Annex 6F

Civil Service Compensation Scheme December 2010
Guidance for employers
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1. Early departure terms
There are three categories of early departure under the 2010 CSCS. They are:-

- Voluntary Exit,
- Voluntary Redundancy, and
- Compulsory Redundancy.

These terms are explained in more detail below.

Before you can launch any scheme you will need approval from Cabinet Office. A template is provided for you to complete [see annex A]

2. Voluntary Exit
Voluntary exit can be offered in the interests of workforce efficiency and where employers wish to reduce staff numbers, to support organisational changes, address promotion blockages and where there is limited efficiency. There is no compulsion on individuals to accept the offer.

2.a Tariff
There is a standard tariff of 1 month's pay per year of service up to a maximum of 21 months for those under scheme pension age. There is a maximum of 6 months' pay for those over scheme pension age. Tapering of compensation will apply where the employee is close to scheme pension age as explained in paragraph 6.i of this document. Employers must apply the restriction on the pay to the highest paid explained in paragraph 6.c of this document. Reserved Rights as described in paragraph 5 of this document are not payable under voluntary exit terms. The compensation payment cannot be less than the Statutory Redundancy payment that would be payable under the Employment Rights Act 1996 if we were not servants of the Crown.

2.b Employer's discretion
Employers can, if they wish, offer more or less than the standard tariff. Cabinet Office approval is required regardless of the level of benefits being offered.

- The maximum employers can offer is twice the standard tariff, up to the overall early departure limit of 21 months. (Different limits apply to those who are subject to tapering or over scheme pension age). The approval of the Minister for the Cabinet Office is required for any tariff above the standard.
- The minimum an employer can offer is equal to the amount due under statutory redundancy terms.
- Employers can also waive the 2 year qualifying period or reduce it.
- Employers may apply the protection for the lower paid staff explained in paragraph 6.b of this document.

- Employers can offer to top up the compensation payment on current service for those who have reached minimum pension age and wish to take their pension benefits early without reduction.

- Employers can approach the Cabinet Office to seek the Ministers agreement for inclusion of other service

2.c Cabinet Office approval
Employers must apply to Cabinet Office, using the template provided at Annex A, for approval to launch any early departure scheme. Details should be included where employers wish to offer a tariff over the standard tariff. If approval is given Cabinet Office will provide a scheme identifier for the scheme. The Pension Service Centre will need to see notification of the scheme identifier before issuing any quotes.

2.d Option to receive an unreduced pension
Employees who wish to take early payment of their unreduced pension on their current service can, if they wish, ask their employer to use their compensation payment to buy out the reduction for early payment that would otherwise apply. The employer has the discretion to top up the payment if the compensation payment is not enough to buy out the full reduction. If the compensation payment is more than is required for the total buy out of the reduction, the employee will receive the remainder of the compensation payment at time of leaving.

If you are given Ministerial approval for inclusion of 'other service' in your Voluntary exit scheme and you are offering top up you must include the approved 'other service' as well as the current service in the offer but see paragraph *2.e*.

The first £30,000 of any remaining severance payment will be tax free. Any compensation payment over £30,000 will be taxed in line with the PAYE tax bands.

Buying out the reduction on pension benefits will not affect the member's Annual Allowance calculation regardless of whether they are using their severance payment or own money or a combination of both to buy out the reduction. Neither will it affect a classic member's right to take a higher tax free lump sum.

To take advantage of this offer the employee must;
- have at least 2 years' current qualifying service (explained in paragraph 6d),

- be over the minimum pension age[1] and

- if the employer does not offer to top up the compensation payment, the employee must fund the difference themselves by sending a cheque to their Pension Service Centre made payable to 'GBS RE CO Civil Superannuation'. Pension benefits will not be paid until the cheque has cleared. To gain tax relief on the additional pension contribution on any payment via cheque it will be necessary for the individual to make a claim to HMRC. Tax relief on pension contribution is subject to limits.

2.e 'Other Service'

[1] Age 55, or age 50 for those who have been in continuous membership of the PCSPS since 6 April 2006

The compensation payment is based on current service and the employer only has the discretion to offer the top up for pension based on current service. This excludes service arising from;

- added pension,
- added years,
- transferred in service and
- previous Civil Service Pension service
- aggregated service

(referred to as 'other service' in this document)

Where an individual accepts their employer's offer to buy out the pension reduction relating to their current service, and the individual has 'other service';

- if an individual is between the age of 50 and 55 years of age, current tax rules mean that their pension benefits based on 'other service' must be paid at the same time as their current service This also includes any PCSPS service they may have aggregated with their current service. An Individual will have the choice of taking these 'other service' benefits;
- reduced for early payment as long as the reduced benefits pass the Guaranteed Minimum Pension (GMP) test or
- They will also have the option to buy out the reduction themselves by sending in a cheque to their Pension Service Centre. If they have any compensation payment left after their employer has bought out the reduction on their current service they can use it to buy out their „other service‟. A cheque will be required from the individual for any shortfall.
- If individual is between age 55 and scheme pension age they will have the additional option to preserve their „other service‟ pension. If they have aggregated previous PCSPS service with their current service they must take their aggregated service at the same time as their current service and will have the choice of, taking it on reduced terms for early payment (subject to the GMP test) or they can opt to buy out the reduction themselves as above.

The employer will meet the cost of the buy out of the reduction on the pension from the current service only. Estimates can be obtained from the 'actuarially reduced buy-out' calculator on the Civil Service Pensions website by putting in the preserved pension benefits on current service from the individuals quote. This will give the actuarially reduced pension and the cost of the buy out.
The employer will be charged for the compensation payment, including any top up, at the time of leaving.

