Civil Service pension reform: newsletter 4

This newsletter tells you about the final parts of the pension reform package.

Introducing the Governance Group

We are establishing a Scheme Governance Group. The Group will work with the Cabinet Office to improve the way the scheme is run and will include five members nominated by the Civil Service trades unions and another five representing Civil Service employers. Cabinet Office will consult the unions before appointing an independent Chair. The Group will provide updates on its work on the Pensions website. The Governance Group will not replace the Joint Committee on Superannuation (JCS) which provides the formal environment in which Cabinet Office and unions discuss pension issues.

Keeping our pension scheme alive and well – a shared responsibility

Our pension arrangements are affordable now but, if costs go up in the future, we may need to take action to keep the scheme sustainable. In common with the other major public service pension schemes (like those for teachers and NHS workers) Cabinet Office has set out a process for sharing the effect of future cost pressures between employers and scheme members and will also limit the average employer contribution to a maximum of 20% of pay (employers pay 18.9% on average from 2009).

What will "sharing responsibility" mean in practice?

We don't expect anything to happen before April 2012 at the very earliest. The next valuation of the scheme is due "as at" 31 March 2010 and we will know by Christmas 2010 whether the costs have gone up or down. If costs go down (as they did at the 2007 valuation), we will hold onto the savings and use them to offset any cost increases in the future. If costs go up, employers will pay increased contributions from April 2012 and Cabinet Office will ask the Governance Group to report to it with options for handling the employee share of the extra cost. Cabinet Office will then decide on its preferred approach and consult, in the normal way, with the Civil Service trade unions before making changes to scheme rules. Cost-sharing will not affect pensioner and deferred members of the scheme.

Does this mean I will have to pay more for my pension?

Not necessarily. If costs go up, Cabinet Office will expect the Governance Group to look at a range of options, including ones which avoid members, especially the low-paid, paying more.

What will happen at the valuation in 2010?

We don't know. If the actuaries continue to get more optimistic about life expectancy, that will tend to increase costs. But other factors, for instance pay restraint, may depress costs. Cabinet Office will continue to be vigilant in managing the scheme and making sure that the scheme does not pick up costs which individual employers should pay. So, for instance, the costs of early retirement packages are paid by employers rather than being picked up as a "scheme cost" shared across all members.

What do the unions say?

The unions have said: *"We will judge our response to any specific proposals for cost-sharing in the light of the circumstances at the time when and if they arise in the future."*

Where do I find out more?

The Pensions Reform pages of the website include a link to a document giving further information on how the cost-sharing process will work, together with some worked examples and a timeline.