



CabinetOffice

Principal Civil Service Pension Scheme

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

28 July 2011

THE CIVIL SERVICE PENSION SCHEME

Legislative background

The PCSPS is a statutory pension scheme, providing pension benefits for Civil Servants and for those in offices or employments listed in Schedule 1 to the Superannuation Act 1972 (SA72) Section 1(3) of SA72 requires Cabinet Office to consult with persons affected (ie members) or their representatives before changes are made to the scheme. In practice, Cabinet Office consults the Civil Service unions. Following this policy consultation, Cabinet Office will consult the unions on the technical wording of the amendments to the scheme rules.

Section 2(3) of SA72 prevents any changes which are detrimental to accrued pension rights unless the persons consulted in accordance with section 1(3) have agreed to such changes. The current proposals are to increase employee contributions in respect of future service only and Cabinet Office does not consider that this affects accrued rights

The Civil Service pension arrangements

The PCSPS is in three main sections¹ - the 1972 section known as **classic**, the 2002 section known as **premium** and the 2007 section known as **nuvos**. **classic** and **premium** are final salary arrangements with a general pension age of 60, while **nuvos** provides benefits calculated on a career average basis and has a pension age of 65. Membership of **premium** is restricted to Civil Servants who entered service between 1 October 2002 and 30 July 2007, those who returned to service from 30 July 2007 with a break of less than 5 years and those who chose to transfer from **classic** in the pensions options exercise run in 2002 (some of the transferees retained **classic** benefits for their service before October 2002 – their arrangements are known as **classic plus**). Membership of **nuvos** is restricted to those who entered service on or after 30 July 2007.

A fourth section of the PCSPS rules sets out the process to be followed when carrying out valuations of the scheme and also sets out how the Governance Group will operate.

In common with most other public service pension schemes, the PCSPS operates on an unfunded “pay as you go” basis. This means that pensions are paid from current revenues (with any shortfall met from the Exchequer). The “pension promise” is therefore provided by the Government of the day rather than by reliance on a fund of assets.

Despite its unfunded status, the PCSPS is subject to periodic valuations and contributions are paid by employers and employees at a combined level, determined by the scheme actuary, sufficient to meet the liabilities being built up by the active membership (as adjusted to reflect any surplus or shortfall in the scheme). The last valuation was carried out as at 31 March 2007² and recommended that the average employer contribution was set at 18.9% of pensionable payroll.

¹ Information on the PCSPS can be found at www.civilservice.gov.uk/pensions

² The 2007 valuation report can be found at www.civilservice.gov.uk/pensions

The members' contribution rates are set in the scheme rules. **premium** and **nuvos** members generally pay contributions at a rate of 3.5% of pensionable earnings. **classic** members generally make a 1.5% contribution of their pensionable earnings towards survivors' benefits and they may receive a partial refund of those contributions if they are neither married nor in a civil partnership when they retire. Employers are expected to take the lower level of the employee contributions into account when setting pay.

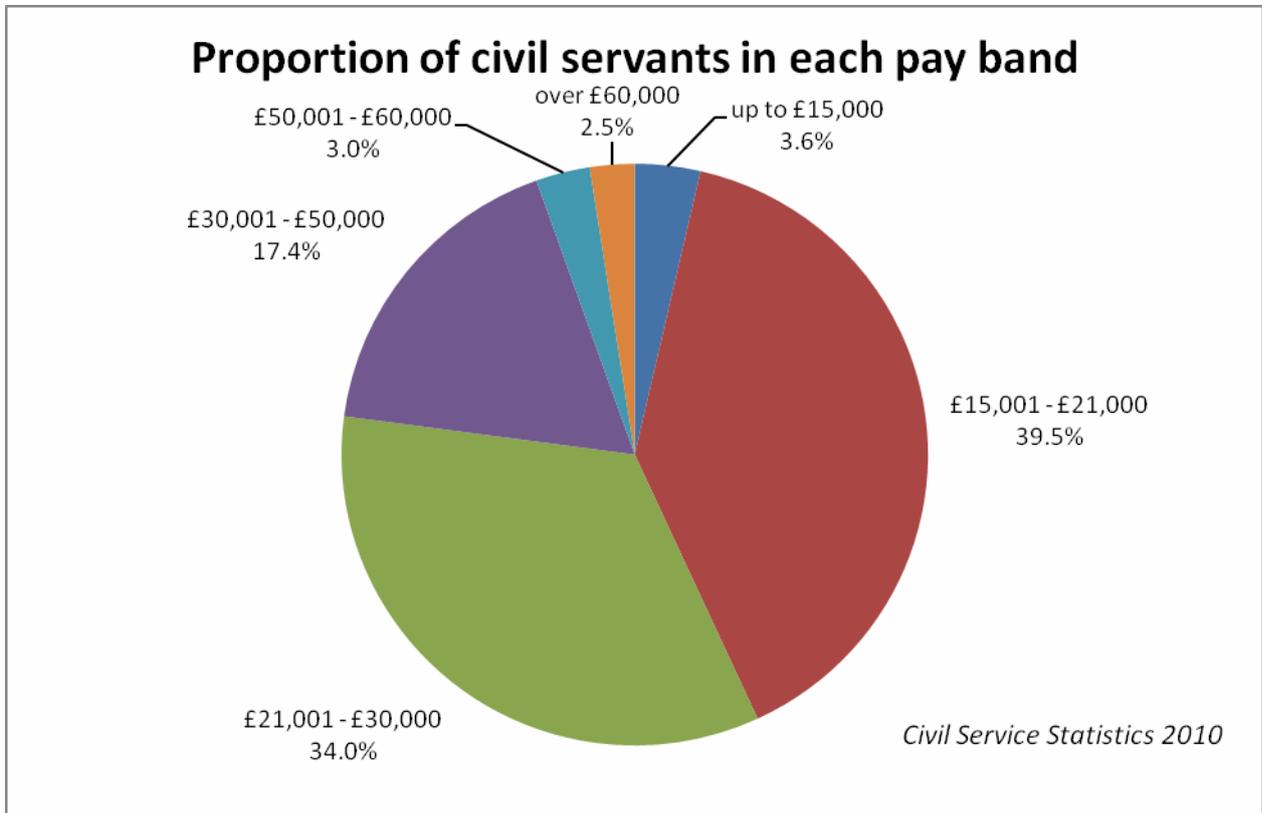
Not all members pay contributions at the standard rates; there are some exceptions:

