

## EPN 114

### Proposed changes to the Civil Service pension arrangements

**ISSUE** This EPN announces the beginning of a consultation process about proposed major changes to the Civil Service pension arrangements.

**This Notice contains important information that needs to be brought to the attention of all staff immediately**

**ACTION** Issue the attached office notice (**Annex A**) to all staff.

**TIMING** **Immediate** – employers should look to issue the office notice as soon as is practicable.

### Background

1. CSPD are putting forward proposals for changes to the Civil Service Pension arrangements. These changes will affect

**From 6 April 2006** – all staff who join on or after that date. As part of the consultation on the changes we are considering introducing some extra flexibilities to the current scheme (for example, the ability, in certain circumstances, to receive a pension while still working).

**From 1 April 2013** – all staff who were in post on 5 April 2006 and who have remained in the Civil Service up to and including 1 April 2013.

2. We outline our proposals in a document called '**Building a sustainable future**'. You can download this from our website [www.civilservice-pensions.gov.uk/consultation](http://www.civilservice-pensions.gov.uk/consultation). If you cannot access the website or would like

a hard copy, please email your request to **consultation2@cabinet-office.x.gsi.gov.uk** or write to

Consultation  
PO Box 8385  
MANSFIELD  
Notts  
NG18 4WL

Fax 0870 2403035

## Your action

3. The office notice at **Annex A** should be sent to staff **as soon as possible**. If your staff do not have internet access, they will not be able to complete the Feedback form (see paragraph 9 below) online, and the office notice should make no reference to them being able to do so. Alternatively, if you have an intranet that is accessible to your staff, you could copy the documents for your staff to use from there. Please note that the on-line Feedback form cannot be submitted from your intranet – the links will not work. You should copy the 'Word-format' feedback form only.

4. **Annex B** is a Q&A brief that addresses issues that you may have as employer, rather than as scheme member.

5. **Annex C** is a fuller Q&A brief aimed at helping you to answer any queries members may raise with you. We will continue to update this on our website: **[www.civilservice-pensions.gov.uk/consultation](http://www.civilservice-pensions.gov.uk/consultation)**

6. We will consider providing magazine-style articles that you may use for in-house publications or your intranet when the consultation exercise is underway.

## Consultation

7. CSPD are entering into full consultation with the Civil Service Trade Unions. We are also actively seeking feedback from members and employing departments.

8. The consultation period runs for 12 weeks. It will end on 4 March 2005.

9. The office notice at Annex A explains how to give feedback on the proposals. We would like everyone who gives us their views to do so on the Feedback form that we have developed. The form is available electronically (the office notice gives details). We will include a hard copy of the form with any hard copies of '**Building a sustainable future**' that we send out.

10. The feedback form asks you to make clear whether any comments that you send us represent your views purely as a scheme member or whether you are responding on behalf of your organisation. Please ensure that you tick the correct box on the Feedback form.

11. Given the expected level of response, we will not be able to acknowledge individual responses.

### **Material for visually impaired staff**

12. We can, if requested, provide suitably enhanced versions of both '**Building a sustainable future**' and the Feedback form to any members who are visually impaired. If you need any copies of the material, please email [ian.cameron@cabinet-office.x.gsi.gov.uk](mailto:ian.cameron@cabinet-office.x.gsi.gov.uk) or write to

Consultation  
Visually Impaired Material  
Civil Service Pensions Division  
Cabinet Office  
8<sup>th</sup> Floor  
Grosvenor House  
Basing View  
Basingstoke  
Hants  
RG 21 4HG

### **Code of Practice on Access to Government Information**

13. We will use any personal data that you supply on your Feedback form for the purposes of statistical analysis only. All information provided will be handled in accordance with the Data Protection and Freedom of Information Acts.

### **Pension age 65**

14. Under the proposals, new entrants from 6 April 2006 and all staff from 1 April 2013 (for service from that date) will have a pension age of 65. 'Pension age' is not the same as 'retirement age'. The proposed changes to the pension arrangements do not mean that you will have to alter the age at which you require your staff to retire.

