



## Civil Service Pension Scheme

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Author: Djuna Thurley

Business and Transport Section

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The Principal Civil Service Pension Scheme (PCSPS) introduced in 1972 (now known as the *classic* scheme) is a final salary scheme, with an accrual rate of 1/80<sup>th</sup> of pensionable pay for each year of service (plus a lump sum of three times the annual pension) and a normal pension age of 60. Employees contribute towards the cost of providing benefits for a surviving widow, widower or civil partner. In 2000, the Cabinet Office proposed reforms to the scheme, arguing that pension arrangements should offer the “best possible value to employers and staff relative to cost”. From October 2002, the *premium* scheme was introduced for new entrants. It has an accrual rate of 1/60<sup>th</sup> (with the option to take part as a tax-free lump sum). Members pay a higher rate of contributions than those in *classic* but the scheme offers improved survivors benefits, for unmarried partners, for example. Further reforms followed and in July 2007, a new scheme – *nuvos* – was introduced for new entrants. This provides benefits based on career average rather than final salary and has a normal pension age of 65. Pension provision for existing staff continued broadly on the existing terms, with some new features. An agreement was reached to share future cost pressures (due to, for example, increasing longevity) on a 50:50 basis between employers and staff, subject to a cap on employer contributions.

In June 2010, the Conservative Liberal Democrat Coalition Government established an Independent Public Service Pensions Commission, chaired by Lord Hutton of Furness, to look at “the long-term affordability of public sector pensions, while protecting accrued rights”. The Commission’s interim report, published in October 2010, recommended an increase in member contributions. Tiered increases in member contribution rates were implemented in April 2012.

Recommendations of the Commission’s final report, published in March 2011, included replacing existing schemes with new ones, with pension entitlement based on career average earnings rather than final salary, and increasing the normal pension age. The Government accepted Lord Hutton’s recommendations as a basis for consultation. In December 2011, it said heads of agreement had been established with most unions in the civil service, NHS, teachers and local government schemes. In March 2012, the Government published its Final Proposed Agreement. On 9 May it announced that a Public Service Pensions Bill would be introduced to begin implementation of the proposed changes.

This note looks at civil service pensions and recent reform issues. The reforms to public service pensions more generally are discussed in Library Standard Note SN 05768 [Public service pension reform – 2010 onwards](#). The scheme for providing compensation for civil

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servants on early termination of employment is covered in SN 05201 [Civil Service Compensation Scheme](#).

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## 1 Background

### 1.1 The current schemes

The Principal Civil Service Pension Scheme (PCSPS) is a multi-employer, unfunded, defined benefit public service occupational scheme (although the option of a money purchase pension was introduced in October 2002). Membership of the scheme is voluntary. It is limited to civil servants and employees of bodies listed in Schedule 1 to the [Superannuation Act 1972](#) (this includes, for example, National Museums). The final report of the Independent Public Service Pensions Commission, chaired by Lord Hutton, commented on the diversity of the membership:

Within the civil service scheme groups as diverse as lawyers, economists, scientists and engineers are covered alongside groups such as border officers, coastguards, prison officers and some criminal investigators and police support staff.<sup>1</sup>

The [scheme rules](#) are set and amended by statute.

The PCSPS was reformed in both October 2002 and July 2007 and the scheme for which a member is eligible depends on the date they joined the civil service. Members at 30 September 2002 belong to the *classic* scheme, which is now closed. The first major set of reforms introduced the *premium* scheme for new entrants from 1 October 2002. They also had the option of a money purchase *partnership* scheme, delivered through employer-

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<sup>1</sup> [Independent Public Service Pensions Commission: Final Report](#), 10 March 2011

sponsored stakeholder pensions from a choice of pension providers.<sup>2</sup> Members of *classic* had a limited period within which to decide whether to opt for *classic plus* – a combination of *classic* benefits to 1 October 2002 and *premium* after that. A further set of reforms was introduced on 30 July 2007: *premium* was closed and new entrants had a choice of the *nuvos* scheme or the *partnership* pension account.

All these (with the exception of *partnership*) are Defined Benefit schemes, which means they pay benefits on retirement based on fixed values, typically salary and length of service. However, there are differences between the schemes. For example:

- In *classic* and *premium* pension benefits are based on final salary. In *classic* benefits accrue at 1/80<sup>th</sup> of final salary for each year of service, plus a lump sum of three times the annual pension. In *premium* benefits has an accrual rate of 1/60<sup>th</sup>, with the option to commute 25% of the pension for a lump sum;
- *Nuvos* is a “career average” scheme (i.e. pension benefits are based on salary in each year of service);
- In *classic* and *premium*, the normal pension age (NPA) is 60, whereas in *nuvos* it is 65.
- Members of *classic* contribute 1.5% of pay, towards the cost of survivors’ benefits only. Members of *premium* and *nuvos* contribute 3.5% of pay and have access to more generous survivors’ benefits (for example, covering unmarried partners).

A broad outline of the characteristics of the different schemes is provided in the Appendix to this note. See also the note produced by the Government Actuary’s Department (GAD), [Principal Civil Service Pension Scheme \(PCSPS\) – Key features – March 08](#).

As at 31 March 2010, there were 574,000 active members and 345,000 deferred members of PCSPS. 463,000 pensions were in payment to officers and 129,000 to dependants of deceased members. The approximate split of active membership was 58% classic, 3% classic plus, 25% premium and 14% *nuvos*.<sup>3</sup>

The average pension in payment from the PCSPS in 2009-10 was £6,199, compared to £5,626 in 1999-2000 (2009/10 prices).<sup>4</sup>

There are other schemes to cover the termination of employment for reasons other than retirement:

- The *Civil Service Compensation Scheme (CSCS)* provides compensation on early termination of employment, for example, in case of redundancy; and
- The *Civil Service Injury Benefit Scheme* provides injury benefit to bring your income up to a guaranteed level to a person injured or killed while on duty.

These schemes apply to all staff, regardless of pension scheme membership.<sup>5</sup>

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<sup>2</sup> Cabinet Office: Civil Superannuation. Resource Accounts 2006-07, HC 876

<sup>3</sup> Cabinet Office: [Civil Superannuation Resource Accounts 2009-10](#), 22 July 2010

<sup>4</sup> [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010

## 1.2 History

It was not until the nineteenth century that retirement pensions in the modern sense were provided for civil servants. Prior to 1800, there existed a system that could broadly be called royal patronage where pensions were usually granted to civil servants by the monarch, often well before the onset of old age and probably in recognition of some particular service rendered by the individual. Most public servants continued in office until they died. C. G. Lewin describes how the system then developed in the eighteenth century:

If they wished to retire, [public servants] expected to receive a lump sum or an annuity, or both, from their successor. Occasionally the Crown paid a lump sum on retirement. Pensions for widows and children were known but very rare. From the 1630s onwards the purchase and sale of public offices seem gradually to have declined, which may help to account for the growth of retirement pensions in the civil service later in the century.<sup>6</sup>

The first Act of Parliament to be concerned with the general provision of public service pensions was passed in 1810<sup>7</sup> and the first Act devoted exclusively to the issue was the *Superannuation Act 1834*. Gerald Rhodes calls the 1834 Act a “landmark” because it “attempted for the first time to establish a comprehensive and uniform scheme for all whom we should now call civil servants”.<sup>8</sup> The 1834 Act included requirements for length of service, it prescribed the amount payable and the age at which one would qualify and made other statutory provisions.<sup>9</sup> In 1856 a Royal Commission was set up to consider whether any changes were needed to the 1834 Act. Although it was not strictly concerned with whether there ought to be pensions for civil servants, the Commission nevertheless felt the need to state the general principles upon which such a system should be based. Rhodes explains:

They thought that there were good reasons in the public interest alone why civil servants should be superannuable, and the strongest of those reasons was that otherwise civil servants might be retained in their posts after they had ‘become incompetent to perform their duties’ since to dismiss them might cause hardship; but ‘the evil consequences of retaining a single Civil Servant in an important post for which he has become incompetent, cannot be estimated in money and may be much more than an equivalent for the expense of the superannuation of a whole department’.<sup>10</sup>

The Northcote-Trevelyan Report on the Organisation of the Civil Service, published in 1853 commented on the advantages of civil service employment:

It may be noticed in particular that the comparative lightness of the work, and the certainty of provision in case of retirement owing to bodily incapacity, furnish strong inducements to the parents and friends of sickly youths to endeavour to obtain for them employment in the service of the Government; and the extent to which the public are consequently burdened, first with the salaries of officers who are obliged to absent themselves from their duties on account of ill health, and afterwards with their

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<sup>5</sup> See, for example, Civil Service Pensions *“Injury benefits scheme: A brief guide”*. (March 2008); [Civil Service Pensions website – Civil Service Compensation Scheme](#). Recent reforms to the CSCS are discussed in [SN 05201 Civil Service Compensation Scheme](#)

<sup>6</sup> C. G. Lewin, *Pensions and Insurance Before 1800: A Social History* (2003), p189

<sup>7</sup> Statutes of the United Kingdom, Public Act CXVII, 21 June 1810.

<sup>8</sup> Gerald Rhodes, *Public Service Pensions* (1965), p15

<sup>9</sup> Statutes of the United Kingdom, Public Act XXIV, 25 July 1834.

<sup>10</sup> Rhodes, p18 quoting the *Report of Commissioners appointed to inquire into the Operation of the Superannuation Act* (1857).

pensions when they retire on the same plea, would hardly be credited by those who have not had opportunities of observing the operation of the system.<sup>11</sup>

The Ridley Commission thirty five years later offered a more positive view and stated that civil service pensions were a good thing as they “help to retain in the service men who might otherwise be tempted elsewhere”.<sup>12</sup> The Courtney Commission in 1903 re-emphasised the benefit to the state of maintaining civil service pensions, that “there is thus secured an inducement to maintain continuous service on the part of the servant and a facility on the part of the State to dispense with further services if age or infirmity renders them less efficient”.<sup>13</sup> The Courtney Commission also resulted in a broadening of the view upon which the civil service pension should be based and led, in 1909, to the introduction of lump sum benefits, both on retirement and at death.

This broadening of the view of the purposes which the civil service scheme should serve continued right through the first half of the twentieth century, though to the *Superannuation Act 1972*, which established the modern Principal Civil Service Pension Scheme (PCSPS).<sup>14</sup> Introducing the Bill at second reading in November 1971, the Minister called the Bill “something of a landmark” that would “reform the legislative basis of the public service pension schemes”.<sup>15</sup> John Grant MP further elaborated on the breadth of reform contained in the Bill, stating that it:

... appears to provide that a Civil Service scheme could be introduced which will, for the first time, provide a legal entitlement to the main pension benefits, although Ministerial discretion for some benefits may still justifiably be necessary.<sup>16</sup>

The scheme ultimately set up under the *Superannuation Act 1972* was called the Principal Civil Service Pension Scheme. Following reforms to the PCSPS in October 2002 this has been referred to as the *classic* scheme.

## 2 Costs and funding

### Funding basis

Like most of the main public service schemes (the exception being the local government scheme), the PCSPS operates on a pay-as-you-go (PAYG) basis. This means it has no fund of assets which is invested and from which pension benefits are paid. Instead, employer and employee contributions are paid to the sponsoring government department as though the scheme were funded. The employer contributions form part of the employer’s annual budget. The sponsoring government department pays pension benefits to pensioner members, netting off contributions received.<sup>17</sup> The Resource Accounts for the scheme say:

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded public service scheme made under the *Superannuation Act 1972*. All payments of benefits and other

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<sup>11</sup> *The Organisation of the Permanent Civil Service* (1853)

<sup>12</sup> *Royal Commission appointed to inquire into the Civil Establishments* (C. 5545) (1888), para 81

<sup>13</sup> *Royal Commission on Superannuation in the Civil Service* (Cd. 1744) (1903), para 10

<sup>14</sup> For example, a continuous line can be traced from the death grants in 1909 to voluntary pensions for widows in 1935, to regular widows’ pensions in 1949 and so on. (Rhodes, p22)

<sup>15</sup> David Howell MP, HC Deb 19 November 1971, c822

<sup>16</sup> HC Deb, 19 November 1971, c843

<sup>17</sup> Pensions Policy Institute, *An assessment of the Government’s reforms to public sector pensions*, October 2008, page7

liabilities from the Scheme are met from the Civil Superannuation Request for Resources (RfR). Participating employers make contributions known as Accruing Superannuation Liability Charges (ASLCs), which are treated as Appropriations in Aid on the RfR. ASLCs are regularly assessed by the Scheme Actuary and are consistent with those that might have applied had the Scheme been funded, making allowance for amortised surpluses or deficits that would have arisen in a funded scheme based on an assumed notional investment return.<sup>18</sup>

## 2.1 Contributions

### Employees

Employee contribution rates are in the scheme rules. Until April 2012, they were 1.5% for members of *classic*, 3.5% for members of *premium* and *nuvos*. This is a relatively low rate compared to contribution rates elsewhere in the public sector.<sup>19</sup> However, the Council for Civil Service Unions (CCSU) argues that the value of pension benefits is reflected in civil service pay rates:

The PCSPS has changed over the years as outlined above. However the principles remain, the unfunded nature of the scheme and the fact that historically pay rates have been calculated to take account of scheme value. The introduction of widows/widowers benefits and the contributions for that benefit is notionally ring-fenced in that refunds are still given. The contributions for premium and nuvos reflect the additional value of those schemes over classic. However, we would argue that the value of the basic pension is reflected in civil service pay rates up to today.<sup>20</sup>

Employee contribution rates increase in 2012/13, as set out in the table below:

Employee contribution rates	Classic		Premium/nuvos	
	2011/12	2012/13	2011/12	2012/13
FTE pensionable pay				
Up to £15,000	1.5%	1.5%	3.5%	3.5%
£15,001 to £21,000	1.5%	2.1%	3.5%	4.1%
£21,000 to £30,000	1.5%	2.7%	3.5%	4.7%
£30,001 to £50,000	1.5%	3.1%	3.5%	5.1%
£50,001 to £60,000	1.5%	3.5%	3.5%	5.5%
Over £60,000	1.5%	3.9%	3.5%	5.9%

The Government proposes further contribution increases for 2013/14 and 2014/15. For the new scheme to be introduced in 2015, it proposes average member contributions of 5.6% (see section 4 below).

## 2.2 Employer contribution rates

Employer contribution rates are assessed under “ASLC mechanism”. This mechanism was introduced in the 1990s as a way of making employers accountable for the pension costs

<sup>18</sup> Cabinet Office: [Civil Superannuation Resource Accounts 2009-10](#), 22 July 2010, 10

<sup>19</sup> See the table in section 4.1 of Library Standard Note SN 5768 [Public service pension reform 2010 onwards](#)

<sup>20</sup> [An initial response by the Council of Civil Service Unions \(CCSU\) to the Independent Public Service Pensions Commission, July 2010.](#)

accruing in respect of their employees and to ensure that these costs were recognised when taking decisions on staffing matters. The fundamental principles for determining contribution rates for employers are similar to those applying for a private sector scheme.<sup>21</sup> The first step is to determine a “standard contribution rate”. This is an actuarial assessment of the amount needed to finance benefits accruing in each year of service. In addition, a “notional fund” is tracked between reviews and where a surplus or deficit is identified, the contribution rate can be altered to reflect this:

#### **The standard contribution rate**

To determine the recommended ASLC rates, the first step in the calculation is to determine a “standard contribution rate”. This is the rate which would be sufficient to finance future benefits under the PCSPS in the absence of any notional surplus or deficit and assuming the actual experience is in line with assumptions.