- Members who have reached maximum service do not pay contributions
- Pre-Fresh Start prison officers in **classic** (those who joined before September 1987) have a pension age of 55 and receive double accrual of benefits after they have built up 20 years of service – this allows them to build up 40 years of pensionable service over a period of 30 years of actual service. During the period of double accrual prison officers pay contributions at twice the normal rate (3% rather than 1.5%)
- Some senior staff have special “accelerated accrual” terms and pay an individual contribution rate which is higher than normal

As at 31 March 2010, there were approximately 574,000 active members in the Civil Service pension scheme, and around 592,000 pensioners (including dependants). Of the active membership, 58% were members of **classic**, 25% were members of **premium**, 3% were members of **classic plus** and 14% were members of **nuvos**. The average pension in payment to retired members during 2009-10 was just over £7,000³.

³ Cabinet Office: Civil Superannuation Resource Accounts 2009-10 HC245. Also available at www.civilservice.gov.uk/pensions

The pay distribution in the Civil Service is shown in the pie chart below (pay rates are full-time equivalent):



EQUALITY ANALYSIS

We are using the opportunity of this consultation to collect views to inform the equality analysis of the approach to be adopted.

The Government has already stated that its intention is to introduce the contribution increases in a progressive way, with the lowest earners paying proportionately less, and the highest earners paying proportionately more. The Government has also set out central principles to apply across the public service schemes, saying that those earning at a full-time rate of less than £15,000 a year should have full protection from the additional contribution requirement, additional contributions for those paid at a full-time rate between £15,000 and £21,000 a year should be no more than 1.5% of pay by 2014-15 (0.6% of pay in 2012-13) and no public servant should pay additional contributions at a rate higher than 6% of pay by 2014-15 (2.4% of pay in 2012-13). The scheme is required to deliver savings equivalent to 3.2% of pay on average by 2014-15, and contribution increases equivalent to 40% of this in 2012-13.

The approach proposed in this consultation is for a tiered contribution structure, operating by reference to full-time equivalent pay, providing either full or some protection to all those earning under £21,000 (full-time rate) and a structure which raises contributions for all those earning under £30,000 (full-time rate) by less than the average increase.

The following paragraphs provide some summary information on the structure of the Civil Service.

Gender

Overall, slightly more than half (53%) of Civil Servants are women⁴. However, of those civil servants who work part-time (around 1 in 5), some 85% are women. Around half of women, and slightly less than half of men, are employed as Administrative Officers (AO) or Administrative Assistants (AA) (or equivalent grades) – these are the lowest paid grades with a median full-time salary of around £18,000 a year⁵. In total, more than three-quarters (77%) of women are in grades at Executive Officer (median full-time salary of around £24,000 a year) or below. Around two-thirds of men (66%) are in these grades.

Disability

Overall, around 7.6% of Civil Servants consider that they have a disability⁶. The proportion is slightly higher in the lowest grades (8.6% in the AO and AA grades) and slightly lower in the highest grades (4.7% of senior Civil Servants and 5% of grades 6 and 7).

Ethnicity

A significant proportion of Civil Servants – over 20% - do not declare their ethnicity⁷. Of those that do, 9.5% on average are recorded as ethnic minority. The proportion is slightly higher in the

⁴ Table 1, Civil Service Statistics 2010 www.ons.gov.uk

⁵ Table 7, Civil Service Statistics 2010

⁶ Table 3, Civil Service Statistics 2010

lowest grades (10.8% in the AO and AA grades) and slightly lower in the highest grades (4.8% of senior Civil Servants and 6.8% of grades 6 and 7).

Age

The median age for Civil Servants is 44⁸. This ranges from 42 for the AO and AA grades to 49 for the Senior Civil Service. A higher proportion of Civil Servants aged under 30 are in the lowest grades. However, there is no great difference across the grades of the proportion of Civil Servants who work beyond.

⁷ Table 2, Civil Service Statistics 2010

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