Q&A – Contribution increases Year 2

What are employee contribution increases?
From 1 April 2012 **classic**, **classic plus premium** and **nuvos** members of the Civil Service pension scheme earning more than £15,000 each year (full-time equivalent (FTE)) or over will pay extra contributions towards their pensions. For those staff earning £15,000 or less (FTE), there will be **no** contribution increase.

The information that follows tells you why the contributions have increased and answers some of the questions you may have.

Why will my pension contributions increase?
The average 60 year old is now living ten years longer than they did in the 1970s.This has resulted in increases in the costs of pensions and until now these have all fallen to the employer. The extra pension contributions mean there will be a fairer distribution of the added cost between employers and the scheme members.

How is the money raised from the extra contributions going to be used?
The Civil Service pension scheme operates on a “pay-as-you-go” basis. There is no pension fund, so contributions by members and employers are used to pay current pensions. If there is a shortfall, extra cash is provided from the Exchequer (from tax or other revenues).The Principal Civil Service Pension Scheme (PCSPS) is a mature scheme with more members in receipt of a pension than are making contributions. The increase in contributions will therefore help bridge any gap between the amount paid out each year and the amounts paid in.

You increased my pension contributions last year, why are you increasing them again?
The Government set out its intention that member contributions to the public service schemes should increase by 3.2% of pay on average (or savings of a similar size should be delivered) over 3 years from April 2012. The extra contribution being introduced this year represents 80% of that increase (1.28% for increases in April 2012 and 1.28% for increases in April 2013) and is therefore is in line with the Government’s commitment.

What will my new contribution rate be from April 2013?

Members of the classic scheme would pay total contributions at these rates:

Annual pensionable earnings (full-time equivalent basis)	Current classic contribution rate, as a percent of pensionable earnings	Contribution rate for Classic from 1 April 2013, as a percent of pensionable earnings
Up to £15,000pa	1.5%	1.50%
£15,001 - £21,000	2.1%	2.70%
£21,001 - £30,000	2.7%	3.88%
£30,000 - £50,000	3.1%	4.67%
£50,001 - £60,000	3.5%	5.46%
Over £60,000	3.9%	6.25%

and members of premium, classic plus and nuvos would pay contributions at these rates

Annual pensionable earnings (full-time equivalent basis)	Current premium, classic plus and nuvos contribution rate, as a percent of pensionable earnings	Contribution rate for premium, classic plus and nuvos from 1 April 2013, as a percent of pensionable earnings
Up to £15,000pa	3.5%	3.50%
£15,001 - £21,000	4.1%	4.70%
£21,001 - £30,000	4.7%	5.88%
£30,000 - £50,000	5.1%	6.67%
£50,001 - £60,000	5.5%	7.46%
Over £60,000	5.9%	8.25%

You can find a calculator which will give you an indication of what your take home pay will be from April 2013 at www.civilservice.gov.uk/pensions/reform

Examples

Lucy earns £23,000 a year and is in **classic**. Lucy's contributions currently cost her approximately £41 per month after tax. Following the change in April 2013 Lucy's contributions will cost her £59.49 per month after tax.
John earns£16,000 a year and is in **nuvos.** John's contributions currently cost him just over £43 per month after tax. Following the change in April 2013, John's contributions will cost him just under an additional £7 per month after tax.
Rebecca earns £14,500 a year and is in premium. Rebecca will not pay any additional contributions as her full-time equivalent salary is less than £15,000 a year

Kevin earns £55,000 a year and is in classic. Kevin's contributions currently cost him just over £96 per month after tax. Following the change in April 2013, John's contributions will approximately cost him an additional £50 per month after tax.

I earn less than £15,000. Does this mean that my contributions will not increase?
If your full time equivalent salary is £15,000 or less your contributions will not increase.

I work part time. How will my extra contribution rate be decided?
We will use the salary you would be paid if you worked full time to work out the rate of extra contributions. This approach ensures the same level of contribution for those earning the same rate of salary per hour. This is the fairest way of treating both full and part time employees. However, you will pay extra contributions only on the actual pensionable salary and allowances paid to you.

Example

Jen works part time (18 hours a week), is in the nuvos scheme and earns £12,000 but her full time equivalent salary is £16000 and therefore from April 2013 will pay an additional increase in contributions of 0.6%

Jen currently pays approximately £21 after tax and after the April 2013 changes will pay just under an additional £4 per month after tax

I am in classic and I do not currently pay WPS (1.5%) on an allowance that I receive, but it is included for my pensionable pay. Will I pay extra contributions on all of my pensionable pay including this allowance?
Yes. Extra contributions will be collected from any payment that counts towards your pension. Therefore, you will now pay extra contributions on the allowance which you are not currently paying WPS on. This allowance will also be included to determine the salary band for the extra contributions you will pay from 1 April 2013. The contribution increase calculator will not be able to provide you with an accurate answer for this particular situation.