Where the employer does not offer top up and the member has a minimum pension age of 50 and is under 55, has 'other service' and or aggregated service all parts of their service must be treated the same and they will have the following options;

- To take their compensation lump sum and preserve all their pension benefits.

- To use their compensation to buy out the actuarial reduction on all their service making up any shortfall by sending in a cheque to their Pension Service Centre.

- To take their compensation lump sum and take all their pension benefits reduced for early payment subject to the GMP test. If they do not pass the GMP test and cannot buy out the reduction they will have to preserve all their pension benefits and take the compensation lump sum.

Where the member is between age 55 and scheme pension age they will have the additional option to preserve their 'other service' but any aggregated service must be treated in the same way as their current service.

2.f Notice periods

Voluntary Exits will be subject to 3 months' notice. Notice will commence from the date the employee signs the agreement to depart. Compensation in lieu of notice (CILON) will be paid for any part of the notice that is not worked. The CILON calculator will provide the amount due for loss of pension benefits within the unworked period of the notice period. CILON must be paid via the payroll and will be subject to tax and National Insurance. The calculator is on the Civil Service Pensions website. For loss of pension benefits during the unworked notice period for those with a partnership pension account please see paragraph 9.b.

3. Voluntary Redundancy

Voluntary Redundancy terms must be offered where the employer has begun formal consultation with the Unions about possible redundancies. Voluntary Redundancy must be offered to all staff at risk of redundancy under that consultation. Cabinet Office approval will be required and all approved Voluntary Redundancy schemes will be given a scheme identifier. There is no compulsion on staff to apply for Voluntary Redundancy at this stage but they must be aware they could be made compulsorily redundant at a later stage of the same scheme. However, if an employee applies but does not initially meet their employer's criteria for release, they cannot be subject to the lower compulsory redundancy terms at a later stage of that redundancy exercise, although they can still be made compulsory redundant. Staff in this position will be entitled to the voluntary redundancy terms[2].

3.a Tariff

- Employers **must** offer the standard tariff of 1 month's pay per year of service up to a maximum of 21 months for those under scheme pension age.
- There is a maximum of 6 months‟ pay for those over scheme pension age.

- Tapering of compensation will apply where the employee is close to scheme pension age as explained in paragraph 6.i of this document.

- Employers must apply the protection for lower paid staff and the restriction on pay for the highest paid in paragraphs 6.b and 6.c of this document.

[2] See section 6k for application in relation to fixed term appointments

- Employers must top up the compensation payment to those who are over minimum pension age and wish to use their compensation payment to buy out the reduction on their pension benefits.

- Employers can waive the 2 year qualifying period or reduce it.

- Reserved Rights are payable under Voluntary Redundancy terms as described in paragraph 5.

- The compensation payment cannot be less than the Statutory Redundancy payment that would be payable under the Employment Rights Act 1996 if we were not servants of the Crown.

3.b Employee's option to receive an unreduced pension

Employees with at least 2 years‟ qualifying service and over their minimum pension age will be guaranteed access to their unreduced pension based on their current service. If they wish to take their unreduced pension, some or all of their compensation payment will be retained by the employer in order to meet the cost of the early payment of the pension. If the compensation payment is more than is required for the total buy out, the employee will receive the remainder of the compensation payment at time of leaving. If the compensation payment is not enough to buy out the reduction, the employer will need to top up the payment to cover the full cost.

If you are given Ministerial approval for inclusion of 'other service' in your Voluntary exit scheme and you are offering top up you must include the approved 'other service' as well as the current service in the offer but see paragraph 3.c

The first £30,000 of any remaining severance payment will be tax free. Any compensation payment over £30,000 will be taxed in line with the PAYE tax bands.
Buying out the reduction on pension benefits will not affect the member's Annual Allowance calculation regardless of whether they are using their severance payment or own money or a combination of both to buy out the reduction where they are taking benefits based on other service. Neither will it affect a classic member's right to take a higher tax free lump sum.

3.c Other Service

Where an individual accepts their employer's offer to buy out the pension reduction relating to their current service, and the individual has 'other service'

- if an individual is between the age of 50 and 55 years of age current tax rules mean that their pension benefits based on the 'other service' must be paid at the same time as their current service. This also includes any service they may have aggregated with their current service. Individuals will have the choice of taking these 'other service' benefits,

- reduced for early payment as long as the reduced benefits pass the GMP test, or

- they will also have the option to buy out the reduction themselves by sending in a cheque to their Pension Service Centre. If they have any compensation payment left after buying out the reduction on their current service, they can use any remaining compensation to buy out their 'other service'. A cheque will be required from the individual for any shortfall.

- If an individual is between age 55 and scheme pension age they will have the additional option to preserve their ‘other service’ pension benefits as well as the same options above. If they have aggregated previous PCSPS service with their current service they must take their aggregated pension benefits at the same time as their current service and will have the choice of taking the aggregated service reduced for early payment (subject to the GMP test) or to buy out the reduction, as above, but they will not have the option to preserve their aggregated pension benefits.

The employer will meet the cost of the buy out of the reduction on the pension from current service only. Estimates can be obtained from the actuarially reduced pension buy-out calculator on our website by putting in the preserved pension benefits of the current service from the individuals quote. This will give details of the reduced pension and the cost of buying out the reduction.

All costs for the compensation payment, including any top up, will be charged to the employer at the time of leaving.

For those not eligible for buy out and those that do not wish to take advantage of the offer, the charge to the employer will be the cost of the compensation payment.

