



# Employer Pensions Notice

## EPN171

### Removal of the Health Standard

### Treatment of service where staff have previously been excluded from ill-health retirement benefits

**Audience** This Notice will be of particular interest to:

- HR practitioners who deal with pension issues
- Those who deal with payroll procedures

**Action** You must write to staff who were previously excluded from ill health retirement benefits

**Timing** Immediate

### Background

1. In EPN 157 we told you that restrictions on members' access to ill-health retirement provisions were being removed from 1 January 2007, and asked you to write to those affected. This EPN now gives you details of how previously excluded service will be treated and the arrangements you need to make for members wanting their service to count in full, should they subsequently retire on ill health grounds.

### Excluded service

2. You should already have identified those members affected by this change and instructed your payroll provider to change their contribution rates to standard scheme rates from 1 January 2007. You must now write to these individuals to ask them to consider how they want service from 1 October 2002 up to 31 December 2006 to be treated in the event that they claim benefits early due to ill-health. A



model letter is attached at Annex B which includes an options form for them to complete.

3. The letter gives previously excluded members the option of either making backdated contributions (in which case any service between 1 October 2002 and 31 December 2006 will count in the event of ill-health retirement in the future) or, alternatively, not making backdated contributions, in which case any ill-health pension will reflect only service for which they have paid full contributions.
4. The original instructions for reducing contributions for excluded members, which came into effect on 1 October 2002, were in EPN 38. (You can find a copy of this EPN on our website in the archived EPN section.) This set out that when a member failed to satisfy the health standard you;
  - gave **classic** members a non-pensionable taxable pay supplement equivalent to 1.5% of pensionable earnings
  - deducted a reduced rate of 2% instead of 3.5% from **premium and classic plus members**. (In some cases, because of payroll limitations, you may have followed the same method as **classic** by continuing to deduct 3.5% and awarding a pay supplement.)

(Note: There was no reduction in contribution for any service before 1 October 2002.)

5. For their service to count in full, the member will now have to pay contributions to cover the amount they underpaid between 1 October 2002 and 31 December 2006, plus an amount of interest. The backdated contributions will be eligible for tax relief.
6. You must include the amount each individual would have to pay in the letter you send them. To calculate this you will need payroll details for the period concerned so that you can find out either the amount of any non-pensionable pay or the contributions deducted at the lower rate during the period. This will enable you to work out the shortfall. So, if a member contributed 2%, you should divide the total contribution by 2 and multiply the result by 1.5 to give you the amount of the under provision. For example, if the member's 2% contribution was £500, their additional contribution would be £375 ( $£500/2 \times 1.5$ ). You will then need to add on interest to this amount – instructions of how to calculate that are at Annex A.

### The option form

7. We have set a deadline of 31 July 2007 for members to complete and return the option form to you. They cannot change their decision after that date. When a member has returned the form you must acknowledge receipt by signing it and returning a photocopy to them for their own records. You must retain the original for your records. The default position – which will apply to any members who do not respond – is Option B, namely that they will not pay backdated contributions and will not get the full benefits should they subsequently retire on ill health grounds.

8. For those who decide to pay contributions and complete option A on the form, you must arrange for them to repay the full amount. You can agree to do this by monthly deductions from salary. The backdated contributions must be entered on payroll as a pension contribution. You must also notify your APAC that the member has agreed to pay these contributions. This will make sure that the APAC correctly awards the full amount of any ill-health benefit that may become due in the future.
9. We suggest the members' payments are made over the same duration that they were paying lower contributions. For example, if they paid the reduced contribution for two years they can pay the money by 24 monthly deductions. Members can pay the money over a shorter time if they wish. There may be scope to pay over a longer period of time in exceptional circumstances where there is financial hardship but you should not agree to extend the repayment period by more than an additional 12 months without prior agreement with Civil Service Pensions Division (CSPD). Please contact CSPD by emailing the Employer Helpdesk.
10. If the member leaves the PCSPS, including on ill health retirement grounds, before paying back all the money you must recover any outstanding amount through your usual payroll procedures. If, exceptionally this is not possible you should notify your APAC of the amount outstanding so that they can consider whether any alternative means of recovery is possible. If the member has not paid all the arrears they won't get full benefit.
11. If they choose option B, not to pay contributions, then there is no further payroll action for you to take. You must ensure you keep a copy of their decision on your personnel files. You must also notify your APAC that there is a period of service for which benefit will not be paid. The model letter includes some examples of how this will work.
12. Once the deadline of 31 July 2007 has passed you must send your APAC a full list of anyone to whom the exclusion applied. This should include those who have not made any option as they will be treated as if they had signed option B. A note that they have not made an option should be kept on your files. For the avoidance of any doubt or confusion, you should also write to the member confirming their choice.

