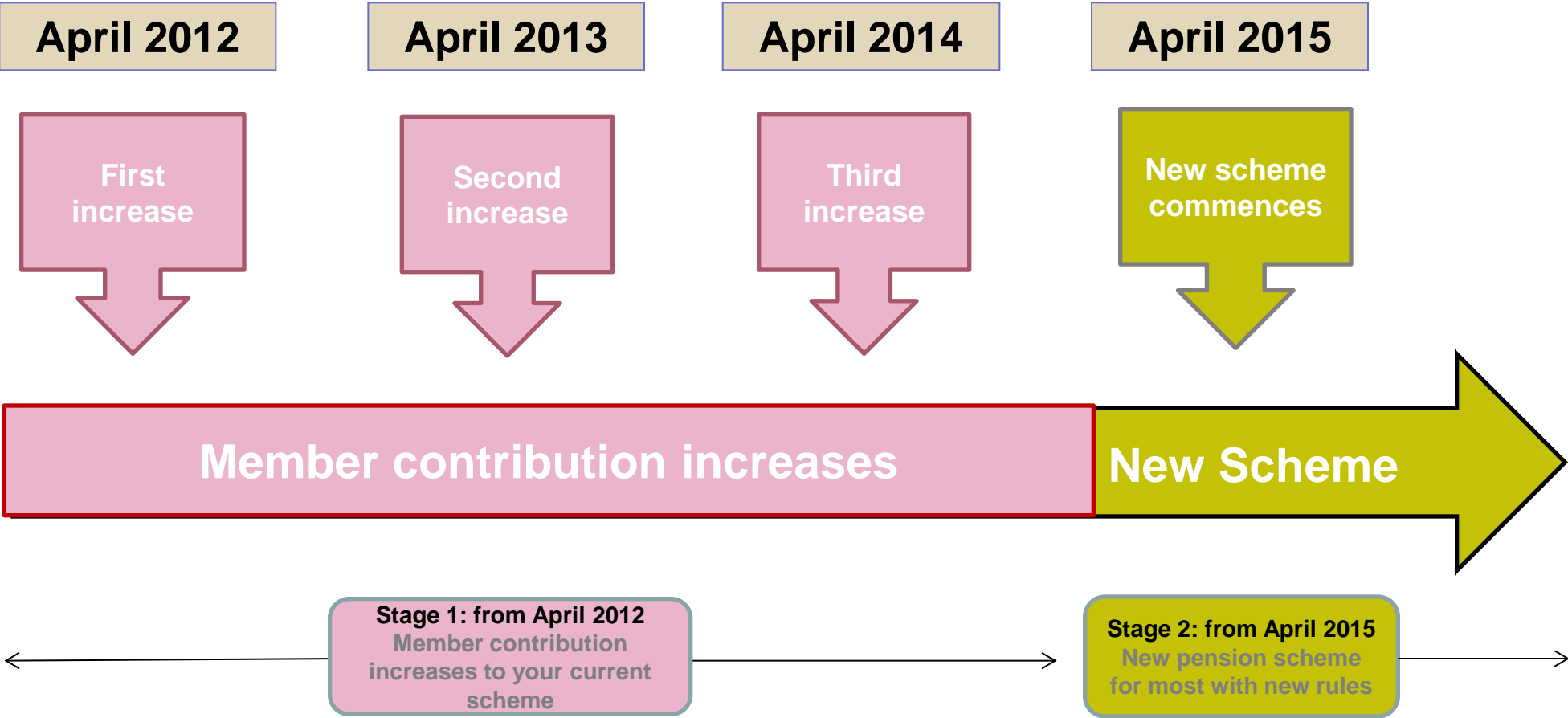
#### Stage 2:

From April 2015: New scheme with new rules:

