



CabinetOffice

Principal Civil Service Pension Scheme

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

Government response

15 December 2011

1. Introduction

- 1.1 The Government is committed to addressing the affordability and fairness of public service pensions. The Independent Public Service Pensions Commission, chaired by Lord Hutton, concluded in its report¹ that reform is necessary and that there needs to be a fairer distribution of the cost of public service pensions between employees and other taxpayers.
- 1.2 Expenditure on public service pensions over the last decade has increased by a third to £32bn. The costs of pensions are increasing as people live 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. Pensions are therefore in payment for longer.
- 1.3 These additional costs have generally fallen to the taxpayer. The view of the Government is that this is unfair and unaffordable. There needs to be a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension. As an employer, the civil service currently contributes an average of 18.9% of pay towards pensions, whilst employees currently contribute an average of 2.4% of pay (employees generally contribute either 1.5% of pay or 3.5% of pay, depending on their scheme).
- 1.4 The Government asked the Independent Public Service Pensions Commission to consider the case for delivering savings on public service pensions within the spending review period. The Commission concluded that it would be more effective to increase member contributions rather than alter the level and range of benefits provided by pension schemes².
- 1.5 The Government therefore announced in the 2010 Spending Review that public service workers would be asked to contribute more for their pensions. The Spending Review set out plans for savings of £2.8 billion per year by 2014-15, which includes the £1 billion of savings already identified by the previous Government. Each public service pension scheme, with exception of the armed forces, is required to deliver savings equivalent to an average increase of 3.2 percentage points in employee contributions over the same period.
- 1.6 Within this context, the Cabinet Office consulted on a preferred approach to increasing the level of contributions made by members of the Civil Service Pension Scheme towards their pension in 2012-13.

¹ Independent Public Service Pensions Commission: Final Report (10 March 2011).

² Independent Public Service Pensions Commission: Interim Report (7 October 2010), chapter 8.

2. Consultation proposal

- 2.1 The Government laid out a series of preferred parameters³ within which individual public service pension schemes developed their approach to achieving the required savings:
- There should be no increase in employee contributions for those earning less than £15,000 on a Full Time Equivalent (FTE) basis;
 - There should be no more than a 0.6 percentage point increase in 2012-13 for those earning up to £21,000 FTE, and no more than a 1.5 percentage points increase in total by 2014-15 and no more than a 1.5 percentage points increase in total by 2014-15;
 - There should be no more than a 2.4 percentage points increase in 2012-13 for high earners, and no more than 6 percentage points increase in total by 2014-15.
- 2.2 Within these parameters, the Cabinet Office developed a preferred approach that sought to protect the low paid, apply increases progressively and limit the level of opt out that higher contribution rates may generate. The preferred approach to the distribution of increases was presented in a table format. This is set out at Annex A.
- 2.3 The Cabinet Office specifically invited 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 earners from such increases; and
 - c) the equality impact that our preferred approach may have on staff.
- 2.4 This consultation focused on the distribution of increases that would be applied from 2012-13. Further savings are required in 2013-14 & 2014-15 and the Cabinet Office is holding separate discussions with Trade Unions to consider these alongside proposals for longer-term reforms to public service pension schemes.

³ Written Ministerial Statement 19 July 2011: www.hm-treasury.gov.uk/d/wms_pensions_190711.pdf

3. Consultation process

- 3.1 The consultation was open from 28 July until 20 October 2011. The consultation document was available on the civil service website and responses could be returned by email or by post. An online calculator and Q&A material was published to help Civil Service Pension Scheme members understand the impact of the proposals. Government Departments, through their roles as employers, were asked to bring the consultation to the attention of staff.
- 3.2 The major Civil Service Trades Unions were issued with a copy of the consultation document, and Departments were also asked to pass the document onto any other Trades Unions or staff associations which represent members of any staff eligible to participate in the Civil Service pension arrangements.
- 3.3 Departments were also advised that they may wish to pass a copy of the consultation document to their payroll providers, to begin initial planning for the implementation of the contribution increases.
- 3.4 A total of over 3,400 individual responses were received, typically serving civil servants or members of pension schemes operating by-analogy to the civil service scheme.
- 3.5 Responses were received from a number of Trades Unions, civil service employers (and their payroll providers). Employer responses in some cases included summaries of views expressed to them by their staff. A full list of the organisations who responded is at Annex B.

