Reforms to the Civil Service Pension Scheme

Update: February 2012

CIVIL SERVICE

Purpose of this pack

- To update scheme members on latest position on reforms to Civil Service pension arrangements.

- This covers both the increases to contributions that will begin to take effect from April 2012 and the new pension scheme to be introduced in 2015.

Back to basics – the main Civil Service schemes at the moment

- Around 60% of staff are in **classic** (Final Salary; Pension Age 60; this closed to new staff in 2002).
- Around 25% of staff are in **premium** (Final Salary; Pension Age 60; this closed to new staff in 2007).
- Around 15% of staff are in **nuvos** (Career Average; Pension Age 65; this is the current open scheme but will close in 2015).
- The smaller **classic plus** scheme will be affected by these reforms, those in the **partnership** scheme will not.

Back to basics – how the main schemes work

You receive an annual pension and optional cash lump (automatic in **classic**) when you retire based on:

%

Your pay

How long you have been in the scheme*

Pension accrual rates

Back to basics - **classic** pension examples

x 18 x 1/80 =

pension plus

x 18 x 3/80 =

lump sum

Back to basics – **premium** scheme example

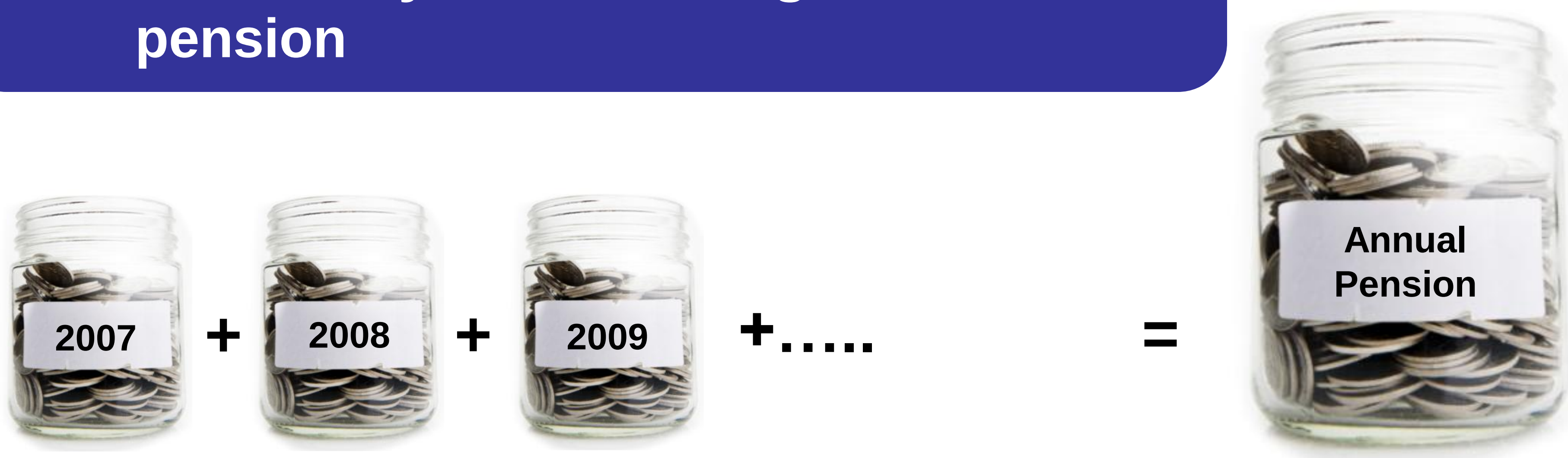
£25,000 x 18 x 1/60 =

- It is possible to convert some of this pension into a tax free lump sum at a rate of 12:1.

Back to basics – **nuvos**

- Career average pension scheme:
  - Annual pension calculated <u>each year</u> you are a member:

1. **Pay each year x 2.3% (equivalent to 1/43)**
2. **Increased in line with CPI to retirement**
3. **Add each year's total to get annual pension**



What are the changes?

- Each of the main public service pension schemes will increase member contributions by an average of 3.2 percentage points over three years, starting from 1 April 2012.
- The increase from April 2012 will be average 1.3 percentage points, depending on your salary (see details below).
- There will be further increases from April 2013 and April 2014, subject to consultation.
- In April 2015 a new pension scheme will be introduced.

