

Fairness for All

Proposals for reform of the Civil Service Compensation Scheme

31 JULY 2009

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government
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Introduction

This document sets out formal proposals for reform of the Civil Service Compensation Scheme terms to take effect from 1 January 2010. The proposals have been issued to the Civil Service trades unions and to other interested parties and are more widely available through the Civil Service website www.civilservice.gov.uk

Any comments on these proposals should be emailed to pensionspr@cabinet-office.x.gsi.gov.uk by **5 October** 2009 or sent to:

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Background

The Civil Service Compensation Scheme (CSCS) is a statutory scheme made under the Superannuation Act 1972. It provides details of the discretionary payments which may be made on exits in circumstances which attract compensation either in the form of a severance payment or an early retirement package. The terms of the CSCS – together with the associated provisions in the Civil Service Management Code (the Code¹) – have remained broadly unchanged since the last major review which took effect from April 1987. The 1986 review rationalised the early departure arrangements and also introduced a right for members to take pension before pension age on an actuarially-adjusted basis.

In a Written Ministerial Statement of 31 March 2009, the Prime Minister said

“The Government .. intends fundamentally to reform the severance and early retirement terms for all Civil Servants in order to control costs. The current arrangements have been in place since 1987 and are inflexible and expensive. The new terms require departments to reduce costs and will improve accountability and value for money for the taxpayer, saving up to £500m over the next 3 years.”

In addition, the current terms provide different benefits depending on age. Some aspects of the rules have been challenged by members on age discrimination grounds, with varying degrees of success. However, even if the discrimination is judged by the courts to be justifiable, it is not necessarily the case that members perceive the differential approach as fair.

Confidential discussions on new exit terms have taken place with the Council of Civil Service Unions (CCSU) and, internally, with Civil Service management. These formal proposals, which include transitional provisions for current staff, take account of matters raised in those discussions and are intended to strike a fair balance between the interests of all parties.

¹ The Code can be found at www.civilservice.gov.uk

Current exit terms

Following the 1986 review, a range of terms applied, as summarised below. The circumstances in which the different terms may be used are set out in the Code.

Current exit category	When used
Compulsory category	The most generous terms, intended to be used where the individual's contract was being terminated compulsorily (for instance on redundancy but also for "structural" departures of senior staff). Employers could also use these terms to invite volunteers for redundancy.
Flexible category	Used in circumstances where no compulsion is involved.
Approved Early Retirement	Early access to an unreduced pension with employer consent.
Medical Retirement	Where an individual is prevented, permanently, by health reasons, from performing their job
Inefficiency	Where a severance payment is considered appropriate following dismissal for poor performance or poor attendance. May also be used in cases which do not meet the stringent criteria for medical retirement.

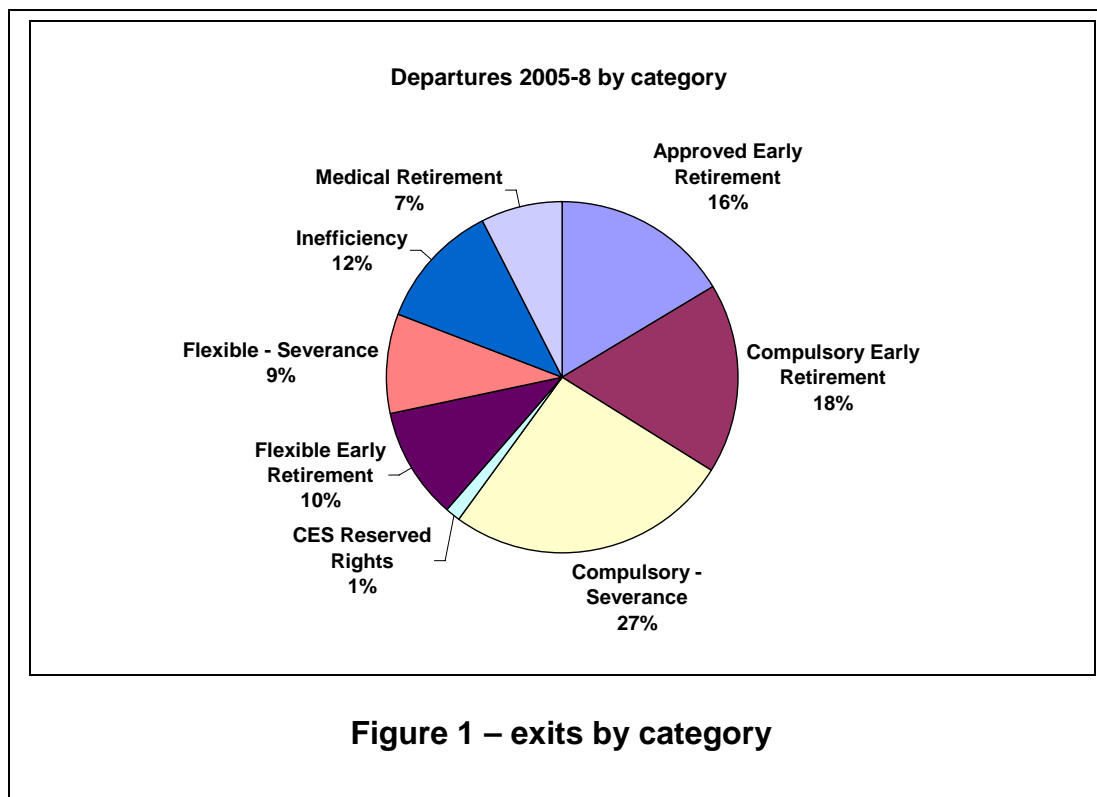
The CSCS sets out the tariff to be applied in exits under the Compulsory and Flexible categories, and also where compensation is paid on Inefficiency grounds. Further details are provided in Annex A.

