CabinetOffice

Employer Pensions Notice

EPN 186

Pension reform: an update

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

- **HR Managers and policy teams**
- **HR staff who are responsible for pensions communications**

Action **Please issue attached Pension Reform Newsletter no 1 to all staff**

Timing **As soon as possible**

Background

1. EPN177 gave you details of the pension reform proposals planned by Cabinet Office, subject to consultation with the Civil Service unions. The consultation finished on time and Cabinet Office Minister, Gillian Merron, has now made amendments to the rules of the Civil Service pension scheme (and consequential amendments to the rules of the Civil Service Compensation Scheme). These amendments are in line with those set out in EPN177.

2. Gillian Merron announced the rule changes through a Written Ministerial Statement on 26 July 2007 (text attached at Annex A for ease of reference). The versions of the scheme rules held on the Civil Service Pensions' website, www.civilservice-pensions.gov.uk, have been updated and reflect these amendments. You can find the rules of the new scheme, **nuvos**, in Section III of the PCSPS.

3. We are aware that the Office Notice that we asked you to issue in June referred to the changes as "proposals", and that staff – particularly those who are due to

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retire soon – are keen to see confirmation that these changes are indeed happening.

4. We therefore ask you to issue the attached Pension Reform newsletter to all staff. You will note that we are now adopting a format of numbered newsletters with the intention of drip-feeding information about pension reform over the coming months (and beyond). We see this as important in building understanding both about the existing scheme changes and the need to share responsibility for future increases in pension costs if the scheme is to remain sustainable.

Reference This document refers to EPN177

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You can find copies of the EPG, all current EPNs and forms on our website **www.civilservice-pensions.gov.uk** in the Guidance for employers section.

HANSARD, 26 JULY 2007

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CABINET OFFICE

Civil Service Pension Reform

The Minister for the East Midlands (Gillian Merron): I am today laying before Parliament, under the provisions of the Superannuation Act 1972, two amendment schemes. The civil service unions have been involved throughout and confirm their agreement to the scheme amendments. The first of these amends the rules of the Principal Civil Service Pension Scheme (PCSPS) and introduces new provisions for those joining the pension scheme on or after 30 July 2007. The second amendment scheme makes consequential changes to the civil service compensation scheme. These amendments are the first step in implementing a major package of reform which builds on earlier changes modernising the civil service pension arrangements and announced by the then Chancellor of the Duchy of Lancaster, my right hon. Friend the Member for Paisley and Renfrewshire, South (Mr. Alexander) on 22 July 2002, *Official Report*, column 728W. I will bring forward further amendments in due course to complete the implementation of these reforms.

The package of reform that I am announcing today is in line with the agreement reached between the Government and the public sector unions in the Public Services Forum (“PSF”) in October 2005. The Government's aim is to continue to provide their staff—both existing and new—with good quality, defined benefit, index-linked pension provision delivered in a sustainable way. The Government seek to achieve this by delivering a range of measures intended to both reduce civil service pension costs by £2.1 billion over 50 years, on the basis of the assumptions made at the time of the PSF, and control unplanned cost growth.

New entrants

Pension terms for new entrants from 30 July 2007 will undergo radical change, with pensions calculated by reference to pensionable earnings throughout the career rather than “final salary”. We believe that this change will produce a fairer outcome for the workforce generally, particularly for those who have relatively short or broken civil service careers and for those who wish to move to less demanding employment as part of their transition from work to retirement. This new whole career option will be known as the *nuvos* scheme and, in common with the existing *premium* scheme, will have a member contribution rate of 3.5 per cent, of pensionable pay. Members will be able to retire and draw benefits at any age from 55 to 75, with benefits drawn before age 65 reduced for early payment and those drawn after 65 increased for late payment. Members will have access to options to help them tailor the scheme to meet their personal requirements. These include the ability for members to purchase added pension for self or for self plus dependants, to give up pension in exchange for a lump sum and to give up pension in exchange for additional benefits for dependants. The *nuvos* scheme will also offer a range of other benefits including ill-health retirement pensions and benefits for dependants following the Member's death. To facilitate mobility among the public services the PCSPS belongs to the Public Sector Transfer Club; the future service of staff transferring in from public service schemes continuing to operate final salary pension schemes will be pensioned on the whole career basis but the service transferred will continue to provide benefits on a final salary basis. A similar approach will apply to the frozen final salary benefits of civil servants returning after resigning to broaden their careers.

New entrants who prefer a stakeholder pension with an employer contribution will continue to have the option of a *partnership* pension account.

