

Dear HR Director

Annex A

CABINET OFFICE ANNOUNCEMENT ON YEAR 1 EMPLOYEE CONTRIBUTION INCREASES TO THE CIVIL SERVICE PENSION SCHEME

Issue Publication of the Cabinet Office response to the consultation on employee contribution increases in 2012-13.

Action To note. For information only.

Timing Immediate.

Tomorrow (at 10.00 am) the Cabinet Office will publish its response to the “Principal Civil Service Pension Scheme: consultation on proposed increases to employee contribution rates effective from April 2012” which was issued on 28 July this year. I thought it would be helpful if I set out what the final decision is and how it is intended to communicate key messages to staff, and pass on some materials that may be of benefit for supporting the senior leaders in your organisation in explaining the changes to staff, and answering queries and questions from staff directly.

The response sets out the following:

- The decision to implement employee contribution increases in April 2012 as set out in the consultation document. This means that those earning less than £15,000 a year (full-time equivalent (FTE)) will pay **no** increases and those earning between £15,000 (FTE) up to £21,000 a years (FTE) will pay 0.6% of pay extra (o.48% with tax relief). For those earning above £21,000 a year (FTE) contribution increases are tiered by earnings from an extra 1.2% of pay (0.96% with tax relief) to 2.4% of pay (1.44% with tax relief).
- The key issues raised by respondents and the response to these issues, including contributions are a tax, previous reforms enough and the impact on members of increased contributions.

Permanent Secretaries will be sent a covering e-mail from the Cabinet Secretary, in a form that can be passed on to staff. This e-mail will provide links to updated material on the civilservice.gov.uk website. It will also make reference to the contributions calculator that will also be available on civilservice.gov.uk website, that will allow staff to input their details and see what the impact of the contribution increases will be on their tax home pay.

My understanding is that it will be for Heads of Internal Communication to arrange for the cascading of materials within Departments and you may wish to liaise with them as appropriate; they are already aware of plans to make this announcement.

Further technical advice will be provided to payroll and scheme administrators in the near future, but they may wish to note that after careful consideration the approach has **not** changed to operating on the same basis as that used for determining the employer contributions (ASLCs).

Discussions with the Trade Unions on the overall shape of the new scheme are ongoing and I will keep you updated once there is further news.

Yours sincerely

ADRIAN DOTTRIDGE

Banding of Employee Contribution Increases for 2012-13

Salary range (Full-time equivalent)	Increase Gross % of pay	Increase net of tax relief
Under £15,000	0%	0%
£15,001 - £21,000	0.6%	0.48%
£21,001 - £30,000	1.2%	0.96%
£30,001 - £50,000	1.6%	1.28% (basic rate tax) 0.96% (higher rate tax)
£50,001 - £60,000	2.0%	1.2%
Over £60,000	2.4%	1.44%

This approach reflected the Government's wish to implement the increases on a progressive basis. The Government had set out its preferred parameters that there should be no increase in employee contributions for those earning less than £15,000 full-time equivalent (FTE) and no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000 FTE. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis. There should also be a cap on the maximum increase of 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis.

The effect of the changes will be the member contribution structure set out below. The approach put out for consultation set the additional contribution rate by reference to an individual's FTE pay plus permanent pensionable allowances and would be fixed for a full financial year by reference to the position at the end of the preceding financial year. An individual's band would only be re-assessed during the year in the event that they were promoted (or moved to a less well-paid job); this meant that a normal pay rise would not lead to an in-year re-assessment, nor would changes to a part-timer's hours.

Salary range (Full-time equivalent)	classic members	premium, classic plus and nuvos members
Under £15,000	1.5%	3.5%
£15,001 - £21,000	2.1%	4.1%
£21,001 - £30,000	2.7%	4.7%

£30,001 - £50,000	3.1%	5.1%
£50,001 - £60,000	3.5%	5.5%
Over £60,000	3.9%	5.9%

The consultation made clear that the additional contributions were for scheme benefits generally. This meant that they would be refundable only where members left with short service which did not qualify them for pension benefits. This also meant that classic members would continue to be eligible for a partial refund of their contributions of 1.5% of pay if they were neither married nor in a civil partnership at the time of retirement.