Medical retirement terms are set out in the pension scheme rules. There are no proposals to change these terms and medical retirements are included for completeness only.

Fixed-term workers are not currently covered by the arrangements set out above. Where a contract is terminated mid-term, compensation is generally paid by reference to the unexpired period of the contract.

The diagram at Figure 1 is based on an analysis of data on exits during the 2005-8 spending period. As exits (other than medical retirements) are the responsibility of individual employers, complete data is not kept centrally. This data is not entirely complete and needs therefore to be treated with appropriate caution, but it serves to provide a general picture of the usage of the current terms.

Over the period the data shows around 34,000 exit packages provided across the range of CSCS terms (including Approved Early Retirement) and around 2,700 medical retirements. Departments reported in excess of 90,000 headcount reductions². Of the exit packages on CSCS terms, nearly half were on the most generous “compulsory” terms even though it is understood that very few compulsory redundancies took place; the vast majority of exit packages being provided to those leaving as a result of voluntary schemes.



² 2008 Budget Report on the progress on the 2004 Spending Review

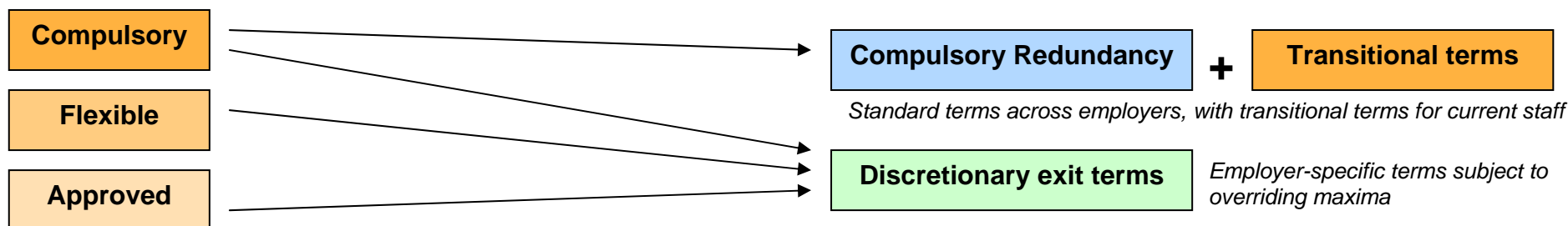
Principles to underpin the reformed arrangements

- Civil Service employers remain committed to keeping the number of compulsory redundancies to a minimum. The joint Cabinet Office / CCSU Protocol for handling surplus staff situations³ (“the Protocol”) sets out the procedures to be followed and the responsibilities of the various parties involved. The Protocol sets out a process which ensures that compulsory redundancies occur only when Cabinet Office and the national trades unions, as well as local management and unions, are satisfied that such redundancies are wholly unavoidable. Accordingly, a distinction will be drawn between the compensation payable in respect of cases of wholly unavoidable compulsory redundancy (“compulsory redundancy”) and all other exits.
- Civil servants have access to an index-linked occupational pension which is largely employer-funded. Most civil servants have access to an unreduced pension from age 60, while recent entrants have a pension age of 65. Compensation payments will be tapered to take account of access to pension.
- All civil servants (other than senior civil servants) work for employers who already have, or are planning to have, no retirement age. Compensation payments will therefore be paid regardless of age.
- Taxpayers have the right to know the cost of redundancy and other early departure costs and these will be disclosed in resource accounts starting with those relating to financial year 2009-10. Cabinet Office will work with Treasury to determine the means and methodology for reporting.
- Where staff leave as a consequence of compulsory redundancy the compensation payable will be mandated in the Compensation Scheme rules and will therefore be the same for all employers. In other cases the employer will have a degree of flexibility as to the compensation payable subject to certain maximum amounts.

