

Questions and Answers for scheme members

1 What is the Government doing to Civil Service pensions?

Cabinet Office Minister, Pat McFadden MP, has written to the Council of Civil Service Unions (CCSU) outlining the Government's plans for changes to Civil Service pensions.

2 Why can't the Government leave Civil Service pensions alone?

People are generally living and working for longer and public service pension arrangements need to reflect these changes. The Government and the public service unions agreed, in negotiations in 2005, that new entrants would receive pensions reflecting a pension age of 65. But the Government also agreed that existing public servants' schemes would continue to provide a pension at 60.

Both the Government and the trades unions recognise that public service pension schemes need to be sustainable in the long term. This means that they need to be able to respond to future cost increases in a way which is fair to tax payers as well as to staff. So, if costs increase in the future over and above the level currently expected, the Government intends to share the effect of this between employers and staff rather than employers paying the full extra cost.

3 Why will new entrants get a different sort of pension?

As well as having a pension age of 65, rather than 60, the Civil Service scheme for new entrants joining on or after 1 July 2007 will be designed to reflect earnings throughout members' careers. This is intended to produce a fairer outcome for members generally, especially those whose earnings peak in mid-career and those who do not spend their entire career in the Civil Service.

3a What about new entrants working in physically-demanding jobs?

The proposals for new entrants include flexibilities for employers to top-up pensions (at their cost) and indicate that employers may wish to do this to supplement pensions drawn early (i.e. before age 65) by those in jobs with

special physical and/or mental demands. Cabinet Office will consult with employers and unions on how this might work in practice.

4 What does this mean for me now?

Nothing – you will still be able to retire and take your pension without reduction at age 60 and it will be based on your service and your final salary (as defined in scheme rules). If you are a “pre Way Forward” prison officer you will still be able to retire and take your pension at 55.

4a I thought my pension was changing in 2013?

The proposals published on 9 January 2007 **replace** those set out in the consultation document **Building a Sustainable Future** (published on 9 December 2004).

4b I'm in classic. Can I transfer to classic plus?

No. The Pension Choices exercise in 2002 was a one-off opportunity to change into a new scheme.

4c I'm retiring in April 2007. Will this affect me?

There won't be any effect on your pension. But if you are re-employed in the future, you may find that any further pension build-up is in the new scheme.

4d My organisation is being turned into an NDPB. What happens to my pension?

The Government's Fair Deal policy means that you will continue with the same pension terms as now.

4e I chose not to join the pension scheme. What happens to me?

If you change your mind in the future you will “opt in” to the same scheme you opted out of.

4f I was outsourced in 2004 and have a frozen Civil Service pension. Is that affected by these proposals?

No.

5 Will my scheme change in the future?

Cabinet Office will discuss, with the Civil Service unions, the possibility of agreeing changes to scheme rules to introduce flexibilities permitted by recent tax changes (for example a higher tax free lump sum and relaxations to current limits on service). Any additional features for current staff are unlikely to be introduced before July 2007 and may be later.

In the event that scheme costs increase unexpectedly in the future, Cabinet Office will discuss with Civil Service unions and employers, how the increased costs are to be paid for.

5a Will you extend unmarried partner benefits to classic?

Highly unlikely. This was one of the reasons we offered members the option, in 2002, to go into **premium** or **classic plus**.

6 Will I have to pay more for my pension?

The Government's plans do not include changes to your contribution rate. For the time being, you will carry on paying 1.5% of pensionable earnings if you are a member of **classic** and 3.5% of pensionable earnings if you are a member of **premium** or of **classic plus**.

For the future, the Government has made clear that, if there are unexpected changes in scheme costs at future actuarial valuations, the effect will be shared between employers and employees and that average employer contributions will be capped at a maximum of 20% of pay (the average employer contribution is currently 19.4% of pay). This does not necessarily mean that you will pay more in the future – costs may not increase and, even if they do, Cabinet Office will consider – with unions and employers – the best way of solving the problem. For instance, a more acceptable solution might be to change the way benefits build up in the future. The Government does

not expect any change to happen as a result of its cost-sharing plans before 2012 at the earliest.

6a What do you mean by “unexpected costs”?

At each valuation, the actuary makes certain assumptions – for instance, in relation to how long people are likely to live, pay rises and so on. At the next valuation, the actuary then looks at what has actually happened and reassesses the assumptions for the future. “Unexpected costs” will include first, the difference between reality and the assumptions used for the previous period and, second, the changes in assumptions looking to the future. So, for instance, if pay rises have been lower than the actuary had assumed, this would feed through as a cost reduction. But if people are living longer than assumed at the last valuation, this would feed through as a cost increase.