4. Key findings

- 4.1 The consultation invited views as to suitability of the preferred approach to applying the contribution increases. Respondents were asked to propose alternative approaches within the parameters set by Government (see paragraph 2.1 above).
- 4.2 The vast majority of respondents chose not to comment on the preferred approach or put forward alternative ways of structuring the increases. Instead most respondents submitted their views on aspects of public service pension reforms that are outside the remit of this particular consultation. The main reason for this is a general rejection of the need to raise contributions.
- 4.3 A number of respondents considered that the scope of the consultation, in focusing on the distribution of the first year of three years of successive increases is too narrow and does not allow for proper consideration of the proposal in the context of all potential changes to public service pensions.
- 4.4 There were several comments on the timing and approach for discussions concerning increases to member contributions. Responses argued that these should have taken place at the same time, and in the context of, discussions relating to proposals for long-term reform of public service pension schemes.

“It is not reasonable to consult on one aspect of pension reform without presenting the full picture on wider reforms. The first contribution increase from April 2012 might be acceptable as one part of an overall package but it is impossible to assess it properly without knowing what other reforms to contributions and benefits may emerge from future discussions.”⁴

- 4.5 The Government announced in the 2010 Spending Review that public service workers would be asked to pay more into their pensions following the interim findings of the Independent Public Service Pension Commission. Accordingly the Spending Review included a target to produce savings of £2.8 billion (including the £1bn savings announced by the previous Government) across all public service pension schemes in the three years to 2014-15. The increase in member contributions would be phased over three years in order to allow reasonable time for members to adjust.
- 4.6 As noted earlier at paragraph 2.4 the Government has consulted on its proposals for the first year of increases effective from 2012-13 separately and in advance of scheme-specific discussions on increases for subsequent years and the proposals for longer-term reforms. Contribution increases in 2012-13 will generate £1.2 billion savings and subsume the £1 billion savings already identified at the 2009 Pre-Budget Report from ‘cap and share’ reforms to public service pensions. It was necessary to consult now to ensure that sufficient time is available following the consultation process to take action in order to make any increases effective from April 2012. The Government has since entered into

⁴The comments in italics represent are representative responses from a number of individuals.

scheme-specific discussions with the Trades Unions regarding potential increases in 2013-14 and 2014-15 together with proposals for longer-term reform.

Increases are a tax to help pay off the fiscal deficit

- 4.7 A frequently expressed view amongst respondents was the perception that the increase in member contributions constituted a tax on public service workers as part of the Government's approach to deficit reduction.
- 4.8 This is not the case. Although the Civil Service Pension Scheme has no assets, the current level of contributions is based on an actuarial valuation using a method called SCAPE (Superannuation Contributions Adjusted for Past Experience). The contributions made by employers and pension scheme members are paying for the new pension promises being made to scheme members by the Government.
- 4.9 The increase is therefore not a tax but a consequence of the fact that the pension benefits individuals receive on retirement are increasing in value, and have done so over the previous decades, and that the cost of this has been mostly met by taxpayers. The increase in member contributions is designed to create a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension.

"Because most of the increased costs to date, driven by longevity improvements in particular, have been financed by employers in the form of increased contributions, there is an argument that employees should pay a greater share of the extra cost, as they are the principal beneficiaries of this unexpected increase in the cost of their pension."

Independent Public Service Pensions Commission: interim report

Previous reforms to the Civil Service Pension Scheme introduced in 2007

- 4.10 Some respondents commented that the Civil Service Pension Scheme has already undergone changes designed to make it more sustainable for the future.

"The proposals ignore the agreement on Civil Service pensions reached in 2007 which included a cap on the cost of the scheme to the government of the day."

This required a periodic calculation of the cost of the pension schemes and a mechanism for sharing any cost increases identified. The fact that the current government has chosen to ignore this agreement and stop the calculation process reinforces the view that this has nothing to do with the costs of civil service pensions and everything to do with raising revenue."

- 4.11 Respondents also argued that pensions costs are falling and are therefore sustainable.

"Pension costs are falling as a proportion of GDP. Lord Hutton's report shows that public service pensions are affordable – the cost drops from 1.9% of GDP now to 1.4% of GDP by 2050. Similar points have been made by the National Audit Office (NAO) and by the Office for Budget Responsibility (OBR)."

