Civil service pensions - developments to 2010

Standard Note: SN 3324

Last updated: 24 October 2013

Author: Djuna Thurley

Section Business and Transport Section

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 1/80th 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. 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 1/60th (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, for example, to increasing longevity) on a 50:50 basis between employers and staff, subject to a cap on employer contributions.

This note looks at the development of the scheme to 2010. The current Government's reforms are discussed in Library Note SN 6744 *Civil service pensions – current reforms.*

This information is provided to Members of Parliament in support of their parliamentary duties and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as being up to date; the law or policies may have changed since it was last updated; and it should not be relied upon as legal or professional advice or as a substitute for it. A suitably qualified professional should be consulted if specific advice or information is required.

This information is provided subject to our general terms and conditions which are available online or may be provided on request in hard copy. Authors are available to discuss the content of this briefing with Members and their staff, but not with the general public.

Contents

1 Background 2

1.1 The current schemes 2

1.2 History 4

2 Costs and funding 6

2.1 Funding basis 6

2.2 Contributions 6

Employees 6

2.3 Employer contribution rates 7

Cost capping and sharing 8

3 The Labour Government's reforms 9

3.1 Introduction of *premium* (2002) 9

3.2 Building a sustainable future (2004) 12

3.3 Discussions on increasing the pension age 13

3.4 December 2006 reform proposals 14

3.5 Introduction of reforms in 2007 16

Comment 18

3.6 Impact of the 2007 reforms 18

4 Long-standing issues 19

4.1 Survivors' benefits 19

Unmarried partners 19

Survivors' pensions for life 20

Post-retirement marriages 20

Preserved pensions 21

4.2 National insurance modification 21

5 Further information 22

6 Appendix – characteristics of the Civil Service Pension Schemes 24

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.[1]

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-sponsored stakeholder pensions from a choice of pension providers.[2] 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: p*remium* 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 1/80th 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 1/60th, 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 c*lassic* and *premium,* the normal pension age (NPA) is 60, whereas in *nuvos* it is 65.

- Until April 2012, members of *classic* contributed 1.5% of pensionable pay towards their pensions. Members of *premium, nuvos and classic plus* contributed at a higher rate (3.5%) in return for access to more generous survivors' benefits (for example, covering unmarried partners). Increases in contribution rates (tiered according to pay) were introduced from April 2012.[3]

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 2012, there were 523,000 active members and 365,000 deferred members of PCSPS. 494,000 pensions were in payment to officers and 128,000 to dependants of

---

[1] Independent Public Service Pensions Commission: Final Report, 10 March 2011
[2] Cabinet Office: Civil Superannuation. Resource Accounts 2006-07, HC 876
[3] See Library Note SN 6744 Civil service pensions – 2012 onwards

deceased members. The approximate split of active membership was 57% classic, 2% classic plus, 26% premium and 15% nuvos.[4]

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

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.[6]

Leaflets to explain the scheme to scheme members can be found on the Civil Service Pensions website.

The Cabinet Office is the manager of the scheme. It formally delegates responsibility for pensions administration to employers. In 2009/10, employers used one of eight Authorised Pension Administration Centres (APACs) to calculate pension awards on their behalf. The APACs sent the awards to Capita Hartshead, which paid benefits and responded to pensioners' enquiries.[7] With effect from 1 April 2010, My CSP became responsible for the administration of the PCSPS and associated arrangements.[8]

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.[9]

The first Act of Parliament to be concerned with the general provision of public service pensions was passed in 1810[10] and the first Act devoted exclusively to the issue was the

---

[4] Cabinet Office: Civil Superannuation Accounts 2011-12, HC 600, 31 January 2013

[5] Independent Public Service Pensions Commission: Interim Report, 7 October 2010

[6] See, for example, Civil Service Pensions *"Injury benefits scheme: A brief guide".* (February 2013); New Civil Service Compensation Scheme (CSCS); 2010 reforms to the CSCS are discussed in SN 05201 Civil Service Compensation Scheme

[7] Cabinet Office: Civil Superannuation, Resource Accounts 2009-10, HC 245, 22 July 2010

[8] Cabinet Office: Civil Superannuation Accounts 2010-11, HC 1013, January 2012

[9] C. G. Lewin, *Pensions and Insurance Before 1800: A Social History* (2003), p189

[10] Statutes of the United Kingdom, Public Act CXVII, 21 June 1810.

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".[11] 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.[12] 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'.[13]

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 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.[14]

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".[15] 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".[16] 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).[17] Introducing the Bill at second reading in November 1971, the Minister called the Bill

---

[11] Gerald Rhodes, *Public Service Pensions,* 1965, p15

[12] Statutes of the United Kingdom, Public Act XXIV, 25 July 1834.

[13] Rhodes, p18 quoting the *Report of Commissioners appointed to inquire into the Operation of the Superannuation Act* (1857).