#### **The SCAPE account**

In order to mirror the operation of a funded scheme, an account of notional assets is tracked between reviews. As from 1 April 2003, this has been done using the “SCAPE” approach specified by the Treasury (Superannuation Contributions Adjusted for Past Experience). Under SCAPE, the Pension Account is credited with interest at the same real rate of return used to value the liabilities and determine the standard contribution rate. The Treasury has specified that the discount rate, and therefore the rate of return used, should be 3.5% in excess of price inflation.

To the extent that the Pension Account differs from the liabilities build up for service before the valuation date, there is said to be a surplus or deficit. As at 1 April 2003, the date when the SCAPE approach was introduced, the Treasury specified that the SCAPE account should be set equal to the liabilities built up to that date, i.e. the initial surplus/deficit was zero.

Under the SCAPE approach, the recommended ASLC rates are determined as:

- The standard contribution rates;
- Reduced to reflect the contributions payable by members;
- Increased (or reduced) over a period to reflect any deficit or surplus) at the review date. The Treasury has specified that the period over which any deficit/surplus is eliminated should not exceed 15 years.<sup>22</sup>

Employer contribution rates are separately assessed for four different pay bands. In 2009-10, the average was 18.9%:

The cost of benefits accruing for each year of service is shared between members and employers. Employees in the classic section make contributions of 1.5% of pensionable pay. Employees in the classic plus and premium sections, which came into effect as from 1 October 2002, make contributions of 3.5% of pensionable pay.

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<sup>21</sup> Leaving aside the requirements of the *Pensions Act 2004*, under which an employer may be required to increase contributions where a scheme is in deficit. These requirements apply to private sector schemes, the aim being to ensure they are adequately funded in the event of the sponsoring employer becoming insolvent. For further information, see Library Standard Note SN/BT 4877, [Pension Scheme Funding](#).

<sup>22</sup> Hewitt, *Principal Civil Service Pension Scheme – Review of the Accruing Superannuation Liability Charges (ASLCs) as at 31 March 2007*, 7 December 2007

Employees in the nuvos section, which came into effect as from 30 July 2007, also make contributions of 3.5% of pensionable pay. Employers meet the balance of the cost.

We have assessed the employers' share of the cost of benefits accruing in the year ended 31 March 2010 (the employers' share of the 'current service cost') to be 21.3% of pensionable pay, as determined at the start of the year.

To determine the amounts actually charged to employers under the ASLC mechanism the employers' contribution is separately assessed for each of four ranges of pay levels, based on full-time equivalent pay at the beginning of the financial year. The contribution rates which were assessed under the ASLC mechanism as required to meet the cost of benefits accruing in the year 2009-10 were as follows:

<b>Employer's Share of Contribution Rate</b>	
<b>Pay band from April 2009</b>	<b>% of Pensionable Pay Rate charged</b>
£20,500 and under	16.7%
£20,501 to £42,000	18.8%
£42,001 to £72,000	21.8%
£66,501 and above	24.3%
Estimated average rate charged to Employers for current year	18.9%
Rate payable by the Prison Service for prison officers employed before September 1987 and entitled to enhanced benefits	25.8%

The employers' contributions receivable are assessed as £2.8 billion for financial year 2009-10. The next ASLC assessment will be carried out as at 31 March 2010.<sup>23</sup>

### **Cost capping and sharing**

In July 2007, as part of a package of reforms to the PCSPS (see section 3.5 below), the then Cabinet Office Minister Gillian Merron said that cost pressures arising from changes in the cost of benefits (due to, for example, increasing longevity) identified at scheme valuations with effect from April 2012 would be shared on a 50:50 basis between employers and staff. The employer contribution would be capped at 20 per cent of pay:

#### **Sustainability**

Although unfunded, the PCSPS publishes an annual resource account, including its estimated liabilities, and undergoes regular actuarial valuations. The state of the scheme at 31 March 2007 is currently being assessed and I will place the results of the valuation in the Library when the report is agreed. The valuation is used to set the level of employer contributions to apply in future years; by convention a range of employer contribution levels apply, with higher percentage rates of contribution being paid for higher-paid staff. The average employer contribution is currently 19.4 per cent.

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<sup>23</sup> Cabinet Office: *Civil Superannuation Resource Accounts 2009-10*, 22 July 2010

of pensionable pay and this is taken into account in setting the overall level of civil service reward packages.

The PSF agreement recognised the importance of on-going scheme sustainability. This requires members to accept a degree of responsibility for future cost pressures, rather than seeing them as an issue for the employer (and taxpayer) alone. We will establish a Scheme Governance Group with employer and union representation to take work on this area forward. The Government will ensure that cost pressures identified at scheme valuations from 2010, that will be implemented with effect from April 2012, are shared on a 50:50 basis between employers and staff. To the extent that such cost increases or reductions arise as a consequence of changes to the Treasury mandated financial assumptions or from some fundamental changes to the actuarial valuation methodology the consequent impact on costs should continue to be absorbed by the employer through an adjustment in Accruing Superannuation Liability (ASLC) rates. The Government will also ensure that the average employer contribution is capped at 20 per cent. of pay (assuming no changes to the valuation approach). This approach is intended to deliver long-term, sustainability through the reduction of taxpayer exposure to risks, principally those associated with improvements in longevity over and above the improvements already anticipated.

As and when cost-sharing takes effect, it is by no means axiomatic that member contributions will rise. While this approach would of course be one option, we would look to the Scheme Governance Group to suggest approaches designed to secure widespread acceptance by staff, to maintain scheme membership and to have particular regard to the impact on low-paid staff. We will consult with the unions in the near future on the detail of how this process should work, before amending the scheme rules to reflect the outcome of that process.<sup>24</sup>

The detailed “cost capping and cost sharing” rules are in Section IV of the scheme rules (the General Provisions Section, Part B).<sup>25</sup>

The “cap and share” arrangements were to take effect from March 2010, following the actuarial valuation of the PCSPS as at 31 March 2010.<sup>26</sup> For a discussion on the impact of these reforms, see section 3.6 below.

## **2.3 Delivery**

The Cabinet Office is the manager of the scheme. Its responsibilities include admitting employers to the scheme, developing policy and maintaining scheme rules. It has formally delegated responsibility for administration to employers. Employers use one of eight Authorised Pension Administration Centres (APACs) to calculate pension awards on their behalf. The APACs send the awards to Capita Hartshead, which pays benefits and responds to pensioners’ enquiries.

Changes have been made to the way Civil Service pension arrangements are delivered in 2010, with the aim of introducing a new and more streamlined administration model. From April 2010, a new Scheme Management Board was set up to take on management and oversight of civil service pension arrangements and day-to-day administration was delegated

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<sup>24</sup> HC Deb, 26 July 2007, c105WS

<sup>25</sup> Principal Civil Service Pension Scheme. Scheme Rules, [Section IV, The General Provisions Section](#)

<sup>26</sup> An initial response by the Council of Civil Service Unions (CCSU) to the Independent Public Service Pensions Commission, July 2919

to the Department for Work and Pensions, where was delivered by My Civil Service Pension (MyCSP), part of DWP's shared services capability.<sup>27</sup>

On 12 April 2011, Cabinet Office Minister, Francis Maude, announced plans to convert MyCSP into a "mutual joint venture". The Cabinet Office said:

This will be the first major "spin out" of a central government service giving employees the opportunity to take a stake in their business. The joint venture is a particular mutual model in which employees have a stake along with one or more partner organisation. This can combine the improved productivity associated with employee ownership with additional expertise and capital investment. Plans for MyCSP envisage that the Government, MyCSP employees, and a private sector partner would all have a strong material interest in the service. The potential for offering a stake to pension scheme members is also being considered. Work is now underway to develop this approach with the final structure of the partnership being shaped to provide further value for money to the taxpayer.<sup>28</sup>

The background to this is that in August 2010, Francis Maude announced the "launch of the first wave of Pathfinder mutuals to be run by entrepreneurial public sector staff who want to take control of the services they run."<sup>29</sup> In November, he said he would introduce new "rights to provide" across the public services. Public service employers would be "expected to accept suitable proposals from front-line staff who want to take over and run their services as mutual organisations."<sup>30</sup>

The change to MyCSP is opposed by the Public and Commercial Services Union (PCS):

Despite the claims by management that the new organisation will be a 'mutual', the plans for MyCSP involve no employee consent or co-operation and does not involve genuine co-ownership. It is simply branded as such to make privatisation sound more attractive. The very clear message we have had from members is that they want to remain civil service employees and remain in the civil service pension scheme that they administer.

PCS Officials have met with MyCSP management and with Francis Maude, the Cabinet Office Minister responsible and written to Permanent Secretaries to ask them to reconsider their plans. Serious concerns have also been raised by the Scheme Management Board as to the risks involved in the proposals. Yet despite all of the arguments against the plans for MyCSP management have refused to respond to these concerns. They are still planning to enact their plans in July and on this basis PCS has notified the employer that we intend to ballot members for industrial action.<sup>31</sup>

PCS members took part in a half-day strike over the "loss of civil service status" on 17 June 2011.<sup>32</sup>

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<sup>27</sup> Cabinet Office: *Civil Superannuation Resource Accounts 2009-10*, 22 July 2010, p17

<sup>28</sup> [Cabinet Office Press Release, 12 April 2011 'First major central government mutual joint venture announced'](#)

<sup>29</sup> [Cabinet Office Press release, 12 August 2010, 'Francis Maude launches pathfinder mutuals'](#)

<sup>30</sup> [Cabinet Office press release, 17 November 2010, 'Big society plans for better public services'](#); For more on the background to this, see Library Standard Note SN/PC 5769 *Civil service reform*.

<sup>31</sup> PCS, [MyCSP campaign update](#), 16 May 2011; See also PCS Press Release, 14 February 2011, [Privatisation exposes the truth about 'mutualism'](#)

<sup>32</sup> [HC Deb, 28 November 2011, c748W](#)

On 23 June, the Minister outlined the consultation arrangements:

**Mrs Glindon:** To ask the Minister for the Cabinet Office (1) what consultation he had with staff employed in My Civil Service Pension (MyCSP) on the proposed mutualisation of MyCSP; and if he will publish the outcome of the consultation; [61632]

(2) what representations he has received from Civil Service staff on the proposed reform of My Civil Service Pension; [61633]

(3) what governance arrangements for My Civil Service Pension have been drafted ahead of its planned mutualisation; and whether (a) the public, (b) MyCSP staff and (c) trade unions are to be consulted on such governance arrangements. [61755]

**Mr Maude:** MyCSP is keen to transform its business into an innovative mutual joint venture that offers extensive benefits to employees, customers and the Government. The Government support this endeavour.

Extensive consultation with the employees of MyCSP has been carried out, led by the CEO, including face to face, written and telephone communications. Trade unions have been consulted and I have met with them personally.

There has been very strong interest from employees; naturally some have concerns and are eager to find out more about what the changes will mean in practice, but there is a great deal of recognition among employees of the fact that mutualisation offers substantial benefits.

Elections are already under way for employees to sit on the Employee Partnership Council. This body will strengthen the voice of employees and involve them directly in the running of the company.<sup>33</sup>

In November 2011, the Government said that work was underway to select a private sector partner:

**Mrs Glindon:** To ask the Minister for the Cabinet Office (1) how much funding from the (a) public purse and (b) private sector has been allocated to the mutualisation of MyCSP; [82520]

(2) how much funding from (a) the public purse and (b) the private sector has been allocated to the mutualisation of MyCSP. [82786]

**Mr Maude:** The work to transform the management and administration of the Principal Civil Service Pension Scheme has been under way for some time and has included the creation of MyCSP and now its mutualisation.

While MyCSP is part of government, its transformation is provisioned by Cabinet Office and subject to an approved business case. A competition is currently under way to select a private sector partner to contribute to this mutualisation and transformation through share participation in the MyCSP mutual joint venture. As this process is under way at the moment it would be inappropriate to make any further statement at this time.<sup>34</sup>

An equality impact assessment of the change is being developed:

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<sup>33</sup> [HC Deb, 23 June 2011, c393](#)

<sup>34</sup> [HC Deb, 24 November 2011, c509W](#); See also [HC Deb, 30 June 2011, c923W](#)

Mr Maude [holding answer 24 November 2011]: The creation of MyCSP as a mutual joint venture is subject to a business case review by both the Cabinet Office and HM Treasury prior to the final decision.

As would be expected with a project of this type, a full equality impact assessment is also being developed. This will be refined as the project moves towards completion, and the final version will be published in line with Cabinet Office requirements.<sup>35</sup>

On 30 April 2012, the Government announced the launch of MyCSP as the first central government mutual:

MyCSP Ltd, the first 'John Lewis style' business created from a central government service was launched today by Francis Maude, Minister for the Cabinet Office. MyCSP Ltd's innovative Mutual Joint Venture model gives employees a 25% ownership stake, representation at board level and a share in profits. The new enterprise will be contracted by the Government to administrate pensions for the 1.5million members of the Civil Service scheme. It will cut costs for taxpayers, reaching annual savings of 50% by 2022, while improving the service.

The Equiniti Group's Paymaster business has been announced as the winner of the hotly contested tender to join the venture with a 40% stake. Paymaster brings business expertise and capital investment. The Government retains a 35% stake so taxpayers benefit as the business grows in value.

Francis Maude also announced today that former Cabinet Minister, Lord Hutton of Furness, will be the first Chairman of MyCSP Ltd. As such, Lord Hutton takes a leading role in the Government's plan to hand greater ownership, responsibility and power to the people running public services. Mark Lund, the former Chief Executive of St. James's Place Capital PLC, will Chair the MyCSP Ltd Employee Partnership Trust charged with protecting the employees' interests.<sup>36</sup>

### **3 The Labour Government's reforms**

#### **3.1 Introduction of *premium* (2002)**

The Government announced its intention to reform Civil Service pensions in 1999 under proposals labelled at the time 'PCSPS 2000'. The Cabinet Office said:

The PCSPS dates from 1972. Although it has been amended to reflect legislative and other changes, it deserves a fresh look if it is to continue to provide pension arrangements which are valued by both members and employers. After pay, pension provision needs to be seen as the most important benefit an employer can provide.

Pension provision is expensive and the arrangements need to offer the best possible value to employers and staff relative to cost. The aim is to have a scheme which is simple to administer, which low overheads, and offering a range of benefits which are in tune with today's employment needs, including the expectation of several jobs over the course of a working life.

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<sup>35</sup> [HC Deb, 28 November 2011, c749W](#)

<sup>36</sup> [Cabinet Office press release, 30 April 2012, 'First central government mutual launched'](#)

It is not a cost cutting exercise. The idea is for the new scheme to be cost neutral for the taxpayer with the available money spent in a way which delivers what its members and employers want.<sup>37</sup>

However, the final changes were not laid before Parliament until July 2002. Two new schemes were introduced – a *premium* scheme and a *partnership* (stakeholder) scheme.

The *premium* pension scheme is a traditional final-salary pension scheme. The pension is based on the number of years of service and final salary. Members contribute 3.5% of pay (compared to 1.5% in *classic*). Benefits accrue at a rate of 1/60<sup>th</sup> (compared to an accrual rate of 1/80<sup>th</sup>, and a lump sum of 3/80<sup>th</sup>, in *classic*).<sup>38</sup> Unlike *classic*, the *premium* scheme provides benefits to eligible unmarried partners.<sup>39</sup>

The *partnership* pension account is a stakeholder pension, which is a type of personal pension. The employer pays contributions into the employee's pension fund though there is no minimum contribution by the employee. These contributions are invested by a chosen pension provider. Over the years, the pension fund should grow with investment returns and the resulting 'pot' is used to buy a pension upon retirement.<sup>40</sup>

Existing members were given the option to join the *classic plus* scheme. This provides a combination of *classic* benefits up until 1 October 2002 and then *premium* benefits from that date forward.<sup>41</sup>

In a written answer, the Cabinet Office Minister described the two new schemes – premium and partnership - as follows:

**Mr. Alexander:** I am today laying before Parliament, under the provisions of the *Superannuation Act 1972*, three amendment schemes. The first of these amends the rules of the Principal Civil Service Pension Scheme (PCSPS) and introduces new provisions for those joining the pension scheme on or after 1 October 2002. The second amendment scheme makes consequential changes to the Civil Service Compensation Scheme, and the third amendment scheme removes the injury benefit provisions of the PCSPS to a separate scheme.