3.d Notice periods

Voluntary Redundancy departures will be subject to 3 months‟ notice. Notice will commence from the date the employee signs the agreement to depart. Compensation in lieu of notice (CILON) will be paid for any part of the notice that is not worked. The CILON calculator (available on the Civil Service Pensions website) will provide the amount due for loss of pension benefits within the unworked period of the notice period. CILON must be paid via the payroll and will be subject to tax and National Insurance. For loss of pension benefits during the unworked notice period for those with a partnership pension account please see paragraph 9b.

4. Compulsory redundancy

All redundancy Schemes will require Cabinet Office approval. Individuals must be offered voluntary redundancy, making it clear that they are at risk of compulsory redundancy, before employers launch a compulsory scheme[3]. The Compulsory Redundancy scheme can only cover the same staff as were included in the preceding Voluntary Redundancy scheme. The scheme identifier for the Compulsory Scheme will therefore be linked to a specific scheme identifier for a Voluntary Redundancy scheme. This must be notified to the Pension Service Centre before any quotes are issued. Any member of staff who was turned down for voluntary redundancy and is later selected for compulsory redundancy, under the scheme linked to that Voluntary Redundancy scheme, will receive the voluntary redundancy terms. This protection does not extend to any later Compulsory Redundancy Schemes where the individual did not apply for voluntary redundancy

4.a Tariff

- The tariff is 1 month’s pay per year of service up to a maximum of 12 months for those under scheme pension age.

[3] See section 6k for application in relation to fixed term appointments

- There is a maximum of 6 months pay for those over scheme pension age.
- Tapering of compensation will apply where the employee is close to scheme pension age as explained in paragraph 6.i of this document.
- The compensation payment cannot be less than the Statutory Redundancy payment that would be payable under the Employment Rights Act 1996 if we were not servants of the Crown.

Employers have no flexibility in the terms that can be offered on compulsory redundancy and cannot top up compensation payments to meet the cost of paying unreduced pensions. Individuals will still have the opportunity to ask their employer to use the compensation payment to buy out the actuarial reduction if they choose to take their pension early but if it is insufficient to buy out the full reduction they will have to use their own money, it must be by cheque, before their leaving date. If the individual has a minimum pension age of 50 and has not yet reached age 55 and has ‘other service’ and or aggregated service. They must treat all parts of their service the same and will have the following options;

- To take their compensation lump sum and preserve all their pension benefits.
- To use their compensation lump sum to buy out the reduction to their pension for early payment making up any shortfall by sending in a cheque to their Pension Service Centre.
- To take their compensation lump sum and take all their pension benefits reduced for early payment subject to the Guaranteed Minimum Pension (GMP) test. If they do not pass the GMP test and cannot buy out the reduction they will have to preserve all their pension benefits and take the compensation lump sum.

Individual between age 55 and scheme pension age will have the additional option to preserve their ‘other service’ but any aggregated service must be treated in the same way as their current service.

Buying out the reduction on pension benefits will not affect the member’s Annual Allowance calculation regardless of whether they are using their severance payment or own money or a combination of both to buy out the reduction. Neither will it affect a classic member’s right to take a higher tax free lump sum.

Reserved Rights are payable under Compulsory Redundancy terms as described in paragraph 5.

4.b Notice periods

The Civil Service Management Code (CSMC) section 11 paragraph 11.1.4 gives details of the notice periods on compulsory Redundancy those under age 60 are entitled to 6 months’ notice unless they have a contractual right to a different period of notice. Those between the age of 60 and 65 may be entitled to a longer notice period depending on their length of service please see the CSMC for further details. Compensation in lieu of notice (CILON) will be paid for any part of the notice that is not worked. The CILON calculator (available on the Civil Service Pensions website) will provide the amount due for loss of pension benefits within the unworked period of the notice period. CILON must be paid via the payroll and will be subject to tax and National Insurance.

For loss of pension benefits during the unworked notice period for those with a partnership pension account please see paragraph 9b.

4.c Mandatory requirements

- There is a mandatory qualifying period of 2 years.

- Employers must apply the protection for lower paid staff and the restriction on pay for the highest paid, see paragraphs 6.b and 6.c of this document.

If an employee who is given notice of redundancy refuses to complete a CSCS1 form confirming personal details you can complete the form of their behalf.

Employers have no discretion to vary compulsory redundancy terms.

Example (a) – straightforward calculation
Joe works full-time. He earns £40,000pa and has 15 years' service. Joe's employer is inviting volunteers for redundancy. Joe would receive a payment of £50,000.

Calculated as 15 x £40,000/12 and would receive 3 months' notice.

Example (b) – application of the maximum
Hamish works full-time. He earns £30,000pa and has 30 years' service. Hamish applies for voluntary redundancy. Even though Hamish has 30 years' service, his redundancy payment is capped at 21 months' pay. Hamish will receive redundancy payment of £52,500.
Calculated as 21 x £30,000/12 and would receive 3 months' notice.

Example (c) – older worker (over pension age)
David is 63 and is a member of the premium pension scheme. David earns £24,000 a year and he has 8 years' service. David is made compulsorily redundant. He will receive a payment of £12,000.
Calculated as 6 x £24,000/12 and would receive 3 months' notice.
David's pension (and any pension commencement lump sum he chooses to take) will come into payment immediately after his last day of service.