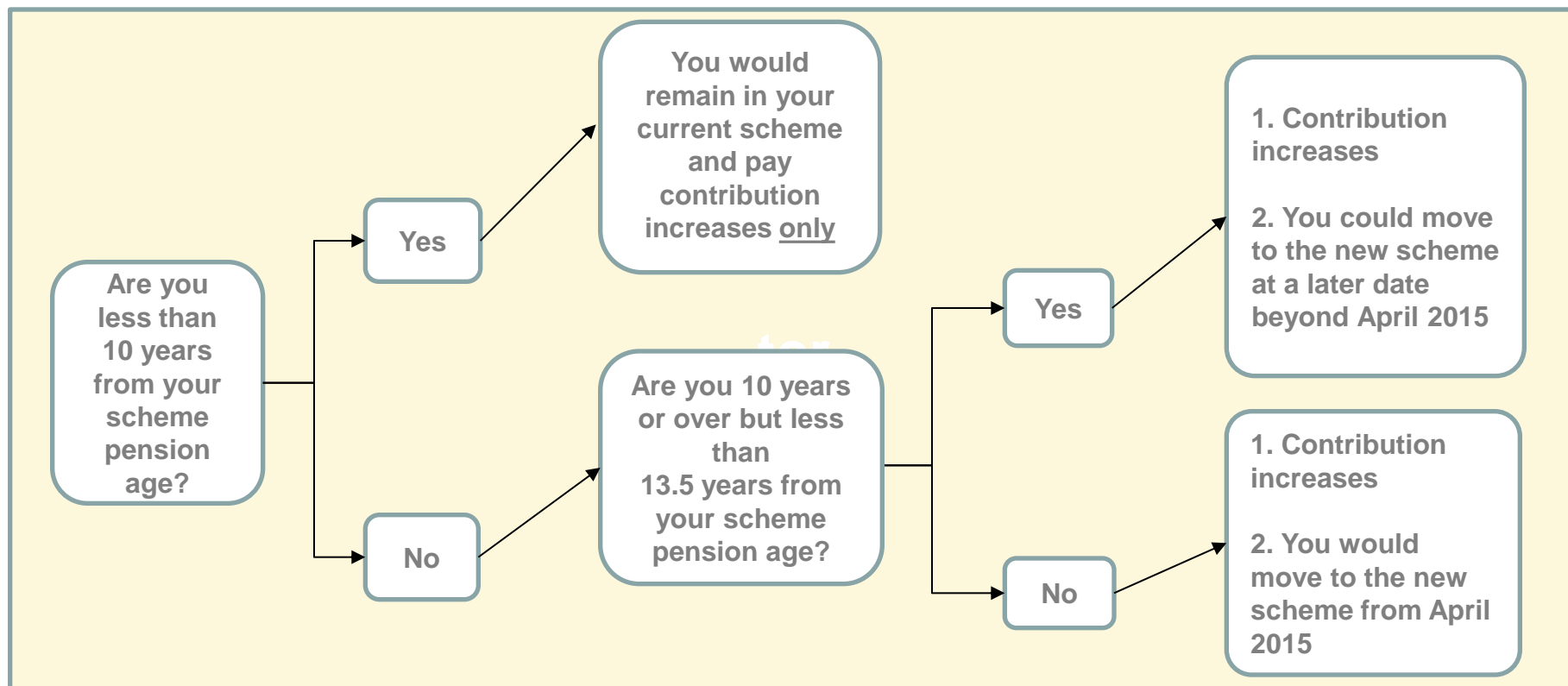
- Two main differences to current schemes (featured later in this presentation):
  1. New age for claiming your full pension benefits
  2. New way of calculating your pension benefits



# 3a. Reform at a glance chronologically



## 3b. How and will the changes apply to me?



*NB: nuvos scheme pension age = 65 years. classic, classic plus and premium scheme pension age generally = 60 years.*

To find out how these changes would apply to you, use the:

- 2012 contributions calculator: [www.civilservice.gov.uk/pension/reform/contribution-increases](http://www.civilservice.gov.uk/pension/reform/contribution-increases)
- 2015 new scheme calculator: [www.civilservice.gov.uk/pensions/reform/key-elements](http://www.civilservice.gov.uk/pensions/reform/key-elements)