6b What sort of figures might we be looking at?

At the last actuarial valuation, in 2003, the costs increased by 0.9% of pay and this was met by the employers paying extra contributions. You can find further information on the pensions website (choose “scheme information” then “facts and figures” and scroll to the bottom of the screen). The next valuation will look at the scheme as at 31 March 2007 and the results will probably be available towards the end of the year.

6c Who pays the costs of early retirements?

The full cost of early retirements are met by the employer who is authorising the early retirement. These costs are not picked up by the scheme and so won't feed through as “unexpected cost increases”. The only exception to this is ill-health retirements; these costs are met by the scheme which is why Cabinet Office works with employers to make sure that ill-health retirement is only used where it is justified.

6d How would the 20% cap work? My department already pays 21%

The average employer contribution is currently 19.4% of pay. The amount paid by employers varies from 17.1% of pay for the lowest paid to 25.5% of pay for the highest paid senior civil servants. The cap will apply only in the event that the average contribution rises above 20%.

7 What happens if costs go down?

If there are unexpected decreases in scheme costs in the future the effect will be shared between employers and employees, subject to the cap on average employer contributions of 20% of pay.

8 I thought my contribution rate was fixed?

Your contribution rate will only change in the future if circumstances change and the Government decides, in consultation with the unions, to increase member contributions rather than changing the way benefits build up in the future. We will give you plenty of notice of any change (either to future benefits or your contribution rate) and we do not expect anything to happen before April 2012.

We recognise that the booklet “Understanding your Choices”, which people received as part of the Pension Choices exercise in 2002 indicated that the contribution rate in **classic** would be fixed at 1.5%, while that in **premium** (and **classic plus**) could vary. This reflects the wording of the scheme rules. The contribution rate in **classic** is fixed in the same way that other aspects of the scheme (for instance, the 1/80th pension accrual rate) are fixed. In practice, changes do happen from time to time and **classic** has changed considerably since its introduction in 1972. However, the rules cannot be changed without consultation with the Civil Service unions as required by the Superannuation Act 1972.

8a This is like a “red letter” from my endowment company!

It is important to realise that no change is planned before 2012 at the earliest, and then only if necessary to deal with future unexpected cost increases. Furthermore, **any changes will not affect the benefits that you have already built up before the date of change.**

9 We don't have a pension fund, so what do you mean by “if costs increase”?

Although we don't have a fund this does not mean that our pensions are free. Employers pay contributions each year based on how much the pension you

build up in that year will cost. As people live longer, the future cost of pensions increases, as it is likely that they will be paid for longer.

Cabinet Office asks the actuary to assess the scheme costs – and the employer contribution rates – every few years. The next valuation will look at the state of the scheme as at 31 March 2007.

9a We don't have a fund, so what happens to the contributions?

The contributions paid by employers and employees go towards paying the pensioners, with the balance being met from general taxation. See the Resource Accounts on the website (choose "scheme information" then "facts and figures") to find out more.

10 Is this it? Or could there be more changes in the future?

There are no certainties and we cannot give any guarantees that bind future administrations. However, pension arrangements designed to be sustainable are more likely to endure than those which are inflexible.

Any pension you have already earned is safe – we will not make changes that will impact on any pension that you have already earned. And any changes will only be made after consultation with the unions.

11 I thought the retirement age had increased to 65 anyway? And haven't some departments done away with retirement age altogether?

Retirement age can be different to pension age. From October 2006 some employers have changed their retirement age to 65 and some have abolished a mandatory retirement age altogether. **You choose when you want to retire at any time up to your employer's retirement age** – if they have one - but your pension age is the earliest age that you can take your pension in full without it being reduced for early payment. Your pension age has not changed and is 60 for most people in the Civil Service pension scheme.

11a What happens if I work on beyond 60? Can I build up more pension?

Yes. The only restrictions are that you cannot have more than 40 years' reckonable service in total in **premium** or **classic plus**. In **classic**, you are restricted to a maximum of 40 years' service at pension age (60 for most people) but if you then work on you can build up more service to a maximum in total of 45 years. If you have reached the maximum service you can still contribute to money-purchase Additional Voluntary Contributions (AVCs) if you want to. Ask your pension administrator if you want further information about your own position.

11b Can I “downshift” and draw my pension?

