CabinetOffice

Employer Pensions Notice

EPN 143

Scheme amendments

Changes to:

- **Principal Civil Service Pension Scheme (PCSPS)**
- **Civil Service Compensation Scheme (CSCS)**
- **Civil Service Additional Voluntary Contributions Scheme (CSAVCS)**
- **Partnership Pension Account Death Benefit Scheme (PPADBS)**
- **Partnership Pension Account Ill Health Scheme (PPAIHS)**

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

- **HR Managers who deal with pension issues**

Action **To note the scheme changes**

To note that your APAC will not be able to carry out revisions to pension awards until at least late May

To issue the enclosed Office Notice – inserting your APAC contact details where indicated

Timing **The office notice should be issued as soon as possible**

Civil Service Pensions

Background

1. Amendments to the PCSPS, CSCS, CSAVCS, PPADBS and PPAIHS have been laid before Parliament and came into effect from 6 April 2006. Detailed guidance has been issued to APACs but the main issues for you are outlined below.

Tax simplification

2. The background to tax simplification and the main changes being made to the provisions of the scheme were outlined in EPN 133 and the two office notices which you were asked to issue to all staff. The amendments to scheme rules reflect those changes.

High earners

3. The tax changes are likely to have most impact on employees who are high earners. In relation to high earners you need to be aware of the following:

- We are keeping the “earnings cap” which limits pensionable earnings for those who joined the scheme on or after 1 June 1989. For tax year 2006-7, the earnings cap is £108,600 (full-time equivalent rate for part-time staff).

- We are closing the Supplementary Scheme to new entrants. If you have senior staff in the Supplementary Scheme they will carry on building up tax non-approved benefits.

- If you are recruiting at a senior level (salary over the earnings cap) and need to offer an improved pension package to secure a particular candidate, you may wish to put a business case to the head of Civil Service Pensions Division for the earnings cap to be disapplied. We will expect the reward package offered to reflect the additional pension cost to the employer.

- If you are recruiting at a senior level you may also find that, in some circumstances, candidates will already have significant pension provision and wish to negotiate a higher salary in lieu of participating in the pension scheme. You should refer these cases to the Civil Service Pensions Division.

- We will continue to maintain the “pensions and tax” group and the associated webpages www civilservice-pensions.gov.uk/lta. Please make sure that your senior staff are aware of this and that you have at least one person in the HR area who has at least some knowledge of the tax issues for high earners.

- Where individuals have pension benefits which take them over the lifetime allowance, the process of putting their pension into payment is bound to take a little longer than now. Your APAC may need to seek additional information and may also have to talk the member through the different options available to them. Where retirements are planned, please give as much notice as possible to your administrator.

- If you are aware of anyone who has a significant increase in pension benefits – for instance, as a result of a big promotion (salary increase of, say, £30k or more) and/or a one-off increase in service (for instance, a senior member of staff returning from secondment to an EU institution), it would be sensible to check that the individual is not going to breach the annual allowance and get a large tax bill. Raise any such cases with the employer helpdesk in the first instance.

- Please remember to alert new starters on salaries over £100,000pa to the existence of the pensions and tax group and encourage them to register. Details are on our website (see above).

Compensation scheme benefits

4. There are some technical changes to the arrangements for **classic** members over age 50 who leave on Compulsory Early Retirement (CER) and Flexible Early Retirement (FER). Under the new tax rules, we cannot pay a tax-free lump sum early to members without also bringing their pension into payment early. However, those with significant pension benefits will need to bear in mind that enhanced pension benefits may also imply higher Lifetime Allowance charge tax. **classic** members will therefore have a choice between

   <u>Option A</u> - taking an enhanced early pension and tax-free lump sum (calculated in the same way as the annual compensation payment and early tax-free lump sum payable to those who left before 6 April 2006), and

   <u>Option B</u> - receiving the additional early exit benefits solely in the form of compensation (in the same way that **premium**, **classic plus** or **partnership** members leaving on CER or FER do).

   Employers will remain responsible for meeting the costs of early departures and will pay the costs appropriate to the option the member chooses. The repackaging and commutation options will no longer be available.