5. Reserved Rights

Members who have pre-1987 reserved rights terms (they were in post on 1.4.87 under age 40 and in a mobile grade) and are under age 50 on their last day of service will be paid compensation on voluntary or compulsory redundancy of:

Departure during Year 1 - 60% of the reserved rights amount

Departure during Year 2 - 50% of the reserved rights amount

Departure after Year 2 - 40% of the reserved rights amount

Year 1 will start with the introduction of the new scheme (22 December 2010).
Year 2 will start on 22 December 2011 and conclude on 21 December 2012.

Reserved Rights are not payable under Voluntary Exit terms

The new compensation terms will be paid in cases where they produce a better result than the reserved rights calculation.

The “reserved rights payment” is calculated up to the 21 December 2010 (which is the day before the new CSCS terms became effective), using the final pensionable earnings and reckonable service to that date. The amount will be adjusted to take account of inflation and the relevant percentage calculated depending on the last day of service.

6. Scheme Definitions

6.a Pay

The pay used to calculate the compensation payment is the full time rate of basic pay on the employee’s last day of service plus any permanent pensionable allowances. Monthly pay is calculated by dividing pay by 12.

Allowances (including Saturday and Sunday overtime premium payments) will not count towards the pay used unless they are permanent and pensionable, and also both regular and consistent. Typically, these types of allowances will either be determined at least a year in advance and/or be contractual at a fixed rate or amount. Allowances that fluctuate would not count. Employers must consider whether their own allowances meet the above criteria, and liaise with their PSC to ensure that the correct information is used to calculate compensation payments. As eligible allowances will be fixed and predictable, like salary they will be determined by taking the annual full-time rate on the last day of service.

Where an individual is not receiving pay on their last day of service in the following circumstances they should be treated as receiving pay of an amount equal to that which they would have received if those circumstances did not apply ‘assumed pay’:

- On secondment to a different employer providing they remain in the Civil Service pension scheme
- On sick leave on reduced pay
- Receiving statutory maternity pay
- On ordinary maternity leave
- On adoption leave
- On paternity leave
- Absent as recalled for permanent service in the reserve or regular forces.

The pay on the last day of reckonable service should be used for those who are not receiving pay on their last day of service in the following circumstances as they are:

- On a career break
- On unpaid leave

- On Sick Pay at Pension Rate
- On sick leave without pay

Part time workers' compensation payment will be based on the full time equivalent rate of pay but please refer to paragraphs 6.e and 6.f covering part time workers and the limit that applies.

The higher rate of pay should be used for those on temporary promotion on their last day of service but it is the substantive grade pay that should be used for those on substitution on their last day of service.

Some employers have replaced substitution and temporary promotion with a single Temporary Duty Allowance (TDA). In order to maintain the historic position, if an employer believes that but for the exit scheme the individual would have continued performing the higher duties for a significant period, then the TDA should be included in the pay used to calculate compensation. You must notify your Pension Service Centre as to whether or not TDA should be included.

6.b Protection for the lower paid

Employees earning less than £23,000 who leave on voluntary or compulsory redundancy will be deemed to be earning that amount for the purposes of calculating their compensation payment only. Employers have discretion to apply this low paid protection when offering voluntary exit terms if they wish to do so.

Example (d) - protection for the lower paid
Jane works full-time. She earns £15,000 and has 20 years' service. If Jane opts for voluntary redundancy her compensation payment will be based on the deemed minimum of £23,000 and she will receive a compensation payment of £38,333.

Worked out as 20 x £23,000/12 = £38,333**.**

If Jane does not volunteer but is dismissed as compulsorily redundant her payment will be £23,000.

Worked out as 12 x £23,000/12.

In both cases Jane would receive 3 month' notice. If Jane is close to pension age she might choose to take her pension and use some or all of her payment to offset the early payment reduction that would otherwise apply.

Pension benefits will continue to be based on final pensionable earnings.

6.c **Restricting payments for the higher paid**

Members earning more than £149,820, who leave on voluntary or compulsory redundancy, or under an employer's voluntary departure terms, will be deemed to be earning that amount when calculating their compensation payment. The deemed rates will not affect the calculation of pension benefits.

The upper and lower limits will be reviewed on an annual basis towards the end of each calendar year and if new limits apply they will become effective from 1 April the following year. There will be no change to either figure on for 2011 and 2012.

Example (e) – higher earner
Simon earns £200,000 and has 5 years' service. He is dismissed as compulsorily redundant. As a high earner, Simon's pay is restricted to the deemed maximum of £149,820. Simon's redundancy payment is calculated as 5 x £149,820/12 = £62,425.

There is no change in the way pension benefits will be calculated.

6.d Years of Service

Current reckonable service is the current period of continuous service in an employment to which this CSCS scheme applies, providing any break in service is no more than 28 days. For example an individual works for MOD for 3 years resigns on 31 March 1999. They manage to secure employment with DWP and begin employment with them on 10 April 1999 and work for a further 12 years. The break between the two employments is not more than 28 days and therefore the service is treated as continuous for compensation. The break between the employments is not reckonable and would be classed as unpaid leave. The current reckonable service for compensation is 15 years.

Any casual service that immediately precedes a will be included in the reckonable service if it falls in the current period of service.

There are some **classic** members (and **classic** members that opted for **premium** or **classic plus** on 1 October 2002) who have been given a service credit for casual service immediately preceding a permanent appointment. This service credit, which is a percentage of the casual service worked, will still count for pension purposes but it is the actual length of casual service that will count as reckonable for compensation as long as the service is within the current period of service.

Reckonable service will be counted in years and days expressed as decimal years to four decimal places. Only current reckonable service will be used to calculate the compensation payment.