### **Handling queries**

15. The Q&A briefing at Annex C will assist you in answering any questions put to you. If anyone raises a query about the proposals that '**Building a sustainable future**' and the Q&A brief (including the updated version on our Website) do not cover, please email us at [employerhelpdesk@cabinet-office.x.gsi.gov.uk](mailto:employerhelpdesk@cabinet-office.x.gsi.gov.uk). (Please do not give out the employer helpdesk email address or telephone numbers to members.) We will provide you with an answer and if appropriate add the query to the Q&A section on the Website. However, where someone raises a query about their personal circumstances you should direct them to your APAC.

## Ready Reckoner on pension age

16. Section 5 of '**Building a sustainable future**' describes how the proposed changes may affect current staff who expect to remain in the Civil Service beyond 1 April 2013. They can check the possible effect of the proposed changes on their pension by using the ready reckoner that we are putting on our website ([www.civilservice-pensions.gov.uk/consultation](http://www.civilservice-pensions.gov.uk/consultation)). This will allow members to put in details of their own circumstances.

## Follow up

17. We will ask you to send a reminder to staff in February 2005. On completion of the consultation process, we will issue another office notice. This will sum up the outcomes of the consultation process and point the way forward. We will also put further details on our website.

### Contacts:

Enquiries about content:  
Employer Helpdesk  
[employerhelpdesk@cabinet-office.x.gsi.gov.uk](mailto:employerhelpdesk@cabinet-office.x.gsi.gov.uk)  
01256 846414

Enquiries about distribution of EPNs:  
Judith Hornby  
[judith.hornby@cabinet-office.x.gsi.gov.uk](mailto:judith.hornby@cabinet-office.x.gsi.gov.uk)  
01256 846201

### \*Reference

All EPNs and forms are held on our website:  
[www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)  
in the Employer and APACs section

Username: employers  
Password: mc2fxqfy

December 2004

### Pensions Reform – Employers’ Q&A

#### Q&A briefing prepared by CSPD

**1. What do I have to do with the material you have sent me in EPN 114 ?**

You should arrange to publish the Office Notice as soon as possible through your usual channels. Please make the full Q&A at Annex C available to any colleague who may receive queries from staff.

**2. Where can I find out about the changes you are proposing ?**

The consultation document on our website, ‘Building a sustainable future’ outlines the changes that we propose. This should be your first port of call. You can find it on our website under [www.civilservice-pensions.gov.uk/consultation](http://www.civilservice-pensions.gov.uk/consultation).

**3. How will CSPD keep us informed of changes?**

We have written to the Civil Service Management Board and their HR Directors about the proposed changes to Civil Service pensions. We will continue to use EPNs and Pensions News to keep you up to date with developments as we progress and will keep our website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk) updated.

We will also discuss progress at Employer Support Group meetings and through the Pensions Communication Network. If you want to know more about either of these, email us at [employerhelpdesk@cabinet-office.x.gsi.gov.uk](mailto:employerhelpdesk@cabinet-office.x.gsi.gov.uk) or write to us at Employer Branch, Cabinet Office, Civil Service Pensions Division, 8<sup>th</sup> floor, Grosvenor House, Basing View, Basingstoke, Hants RG21 4HG.

**4. How will you help us to communicate the changes and new scheme information to members?**

We will provide drafts of office notices when appropriate and will post information on the website. We will ask you, where appropriate, to consider posting this information on your own intranet sites, or use any other communication route you think fit so that, together, we achieve complete coverage.

**5. How do I handle enquiries from staff?**

The member Q&A briefing at Annex C will assist you in answering any questions put to you. If anyone raises a query about the proposals that ‘Building a sustainable future’ and the Q&A brief (including the updated version on our website) do not cover, please email us at [employerhelpdesk@cabinet-office.x.gsi.gov.uk](mailto:employerhelpdesk@cabinet-office.x.gsi.gov.uk). (Please do not give out the employer helpdesk email address or telephone number to members.) We will provide you with an answer and if appropriate add the query to the Q&A section on the website. However, where someone raises a query about their personal circumstances you should direct them to your APAC.