[14] *The Organisation of the Permanent Civil Service* (1853)

[15] *Royal Commission appointed to inquire into the Civil Establishments* (C. 5545) (1888), para 81

[16] *Royal Commission on Superannuation in the Civil Service* (Cd. 1744) (1903), para 10

[17] 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. (Gerald Rhodes, Public Sector Pensions, 1965, p22)

"something of a landmark" that would "reform the legislative basis of the public service pension schemes".[18] 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.[19]

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

2.1 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.[20] 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 liabilities from the scheme are met from the Civil Superannuation voted allocation as shown in the Main Estimate. Participating employers make contributions known as accruing superannuation liability charges (ASLCs), which are treated as income on the Main Estimate. 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. The most recent ASLC assessment was carried out by Aon Hewitt Limited as at 31 March 2007 and included recommendations for the contribution rates applicable from 1 April 2009.[21]

2.2 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.[22] However, the Council for Civil Service Unions (CSCS) 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

[18] HC Deb 19 November 1971, c822 [David Howell]

[19] Ibid, c843

[20] Pensions Policy Institute, *An assessment of the Government's reforms to public sector pensions*, October 2008, page7

[21] Cabinet Office: Civil Superannuation Accounts 2011-12, HC 600, 31 January 2013

[22] See the table in section 4.1 of Library Standard Note SN 5768 Public service pension reform 2010 onwards

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.[23]

2.3 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 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.[24] 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.[25]

---

[23] An initial response by the Council of Civil Service Unions (CCSU) to the Independent Public Service Pensions Commission, July 2010.

[24] 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 Note SN 4877, Pension scheme funding requirements (20 March 2013)

[25] Hewitt, *Principal Civil Service Pension Scheme – Review of the Accruing Superannuation Liability Charges (ASLCs) as at 31 March 2007,* 7 December 2007

Employer contribution rates are separately assessed for four different pay bands. In 2012-13, the average was 18.9%:

> The cost of benefits accruing for each year of service is shared between members and employers.
>
> For the year ended 31 March 2012, employees in the **classic** section made contributions of 1.5% of pensionable pay. Employees in the **classic plus** and **premium** sections, which came into effect as from 1 October 2002, made contributions of 3.5% of pensionable pay. Employees in the **nuvos** section, which came into effect as from 30 July 2007, also made contributions of 3.5% of pensionable pay.
>
> We have assessed the employers' share of the cost of benefits accruing in the year ended 31 March 2012 (the employers' share of the 'current service cost') to be 26.2% of pensionable pay.
>
> 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 2011-12 were as follows:

Employer's Share of Contribution Rate

Pay band from April 2011	% of Pensionable Pay Rate charged
£21,000 and under	16.7%
£21,001 to £43,500	18.8%
£43,501 to £74,500	21.8%
£74,501 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 £2.6 billion for financial year 2011-12. The next ASLC assessment is being carried out as at 31 March 2010.[26]

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. of

[26] Cabinet Office: Civil Superannuation Accounts 2011-12, HC 600, 31 January 2013

> 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.[27]

The detailed "cost capping and cost sharing" rules are in Section IV of the scheme rules (the General Provisions Section, Part B).[28]

The "cap and share" arrangements were to take effect from March 2010, following the actuarial valuation of the PCSPS as at 31 March 2010.[29] For a discussion of the expected impact of these reforms, see section 3.6 below.

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

[27] HC Deb, 26 July 2007, c105WS

[28] Principal Civil Service Pension Scheme. Scheme Rules, Section IV, The General Provisions Section

[29] *An initial response by the Council of Civil Service Unions (CCSU) to the Independent Public Service Pensions Commission*, July 2010

> in tune with today's employment needs, including the expectation of several jobs over the course of a working life.
>
> 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.[30]

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. The member contribution rate is higher than for members of *classic* (3.5% compared to 1.5% in April 2011/12).[31] Unlike *classic,* the *premium* scheme provides benefits to eligible unmarried partners.[32]

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.[33]

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.[34]

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

---

30 Cabinet Office, "PCSPS 2000 a new scheme for the civil service" (click NEXT button on the right hand side of the page to read the document).

31 See, for example, Government Actuary's Department, Principal Civil Service Pension Scheme (PCSPS) – Key features – March 2008 [Updated to reflect increases in contribution rates in April 2012]

32 HC Deb, 22 July 2002, 728-30W

33 See, for example, Civil Service Pensions, *Partnership Pension Account,* June 2008

34 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.[35]

---

[35] HC Deb, 22 July 2002, cc728-730W

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 then 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.[36]

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.[37] However, Prospect, like the Public and Commercial Services Union (PCS) opposed the rising retirement age. PCS General Secretary, Mark Serwotka, stated:

> 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.[38]

---

[36] Cabinet Office, *Building a sustainable future,* December 2004, pp2-3 [link to Parliamentary intranet]

[37] Prospect press notice, *Pension compulsion will mean conflict, specialists warn government,* 9 December 2004

[38] PCS press notice, "Pension proposals mean working longer to get a full pension", 9 December 2004

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 only be offered pensions in the new schemes negotiated through the sector specific discussions.[39]

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.

