

## Increased employee pension contributions

From 1 April 2012 most members of **classic**, **premium** and **nuvos** sections of the Civil Service pension arrangements will pay extra contributions towards their pensions. The information that follows tells you why the contributions have increased and answers some of the questions you may have.

### Why will my pension contributions increase?

In the 2011 Budget the Government accepted the recommendations from Lord Hutton's independent review of public service pension schemes. Lord Hutton highlighted the fact that people are living longer; the average 60 year old is living ten years longer now than they did in the 1970s, when the **classic** scheme was designed. He also highlighted that in the past, improvements to life expectancy had been mostly paid for by taxpayers as a whole rather than scheme members, and there was a case for rebalancing contributions in the short term. Increased contribution rates for members of the Civil Service Pension Scheme, will be introduced from 1 April 2012. The Cabinet Office will hold separate discussions with Trade Unions about further changes to contribution rates in respect of 2013-14 and 2014-15 and longer-term reforms to public service pension schemes

### What will my new contribution rate be?

Members of the **classic** scheme will pay contributions at these rates:

Annual pensionable earnings (full-time equivalent basis)	Current classic contribution rate*,	New 2012 contribution rate *
Up to £15,000pa	1.5%	1.5%
£15,001 - £21,000	1.5%	2.1%
£21,001 - £30,000	1.5%	2.7%
£30,001 - £50,000	1.5%	3.1%
£50,001 - £60,000	1.5%	3.5%
Over £60,000	1.5%	3.9%

\* Calculated as a percentage of pensionable earnings.

Members of **premium, classic plus** and **nuvos** will pay contributions at these rates:

Annual pensionable earnings (full-time equivalent basis)	Current premium, nuvos and classic plus contribution rate*,	New 2012 contribution rate *
Up to £15,000pa	3.5%	3.5%
£15,001 - £21,000	3.5%	4.1%
£21,001 - £30,000	3.5%	4.7%
£30,001 - £50,000	3.5%	5.1%
£50,001 - £60,000	3.5%	5.5%
Over £60,000	3.5%	5.9%

\* Calculated as a percentage of pensionable earnings.

You can find out what this means for your take home pay at <http://www.civilservice.gov.uk/pensions/reform>. You will find a calculator that will give you an indication of your contributions from April 2012.

**I earn less than £15,000. Does this mean that my contributions will not increase?**

If you earn a full time equivalent of less than £15,000 a year your contributions will not increase.

**I work part time. How will my extra contribution rate be decided?**

We will use the salary you would be paid if you worked full time to work out the rate of extra contributions. This approach ensures the same level of contribution for those earning the same rate of salary per hour. This is the fairest way of treating both full and part time employees. However, you will pay extra contributions only on the actual pensionable salary and allowances paid to you.

Example –

Jen works part time, is in the nuvos scheme and earns £12000 but her full time equivalent salary is £16000 and therefore from April 2012 will pay contributions of 4.1%.

**What about tax relief?**

The extra contributions will be deducted from your earnings before tax, according to current tax rules, in the same way as your current contributions. This means your take home pay will not reduce by the full amount of the increase.

**If we all have to pay more why are classic members still paying less?**

The existing **premium** and **nuvos** employee contribution rate reflects the fact that some of the schemes' benefits are more costly to provide than **classic** benefits.

**How is the money raised from the extra contributions going to be used?**

Typically, pay-as-you-go pension schemes like the PCSPS operate a surplus in their early years (when there are very few pensioners) and need to be topped up as they become more mature (and have a lot of pensioners). The Civil Service scheme is mature, and has more pensioners than active members, so the contributions paid by members will continue to be used to pay benefits to current Civil Service pensioners.

**I am buying added years so what does this mean for me?**

If you are buying added years your contributions will stay the same. Currently your added years contributions and your scheme contributions cannot exceed 15% of your pensionable earnings. We will remove the maximum limit so the extra contributions do not affect the added years you are buying.

You can choose to stop buying added years. You can do this by contacting your Pension Service Centre. Before stopping your added years contributions you should take account of the fact that once you have cancelled your added years contributions you cannot restart them in the future (although you would be able to buy added pension).

**I am buying added pension so what do extra contributions mean for me?**

The extra contributions do not affect the added pension you are buying. You can choose to stop buying added pension or change the amount of your contribution. If you would like more information about this and the effect on the added pension you have bought so far contact your Pension Service Centre.

**I am a classic member and single. Can I still expect a contribution refund when I retire?**

Classic members who are unmarried or who are not in a civil partnership when they take their pension will still be eligible for a contribution refund. The refund will be the basic contributions of 1.5% only (less any tax due on the refund, where applicable). The extra contributions you pay from 1 April 2012 above the basic 1.5% will not be refunded.