Under the current rules, you must retire to draw your pension. Cabinet Office expects to consult with employers and unions about the possibility of introducing “flexible retirement”. This is where people who want to move gradually into retirement (for instance, by reducing their hours or moving into a less demanding role) can to receive part or all of their pension and carry on working. Let us have your comments on this idea.

11c I'm over 60. Why can't I buy added years?

Added years contracts are designed and costed around pension age (60) so they don't work when people are over 60. We plan to introduce a different way of buying extra pension, which will work at all ages. In the meantime you can top up your pension through the stakeholder pension or the Civil Service AVC scheme even if you're over 60. See the website or talk to your administrator for further information.

12 I'm planning to work to 65 anyway, so the scheme for new entrants might be better for me. Can I transfer across?

The consultation on *Building a Sustainable Future* made clear that existing staff wanted, overwhelmingly, to carry on in their current scheme. The Government has no current plans to open the new scheme to existing staff.

**13 What happens if I leave the Civil Service and then rejoin in the future?
Will I go back into my current pension scheme or into the new scheme?**

This is the top priority issue for Cabinet Office discussions with the Civil Service unions. Those discussions have started and, once we are clear on the rules that will apply Cabinet Office will publicise them to employers and on the pensions website. So “watch this space”; hopefully we should have the answer soon.

Don’t forget that, the “new entrant” rules will only apply if you leave the pension scheme. In most cases if you go on a career break or a secondment to another employer you stay “on the books” and hence in your current pension scheme (even though you may not be building up service). If you are going on secondment or a career break or any other form of unpaid leave please do check your status with your employer before you go.

13a If I am re-employed in the future, will my pension be abated?

There are no proposals to scrap abatement, although it may be simplified. What this means is that you cannot earn more, as a re-employed pensioner, by way of Civil Service pension plus re-employed salary than you were earning before you retired. This is not usually a problem if you are going to be re-employed part-time or in a lower paid job.

14 Are some civil servants still going to be exempt from pension age 60 and keep a pension age of 55 i.e. some prison officers?

Existing civil servants keep their current pension age. For most people this is 60, but some people have different terms.

15 Can I retire before pension age?

Most members of the Civil Service pension scheme can retire and draw their pension before pension age if they want to, but your pension will usually be reduced to reflect the fact that it is being paid for more years. For instance, if you chose to retire 5 years before pension age (ie at 55 for most people) your pension would be reduced, permanently, by about 25% (yes, 25%; this is not a typing error). This is called “actuarially reduced retirement” (ARR) and

applies even if you have built up a full 40 years. In some circumstances your employer may agree that you can retire early and draw your pension without reduction – “approved early retirement” (AER) but you do not have a right to this as there is a significant cost, which your employer would have to meet.

15a Is the Civil Service Compensation Scheme changing?

Probably, but not just yet. Cabinet Office will consult with employers and unions before publicising any proposals for change.

16 How do you justify having a two-tier workforce in the future with different pension schemes and different pension ages?

Many employers, both in the private and public sectors, operate different pension arrangements for new entrants. This allows employers to take steps to control costs, or implement more appropriate pension arrangements, whilst recognising existing employees’ reasonable expectations.

17 How have you involved the Unions in coming up with the plans?

Special sessions of the Public Services Forum (PSF), chaired by the then Minister for Work and Pensions, Alan Johnson had constructive discussions on pension age reforms for all major public sector pension schemes in 2005.

The purpose of the Public Services Forum is to improve the dialogue between Government, public service employers and trade unions on public service and workforce reform to improve the delivery and citizen’s experience of public services.

These discussions set out agreed principles within which individual public sector schemes would make proposals for pension reform.

Since the PSF agreement Cabinet Office has had constructive discussions with the Civil Service Unions on the high level design of the pension scheme for new entrants and will now work with the Civil Service unions to develop the fine detail.

18 What do the Civil Service unions think of the plans?

The Civil Service unions’ response has been broadly positive. They have said that they think the proposals for the new scheme for new entrants are

radical but will deliver good quality pensions while being more equitable and better suited to likely employment patterns of the Civil Service of the future. On the cost-sharing proposals, the unions agree that the scheme needs to be sustainable, but think that the time to come up with approaches to handling cost increases is when the problem arises, rather than now. You can read the full text of the union's response on our website.

19 How do I find out more?

See the Pension Reform section on the Civil Service pensions website www.civilservice-pensions.gov.uk

20 How do I have my say?

You can email your comments to pensionspr@cabinet-office.x.gsi.gov.uk. We cannot answer individually but will publish a summary of comments received on the website and will update these Q & As as appropriate.