



# Employer Pensions Notice

## EPN 157

### Scheme amendments

#### Changes to:

- **Principal Civil Service Pension Scheme (PCSPS)**
- **Civil Service Compensation Scheme (CSCS)**
- **Civil Service Additional Voluntary Contribution Scheme (CSAVCS)**
- **Civil Service Injury Benefit Scheme (CSIBS)**

#### Introduction of:

- **Unregistered Death Benefits Scheme (UDBS)**

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

- **HR Managers who deal with pension issues**
- **Those who deal with Health Standard procedures**

**Action**      **To note the removal of the health standard from 1 January 2007.**

**To note further scheme changes and take appropriate action**

- **To identify staff excluded from the scheme on health grounds and**
  - **write to them using the model letter at Annex C, to tell them that they are now eligible for ill-health cover;**
  - **change their pension deductions; and**
  - **ask them to start thinking about whether they may want to pay arrears of contributions**
- **To issue the enclosed Office Notices inserting your APAC contact details where indicated**
- **Destroy section 4.4 of the Employers' Pension Guide**

**Timing**      **Immediate**

## Scheme amendments

### Background

1. Amendments to the PCSPS, CSCS, CSIBS and CSAVCS have been laid before Parliament and come into effect from 1 January 2007. Detailed guidance has been issued to APACs but the main issues for you are outlined below.
2. An unregistered death benefits scheme has been introduced affecting some senior appointments – see paragraphs 24 and 25.

## PRINCIPAL CIVIL SERVICE PENSION SCHEME

### Health Standard

3. Some restrictions have applied on access to ill-health retirement provisions, in particular where a known condition is likely to lead to ill-health retirement before pension age. These restrictions are now removed and it is no longer necessary to follow the procedures in EPG 4.4. This section of the EPG can now be destroyed. This means that new entrants will not need to complete the health declaration form HD4/00N and employers will no longer need to refer cases to the scheme medical adviser on form Med 3/05.
4. Since 1 October 2002 members failing to satisfy the scheme health standard have had their scheme contributions reduced by 1.5% (or for payroll purposes given a 1.5% supplement). This reduction will no longer apply and the instructions previously notified in EPN 38 should no longer be followed. Members who were previously excluded are now entitled to all benefits including ill health retirement benefits if they are subsequently retired on health grounds. You must instruct your payroll provider to deduct contributions at the standard rate of 1.5% of salary for **classic** members and 3.5% of salary for **classic plus** and **premium** members, with effect from the January 2007 payroll.

5. You must identify members currently excluded; either using your own records or those of your APAC so that you can write to those involved using the attached model letter (Annex C). This letter advises them of the changes, in particular that they will be paying increased contributions with effect from January 2007. You must then instruct your payroll to change their contributions to the same rate as everyone else. The letter also advises currently-excluded members that they will subsequently be given an option to pay backdated contributions so that all their service will, in the event of ill-health retirement, count for benefits. A model office notice is attached at Annex A.
6. We will issue a further EPN as soon as possible, giving you details of how the arrangements for paying backdated contributions will work. That EPN will include a further model letter which will include an option form. In the meantime, if currently-excluded members have queries, you may wish to provide them with a calculation of the amount of any non-pensionable pay supplement (**classic** members) or reduction in scheme contributions (**classic plus** and **premium** members) they have benefited from as a result of the instructions in EPN 38. This information should be available from your payroll records.
7. Referrals of Med 03/05 to the Scheme Medical Advisor (SMA) will no longer be necessary. We have asked the SMA to return to you any Med 03/05 received from now on. For the time being they will continue to charge their referral fee of £30.46 for these cases to cover the cost of their administration. This will include returning referrals to you with a covering letter explaining that no further referrals should be made. We have instructed the SMA to suspend work on all cases they are currently processing. They will invoice you for any actions already taken and return the cases without taking any fresh action.

### Re-employment after a Civil Service Compensation Scheme award

8. All members who are re-employed with a start date from 1 January 2007 are only eligible to join **premium** or **partnership** if their previous employment ended on early retirement or severance under the Civil Service Compensation Scheme. These members will not be allowed to re-join **classic**. You should default all such members into **premium** for the time being, but please be aware that new instructions for rejoiners from 1 July 2007 are likely to apply.
9. If you are currently running an early departure scheme then you should ensure that the information you send to departing members reflects that rejoiners will be excluded from **classic**. Additionally, you should make it clear to members involved in an early departure scheme that you can only say what the rules currently allow; that these rules may change in the future; and should they rejoin the Civil Service their future pension arrangements will be determined by the rules in force when they rejoin and not the rules in force when they leave.
10. As now, if the member is receiving an Annual Compensation Payment or pension when they are re-employed then this may be subject to abatement and you should send Capita Hartshead a completed CSP13 with a copy to your APAC (see EPG section 4.3 for further details). If the member's service was enhanced as part of their early retirement package then they will not be able to reckon any service until the end of this enhancement period. Your APAC will be able to confirm when the enhancement period ends.
11. As now, if the member received a lump sum compensation payment then the member will not be required to repay this provided they were recruited to their current post through fair and open competition.