³ The Protocol can be found on the Civil Service website at www.civilservice.gov.uk

- For the future, Departments will generally deliver compensation on termination of contract in the form of a cash payment rather than continuing the current model of early retirement for those aged over 50 and severance payments for those aged under 50.
- Some older workers will want to have access to an early pension. The rules of the Civil Service pension scheme already give members the right to draw a pension early on actuarially-adjusted terms; the rules will be amended to allow members to make additional payments to buy out (at full cost) all or part of the actuarial adjustment. And, as part of their flexibilities, employers will retain the ability to offer early retirement to workers over the age of 55 (subject to their being able to justify not only the cost but also a potentially age-discriminatory practice). However, there will be no enhancement of the terms by the funding of added years.
- In reforming the exit terms there is a clear objective to reduce costs overall. But protection will be provided, through transitional arrangements, for existing staff leaving on compulsory redundancy.
- The new terms are intended to be effective for exits from **1 January 2010**.

The way in which the current exit terms map onto the proposed arrangements is shown below. The coverage and nature of the new compulsory redundancy and discretionary exit terms is described on the following pages.



Compulsory Redundancy

Where, after all of the procedures and processes of the Protocol have been followed, Cabinet Office agrees that compulsory redundancies appear inevitable, compulsory redundancy terms will apply for individuals with a minimum of one year's service. A lump sum redundancy payment will be calculated by reference to continuous service on the basis of one month's pay for each of the first five years of service and two months' pay for each subsequent year, to a maximum of two years' pay.

Compulsory redundancy payments will be capped at a maximum of six month's pay for those who are over pension age⁴ to take account of the fact that they have immediate access to an occupational pension which is funded largely by the employer. To avoid a "cliff-edge" at pension age, payments for those close to pension age will also be subject to tapering (see detail in Annexes B and D); modelling indicates that tapering would start to apply within around two years of pension age. In no case will the payment be less than the amount which would be provided by the statutory redundancy scheme⁵.

Transitional terms will be available to people in service before 30 July 2007. In the event of genuine compulsory redundancy during the period up to 31 March 2011, those affected will be able to leave on the current redundancy terms.

Further details of the new compulsory redundancy terms are set out in Annex B. Some worked examples are shown in Annexes C and D

⁴ Pension age is 60 for those in the **classic**, **classic plus** or **premium** pension schemes and 65 for those in **nuvos**. For those who have opted for a **partnership** pension or who have chosen to opt out of the pension arrangements, "pension age" will be taken as 60 for those whose current service began before 30 July 2007 and 65 for those whose service began on or after 30 July 2007.

⁵ The statutory redundancy scheme does not apply to civil servants (s159, Employment Rights Act 1996)

Other exits attracting a severance package

In other circumstances, including as a measure to attract volunteers as a redundancy avoidance measure, a standard tariff will exist based on one month's pay per year of service up to a maximum of two years' pay. Employers will have discretion to substitute their own arrangements (for individual or group departures) paying more or less than the standard tariff, but subject to an absolute maximum of twice the standard tariff (or, if less, two years' pay) and a minimum of statutory redundancy. This discretion will be subject to guidance to be issued by the Cabinet Office which will emphasise the need to secure value for money and the need for Departments to satisfy themselves that their terms are not unjustifiably discriminatory.

Where employers wish to provide discretionary exit terms in excess of the standard tariff (but still within the two-year maximum), the following controls will apply⁶:

Staff below the senior Civil Service ("SCS")	the Permanent Secretary must be satisfied that there are appropriate processes in place to ensure value for money
Deputy Directors and Directors	the Permanent Secretary must approve the exit terms personally
Directors General and above	the Permanent Secretary must obtain Cabinet Office approval for the exit terms

Departments will have discretion to offer early payment of pension to those aged 55 or over. Departments may choose to fund part or all of the cost of buying-out the actuarial reduction but cannot provide extra years of service as well. If employers choose to exercise this discretion they cannot make a cash payment as well.

Interaction with pension benefits

These proposals envisage severance generally being paid as a cash lump sum, with pension benefits being preserved for payment at pension age. Where individuals are already over pension age (or close to), they would have immediate access to an unreduced pension (or one which would be subject to only a small reduction if drawn immediately) and this will be reflected in the calculation of the severance lump sum (see further detail at Annexes B and E).

