



CabinetOffice

Principal Civil Service Pension Scheme

Consultation on proposed increases to employee contribution rates effective from April 2012

28 July 2011

Civil Service Pension Reform

Introduction

This consultation document marks the formal start of the process to reform the Civil Service pension arrangements. The Government is committed that at the end of this process civil servants will:

- continue to have the option to be members of a defined benefit scheme. This means that your benefits (i.e. the amount of pension that you are paid when you retire) is guaranteed and determined by your salary and by your length of service;
- continue to have pension arrangements that are among the very best available in the work place;
- retain in full the pension benefits already accrued . This means that all pension benefits earned up to the proposed point of change (April 2015) will continue to be calculated as now; for most civil servants this means that pension benefits for service up to April 2015 will be calculated on a “final salary” basis and have a pension age of 60, **therefore Civil Servants who are close to retirement will see little, or no, change to their pension arrangements.**

On 19 July 2011 the Chief Secretary to the Treasury announced that, as part of the reform of public service pensions so that they are affordable, sustainable and fair to both the public sector workforce and the taxpayer, the Government would be starting formal consultations on increasing public service pension contributions in 2012-13.

This consultation follows the Chief Secretary’s announcement and is only about proposals to increase civil servants’ contributions to their pension scheme from April 2012.

We will hold further separate discussions with trades unions relating to increasing contribution rates in 2013-14 and 2014-15 and longer term reforms to public sector pension schemes.

The case for increasing contributions

Annual expenditure on public service pensions over the last decade has increased by a third, to £32bn. Lord Hutton’s Independent Public Service Pensions Commission was invited to consider the case for delivering savings on public service pensions within the spending review period.

Lord Hutton outlined in his report the strong case for changing public sector pensions. In particular, people are living much longer than previous generations – the average 60 year old is living ten years longer now than they did in the 1970s. More of people’s lives are now being spent in retirement – between 40 to 45% of adult life compared with around 30% for pensioners in the 1950s.

This means pensions are costing more and as Lord Hutton said in his report, “these costs have generally fallen to the taxpayer”. But taxpayers can’t be expected to bear all the cost of increased longevity. It is unfair to expect the private sector to work longer and pay higher taxes so that the

public sector can retire earlier and receive disproportionately better pensions.

There needs to be a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension. Employers of members of the Civil Service pension scheme currently make pension contributions averaging just under 19% of pay, while most scheme members contribute either 1.5% or 3.5% of pay, depending on their scheme.

In Chapter 8 of their interim report, Lord Hutton's Commission considered different options for delivering savings, including reducing the level of benefits being paid out and/or increasing the contributions being paid by active scheme members. The Commission reached the conclusion that, "If the Government wishes to make savings in the short-term it will be more effective to increase member contributions rather than alter the benefit structure".

The Government's proposal to increase contributions is based on this analysis and the clear rationale set out in the Commission's interim report published in October 2010. A copy is available via the HM Treasury website at:

www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

The Government therefore announced in the 2010 Spending Review that public sector workers would be asked to contribute more for their pensions. In particular, the Spending Review set out plans for savings of £2.8bn per year to be realised by 2014-15. To deliver these savings the Civil Service pension scheme, like other public service schemes, should deliver savings equivalent to an average increase of 3.2 percentage points in employee contributions by 2014-15.

These savings are intended to rebalance the contributions made by employers and staff. They do not change the benefits provided by the Civil Service pension scheme, which remains one of the best available. Longer-term reform of the pension scheme from April 2015 will be discussed with the trades unions before being consulted on in due course.

Delivery of Savings by 2014-15

Following the commitments made in the Spending Review, individual public service pension schemes are now consulting on proposals for delivering their portion of the £2.8bn savings required by 2014-15.

This consultation concerns proposed increases relating to 2012-13 only.

In the Chief Secretary's Written Ministerial Statement published on the 19th July, the Government set out its preferred parameters for scheme design to achieve these savings as:

- Those earning less than £15,000 (full-time equivalent rate) will pay nothing extra;
- Those earning up to £21,000 (full-time equivalent) will pay no more than 0.6% of pay extra in 2012-13 (and no more than 1.5% of pay extra in total by 2014-15);
- Higher earners will pay extra, but no more than 2.4% of pay in 2012-13 (and no more than 6% of pay extra in total by 2014-15).