Why are the changes taking place?

- 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.

classic - contribution increase from 1 April 2012

- Those who are members of the **classic** scheme will contribute at these rates:

Full time pay range	Current classic contribution rate	Contribution rate 2012	Additional percentage point contribution rate 2012 (net of tax relief, where applicable)
Up to £15,000pa	1.5%	1.5%	0
£15,001 - £21,000	1.5%	2.1%	0.48
£21,001 - £30,000	1.5%	2.7%	0.96
£30,001 - £50,000	1.5%	3.1%	1.28 / 0.96 as a result of higher rate tax relief
£50,001 - £60,000	1.5%	3.5%	1.20
Over £60,000	1.5%	3.9%	1.44

premium, **nuvos** and **classic plus** - contribution increase from 1 April 2012

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

Full time pay range	**Current premium, nuvos and classic plus contributions**	**Contribution rate 2012**	**Additional percentage point contribution rate 2012 (net of tax relief, where applicable)**
Up to £15,000pa	3.5%	3.5%	0
£15,001 - £21,000	3.5%	4.1%	0.48
£21,001 - £30,000	3.5%	4.7%	0.96
£30,001 - £50,000	3.5%	5.1%	1.28 / 0.96 as a result of higher rate tax relief
£50,001 - £60,000	3.5%	5.5%	1.20
Over £60,000	3.5%	5.9%	1.44

What’s happening from 1 April 2015?

- There will be a <u>new scheme for most staff for their service post-2015</u>. Discussions on key design features have been settled, but the final details are subject to change following further discussions with Trade Unions.

- Members within 10 years of their current scheme pension age on 1 April 2012 will be able to <u>remain in their current scheme until they retire</u> (though they will pay the higher contributions).

- Those <u>just outside this</u> (a further 3½ years from 1 April 2012) will be able to remain in their current scheme for a further amount of time that will depend on their age.

- <u>Everyone</u> will keep their service in their existing schemes up to April 2015 and this will become payable at their current pension age.

What will the new scheme look like?

- The pension will be based on your <u>average salary from 2015 onwards </u>(not when you joined the Civil Service).

- It will be modelled on the existing career average scheme we have in the Civil Service – **nuvos**.

- The pension age of the scheme will be <u>equal to your own individual State Pension Age</u> (65 to 68, depending on when you were born).

- The average member contribution will be around 5.6%. Employers will still meet the bulk of the cost of your civil service pension.

How does the new scheme compare with the existing ones?

- The Government is asking public service workers to <u>contribute more into their schemes</u> and to wait a bit longer before their pension benefits become payable in full.

- However, Lord Hutton concluded that <u>career average schemes are fairer to staff</u> with more modest salary growth.

- The Government has <u>protected those closest to retirement</u> from any reduction in their benefits, and most low and middle income earners working a full career will receive pension benefits <u>at least as good, if not better</u>, than they get now.

What happens next?

Contribution Increases 2012, 2013, 2014

- Member contributions will increase from 1 April 2012.
- There will be further increases from 1 April 2013 and 1 April 2014, following further consultation.

The new pension scheme from 2015

- Discussions with Trade Unions are continuing on the remaining details of the new scheme.
- Once discussions have concluded further communications will follow, explaining more details of the changes.

Ongoing benefits of the Civil Service pension scheme

- A Civil Service pension will remain a very effective way to save for your retirement and the benefits will remain far greater than those on offer from most other employers.

- Your Civil Service pension will continue to be a guaranteed amount – calculated as a fraction of your salary, not an uncertain amount based on investment returns.

- Your employer will still meet the bulk of the cost of your Civil Service pension.

- Your pension scheme provides valuable additional benefits for you and your family including death in service payments and dependants' pensions.

Find out more

- Civil Service Pensions Reform Page-
  www.civilservice.gov.uk/pensions/reform

- Lord Hutton's Independent Review –
  www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

- 2012 employee contributions increase information and calculator –
  www.civilservice.gov.uk/pensions/reform/governments-response-contribution-consultation