Members of any of the Civil Service pension schemes will continue to have the right to draw their pension before pension age on an actuarially-reduced basis. The earliest age at which pension can be accessed is set by HMRC and is generally 55, but members who have been in continuous membership of the pension scheme since before April 2006 can continue to access their pension from 50. The actuarial reduction adjustment is permanent and is based on the number of years before pension age – it works out at around 5% per year for the first 5 years and 3% per year thereafter.

Example

David is aged 58 and is a member of **nuvos**. He enquires about retiring early on actuarially-adjusted terms.

David would be drawing his pension 7 years before pension age (65). His pension would be reduced by 31% ($5 \times 5\% + 2 \times 3\%$) and this reduction would be permanent.

A new option will be provided in the pension scheme rules so that members can, on retirement, buy out all, or part, of the actuarial reduction by payment of a lump sum amount. Where the member is funding this by use of all or part of a severance lump sum, the payment may be made by the Department on the member's behalf as a deduction from their severance payment. In other circumstances, the additional contribution to buy out the actuarial reduction will attract tax relief up to normal HMRC limits. Individuals may also ask their Department to use some or all of their severance lump sum to purchase Added Pension. Under the pension scheme rules, Added Pension purchased from a severance payment will not be subject to the normal limits in scheme rules (although it may potentially come within the scope of the special annual allowance announced in Budget 2009).

Changes to current CER terms

In view of the judgment in *Wallis*, the CER terms will be modified, backdated to 16 July 2008⁷, to remove the tapering which currently applies to the lump sum element of the CER terms⁸ paid to those aged between 57 and 60.

The CER terms will also be modified, backdated to 1 April 2009, to provide the full 6 months' lump sum to those leaving under CER terms aged over 60.

Following amendment of the scheme rules, employers will revise the payments made to those who are affected by these changes.

Taxation

Under the current tax regime, the first £30,000 of any severance payment received (after any payments made into the pension scheme) is free of income tax. Anything in excess of this would be subject to income tax in the normal way.

Fixed-term workers

The proposals will apply to workers on fixed-term contracts in the same way as to permanent staff.

⁷ The judgment in the Employment Tribunal case of *Wallis and others v Cabinet Office and others* was handed down on 16 July 2008. The tribunal found in Mr Wallis's favour in relation to the tapering of the lump sum

⁸ The CER terms include a payment of 6 months' salary. This is tapered progressively to zero for those aged between 57 and 60 on departure

Re-employment

Where an individual, who has received a severance payment, takes up a post with an organisation covered by the Civil Service pension and compensation arrangements within the lesser of (a) six months and (b) the notional period of the severance payment, the severance payment will be required to be repaid pro-rata. The repayment will be reduced in cases where the new employment is at a lower salary level than before.

Example

Ann leaves with a severance payment of £96,000 representing 2 year's pay. Ann is re-employed 3 months later, in a job paying the same as before. Ann will keep £12,000 (3/24th) of her severance package, but will have to repay the rest (£84,000).

If Ann's new job pays a salary of £36,000pa rather than her old salary of £48,000 then the amount Ann repays will be calculated as $£84,000 \times 36/48 = £63,000$

Individuals who are in receipt of their Civil Service pension will – as now – be subject to having their pension abated (suspended) where their pension plus their new pay is greater than their pay before departure.

Notice periods

The Code will be amended to require consistent notice periods on compulsory redundancy, regardless of age.

Inefficiency terms

Where employers wish to pay compensation for departures on “inefficiency” grounds, these are currently capped at the level of the Flexible Severance terms. Pending a review of these terms, the current arrangements will continue.

CURRENT EXIT TERMS

Type	When and how used	Early retirement	Early severance	
			Standard terms	1987 terms ⁹
Compulsory CSCS sections 2, 2A Code 11.6	Departures involving compulsion. Redundancy (including volunteers in a pre-redundancy situation), structure and limited efficiency.	<i>Over 50 with minimum of 5 years' service</i> Immediate payment of pension and associated lump sum without reduction for early payment. Pensionable service enhanced by up to 6 $\frac{2}{3}$ years ¹⁰ , <u>plus</u> A lump sum compensation payment of the greater of (a) 6 months' pay and (b) statutory redundancy. The payment based on 6 months' pay reduces by 1/36 th for each month that the person is aged over 57. ¹¹	<i>Under 50 (or over 50 with less than 5 years' service).</i> 1 month's pay per year of service, <u>plus</u> 1 month's pay per year of service after the later of (a) 5 years' service and (b) age 30, <u>plus</u> 1 month's pay per year of service after the age of 35. Subject to a maximum of 3 years' pay	<i>Aged under 40 on departure – as standard terms but not capped</i> <i>Aged between 40 and 50 on departure – standard terms topped up to the capital value of the early retirement package paid under the pre-1987 terms. Cost can exceed 6 years' pay.</i>