## **Q&A briefing prepared by CSPD**

### **6. Do you have a timetable for providing information? If so, when will you let us know?**

The consultation period will end on 4 March 2005. After considering the responses, we will then send a further EPN and model office notice explaining the way forward. The key dates to remember are 6 April 2006, when the pension arrangements for people joining the Civil Service will change, and 1 April 2013 when the pension arrangements for staff currently in post will change – if they are still in post at that time.

### **7. Will you be updating the Employer Pension Guide, scheme booklets etc?**

Yes. We will be updating the EPG and, where necessary, any scheme booklets so that they reflect the changes.

### **8. Will these proposed changes cost the employer anything? (Implementation costs as well as ongoing costs.)**

We are paying for the costs of developing the Penserver software that will allow your Authorised Pension Administration Centre (APAC) to deliver the changed pension arrangements. We are also meeting the consultation costs and cost of the scheme actuaries who will be advising us. And we are meeting the costs of revising member literature.

Once it is fully implemented (2013), the increase in pension age is expected to reduce costs by around 2% of pay; a proportion of which can be recycled into the pension package. The change to the way in which we calculate pensions is not however designed to reduce costs. We will be assessing the impact the overall package of changes might have on the ASLC system as part of the regular reviews of the ASLC rates undertaken by the Scheme Actuary.

### **9. Do you know whether additional resources are going to be provided? HR sections are already under pressure**

Additional HR resources should not be required. CSPD are handling distribution and receipt of the consultation document and feedback forms. We have provided Q&A briefing for members and a process for updating this. New entrants from 6 April 2006 will be admitted into new pension arrangements, subject to consultation, broadly as they are now. Current staff in post will not be affected until 1 April 2013.

## **Q&A briefing prepared by CSPD**

### **10. Will you be providing any training ?**

We do not envisage the need to provide training seminars at this stage. The consultation document contains proposals for change. Once the scheme design has been agreed, you will be kept informed and provided with any information you need to handle new entrants in the new arrangements from 6 April 2006. Current staff in post will not be affected until 2013.

### **11. Do we need to tell our APAC anything? If I have to instruct them to do things differently, will I have to alter the Service Level Agreement or contract, and will they expect more money from us to do these things?**

Your APAC is aware of the proposed changes. They will continue in much the same way as now. You do not need to manage your APAC any differently. We do not anticipate that the changes will lead to any increase in costs in the service that your APAC provides to you.

### **12. How will you help us to identify and understand the processes we need to put in place?**

We will be consulting employers through the Employer Support Group meetings on issues arising from the proposed changes. These meetings will help inform the material that we provide to you through EPNs and on our website.

### **13. Does this mean that we need to change our departmental retirement age to 65?**

No. Retirement age and pension age are separate things. Pension age is the age at which a member can retire voluntarily and receive immediate payment of the pension benefits without any actuarial reduction. Retirement age is the age at which you can require your staff to retire.

### **14. Will there be a new options exercise?**

In 'Building a sustainable future', question 16 asks for views on whether we should provide a further options exercise from April 2013 to scheme members who were covered by the *Pension Choices* exercise in 2002.

### **15. It looks like we might be running even more schemes within PCSPS. The Civil Service pension arrangements are already too complicated.**

We are proposing new arrangements in response to the changing Civil Service, as well as various legislative changes.

## **Q&A briefing prepared by CSPD**

**16. Will people have reserved rights? For example, will someone be allowed to go back into their old scheme if they are re-employed (as per current re-employment rules)?**

No. We expect that all new members from 6 April 2006, including people who are re-employed, will join the new arrangements (or alternatively, take out a partnership pension account, which as now will be an option for new members).