Pension arrangements for civil servants (and those in employments and offices listed in Schedule I to the *Superannuation Act 1972*) will change on 1 October 2002. New entrants joining after that date will generally be given the choice of a final salary pension or a stakeholder pension with an employer contribution. The new arrangements are being introduced on a cost-neutral basis for employers.

We recognise that pensions form a significant part of the Civil Service remuneration package, and we want civil servants to be able to choose the pension that suits them best. Today's Civil Service does not offer a job for life and is benefiting from greater interchange with other sectors at all levels within the organisation. Final salary pensions may be good for those who spend a long period with one employer, but those who change jobs frequently during their career may prefer their employer to contribute to a stakeholder pension. By giving our new staff a choice of two good

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<sup>37</sup> Cabinet Office, "PCSPS 2000 a new scheme for the civil service"

<sup>38</sup> See, for example, [Government Actuary's Department, Principal Civil Service Pension Scheme \(PCSPS\) – Key features – March 2008](#)

Civil Service Pensions, [Premium Pension Scheme](#), November 2008

<sup>39</sup> HC Deb, 22 July 2002, 728-30W

<sup>40</sup> See, for example, Civil Service Pensions, [Partnership Pension Account](#), June 2008

<sup>41</sup> See, for example, Civil Service Pensions, [Your classic plus pension benefits explained](#), March 2009

quality pension alternatives we aim not only to support a more diverse Civil Service but also to raise awareness and appreciation of the value of the pension element of the pay package.

The new final salary option will be known as the premium scheme. It will provide a pension based on one-sixtieth of final pensionable earnings for each year of service. Other features of the premium scheme include:

- option to exchange part of pension for lump sum on retirement;
- ill-health pensions varying in amount depending on the extent of incapacity;
- death-in-service lump sum of three times pay;
- pensions for surviving spouses of 3/8ths of the member's pension;
- pension payable to a surviving eligible unmarried partner if the member does not leave a spouse;
- pensions for children

Existing members of the PCSPS will have the option of joining the premium scheme or remaining with the current provisions (to be renamed the classic scheme). Members opting for classic will continue to earn a pension based on 1/80th of pay for each year of service plus a retirement lump sum of three times pension. Members opting to join the premium scheme will have their past service reduced—typically to 92 per cent. of its previous amount—to reflect the improved benefit structure. Members may also opt for classic plus; this option effectively provides premium scheme benefits for service from 1 October with service before 1 October continuing to be pensioned broadly on the classic model.

We are moving to the new arrangements on a cost-neutral basis, with the entire cost of benefit improvements being met by increased contributions by members. None of the cost of the benefit improvements will fall on the taxpayer. All premium and classic plus members will pay the new contribution rate of 3.5 per cent. Members opting to remain in the classic scheme will continue to pay contributions of 1.5 per cent. of pay.

The stakeholder pension alternative will be known as the partnership pension account. Employees will choose their pension provider from the following panel:

- AMP Corporate Pensions
- Scottish Widows
- Standard Life
- TUC.

Employees opting for a partnership pension account do not need to contribute, but will be encouraged to do so by having their contributions matched up to 3 per cent. of pay. In addition, the employer will pay contributions based on age, varying from 3 per cent. of pay for those under 21, to 12.5 per cent. of pay for those aged 46 and over. Lump sum benefits of up to three times pay on death in service and on ill health retirement will be provided separately, and will be the subject of future schemes under the Superannuation Act.

Civil Service remuneration is set having regard to the need to recruit, retain and motivate staff of the appropriate quality. Full account is taken of the value of pension arrangements, including the cost of index-linking, in setting the balance between the pay and pension elements of the reward package.

The Civil Service unions have been involved throughout the development of the new pension options, both in negotiating the terms and also in appraising their members

of the options open to them. The unions' constructive involvement throughout this process stands as a testament to the value of partnership working.<sup>42</sup>

### 3.2 Building a sustainable future (2004)

In December 2004 the Cabinet Office launched a consultation document *Building a sustainable future* on proposals to reform the Civil Service pension scheme for all new members from 2006 and for existing members from 2013. This was in line with the consultations being undertaken on other public service pension schemes for employees in local government, the fire service, teaching and the National Health Service. The main proposals in the consultation were:

- Raising the pension age from 60 to 65;
- Raising the minimum age at which an unreduced pension can be taken from 50 to 55; and
- Retaining a defined benefit scheme, but basing the pension on average of salary for every year of service rather than on pay earned in the final year.

In her introduction to the consultation document, the Cabinet Office Minister, Ruth Kelly, emphasised that no change was “not an option”:

This consultation document sets out a range of proposals intended to modernise the Civil Service pension arrangements while reaffirming our commitment to the principle of a good quality defined benefit pension scheme with a substantial proportion of the cost being met by the employer. As well as dealing with the increase in pension age, the proposals reflect the desire of Sir Andrew Turnbull and his Permanent Secretary colleagues who sit on the Civil Service Management Board for pensions to reflect a changed approach to reward. This change, which the Government agrees with, is not about cutting costs; the intention is rather for pensions to reflect better the contribution made throughout an individual's career in the Civil Service. Other aspects of these proposals are aimed at introducing more flexibility. The scheme is paid for collectively by members and employers and, as such, it should recognise that different stakeholders have differing needs and aspirations. One size no longer fits all.

As Minister for the Cabinet Office I meet regularly with the Civil Service unions and I understand that people may be concerned about any proposals to change the existing pension scheme. That is why we are assuring you that pension earned before a future date (April 2013) will not be changed. The proposals in this document are an outline, and the Cabinet Office will be happy to work with the Civil Service unions in working up the fine detail. The Cabinet Office will also take account of your comments. But we all need to recognise that no change is not an option.<sup>43</sup>

The changes did receive some support from Prospect, the trade union representing specialist staff. The proposed shift to a pension based on “career average” salary was welcomed as being “superior to present arrangements” for many staff.<sup>44</sup> However, Prospect, like the Public and Commercial Services Union (PCS) opposed the rising retirement age. PCS General Secretary, Mark Serwotka, stated:

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<sup>42</sup> HC Deb, 22 July 2002, cc728-730W

<sup>43</sup> Cabinet Office, *Building a sustainable future*, December 2004, pp2-3

<sup>44</sup> Prospect press notice, “Pension compulsion will mean conflict, specialists warn government”, 9 December 2004

It was only two years ago that the civil service pension scheme was changed. Yet now we have the government proposing more changes, laying out a set of fait accompli proposals that mean people will have to work longer to receive their pension. The radical move away from a final salary scheme allied with the pension age rise will only create uncertainty and deny people of choices about their future.<sup>45</sup>

Progress on *Building a Sustainable Future* was halted while the Public Services Forum met to discuss the planned changes to the public service pension age following the announcement on 18 March 2005 (see below).

### 3.3 Discussions on increasing the pension age

The Pensions Green Paper, *Simplicity, security and choice: Working and saving for retirement*, published in December 2002, asked for views on the proposal that the pension age throughout the public service should be raised from 60 to 65. The Pensions White Paper, *Simplicity, security and choice: Action on occupational pensions*, published in June 2003, confirmed that the Government would be going ahead with this proposal. By the end of 2006 all new staff would join on the new conditions. The pension rights of existing staff already accrued from past service would be fully protected. Reviews by the individual schemes would decide “how the higher pension age will apply to the future service of existing staff and how to ensure that transitional arrangements are fair and balanced”.

A consultation document on *Simplifying the taxation of pensions*, published at the same time as the Pensions Green Paper in December 2002, announced the Government’s intention of raising the minimum age at which a pension could be taken from 50 to 55 by 2010. The results of the consultation, published in December 2003, confirmed that this would go ahead. Schemes would be free to decide how and when to move to the minimum age of 55 by 2010. People with a contractual right, in place in December 2003, to a pension between the ages of 50 and 55 would be able to keep it. Legislation increasing the minimum pension age to 55 was contained in the *Finance Act 2004*. It applies to all private pensions, not just the public service schemes.

By the spring of 2005, the reviews had started in all the main public service schemes, including the civil service scheme. However, threatened public service strikes against the Government’s imposition of a higher pension age persuaded the Government to promise a “fresh start” on discussions with unions on 18 March 2005.

An agreement was reached at a meeting on 18 October 2005 that would see current civil servants retain a normal pension age of 60 while new scheme entrants would retire at 65. The announcement was accompanied by a set of agreed framework principles designed to provide a common means of moving forward with the individual scheme reviews following the agreement on the pension age. This included protection for existing scheme members:

A principle underlying this agreement is that existing scheme members will have the right to suffer no detriment in terms of their normal pension age and will retain their existing pension provision unless individual or collective agreements within sector specific negotiations are reached which allow changes to those provisions or transition to new schemes. The accrued pensions rights of the existing workforce will be fully protected in the event of transition. New entrants from the date of implementation will

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<sup>45</sup> PCS press notice, “Pension proposals mean working longer to get a full pension”, 9 December 2004

only be offered pensions in the new schemes negotiated through the sector specific discussions.<sup>46</sup>

The same document included agreed features of any new public service pension schemes:

New schemes should continue to guarantee defined benefit provision, linked to an individual's earnings. Schemes should also offer indexation to protect retired members against rises in the cost of living.

All changes to schemes should be equality-proofed before implementation.

New schemes should be designed with the objective of increasing appropriate take-up especially amongst part-time and lower paid workers and others who are eligible but where participation in the scheme may be lower currently.

As people live longer, healthier lives, it is likely more will choose to continue working for longer. This makes it crucial that schemes give greater flexibility than in the past to those who wish to use part-time work as a stepping stone to retirement, and also greater recognition to service by those who chose to work beyond typical retirement ages.

For the purposes of calculating accrual of pensions, 65 will be the reference age (the "NPA") for new entrants to the new schemes entering employment after the implementation date. But not all new members will want to work longer, and all new scheme members will continue to have the right to retire at age 60. All new scheme members who under the new arrangements would retire on a lower pension than they would under existing rules will be offered the opportunity to increase contributions so members can continue to retire on a full pension at age 60. Those who wish to continue to work to the new normal pension age will be able to do so at the standard contribution rate.

Government will make available approximately 1% of pay roll to improve benefits in the new schemes, such as improved survivor benefits, or to deal with transition arrangements/protection for existing scheme members.

Scheme specific negotiations should take account of the special physical and mental demands of many public sector jobs, and the resultant continuing importance of early retirement provision for those with ill health.<sup>47</sup>

These issues are discussed in more detail in SN/BT/2209, [Public service pension age](#).

### **3.4 December 2006 reform proposals**

Negotiations on reforms of the PCPS continued and on 4 December 2006, the then Cabinet Office Minister, Pat McFadden, wrote to the Council of Civil Service Unions (CCSU) setting out the agreement on a package of reforms<sup>48</sup> replacing those proposed in the Building a Sustainable Future consultation document published in 2004.<sup>49</sup> There were four parts to the package:

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<sup>46</sup> [http://web.archive.org/web/20071003103229/http://www.civilservice-pensions.gov.uk/upload/assets/www.civilservice\\_pensions.gov.uk/psf\\_principles.pdf](http://web.archive.org/web/20071003103229/http://www.civilservice-pensions.gov.uk/upload/assets/www.civilservice_pensions.gov.uk/psf_principles.pdf)

<sup>47</sup> Ibid.

<sup>48</sup> Letter from Pat McFadden MP to Council of Civil Service Unions 4 December 2006

<sup>49</sup> See, for example, [Questions and answers on Civil Service pension reform](#)

- existing civil servants – no change
- new employees from July 2007 – new pension arrangements
- shared responsibility for dealing with future cost increases
- possibility of refreshing the existing pension scheme with new features.<sup>50</sup>

Under the proposals, existing members would be protected, retaining a normal pension age of 60 and a pension based on final salary. For new entrants, the pension age would move to 65 and pension benefits would be calculated by reference to earnings throughout the career.<sup>51</sup>

The CCSU responded positively, although it raised a number of issues in its letter to the Minister. It argued, for example, that if cost pressures on the scheme increased in future, the appropriate response would need to be assessed at that time:

Our position is one of being very aware that issues such as the future cost of the scheme are matters which need to be dealt with within the context of the time at which they occur. It is not practical or reasonable to seek to pre-empt the decisions or a future Government not to anticipate what will be the needs of the Civil Service five, ten, fifteen or twenty years hence.....

The new Pensions Governance Advisory Group will have a significant role in the actuarial review process which will influence the debate about the sustainability of the scheme in the future. Following which our shared expectation is that there would be negotiations with a view to reaching agreement on any scheme changes that might be necessary to maintain ongoing sustainability or make improvements to the scheme. As your letter indicates these would not be restricted to changes to employer and employee contributions, but might encompass scheme benefits and design taking account of developments. We welcome your reference to the position of low paid staff in the context of maintaining the level of scheme membership. In our view the process above is the only framework within which future decisions on sustainability can be taken.<sup>52</sup>

The CCSU also said it would like to see some of the flexibilities available for new members extended to existing members:

Amongst these is the removal of the barrier to existing scheme members accruing more than 40 years pensionable service at age 60. This has been a long serving anomaly which has caused great resentment to long serving staff and one which we now have the power to remedy. We would also want to return, in due course, to the question of existing members having the choice to transfer into the new scheme in the future.<sup>53</sup>

The CCSU welcomed the basis of the scheme for new entrants as providing the basis for a “new and very radical pension scheme for the Civil Service of the future”:

It does reflect what we believe to be a satisfactory basis for a new and very radical pension scheme for the Civil Service of the future, a scheme which remains of the

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<sup>50</sup> Archived Civil Service Pensions website; [Civil Service pension reform](#), last updated 10 April 2007

<sup>51</sup> Letter from Pat McFadden MP to Council of Civil Service Unions. 4 December 2006

<sup>52</sup> Letter to Pat McFadden MP from the Council of Civil Service Unions, 14 December 2006.

<sup>53</sup> Ibid

highest quality whilst at the same time being both more equitable and reflecting more accurately the likely future employment patterns of the Civil Service for the future.<sup>54</sup>

However, it would have liked to see more discussion of “the possibility of offering a limited choice to new scheme members as to where they could more carefully target their benefits to reflect their personal circumstances.”<sup>55</sup>

The reform package was announced on 9 January 2007. It had the following main features:

- a new pension scheme for new employees from July 2007, with a normal pension age of 65, and pension benefits earned in each year based on pay in that year and then index linked;
- no change to the pension arrangements for existing staff apart from the potential for additional features to provide improved benefits (for example, higher tax-free lump sums);
- responsibility for dealing with future cost increases shared between employers and all employees, with a limit on the average contribution of 20% of pay (shared responsibility concept extended to other areas of pension scheme governance, meaning greater involvement for employers and unions in running the scheme).<sup>56</sup>

The *Financial Times* commented on the proposals for sharing future increases in pension cost:

The government will cap the taxpayer's liability for civil service pensions should increases in life expectancy exceed expectations, Pat McFadden, the Cabinet Office minister responsible for the civil service, said -yesterday.

Unions and the government have reached broad agreement on a deal that will allow existing civil servants to continue to retire on final salary pensions at 60 but will see recruits on career-average pensions forced to wait until 65.

But Mr McFadden said that the government also planned to impose a cap on any future increase in taxpayers' liabilities if costs rise beyond what is at present anticipated.