E.g. 4 years 300 days = 4.8219 (300÷365)
Current service usually excludes:

- added years
- transfers in (although this can be included with the approval of the Minister for the Cabinet Office),
- Earlier periods of pensionable service that have either been preserved or have already been aggregated with current service and
- Added pension

referred to as 'other service'.

Current reckonable service will not include:-

- the break between employments if the break is less than 28 days
- any periods of unpaid leave

- Sick Pay at Pension Rate (SPPR)
- Unauthorised absence
- Periods of unpaid sick absence
- Career break
- Unpaid maternity leave
- Resettlement leave
- Service with a by analogy scheme
- Work step service

Employers can approach the Cabinet Office to seek the Ministers agreement for inclusion of ‘other service’.

Overseas Service

An employee who has worked in a schedules territory whose service for that period will reckon at 1½ times its length for pension benefits will only reckon at its actual length for compensation.

Doubling of service for Prison Officers

Prison Officers in post on 30 September 1987 may reckon service at double its actual length after completing 20 years service. No doubling will count for compensation, service will only reckon at its actual length for compensation

Quarantine period

Those who left under the old CSCS arrangements on Compulsory Early Retirement or Flexible Early Retirement terms will in most cases have been given an enhancement to their service of up to a maximum of 6 2/3 years. If they are re-employed and the enhancement given is greater than the period between the two employments they cannot join the Civil Service pension scheme (other than opening a partnership account but with no employer contribution) until the remainder of the enhancement has been worked known as the quarantine period. Under the new CSCS arrangements all service since re-employment will count as reckonable for compensation including the service relating to the remaining quarantine period.

6.e Part time service

Part-time service will be based on actual hours worked i.e. qualifying service x actual hours worked ÷ full-time conditioned hours.

E.g. **Mary** works full time for 3 years (i.e. 36 hours a week, her conditioned hours)) she then reduces her hours to 29 a week for the next 5 years.

Her qualifying service is 3 + 5 = 8 years but her reckonable service is her actual hours worked therefore 3 + (5x29/36) = 7.0278 years rounded to the nearest whole day (by multiplying .0278 by 365) = 7 years 10 days reckonable service i.e. 7.0274.

6.f Members working part time within last 3 years

Where the member has worked part time in the last three years a limit is applied to ensure that part-time workers do not receive disproportionately more than full time workers.

The maximum compensation that can be paid will be determined as the maximum that could have been paid to a full-time worker on the same full-time equivalent pay but scaled back in relation to the reckonable service as compared to the full-time equivalent. For this calculation do not include any unpaid leave in either the qualifying or the reckonable service. Qualifying service in this instance is what they would have worked if all their part time service had been worked as full time.

Example (f) – part-time worker (capped service) compulsory redundancy
Darren switched to part-time working (3 days a week, or 0.6) a few years ago. He has worked for the Civil Service for 15 years and has built up a total of 13 years of full-time equivalent reckonable service. Darren is paid £18,000 a year – that is, a full-time equivalent rate of £30,000. Darren is dismissed as compulsorily redundant. Darren's compulsory redundancy compensation is calculated as the lesser of:

(a) Unlimited compensation (actual service and full time equivalent pay)

= 12 x £30,000/12 = £30, 000
(b) Scaled maximum compensation = 12 x £30,000/12 x 13/15 = £26,000

Darren receives £26,000. This is 0.86 of maximum compensation for a full time salary of £30,000 reflecting Darren's working an average of 0.86 FTE across his career.

Example (g) – part-time worker (lower paid and with uncapped service) voluntary redundancy
Jenny works part-time and earns £10,000pa for a 2.5-day week (0.5). Jenny's full-time rate of pay is therefore £20,000 so her compensation will reflect the deemed minimum full-time pay of £23,000 (low paid protection). Jenny has a total of 7 years' current reckonable service; she has built this up over 14 years of qualifying service.

Jenny's voluntary redundancy compensation is calculated as the lesser of:
(a) Unlimited compensation = 7 x £23,000/12 = £13,417

(b) Scaled maximum compensation = 21 x £23,000/12 x 7/14 = £20,125

Jenny will receive £13,417.

Example (h) – part-time worker (high earner and capped service) voluntary redundancy
Helen earns £130,000 for a 4-day week (0.8) so her full-time rate of pay is £162,500. As a high earner, Helen's compensation will reflect the deemed maximum of £149,820 (full-time). Helen has a total of 20 years of current reckonable service, built up over 30 years of qualifying service.

Helen's voluntary redundancy compensation is calculated as the lesser of:

(a) Unlimited compensation = 20 x £149,820/12 = £249,700
(b) Scaled maximum compensation = 21 x £149,820/12 x 20/30 = £174,790

Helen will receive £174,790

6.g Service that would not normally count for compensation

Employers must ask for Cabinet Office approval in advance using the appropriate template if they wish to take any other periods of service into account. For example moving from a by-analogy scheme to the Civil Service. Except for instances such as Machinery of Government changes, business cases will normally be required at an individual level.

6.h TUPE – Under review

6.i Tapering

The maximum compensation that can be paid to a member over pension age is 6 months' pay. To avoid a cliff edge at pension age compensation will be tapered as below:-
The maximum compensation payable will be the lesser of:-

- The normal maximum for those under pension age and
- The number of months to pension age plus 6 months.

Any part months will be rounded up or down to the nearest full month.