### CONSULTATION - Q&A (MEMBERS' QUESTIONS)

#### Q&A briefing prepared by CSPD

##### FUNDAMENTALS

###### **Q1. What will happen in 2006?**

We propose to introduce new pension arrangements for people joining (or rejoining) the Civil Service from April 2006.

###### **Q2. What are the new arrangements?**

New entrants from April 2006 will have their pensions calculated in a new way. Instead of pension being based only on their earnings just before they retire, it will reflect their earnings each year throughout their career. Members will build up their pension rights, based on each year's salary, as they go along. These pension rights, which will be payable at age 65, will increase with retail prices every year regardless of whether the individual stays in service, leaves and goes to work somewhere else or retires and draws their pension. Current civil servants will move to this way of calculating their benefits from 2013. Only their service from 2013 onwards will be calculated this way, with service up to 2013 being pensioned as now.

###### **Q3. I am an existing Civil Servant. Will the changes in 2006 affect me?**

We propose that Civil Servants currently in post will, if they stay in the Civil Service, move to the new arrangements from 1 April 2013. Until that date, you will remain in your current pension scheme (unless, of course, you leave the Civil Service before then). Your pension benefits will continue to build up in just the same way as they do now. As part of the consultation on the changes we are considering introducing some extra flexibilities to the current scheme (for example the ability, in certain circumstances, to receive pension while still working). Subject to the outcome of the consultation, you might also have access to these additional features from 2006.

###### **Q4. What will happen in 2013?**

We propose that existing members of **classic**, **classic plus** and **premium** who are still in post at 1 April 2013 will then move to the new pension arrangements. Service up to 31 March 2013 will remain in **classic**, **classic plus** or **premium** with a pension age of 60 and will be pensioned by reference to 'final salary' as defined in the different scheme rules. Service from 1 April 2013 will be treated under the new arrangements and with a pension age of 65.

**Q5. Why are you proposing to change the way Civil Service pensions are worked out?**

We believe that the new approach should be fairer as it reflects the contribution everyone makes throughout their whole Civil Service career. It also recognises that, increasingly, people may wish to 'downshift' by moving to a lower grade or taking a less stressful job as they approach retirement without this having a disproportionate impact on their pension.

**Q6. Isn't this all about costs?**

No, although we cannot ignore the fact that pension schemes are getting more expensive as people live longer. The change in pension age is intended to help make the scheme more sustainable in the long-term. But the change in the method of calculating pension is intended to make pensions fairer rather than to cut costs. So, the rate at which pension builds up each year (the 'retirement savings factor') will be higher than the accrual rate in **classic**, **classic plus** or **premium** in recognition of the move to a pension based on earnings throughout the member's career. We will not be able to announce the retirement savings factor until after the consultation ends as it will be affected by issues, such as the level of pension for dependants, on which we are consulting.

**Q7. Do the changes mean I will have to work until age 65?**

The age at which you retire is a matter for yourself and your employer. Any benefits earned in **premium**, **classic** or **classic plus** before April 2013 will remain payable in full on leaving service at or after the pension age of 60. Benefits will become payable in full under the new arrangements at the pension age of 65. As an existing member you can leave and draw any benefits that you have built up under either the current or the new arrangements from age 50 onwards (55 for members joining from April 2006), but benefits will be reduced if you draw them before pension age to reflect the fact that you will be receiving them for longer.

**Q8. My department does not allow me to work beyond age 60. Will I have to retire then and have my pension from the new arrangements reduced?**

Departments currently have the authority to decide on their retirement age to meet their business needs for those below the Senior Civil Service (SCS). And 80% of civil servants below the SCS already have the right to work on beyond 60. Forthcoming age discrimination legislation, due to be introduced by the end of 2006, will outlaw discrimination on grounds of age. This is likely to mean that employers will be unable to dismiss staff on age grounds alone before the age of 65. Civil Service departments will have to look at their terms and conditions and ensure that they meet the legal requirements, which could include having to raise their retirement age. This will also apply to members of the SCS who have a centrally agreed retirement age.