12. Please note that if you offer the job to the member prior to their last day of service with their former Civil Service employer then the change of post should normally be treated as a voluntary move between employers rather than an early exit followed by re-employment. In these circumstances the member will have continuity of service, they should remain in their existing pension scheme and will not be eligible for CSCS benefits. The one exception is that if the new job is lower paid than the job the member is leaving, and the member is leaving on compulsory terms, then they can be paid the CSCS benefits and will not have continuity of service.

### **Abatement**

13. The way Capita Hartshead applies abatement to a re-employed pensioner or a member with an Annual Compensation Payment will change from 1 April 2007.

14. The rate of basic pensionable pay on the member's last day of service has previously been used. No account is taken of permanent pensionable allowances (other than London weighting or other local pay supplements) when calculating the rate of pay on the last day of service, or during re-employment. This means that if they have reduced the number of hours worked before retiring then we would only take account of part time pay. It also means that if they received a permanent pensionable allowance (other than London weighting or another local pay supplement) then we did not take this into account.

15. Under the new rules abatement will reflect what the member actually earned, in pay and permanent pensionable allowances, in the year before retiring. For most members this will be no more than the pay we used under the old rules, and in many cases it will be slightly lower. However if they reduced their hours, or received a permanent pensionable allowance, in the year before retiring then the new rules allow us to take more pay into account. Similarly, the abatement calculation will reflect pay and permanent pensionable allowances on re-employment. Capita Hartshead will continue to calculate the level of abatement. For an example see the attached Office Notice (Annex B).

16. You should issue the attached office notice (Annex B) during January 2007.

### **Added Years**

17. Buying added years on early retirement – Members who leave on early retirement may use any compensation lump sum they receive to buy add years but, because of changes to tax law, they will no longer be able to use any of their pension lump sum to buy added years. If the member wishes to use their pension lump sum to increase their pension then they should commute the lump sum for additional pension. If a member uses their pension lump sum to buy further pension benefits then they may be subject to a tax penalty because of tax regulations on recycling pension lump sums. This rule change prevents this happening within the Civil Service Pension Scheme although we cannot prevent a member buying further pension benefits outside the scheme and having to pay a tax penalty. Your APAC will deal with member enquiries directly.

## Compensation and Death in Service benefits

18. The way pay is calculated has been amended to remove the disadvantage suffered by members who return to work following a period of unpaid leave shortly before their early departure or death. The amendment enables their pensionable pay for their period of return to be annualised. This will in effect treat them as a new entrant. If you have recently received early retirement or severance estimates for a members then you should ask your APAC to provide a new estimate if the member had a period of unpaid leave which:

- **lasted more than 6 months and;**
- **ended no more than 12 months before the anticipated last day of service.**

## Transfer of pension benefits

19. Transfer time limits and opting back into **classic** – Members wishing to transfer pension benefits into the PCSPS under the Public Sector Transfer Club, or from a non-occupational pension scheme, have a 12 month time limit to make the application. A further 12 month window cannot be achieved by the member opting out of the pension scheme and then opting back in again. Whilst the **premium** and **classic plus** rules reflect this policy, the **classic** rules are less clear. We have, therefore, amended the **classic** rules to make it quite explicit that this 12 month time limit begins when the member first becomes pensionable during the continuous period of employment with a PCSPS employer (or succession of PCSPS employers). Your APAC will deal with these cases.

## CIVIL SERVICE COMPENSATION SCHEME (CSCS)

20. The changes have already been explained in EPN 150. This provides full details of the action to take when a compensation payment is less than what would be payable under statutory redundancy scheme rules.

21. Paragraph 16 of this notice explains a change to the way you calculate pensionable earnings.

22. Paragraph 8 of this notice explains a change to what happens if a member is re-employed after a CSCS award.

## CIVIL SERVICE ADDITIONAL VOLUNTARY CONTRIBUTION SCHEME (CSAVCS)

23. All CSAVCS members will now be allowed to draw their benefits from age 55 regardless of whether or not they have retired and drawn pension from the main scheme. Those CSAVCS members who are entitled to a protected minimum pension age of 50 in their main pension scheme will also have the same protected minimum pension age in the CSAVCS. This means some members will be able to take their CSAVCS benefits from age 50 providing their contributions to a CSAVCS started before 6 April 2006. The attached office notice (Annex A) provides information about this for members.