**Reference** This document refers to/replaces EPN 38 EPN 157

**Contacts** Enquiries about content, distribution or to receive in a different format

**[employerhelpdesk@cabinet-office.x.gsi.gov.uk](mailto:employerhelpdesk@cabinet-office.x.gsi.gov.uk)**

**01256 846414**

**Employer Helpdesk, Civil Service Pensions, Grosvenor House, Basing View  
Basingstoke, RG21 4HG**

You can find copies of the EPG, all current EPNs and forms on our website  
[www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk) in the Guidance for employers section.

## Annex A

## Calculating interest

You must apply an interest rate of 3.2% to the figure, which is based on the average net building society rate during the period.

To calculate interest you must:

1. For any period between 1 October 2002 and 31 December 2006 multiply the amount underpaid by 3.2%
2. multiply this total by the number of years the member owes contributions
3. divide this total by two (*which assumes that the total of the arrears arises at the mid point of the period ending 31 December 2006*)

## Examples

Example 1

Ian was excluded for the period 1 October 2002 – 31 December 2006. This is 51 whole months =  $51/12 = 4.25$  years. By following the instructions in paragraph 6 you find that the basic contribution Ian needs to pay is £1387.75. The amount due with interest added will be:

- |   |                   |
|---|-------------------|
| 1. £1387.75 x 3.2%                        | = £44.41          |
| 2. multiply by 4.25 years                 | = £188.74         |
| 3. divide by 2                            | = £94.37          |
| 4. <u>Amount due</u> is £1387.75 + £94.37 | = <u>£1482.12</u> |

So, the standard monthly repayment would be: £1482.12 divided by 51 = £29.06\*. Because of rounding the repayment for the first month may be slightly different to ensure the correct total – in this case £29.11.

\*(£1482.12/51 actually = £29.06177. You should take the nearest figure as the standard monthly amount – in this case £29.06 and adjust the first month to ensure the total is correct).

Example 2

Nadia was excluded for the period 17 May 2004 – 31 December 2006. This is 31 whole months (you can ignore part months) =  $31/12 = 2.58$  years. The basic contribution Nadia needs to pay is £812. The amount due with interest added is:

- |                                       |                  |
|---------------------------------------|------------------|
| 1. £812 x 3.2%                        | = £25.98         |
| 2. multiply by 2.58                   | = £67.03         |
| 3. divide by 2                        | = £33.52         |
| 4. <u>Amount due</u> is £812 + £33.52 | = <u>£845.52</u> |

So, the standard monthly repayment would be £27.27 with an initial monthly payment of £27.42.

## Annex B

**Your Civil Service pension scheme contributions – Ill Health Retirement benefits**

I recently wrote to let you know that from 1 January 2007 you are no longer excluded from eligibility for ill health retirement benefits. This letter gives you the option to get full benefit for the period the ill health restriction applied from [Insert *date of commencement of employment*] to 31 December 2006 should you subsequently retire on ill health grounds.

Please read this letter and complete and return the attached form so that I receive it by **31 July 2007**.

From 1 October 2002 (or date employment started if this is later) to 31 December 2006

- You have not paid the usual 1½% that is due from members of **classic**
- You have paid 2% instead of the usual 3.5% that is due from members of **premium**

*[include appropriate option]*

If in future, you retire early on health grounds you may receive less pension benefits because you have this period of service where you paid reduced contributions.