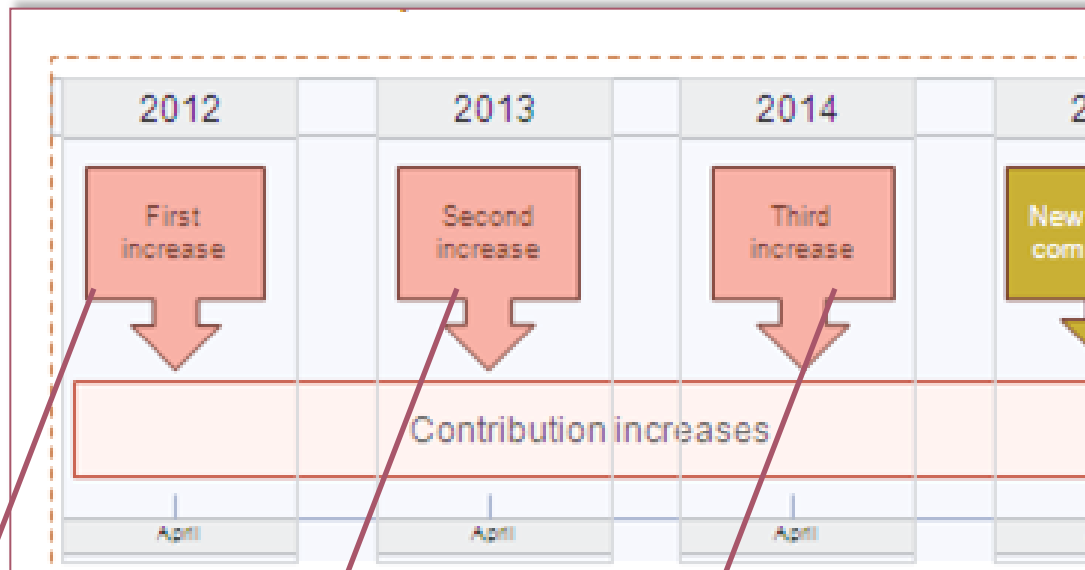
### 3c. Stage 1 - changes overview

- Member contributions will increase by an average of 3.2% of pay over the next three years, starting from 1 April 2012.
- The increase from 1 April 2012 will be an average 1.3% of pay. The exact increase will be dependant on your salary (details in later slides).
- Further increases will take effect from April 2013 and April 2014. The structure of these increases will be subject to further discussions with trade unions.
- You will remain in your current scheme whilst these increases are taking place.
- Those earning £15,000 or less will see no increases in contributions from 1 April 2012.



### 3c. Stage 1 - proposed phasing of contribution increases

Stage 1: from April 2012  
Contribution increases



40% of  
total  
increase

+

40% of  
total  
increase

+

20% of  
total  
increase

=

Average of 3.2% of  
salary by year three



## 3c. Stage 1 - year 1 contribution increases

Stage 1: from April 2012  
Contribution increases

Annual pensionable earnings (full-time equivalent basis)	Classic		Classic plus, premium, nuvos	
	Current (%)	April 2012 (%)	Current (%)	April 2012 (%)
Up to £15,000	1.5	1.5	3.5	3.5
£15,001 - £21,000	1.5	2.1	3.5	4.1
£21,001 - £30,000	1.5	2.7	3.5	4.7
£30,001 - £50,000	1.5	3.1	3.5	5.1
£50,001 - £60,000	1.5	3.5	3.5	5.5
Over £60,000	1.5	3.9	3.5	5.9

***NB: The rates are gross - before tax relief. The amount of tax relief you receive will depend on your individual circumstances.***

You can find out what these contribution increases mean for your take home pay in more detail by using the 2012 contributions calculator on the Civil Service website:

[www.civilservice.gov.uk/pension/reform/contribution-increases](http://www.civilservice.gov.uk/pension/reform/contribution-increases)