## UNREGISTERED DEATH BENEFITS SCHEME

24. The new tax regime for pensions allows people who had built up significant pension benefits before 6 April 2006 to register them with HMRC for transitional protection, thus ring-fencing those pension benefits from the new Lifetime Allowance tax charge. However, and depending on circumstances, some of this protection is lost if an individual subsequently joins another pension scheme.

25. In limited cases, involving senior hires, an individual may therefore not wish to join the pension scheme. This means that as well as not building up pension benefits they will have no entitlement to death in service benefits. This scheme allows you to provide death-in-service cover of twice pay to people where it is agreed on recruitment that they will not join PCSPS. Lump sums paid under the Unregistered Death Benefits Scheme will be taxable as the scheme operates outside the favourable tax regime for pension schemes. If you want to offer this scheme to a new senior hire you must seek agreement from CSPD at the outset. You should email [LTA@cabinet-office.x.gsi.gov.uk](mailto:LTA@cabinet-office.x.gsi.gov.uk) or speak to Julia Wood (01256 846490) or Peter O'Connell (01256 846447).

### Other changes

A substantial number of the amendments delete redundant rules and update references to repealed legislation so will have no impact on your existing procedures. This includes changes to the wording of some scheme rules relating to medical advice which is solely to rectify inconsistencies that could be confusing. The amendment to CSIBS consists solely of such changes.

If you would like to view the amendment scheme in full you should contact your APAC or the employer helpdesk.

**Contacts** Enquiries about content, distribution or to receive in a different format

**[employerhelpdesk@cabinet-office.x.gsi.gov.uk](mailto:employerhelpdesk@cabinet-office.x.gsi.gov.uk)**

**01256 846414**

**Employer Helpdesk, Civil Service Pensions, Grosvenor House, Basing View  
Basingstoke, RG21 4HG**

You can find copies of all current EPNs and forms and a copy of the Employers' Pension Guide (EPG) on our website.

**[www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)** in the Employer and APACs section  
username **employers** password **mc2fxqfy**

**Model Office Notice****Changes to the Civil Service pension arrangements****You need to read this if:**

- **you are excluded from the scheme ill-health retirement benefits or**
- **you have another pension that you are considering transferring to the scheme or**
- **you have a Civil Service Additional Voluntary Contribution Scheme account.**

**Ill-health retirement benefits – removal of the Health Standard**

From 1 January 2007 the pension scheme rules will be changed to extend ill-health retirement benefits to those individuals who have previously been excluded.

If you have been excluded from these benefits this exclusion will no longer apply and you will now have the same benefit entitlement as everyone else. You will also now pay the same scheme contributions as everyone else. These are currently 1½% of salary for **classic** members and 3½% for **classic plus** and **premium**.

If you are affected we will be writing to you with further information and inviting you to decide whether or not to pay arrears of contributions to cover past service. The letter will provide full details of how the contribution arrears and repayment period are to be calculated. As there will be a deadline for registering decisions, you should contact **[employer to insert named contact(s)]** about this matter if you think that this affects you and you have not heard anything by the end of March 2007.

**Transfer time limits and opting back into the Civil Service pension scheme**

As advised in **[employer to insert office notice reference]** there is a 12 month time limit if you want to apply to transfer pension benefits into the Civil Service pension schemes under the Public Sector Transfer Club, or from a non-occupational pension scheme. Civil Service Pensions wish to clarify that this 12 month time limit begins on the date you are first eligible to join the scheme during your current continuous period of employment with an employer (or succession of employers) covered by the Civil Service pension schemes. You therefore cannot trigger a second 12-month transfer opportunity by opting out of and then rejoining the PCSPS.

**Taking your Civil Service Additional Voluntary Contribution Scheme pension benefits**

Previously members with a money purchase CSAVC scheme could only take their CSAVC benefits if they had retired and drawn their pension from the main scheme. Following changes to the tax rules you are now allowed to take your CSAVC from age 55 regardless of whether or not you have taken your main scheme benefits.

If your current period of service started before 6 April 2006 and you started paying into the CSAVCS before that date you may be able to draw your CSAVC from age 50 (rather than 55). If you want to do this please check with your pension scheme administrator before entering into any financial commitments. Your pension scheme administrator is **(Insert name and contact details)**

## Model Office Notice

### Changes to the Civil Service pension arrangements affecting re-employment

#### You should read this notice if you

- **have been re-employed in the Civil Service and receive a Civil Service pension or Annual Compensation Payment and, before leaving, you**
  - **reduced your hours or**
  - **you had a permanent pensionable allowance**
- **or, will retire or take early retirement after 31 March 2007 and think that you might be re-employed by an employer covered by the Civil Service pension arrangements.**

#### Abatement

Under the scheme rules, your pension (or annual compensation payment (ACP)) may be reduced or suspended if you are re-employed by an employer covered by the Civil Service pension arrangements. If your pay during re-employment plus your pension or ACP is greater than your pay before you retired, then your pension or ACP is abated (reduced). In other words, you cannot earn more by way of (new) pay plus pension than you were earning before you retired. From 1 April 2007 there will be a change in the way abatement is applied to the pension or ACP of members who are re-employed following retirement or early retirement.