You have two options.

**Option A**

If you want all your service to count in full towards any future entitlement you must agree to pay the amount by which your scheme contributions were reduced in the past. (The amount due includes interest to 31 December 2006.) You will be able to do this by [x] monthly instalments deducted from your salary over the same period that you paid reduced contributions. Any ill-health benefit you subsequently become entitled to will then take into account your service in full. These additional contributions will get tax relief in the same way that your normal contributions do.

**Option B**

If you decide not to pay these contributions, and subsequently qualify for ill-health retirement, we will take all of your service into account when working out any enhancements but will take away any period of your service between 1 October 2002 and 31 December 2006 when you did not contribute or contributed at the lower rate. The element of benefits relating to this period of service will be deferred and paid when you reach pension age. If you have any service before 1 October 2002 it will automatically count towards your benefit in full.

The following examples show how any pension would be calculated under both options:

**Examples**

## Example 1

Jo qualifies for ill-health retirement at age 40 after 10 years' service. 4 of these years do not qualify for ill-health benefits. She is in **premium** and is entitled to upper-tier level of pension. This means that her service will be enhanced by 20 years which is the time left until she reaches 60.

If Jo had chosen Option A and paid arrears, her ill-health pension would be based on 30 years, that is all her 10 years' service and 20 years' enhancement.

If Jo had chosen Option B and not paid arrears, we would deduct the 4 unpaid years and base her ill-health pension on 26 years' service. Jo's pension for the 4 "unpaid years" would be frozen and brought into payment when she reaches 60.

### Example 2

Paul qualifies for ill-health retirement at age 40 after 10.25 years service. 4.25 of these years do not qualify for ill-health benefits. He is in **classic**. This means that his service will be enhanced by 9.75 years to a total of 20 years which is the time left until he reaches 60.

If Paul had chosen Option B and paid arrears, his ill-health pension would be based on 20 years, that is all his 10.25 years' service and 9.75 years' enhancement.

If Paul had chosen Option B and not paid arrears, we would deduct the 4.25 unpaid years and base his ill-health pension on 15.75 years' service. Paul's pension for the 4.25 years would be frozen and brought into payment when he reaches 60.

### Important information

- We cannot accept forms after 31 July 2007. If you do not return the form you will be treated as choosing not to pay contributions
- You will not be able to change your decision later
- You can download a leaflet containing more information about ill health retirement benefits from the Civil Service Pensions website, [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk) .

### What you need to do now

You must tell us what you want to do by completing the attached form and returning it before 31 July 2007.

**ILL-HEALTH PENSION BENEFITS**  
**OPTION TO PAY BACKDATED CONTRIBUTIONS**

Please complete this form choosing either:

**Option A** - to **pay** contributions so that all your service counts for ill-health benefits

I undertake to pay the amount of £                      (*sum owed*) by [    ] monthly instalments.

I understand that:

- All my reckonable service will count if I qualify for ill-health retirement benefits in the future.
- Once I have signed the undertaking I am committing to paying the full amount. Should I leave before payment is completed the outstanding balance of contributions is treated as a debt against salary and will be recovered accordingly. If I leave employment my employer will tell me how much I still owe and how I can repay it.
- I cannot change my decision at a later date

Tick here for Option A

**OPTION B – NOT TO PAY BACKDATED CONTRIBUTIONS**

I have decided not to pay the amount by which my Civil Service pension contributions have previously been reduced.

I understand that if I do subsequently qualify for ill-health retirement any enhancements will reflect all my service. However, the element of benefits relating to the service that I have not paid the full amount of contributions for will be deferred and not paid until pension age.

Tick here for Option B

Signature.....	Date.....
Full Name.....	Telephone number.....
	Pay Reference.....

Please return this form to:

.....  
.....  
.....

**For employer use** *Please complete this section and return a copy of the whole form to the individual*

Your option has been noted. We will be in touch with you again shortly to agree when the increased rate will begin and the period over which additional payments will be payable.