Example (i) – tapering
Julie works full time. She earns £25,000 and has 20 years service. Julie applies for voluntary redundancy. She is 59 years 7 months on her last day of service and her scheme pension age is 60. Her compensation payment will be the lesser of:

- £25,000/12 x 20 = £41,667
- £25,000/12 x (5+6) = £22,917

Julie receives £22,917

Tapering will also apply to part-time workers. The number of months to pension age will reflect the actual part-time hours over the full time conditions hours and the 6 months payable to those over scheme pension age will be scaled back in relation to reckonable service over full time equivalent service. Do not round any part months up or down to the nearest full month until both calculations have been completed and added together see Gareth example (k) below:

Example (j) – tapering (lower-paid and part-time worker)
Zilla leaves on voluntary redundancy on her 59th birthday. Zilla works part-time (she is currently working 3 days a week or 0.6) and she is a member of premium. Zilla has a total of 8 years of reckonable service, built up over 11 years. Zilla's full-time equivalent pay rate is £20,000 so her compensation is calculated on the deemed minimum full-time rate of £23,000. Zilla's compensation calculation takes account of both the tapering and the part-time restrictions to maximum compensation.

Zilla's voluntary redundancy compensation is calculated as the least of:

(a) Unlimited compensation = 8 x £23,000/12 = £15,333
(b) The normal maximum (scaled for part-time) = 21 x £23,000/12 x 8/11 = £29,273
(c) X months' pay where X = (12 x 0.6) + (6 x 8/11) = 12 (rounded to nearest whole number). This is 12 x £23,000/12 = £23,000

Zilla will receive £15,333

Example (k) – tapering of a part-time worker
Gareth leaves on voluntary redundancy with only 7 days to go to scheme pension age. His last day of service is 31 October 2011. He works part-time, working 30/37 hours a week. As he is low paid his compensation payment will be calculated on £23,000. He has 10.2000 years reckonable service and his full time equivalent service is 13.6685. Gareth's calculation takes account of both tapering and the part-time restrictions to maximum compensation.

Gareth will receive the least of:

(a) Unlimited compensation = 10.2000 x £23,000/12 = £19,550
(b) The nominal maximum (scaled for part-time)

21x £23,000/12 x10.2000/13.6685 = £30,036
(c) X months pay where X = (7/31 x30/37) = (6 x 10.2000/13.6685)

X = 0.1831 + 4.4774 = 4.9571 (rounded to nearest whole month) = 5
5 x £23,000/12 = £9,583

Gareth will receive £9,583

For Pre-fresh start Prison Officers who leave before age 55, their pension age is 60 for the purposes of tapering.

6.j Exit after partial retirement or formal retirement

The whole of the member's current continuous service, (pre and post partial or formal retirement) will count towards calculating the compensation payment. This is subject to the maximum limits for the member's age and the member's part time service. In cases where there has been a final after formal award and the individual has been re-employed it is only the service after the final award that will count as reckonable for compensation.

Example (i) – redundancy after partial retirement
Caspar leaves on compulsory redundancy aged 66. Caspar took partial retirement 2 years ago and went part-time. Caspar has total service of 43 years accumulated over 44 years and his full-time equivalent rate of pay is £15,000. Caspar will receive compensation reflecting his entire service, not just the period after his partial retirement. Caspar's compensation will reflect the deemed minimum (£23,000). Casper will receive the lesser of:

- £23,000/12 x 6 = £11,500

- £23,000/12 x 6 x 43/44 = £11,238

Casper will receive £11,238 or a payment according to the statutory redundancy rules if this is greater.

For anyone who has retired from a PCSPS employer and is later re-employed, it is only the service from the date of re-employment that will count for any future compensation.

6.k Fixed term employees

What happens at the end of a fixed term contract? A fixed term employee whose contract is terminated on the expiry date on the grounds of redundancy may be entitled to compensation under the scheme. The expiry of a fixed term appointment is not automatically a dismissal on the grounds of redundancy and you should consider taking legal advice on this point. Where the termination is on the grounds of redundancy, Cabinet Office approval for making a payment is not required, and nor are you required to follow the procedures set out in the Cabinet Office Protocol for handling surplus staff situations. In addition, the requirement to offer voluntary redundancy before making an employee compulsorily redundant does not apply where a fixed term appointment is terminated on its expiry date.

As long as the fixed term employee has at least 2 years qualifying service and is being dismissed for redundancy, they will receive the same compulsory compensation terms as a permanent member. You should notify your Pension Service Centre in the normal way asking for compulsory redundancy terms and giving a Scheme Reference number CR (name of employer e.g. DWP) FTAE (CR DWP FTAE). Provisions relating to notice are not relevant where the fixed term appointment is terminated on its expiry date. As a matter of good practice, you should however advise the employee when nearing the end of their contract that it will not be extended.

No compensation is payable for contracts under 2 years.

Early termination of a fixed term contract. If you propose to terminate a fixed term contract early for redundancy, you must, first make an offer to that individual for a departure using voluntary redundancy terms (including the giving of 3 months notice). You will not require Cabinet Office approval and should notify your Pension Service Centre in the normal way asking for voluntary redundancy terms and giving a Scheme Reference number of VR (name of employer e.g. MOD) FTAM (VR MOD FTAM)

Where such offer is not accepted, you can go straight to Compulsory Redundancy without seeking Cabinet Office approval. You should notify your Pension Service Centre in the normal way giving a scheme reference number CR (name of employer)FTAM (CR MOD FTAM). If the individual's contract stipulates a notice period for early termination, they will receive the same compulsory redundancy terms under the new CSCS arrangements as a permanent member, with the appropriate notice period stipulated in the contract.