Under the current rules the pensions administrator uses the rate of pay on your last day of service to work out whether abatement applies. They do not take account of permanent pensionable allowances (other than London weighting or other local pay supplements) when calculating your rate of pay on your last day of service, or your pay during re-employment. This means that if you reduced the number of hours you worked before retiring then they would only take account of your part time pay. It also means that if you received a permanent pensionable allowance (other than London weighting or another local pay supplement) then they did not take this into account.

The new rules, which have been agreed with the Civil Service trades unions, are intended to operate more fairly. The new calculation will take into account what you actually earned, in pay and permanent pensionable allowances, in the full year before you retired. For most members this will be no more than the pay was used under the old rules, and in many cases it will be slightly lower. However if you reduced your hours, or received a permanent pensionable allowance, in the year before you retired then the new rules allow more pay to be included.

The new rules will apply to everyone who leaves after 31 March 2007 and are subsequently re-employed. If you have already been re-employed, or if you leave before 1 April 2007 and are subsequently re-employed, you will not be affected by the new rules unless you ask for the new rules to be applied to you.

#### Example

Bob and Brenda both retired on 31 December 2006 and were re-employed on 1 March 2007. On 1 April 2007 they both can, if they so choose, ask for the new rules to apply to them.



**Bob** was paid £24,500 a year and received a pay rise to £25,000 a year 6 months before he retired. His pension is £10,000 a year.

Under the old rules the pensions administrator looked at Bob's rate of pay on the last day of service (£25,000). Bob's pension is £10,000 a year so his pension will be reduced if he earns more than £15,000 a year (calculated as £25,000 pay less his £10,000 pension).

Under the new rules the administrator will look at his actual pensionable earnings during the last year which total £24,750 (£12,250 in the first 6 months and £12,500 in the second 6 months). Bob's pension will be reduced if he earns more than £14,750 during re-employment.

Bob is better off if he does not ask for the new rules to apply to him.

**Brenda** has the same pension as Bob, and also had the same basic pay but, before she retired, Brenda also received a permanent allowance of £2,000 per year.

Under the old rules her rate of pay (which excludes her permanent allowance) was the same as Bob's, so Brenda's pension will be reduced if she earns more than £15,000 a year during re-employment.

Under the new rules Brenda's actual earnings in her last year were £24,750 in basic pay (the same as Bob) plus a permanent allowance of £2,000 which brings the total to £26,750. Her pension is £10,000 a year so Brenda could earn up to £16,750 a year under the new rules without her pension being reduced.

In these circumstances Brenda is better off if she asks for the new rules to apply to her.

If you have been re-employed and think that the new rules would benefit you then contact your pension administrator for more details. You must make your decision before 1 July 2007.

**Model Letter****Ill-health retirement benefits - removal of Health Standard**

Dear

I am writing to you about changes that are being introduced to the Civil Service pension arrangements. These changes affect you.

As you know, since you joined the scheme you have been excluded from eligibility for ill health retirement. To compensate for this exclusion, your scheme contributions have been reduced by 1.5% of pay in respect of your service since 1 October 2002. This reduction was introduced on the basis that it constituted a “reasonable adjustment” under disability legislation.

In response to recent challenges at Employment Tribunals, Cabinet Office – as managers of the Civil Service pension arrangements - have changed the pension scheme rules. This means that you are now eligible for the full range of scheme benefits, including ill health retirement benefits should you be retired on health grounds. This change is effective from 1 January 2007

As you are now entitled to the same benefits as other members you will now pay the same rate of contribution as other members.

*[Include text relevant to individual:*

- As a member of **classic**, with effect from 1 January 2007 your total scheme contributions will be 1.5% of salary.
- As a member of **classic plus** with effect from 1 January 2007 your total scheme contributions will be 3.5% of salary.
- As a member of **premium** with effect from 1 January 2007 your total scheme contributions will be 3.5% of salary.]

In the event that, in the future, you meet the conditions for ill-health retirement, your pension will only cover periods of service for which you have paid full contributions. Because of that, you may wish to make additional payments of contributions to cover the period of service when you have been paying reduced contributions. We will write to you again, shortly, to give you further details of the amount you would have to pay and the arrangements for spreading the cost over a period of time. We will then ask you to let us know whether or not you want to pay these additional contributions.