Early Leavers

5. Any member who leaves the scheme on or after 6 April 2006 with at least 3 months reckonable service but without a preserved pension will have a legal right to a transfer value of the rights they have built up or a refund of their contributions (less any tax due). This is over and above the rights they have in the scheme rules. The new legal requirements specify time limits in which certain actions must be taken. To ensure that your APAC can comply with the time limits it is important that you notify them promptly about members of staff who cease employment.

Civil Service Additional Voluntary Contribution Scheme (CSAVCS)

6. Members can now transfer their CSAVCS benefits out of the AVC scheme whilst they remain in the Civil Service as long as it is to a UK registered scheme or to a Qualifying Recognised Overseas Pension Scheme. Please note that members cannot transfer their CSAVCS benefits into the main Civil Service schemes (**classic**, **premium**, **classic plus**).

Revisions to awards

7. How pension schemes deal with revisions to pensions in payment following a benefit crystallisation event (BCE – this is where a member takes pension benefits on or after 6 April) has only recently been resolved between schemes and HMRC. The resolution involves a number of complexities around testing the revised pension and any lump sum against the member's lifetime allowance. PenServer – the Civil Service pension scheme's administration software – is being developed to be able to cope with revisions, but it is unlikely that your APAC will be able to use this until at least the end of May. In the meantime your APAC will not process award revisions manually.

8. By and large the largest category of awards requiring revisions will be those where you, as an employer, have agreed a back-dated pay increase for your staff generally. Please note that under these circumstances the effect of any retrospective increase in pay upon a member's benefits when they left will be paid, but not until at least May when your APAC has the new software available to use (and possibly later if there are many awards needing revision). You may wish to make any members of staff who are both retiring over the next couple of months and likely to benefit from a back-dated pay award aware of this delay.

Information from individuals who are about to retire

9. The new tax regime requires a scheme to make checks to determine whether or not any Lifetime Allowance tax is payable when a member retires. Your APAC will be gathering this information via the revised Personal Details Form which staff are asked to complete. You need to be aware that the APAC will not pay the pension until they have a properly-completed form returned to them. It is therefore important that staff complete and return the form promptly.

Pension sharing on divorce

10. Where an individual receives a pension credit from a former spouse as part of a divorce settlement, they will no longer be able to ask for their pension to be brought into payment early (ie before age 60) except on grounds of ill-health.

Reference This document refers to EPN 110, 127, 131, 132, 133

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

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You can find copies of all current EPNs and forms on our website **www.civilservice-pensions.gov.uk** in the Employer and APACs section username **employers** password **mc2fxqfy**

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Annex A

MODEL OFFICE NOTICE

Please note you should refer back to the office notices you issued following EPN 133.

New tax rules (tax simplification) and changes to the pension arrangements- a reminder of what is happening

From 6 April 2006 new simplified rules came into effect for the taxation of pensions. For most people the changes are beneficial.

As far as the taxman is concerned, there is now no limit on the amount of money you can save in a pension scheme or the number of pension schemes you can save in – although there are limits on the amount of tax relief you can get.

You will get tax relief on contributions of up to 100% of your earnings.

There is a limit on the increase in the value of your pension rights or benefits that you can have in any tax year and contributions you can pay into a pension scheme or arrangement without paying extra tax. This limit is known as the **annual allowance**. The annual allowance for the 2006/07 tax year is £215,000.

Each person will have a **lifetime allowance** (LTA) for the total value of pensions which can come into payment without having to pay extra tax... The LTA for the 2006/07 tax year is £1,500,000. Each time you start to take a pension from a pension scheme the value of the pension will be tested against your remaining LTA. Provided you have sufficient LTA left, your pension will be brought into payment and then taxed in the normal way while in payment. It will not normally be tested against the LTA again.

Please note that the annual allowance and lifetime allowance are sufficiently high that they will not affect the vast majority of people.

Putting a pension into payment from 6 April 2006

The new tax regime requires your APAC to carry out extra checks before they can put a pension into payment. Some of the information the APAC needs can only be provided by you when you retire. The Personal Details Form (PDF) - which you will receive when you are about to retire - will ask you to give the information needed. You need to be aware that your APAC will not bring your pension into payment before they have your properly-completed PDF.

Last year we told you about the changes to the Civil Service pension scheme as a result of the new tax rules. Here is a reminder of the main changes from 6 April 2006 and more importantly what will not change at that date.