⁹ 1987 terms apply to staff in a mobile grade at 1 April 1987

¹⁰ Other restrictions apply as well, in particular that pension benefits cannot exceed those which would have been earned if the member had carried on working to pension age – see rule 2.2 of the CSCS. Also, benefits are provided in a different form for members of **premium** and **classic plus** and as an alternative (“option B”) for **classic** members. See section 2A of the CSCS.

¹¹ The tapering provision will be removed with effect from 16 July 2008

CURRENT EXIT TERMS

Type	When and how used	Early retirement	Early severance
<p>Flexible</p> <p>CSCS sections 3, 3A</p> <p>Code 11.7</p>	<p>At management invitation (no compulsion).</p> <p>Uses include structure, limited efficiency and limited postability</p>	<p><i>Over 50 (and under pension age) with minimum of 5 years' service</i></p> <p>Immediate payment of pension and associated lump sum without reduction for early payment. Pensionable service enhanced by up to 6$\frac{2}{3}$ years¹²</p>	<p><i>Under 50 (or between 50 and 60 with less than 5 years' service). Minimum of 12 months' service required.</i></p> <p>2 weeks' pay per year of service during the first 5 years, plus</p> <p>3 weeks' pay per year of service during years 5-10, plus</p> <p>4 weeks' pay per year of service after 10 years, plus</p> <p>2 weeks' pay per year of service after reaching age 40.</p> <p>Subject to a maximum of 2 years' pay.</p>

¹² ibid

CURRENT EXIT TERMS

Type	When and how used	Early retirement	Early severance
Approved Code 11.8	Either: At management invitation, where retirement would help solve management problems and improve overall efficiency; or At member request, where member is aged at least 55 with a minimum of 25 years' service (employer approval required)	<i>Over 50¹³ with minimum of 5 years' service</i> Immediate payment of pension and associated lump sum without reduction for early payment	<i>n/a</i>
Actuarially –reduced (provided for in pension scheme rules)	At member request (no approval required)	<i>Over 50 with entitlement to preserved pension¹⁴</i> Immediate payment of pension and associated lump sum with benefits reduced for early payment	<i>n/a</i>
Inefficiency CSCS section 11 Code 11.4		<i>Optional for those over 55 where maximum payment is being made</i> As for Approved Early Retirement	Maximum compensation calculated as for Flexible Early Severance. Amount paid reflects the extent to which the inefficiency is assessed as being beyond the individual's control.

¹³ Age 55 for new entrants from April 2006

¹⁴ Pension after actuarial reduction must be sufficient to cover any GMP (Guaranteed Minimum Pension) entitlement

CURRENT EXIT TERMS

Benefits may also be payable early on medical retirement. Medical retirement is not covered by the proposals in this paper and is therefore not considered further.

Fixed-term workers are not covered by the arrangements set out above. Where a contract is terminated mid-term, compensation is generally paid by reference to the unexpired period of the contract.

FURTHER DETAILS OF THE PROPOSED TERMS

Qualification for benefits	Benefits will normally be payable only where the individual has a minimum of 12 months' service.
Compulsory Redundancy	Standard compulsory redundancy terms will apply when Cabinet Office agrees that dismissal on the grounds of compulsory redundancy is unavoidable. Cabinet Office agreement will be forthcoming only when Cabinet Office is satisfied that the Department has followed the procedures in the Protocol rigorously and that all redundancy avoidance measures have been exhausted.
Compulsory redundancy tariff	<p>The compulsory redundancy tariff applies in all cases of compulsory redundancy (but note that some employees covered by the transitional arrangements). The Department does not have discretion to vary the terms paid on compulsory redundancy.</p> <p>The compulsory redundancy tariff is 1 month's pay per year of service plus a further 1 month's pay for each year of service after the first five to a maximum of the compensation ceiling and a minimum of statutory redundancy.</p> <p>People below pension age will receive the <u>lesser</u> of:</p> <ul style="list-style-type: none">(a) the full compulsory redundancy payment (as calculated above); and(b) the reduced compulsory redundancy payment for someone over pension age <u>plus</u> the cost of buying out the actuarial reduction on a notional pension reflecting service to pension age* <u>plus</u> an amount representing the value of notional future pension* accrual foregone <p><i>* to ensure consistency, a notional pension would be calculated on a standard basis (probably on the basis of classic but reflecting the actual pension age of the individual)</i></p> <p>See Annex D for further information and some worked examples.</p>

