Cabinet Office

Employer Pensions Notice

EPN 280

Civil Service Compensation Scheme (CSCS)

Principal Civil Service Pension Scheme (PCSPS)

1. Proposals to introduce legislation to cap redundancy payments

2. Clarification of policy following the Judicial Review judgment on the CSCS Amendment Schemes of 5 February 2010

3. Buy out of the actuarial reduction on an Actuarially Reduced Pension

Audience	**This Notice will be of particular interest to: HR Staff involved with early exit departures under the CSCS and PCSPS**
Action	**This Notice covers various issues on the CSCS and PCSPS and should be read by all HR staff who deal with early departures with compensation and early departures on actuarially reduced terms.** **To note and issue the model office notice to staff through your usual communications route.**

Civil Service Pensions

Timing Immediate

NEW CSCS Proposals

1. On 6 July 2010 the Cabinet Office told HR Directors about the Government's plan to begin the legislation process to limit the cost of exit payments under the current CSCS (pre-reform terms). The Bill is expected to become law in the late autumn this year and will cap:-

- compulsory redundancy payments at 12 months actual pensionable earnings
- payments for voluntary exits to 15 months actual pensionable earnings

However, the Government hope that the Council of Civil Service Unions will engage speedily and constructively with them to reach a fair and sustainable long term CSCS. Once a new CSCS is in place the caps on the exit payments noted above will be withdrawn.

Until either a new CSCS is introduced or the Bill reaches the statute books employers can still offer the existing CSCS terms. Although you no longer require Cabinet Office approval to offer these terms, all early exits should be authorised by your Accounting Officer and you must also clear your lines with your Treasury spending team before offering any early exit schemes or embarking on redundancies. You will still need to go through this process even if you received Cabinet Office approval to offer these terms earlier in the year. HR Director letter of 13 July emphasised that it is essential that you use the existing CSCS terms responsibly over the next few weeks and months.

EPN 279 explained that employers can agree exits under the existing CSCS terms up to and including 15 September 2010. This date has now been extended to **22 October 2010.** If you have already issued notice of compulsory dismissal or have agreed voluntary terms with individuals before the legislation comes into force those terms will be honoured and capping will not apply, even if the last day of service is after 22 October 2010. It is the date of notice or the date of the agreement which matters not the date of departure.

2. **Clarifying the Judicial Review judgment**

We now know the full extent of the quashing order imposed by the Judicial Review judgment on the PCSPS and CSCS amendment schemes that were laid before Parliament on 5 February 2010. The following paragraphs clarify the changes and advise you on actions you need to carry out, where appropriate.

3. **Compulsory early retirement (CER) terms** Most of the changes took effect from 1 April 2010 except for the changes to the CSCS compulsory early retirement (CER) terms (referred to as the Wallis judgment) which gives the full 6 months lump sum compensation payment to those:-

- age 57 – 60 from 16 July 2008
- age 60 or over from 1 April 2009.

We have already issued guidance on how you should deal with any outstanding cases which require a top-up lump sum compensation payment in EPN 269 and this guidance is still relevant. Your Pension Service Centres will action any new cases, where no compensation has yet been paid. Please be aware that tapering will still apply to any compulsory or flexible early severance cases (CES/FES) where the individual is age 57 or over.

4. **Terms for nuvos members** Your Pension Service Centres (PSCs) will now calculate estimates for any **nuvos** staff who are leaving on redundancy, voluntary early exit or dismissal on inefficiency. The qualifying period for permanent staff is 1 year and the pensionable earnings will be calculated as a **premium** member (pre-reform) terms. On redundancy they will receive 1 month's final pensionable earnings for each year of service (and the relevant proportion for part years of reckonable service). On voluntary exit you may offer FES, or where you are offering compulsory terms to members of other schemes you may offer 1 month per year of service. You will need to seek Treasury approval for all these payments as they will be paid as ex-gratia and there is no longer blanket Treasury approval on **nuvos** early exit payments.

   nuvos members who are on a fixed term contract are covered by the CSCS and will be treated the same as any other fixed term appointee. This means that they will receive benefits under section 8 of the CSCS if their contract is terminated early. You can find further guidance in Section 6 of the Employer Pension Guide. If their contract comes to an end in a redundancy situation they should receive a payment equivalent to statutory redundancy as long as they have at least 2 years' qualifying service.

5. **Approved Early Retirement (AER) for premium members** HR Director letter of 18 June informed you that, because of the extent of the quashing order, AER is no longer available in the **premium** scheme rules. Cabinet Office does intend to make an amendment scheme to retrospectively restore AER to **premium** but the terms will be subject to any conditions which the Minister for the Cabinet Office may impose. In the meantime if you wish to offer AER to **premium** or **classic plus** members you should discuss matters with your spending team before starting an exercise offering these terms and you will need to apply to the Treasury for approval to pay it on an ex-gratia basis.

6. **Re-employment** Although the new CSCS rules on re-employment were quashed, Cabinet Office confirmed that as a matter of policy, they consider that is would be difficult to defend the re-hiring of someone (whether as an employee or a contractor) who has previously left with compensation for early exit. Any proposals to hire someone who has previously left with a compensation payment should be referred to Cabinet Office Reward before terms are agreed.