What about tax relief?
The extra contributions will be deducted from your earnings before tax, according to current tax rules, in the same way as your current contributions. This means your take home pay will not reduce by the full amount of the increase.

Jane earns £25,000 a year and is in **classic**. Jane's contributions currently cost her £45 per month after tax (£56.25 before tax). Following the change in April 2013 Jane's contributions will cost her £20 per month more after tax (£25 per month before tax).

Hayley earns £16,000 a year and is in **nuvos**. Hayley's contributions currently cost her just over £43 per month after tax (almost £55 per month before tax). Following the change April 2013, Hayley's contributions will cost her just under an additional £7 per month after tax (£8 extra before tax).

If we all have to pay more why are classic members still paying less?
The existing premium and nuvos employee contribution rate reflects the fact that some of the schemes' benefits are more costly to provide.

Was there a consultation on this year's (2013) increase in contributions?
Cabinet Office consulted on the preferred approach with Trade Unions this time around, rather than with staff directly. However, the consultation documents were published on the civil service website and views on the approach were invited.

Did anything change as a result of the 2013 consultation?
Cabinet Office has decided to adopt the structure that was set out in our consultation.

I can't afford to pay more – can I opt out of the pension scheme?
You don't have to stay in the scheme but you should think very carefully, and make sure you have the full facts, before opting out. You will be giving up the employer contribution to your pension – even after the increases, the employer will pay most of the cost of what is generally regarded as one of the best pension schemes around. You will also give up the death-in-service benefits if you opt out, so you may need to review your life insurance. Opting out will also not save you as much money as you might think, as you will have to pay higher National Insurance contributions. Contact your pensions administrator if you want to know more about opting out. If you do decide to opt out, the current scheme rules allow you to opt back in if you change your mind later. But any period of opted-out service will not count towards your pension.

Please think carefully before making your decision and consider taking independent financial advice to help you make an informed choice

Will there be any more changes to the rate of my pension contributions in 2015 and by how much?

The Government has set out its intention that member contributions to the public service schemes should increase by 3.2% of pay on average from April 2012, or that savings of a similar size should be delivered. The extra contribution being introduced this year represents 80% of that increase (1.28% for increases in April 2012 and 1.28% for increases in April 2013) and is therefore in line with the Government's commitment.

Contribution structures for 2014-15, before the new scheme is introduced, will be discussed by Cabinet Office and unions in the light of experience of opt-outs, other member behaviour and changing circumstances, and will reflect the Government's and unions' shared priorities for those structures to:

- include protections for the low paid,
- take account of the tax regime applicable at that time,
- minimise the risk of opt-outs from the scheme across the whole membership; and
- ensure that the scheme remains sustainable.

Will I see the effect of the increase in my April pay?

The increase will be effective from 1 April 2013. Your employer is arranging for the contribution to be collected from this time, you do not need to take any action yourself.

I am buying added years so what does this mean for me?

If you are buying added years your contributions for these will stay the same. Currently your added years contributions and your scheme contributions cannot exceed 15% of your pensionable earnings. We will remove the maximum limit so the extra contributions do not affect the added years you are buying.

You can choose to stop buying added years. You are able to do this by contacting your Pension Service Centre. Before stopping your added years contributions you should take account of the fact that once you have cancelled your added years contributions you cannot restart them in the future (although you would be able to buy added pension).

I am buying added pension so what does extra contributions mean for me?

The extra contributions do not affect the added pension you are buying. You can choose to stop buying added pension or change the amount of your contribution. If you would like more information about this and the effect on the added pension you have bought so far contact your Pension Service Centre.

I am a classic member and single. Can I still expect a contribution refund when I retire?

Classic members who are unmarried or who are not in a civil partnership when they take their pension will still be eligible for a contribution refund. The refund will be the

basic contributions of 1.5% only (less tax due on the refund). The extra contributions that you pay from 1 April 2012 above the basic 1.5% will not be refunded.
The contributions paid by members of premium, classic plus and nuvos are not refunded once the person has qualified for pension benefits.

How much does my employer pay towards my pension? Are employer contributions increasing as well?
The amount your employer pays towards the cost of your pension depends on your pensionable earnings. The employer contribution rates are:

Full-time pay range	Employer contribution
Up to £21,000	16.7%
£21,001 - £43,500	18.8%
£43,501 - £74,500	21.8%
Over £74,500	24.3%
Pre-Fresh Start prison officers	25.8%

The average rate of employer contribution is 18.9% of pay. There are no plans to change the rate of employer contributions at this time.