FURTHER DETAILS OF THE PROPOSED TERMS

- Years of service** The period of service will be counted in years and days and expressed as decimal years. It will comprise the individual's continuous service (as defined for employment rights purposes). Periods of unpaid leave (for instance career breaks) will therefore normally be excluded. Years of part-time service count as full years (ie not reduced to the full-time equivalent as they are in **classic**, **classic plus** and **premium** pension schemes).
- Pay** **Pay** will normally be determined as the average of the individual's actual (not full-time equivalent) pensionable earnings over the last 24 months of service. Where information is held only for full scheme years (ending 31 March) or where the individual has less than 24 months of service, amounts will be calculated pro-rata. The earnings cap will not apply.
- Pension age**
- 60 for individuals, other than pre Fresh Start prison officers, whose current period of continuous service began before 30 July 2007
 - 65 for individuals whose current period of continuous service began on or after 30 July 2007
 - 55 for pre Fresh Start prison officers
- Transitional arrangements** Transitional terms will be available instead of a payment calculated according to the **compulsory redundancy tariff**, for those in continuous service since before 30 July 2007 and who leave on **compulsory redundancy** terms with a last day of service no later than 31 March 2011. In these cases, individuals may opt for the current compulsory terms (Compulsory Early Severance or Compulsory Early Retirement, as appropriate) to apply instead. Transitional arrangements do not apply to discretionary exits.

FURTHER DETAILS OF THE PROPOSED TERMS

- Discretionary exit terms** Discretionary exit terms will not apply in the case of **compulsory redundancy**.
- The Department may (subject to controls and guidance to be issued by Cabinet Office) make severance payments of more or less than the **standard tariff** but this cannot be more than the **flexible range maximum** or less than a payment calculated according to the statutory redundancy formula. The flexibility can extend to making a payment to an individual with less than 12 months' service.
- Departments may offer enhanced early retirement terms to people aged 55 or more. The maximum enhancement that can be provided is waiver of the early retirement reduction applicable to benefits earned in service (but not benefits arising from a transfer in). No funding of additional service will be made. Severance payments cannot be made in addition to enhanced early retirement terms.
- Standard tariff** 1 month's **pay** per **year of service** to a maximum of the **compensation ceiling**. Benefits will taper in the same way as described for the **compulsory redundancy tariff**.
- Compensation ceiling** 24 months' pay for those under **pension age**. 6 months' pay for those over **pension age**.
- Flexible range maximum** The lesser of:
- 2 x **standard tariff**, and
 - the **compensation ceiling**

WORKED EXAMPLES

EXAMPLE 1

Jane is aged 40 and has 20 years' service.

Current compulsory terms (CES)	Current flexible terms (FES)	Proposed compulsory redundancy tariff	Proposed discretionary terms
20 months plus 10 months (service after 30), plus 5 months (service after 35) Total = 35 months' pay	2 weeks x 5 = 10 weeks, plus 3 weeks x 5 = 15 weeks, plus 4 weeks x 10 = 40 weeks Total = 65 weeks' pay	2 years' pay	Standard tariff = 20 months' pay Flexible range maximum = 2 years' pay Minimum (statutory redundancy)= 19.5 weeks' pay, subject to a maximum weekly pay of £350

Jane's pension will be preserved for payment at pension age. Alternatively, Jane could transfer her pension rights to another scheme or arrangement or draw her pension early (but not before 50¹⁵) on an actuarially-reduced basis.

¹⁵ minimum pension age is 55 for new entrants from 6 April 2006

WORKED EXAMPLES

EXAMPLE 2

Keith is aged 55 and has 30 years' service. He is a member of **classic**.

Current compulsory terms (CER)	Current flexible terms (FER)	Proposed compulsory redundancy tariff	Proposed discretionary terms
<p>Enhanced early retirement package with service enhanced to age 60. Early pension plus 6 months' pay.</p> <p>Cost to employer = 3.8 years' pay¹⁶</p>	<p>As for CER but without the lump sum of 6 months' pay.</p> <p>Cost to employer = 3.3 years' pay</p>	<p>2 years' pay</p>	<p>Flexible range maximum = standard tariff = 2 years' pay</p> <p>Minimum (statutory redundancy)= 27 weeks' pay, subject to a maximum weekly pay of £350</p> <p>Keith's Department could offer immediate payment of his pension without the normal actuarial reduction (but with no extra years of service).</p>

If leaving on the new terms, Keith's pension would be preserved for payment at pension age (60). Alternatively, he could draw his pension immediately on an actuarially-adjusted basis (in which case it would be reduced by around 25%).