If their contract does not stipulate a notice period for early termination they should receive the better of the compulsory redundancy terms under section 12 of the CSCS or section 8 of the CSCS (the compensation payment under section 8 will be calculated by GAD

Those on a fixed term appointment can be considered for early departure under a departmental wide Voluntary Exit or Voluntary Redundancy scheme. If accepted they must be treated the same as permanent members and the normal terms will apply. Approval from Cabinet Office will be required for the scheme, if approved, the scheme will be given a scheme reference number, this number should be used for permanent and fixed terms employees when requesting quotes from your Pension Service Centre.

Notice periods
Any notice period will not have the effect of extending the period of the contract

6.l Injury Benefit
A person who has suffered an injury that qualifies under the Civil Service Injury Benefit Scheme (CSIBS) who then leaves on voluntary exit, voluntary redundancy or compulsory redundancy is entitled to ask for injury benefit.

CSIBS may apply to those who leave before their pension age and those who leave at or after pension age. This means the usual process for determining injury benefit entitlement applies. Employers should contact their Pension Administrators who will need to ask the Scheme Medical Adviser to assess the extent to which the person's injury has impaired their earning capacity and whether apportionment is appropriate.

7. Early departures on pre 22 December 2010 terms
There will be a number of exits where staff have been given notice of compulsory redundancy and the notice began before the new terms come into force. There will also be individuals who have agreed with their employer voluntary departure terms before the new terms come into force. However, with both these groups there may be individuals whose last day of service will be after the new terms are implemented. In these circumstances the members will depart on their agreed terms. They will not be allowed to opt for the new terms if they are more favourable. It is possible to amend already agreed departure dates under the pre 22 December 2010 terms. However there should be a clear business case for such delay and it should not be for a period of greater than three months.

8. Member option to take actuarially reduced pension
With all exit terms the usual scheme rules apply allowing staff over their minimum pension age to take early payment of their pension on reduced terms. They have the option to buy out the reduction. The member can use their compensation payment or their own money to do this or a combination of both. If using their own money it must be by cheque, before their leaving date. The pension will not be paid until the cheque is cleared. They cannot use their pension lump sum to buy out the reduction of their pension as it is classed as re-cycling for tax purposes. Members must buy out the full reduction.

9. Notice periods
The Civil Service Management Code (CSMC) section 11 paragraph 11.1.4 gives the notice periods for those whose service is terminated on compulsory redundancy terms. For those under age 60 the notice is normally 6 months unless they have a contractual right to a different period of notice. Those between the age of 60 and 65 may be entitled to a longer notice period depending on their length of service please see the CSMC section 11.1.4 for further details. Notice will commence from the date the notice of dismissal is issued. For Voluntary Exits and Voluntary Redundancies the notice period is 3 months. Notice will commence from the date the employee signs the agreement to depart

9.a CILON
Where the notice period is not worked Compensation in lieu of notice (CILON) is payable on the unworked balance of the notice period. There is no change in the way CILON will be calculated but employers will have access to a calculator so they can calculate the loss

of pension benefits. The CILON payment must be paid through the payroll as tax and NI will apply.

9.b Partnership

For those with a partnership pension account the CILON payment for loss of pension benefits in the unworked notice period should be based on the employer age related contribution and if applicable the employer matching contribution. The monies should be paid into the member's partnership account before the last day of service.

10. Added Pension

Individuals retain the right to use their compensation payment to buy added pension and can use the added pension calculator on the website to obtain an estimate. Anyone who is interested in purchasing added pension will attach a screen shot of the calculation with their Compensation Declaration form when they return it to their employer. The employer will pass these documents to their Pension Service Centre to process the compensation and pension payments.

Added Pension is subject to the Annual Allowance for tax. If the real-terms value of an individual's pension increases during a scheme year, (January to December), by more than £50,000 from January 2011, they will have to pay extra tax on the excess. For those earning in excess of £130,000 there may also be a potential charge under the special annual allowance arrangements in 2010/11 where added pension is purchased. My CSP can provide information for individuals on request.

Example (m) – using compensation to purchase Added Pension

Henry asks his employer to pay all of his compensation payment into the pension scheme to purchase Added Pension for him. The Added Pension increases Henry's pension by £1,000 a year. Over and above this, Henry's pension had increased in real terms during the year (as a result of his ongoing service and a small pay rise) by £500 a year. In total, then, Henry's pension has increased by £1,500. Henry is in classic so his lump sum has also increased in real terms – by £4,500. For Annual Allowance purposes, Henry's pension increases are valued at £28,500 (16 x (£1,500 + £4,500)). This is well within Henry's Annual Allowance of £50,000 so Henry does not incur any extra tax charges.

11. Pension Sharing on divorce

The compensation lump sum payment is based on all current reckonable service regardless of the pension sharing order.

If the member opts for early payment of pension benefits on reduced terms the pension debit will be applied to the members pension (and lump sum if classic or classic plus) at the time the reduced pension benefits are paid. It will be this reduced pension/lump sum that will be used to calculate the cost of the buy out.

12. Re-employment

If someone is re-employed in an organisation covered by the Civil Service pension and compensation arrangements within 28 days of leaving their current employer, their compensation will be cancelled and their service will treated as continuous. They will have to repay the **full** compensation amount.

A compensation payment must be re-paid in full or in part if an employee is re-employed in an organisation covered by the Civil Service pension and compensation arrangements within the lesser of (a) 6 months and (b) the notional period of their compensation payment. Where the employer has topped up the compensation payment to meet the total cost of the actuarial reduction, the notional period of the compensation payment for re-employment purposes will be the amount originally awarded to the member (i.e. not the total cost of the buy out.) If re-employment is at a lower salary an adjustment will be made as in the example below.