Initially any extra cost would be split 50:50 with employees, he said, but with an absolute cap that would prevent the employers' contribution rising above 20 per cent of salary from the generous 19.4 per cent.

The Public and Commercial Services union, the largest of the civil service unions, said it wanted any such changes to be a matter of negotiation, should costs rise more than expected.

But Mr McFadden said the government intended to impose its view. "It is important to signal that there should be some limit to the employers', and thus to the taxpayer's contribution."

Mr McFadden conceded that critics felt public sector pensions remained far more generous than most now available in the private sector, with actuaries estimating that

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<sup>54</sup> Ibid

<sup>55</sup> Ibid

<sup>56</sup> Cabinet Office; Civil Superannuation. Resource Accounts 2006-07. 9 July 2007. HC 876, p5

the total future liability stood at about Pounds 960bn. But Mr McFadden said: "We are now saying there must be a limit, and that's progress on what we had before."

The deal, however, appears chiefly to cover any further rises in longevity. Stephen Yeo, a senior partner at the pension advisers Watson Wyatt, said it did not appear to cover changes to the discount rate - the rate of return assumed by the government actuary - which, he said, was far more generous than pension savers in the private sector could achieve. "The current discount rate perpetuates a fiction that the civil service scheme can earn a 3.5 per cent real return," he said. In reality the civil service pension would cost far more to deliver, he suggested.<sup>57</sup>

### **3.5 Introduction of reforms in 2007**

The regulations were laid before Parliament on 26 July 2007. The then Minister for the East Midlands, Gillian Merron, explained that new entrants from 30 July 2007 would be eligible for the "nuvos" scheme, with the option of a partnership pension account for those preferring a stakeholder pension:

#### **Civil Service Pension Reform**

The Minister for the East Midlands (Gillian Merron): I am today laying before Parliament, under the provisions of the Superannuation Act 1972, two amendment schemes. The civil service unions have been involved throughout and confirm their agreement to the scheme amendments. The first of these amends the rules of the Principal Civil Service Pension Scheme (PCSPS) and introduces new provisions for those joining the pension scheme on or after 30 July 2007. The second amendment scheme makes consequential changes to the civil service compensation scheme. These amendments are the first step in implementing a major package of reform which builds on earlier changes modernising the civil service pension arrangements and announced by the then Chancellor of the Duchy of Lancaster, my right hon. Friend the Member for Paisley and Renfrewshire, South (Mr. Alexander) on 22 July 2002, Official Report, column 728W. I will bring forward further amendments in due course to complete the implementation of these reforms.

The package of reform that I am announcing today is in line with the agreement reached between the Government and the public sector unions in the Public Services Forum ("PSF") in October 2005. The Government's aim is to continue to provide their staff—both existing and new—with good quality, defined benefit, index-linked pension provision delivered in a sustainable way. The Government seek to achieve this by delivering a range of measures intended to both reduce civil service pension costs by £2.1 billion over 50 years, on the basis of the assumptions made at the time of the PSF, and control unplanned cost growth.

#### **New entrants**

Pension terms for new entrants from 30 July 2007 will undergo radical change, with pensions calculated by reference to pensionable earnings throughout the career rather than "final salary". We believe that this change will produce a fairer outcome for the workforce generally, particularly for those who have relatively short or broken civil service careers and for those who wish to move to less demanding employment as part of their transition from work to retirement. This new whole career option will be known as the nuvos scheme and, in common with the existing premium scheme, will have a member contribution rate of 3.5 per cent, of pensionable pay. Members will be

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<sup>57</sup> *Financial Times*, 9 January 2007, 'Liability cap to be set on civil service pensions'

able to retire and draw benefits at any age from 55 to 75, with benefits drawn before age 65 reduced for early payment and those drawn after 65 increased for late payment. Members will have access to options to help them tailor the scheme to meet their personal requirements. These include the ability for members to purchase added pension for self or for self plus dependants, to give up pension in exchange for a lump sum and to give up pension in exchange for additional benefits for dependants. The nuvos scheme will also offer a range of other benefits including ill-health retirement pensions and benefits for dependants following the Member's death. To facilitate mobility among the public services the PCSPS belongs to the Public Sector Transfer Club; the future service of staff transferring in from public service schemes continuing to operate final salary pension schemes will be pensioned on the whole career basis but the service transferred will continue to provide benefits on a final salary basis. A similar approach will apply to the frozen final salary benefits of civil servants returning after resigning to broaden their careers. New entrants who prefer a stakeholder pension with an employer contribution will continue to have the option of a partnership pension account.

### **Current staff**

The Government recognise the importance that current staff place on retaining their existing pension scheme. Current staff (including many of those who resign and return to work after a break of no more than five years) will therefore continue to have pensions calculated on a "final salary" basis and will be able to draw an unreduced pension on retirement at or after age 60. These terms will continue broadly as now, subject to the following changes:

- an option for staff leaving from 1 October 2007 to give up pension for a larger lump sum on retirement;
- relaxation of service limits from 40 to 45 years (to be phased in from 1 March 2008);
- replacement of the "added years" facility for topping up pension by a new "added pension" arrangement (from 1 October 2007 for staff over 60 and from 1 March 2008 generally); and
- introduction, from 1 March 2008, of "flexible retirement" arrangements which will permit staff who reduce their hours or job weight to access their pension before full retirement.<sup>58</sup>

As discussed in section 2.2 above, a "cap and share" arrangement was also introduced, such that cost pressures identified at scheme valuations from 2010 would be shared between employees and employers, subject to a 20% cap on employer contributions.<sup>59</sup>

Asked about the impact of these changes, the then Cabinet Office Minister, Tom Watson said in November 2008:

The impact to date of the introduction of the nuvos scheme on the overall membership of the civil service pension scheme, and on overall costs, is limited. However, the scheme actuary has estimated long-term annual savings in employer contributions at

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<sup>58</sup> HC Deb, 26 July 2007, c105WS

<sup>59</sup> Ibid

1.2 per cent of the total pensionable payroll (the total pensionable payroll is currently around £14 billion).<sup>60</sup>

## Comment

*Occupational Pensions* commented that the “decision to move to a career-average revalued earnings scheme [was] a major development for the public sector.”<sup>61</sup> The Pensions Policy Institute (PPI) noted that “so far, the Civil Service is the only one of the main public sector schemes that has decided to switch from final salary to career average.” It found that the effect of the change depended on an individual’s years of service and salary growth. Compared to final salary:

- New entrants who receive no salary increases in excess of price inflation over his or her career could be almost 40% better off under career average;
- Younger new entrants with medium salary growth could be better off under career average provided they remain in service for less than about 12 years;
- New entrants with high salary growth could be worse off if they remain in the scheme for 40 years under career average.<sup>62</sup>

The introduction of a partial retirement option has also been described as a “major change”. Previously, staff had not been able to move to part-time work within the civil service and draw their pension at the same time.<sup>63</sup>

### 3.6 Impact of the 2007 reforms

The National Audit Office (NAO) looked at changes introduced in the Teachers’, NHS and civil service schemes in 2007-08. It explained that one of the objectives of the changes was to “reduce and better manage taxpayer costs”.<sup>64</sup> The main changes aimed at reducing and better managing taxpayer costs were:

- **Employee contribution rates** were increased for NHS staff and teachers;
- The **normal pension age** rose from 60 to 65 for most new staff;
- A ‘**cost sharing and capping**’ mechanism [...] was introduced to spread future cost increases between employers and employees.

The “cost sharing and capping” (or “cap and share”) policy was:

[...] designed to ensure that the cost pressures associated from the rising cost of providing pension scheme benefits (such as improving longevity) are shared between employers and employees up to an agreed employer contribution cap, beyond which all further increases will be the responsibility of employees. This sets a maximum limit to employer contributions thus protecting the public finances and taxpayer. The costs

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<sup>60</sup> HC Deb, 4 November 2008, c335W

<sup>61</sup> ‘Civil service adopts bold pension solution’, November 2007, *Occupational Pensions*

<sup>62</sup> PPI, [An assessment of the Government’s reforms to public sector pensions](#), October 2008, p18-9

<sup>63</sup> ‘Civil service adopts bold pension solution’, November 2007, *Occupational Pensions*

<sup>64</sup> NAO, [The impact of the 2007-08 changes to public service pensions](#), HC 662, December 2010, p19

will be assessed through the periodic scheme valuations that take place every 3 or 4 years.<sup>65</sup>

The NAO found that:

We estimate that the 2007-08 changes will reduce costs to taxpayers in 2059-60 by 14 per cent compared to what they would have been without the changes. In net present value terms, using the Treasury's discount rate of 3.5 per cent above increases in RPI, aggregate savings over all years in the period to 2059-60 are equivalent to £67 billion in 2008-09 prices. Savings peak at 0.2 per cent of Gross Domestic Product (GDP) in 2047-48, lying between 0.1 and 0.2 per cent of GDP from 2025-26 onwards (Figure 1 overleaf). The peak occurs because of a temporary reduction in numbers of retirements as the changes start to delay the age at which employees retire. Beyond 2059-60, annual savings will initially remain at 14 per cent, rising slowly from 2065-66. As a consequence of the changes, overall costs to taxpayers will stabilise at around 1.0 per cent of GDP, close to their current levels.<sup>66</sup>

Its conclusion on value for money was that:

14 By making changes in 2007-08 to pension schemes for civil servants, NHS staff and teachers, the Treasury and departments overseeing the schemes acted to tackle potential future growth in costs to taxpayers. As a result of the changes, which are on course to deliver substantial savings, long-term costs are projected to stabilise around their current levels as a proportion of GDP. The changes are also set to manage one of the most significant risks to those costs, by transferring from taxpayers to employees additional costs arising if pensioners live longer than is currently projected.<sup>67</sup>

Analysis by the Pensions Policy Institute found that the changes across the main public service schemes (including the civil service scheme) had reduced the average value of the scheme for new entrants:

The Government's reforms have reduced the average value of public sector pension schemes by around 3% of salary for new entrants, from 24% to 21%. The precise effects of the reforms, however, vary from scheme to scheme and for individual members of the public sector schemes.

The reforms have reduced the average value of the four main public sector pension schemes (for the NHS, Civil Service, Teachers and Local Government) by around 3% of salary for new entrants, from 23% to 20%. Around half of the impact of rising the normal pension age has been offset by improvements in pension accrual rates. The reforms are likely to have less impact for existing members who retain a normal pension age of 60.

The value of these schemes was now similar to a medium private sector Defined Benefit scheme:

The value of the four main public sector schemes (for the NHS, Civil Service, Teachers and Local Government) for new entrants will be similar to a medium private sector Defined Benefit scheme, at around 20% of salary on average. The average

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<sup>65</sup> HM Treasury, *Long-term public finance report: an analysis of fiscal sustainability*, December 2009, Box 6A

<sup>66</sup> NAO, *The impact of the 2007-08 changes to public sector pensions*, HC 662, 8 December 2010, para 5

<sup>67</sup> *Ibid*

value of a private sector Defined Contribution scheme is around 7% of salary, however, which is significantly lower than the value of the reformed public sector schemes.<sup>68</sup>

However, public sector employees were more likely than those in the private sector to be a member of an occupational pension scheme, and for that scheme to be a Defined Benefit scheme.<sup>69</sup> See also, section 4.2 below for the comments of the Independent Public Service Pensions Commission.

## 4 The current Government's reforms

### 4.1 Switch to the CPI

In the June 2010 Budget, the Coalition Government announced changes to the indexation arrangements for public service pensions:

**1.106 The Government will use the CPI for the price indexation of benefits and tax credits from April 2011.** The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright), and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. **This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues.**<sup>70</sup>

The change has proved controversial because CPI increases are generally lower than RPI. Trade unions applied for judicial review of the decision to switch to the CPI for increasing public service pensions.<sup>71</sup> On 2 December 2011, the High Court dismissed three of the four grounds of challenge and rejected one by a majority of two to one. The unions were given permission to appeal to the Court of Appeal on some of the issues raised.<sup>72</sup> On 20 March 2012, the Court of Appeal announced its decision to uphold the High Court ruling in favour of the Government's switch from RPI to CPI for uprating public sector pensions.<sup>73</sup> The unions have decided not to appeal further.<sup>74</sup>

The issues are discussed further in Library Standard Note SN 05434 [Public service pension increases](#) and SN 5830 [The CPI – uprating benefits and pensions](#).

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<sup>68</sup> PPI, [an assessment of the Government's reforms to public sector pensions](#), Summary

<sup>69</sup> Ibid

<sup>70</sup> HM Treasury, [Budget 2010](#), HC 61, June 2010. For more detail on the background to this, see Library Standard Note SN/BT 5434, [Public service pension increases](#).

<sup>71</sup> Prospect Press Release, 15 April 2011, Unions launch legal challenge to CPI switch; See also FDA Press Release, 19 April 2011, 'Union challenges legality of Government's pension decision'

<sup>72</sup> R v Staff Side of Police Negotiating Board and Others ; [2011] EWHC 3175 (Admin); NHS Employers website, High Court rules switch to CPI lawful, 2 December 2011

<sup>73</sup> FDA & Ors, R (on the application of) v Secretary of State for Work and Pensions & Anor [2012] EWCA Civ 332 (20 March 2012)

<sup>74</sup> FDA press release, 19 April 2012, 'Unions' RPI-CPI legal challenge to end'

## 4.2 Independent Public Service Pensions Commission

### *Assessment of recent reforms*

In June 2010, the Government set up the Independent Public Service Pensions Commission, chaired by former Labour Work and Pensions Secretary, Lord Hutton of Furness, to undertake a review of public service pensions.<sup>75</sup> In its interim report, published in October 2010, Lord Hutton gave his assessment of the recent reforms (the switch to the CPI and the reforms introduced under the Labour Government), as follows:

**Ex.8** The need to modernise public service pensions has been recognised for some time, in particular the need to deal with increasing costs: between 1999-2000 and 2009-10 the amount of benefits paid from the five largest public service pension schemes increased by 32 per cent. This increase in costs was mainly driven by an increase in the number of pensioners, a result of the expansion of the public service workforce over the last four decades, longer life expectancy and the extension of pension rights for early leavers and women.

**Ex.9** The previous Government recognised these issues and in 1997 started a series of significant reforms. These included:

- limited increases in pension age for groups such as the uniformed services, mostly for new entrants. In the civil service, NHS and teachers schemes existing members were allowed to keep a pension age of 60 if they wished, but new entrants have a pension age of 65 and pension ages lower than 65 will be phased out by 2020 in the Local Government Pension Scheme;
- sharing of risk arising from demographic change in the form of ‘cap and share’ rules. This spreads the cost of any future unexpected increases in contributions more equitably between employer and employees than previously, up to a cap after which any future increases would be borne by the members. Cap and share at present applies to the four biggest schemes – NHS, teachers, local government and civil service, although it has not yet affected employee contributions in any scheme and the Local Government Pensions Scheme does not yet have a cap set; and
- changed accrual rates for many of the reformed schemes, particularly for new entrants, but all except the civil service are still based on final salary. The change to a career average structure in the civil service scheme was not primarily undertaken as a cost saving measure, but as a response to the changing nature of the workforce.

**Ex.10** More recently the current Government changed the measure of annual price movements, so that from April 2011 onwards pensions uprating will move from the Retail Price Index (RPI) to the Consumer Price Index (CPI).

**Ex.11** This change in the indexation measure may have reduced the value of benefits to scheme members by around 15 per cent on average. When this change is combined with other reforms to date across the major schemes the value to current members of reformed schemes with CPI indexation is, on average, around 25 per cent less than the pre-reform schemes with RPI indexation.