¹⁶ Cost to the employer is shown in the tables in section 6, Annex 6C of the Employers' Pension Guide (available on the Pensions website at www.civilservice.gov.uk/pensions)

WORKED EXAMPLES

EXAMPLE 3

David is aged 65 and has 10 years' service. He is a member of **premium**.

Current compulsory terms (CER)	Current flexible terms (FES)	Proposed compulsory redundancy tariff	Proposed discretionary terms
Payment calculated as for statutory redundancy	None	6 months' pay	Standard tariff = 6 months' pay Flexible range maximum = 1 years' pay Minimum (statutory redundancy)= 15 weeks' pay, subject to a maximum weekly pay of £350
Revised compulsory terms¹⁷ 6 months' pay			

David's pension will be paid immediately.

¹⁷ This change will be backdated to [17 April 2009]

WORKED EXAMPLES

EXAMPLE 4

Tracy is aged 30 and has 8 years' service.

Current compulsory terms (CES)	Current flexible terms (FES)	Proposed compulsory redundancy tariff	Proposed discretionary terms
8 months' pay	2 weeks x 5 = 10 weeks, plus 3 weeks x 3 = 9 weeks Total = 19 weeks' pay	11 months' pay	Standard tariff = 8 months' pay Flexible range maximum = 16 months' pay Minimum (statutory redundancy)= 8 weeks' pay, subject to a maximum weekly pay of £350

Tracy's pension will be preserved for payment at pension age. Alternatively, Tracy could transfer her pension rights to another scheme or arrangement or draw her pension early (but not before 50¹⁸) on an actuarially-reduced basis.

¹⁸ minimum pension age is 55 for new entrants from 6 April 2006

WORKED EXAMPLES

EXAMPLE 5

Mark is aged 59 and has 38 years' service. He is a member of **classic**.

Current compulsory terms (CER)	Current flexible terms (FER)	Proposed compulsory redundancy tariff	Proposed discretionary terms
<p>Enhanced early retirement package with service enhanced to age 60. Early pension plus 2 months' pay.</p> <p>Cost to employer = 0.8 years' pay</p>	<p>As for CER but without the lump sum of 2 months' pay.</p> <p>Cost to employer = 0.6 years' pay</p>	<p>Payment tapered to 1.2 years' pay¹⁹, being:</p> <ul style="list-style-type: none"> ▪ 6 months' pay plus ▪ the cost of 1 year's pension foregone plus ▪ the cost of buying out the actuarial reduction of a pension based on 39 years' (= 38 +1) service 	<p>Standard tariff (tapered) = 1.2 years' pay</p> <p>Flexible range maximum = 2 years' pay</p> <p>Minimum (statutory redundancy)= 29 weeks' pay, subject to a maximum weekly pay of £350</p>
<p>Revised compulsory terms²⁰</p> <p>As CER but with 6 months' pay instead of 2 months' (cost to the employer = 1.2 years' pay)</p>			

¹⁹ See also the tapering examples in Annex D

²⁰ This change will be backdated to 16 July 2008

WORKED EXAMPLES

EXAMPLE 6

Andrew is aged 48 and has 15 years' service.

Current compulsory terms (CES)	Current flexible terms (FES)	Proposed compulsory redundancy tariff	Proposed discretionary terms
15 months plus 10 months (service after 5 years), plus 13 months (service after 35) Total = 3 years' pay (maximum)	2 weeks x 5 = 10 weeks, plus 3 weeks x 5 = 15 weeks, plus 4 weeks x 5 = 20 weeks, plus 2 weeks x 8 = 16 weeks Total = 63 weeks' pay	2 years' pay	Standard tariff = 15 months' pay Flexible range maximum = 2 years' pay Minimum (statutory redundancy) = 18.5 weeks' pay, subject to a maximum weekly pay of £350

Andrew's pension will be preserved for payment at pension age. Alternatively, Andrew could transfer his pension rights to another scheme or arrangement or draw his pension early (but not before 50²¹) on an actuarially-reduced basis.

²¹ minimum pension age is 55 for new entrants from 6 April 2006

WORKED EXAMPLES

EXAMPLE 7

Jenny is aged 46 and has 25 years' service. Jenny was in a mobile grade on 1 April 1987.