Current staff

The Government recognise the importance that current staff place on retaining their existing pension scheme. Current staff (including many of those who resign and return to work after a break of no more than five years) will therefore continue to have pensions calculated on a “final salary” basis and will be able to draw an unreduced pension on retirement at or after age 60. These terms will continue broadly as now, subject to the following changes:

> an option for staff leaving from 1 October 2007 to give up pension for a larger lump sum on retirement;
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> relaxation of service limits from 40 to 45 years (to be phased in from 1 March 2008);
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> replacement of the “added years” facility for topping up pension by a new “added pension” arrangement (from 1 October 2007 for staff over 60 and from 1 March 2008 generally); and
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> introduction, from 1 March 2008, of "flexible retirement" arrangements which will permit staff who reduce their hours or job weight to access their pension before full retirement.

Sustainability

Although unfunded, the PCSPS publishes an annual resource account, including its estimated liabilities, and undergoes regular actuarial valuations. The state of the scheme at 31 March 2007 is currently being assessed and I will place the results of the valuation in the Library when the report is agreed. The valuation is used to set the level of employer contributions to apply in future years; by convention a range of employer contribution levels apply, with higher percentage rates of contribution being paid for higher-paid staff. The average employer contribution is currently 19.4 per cent. of pensionable pay and this is taken into account in setting the overall level of civil service reward packages.

The PSF agreement recognised the importance of on-going scheme sustainability. This requires members to accept a degree of responsibility for future cost pressures, rather than seeing them as an issue for the employer (and taxpayer) alone. We will establish a Scheme Governance Group with employer and union representation to take work on this area forward. The Government will ensure that cost pressures identified at scheme valuations from 2010, that will be implemented with effect from April 2012, are shared on a 50:50 basis between employers and staff. To the extent that such cost increases or reductions arise as a consequence of changes to the Treasury-mandated financial assumptions or from some fundamental changes to the actuarial valuation methodology the consequent impact on costs should continue to be absorbed by the employer through an adjustment in Accruing Superannuation Liability (ASLC) rates. The Government will also ensure that the average employer contribution is capped at 20 per cent. of pay (assuming no changes to the valuation approach). This approach is intended to deliver long-term sustainability through the reduction of taxpayer exposure to risks, principally those associated with improvements in longevity over and above the improvements already anticipated.

As and when cost-sharing takes effect, it is by no means axiomatic that member contributions will rise. While this approach would of course be one option, we would look to the Scheme Governance Group to suggest approaches designed to secure widespread acceptance by staff, to maintain scheme membership and to have particular regard to the impact on low-paid staff. We will consult with the unions in the near future on the detail of how this process should work, before amending the scheme rules to reflect the outcome of that process.

Civil Service pension reform: newsletter 1

In June, Cabinet Office announced that they had finalised proposals for the Civil Service pension scheme and were formally consulting the Civil Service unions. That process finished on time, and the unions confirmed that they were content with the scheme amendments and the proposals for changes for existing staff.

Cabinet Office Minister, Gillian Merron, made a written statement to Parliament on 26 July and laid scheme amendments which brought the new pension scheme for new entrants, **nuvos**, into being from 30 July 2007. The scheme amendments also allow staff in **classic**, **classic plus** or **premium** who leave after 1 October 2007 to give up some of their pension in exchange for a higher tax-free lump sum if they want to.

Where can I read the Minister's statement?

You can find the Minister's statement on the pension reform page on the Civil Service Pensions website www.civilservice-pensions.gov.uk. Alternatively, you can find back copies of Hansard at www.parliament.uk. The statement starts in column 105WS.

How does the higher tax-free lump sum work?

If you are in **classic** you will still get your automatic lump sum of 3 x your pension.
When you retire, you will have an option to give up some of your pension in exchange for a further lump sum. This extra lump sum will be any amount you like, to a maximum of your pension x 33/14.
(The figures will be different if you are single and have a refund of your contributions, as this also counts as tax-free lump sum.)

If you are in **premium**, the maximum lump sum you can have is your pension x 30/7.

Every £12 of extra lump sum you take will reduce the starting value of your pension by £1 a year.

There is a lump sum calculator on the Civil Service Pensions website as well as Q&A material.

Are the other changes happening?

The Minister's statement confirmed the package announced in June's update. The timing is:

- Added pension – from 1 October for people over 60 and from 1 March 2008 generally
- Service limit in **classic**, **premium** and **classic plus** increases to 45 years starting from March 2008
- Partial (flexible) retirement – from 1 March 2008

What happens next?

The Cabinet Office will talk to the Civil Service unions about some outstanding issues and about setting up the Scheme Governance Group. This group will be involved in overseeing the administration and future valuations of the scheme.

Where do I find out more?

The Pension Reform pages on the Civil Service Pensions website have Q&A material covering the changes that may affect existing staff. You can also access an Added Pension calculator from there.

We will issue further pension reform newsletters to keep you informed of developments