Changes to the payment of WPS (widows'/widowers' pension scheme) refunds

If you are a member of **classic** who is eligible to receive a refund of WPS contributions on retirement, the refund will be paid as part of your retirement lump sum when you first draw your pension. In most cases this means that the refund will be tax-free.

Minimum age for payment of pension credits

Any one who is awarded a pension credit as part of divorce or dissolution proceedings will only be able to have the pension credit put into payment before they are 60 if they are unable to work through ill health.

Change to age limit for dependent children's pensions

Any new pensions for dependent children paid after 6 April 2006 will stop at age 23 even if the child is in full time education or training. Special rules will apply to dependent childrens' pensions already in payment at 6 April 2006.

New age limit

We will not be able to pay lump sums to members who have reached age 75. We will require members to draw their pension before their 75th birthday but we will not abate (reduce or suspend) their pension if they carry on working.

Allocation

If you want to allocate (give up) part of your pension to provide a bigger pension for your dependants after your death you will have to do so at the time your pension comes into payment. You will not be able to allocate after your pension has come into payment.

If you are in **classic**– you need to be aware that the option to allocate part of your pension to provide for a pension to be paid to your spouse/ civil partner before your death is no longer available.

Transfers from schemes other than occupational (employer sponsored) schemes

If you want to transfer pension rights from a non occupational pension scheme you must make your application within 12 months of being eligible to join **premium** or **classic.** You will not be able to transfer pension rights from arrangements which were classed as Free Standing Additional Voluntary Contribution arrangements or Additional Voluntary Contribution arrangements immediately before 6 April 2006

The Civil Service Additional Voluntary Contribution Scheme (CSAVCS)

- You will no longer be restricted to the current limit of 15% of salary to cover contributions to both the CSAVCS scheme and the Civil Service pension scheme.

- When you draw your CSAVCS benefits you will be able to draw 25% as a lump sum

- You can now transfer your CSAVC benefits out of the AVC scheme whilst remaining in the Civil Service as long as it is to a UK registered scheme or a qualifying recognised overseas pension scheme

The Civil Service Compensation Scheme (CSCS)

There are some technical changes to the arrangements for **classic** members who leave on Compulsory Early Retirement (CER) and Flexible Early Retirement (FER) but there will be no change in the actuarial value of benefits payable. **classic** members will have a choice between

Option A - taking an enhanced early pension and tax-free lump sum (plus a compensation lump sum for those leaving on CER) payable immediately without any reduction for early payment, and

Option B - receiving the early exit benefits solely in the form of compensation (in the same way that **premium**, **classic plus** or **partnership** members leaving on CER or FER do) with pension benefits deferred for payment at 60.

The repackaging and commutation options will no longer be available. Full details are contained in the booklet, “Civil Service Compensation Scheme (CSCS): Early retirement and redundancy for **classic** members – a guide to what is available”.

Revisions to your pension

Pensions in payment get revised for all sorts of reasons, one of the main ones being where someone retires before an expected pay increase has been agreed and paid. The new arrangements require your APAC to test any post-leaving revision you may get against your remaining LTA. The complex nature of this test is being written into the scheme’s administration software but your APAC will not have use of this particular aspect of it until at least late May. If you are retiring soon and are expecting a revision to your pension shortly afterwards, you need to be aware that the revision is unlikely to happen before the end of , May. But it will happen quite soon afterwards, when you will receive all that you are entitled to from the revision. We can only apologise for any further delay this will cause before you get your correct pension and are doing all we can to ensure that this is resolved as soon as possible.

What will not change?

It is important to be aware that many of the tax changes are permissive, and schemes do not have to make changes. The following aspects of **classic**, **premium** and **classic plus** are not changing at present:

- The maximum amount of tax-free lump sum you can take when you retire
- The limit on the maximum number of years of reckonable service you can earn
- The amount of added years you can buy
- The earnings cap that limits the amount of salary on which you can build up scheme benefits (also applies to **partnership** pension account)
- Transfers from an occupational pension scheme can still be accepted up to age 59 in most cases.

Further information

Further information and updated scheme leaflets can be found at:

www.civilservice-pensions.gov.uk