The contributions paid by members of **premium**, **classic plus** and **nuvos** are not refunded once the person has qualified for pension benefits.

**Will there be any more changes to the rate of my pension contributions?**

The Government has set out that member contributions to the public service schemes will increase by 3.2% of pay on average over the next three years. The extra contribution being introduced this year represents 40% of that increase. There are proposals about how the Civil Service scheme can achieve the remainder of the target savings by 2014-15. The Cabinet Office is currently discussing these proposals with Trade Unions. The Cabinet Office will consult on proposals of how to implement the further increases in contributions.

**How much does my employer pay towards my pension? Are employer contributions increasing as well?**

The amount your employer pays towards the cost of your pension depends on your pensionable earnings. The employer contribution rates are:

<b>Full-time pay range</b>	<b>Employer contribution</b>
Up to £21,000	16.7%
£21,001 - £43,500	18.8%
£43,501 - £74,500	21.8%
Over £74,500	24.3%
Pre-Fresh Start prison officers	25.8%

The average rate of employer contribution is 18.9% of pay. There are no plans to change the rate of employer contributions at this time.

**I heard the cost of pensions was falling, so why the increase?**

In recent decades the cost of public service pensions has risen steeply. The current cost is close to 2% of Gross Domestic Product. This is compared to 1.2% in the 1980s and 0.9% in the 1970s. Lord Hutton said “the status quo is not tenable”, “future costs are inherently uncertain” and “the general public cannot be sure that schemes will remain sustainable in the future”.

**Why are the extra contributions being introduced at a time of pay restraint?**

The Government understands the current pressures being put on household incomes. This is the reason why the extra increases have been spread as fairly as possible in relation to income and the value of the pension benefits staff will earn. Low paid staff will not pay any more under the changes and the structure of the contribution rate increases cushions the impact on middle earners. Despite the extra contributions the Civil Service pension arrangements continue to offer good

retirement benefits that are among the very best available. In addition the scheme provides death in service and dependant benefits.

**But why does the structure of the extra contribution rates disproportionately hit higher paid employees?**

The Civil Service scheme provides the same benefit structure for high earners as it does for everyone else. This means for example the final salary schemes (**classic**, **classic plus** and **premium**) disproportionately benefit high earners who experience faster salary growth. This is at the expense of everyone else who typically have flatter careers. The disproportionate benefit to high earners is already reflected in the salary related bandings for employer contributions. The extra contribution rates of employees reflect the principle already established for employers.

**Will I see the effect of the increase in my April pay?**

The increase will be effective from 1 April 2012. Your employer is arranging for the contribution to be collected from this time, you do not need to take any action yourself.

**If my salary changes so I am in a different pay band, will my contributions also change?**

Your contribution rate will be assessed on your pensionable earnings on 31 March 2012. If your pensionable earnings change taking you to a different contribution salary band your contributions will be adjusted in the following circumstances:

- You are promoted or permanently move to a lower grade;
- You move to a role where you will be paid permanent pensionable allowances;
- You are temporarily promoted or paid a pensionable allowance for higher responsibilities for over 6 months;
- You move back to your substantive grade or role after 6 months.

Any annual pay increase will not trigger a reassessment of your contribution rate until the end of the current financial year.

**Do I pay contributions on my pensionable earnings other than my basic salary?**

Contributions will be collected from any payment that counts towards your pension. This is your salary and some allowances. If you are unsure about whether your allowances are pensionable please contact [**Employers to enter contact details**]

**I am a prison officer paying additional widow's or widower's pension scheme contributions for doubling of service. How will the extra contributions affect me?**

You will not be charged double extra contributions because of your doubling of service. The extra rate of contributions according to your salary will be collected only once.

**I am not sure which section of the Civil Service pension arrangements I am in. How can I find out?**

You can contact your Pension Service Centre who can tell you what arrangement applies to you. **[Employers enter MyCSP helpline number]**

**I am a classic member paying Widow(er)'s Pension Scheme contributions. Does the increase to my contributions mean higher benefits for my spouse?**

The extra contributions are separate from the widow's pension or widower's pension scheme contributions. Your amount of widow(er)'s pension is unaffected by the extra contributions.

**I have not agreed to you deducting the extra contributions from my salary. What is the legal basis for you imposing this extra contribution?**

The **classic, premium, classic plus** and **nuvos** arrangements are set out in the Principal Civil Service Pension Scheme (**PCSPS**). The PCSPS is a statutory scheme being made under section 2 of the Superannuation Act 1972. The Cabinet Office proposes to change the PCSPS rules to allow for the collection of the extra contributions. Civil Service employers are then legally obliged to collect the extra contributions from April 2012. When changing the scheme rules the Cabinet Office will consult the Trade Unions

**What does this mean for staff who have opted for a partnership pension?**

There is no change to the **partnership** arrangements.