---

[39] 18 October 2005 – Agreement on reform of public service pensions

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.[40]

These issues are discussed in more detail in SN 2209 *Public service pension age –reforms to 2010.*

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[41] replacing those proposed in the Building a Sustainable Future consultation document published in 2004.[42] There were four parts to the package:

- 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.[43]

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.[44]

[40] Ibid.
[41] Letter from Pat McFadden MP to Council of Civil Service Unions, 4 December 2006
[42] See, for example, Questions and answers on Civil Service pension reform
[43] Archived Civil Service Pensions website; Civil Service pension reform, last updated 10 April 2007
[44] Letter from Pat McFadden MP to Council of Civil Service Unions. 4 December 2006

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 occour. 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.[45]

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.[46]

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 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. [47]

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."[48]

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;

---

[45] Letter to Pat McFadden MP from the Council of Civil Service Unions, 14 December 2006.
[46] Ibid
[47] Ibid
[48] Ibid

- 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).[49]

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 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

[49] Cabinet Office: Civil Superannuation. Resource Accounts 2006-07, HC 876, p5

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.[50]

As discussed in section 2.3 above, a "cap and share" arrangement would also be 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.[51]

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 1.2 per cent of the total pensionable payroll (the total pensionable payroll is currently around £14 billion).[52]

[50] HC Deb, 26 July 2007, c105WS

[51] Ibid

[52] HC Deb, 4 November 2008, c335W

Comment

Occupational Pensions commented that the "decision to move to a career-average revalued earnings scheme [was] a major development for the public sector.[53] 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.[54]

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.[55]

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".[56] 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 will be assessed through the periodic scheme valuations that take place every 3 or 4 years.[57]

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,

[53] 'Civil service adopts bold pension solution', November 2007, *Occupational Pensions*
[54] PPI, An assessment of the Government's reforms to public sector pensions, October 2008, p18-9
[55] 'Civil service adopts bold pension solution', November 2007, *Occupational Pensions*
[56] NAO, The impact of the 2007-08 changes to public service pensions, HC 662, December 2010, p19
[57] HM Treasury, *Long-term public finance report: an analysis of fiscal sustainability,* December 2009, Box 6A

> 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.[58]

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.[59]

4 Long-standing issues

4.1 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. Successive governments have applied this principle when making improvements to public service pensions. In some cases, there have been long-running campaigns to extend entitlement to the new rights.[60]

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.[61]

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.[62] The classic scheme still restricts survivors' pensions to legal spouses. The Civil Service Pensions

[58] NAO, *The impact of the 2007-08 changes to public sector pensions*, HC 662, 8 December 2010, para 5
[59] Ibid
[60] See, for example, SN 01424, Armed forces pension scheme – legacy issues
[61] Cm 4179, chapter 8, para 60
[62] Civil Service Pensions, *Pensions for partners: a guide*, February 2013

website said that it was "highly unlikely" that pensions for unmarried partners would be 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."[63]

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. [64]

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.[65] 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.[66]

---

[63] *Questions and Answers for Scheme Members*. Last updated 09/08/2007. (Downloaded from the Civil Service Pensions website in October 2007)

[64] HC Deb, 13 October 2004, c317W

[65] 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

[66] 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.

4.2 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.[67] 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 circumstances, they should do so in future in the light of the basic provision being

[67] Rhodes G, *Public Sector Pensions,* (1965)

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.[68]

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.[69]

The Civil Service Pensioner's Alliance, for example, has called for "the National Insurance Modification to the scrapped."[70]

5 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.

---

68 Ibid, p159

69 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. This is available on HM Treasury's pension increase archive – scroll to the bottom of the page

70 http://www.cspa.co.uk/ (viewed 2010)

The Cabinet Office issues an Employers' Pensions Guide for employers participating in the Civil Service pension arrangements.

6 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.

	Classic[71]	**Premium**[72] (for new entrants from October 2002 to29 July 2007)	**Partnership** (stakeholder)	**Nuvos**[73] (for new entrants from 30 July 2007)
Status	Closed	Closed	Open	Open
Relation to Additional State Pension (SERPS/S2P)	Contracted out	Contracted out	Contracted in	Contracted out
Employee contributions	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
Normal pension age	60	60	Benefits may be taken at any age between 50 (55 from April 2010) and 75	65
Pension benefits	Retirement pension for the member based on final pensionable earnings and length of service x accrual rate of 1/80th	Retirement pension for the member based on final pensionable earnings and length of service x accrual rate of 1/60th	Retirement income provided by an annuity bought with partnership pension account 'pot'	Retirement pension for the member based on earnings throughout the career.

[71] 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)

[72] 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.

[73] Civil Service Pensions, *Nuvos Pension Scheme,* July 2007; Civil Service Pensions, "Pension Choices. An Overview. Nuvos. Partnership". April 2007.

Pension benefits after member's death for spouse/civil partner or partner and children (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.
Lump sum	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
Death-in-service benefit lump sum				
Ill-health retirement pension	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
Opportunity to increase pension benefits	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