Current compulsory terms (CES)	Current flexible terms (FES)	Proposed compulsory redundancy tariff	Proposed discretionary terms
1987 terms apply. Cash payment of approximately 6.2 years' pay	2 weeks x 5 = 10 weeks, plus 3 weeks x 5 = 15 weeks, plus 4 weeks x 15 = 60 weeks, plus 2 weeks x 6 = 12 weeks Total = 97 weeks' pay	2 years' pay	Flexible range maximum = standard tariff = 2 years' pay Minimum (statutory redundancy)= 22.5 weeks' pay, subject to a maximum weekly pay of £350

Jenny's pension will be preserved for payment at pension age. Alternatively, Jenny could transfer her pension rights to another scheme or arrangement or draw her pension early (but not before 50²²) on an actuarially-reduced basis.

²² minimum pension age is 55 for new entrants from 6 April 2006

WORKED EXAMPLES

EXAMPLE 8

Frances is aged 68 and has 3 years' service.

Current compulsory terms (CES)	Current flexible terms (FES)	Proposed compulsory redundancy tariff	Proposed discretionary terms
Payment calculated as for statutory redundancy	None	3 months' pay	Standard tariff = 3 months' pay Flexible range maximum = 6 months' pay Minimum (statutory redundancy)= 4.5 weeks' pay, subject to a maximum weekly pay of £350

Frances's pension will be paid immediately.

TAPERING OF SEVERANCE PAYMENTS TO THOSE CLOSE TO PENSION AGE

The intention is to ensure that there is no “cliff edge” in the benefits paid to those just under pension age and those just over pension age. It would be unfair if, for instance, someone aged just under 60 received a payment of 2 years’ salary while someone just over 60 received a payment of 6 months’ salary. Although the 60-year old would receive their full pension immediately, the actuarial reduction applicable if pension is being drawn very close to 60 would not justify the difference in the lump sums.

The approach proposed – and illustrated below – for those close to 60 is equivalent to an early pension with service enhanced to pension age, plus a payment of 6 months’ salary. This is the same as the current Compulsory Early Retirement terms as improved by the effect of the Wallis judgment.

Bob is aged (exactly) 59 and has 30 years service and salary of £30,000. He is in **classic** and so has built up a pension of £11,250pa and lump sum of £33,750 (both payable at 60).

Bob’s severance payment will be the lesser of:

- (a) 2 years’ pay = £60,000
- (b) the sum of:
 - (i) severance payment if Bob was over 60 = 6 months’ pay = £15,000
 - (ii) the buy-out cost if Bob drew his pension immediately on an unreduced basis = $0.42 \times \text{pay}^{23} = £12,600$
 - (iii) the cost of further pension accrual to 60 foregone = $24.5\% \times 1 \text{ year’s salary}^{24} = £7,350$

Total = £34,950

So Bob gets a severance payment of **£34,950**

²³ This rate is derived from the Approved Early Retirement (AER) table at Annex 6C of the Employer’s Pension Guide (EPG) and is used for illustrative purposes in this example. In practice, a table will be produced showing the cost of taking £1 of pension (and £1 of lump sum) before pension age and those rates (which may be slightly different) will be used. The buy-out cost for this calculation will reflect both the accrued pension and the extra pension foregone.

²⁴ This is the age-related rate used to calculate the value of pension foregone when determining compensation in lieu of notice. The rates are set out in Pensions Manual: Early Retirement 4.1 Annex B (the Pensions Manual is available in the “administrator’s section” of the Pensions website www.civilservice.gov.uk/pensions)

TAPERING OF SEVERANCE PAYMENTS TO THOSE CLOSE TO PENSION AGE

Brenda is aged (exactly) 58. Brenda has the same service, pension and salary as Bob.

Brenda's severance payment will be the lesser of:

- (a) 2 years' pay = £60,000
 - (b) the sum of:
 - (i) 6 months' pay = £15,000
 - (ii) buy-out cost (based on accrued pension plus 2 years) = $0.8 \times £30,000 = £25,200$
 - (iii) further pension accrual to 60 = $23.5\% \times 2 \times £30,000 = £14,100$
- Total = £54,300

So Brenda gets a severance payment of **£54,300**

Bill is aged (exactly) 57. Bill has the same service, pension and salary as Bob and Brenda

Bill's severance payment will be the lesser of:

- (a) 2 years' pay = £60,000
 - (b) the sum of:
 - (i) 6 months' pay = £15,000
 - (ii) buy-out cost (based on accrued pension plus 3 years) = $1.32 \times £30,000 = £39,600$
 - (iii) cost of further pension accrual = $22.6\% \times 3 \times £30,000 = £20,340$
- Total = £74,940

So Bill gets a severance payment of **£60,000**