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<sup>75</sup> HM Treasury, [Budget 2010](#), HC 61, June 2010

**Ex.12** All these past reforms, the current pay freeze and planned workforce reductions will reduce the future cost of pensions. The gross cost of paying unfunded public service pensions is expected to fall from 1.9 per cent of GDP in 2010-11 to 1.4 per cent of GDP by 2060 as the central projection of Chart 1.B shows.

**Ex.13** However, these measures will take many decades to fully affect the costs of pensions in payment, which are heavily influenced by existing pensioners, the vast majority of whom are still in pre-reform schemes. The Commission estimates that gross expenditure on unfunded public service pensions will remain close to current levels as a proportion of GDP over the next decade.<sup>76</sup>

He concluded that the reforms introduced to public service schemes so far had 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.<sup>77</sup>

### ***Interim report***

Lord Hutton's interim report, published in October 2010, recommended that "the most effective way to make short-term savings is to increase member contributions and there is also a clear rationale for doing so." The rationale for this was "increased longevity, the imbalance between employer and employee contributions and the fact that total contributions may be too low if the discount rate is too high suggests there is a case to make short-term changes, pending long-term reform."<sup>78</sup>

In response, the Government said it intended to introduce "progressive" changes to employee contributions from April 2012:

The Government will implement progressive changes to the level of employee contributions equivalent to an average of three percentage points, to be phased in from April 2012. The armed forces will be exempt from this increase. Full details, including consideration of Lord Hutton's recommendation to phase in the increase and provide protection for the low paid will be announced at Budget 2011.<sup>79</sup>

The policy would be designed to protect the low paid and with a view to mitigating a possible increase in opt-out rates:

It is possible that a small number of individuals will choose to leave their pension scheme as a result of these changes, though given the generosity of the schemes there is little economic rationale to do so, and policy will be designed to mitigate these impacts.<sup>80</sup>

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<sup>76</sup> [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, p44

<sup>77</sup> [Ibid](#), p39

<sup>78</sup> [Ibid](#), 7 October 2010

<sup>79</sup> HM Treasury, [Spending Review – policy costings](#), October 2010. The announcement on the details was later postponed to the summer, [Independent Public Service Pensions Commission website - FAQs](#)

<sup>80</sup> [Ibid](#)

The proposed increase would apply to the main public service pension schemes, with the exception of the scheme for members of the armed forces.<sup>81</sup> Once the armed forces were excluded the increase was 3.2 percentage points on average.<sup>82</sup> This was expected to lead to savings of £2.8 billion a year by 2014-15, to be phased in from April 2012.<sup>83</sup>

On 17 June, Chief Secretary to the Treasury, Danny Alexander, set out the case for contribution increases:

And the costs have already risen dramatically...total payments to public service pensioners and their dependents were almost £32bn in 2008-9, an increase of a third in real terms over the last decade. But whilst it is the individual public service employee that reaps the benefits of receiving a pension for longer... as things stand, it is not the employee that's paying extra for it. In fact, personal contributions compared to taxpayer contributions have gone down.<sup>84</sup>

He explained in more detail how the Government proposed to protect the lower paid and phase-in the increase. For example:

Our proposal would not increase contributions at all for those earning less than £15,000 a year, and we propose a limit of 1.5 percentage points increase for those earning up to £18,000. [...] Furthermore, we have been clear that for all income brackets where there is an increase in contributions, this increase would be phased in over 3 years. Our proposals would mean that in 2012, 40% of the increase will apply...approximately the same amount that had already been agreed between the Unions and the previous Government through the 'cap and share' arrangement. In 2013, 80% of the increase will apply, and 100% in 2014.<sup>85</sup>

### **Final report**

In its final report, published in March 2011, the Commission made recommendations for longer-term structural reform of public service pensions. These were summarised in its press release as follows:

The main recommendation of the report is that existing final salary public service pension schemes should be replaced by new schemes, where an employee's pension entitlement is still linked to their salary (a "defined benefit scheme") but is related to their career average earnings, with appropriate adjustments in earlier years so that benefits maintain their value.

The report suggests that it should be possible to introduce these new schemes before the end of this Parliament, in 2015, while allowing a longer transition, where needed, for groups such as the armed forces and police.

Other key recommendations in the report include:

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<sup>81</sup> In other words, those for teachers', NHS employees, local government employees, civil servants, police and firefighters

<sup>82</sup> [HC Deb, 24 May 2011, c589W](#)

<sup>83</sup> [HL Deb, 7 February 2011, cWA31](#) (i.e, savings of £1.8bn in addition to the £1bn already expected through cap and share mechanisms. The figure does not include expected savings from the LGPS. see para 1.16 [Independent Public Service Pensions Commission: final report, March 2011](#))

<sup>84</sup> [Danny Alexander, Speech to IPPR, 17 June 2011](#)

<sup>85</sup> [Ibid](#)

- Linking Normal Pension Age (NPA) in most public service pension schemes to the State Pension Age;
- Introducing a Normal Pension Age of 60 for those members of the uniformed services – armed forces, police and firefighters – who currently have a NPA of less than 60;
- Setting a clear cost ceiling for public service pension schemes – the proportion of pensionable pay that taxpayers will contribute to employees’ pensions – with automatic stabilisers to keep future costs under more effective control;
- Honouring, in full, the pension promises that have been earned by scheme members (their “accrued rights”) and maintaining the final salary link for past service for current members;
- Introducing more independent oversight and much stronger governance of all public service pension schemes;
- Encouraging greater member involvement in consultations about the setting up of new schemes, and in the running of schemes; and
- Overhauling the current legal framework for public service pensions to make it simpler<sup>86</sup>

### 4.3 Taking the reforms forward

In the 2011 Budget, the Government said it accepted Lord Hutton’s recommendations as a basis for consultation and would bring forward proposals in the autumn:

The Government accepts Lord Hutton’s recommendations as a basis for consultation with public sector workers, trades unions and others, recognising that the position of the uniformed services will require particularly careful consideration. The Government will set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer.<sup>87</sup>

On 17 June 2011, the Chief Secretary to the Treasury made a speech to IPPR expressing concern that strikes were planned for 30 June, while discussions between the Government and the unions were still ongoing. He said he wanted to “sum up our position to the vast majority of public service workers”:

We are all living longer. That means more years spent in work, as well as in retirement. To keep the best pensions in the country, you will have to contribute more. Those contributions will support your pension, not subsidise the pensions of top earners. So when you do reach retirement age, the pension you receive will be broadly as generous for low and middle income earners, as it is now. At the same time we are protecting the pension that you have earned to date. We are reforming for the future, but we will not touch the pension that you have already earned. Working longer and paying in more may not be what public service workers want to hear, but it is

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<sup>86</sup> [Independent Public Service Pensions Commission press release, 10 March 2011, Lord Hutton publishes his final report on public service pensions](#)

<sup>87</sup> HM Treasury, [Budget 2011](#), para 1.132

simply a fact of life for every single person in this country, whether you work in the public or private sector.<sup>88</sup>

He went on to set out proposals for change. For example, the Government was proposing, for future service, to link the normal pension age in schemes like the civil service scheme to the State Pension age. It was also proposing that, for future accruals, the defined benefit provided would be based on career average rather than final salary.<sup>89</sup>

The FDA “reacted with fury”. General Secretary, Jonathan Baume said:

The Chief Secretary's comments effectively pre-determine the outcome of the negotiations currently underway between the public sector unions and the Government. This comes just days after Francis Maude, Minister for the Cabinet Office, condemned unions for taking strike action before negotiations had concluded. The Government cannot have it both ways - either they are genuine about negotiations or they are not.<sup>90</sup>

The POA (Prison Officers' Association) said it would ballot “affected members to establish if they accept the Government's proposals on change”:

The reason the Executive have determined to move to ballot, is to protect our position from the public comments made by Danny Alexander MP regarding the ongoing negotiations. The Coalition Government are clear, that they want you to pay more in contributions and work longer and retire in line with the state pension age, which will rise to 66 years of age. The move away from those on final salary to career average schemes coupled with imposition of RPI/CPI for calculation purposes means individuals will certainly lose pension benefits.<sup>91</sup>

The results of this ballot were announced on 21 July. The POA said “there was a 61.4% turnout of which 96.7% of those voting rejected the Government's initial proposals on pension change.”<sup>92</sup>

The PCS said the comments proved the talks were a “farce”:

We have been heavily criticised by the government for balloting for industrial action while talks are ongoing and yet Danny Alexander now appears to be admitting that ministers are not planning to change their minds. This proves we were right when earlier this week we described the talks with the government as a farce. It's clear they had no intention of engaging in honest negotiations with us and it's clear it was the right decision for [our members to vote for a strike](#). Every expert who has looked at these issues recently, including the National Audit Office, has confirmed the changes we agreed just a few years ago put public sector pensions on a sustainable footing.<sup>93</sup>

Following talks on 27 June, TUC General Secretary, Brendan Barber, said that while there was the “possibility of agreement” in some areas, major divisions remained.<sup>94</sup> The PCS, together with three teaching unions, took strike action on 30 June 2011.<sup>95</sup>

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<sup>88</sup> [Danny Alexander, Speech to IPPR, 17 June 2011](#)

<sup>89</sup> [Ibid](#)

<sup>90</sup> [FDA press release, 17 June 2011](#)

<sup>91</sup> [POA, Pensions Update, 23 June 2011](#)

<sup>92</sup> [POA circular 110, Pension reforms: result - workplace ballot](#)

<sup>93</sup> [PCS press release, 17 June 2011](#)

<sup>94</sup> Brian Groom, ‘Talks falter on public service strikes’, *Financial Times*, 28 June 2011

### ***Scheme specific discussions***

On 19 July 2011, Chief Secretary to the Treasury, Danny Alexander said a series of meetings with the TUC had established a basis for agreement in several areas, but that differences remained on some of the key recommendations. Scheme level discussions would be established. Consultations on contribution increases for 2012/13 would be completed by October in order to ensure implementation by April 2012. There would also be consultation on contribution increases for 2014/15 and initial proposals for reformed schemes.<sup>96</sup>

The FDA said its members were losing confidence in the credibility of the talks:

Speaking on the BBC News channel, FDA general secretary Jonathan Baume said: "What the Government has proposed today is effectively a pay cut for many of our members of up to 2.5%... against a background where many members are in either a two-year or three-year pay freeze and inflation currently standing at about 5%. We are all seeking progress in negotiations in what have so far proved to be complex and difficult... to ensure that we have a long-term sustainable pension structure for public servants."Baume said the Treasury is regularly intervening with fresh demands so that "members are losing confidence in the credibility of these talks".<sup>97</sup>

Prospect said it would ballot for industrial action if the talks failed:

Along with the majority of unions we want to explore every opportunity to arrive at an agreed outcome on what is a difficult and complex issue. But if these talks fail we will have no hesitation in balloting for wider industrial action as part of a sustained campaign against these changes right across the civil and public services.<sup>98</sup>

The PCS said detailed proposals on contribution increases made "a mockery of the ongoing negotiations":

"These highly detailed proposals show that the government has made its mind up and is not negotiating seriously. It makes a mockery of the ongoing talks. We're committed to negotiation but these have to be serious - not limited to the government's predetermined outcomes. Already more trade unions have indicated they will take part in further strike action and today's announcement will only increase that resolve."<sup>99</sup>

On 2 November 2011, the Chief Secretary to the Treasury announced a new offer to the unions, including:

- **A more generous accrual rate.** In October it had proposed "cost ceilings based on Lord Hutton's recommendations that generate an accruals rate of 1/65<sup>th</sup> for the new schemes." It was now proposing a cost ceiling of 1/60<sup>th</sup> of average salary accruing for each year worked. This represented an 8% improvement in the Government's offer.
- **Transitional protection.** Scheme negotiations would be given the flexibility outside the cost ceiling, to ensure that anyone with 10 years or less to their

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<sup>95</sup> PCS press release, 'Civil servants vote for action over changes to pensions, jobs and pay', 15 June 2011

<sup>96</sup> HC Deb, 19 July 2011, c91-4

<sup>97</sup> FDA Press Release, 'Union responds to Government announcement on pension contributions', 28 July 2011

<sup>98</sup> Prospect press release, 'Pension increase 'unprincipled and unjustified'', 28 July 2011

<sup>99</sup> PCS Press release, 'Government undermining pensions negotiations', 28 July 2011

pension age on 1 April 2012 would see no change in when they retire, nor any decrease in the amount of pension they receive at their current normal pension age.<sup>100</sup>

He said reform along the lines proposed could endure for 25 years or longer.<sup>101</sup> The offer was conditional on agreement being reached - “an agreement by the end of the year on the heads of terms on a scheme-by-scheme basis.”<sup>102</sup>

The Government set out the key features of its preferred design for the new schemes for teachers, NHS, civil service and local government. They included:

- a Career Average Revalued Earnings (CARE) pension scheme;
- Public service workers benefits to be earned at a rate of 1/60<sup>ths</sup> of pensionable earnings each year;
- Public service workers will have their benefits increased each year they are working in the public services in line with earnings revaluation;
- a Normal Pension Age linked to State Pension Age (or 65, whichever is higher);
- pensions in payment to increase in line with the Consumer Prices Index (CPI);
- benefits earned by leavers to increase by CPI from the date of leaving until retirement;

average member contributions for the unfunded public service pension schemes set at the level of the existing schemes after the increase of 3.2 percentage points currently planned.<sup>103</sup>

However, because the Government recognised that different designs might suit different workforces, it set cost ceilings (expressed as a proportion of pensionable pay) within which alternatives could be considered. For the civil service scheme, it proposed a gross cost ceiling of 22.5%, with contributions of 16.9% from employers and 5.6% from employees.<sup>104</sup>

An announcement on contribution increases for 2012/13 was made in December 2011 (see section 4.4 below – contribution increases).

### ***Heads of agreement***

On 20 December, the Chief Secretary to the Treasury announced that “heads of agreement” had been established with most unions in the local government, health, civil service and teachers’ schemes. This meant the offer made in November had been “secured”. Accordingly, in the new schemes, individuals would have their normal pension age aligned with their State Pension age. There would be transitional protection for those closest to retirement: those within 10 years of their normal pension age on 1 April 2012 would retain their existing entitlements, i.e: they would remain in their current existing scheme until they

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<sup>100</sup> [HC Deb, 2 November 2011,c928](#)

<sup>101</sup> [HC Deb, 2 November 2011,c930](#)

<sup>102</sup> [Ibid, c928 and c935](#)

<sup>103</sup> HM Treasury, [Public Service Pensions: good pensions that last](#), Mc 8214, November 2011

<sup>104</sup> HM Treasury, [Public Service Pensions: good pensions that last](#), Cm 8214, November 2011, Table 3.A

draw benefits or are entitled to do so. Those within 13.5 and 10 years would remain in the current scheme on a tapered basis.<sup>105</sup>

A key change compared to the November 2011 proposals was to the accrual rate:

In the civil service, we have agreed to revalue each year's contributions by the consumer prices index rather than earnings, allowing an accrual rate of 1/44th to be offered. That will cost the same as our original offer, but with a configuration preferred by the trade unions. As a consequence, the new scheme will be very similar to the Nuvos scheme that is already available in the civil service, except that in future the normal pension age will be linked to the state pension age as it rises.<sup>106</sup>

The Government had agreed to retain the "fair deal policy":

In the course of the talks, unions have stressed the importance of ensuring that their members will continue to be able to receive the benefits of their scheme if it is outsourced. That is the purpose of the fair deal policy, the future of which we have been consulting on. Because we have agreed to establish new schemes on a career average basis, I can tell the House that we have agreed to retain the fair deal provision and extend access for transferring staff. The new pensions will be substantially more affordable to alternative providers, and it is right that we offer workers continued access to them.<sup>107</sup>

It made a commitment that there would be no further change for 25 years:

I have made the commitment that these reforms will be sustained for at least 25 years. The Government intend to include provisions on the face of the forthcoming public service pensions Bill to ensure that a high bar is set for future Governments to change the design of the schemes.<sup>108</sup>

Further details for the Principal Civil Service Pension Scheme were provided in a Written Statement:

### **Civil Service Pensions**

The Minister for the Cabinet Office and Paymaster General (Mr Francis Maude): On 2 November the Chief Secretary to the Treasury made a statement to the House setting out an improved offer on public service pensions to public sector workers (Cm 8214). This offer provided a more generous cost ceiling for scheme-specific discussions to work within, and protected all those within 10 years of their pension age from any further change. This generous offer was conditional on the

Government and trade unions reaching agreement by the end of the year, including in the principal civil service pension scheme, bringing to a conclusion talks that have lasted since February 2011.