- 4.12 Reforms of public service pension schemes to date have been insufficient to reverse the increase in costs from rising longevity. HM Treasury analysis of

historic data from the Office for National Statistics shows that there have been huge increases in the cost of public service pensions over the past 30 years, from less than 1% of GDP in 1970 to nearly 2% now. Spending on public service pensions has begun to fall, as a result of all the reforms that have been implemented to date, including cap and share, higher pension ages for new entrants, and, more recently the change in indexation from RPI to CPI. However, even with all of these reforms, costs remain historically high. This is supported by the National Audit Office's analysis.⁵

- 4.13 The Government's view is that the recent reforms of the Civil Service Pension Scheme did not allow for the costs of increases in longevity to be managed fairly or sustainably. The agreement allowed then active members to generally remain in their existing arrangements with a pension age of 60, despite the improvements in longevity which they had benefited from. Future generations of civil servants and taxpayers would have to pay for this.
- 4.14 One of the reforms that has been highlighted by respondents was the introduction of the cap and share arrangements, which set a limit on the taxpayer exposure to future cost increases. Prior to its introduction, the unanticipated increases in life expectancy produced unexpected gains for members and consequently extra costs for future generations and taxpayers. Lord Hutton noted that this is unfair – "pension schemes need to adjust to changing circumstances in a way that does not unfairly advantage or disadvantage one generation."⁶ Cap and share reforms capped the taxpayer cost going forward, but did not address past cost increases which were paid for by other taxpayers.

"However, these [cap and share] reforms have not fully addressed the underlying issues of sustainability and fairness. Although some existing members of some schemes have had increases in their pension ages, to reflect increasing longevity, most have not. 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."

Independent Public Service Pensions Commission interim report

- 4.15 The Government is committed to creating a fairer distribution of costs between employees and other taxpayers. Lord Hutton concluded that "cap and share on its own will not deliver the type of wide-ranging structural reforms that are needed or significant reductions in current costs for taxpayers"¹¹. In particular 'cap and share' requires future longevity costs to be paid for by whoever is an active member at the time the longevity improvement is identified with no change to the age at which benefits already built up can be taken. This inevitably means future generations shoulder a greater proportion of the costs. The management of future costs pressures fairly and sustainably is a key element within the future design of reformed public service pension schemes and is subject to further discussions with Trade Unions.

⁵ National Audit Office (December 2010). *The impact of the 2007-08 changes to public service pensions*.

⁶ Independent Public Service Pensions Commission: Interim Report (7 October 2010), page 96

- 4.16 Ahead of this longer-term reform, and as set out earlier, Lord Hutton's report established that there is a clear rationale for increasing member contributions to begin creating a fairer balance now.

Impact of increasing member contributions

- 4.17 A significant number of respondents commented on the likely impact that increasing member contributions could have. Many observed that the timing of the increase could disadvantage the ability of members to adjust their finances to meet the additional costs. The increases would take effect against a backdrop of civil service pay restraint and inflation within the wider economy.
- 4.18 Respondents warned that the increasing contributions – in some cases by more than 100% - is likely to force some members to opt-out from the scheme on grounds of affordability.
- 4.19 The Government understands the pressure being experienced on household incomes. This is why, in bringing forward these proposals, we have sought to ensure that the increase is spread fairly both in relation to income and the value of the benefits staff receive. Those on the lowest incomes are protected and would pay nothing extra, whilst the impact for middle earners is cushioned. Despite higher contributions the Government considers that the Civil Service Pension Scheme remains an excellent investment for retirement.
- 4.20 Additionally, if members leave the scheme they will no longer earn valuable defined benefit pension benefits. They will also lose the current civil service employer contribution to their pension – currently an average of 18.9% of pay. Their pension will be based on their salary when they leave the scheme rather than the salary at retirement, and they will also give up the death-in-service benefits - which may mean needing to review their life insurance arrangements.
- 4.21 A number of respondents highlighted the potential for part-time workers to be disproportionately affected by these proposals. Employees who work part-time have their contributions based on their “full-time equivalent” salary rather than their actual earnings. This creates a difference in contribution rates between full and part time workers with the same level of income.

“The changes seem particularly unfair for part time workers such as myself. My full time salary is just over £30,000 but I actually only earn around £10,000 due to my part time hours - I have two children in primary school so I work around them. Under your proposals I will still be expected to pay increased pension contributions based on my full time salary, despite having actual earnings well below the lower limit of £15,000pa, so it will have a disproportionately large impact on my monthly take-home pay. Whilst I fully support the principle that those who earn more contribute more, you're not implementing it effectively in this case. Part time workers are very often neglected in these situations and I feel very strongly that this is something you need to address.”

- 4.22 We have carefully considered these views on part-timers, as the decision on how to approach this issue is finely balanced. We have concluded that the use of FTE salary will ensure that the same level of contributions are set relative to the amount staff earn per hour which is the fairest way of treating full and part-time staff in relation to this issue. This means that the percentage contribution rate is set according to the full-time equivalent pay of part-time staff. However a part-

time worker would then pay contributions equal to that percentage contribution rate of their actual part-time pay. The part-time worker's length of service would also be scaled down to its full-time equivalent length. This is consistent with existing practice in other schemes.