If my salary changes so I am in a different pay band will my contributions also change?
Your contribution rate will be assessed on your pensionable earnings on 31 March 2013. If your pensionable earnings change taking you to a different contribution salary band your contributions will be adjusted in the following circumstances:

- You are promoted or permanently move to a lower grade;
- You move to a role where you will be paid permanent pensionable allowances;
- You are temporarily promoted or paid a pensionable allowance for higher responsibilities for over 6 months;
- You move back to your substantive grade or role after 6 months.

Any annual pay increase will not trigger a reassessment of your contribution rate until the end of the current financial year.

Do I pay contributions on my pensionable earnings other than my basic salary?
Contributions will be collected from any payment that counts towards your pension. This is your salary and some allowances. If you are unsure about whether your allowances are pensionable please contact your HR department.

I am a prison officer paying additional widow's or widower's pension scheme contributions for doubling of service. How will the extra contributions affect me?
You will not be charged double extra contributions because of your doubling of service. The extra rate of contributions according to your salary will be collected only once.

I am not sure which section of the Civil Service pension arrangements I am in. How can I find out?
You can contact your Pension Service Centre who can tell you what arrangement applies to you. Information on your Pension Service Centre is at - http://www.civilservice.gov.uk/pensions/helplines

I am a classic member paying Widow(er)'s Pension Scheme contributions. Does the increase to my contributions mean higher benefits for my spouse?
The extra contributions are separate from the widow's pension or widower's pension scheme contributions. Your amount of widow(er)'s pension is unaffected by the extra contributions.

How can these extra contributions be taken they were not within my contract when I joined the civil service?
The increase in the contribution rate is not a change to employment contracts. The specific contribution rate for the Principal Civil Service Pension Scheme (PCSPS) is not part of an individual's contract. The rate is set out in the PSCSP which is a statutory scheme made under section 1 of the Superannuation Act 1972 and can be amended in accordance with the provisions of that Act.

I have not agreed to you deducting the extra contributions from my salary. What is the legal basis for you imposing this extra contribution?
The classic, premium, classic plus and nuvos arrangements are set out in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a statutory scheme being made under section 2 of the Superannuation Act 1972. The Cabinet Office has made the necessary changes to the PCSPS rules to allow for the collection of the extra contributions. Civil Service employers are legally obliged to collect the extra contributions from April 2013. As required by the relevant legislation we have consulted on this change.

What is the legal basis for deducting this extra contribution? Why are the increases in contributions not "an unlawful deduction"?
The classic, premium, classic plus and nuvos scheme arrangements are set out in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a statutory scheme made under section 1 of the Superannuation Act 1972. In accordance with the provisions of that Act, the Cabinet Office has laid an amendment scheme in Parliament to change the rules of the scheme so as to allow for the payment of the extra contributions from April 2012. On 28 July 2011 Cabinet Office launched a consultation on the changes, which ran until 20 October 2011, before making the

changes to the scheme rules. A further amendment scheme will be laid to make the appropriate changes to the scheme rules, before the extra contributions from April 2013 will be taken.

What does this mean for staff who have opted for a partnership pension?
There is no change to the partnership arrangements.

But why does the structure of the extra contribution rates disproportionally hit higher paid employees?
The Civil Service scheme provides the same benefit structure for high earners as it does for everyone else. This means for example the final salary schemes (**classic, classic plus** and **premium**) disproportionately benefit high earners who experience faster salary growth. We have also increased the level of contributions for members of **nuvos** as the factors that have driven up costs in the other schemes apply equally to members of **nuvos**.

This is at the expense of everyone else who typically have flatter careers. The disproportionate benefit to high earners is already reflected in the salary related bandings for employer contributions. The extra contributions rates of employees reflect the principle already established for employers.

I heard the cost of pensions was falling, so why is the increase necessary?
In recent decades the cost of public service pensions has risen steeply. The current cost is close to 2% of Gross Domestic Product. This is compared to 1.2% in the 1980s and 0.9% in the 1970s. Lord Hutton said “the status quo is not tenable”, “future costs are inherently uncertain” and “the general public cannot be sure that schemes will remain sustainable in the future”.

Why are the extra contributions being introduced at a time of pay restraint?
The Government understands the current pressures being put on household incomes. This is the reason why the extra increases have been spread as fairly as possible in relation to income and the value of the pension benefits staff will earn. Low paid staff will not pay any more under the changes and the structure of the contribution rate increases cushions the impact on middle earners. Despite the extra contributions the Civil Service pension arrangements continue to offer good retirement benefits that are among the very best available. In addition the scheme provides death in service and dependant benefits.