## 3d. Stage 2 – changes overview

Stage 2: from April 2015  
New pension scheme

- On 9 March 2012, the Government reached a conclusion in its discussions with the trade unions on Civil Service pension reform.
- A ‘Proposed Final Agreement’ (PFA) has been put to the trade unions and it is now for them to consult their members.
- The Government has reserved the right to make further changes if the PFA does not receive sufficient trade union support.
- The two main differences of the new 2015 scheme are featured in this presentation. For further information on the PFA, see the Civil Service website: [www.civilservice.gov.uk/pensions/reform/key-elements](http://www.civilservice.gov.uk/pensions/reform/key-elements)



## 3d. Stage 2 – two main changes

Stage 2: from April 2015  
New pension scheme

- New scheme for most from April 2015
- Two main changes:

**1. New age for claiming your full pension benefits:**  
Scheme Pension Age in line with State Pension Age

**2. New way of calculating your pension benefits:**  
Career average scheme



## 3d. Stage 2 – change 1 in more detail

Stage 2: from April 2015  
New pension scheme

### 1. **New age for claiming your full pension benefits:** Scheme Pension Age in line with State Pension Age

- Scheme Pension Age = the age at which you can take your pension in full.
- State Pension Age is due to increase to 68 over time. You can work out your State Pension Age on the Directgov website:  
[www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/DG\\_4017919](http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/DG_4017919)
- You would not have to work until this age. You can retire earlier but your new scheme pension would normally be reduced because it would be paid out for longer.



### 3d. Stage 2 – change 2 in more detail

Stage 2: from April 2015  
New pension scheme

#### 2. New way of calculating your pension benefits: Career average scheme

- The move to a career average scheme from a final salary one means that for many, benefits earned after April 2015 would be calculated in a different way.
- Your pension would be based on an average of your earnings for each year you work (after April 2015) until you leave or retire, rather than on the last salary you are on.
- Some Civil Servants are already in a career average schemes (nuvos).

Three steps to calculate your career average pension:

1. Your pay each year x 2.32% (or as a fraction, “1/43.1ths”).
2. The pension you earn each year is increased in line with inflation until you retire.
3. At retirement each year’s total is added together to get annual pension.



## 3d. Stage 2 – when you retire or leave after 2015

Stage 2: from April 2015  
New pension scheme

- For most, based on the proposed changes, when you retire or leave after 2015 your Civil Service pension would look like this:

### Part 1:

Pension earned before 2015  
in the current scheme

### Part 2:

Pension earned from 2015  
in the new scheme

- The pension and lump sum you have already earned up to April 2015, based on your current scheme rules, will not be affected (Part 1). It will be preserved until you leave or retire.
- To work out what amount you would get use the 2015 new scheme calculator on the Civil Service website:  
[www.civilservice.gov.uk/pensions/reform/key-elements](http://www.civilservice.gov.uk/pensions/reform/key-elements)





### 3d. Stage 2 – those less than 10 years from scheme pension age

Stage 2: from April 2015  
New pension scheme

- If you are less than 10 years from your current scheme pension age on 1 April 2012, you would remain in your current scheme (**classic, classic plus, premium** or **nuvos**) until you retire and draw your pension. However, you will pay the increased contributions phased in over the next three years.
- Your scheme pension age (60 or 65 – depending on when you joined) will remain the same.
- The rules for the scheme you were in prior to the 2015 change (including those on contribution rates) will continue to apply.



### 3d. Stage 2 – those 10 to 13.5 years from scheme pension age

Stage 2: from April 2015  
New pension scheme

- If you are 10 years or over but less than 13.5 years from your current scheme pension age on 1 April 2012, you could also stay in your current scheme for a period beyond April 2015, the length of which will be calculated according to your age. You would then move to the new scheme and will also pay the increased contributions phased in over the next three years.
- This is designed to ease the transition for those who fall just outside the ten year full protection period.
- The longer you have until retirement the sooner you would go into the new scheme.