**Q9. Will the new approach mean I get a lower pension?**

The pension you get on retirement will depend upon a lot of factors, not least your retirement date, the length of your eventual service and your salary progression in the future. To get an idea of what our proposals might mean for you, you could put your details into the 'ready reckoner' on our website [www.civilservice-pensions.gov.uk/consultation](http://www.civilservice-pensions.gov.uk/consultation)

**Q10. Can I change to the new scheme before 2013 if I want to?**

With around 600,000 active members in the scheme it would not be practicable to give members a free choice of when to move to the new scheme. But if the consultation responses indicate a general wish to introduce change before 2013 we will consider this in our discussions with the Civil Service trades unions.

**Q11. Will I have to work to 65 to get the pension I thought I was going to get at 60?**

Pension age 65 doesn't mean that you have to work to 65. If you leave or retire before 1 April 2013 the change to pension age will not affect you. If you expect to work beyond 2013, you could put your details into the 'ready-reckoner' on our website [www.civilservice-pensions.gov.uk/consultation](http://www.civilservice-pensions.gov.uk/consultation) to see how the new arrangements, including pension age 65, might affect your pension expectations. The ready-reckoner will give you an idea of when you might earn the pension you could have expected at 60, if there had been no changes to the scheme. If you do not have access to our website, or to Excel, then please contact your pensions administrator.

**Q12. I'm planning to retire in 2009 – will the plans affect me?**

No, although you may find that you have more choices when you retire in 2009 than you would have now. You will continue to build up pension on the current basis and with a pension age of 60.

**Q13. What happens if I come back to work in the Civil Service after retiring?**

Under current scheme rules, people who are drawing Civil Service pensions have them reduced when rejoining the Civil Service, if their pension plus their pay is more than they pay they were receiving when they retired. This is called 'abatement'. We are consulting on the possibility of relaxing the abatement rules.

**Q14. I'm not 60 until 2025, so I'm affected by the proposals. What can I do if I want to retire then (or earlier!) on the pension I thought I was going to get at 60?**

It will be up to you to decide when to retire. If you want to top-up your pension so that you can retire earlier rather than later, you will still be able to make additional contributions – either to your Civil Service pension or to a money purchase pension.

We are consulting on providing more choice to members as to the type of top-up pension that the scheme could offer.

**Q15. Will I have a choice in 2013?**

It is Government policy that all public service pension schemes move to pension age 65. But we are consulting on various options which could give members a degree of choice as to how change affects them.

**OTHER ISSUES**

**Q16. The consultation document proposes that contribution rates under the new pension arrangements will be subject to review over time – as an existing scheme member does that mean my contribution rate could go up?**

The consultation document raises, for debate, the issue of how future changes in scheme costs should be handled. One option is to vary member contribution rates. Another option is to vary the rate at which pension builds up (the retirement savings factor). If, following this consultation exercise, we decided that member contributions could change in the future, any changes to contribution rates would only be introduced in the event of the scheme actuary advising that costs had moved significantly. Any change would also be subject to consultation with the unions and would be announced to scheme members well before it took effect.

**Q17. I'm a member of classic. Will the 2013 changes mean my partner gets a pension?**

No. We are proposing that **classic** members will move, in 2013, to a modified version of the new arrangements. This modified version will reflect the main differences between **classic** and **premium** (such as pensions for partners) and will have a lower member contribution rate than the standard version.

We are also consulting on the possibility of giving current members who were able to take part in the 'Pension Choices' exercise in 2002 the option, in 2013, to choose between the standard and modified versions of the new arrangements.

**Q18. I have a partnership pension account – how will the proposals affect me?**

The scheme actuary will be drawing up new rates for employer contributions to reflect the move to pension age 65. This will take effect from 2006 for new entrants and 2013 for existing contributions. A further change – which will come in from April 2006 – is that the Inland Revenue will be relaxing their limits on total contributions (yours and your employers) significantly so you may be able to save more if you want to.