5. Conclusion and next steps

- 5.1 The Cabinet Office is grateful for all responses to the consultation, which shows how important pension arrangements are to Civil servants and their representatives. We would like to thank every individual and organisation for submitting their views.
- 5.2 The case for change still stands. The costs of pensions are increasing as people live much longer than previous generations. These additional costs have generally been funded by other taxpayers, which is unsustainable. There needs to be a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension. All members of public service pension schemes, with the exception of the Armed Forces, are therefore being asked to contribute more for their pension.
- 5.3 The Cabinet Office has given careful consideration to the issues that were raised in consultation and has concluded that the additional contributions structure proposed in the consultation document published on 28 July 2011 will be implemented, as set out below in Annex A.
- 5.2 Cabinet Office will consult the Trades Unions 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.

Annex A

Consultation proposal

A1 On 28 July 2011, Cabinet Office published the document “Principal Civil Service Pension Scheme – Consultation on proposed increases to employee contributions effective from April 2012”. The Cabinet Office’s preferred approach for the Civil Service pension scheme was to increase member contributions as follows:

Salary range (Full-time equivalent)	Increase Gross % of pay	Increase net of tax relief
Under £15,000	0%	0%
£15,001 - £21,000	0.6%	0.48%
£21,001 - £30,000	1.2%	0.96%
£30,001 - £50,000	1.6%	1.28% (basic rate tax) 0.96% (higher rate tax)
£50,001 - £60,000	2.0%	1.2%
Over £60,000	2.4%	1.44%

A2 The preferred approach reflected the Government’s wish to implement the increases on a progressive basis. The Government had set out its preferred parameters that there should be no increase in employee contributions for those earning less than £15,000 full-time equivalent (FTE) and no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000 FTE. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis. There should also be a cap on the maximum increase of 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis.

A3 The effect of the proposed changes will be the member contribution structure set out below. The preferred approach put out for consultation set the additional contribution rate by reference to an individual’s FTE pay plus permanent pensionable allowances and would be fixed for a full financial year by reference to the position at the end of the preceding financial year. An individual’s band would only be re-assessed during the year in the event that they were promoted (or moved to a less well-paid job); this meant that a normal pay rise would not lead to an in-year re-assessment, nor would changes to a part-timer’s hours.

Salary range (Full-time equivalent)	classic members	premium, classic plus and nuvos members
Under £15,000	1.5%	3.5%
£15,001 - £21,000	2.1%	4.1%
£21,001 - £30,000	2.7%	4.7%
£30,001 - £50,000	3.1%	5.1%
£50,001 - £60,000	3.5%	5.5%
Over £60,000	3.9%	5.9%

A4 The consultation made clear that the additional contributions were for scheme benefits generally. This meant that they would be refundable only where members left with short service which did not qualify them for pension benefits. This also meant that classic members would continue to be eligible for a partial refund of their contributions of 1.5% of pay if they were neither married nor in a civil partnership at the time of retirement.

Annex B – Who responded

- B1 Over 3,400 responses were received from individuals, typically serving civil servants or members of pension schemes operating by-analogy to the Civil Service Pension Scheme.
- B2 Employers of pension scheme members (and their payroll providers) had also been invited to respond, and comments were received from those listed below. Employer responses in some cases included summaries of views expressed to them by their staff:

- British Library
- Charity Commission
- Child Maintenance and Enforcement Commission
- Coal Authority
- Department for Business, Innovation and Skills
- Department for Communities and Local Government
- Department for Energy and Climate Change
- Department of the Environment, Food and Rural Affairs
- Department of Health
- Department for Work and Pensions
- DSTL
- Electoral Commission
- Foreign and Commonwealth Office
- Forestry Commission
- GCHQ
- Health and Safety Executive
- Her Majesty's Revenue and Customs
- Local Better Regulation Office
- Meteorological Office
- Ministry of Defence
- Ministry of Justice
- Natural England
- Natural Heritage Memorial Fund
- Office of Fair Trading
- OFSTED
- Royal Commission on the Ancient and Historical Monuments of Wales
- Scottish Government
- Treasury Solicitor

Responses were received from the following unions and staff representatives:

- Defence Police Federation
- FDA
- GMB
- National Trade Union Committee (representing PCS, FDA, Prospect, POA, GMB and Unite)

- OFWAT staff representative body
- PCS (national and branch/group responses)
- POA
- Prospect
- Unite
- UNISON
- Union of Construction, Allied Trades and Technicians - UCATT