Is the increase in contributions a levy on civil servants to pay for the deficit?
The additional contributions will be used in the same way as current contributions are used. As the scheme operates on a pay-as-you go basis (without a fund), they will be put towards the cost of paying pensioners.

Why didn't you continue with the cap and share arrangements already in place?
Cap and share was designed to prevent further increases in costs to taxpayers. But it did not address the already significant cost increases from past improvements in life expectancy. Nor did it specify how these savings would be made. It left civil servants without certainty about the contributions they would pay or the benefits they would receive in future.

Lord Hutton said "cap and share cannot take account of the increases in cost of pensions over recent decades because people have been living longer. Also, untested, complex cap and share arrangements cannot of themselves address the underlying issue of structural reforms, nor significantly reduce current costs to taxpayers".

Why did you not take the same approach as the Department of Health in protecting more of the low paid?
Public service employers can have very different workforce profiles – this is the case in respect of the civil service and the NHS. The civil service has a significant number of lower paid administrators and the NHS has more highly paid health care professionals.

If the civil service were to apply the NHS employee contributions increase model, it would not raise the necessary level of contributions required. To raise the level required would require either:

- an across the board increases of around 2.4% for all those above the protections; or
- push higher earners contributions significantly above the 2.4% of pay increase limit set for the 2012-13 contribution increase.

Is the calculator still accurate?
Yes. It can be found at - www.civilservice.gov.uk/pensions/reform

Why weren't contributions rationalised across the different civil service schemes?
It may be helpful to recap on the changes that have taken place over the years and the reasons behind the current contribution structure.

Premium was introduced in October 2002. The employee contribution rate of 3.5% of pay reflected the fact that the benefits were more costly than those of **classic** (the member's pension is higher and the death benefits are better). All members of **classic** were given the option to move into **premium** if they wished (or to opt for a hybrid arrangement – **classic plus** – which provided **classic** benefits for the period before October 2002 and **premium** benefits for the future. Most members opted to remain in **classic**, but a sizeable minority switched to **premium** or **classic plus**.

The **nuvos** arrangements were introduced from 30 July 2007 as part of the reforms following the Public Services Forum agreement of 2005. The **nuvos** benefit structure was designed to reflect the agreed cost envelope and a 3.5% member contribution – the same as **premium**. We did consider setting the member contribution at a different rate, but this would have had a direct effect on the benefits offered by **nuvos**. **Nuvos** is not an inferior scheme. For many members who do not enjoy a series of promotions during their Civil Service career, **nuvos** is likely to produce retirement outcomes broadly as good as the final salary schemes available to staff who joined before 2007

Will I receive a letter informing me of the change to contributions?
The Civil Service Pension Scheme is legally obliged to inform all active members of changes to the way their contributions would be calculated from 1 April 2013. The relevant regulations make provision for the scheme to send this information to the members' last known postal address. This is important information and therefore the scheme will write to you to inform you of it.

So it is just 'Pay more, work longer, get less'?
We're living longer. This means that working lives need to increase slightly – to keep a reasonable balance between the working and the retired populations. The Civil Service dropped its mandatory retirement age some time ago and many civil servants will know colleagues who choose to work on – in some cases for very many years - after pension age. Working longer doesn't necessarily mean working full-time and flat out right up to the day of retirement. Many people will want to move to part-time hours as they get older and the Civil Service has a good reputation for providing this sort of flexibility. We expect that a key feature of the new pension scheme will be its ability to provide fair pensions for people who choose to change their working hours as they approach retirement.

Are MPs going to pay more for their pensions as well? What about Ministers?
MPs already contribute at a rate of 11.9%, 7.9% or 5.9% of pay, depending on their chosen benefit structure and they have a pension age of 65. The Independent Parliamentary Standards Authority has responsibility for the MP's Pension Scheme and has consulted on changes to the MP's scheme. Details of their consultation are available on their website -
http://www.parliamentarystandards.org.uk/NewsAndMedia/Pages/LatestNews2.aspx?ListNews=739f9c00-b7d4-4282-bffd-9ae51fd8d92d&NewsId=29
In November, the Government consulted key stakeholders on Ministers' pensions setting out a proposed increase of contributions. On 15 March the Government announced its plans to increase Ministerial contributions. This means that Ministers and Whips will be paying up to 13% of pay in contributions from April 2012, while Cabinet Ministers could be paying over 14% of pay. This change will make their contributions among the highest in the public sector.

Were equality issues taken into consideration?

Yes. The Government takes its equality duties seriously and gives careful consideration to the potential impact of policy decisions on protected groups.