Since 2 November my officials and I have been engaged in detailed and intensive talks with the National Trade Union Committee for the civil service. I can now report to the House on the heads of agreement on the scheme design for the principal civil

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<sup>105</sup> [HC Deb, 20 December 2011, c1201-03](#); [HC Deb, 20 Dec 2011, c150-2WS](#)

<sup>106</sup> [HC Deb, 20 December 2011, c1202](#)

<sup>107</sup> [HC Deb, 20 December 2011, c1201-03](#)

<sup>108</sup> Ibid

service pension scheme to be introduced in 2015, on which talks have concluded. The Government have made it clear this sets out their final position on the main elements of scheme design, which the FDA, Prospect, GMB Prison Governors Association and the Immigration Services Union have agreed to take to their Executives as the best that can be achieved through negotiations. There is a specific outstanding issue relating to mechanisms for prison officers to retire earlier than state pension age where we are continuing to have discussions with the Prison Officers Association. We will invite these unions to join us in further work on the remaining details in the new year, and their Executives will consult members as appropriate. The continued union engagement includes a commitment to suspend any further industrial action while the final details are resolved and unions are consulting their members.

The core parameters of the new scheme are set out below:

- a. a pension scheme design based on career average;
- b. a provisional accrual rate of 2.28% (equivalent to 1/43.9) of pensionable earnings each year, subject to further agreement on final details.
- c. revaluation of active members' benefits in line with CPI;
- d. a normal pension age equal to state pension age, which applies both to active members and deferred members (for new scheme service only);
- e. pensions in payment to increase in line with prices (currently CPI);
- f. benefits earned in deferment to increase in line with prices (currently CPI);
- g. average member contributions of 5.6%, with some protection for the lowest paid (the detailed structure of which is still to be agreed);
- h. optional lump sum commutation at a rate of 12:1, in accordance with HMRC limits and regulations;
- i. spouses/partner pension of three-eighths of pension, in line with the current open scheme ;
- j. lump sum on death in service of two-times salary;
- k. ill-health benefits in line with those in the current open scheme;
- l. actuarially fair early/late retirement factors on a cost-neutral basis; and,
- m. an employer contribution cap to provide backstop protection to the taxpayer against unforeseen costs and risks and allowance for an improvement in member benefits if the value of the scheme falls beyond a fixed level;
- n. the scheme will support the use of partial retirement and will follow the recommended approach set out in the Independent Public Service Pensions Commission final report of 10 March 2011 on abatement (details to be finalised); and
- o. a guarantee, outside of the scheme designs parameters set out above, of no further reform for the next 25 years.

### **Transitional arrangements**

Scheme members who, as of 1 April 2012, have 10 years or less to their current pension age will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current normal pension age. They will be

allowed to remain members of their existing schemes up to and including the point at which they draw their pension rights and all current scheme rules will continue to apply.

Members who are within a further 3.5 years outside this protected group will have an additional degree of protection, in the form of further accrual in their existing schemes. This protection will be tapered in a linear fashion depending on the age of the member.

#### **Areas for further detailed discussion**

Discussions with the trade unions identified above will continue early next year, to shape the remaining elements of the scheme design such as abatement, re-employment, treatment of re-joiners and public sector transfers and contribution rates structures including years 2 and 3 of the employee contribution increases. Any of these issues that affect the final cost of the scheme will need to be taken into account in the final rate of benefit accrual. The requirement to fit the new scheme within the revised cost ceiling for the reference scheme published on 2 November will remain, and agreement on these issues will also be subject to review by HM Treasury to agree the approach taken to risk management and impact on cash flows.

The Government Actuary's Department has confirmed that this scheme design does not exceed the cost ceiling set by the Government on 2 November. Copies of the heads of agreement and the scheme actuary's verification have been deposited in the Libraries of both Houses.<sup>109</sup>

Most of the civil service unions agreed to take the offer to the Executives. The Chief Secretary to the Treasury said discussions would continue with these unions:

FDA, Prospect, GMB Prison Governors Association and the Immigration Services Union have agreed to take to their Executives as the best that can be achieved through negotiations. There is a specific outstanding issue relating to mechanisms for prison officers to retire earlier than state pension age where we are continuing to have discussions with the Prison Officers Association. We will invite these unions to join us in further work on the remaining details in the new year, and their Executives will consult members as appropriate. The continued union engagement includes a commitment to suspend any further industrial action while the final details are resolved and unions are consulting their members.<sup>110</sup>

However, the PCS had rejected the proposed changes.<sup>111</sup>

#### ***Proposed final agreement***

The Government announced the details of its Proposed Final Agreement on 12 March 2012. It explained:

The main changes from 20 December are to the accrual rate (an increase from 2.28% to 2.32%, paid for by a small change in the treatment of those within 10 years of

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<sup>109</sup> [HC Deb, 20 December 2011, c151-2WS](#)

<sup>110</sup> [Ibid](#)

<sup>111</sup> [HC Deb, 20 December 2011, c1201-08](#)

pension age) and adding clarity on many of the issues that were still for further discussion (for example, the handling of partial retirement)<sup>112</sup>

The headline elements remained unchanged from those announced in December:

**The Minister for the Cabinet Office and Paymaster General (Mr Francis Maude):**

On 20 December I reported to the House on the heads of agreement on the principal civil service pension scheme to be introduced in 2015, which set out the Government's final position on the main elements of scheme design. Since 20 December, my officials have been engaged in detailed discussions with the civil service trade unions over the remaining details of the principal civil service pension scheme. I can now report to the House that discussions on these final details of the scheme design for the principal civil service pension scheme to be introduced in 2015 have now concluded. The Government have made it clear this sets out our final position on scheme design, which we are asking unions to take to their Executives as the outcome of negotiations. This is the proposed final agreement which reflects the conclusion of discussions on the final details with the civil service unions since I made my written ministerial statement on pension reform, on 20 December 2011, *Official Report*, column 150WS. The headline elements of the proposed final agreement remain unchanged from those reached on 20 December and the provisional accrual rate has been finalised.

The core parameters of the new scheme are set out below:

- a. a pension scheme design based on career average;
- b. a provisional accrual rate of 2.32% (equivalent to (1/43.1) of pensionable earnings each year;
- c. revaluation of active members' benefits in line with CPI; (any change in the method of indexation will be subject to consultation)
- d. a normal pension age equal to state pension age, which applies both to active members and deferred members (for new scheme service only). If a member's SPA rises, then NPA will do so too for all post-2015 service;
- e. pensions in payment to increase in line with prices (currently CPI);
- f. benefits earned in deferment to increase in line with prices (currently CPI);
- g. average member contributions of 5.6%;
- h. optional lump sum commutation at a rate of 12:1, in accordance with HMRC limits and regulations;
- i. spouses/partner pension of three-eighths pension, in line with the current open scheme;
- j. lump sum on death in service of two times salary;
- k. ill-health benefits in line with those in the current open scheme;
- l. actuarially fair early/late retirement factors on a cost-neutral basis;

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<sup>112</sup> [Civil Service Pensions – Q&A about the new scheme](#)

m. an employer contribution cap and floor to provide backstop protection to the taxpayer against unforeseen costs and risks. This floor will also allow for an improvement in member benefits if the value of the scheme falls beyond a fixed level;

n. abatement will not apply for post-2015 service in the new scheme when members return from retirement. Abatement rules for the current schemes will remain unchanged;

o. partial retirement rules for service in the new scheme will follow existing partial retirement rules. Members with service in both the existing and the new scheme will be able to apply for partial retirement under each scheme, under the limits that exist in current schemes;

p. members will be able to take any pension they have accrued under their existing schemes without having to also take any new scheme pension at the same time, under the limits that exist in current schemes;

q. for members wishing to retire before their state pension age, there will be an opportunity to pay additional contributions to fund earlier retirement of up to three years without an actuarial reduction. Contributions will ordinarily be payable by members, but individual employers will be able to choose to provide a contribution in very limited and exceptional circumstances, that must be approved by the Cabinet Office;

r. existing added years contracts will continue in the new scheme;

s. added pension arrangements will continue;

t. members who leave the new scheme and return within five years will have their deferred benefits increased as if they had been an active member. (The rate of dynamisation for active and deferred members will however be the same, as set out in points c and f above); and

u. the Public Sector Transfer Club will continue, and consideration will be given to the best method of operation in the reformed schemes, following further discussion with trade unions;

The scheme actuary has confirmed that this scheme design does not exceed the cost ceiling set by the Government on 2 November. Copies of the heads of agreement and scheme actuary verification have been deposited in the Libraries of both Houses.<sup>113</sup>

The [Proposed Final Agreement](#) is on the civil service website.

### ***Response of the trade unions***

Prospect announced on 21 March that it would ballot its members, reluctantly recommending acceptance of the new scheme as the best that could be achieved through negotiation:

The executive said it shared the anger expressed by branches at many of the wider changes being imposed by the government on public servants, like the CPI switch and the higher pension age, on which it would continue to campaign.

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<sup>113</sup> [HC Deb, 12 March 2012, c2-3WS](#)

But it said the benefits in the proposed new scheme for the civil service were in parts an improvement on those in Nuvos, the scheme introduced five years ago for new entrants by agreement with unions.

It would therefore reluctantly be recommending acceptance of the new scheme, due to come into effect in April 2015, as the best that could be achieved by negotiation.

The executive agreed with representatives that the most objectionable feature of the proposals was the imposition of an average 3.2% increase in contribution rates at a time of pay freeze and further curbs on pay, a long-term detriment compared to the current position.

The executive called for these contribution increases to be offset by improvements to pay and is preparing to launch a sustained campaign to close the pay gap between professional workers in the public and private sectors. Research work and supporting material is being prepared to back the case on pay.<sup>114</sup>

The FDA also recommended acceptance of the final offer as “the best possible that could be achieved by negotiation.”<sup>115</sup> On 9 May it announced that its members had voted to accept the proposed scheme for 2015. It said this should not be seen as an endorsement of the new scheme - increases in pension contributions and the switch to the CPI, in particular, had “generated both anger and resentment” among its members.<sup>116</sup>

Members of the PCS voted to reject the changes in a national consultative ballot. The union said it would work with other public service unions to “build for co-ordinated national industrial action.”<sup>117</sup> Concerns highlighted include the increase in member contributions, the linking of the normal pension age to the State Pension age and the switch to the CPI for uprating purposes. PCS members are to take strike action on 10 May.<sup>118</sup> They will be joined by members of Unite and the Immigration Services Union, whose members have also voted to reject the proposals.<sup>119</sup>

#### **4.4 Debate on the issues**

##### ***The need for further reform***

As set out in section 4.2 above, the Independent Public Service Pensions Commission took the view that the reforms introduced so far had not gone far enough:

My interim report therefore attempts to establish a proper baseline from which we can answer the fundamental question – are public service pensions on a fair and sustainable footing that provides the best possible value for money to the taxpayer as well as adequate retirement incomes for public service employees? It is my clear view that the figures in this report make it plain that the status quo is not tenable. I believe we need to adopt a more prudent approach to meeting the cost of public service

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<sup>114</sup> [Prospect press release, Ballot launched as pensions talks reach the end of the road, 21 March 2012](#)

<sup>115</sup> [FDA to ballot members on final offer, 22 March 2012](#)

<sup>116</sup> [FDA website – Pensions 2015 ballot results](#)

<sup>117</sup> [PCS website 21 March 2012 – next steps in the national campaign](#) (viewed 26 April 2012)

<sup>118</sup> [PCS website – 10 May – all out](#) (viewed 26 April 2012)

<sup>119</sup> [Unite Ministry of Defence staff to strike over pensions' proposals on 10 May, 26 April 2012](#); [ISU Union for Borders Immigration and Customs Strike Action on 10 May](#) (viewed 9 May)

pensions in order to strike a fairer balance not just between current taxpayers and public service employees but also between current and future generations.<sup>120</sup>

The Council of Civil Service Unions, on the other hand, argued that following the 2007 reforms, the PCSPS, there was “no credible case for further reform being necessary right now on either affordability or sustainability grounds”:

Simply put, the PCSPS faces no major long-term affordability issues. Projections of future payments from the scheme are based on realistic assumptions (in particular mortality projections are based on the most recent population projections available) and indicate no problems with future sustainability.[...] In summary, the reform of the PCSPS in 2007 was designed to put the scheme on a sustainable footing for the long-term. Projections in the NAO’s report confirm that this objective has been met. There is no credible case for further reform being necessary right now on either affordability or sustainability grounds.<sup>121</sup>

It said arrangements were already in place (in the form of the “cap and share” mechanism\_ to “determine any change in scheme costs arising from the actuarial valuation and to make proposals for dealing with this in negotiation between the Civil Service and CCSU”.<sup>122</sup> In general, the civil service unions argue that changes to pension arrangements must be subject to meaningful negotiation. They were concerned that decisions to switch to the CPI and to increase employee contributions by 3.2% on average had been imposed without consultation.<sup>123</sup>

The Government has taken the decision to replace ‘cap and share’ with increases in employee contributions (see below). On 20 December, the Chief Secretary said the case for reform was “self-evident”:

[...]The average 60-year-old lives longer now than in the 1970s. That means that people are living in retirement for longer. The life expectancy of a 60-year-old was 18 years in the 1970s; that has risen to 28 years today. As a result, the cost of public service pensions has risen to £32 billion a year—an increase of one third over the last 10 years.<sup>124</sup>

In its Proposed Final Agreement, the Government said it recognised that “Total Reward is an important issue”. It would continue to engage constructively with the Trades Unions and this [would] form the basis of further separate discussions.<sup>125</sup>

### **Contribution increases**

As explained above, the Commission’s interim report said that:

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<sup>120</sup> [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, foreword

<sup>121</sup> [An initial response by the Council of Civil Service Unions \(CCSU\) to the Independent Public Service Pensions Commission, July 2010](#). The CCSU acted on behalf of Civil service unions (including, the PCS, FDA, Prospect, the Prison Officers Association, the Northern Ireland Public Services Alliance) until its break-up in December 2010 (see [FDA December 2010 newsletter](#)).

<sup>122</sup> *Ibid*, p2

<sup>123</sup> See, for example, [FDA, Second Submission to the Independent Public Service Pensions Commission, December 2010](#); [Prospect, Response by Prospect to call for evidence for final report on public service pension provision, December 2010](#)

<sup>124</sup> [HC Deb, 20 December 2011, c1201](#)

<sup>125</sup> [Civil Service Pension Scheme – Proposed final agreement, March 2012](#)

There is also a strong case for looking at some increase in pension contributions for public service employees, to better meet the real costs of providing these pensions, the value of which has risen in recent years with most of these extra costs falling to taxpayers.<sup>126</sup>

In response, the Government said it would implement increases in member contributions:

Spending review 2010 announced progressive changes to the level of employee contributions to public service pensions that lead to savings of £2.8 billion a year from the unfunded pension schemes by 2014-15, to be phased in from 2012-13, excluding the armed forces. This is equivalent to 3.2 percentage point increase on average. No decisions have been taken on individual schemes—this is subject of discussions with trade unions and other work force representatives.<sup>127</sup>

The Government argues that reforms to date have been insufficient to reverse the increase in costs of public service pensions from rising longevity and that employee contribution rates should increase so that they pay a higher proportion of the cost.

