

Q&A – Contribution increases

What's this announcement about?

Cabinet Office is consulting on the preferred approach to the implementation of additional employee pension contributions from April 2012. You can find the consultation document at www.civilservice.gov.uk together with a document providing background information and a calculator. The calculator will help you assess the impact of Cabinet Office's proposals on your monthly take-home pay.

How do I have my say?

Cabinet Office is consulting Civil Service trades unions and staff associations as well as Civil Service employers. If you belong to a trade union or staff association you may want to send any comments to them. You can also submit a comment by emailing pensionreform@cabinet-office.gsi.gov.uk but please note that Cabinet Office cannot undertake to send you a personal reply. Cabinet Office will, however, update the Q&A material to reflect queries raised by staff.

What does this mean for me?

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% ¹
£50,001 - £60,000	1.5%	3.5%	1.2%
Over £60,000	1.5%	3.9%	1.44%

¹ Additional contribution rates shown for basic rate and higher rate taxpayers

Our preferred approach means that 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% ²
£50,001 - £60,000	3.5%	5.5%	1.2%
Over £60,000	3.5%	5.9%	1.44%

Examples:

Jane earns £25,000 a year and is in **classic**. Jane's contributions currently cost her £25 per month after tax. Following the change in April 2012 Jane's contributions will cost her £20 per month more after tax.

Hayley earns £16,000 a year and is in **nuvos**. Hayley's contributions currently cost her just over £37 per month after tax. Following the change April 2012, Hayley's contributions will cost her just under an additional £7 per month after tax.

Bill earns £55,000 a year and is in **premium**. Bill's contributions currently cost him just over £96 per month after tax. Following the change April 2012, Bill's increased contributions will cost him just over £56 more per month after tax.

Use the calculator at www.civilservice.gov.uk to find out what the proposals mean for you.

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.

² Additional contribution rates shown for basic rate and higher rate taxpayers

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 never count towards your pension.

Why are we having to pay more – is the pension scheme in trouble?

The Government asked Lord Hutton, a Cabinet Minister in the last Labour Government, to undertake a fundamental review of public service pensions. Lord Hutton has recommended that public servants pay increased contributions to reflect the fact that, over the years, the pension schemes have become more expensive as people live longer.

Is this it? Or are more increases on the horizon?

The Government has said that public service schemes, like the Civil Service scheme, must deliver savings over three years, reaching the equivalent of 3.2% of paybill by the financial year 2014-15. This consultation is just about the first year – 2012-13 – when savings of 40% of the full (2014-15) amount must be delivered. Consideration of what will happen in 2013-14 and 2014-15 will be discussed with the Trades Unions, with a view to issuing proposals by the end of October 2011.

What about pension reform?

Scheme level discussions on longer-term reform will now get under way with the Trades Unions. The Civil Service scheme, like others, is required to work up initial proposals for a reformed scheme by the end of October 2011. The Government remains committed to providing a form of defined benefit pension – where your pension is based on your service and pay, so you know what you will get.

The Government has also committed to protecting your accrued rights in your current pension scheme, so your service up to the date of change will continue to be worked out on the same basis as now – for most civil servants this means a “final salary” pension and a pension age of 60. Pension reform is expected to happen from April 2015, and so anyone leaving the scheme before then will not be affected. People working on beyond 2015 would probably have a 2-part pension, with one part reflecting their service up to 2015 and their final salary (at the time they retired or left the scheme) and a pension age as now (typically 60) and a second part reflecting their service from 2015 and the new pension scheme terms.

After the reforms, the Government expects public service pensions to remain among the very best available.

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.

How much does the employer pay? And will they pay more as well?

The rates of employer contribution already vary according to payband and, for the year 2011-12 are as follows:

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

As things stand, no fundamental changes to the contribution rates are expected from April 2012, although the salary bandings may change slightly.

I'm purchasing Added Years. What do the proposals mean for me?

These consultation proposals do not change the terms of your Added Years purchase – you will carry on paying the same rate as now. How Added Years will be affected by the longer-term reforms will be considered in due course in discussions on those reforms.

If you are already paying the maximum 13.5% (**classic**) or 11.5% (**premium** or **classic plus**) towards Added Years, these limits will be amended to take account of the additional contributions – so you don't need to take any action unless you want to.

If you want to stop your Added Years purchase, you may do this whenever you want – just contact your pensions administrator. Please note that, if you choose to stop paying for Added Years you cannot restart again in the future (although you would be able to purchase Added Pension).

I'm purchasing Added Pension. What do the proposals mean for me?

These consultation proposals do not change the terms of your Added Pension purchase. The rates for Added Pension are reviewed regularly and were last changed in 2010 following the announcement that CPI would be used for indexation of public service pensions.

If you want to stop purchasing Added Pension, or change the amount you contribute, please contact your pensions administrator.

How do the proposed additional contributions work for people in classic? If I am single, do I still get a refund when I retire?

The consultation proposals do not change the basic contributions to **classic** – these will remain at 1.5% of pay and will continue to be refundable in part to those who are neither married nor in a civil partnership on leaving the scheme and on retirement. The proposals introduce an additional contribution, which, in common with contributions made by members of **premium**, **classic plus** and **nuvos**, will not normally be refundable.

What do the proposals mean for staff who have opted for a partnership pension?

Cabinet Office is not currently consulting on changes to the **partnership** arrangements.

What's happening to the money raised through the additional contributions by civil servants?

The money raised through additional contributions will go towards paying the pensioners in the scheme, in the same way as the current contributions are.

In 2009-10, the scheme accounts show that £4.4bn was paid out in pension and death benefits, while employers and scheme members contributed £3.2bn. The accounts are available at www.civilservice.gov.uk/Assets/2009-10%20Resource%20Accounts_tcm6-36925.pdf

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 the pensioners. If there is a shortfall, the extra cash is provided from taxpayers’ funds. If there is a surplus, this money is available to the Treasury in the same way as other revenues. Typically, pay-as-you-go pension schemes operate a surplus in their early years (when there are very few pensioners) and need to be topped-up as they become more mature (and have a lot of pensioners). The Civil Service scheme is mature, and has more pensioners than active members.

Are MPs going to pay more for their pensions as well?

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 Government has proposed that MPs’ pension contributions should increase in line with changes in pension contribution rates for other public service schemes.