## 3d. Stage 2 – tapering protection in more detail

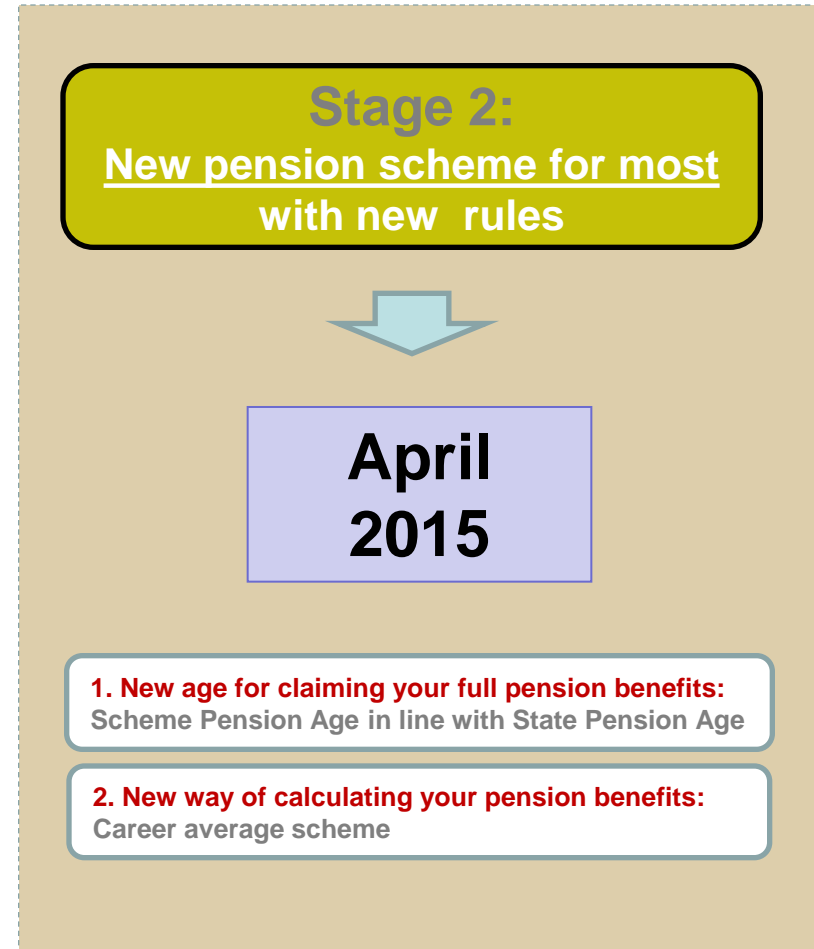
Stage 2: from April 2015  
New pension scheme

Years to current scheme pension age after 1 April 2022	Date of move to the new pension scheme arrangements
3.5 years and over	01/04/2015
3 years	01/04/2016
2.5 years	01/04/2017
2 years	01/04/2018
1.5 years	01/04/2019
1 year	01/04/2020
0.5 years	01/04/2021
0 year	Protected

*NB: nuvos scheme pension age = 65 years. classic, classic plus and premium scheme pension age generally = 60 years.*

- Example: if you are 48 on 1 April 2012, and your current scheme pension age in the **classic** scheme is 60, you will be 2 years away from your current scheme pension age on 1 April 2022. You would have the right to remain in your current pension scheme until 1 April 2018, and move over to the new scheme after that.

### 3d. Reform at a glance - reminder



## 4. Ongoing benefits of a Civil Service pension

### General pension benefits:

- **Tax efficient** way to save.
- **Pension paid to your dependants** if you die before them.
- **Death in service lump sum** if you die before you retire.

### Particular to a Civil Service pension:

- Your **employer pays the majority of the cost of your pension** (currently 18.9% of pay on average).
- **You will keep a guaranteed level of pension** – ‘defined benefit’ so and will not need to make decisions on how a fund delivers your benefits when you retire. Unlike most other pension schemes, your scheme is based on a proportion of your pay rather than investment returns where the income is less predictable.



## 5. Find out more – help and resources

- You can find further information about the following:
  - 2012 scheme member increases (inc calculator and Q&A)
  - 2015 new scheme (inc calculator and Q&A)
  - Glossary of termsat [www.civilservice.gov.uk/pension/reform](http://www.civilservice.gov.uk/pension/reform)
- You can also contact the pension administrator helpline on: 0151 934 7222
- And look out for more information from your internal communications and HR.