The interim report of the Independent Public Service Pensions Commission, chaired by Lord Hutton, former Work and Pensions Secretary, sets out that there is a clear rationale for increasing employee contributions to public service pensions. The report found that the value of public service pensions has been increasing following a dramatic increase in life expectancy at retirement. Current pensioners are expected to spend over 40% of their adult lives in retirement, compared to 30% for pensioners in the 1950s. Members of all of the public service pension schemes have benefited from the increase in the value of their pension and most of these extra costs have fallen to employers and taxpayers. Increases in employee contributions will rebalance contributions, and ensure a fairer distribution of costs between members and other taxpayers.<sup>128</sup>

On 19 July 2011, the Chief Secretary to the Treasury announced scheme-specific consultation on the contribution increases.<sup>129</sup> On 28 July, the Government published its consultations on pension contribution increases for civil servants for 2012/13.<sup>130</sup> The [consultation document](#) for the PCSPS, a [background paper](#), a [contributions increase Q&A](#) and a contributions increase calculator are on the [Civil Service website](#).

In response, FDA General Secretary, Jonathon Baume, described the contribution increases as “completely unjustified”:

Any increase in pension contribution rates during a pay freeze and with the current relatively high inflation is completely unjustified. This is nothing more than a pay cut for civil servants as part of the Government's deficit reduction programme. It will do nothing to secure long-term sustainable pensions.<sup>131</sup>

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<sup>126</sup> [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, p4

<sup>127</sup> [HC Deb, 24 May 2011, c589-90W](#). This is discussed in more detail in SN 5768 Public service pension reform – 2010 onwards

<sup>128</sup> [HC Deb, 1 Mar 2011, c 438W](#); See also, HM Treasury, [Public Service Pensions: good pensions that last](#), Cm 6214, November 2011, para 1.9, and [Danny Alexander, Speech to IPPR, 17 June 2011](#)

<sup>129</sup> [HC Deb, 19 July 2011, c91-4](#)

<sup>130</sup> [HM Treasury press release, 'Government consultation on proposed pension contribution changes for civil servants, NHS workers and teachers, 28 July 2011'](#)

<sup>131</sup> [FDA press release, 'Civil service pension increase is completely unjustified, says union,' 28 July 2011](#)

Prospect agreed:

It is unjustified in that we are engaged in talks to look at medium and longer-term changes to pensions and this cuts right across the process. These increases are a crude tax on public sector workers dressed up as pension reform. The actuarial costs of these schemes are projected to fall, not increase, despite the Government's cynical attempt to sway public opinion by distorting statistics.<sup>132</sup>

It was concerned that the change could result in more members opting out.<sup>133</sup>

In December, the Government confirmed that it had decided to implement the contribution increases proposed in July for 2012/13.<sup>134</sup> In the new scheme to be introduced in 2015, it proposes that there should be "average member contributions of 5.6%, with some protection for the lowest paid (the detailed structure of which is still to be agreed)."<sup>135</sup> In March 2012 it said:<sup>136</sup>

#### **Contribution Increases for 2013-14 and 2014-15**

17. Contribution structures in 2013-14 and 2014-15, before the new scheme is introduced, will be discussed by Cabinet Office and unions in the light of experience of opt-outs, other member behaviour and changing circumstances, and will reflect the Government's and unions' shared priorities for those structures to:

- include protections for the low paid,
- take account of the tax regime applicable at that time,
- minimise the risk of opt-outs from the scheme across the whole membership; and
- ensure that the scheme remains sustainable, a valuable part remuneration, and affordable to all members.

18. Relevant data and information will be collated to inform a Government review of tiering structures in advance of Cabinet Office consulting with Trades Unions and other interested parties on the contribution structures for 2013-14 and 2014-15. Information will include data on opt-out following the 2012-13 increases and also an assessment of members' expected behaviour in response to further increases in contribution rates. The tiering structure for 2013-14 and 2014-15 would be subject to the requirement to meet the Government's spending review commitments in 2013-14 and 2014-15 across unfunded public service pension schemes.

#### **Contributions from April 2015 onwards**

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<sup>132</sup> [Prospect press release, Pension increase 'unprincipled and unjustified', 28 July 2011](#); See also POA press release, 'Increase in contribution rates for pensions unjustified', 28 July 2011

<sup>133</sup> [Prospect, Response by Prospect to call for evidence for final report on public service pension provision, December 2010](#); See also PCS submission to the Public Service Pensions Commission final report

<sup>134</sup> [Cabinet Office, Principal Civil Service Pension Scheme – Consultation on proposed increases to employee contribution rates effective from April 2012 – Government response, 15 December 2011](#);

[Department for Education, Consultation on proposed increases to contributions for Members of the Teachers' Pension Scheme – consultation response, December 2011](#)

<sup>135</sup> HC Deb, 20 December 2011, c151WS

<sup>136</sup> [Civil Service Pension Scheme – Proposed final agreement, March 2012](#)

19. The contribution structure from April 2015 onwards will be considered by the Cabinet Office and unions following a further review. The review will cover the key priorities set out above, consider the final contributions structures for 2013-14 and 2014-15, and ensure the structure delivers the average member contribution rate of 5.6% based on current forecasts. It will also take account of the differences in design between the pre 2015 and post 2015 schemes, having regard to such factors as the career average structure of the schemes post-2015 but with a retention of final salary linkage for accrued service, and the 10 year protection.

20. The following indicative tiering structure is subject to the reviews and consultations described above, but based on current assumptions would meet the requirements set out:

Annual pensionable salary (full time equivalent basis)	Contribution rate (% of pensionable pay) before tax relief
Up to and including £21,000	4.6%
£21,001 - £45,000	5.45%
£45,001 - £149,000	7.35%
£150,000 and above	9.0%

### ***Scheme design***

Lord Hutton’s final report recommended that “a new career average revalued earnings (CARE) scheme should be adopted for general use in the public service schemes.” It did not consider final salary schemes provided the “right design for future public service schemes”. This was because:

Final salary schemes unfairly benefit high flyers who can receive up to twice as much in pension payments per £100 of contributions. It exposes taxpayers to salary risk (the risk that higher than expected salary rises increase the cost of providing pensions), which should be borne by the scheme member who benefits from the salary rise. And final salary creates a barrier to employees moving from the public to private sector. These inherent problems of final salary schemes impact on fairness and sustainability and have led the Commission to conclude that an alternative model should be chosen for the future.<sup>137</sup>

In his speech of 17 June 2011, the Chief Secretary said the Government was proposing that for future pension accruals, the defined benefit would be linked to career average salary, not final salary. There would be protection for accrued rights:

The benefits that you have already secured under the current final salary scheme would be protected. Let me be clear what this means: for what you have accrued, the ‘final salary’ which is used to calculate that pension would be the one you have when you eventually decide to retire or leave the scheme altogether. And again, for what

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<sup>137</sup> [Independent Public Service Pensions Commission: Final Report](#), 10 March 2011, p10

you have accrued, we would not be changing the age at which you can claim those benefits.<sup>138</sup>

In its submission to the Commission's final report, the FDA said it rejected the arguments that had been against the continuation of final salary schemes. It argued that it was "wholly legitimate and reasonable for pension arrangements to benefit those who are loyal, ambitious, capable and long serving". It also pointed out that although final salary schemes do benefit those considered to be high earners, "because of long service and career development," they also benefit junior staff promoted over time into middle management roles. Furthermore, it argues that "there will be an element of cross-subsidy in any pension scheme, however it is constructed."<sup>139</sup> However, the civil service unions are not opposed to career average schemes in principle. They were, after all, involved in the development of *nuvos*:

5.2 The *Nuvos* scheme is the most significant career average scheme in the public sector with around 75,000 civil servants in active membership. The scheme came into existence in 2007 with the agreement of the Council of Civil Service Unions – the umbrella body for all civil service unions – and following extensive negotiations. The scheme is a radical departure from the traditional civil service structure for pension arrangements. But *Nuvos* maintains the civil service tradition of high quality defined benefit pension arrangements.<sup>140</sup>

However, the detailed design of the scheme had been crucial to this agreement:

5.3 The scheme has a number of key elements that ensure the delivery of high quality pensions. If retained and developed, these may also be attractive to some members of existing final salary schemes. These elements are also essential in constructing pension arrangements that, as a key part of a "new deal" on total reward, will underpin the recruitment and retention of those with the requisite skills and experience to ensure the effective operation of central government services. The key elements are:

- The provisions for uprating;
- The rate of accrual;
- Access to the same scheme on the same terms.<sup>141</sup>

A key factor had been the uprating arrangements. For this reason, there was particular concern about the switch to the CPI. The FDA said:

The most significant impact will fall on those who are members of the *nuvos* pension scheme because it will substantially reduce the value of their accruing benefits as well as the value of the pensions when in payment.<sup>142</sup>

Prospect argued that decisions on whether to move to a career average scheme should be taken on a scheme by scheme basis, and only after full consultation:

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<sup>138</sup> [Speech to IPPR, 17 June 2011](#)

<sup>139</sup> [FDA, Second Submission to the Independent Public Service Pensions Commission, December 2010](#); See also [Response by Prospect to call for evidence for final report on public service pension provision, December 2010](#)

<sup>140</sup> [Ibid](#)

<sup>141</sup> [Ibid](#)

<sup>142</sup> [Ibid](#)

49 It is highly unlikely that a single overall scheme design will be appropriate for all pension schemes in the public sector. Different areas of the public sector have very different workforces. It is important for individual schemes to decide on their approach after full consultation with employers and members' representatives.<sup>143</sup>

Furthermore, any such change should be on a cost-neutral basis:

Members will not accept a switch to career average design without a compensating improvement in the accrual rate. It is also important to offer protection on the revaluation rate used. The Government's recent announcement that pensions will be indexed in line with CPI rather than RPI has seriously undermined confidence in career average scheme design as it has exposed the risk that expected benefits can be sharply reduced in response to any worsening of the Government's fiscal position..<sup>144</sup>

The PCS was opposed to members of the existing final salary schemes being compelled to move to career average scheme.<sup>145</sup>

On 20 December, the Government confirmed the accrual rate for the new scheme. It would be similar to the *nuvos* scheme:

In the civil service, we have agreed to revalue each year's contributions by the consumer prices index rather than earnings, allowing an accrual rate of 1/44th to be offered. That will cost the same as our original offer, but with a configuration preferred by the trade unions. As a consequence, the new scheme will be very similar to the *Nuvos* scheme that is already available in the civil service, except that in future the normal pension age will be linked to the state pension age as it rises.<sup>146</sup>

PCS said that the value of *nuvos* had been reduced by the Government's decision to switch to the CPI:

The new pension scheme offered by the government is based on the *nuvos* scheme, which is based on a career average salary. This average is calculated by taking a percentage of each annual salary and uprating it by inflation. But, by cutting the inflation indicator from RPI to CPI, the government at a stroke reduced the value of the existing *NUVOS* scheme.<sup>147</sup>

Furthermore, members would pay increased contributions and the pension age would be higher.<sup>148</sup>

The Government's Proposed Final Agreement set out the main elements of the design of the new scheme. This included:

- i. A pension scheme design based on career average;

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<sup>143</sup> [Response by Prospect to call for evidence for final report on public service pension provision, December 2010, para 49](#)

<sup>144</sup> [Ibid](#)

<sup>145</sup> [PCS submission to the Public Service Pensions Commission final report](#)

<sup>146</sup> [HC Deb, 20 December 2011, c1202](#)

<sup>147</sup> [PCS website – the Government's offer explained](#)

<sup>148</sup> [Ibid](#)

- ii. An accrual rate of 2.32% (equivalent to (1/43.1) of pensionable earnings each year;
- iii. Revaluation of active members' benefits in line with CPI; (any change in the method of indexation will be subject to consultation);
- iv. A Normal Pension Age equal to State Pension age, which applies both to active members and deferred members (for new scheme service only). If a member's SPA rises, then NPA will do so too for all post 2015 service;
- v. Pensions in payment to increase in line with Prices (currently CPI);
- vi. Benefits earned, in deferment, to increase in line with Prices (currently CPI) [...]<sup>149</sup>

## Pension age

Lord Hutton's final report recommended, for future accruals, linking the normal pension age in most public service schemes (those not those for the uniformed services) to the State Pension age.

**Recommendation 11:** The Government should increase the member's Normal Pension Age in the new schemes so that it is in line with their State Pension Age. The link between the State Pension Age and Normal Pension Age should be regularly reviewed, to make sure it is still appropriate, with a preference for keeping the two pension ages linked.

Ex.27 The introduction of the link to the State Pension Age, which will initially move Normal Pension Ages to 65, will move the proportion of adult life in retirement for public service pension scheme members back to about a third: roughly where it was in the 1980s. The current State Pension Age of 65 is already the Normal Pension Age for most new entrants to public service pension schemes. Moving to this for future accrual will more fairly distribute the benefits between scheme members. In the long term, the timetabled increases in State Pension Age should help to keep the proportion of adult life in retirement for members around this level, on current life expectancy projections.<sup>150</sup>

The State Pension age is rising – for more detail, see Library Standard Note SN 2234 [State Pension age](#).

On 17 June, Danny Alexander said the Government was proposing that (as recommended by Lord Hutton) the normal pension age in public service schemes, other than for the uniformed services, should be linked to the State Pension age:

For that reason, we are proposing to link the Normal Pension Age to the State Pension Age. That is, we propose linking the age you can draw your occupational pension, to the age that you can draw your State pension. And the two would continue to track each other in the future as we as a society benefit from greater longevity.<sup>151</sup>

In its submission to the Commission's final report, Prospect argued that decisions on the appropriate pension age should be made on a scheme by scheme basis:

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<sup>149</sup> [Civil Service Pension Scheme – Proposed final agreement, March 2012](#)

<sup>150</sup> [Independent Public Service Pensions Commission: Final Report](#), 10 March 2011, Executive summary

<sup>151</sup> [Danny Alexander, Speech to IPPR, 17 June 2011](#)

75 Each public sector pension scheme has a different set of members with different jobs and characteristics. It is entirely appropriate for scheme design to reflect these differences. For example, some occupations are arduous and require a level of fitness that can be difficult to maintain, in these cases it is perfectly justifiable for members to enjoy lower normal pension ages than exist in the rest of the public service.<sup>152</sup>

The Prison Officer's Association (POA) argued that any further rise in the normal pension age "should not include operational prison staff."<sup>153</sup>

On 19 July, in response to a question about prison officers, the Government said it would consider "what form" the increase in the pension age for the uniformed services would take, and who was covered.<sup>154</sup>

On 20 December 2011, the Government confirmed that in the new scheme, civil servants would have their normal pension age aligned to their State Pension age.<sup>155</sup> There would be transitional protection for those closest to retirement:

As announced on 2 November, for those members who, on 1 April 2012, have 10 years or less of their current Normal Pension Age will see no change to when they can retire, nor any reduction in the amount of pension they receive at their Normal Pension Age. Such members of staff will be able to remain members of their existing scheme up to and including the point at which they draw their pension and all scheme rules current in 2015 (including rules on contribution rates) will apply.