These principles reflect the Government's wish to protect the lower paid; apply the increases progressively; and, limit opt outs from the pension schemes.

A copy of the Chief Secretary's Statement can be found at:

Our preferred approach for the Civil Service Scheme – moving to tiered contributions

For the Civil Service scheme, the Government's preferred approach means that we have to consider not only the rates of contribution to apply from April 2012 but also how we would implement a "tiered" contribution structure.

We propose to adopt the following principles which we understand to be consistent with those proposed (or already adopted) by other public service schemes:

- a) An individual's additional contribution rate will be determined by their annual full-time equivalent rate of pensionable earnings;
- b) The additional contribution rate for an individual will apply to all of their pensionable earnings

Example:

Bob has base pay of £25,000 a year and he receives pensionable allowances of £3,000 a year. Bob will pay additional contributions appropriate to the band for £28,000.

Jayne works part-time – 3 days a week. Her actual salary is £12,000. Jayne will pay additional contributions on £12,000 but at the rate which applies to a salary of £20,000 (Jayne's full-time equivalent rate)

Tony has base pay of £17,500 and earns a further £4,000 in overtime. As overtime is not pensionable, Tony will pay additional contributions on his base pay and set at the rate which applies to a salary of £17,500.

- c) An individual's additional contribution rate will usually be fixed for the full financial year. To ensure that the system is understandable and does not give rise to unduly perverse outcomes, the additional contribution rate applicable to an individual will usually be fixed throughout the year¹, determined by the position (full-time pay plus pensionable allowances that go with the post) as at 31 March immediately preceding the year in question. The rate will be re-assessed during the year only in the following circumstances:
 - Change to the full-time equivalent pay rate other than as a result of the annual pay review process. So, for example, the contribution rate would be re-assessed on promotion, but not on receipt of a short-term pensionable allowance (expected to last for no more than six months)
 - Change to permanent pensionable allowance(s) – except where the rate of an allowance is changed on a blanket basis across the workforce

Example

Barbara works part-time. Her full-time rate of pay is £20,000pa. In September Barbara is promoted to a post paying £22,000pa (full-time rate).

For the period from April until her promotion, Barbara will pay extra pension contributions at the rate applicable to a salary of £20,000. From the date of her promotion, Barbara

¹ "Year" means financial year starting in April

will pay extra pension contributions at the rate applicable to pay of £22,000.

- d) The additional pension contributions will apply only where an individual is accruing benefits – so will not apply where someone has reached maximum accrual. Maximum accrual is 45 years' reckonable service in **classic**, **premium** and **classic plus** and a pension of 75% of pay in **nuvos**.

Example

Edward is aged 64 and has already built up 45 years of reckonable service in **classic**. Edward cannot build up any more pensionable service and he will not pay the additional pension contributions.

- e) Pre-Fresh Start prison officers and other individuals with accelerated rates of pension accrual will pay additional contributions on their pensionable pay in the same way as colleagues building up standard benefits.
- f) Additional contributions will apply to scheme benefits in general and will only be refundable in circumstances where benefits are given up in exchange for a short-service refund. Individuals in **classic**, who are neither married nor in a civil partnership both on leaving the scheme and at the time of retirement, currently receive a partial refund of their contributions; this is because these contributions are intended to provide benefits for survivors. The additional contributions are intended to reflect the extra costs associated with pensions generally, and will not be refunded in this way. The additional contributions made by members of **classic** will be refundable only in the same circumstances as apply in **premium** and **nuvos** – that is, where individuals leave the scheme with insufficient service to qualify for a pension (generally 2 years).

Our preferred approach for the Civil Service Scheme – additional contribution rates

Consistent with the principles set out above, we propose the following structure for the additional pension contributions – these would all be on top of the 'normal' contributions of 1.5%, 3.0% (for pre-Fresh Start prison officers) or 3.5%:

Full-time pay range	Proposed additional rate for 2012-13
Up to £15,000pa	Nil
£15,001 - £21,000	0.6%
£21,001 - £30,000	1.2%
£30,000 - £50,000	1.6%
£50,001 - £60,000	2.0%
Over £60,000	2.4%

The pie chart included in the background information document² shows the proportion of Civil Servants in each of these pay ranges. They demonstrate that nearly half (43%) of the Civil Service fall into the protected group (with either no increase or increases capped at 0.6 percentage points in 2012-13) and that more than three-quarters (77%) of the Civil Service are

² "PCSPS Consultation on proposed increases to employee contribution rates effective from April 2012: Background and further information"

paid at a full-time rate of £30,000 or less and so will see increases in contributions at less than the average rate (1.3 percentage points in 2012-13).