7. **Managing exits**

Your PSC may experience a heavy influx of requests for early exits due to the recent uncertainty on CSCS terms. In order to manage this workload, please ensure you have a clear sift criteria for when considering an early exit exercise. To help your PSC to manage the exit process efficiently, please only ask for figures for those staff that you consider have a clear opportunity of being offered early exit terms with a fixed last day of service. Your PSC will issue quotes to you instead of first issuing estimates in order to reduce the processing time. Your PSC may not be able to guarantee that all exits will be actioned before the member's last day of service because of the time frame. Subject to discussion with your PSC, you may therefore, need to make members aware of the possibility that payment of their compensation and/or pension may be delayed.

Your PSC may ask you to confirm that your planned exit exercises have had Cabinet Office or your Treasury Spending Team authorisations where appropriate, and Accounting Officer Certificates in subsequent years will also ask you to confirm that you have the relevant authorisations.

8. **Earliest age to receive pension** Members of the PCSPS continue to have the right to draw their pension before scheme pension age on an actuarially reduced basis. The earliest age at which a pension can be accessed is set by HMRC and is generally age 55. This applies to partnership members and those who joined the scheme after 6 April 2006 including those who came into the Civil Service from a by-analogy arrangement or who rejoin the service after a break of more than 28 days. However those who have been in continuous membership of the scheme since before 6 April 2006 can continue to access their pension from age 50

9. **Members leaving on Actuarially Reduced Retirement**

PCSPS rules were amended to allow members the opportunity to buy out all of the actuarial reduction that would otherwise apply to an Actuarially Reduced Pension. They must buy out the whole of the actuarial reduction. They can either do this by sending in a cheque to their Pension Service Centre or by asking their employer to use any compensation due to them on early exit, or a combination of both. We will issue a further EPN to explain the finance process shortly.

10. We have produced a buy-out calculator that will give the cost of buying out the full actuarial reduction that would otherwise apply. This calculator is now on our website. Individuals will be able to get their own estimate of the cost involved by using the figures from their last Benefit Statement. If you have staff enquire about taking actuarially reduced retirement please direct them to use the calculator in the first instance. The calculator informs the user that should they proceed they will be buying pension that will in future be uprated by the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). We have drafted an office notice for you to issue to your staff.

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

employerhelpdesk@cabinet-office.x.gsi.gov.uk

01256 846414

Employer Helpdesk, My Civil Service Pension, Grosvenor House, Basing View, Basingstoke, RG21 4HG

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

If this notice is to be circulated to members, then please remove contact details as the helpdesk is for employers only. Members should be directed to your pensions service centre if they have any queries.

Text for Office Notice

Information for **classic**, **classic plus**, **premium** and **nuvos** pension members

Taking your pension before your scheme pension age

This notice tells you about the earliest age at which you can take your pension and the conditions that apply.

For most **classic**, **classic plus** and **premium** members the scheme's pension age is 60. For **nuvos** members, it is age 65. However, it is possible to take your pension earlier than your scheme's pension age.

The following table sets out the earliest age at which you can take your pension, depending on when and how you joined us.

Joining conditions	**Earliest age at which you can take your pension**
If you were in post before 6 April 2006 and have been in continuous service. (This includes members who may have since transferred from one Civil Service pensions employer to another without a break in service.)	50
If you: joined or were re-employed (after a break of more than 28 days) after 6 April 2006, or transferred from a by-analogy organisation.	55

If you take your pension before your scheme pension age, you need to be aware that your pension will be reduced because it will be in payment for longer. For planning purposes, you should expect about a 5% reduction in pension for each year before your scheme's pension age. The reduction is permanent so you need to consider whether you can afford to live on the reduced pension in future.

Buying out the reduction

If you wish, you can buy out the reduction, known as an actuarial reduction, when you apply to take your pension. You must buy out the whole of the actuarial reduction.

If you should leave with a voluntary or compulsory redundancy package, you have the option to buy out the actuarial reduction by using your compensation package. You must, however, meet the remaining cost of buying out all of the actuarial reduction if your compensation payment does not cover the full cost. Be aware that you will have to pay for this by cheque. You will not be able to make a payment from your pay or be able to give up your pension lump sum to cover the cost.

You can check the estimated cost of buying out the full reduction yourself, using the buy-out calculator on the Civil Service website. The web address is at the bottom of this notice. To use the calculator, you will need to have your latest annual pension benefit statement handy as you will have to use some figures from it. Please note the calculator cannot work out buy-out costs for preserved pensions.

If you have added pension you can:

- take it now on an actuarially reduced basis
- take it now and buy out the actuarial reduction, or
- leave it and take it unreduced at scheme pension age.

If you are interested in leaving and taking your pension before your scheme's pension age, whether or not you decide to buy out the reduction, contact your HR/personnel in the first instance. If you wish to have an estimate on a preserved pension, please ask your HR section to contact your pension administrator on your behalf.

Pensions increase

Civil Service pensions are increased in line with the cost of inflation. Historically, the increase was based on the Retail Prices Index. In future, the model will be based on the Consumer Prices Index. To find out more about these models, visit www.statistics.gov.uk.

Where to find the buy-out calculator

Visit: **www.civilservice-pensions.gov.uk/calculators**