Members of staff who are less than a further 3 and a half years outside this protected group, will be eligible for an additional degree of protection, in the form of further accrual in their existing scheme. This protection will be tapered in a linear fashion depending on their age on 1 April 2012.<sup>156</sup>

The link with the State Pension age would be kept under review.<sup>157</sup> Discussions were underway on the appropriate pension age for prison officers:

There is a specific outstanding issue relating to mechanisms for prison officers to retire earlier than state pension age where we are continuing to have discussions with the Prison Officers' Association.<sup>158</sup>

The Proposed Final Agreement confirmed the link between the normal pension age and the State Pension age for post 2015 accruals. This would be kept under review.<sup>159</sup>

The Prison Officer's Association announced on 27 April 2012 that it had rejected the offer put to it on the normal pension age:

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<sup>152</sup> [Prospect, \*Response by Prospect to call for evidence for final report on public service pension provision\*, December 2010](#)

<sup>153</sup> [POA response to the Independent Public Service Pensions Commission's call for further evidence](#)

<sup>154</sup> [HC Deb, 19 July 2011, c899W](#)

<sup>155</sup> [HC Deb, 20 December 2011, c1202](#)

<sup>156</sup> [Civil service website – overview of the offer](#)

<sup>157</sup> [NHS Pension Scheme Heads of Agreement, Annex B, para 5](#)

<sup>158</sup> [HC Deb, 20 December 2011, c151-61WS](#); See also [HC Deb, 20 February 2012, c619W](#); [HC Deb, 19 July 2011, c899W](#)

<sup>159</sup> [Civil Service Pension Scheme – Proposed final agreement, March 2012](#)

The offer made was for the employer to part subsidise a buy back from 68 years to 65 years which would have cost prison officers more money in contributions. The offer only covered England and Wales as there was no mention within the offer that this relates to POA members in Scotland and Northern Ireland.

PJ Mc Parlin, National Chairman stated:

“This could have serious ramifications in the future for the health and safety of our members and indeed the safety of prisoners and ultimately the general public. I call on the Government to make us a serious and realistic offer on pension age.”<sup>160</sup>

PCS, together with Unite and the NUT, launched its ‘68 is too late’ campaign on 8 May 2012.

## 5 Long-standing issues

### 5.1 Survivors’ benefits

As with other public service schemes, there are a number of instances where improvements have been made to the PCSPS, particularly with regard to survivors’ benefits, but have not been made retrospective. In some cases, there have been long-running campaigns to extend entitlement to the new rights.<sup>161</sup>

#### Unmarried partners

In its 1998 Pensions Green Paper, *A new contract for welfare: partnership in pensions*, the Government conceded that the public service lagged behind the private sector in the provision of survivor benefits for unmarried partners. It was prepared to look at extending eligibility for survivor’s pensions to unmarried partners:

If the general membership of a public service scheme wanted, in future, to extend eligibility for survivors’ pensions to unmarried partners and were prepared to meet the additional costs, the Government would be prepared to consider how practicable arrangements could be devised for achieving this in the context of a statutory scheme. In many cases, this would be most effectively achieved by developing a new pension scheme.<sup>162</sup>

A pension under the *premium* scheme will be payable to partners where there is no legal spouse with an entitlement to a survivors’ benefit. This pension will be payable where there has been a declaration that there is a committed long term relationship and there is financial interdependence between the couple. When the scheme member dies, the remaining partner will have to prove a degree of financial interdependence or dependence in order to receive the pension. This applies to both opposite- and same-sex partners.<sup>163</sup> The classic scheme still restricts survivors’ pensions to legal spouses. The Civil Service Pensions website said that it was “highly unlikely” that pensions for unmarried partners would be

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<sup>160</sup> [PoA Press Release, POA reject final offer on prison officer normal pension age](#)

<sup>161</sup> See, for example, [Civil Service Pensioners Alliance website](#) (scroll down to ‘Outstanding CS Pension Issues’); See also, SN 01424, [Armed forces pension scheme – legacy issues](#)

<sup>162</sup> Cm 4179, chapter 8, para 60

<sup>163</sup> [http://www.civilservice-pensions.gov.uk/upload/assets/www.civilservice\\_pensions.gov.uk/pensions\\_for\\_partners.pdf](http://www.civilservice-pensions.gov.uk/upload/assets/www.civilservice_pensions.gov.uk/pensions_for_partners.pdf) (retrieved 2 October 2007)

extended to the classic scheme. This was “one of the reasons we offered members the option, in 2002, to go into premium or classic plus.”<sup>164</sup>

### **Survivors’ pensions for life**

There has been a long-running campaign to allow the widow(er)s of civil servants to remarry and retain their survivors’ pension for life. From October 2002, this benefit was finally extended to widow(er)s of Premium scheme members. The Minister recently explained:

**Ruth Kelly:** ...Until recently all public service pension schemes (and many in the private sector) only provided widows’ and widowers’ pensions up until the beneficiary remarries or cohabits with someone as their husband or wife. From October 2002, a new pension scheme for civil servants was introduced (known as premium) which has an improved benefit structure paid for by higher employee contributions. One of the improvements is to provide widows and widowers pensions for life. To provide a similar improvement in respect of the pre-October 2002 scheme (known as classic), where higher contributions have not been paid, would not only be unfair to the members of premium who are paying higher contributions for enhanced benefits, but would also result in tax payers meeting the additional costs to the classic scheme of doing so. Public service-wide additional costs for future service have been estimated at £150 million per annum, plus a one off cost of £3 billion to cover all past service.<sup>165</sup>

As the Minister states, there are no plans to extend pensions for life to widow(er)s of classic scheme members. This means that different provision exists for those in different schemes:

- **Classic** – The widow or widower’s pension will be stopped if they remarry or live with someone else as husband and wife;
- **Premium** – The pension for a widow or widower will continue for the rest of their life;
- **Classic Plus** – If the widow or widower remarries or lives with someone else as husband and wife, the civil service will reduce their pension to the part which relates only to the deceased spouse’s service from October 2002.

### **Post-retirement marriages**

Before April 1978, the major public service pension schemes (such as the Civil Service) did *not* pay a pension to widows who had married the scheme member after his retirement (in common with many private sector schemes). When the State Earnings Related Pension Scheme (SERPS) was introduced in April 1978, provision was made for occupational schemes which provided their members with a pension at least as good as the SERPS foregone to contract out. SERPS provided widows’ pensions for post-retirement marriages, so the public service schemes introduced such pensions, but only in respect of service from April 1978. This is also an issue for other public sector schemes, particularly the armed forces.<sup>166</sup> The Government estimated in 2004 that to extend Civil Service widow(er)s benefits to all those in post-retirement marriages would cost an estimated £170 million.<sup>167</sup>

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<sup>164</sup> *Questions and Answers for Scheme Members. Last updated 09/08/2007.* (Downloaded from the Civil Service Pensions website in October 2007)

<sup>165</sup> HC Deb, 13 October 2004, c317W

<sup>166</sup> See, for eg, [Memorandum from the Ministry of Defence to the Defence Select Committee on Legacy Issues for the Armed Forces Pension Scheme](#), 12 December 2002, HC 188-i, 2002-03, 18 December 2002

<sup>167</sup> HC Deb, 21 October 2004, c895W

## Preserved pensions

The contentious points with regards to preserved pensions surround the status of civil servants who resigned from their post before the age of 50, pre-1975. At that time, individuals generally had no statutory rights to preserved benefits, or to receive back the contributions that they had paid into an occupational pension scheme. In practice many schemes did give members a right to a refund of their contributions but in many non-contributory schemes, such as the PCSPS and some private schemes, early leavers ended up with nothing. The [Social Security Act 1973](#) introduced for the first time, for those who left after April 1975, a right to a deferred pension. This was initially restricted to those who were over the age of 25 and had completed at least five years' pensionable service. The age requirement was subsequently removed by the [Social Security Act 1985](#), taking effect from 1 January 1986, and the five-year period was reduced to two years from 6 April 1988 by section 10 of the [Social Security Act 1986](#).

As with the other improvements to the scheme in the 1970s, the preserved pension rules were not applied retrospectively to people who had already left the civil service. So service before 1975 does not 'count' for civil servants who resigned before that date, even if they later rejoined the service.

Some organisations also continue to campaign on behalf of a small number of former civil service employees from before 1946 whose reckonable service was calculated at half the full rate. Campaigners continue to press for an uplift to the current full reckonable service rate for these individuals.

## 5.2 National insurance modification

Under the "National Insurance Modification" provisions, members of public service pension schemes may find their occupational pension reduced when they reach State Pension age. This dates back to the introduction of national insurance benefits in 1948 and was intended to avoid duplication of benefits and high contributions for public servants who were already accruing entitlement to an occupational pension.

Gerald Rhodes' history of *Public Sector Pensions* explains that pension schemes for the public service were designed to provide "reasonable benefits for a man to live on in his retirement", for example, a pension only one-third less than his retiring salary.<sup>168</sup> The introduction of the National Insurance Scheme in 1948 changed the situation by bringing public servants within the scope of state insurance for the first time, paying contributions and receiving benefits on the same terms as everyone else. The Government of the time accepted that adjustment to public service schemes was needed as a result:

But if public servants were to be eligible for National Insurance benefits, including retirement pensions, it could well happen, especially in the case of lower-paid staff, that the amount of state and occupational pension together would be not far short of retiring salary. Moreover, where the occupational scheme was contributory, the total of contributions for National Insurance and the pension scheme might be quite heavy, especially again in the case of lower paid staff. Sir William Beveridge clearly recognised these points and suggested (in paragraph 149 of his Report): 'as regards pensions...if there are any occupations which have already made provision for these

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<sup>168</sup> Rhodes G, *Public Sector Pensions*, (1965)

circumstances, they should do so in future in the light of the basic provision being made for all, including their members, by the national plan for Social Security. All that is needed is that they should be given time to readjust their own schemes.’...

The government accepted that some adjustment was needed to public sector schemes as a result of the introduction of National Insurance, and proposed a reduction in pensions so as to avoid duplication of benefit under both an occupational and the national scheme. The reduction was not, however, to exceed 26s a week (which was the rate of retirement pension for a single person), and was to be accompanied in contributory schemes by an ‘adjustment’ of contributions.<sup>169</sup>

Different public sector schemes adopted different methods of modification. Rhodes explains that careful attention was paid to detail in an attempt to devise a system that was both “accurate but fair.” The Principal Civil Service Pension Scheme (PCSPS) has provided the following explanation to its members:

### **What is modification ?**

7.1.1 Modification is the term given to a reduction which is made to a PCSPS pension when the member reaches State pension age (currently age 65 (men) or 60 (women)).

NOTE The State pension age will be equalised at 65 for men and women from 6 April 2020. The change from 60 to 65 for women will be phased in over a ten-year period from 2010 to 2020 (see Annex A).

7.1.2 When the National Insurance scheme (the NI scheme) was made compulsory in 1948, employers were allowed to modify their occupational pension schemes so that two pensions were not paid for the same period of service. (The occupational scheme was modified to take account of the benefits and contributions payable under the NI scheme.)

7.1.3 The Government, as the employer of civil servants, modified the Civil Service scheme so that the basic pensions of civil servants recruited on or after 1 March 1948 were reduced (from the State pension age) by £1.70 a year for each year of reckonable service. This figure has never been changed even though the NI pension has been increased.

7.1.4 The arrangement was abolished in 1980 but for reasons of equity and cost the change applied only in respect of reckonable service on and after 1 April 1980.

7.1.5 Corresponding arrangements were applied when the National Insurance Graduated Pension Scheme was introduced.<sup>170</sup>

The Civil Service Pensioner’s Alliance, for example, has called for “the National Insurance Modification to the scrapped.”<sup>171</sup>

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<sup>169</sup> Ibid, p159

<sup>170</sup> Civil Service Pensions Manual, Volume 2, section 7, [Modification](#), April 2006; See also, HM Treasury, [A note on the operation of pension increase legislation for public service pension schemes](#), 24 May 2001, paras 18-20

<sup>171</sup> <http://www.cspa.co.uk/>

## **6 Further information**

The Government Actuary's Department has produced a summary document of the main features of the scheme: [Principal Civil Service Pension Scheme \(PCSPS\) – Key features – March 2008](#). More detailed information can be found on the [Civil Service Pensions](#) website. The Cabinet Office issues an [Employers' Pensions Guide](#) for employers participating in the Civil Service pension arrangements.

## 1 Appendix – characteristics of the Civil Service Pension Schemes

A very general overview of the main features of the different PCSPS schemes **before** the current Government's reforms is set out below.

	<b>Classic</b> <sup>172</sup>	<b>Premium</b> <sup>173</sup> (for new entrants from October 2002 to 29 July 2007)	<b>Partnership</b> (stakeholder)	<b>Nuvos</b> <sup>174</sup> (for new entrants from 30 July 2007)
<b>Status</b>	Closed	Closed	Open	Open
<b>Relation to Additional State Pension (SERPS/S2P)</b>	Contracted out	Contracted out	Contracted in	Contracted out
<b>Employee contributions</b>	Prior to April 2012, a contribution of 1.5%, mainly towards the costs of providing benefits for a widow, widower or surviving civil partner (with an option of higher contributions for a permanently disabled child), Tiered increased in employee contribution rates introduced in April 2012	Prior to April 2012, 3.5% of pensionable earnings. Tiered increased in employee contribution rates introduced in April 2012.	No employee contribution required, but employer will match contributions of up to 3% of pay (as well as paying a contribution based on employee age)	Prior to April 2012. 3.5% of pensionable earnings. Tiered increased in employee contribution rates introduced in April 2012
<b>Normal pension age</b>	60	60	Benefits may be taken at any age between 50 (55 from April 2010) and 75	65
<b>Pension benefits</b>	Retirement pension for the member based on final pensionable earnings and length of service x accrual rate of	Retirement pension for the member based on final pensionable earnings and length of service x accrual rate of	Retirement income provided by an annuity bought with partnership pension account 'pot'	Retirement pension for the member based on earnings throughout the career.

<sup>172</sup> Civil Service Pensions, "[Your classic pension benefits explained](#)". (May 2009); There is also a "classic plus" scheme - a combination of classic benefits up until 1 October 2002 and then premium benefits from that date forward, "[Your classic plus benefits explained](#)" March 2009)

<sup>173</sup> Civil Service Pensions, "[Premium Pension Scheme](#)", November 2008; Civil Service Pensions, "[Partnership Pension Account](#)", August 2008; Civil Service Pensions. "[Pension Choices: An Overview. Premium Pension Scheme. Partnership Pension Account.](#)" December 2005.

<sup>174</sup> Civil Service Pensions, "[Nuvos Pension Scheme](#)", July 2007; Civil Service Pensions, "Pension Choices. An Overview. Nuvos. Partnership". April 2007.

	1/80th	1/60th		
<b>Pension benefits after member's death for spouse/civil partner or partner and children</b> (see Section I above for more detail)		An unmarried partner's pension requires completion of a valid Declaration Form.	On death before retirement, dependants receive pension pot. On retirement, member chooses whether or not to provide pensions for dependants as well as self	An unmarried partner's pension requires completion of a valid Declaration Form.
<b>Lump sum</b>	Lump sum of three times annual pension. From October 2007, there is also an option to give up some pension for an additional lump sum.	Lump sum available on retirement by giving up some pension	Lump sum possible from pension pot before buying annuity	Lump sum available on retirement by giving up some pension
<b>Death-in-service benefit lump sum</b>				
<b>Ill-health retirement pension</b>	Pension paid early on ill-health retirement	Pension paid early on ill-health retirement	Lump sum paid on ill-health retirement	Pension paid early on ill-health retirement
<b>Opportunity to increase pension benefits</b>	By buying added pension or by contributing to a money-purchase top-up arrangement. Members may also be able to transfer benefits in from a previous pension arrangement	By buying added pension or by contributing to a money-purchase top-up arrangement. Members may also be able to transfer benefits in from a previous pension arrangement	Flexibility to increase pension pot and eventual benefits within HMRC employee contribution limits	By buying added pension or by contributing to a money-purchase top-up arrangement. Members may also be able to transfer benefits in from a previous pension arrangement