**Q19. If I leave the Civil Service before 2013 and then rejoin, will I have to go into the new pension arrangements?**

If you leave your current pension scheme you will be treated as a new entrant when you return. But if you take an approved career break or go on a secondment you will normally remain in your current scheme during your break and will continue in that scheme when you return, providing this is before 1 April 2013. Pension earned from 1 April 2013 will be calculated under the new arrangements.

**Q20. I'd like to take my pension at 60 and carry on in my current job. Can I do that?**

People who have a **partnership** pension account are already free to draw their pension at any time after age 50, even if they carry on working. We are consulting on proposals that flexible retirement should also be available to other pension scheme members who 'downshift' by reducing their pay – either by reducing their hours or take a job in a lower grade and so receive less pay – such that their pay is reduced by at least 25%. These restrictions are necessary given that we are also considering relaxing the 'abatement' provisions which currently restrict the amount of pension which can be drawn by re-employed Civil Service pensioners.

Where people have a contractual right to 'formal retirement' from **classic** – meaning that they draw their pension without changing their job (or hours) – abatement will continue to apply.

**Q21. What is the maximum pension I can earn?**

Under the new arrangements, we are proposing that there will be no limits on the amount of service that counts towards your pension – even if you work on beyond age 65.

**Q22. What do these changes mean for the Civil Service Compensation Scheme?**

Our proposals for change apply only to the pension scheme. We will need to make some changes to the Compensation Scheme in April 2006 to make it fit with the new pensions tax simplification rules, but these will not affect the value of the package.

Separately, we expect to consult, in a year or so, on changes to the Compensation Scheme. However, any changes agreed to the Compensation Scheme would not affect staff in post, at that point, before 2008.

## **HIGH EARNERS**

### **Q23. What is the Lifetime Allowance?**

With effect from 6 April 2006, the Inland Revenue are changing the way that pension funds are taxed. Put simply, the Inland Revenue are relaxing, considerably, the restrictions on saving for pensions but they are introducing a 'Lifetime Allowance' for the amount of pension which can have favourable tax treatment. The Lifetime Allowance is not a limit on anyone's pension, but where pensions exceed the Lifetime Allowance they will be subject to extra tax.

### **Q24. Do I need to worry about the Lifetime Allowance?**

Probably not. The average Civil Service pension is worth about one-tenth of the Lifetime Allowance so it will be of academic interest only to most people. We will be providing a ready-reckoner on our website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk) to help people value their pensions for comparison with the Lifetime Allowance.

### **Q25. Does the Lifetime Allowance take account of State benefits?**

No. Just the total of benefits earned in occupational pension schemes, like **classic**, **classic plus** and **premium**, plus money purchase pensions such as personal pensions, stakeholder pensions and top-up pensions such as AVCs.

### **Q26. How do I find out what my pensions from previous employers are worth?**

You will need to ask your previous employer's pension scheme for the current value of your deferred (frozen) pension. If you have lost touch with a previous scheme you can track it down through the Pension Schemes Registry – get started by visiting [www.opra.gov.uk/traceAPension/](http://www.opra.gov.uk/traceAPension/) or write to them at:

The Pension Schemes Registry  
PO Box 1NN  
Newcastle upon Tyne  
NE99 1NN

### **Q27. What happens if my pension is worth more than the Lifetime Allowance?**

The Lifetime Allowance is not a limit on pension saving but a limit on the amount that receives favourable tax treatment. Benefits over the Lifetime Allowance will be subject to extra tax. However, there will be various options available to people who

already have significant pension benefits; these will effectively protect benefits earned before the new tax regime comes in on 6 April 2006. We will be providing more information on the new tax regime and the options available to high-earning civil servants during 2005.

**Q28. I'm currently subject to the earnings cap – how do the proposals affect me?**

We are proposing that, for service from April 2006, all civil servants' pensions are worked out on an uncapped basis unless they have negotiated special terms to compensate for the effect of the earnings cap. However, service before April 2006 will continue to be capped.