Our preferred approach means that members of the **classic** scheme would pay contributions at these rates:

Full-time pay range	Current classic contributions	Proposed contribution rate 2012-13	Preferred additional contribution rate 2012-13 (net of tax)
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% ³
£50,001 - £60,000	1.5%	3.5%	1.2%
Over £60,000	1.5%	3.9%	1.44%

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

Full-time pay range	Current premium, nuvos and classic plus contributions	Proposed contribution rate 2012-13	Preferred additional contribution rate 2012-13 (net of tax)
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% ⁴
£50,001 - £60,000	3.5%	5.5%	1.2%
Over £60,000	3.5%	5.9%	1.44%

The tables above show the effect before and after tax relief. At present, tax relief reduces the cost of pension contributions by 20% for basic rate taxpayers, by 40% for higher rate taxpayers and by 50% for additional rate taxpayers.

Example

Jane is a member of **classic** and earns £25,000 a year. At the moment, Jane pays contributions of 1.5% of pay. Under this approach, Jane's contributions will rise to 2.7% in 2012-13.

The impact on Jane's take-home monthly pay of the proposals (after tax relief at 20%) will be:

Current monthly cost of pension = £25

Monthly cost from April 2012 = £45

During this period, Jane carries on earning a pension based on her final salary. Jane's pension has full price indexation and is safe because it is backed by the Government.

³ Additional contribution rates shown for basic rate and higher rate taxpayers

⁴ Additional contribution rates shown for basic rate and higher rate taxpayers

The tables above set out our preferred approach, but other options can be considered in the light of this consultation. Alternative approaches which deliver the same average contribution increase in 2012-13 could be:

Full-time pay range	2012-13 additional rate
Under £15,000pa	Nil
£15,001 - £21,000	0.6%
Over £21,000	1.6%

or, if protection were provided only for salaries up to £18,000 (full-time equivalent) rather than £21,000:

Full-time pay range	2012-13 additional rate
Up to £15,000pa	Nil
£15,001 - £18,000	0.6%
£18,001 - £30,000	1.2%
£30,001 - £60,000	1.6%
Over £60,000	2.0%

What does this all mean for me?

We have put a calculator on our website at www.civilservice.gov.uk. This allows you to see the effect of the proposed approach on your take-home pay. You can also use the calculator to look at other ways of delivering the required average contribution increase.

What next?

Section1(3) of the Superannuation Act 1972 requires Cabinet Office to consult with persons affected (that is, scheme members) or their representatives before changes are made to the scheme. Accordingly, Cabinet Office is consulting all Civil Service trades unions and staff associations on this particular policy change – the introduction of additional employee pension contributions from April 2012.

There is more detail about the Civil Service pension scheme in the background information document⁵. This consultation, and supporting documents, is also being placed on the Civil Service website www.civilservice.gov.uk

Cabinet Office invites your views on:

- a) our preferred approach to delivering the required savings by increasing contributions in 2012-13 to the PCSPS as set out in this document;
- b) other ways of delivering those savings by increasing contributions within the Government’s preferred approach to scheme design to ensure that there is a limited impact on lower

⁵ "PCSPS Consultation on proposed increases to employee contribution rates effective from April 2012: Background and further information"

earners from such increases; and

- c) the equality impact that our preferred approach may have on staff. Further details on this are included in the background document⁶.

Responses should be emailed to pensionreform@cabinet-office.gsi.gov.uk or posted to:

Pension Consultation
Cabinet Office
Area 4.23, 1 Horseguards Road
London
SW1A 2HQ

Cabinet Office will accept responses until 20 October 2011. Cabinet Office will then publish its response, which will give final details of the approach to be adopted. Cabinet Office will then consult formally, in line with the requirements of section 1(3) of the Superannuation Act 1972, on the technical amendments to the scheme rules to give effect to the policy as announced.

⁶ ibid