Annex A

Model Office Notice

Civil Service pension arrangements

'Building a sustainable future'

Summary

Proposals are being announced today for modernising the Civil Service pension arrangements. These proposals have been developed with and agreed by the Civil Service Management Board. The Cabinet Office is now beginning a consultation on the proposals.

The government has already announced plans to change the pension age for all public sector pension schemes to 65. This necessary change reflects the increase in life expectancy which means that people are now living nearly one third as long again after they reach pension age than they were in the early 1970s. Paying pensions for this period of time is unsustainable but Cabinet Office are proposing to share the savings (equivalent of 2% of the pay bill once the changes are fully in place) between employees and employers. The consultation includes questions about how that money might be spent.

The main change proposed to the pension arrangements is a shift from a final salary model to one in which pension entitlement builds up annually. The Civil Service Management Board has decided to retain a defined benefit scheme, based on salary, despite the fact that elsewhere in the economy many private sector employers are walking away from defined benefit and towards defined contribution schemes in which the risk is borne by the individual.

The new model will generally be fairer to people who are lower paid, people who take breaks in mid-career, late joiners and early leavers. It is not a cost-cutting measure.
The Cabinet Office proposes a long transition period for staff currently in post. This will include the move to pension age 65 which has already been announced and which applies across the public sector as a whole. This change will not affect any current members of staff born before 1 April 1953 who retire at or before age 60.
Employers will continue to contribute to the scheme as they do now (the underlying cost to the Exchequer is currently 19.4% of pay on average); employees will continue to contribute relatively little. Elsewhere in the economy many employers are reducing their support.

These changes will put Civil Service pensions on a more sustainable and modern footing while remaining very competitive compared to those available in the wider economy. Cabinet Office are consulting widely about the details of the changes and you are invited to respond.

Cabinet Office has published their consultation document **'Building a sustainable future'** setting out outline proposals for change to the Civil Service pension arrangements. This is available on www.civilservice-pensions.gov.uk .
Cabinet Office will develop the details in consultation with the Civil Service unions, but they also welcome the views of employers, members and other interested parties. We set out below how to respond.

Background

Cabinet Office introduced changes to Civil Service pension arrangements in 2002 which widened the options available to new entrants and introduced features that members said they would like. All members in post on 30 September 2002 had the chance to move to a revised version of the Civil Service final salary pension scheme. However there are a number of reasons why Cabinet Office are proposing these changes now.

- The Civil Service is undergoing a major programme of reform. The pension arrangements need to reflect these changes;
- Employment patterns are changing and Civil Service pension arrangements need to fit with these;
- There are legislative and other changes coming in the next few years that were not apparent when Cabinet Office introduced new arrangements in 2002;
- The proposals would give members more flexibility in planning and preparing for retirement.

The proposals in brief

Cabinet Office propose that the changes they are putting forward apply to **new entrants from 6 April 2006** and **staff currently in post from 1 April 2013** (with no change to pension rights earned before that date). Their two main proposals are:

1) Civil Service pensions should be based on a proportion of pay earned in each and every year of service, rather than on a proportion of the pay earned shortly before retirement. The reason for moving to a scheme that builds up the member's pension in this way is to improve fairness. **It is not a cost-cutting measure.**

2) In line with Government policy the pension age will be 65.

Pension age 65 does not mean you have to work to 65. The age at which you retire is a matter for yourself and your employer. Existing members will be able to 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. Benefits will become payable in full under the new arrangements at the pension age of 65. 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.

The details of the proposed changes can be found in the consultation document **'Building a sustainable future'**. Please read it carefully.

Cabinet Office propose to have transitional arrangements for staff in post on 5 April 2006 who are still in post on 1 April 2013. Section 5 of **'Building a sustainable future'** explains their proposals.

The consultation process

Cabinet Office's proposals affect a significant proportion of the Civil Service so they want to consult widely. They are inviting all interested parties to respond if they wish. Cabinet Office are following the Government's Code of Practice on Consultation during this exercise. To support this consultation they are publishing:

- **'Building a sustainable future'**. They are making this available through their website www.civilservice-pensions.gov.uk/consultation and in hard copy for those that want it.

- A Feedback form to allow those who wish to respond to do so. Again this will be available on their website (with the means to submit it directly from their site) and in hard copy.

- Attached to this notice at Appendix 1 is a number of Questions and Answers (Q&As) prepared by Cabinet Office that are designed to deal with any initial queries. Further Q&As are available on their website.

- A 'Ready Reckoner' on our website www.civilservice-pensions.gov.uk/consultation which gives a projection as to how these changes may affect you. If you do not have access to their website, or to Excel then please ask your pensions administrator to run the Ready Reckoner for you.

How to respond to the consultation

On the web page www.civilservice-pensions.gov.uk/consultation you will find:

'**Building a sustainable future' –** the document setting out the proposals for change.

Feedback form – for online completion and submission to Civil Service Pensions Division.

Feedback form in Word version – for those who want to copy the form elsewhere and fill it in to submit by e-mail to consultationresponse@cabinet-office.x.gsi.gov.uk This form may also be printed off, completed by hand and sent to:

FREEPOST RLSH-TLEH-EAAX
Consultation Response
P0 Box 8384
MANSFIELD
Notts
NG18 4WP

If you do not have web or intranet access you can obtain a hard copy of the **'Building a sustainable future'** and Feedback form by contacting:

Consultation
PO Box 8385
MANSFIELD
Notts
NG18 4WL

Fax: 0870 240 3035
Email: consultation2@cabinet-office.x.gsi.gov.uk

Please allow up to two weeks for delivery particularly over the period of Christmas and New Year.

Feedback forms must be received by Cabinet Office by the closing date **4th March 2005**

Cabinet Office 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.

Note: These contact points are only for the purposes of this consultation exercise. If you have queries about your pension please contact your pensions administrator.

Follow-up

Cabinet Office will make the results of this consultation exercise public. They will publish feedback analysis on their website after the end of the consultation period. Please be assured that it will not be possible to identify individual responses from these results.

Appendix 1

Q&A briefing prepared by Cabinet Office

What will happen in 2006?

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

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.

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.

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

Benefits will become payable in full under the new arrangements at the pension age of 65. 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. However, the age at which you retire is a matter for yourself and your employer. 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 those benefits will be reduced if you draw them before pension age to reflect the fact that you will be receiving them for longer.

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 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.

Q&A briefing prepared by Cabinet Office

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.

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 contributors. 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.

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.