Example (n) – re-employment
Millie receives a severance payment of £30,000 which represents12 months' pay. 4 months later, Millie is re-employed in the Civil Service on a salary of £24,000. Millie will be required to repay 8 months' compensation, adjusted for her new salary level.

The amount to be repaid will be calculated as £30,000 x 8/12 x 24,000/30,000 = £16,000. (In this case, the severance payment – being no more than £30,000 – would not have attracted tax. In cases where tax is payable, any repayment is adjusted, as now, to take account of tax paid.)

Where re-employment takes place within 28 days of leaving, then the compensation award will be withdrawn and service will be regarded as continuous**. The employee must repay the full compensation amount.**

Where there is concurrent service an individual can take VE, VR or be dismissed on CR from one employment and continue to work for the other employer. It is only if they take further employment that the re-employment rules will be applied.

If an employer re-employs anyone receiving a pension (or an annual compensation payment under the pre-22 December 2010 arrangements), the pension (or annual compensation payment) may be abated.

Departments wishing to re-employ a member of the Senior Civil Service for a period covered by a compensation payment will require Cabinet Office approval.

If any employer offers a non standard tariff under their VE scheme and the individual is re-employed after 28 days but before the lesser of the notional period of the lump sum compensation payment and 6 months. The notional period of the lump sum should still be expressed as a decimal number of years

12.a Re-employment following reserved rights
Abatement of salary may apply to anyone who is re-employed after receiving reserved rights under the pre 22 December 2010 reserved rights terms. If they are re-employed within 6 months of leaving a portion of the compensation payment will be repayable.

Abatement of salary will not apply to anyone who is re-employed after receiving a percentage of reserved rights under the new CSCS arrangements. If they are re-employed within 6 months of leaving a portion of the compensation payment will be repayable.

12.b You must use the Pension Questionnaire and Calculator (on the Civil Service Pensions website) to identify anyone who is re-employed after receiving a compensation payment.

13. Employer Costs
The cost of the compensation lump sum and the additional cost of the top up for the buy out of the reduction to the member's pension, if applicable, will be chargeable at time of

leaving. The total cost will be charged to the employer by Capita Hartshead in the normal way.

14. Tax

HMRC have changed the way payments made after an employee has left an employment are taxed. This will affect any compensation lump sum paid under voluntary exit, voluntary redundancy and compulsory redundancy. The first £30,000 of a compensation payment is tax free and in the past any compensation over £30,000 was taxed at basic rate by Capita Hartshead. If any further tax was due at the higher rate it was done by self assessment at the end of the tax year.

From the 6 April 2011 tax after the first £30,000 tax will be deducted in line with the PAYE tax bands. This will mean that individuals who are liable at the higher and additional tax rates will pay closer to the right amount of tax at the time they receive their compensation payment from Capita Hartshead. HMRC have processes in place that will for the majority of individuals, allow for any over deduction of tax to be repaid in-year. Capita Hartshead will provide details of the leaver's gross and net tax which will be printed on a slip of paper that they can then forward to their tax office to claim back any over deducted tax. If the compensation payment is used to buy-out the reduction to the pension for early payment it is only any remaining compensation lump sum over £30,000 that will be subject to tax.

Scheme Summary

Civil Service Compensation Scheme Element	Voluntary exit	Voluntary Redundancy	Compulsory Redundancy
Standard Tariff	1 month's pay per year of service	1 month's pay per year of service	1 month's pay per year of service
Other Tariff (To offer more than standard tariff must have Minister for the Cabinet Office Approval)	Between statutory redundancy and twice standard tariff	Only Standard tariff applies	Only Standard tariff applies
Minimum qualifying service	2 years but employers may exercise discretion	2 years but employers may exercise discretion	2 years
Cap for those below pension age (subject to any tapering that may apply)	21 months' pay	21 months' pay	12 months' pay
Cap for those above pension age	6 months' pay	6 months' pay	6 months' pay
Lower paid protection (for salary of under £23,000 pa)	At employers discretion	Must be applied	Must be applied
Higher paid cap (£149,820)	Must be applied	Must be applied	Must be applied
Notice period	3 months	3 months	6 months unless contract states differently
Early Access to unreduced pension Employer to top up 50 to 55 age group	Discretional on current service. Any other pension benefits must be paid immediately on actuarially reduced terms unless member buys out reduction	Must be permitted on current service. Any 'other service' pension benefits will be payable immediately on actuarially reduced terms unless member buys out reduction	Cannot be permitted. All pension benefits preserved unless member opts to take them actuarially reduced or opts to buy out the reduction
Early Access to unreduced pension Employer to top up 55 to scheme pension age	Discretional on current service. Any other service will be preserved unless member opts to take it actuarially reduced or opts to buy out the reduction	Must be permitted on current service. Any other service will be preserved unless member opts to take it actuarially reduced or opts to buy out the reduction	Cannot be permitted. All pension benefits preserved unless member opts to take them actuarially reduced or opts to buy out the reduction
Early Access to unreduced pension employer does not top up 50 to scheme pension age	All pension benefits will be preserved unless member opts to take them actuarially reduced or opts to buy out the reduction	All pension benefits will be preserved unless member opts to take them actuarially reduced or opts to buy out the reduction	All pension benefits will be preserved unless member opts to take them actuarially reduced or opts to buy out the reduction

Where individuals take pension benefits with actuarial reduction the payment of benefits will be subject to a GMP test where they have service before 5 April 1997