



**CabinetOffice**

# Principal Civil Service Pension Scheme 2015 – Equality Impact Assessment

An equality impact assessment of the Civil Service pension scheme design set out in the Proposed Final Agreement of 9 March 2012

September 2012

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# 1. Introduction

## Public Service Pensions Reform:

- 1.1 The Government set up the Independent Public Service Pensions Commission in June 2010, chaired by Lord Hutton. This commission was tasked with conducting a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and the Chief Secretary on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights. Lord Hutton published his final report in March 2011 and made 27 recommendations on how the reform of public service pensions should be done. The Government accepted these recommendations as the basis for consultation with those affected.

## 2015 Scheme Design:

- 1.2 The Government set out its proposals for the reform of public service pensions in its publication “Public Service Pensions: good pensions that last”<sup>1</sup>, published on 2 November 2011. This set out the Government’s proposals for long term reform based on three main drivers for reform identified by Lord Hutton below and their own objectives

### Hutton drivers:

- Longevity – people are living longer. Current pension provision is no longer affordable because people are spending longer in retirement. This is the main risk to the sustainability of public service pensions;
- Flexibility – pension provision no longer reflects the way the modern labour force lives and works; and
- Fairness – the predominantly final salary scheme designs currently in place mean that lower-paid public service workers are subsidising the pensions of the highest paid.

### Government objectives:

- Ensure a good level of retirement income for public service workers, with a reasonable degree of certainty;
- Be affordable and sustainable, with cost risk managed and shared effectively;
- Provide a fair balance of cost and benefits between public service workers and other taxpayers;
- Aid recruitment and retention of the right people in the right jobs;
- Protect those closest to retirement;
- Have a clear legal framework and governance structure – and be widely understood by workers; and

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<sup>1</sup> HM Treasury Cm 8214 November 2011.

- Stand the test of time – no more reform for at least 25 years.

- 1.3 The 2 November publication set out the Government’s preferred approach to future pension scheme design. However, the Government recognised that different scheme designs might be more appropriate for different public sector workforces. To allow alternatives to this preferred approach to be considered, while controlling overall taxpayer costs, the Government has set a cost ceiling for the Civil Service scheme (and other public service schemes). This has allowed discussions to take place with the National Trade Union Committee and other Civil Service trades unions on alternative proposals and the necessary trade-offs that might be required to achieve these within the same cost ceiling. These discussions have involved Cabinet Office officials and the Minister for the Cabinet Office. In addition, we have sought the views of groups who represent groups with “protected” characteristics, including:
- Disability Advisory Group and Civil Service Disability Network;
  - Sharing Information Network;
  - a:gender; and
  - Civil Service Rainbow Alliance

#### Aims, Objectives and Outcomes:

- 1.4 The objective for the Cabinet Office is to deliver a reformed public service pension scheme by April 2015, consistent with the objectives set out by the Government in November 2011, while taking into account the particular needs of the Civil Service workforce. This Equality Impact Assessment considers the impact of the proposals put forward to deliver against this objective, namely a Civil Service pension scheme that is affordable and sustainable, fair both to the workforce and the taxpayer. The outcome of this objective is a new Civil Service pension scheme, the details of which are set out in the Proposed Final Agreement that is discussed below.

#### Civil Service Proposed Final Agreement:

- 1.5 Following discussions with the National Trade Union Committee and other Civil Service unions, the Cabinet Office tabled the Proposed Final Agreement (PFA) for future Civil Service pension provision on 9 March 2012 which reflects these discussions<sup>2</sup>. The PFA set out the key parameters of the new pension scheme for introduction in April 2015 and the transitional arrangements for those closest to retirement. The arrangements described in the PFA will be taken forward, subject to there being sufficient support from the Trades Unions and the Government has reserved its position on all aspects of the PFA. This Equality Impact Assessment examines the arrangements described in the PFA. A copy of the PFA is at Annex A.

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<sup>2</sup> [www.civilservice.gov.uk/pensions/reform/key-elements](http://www.civilservice.gov.uk/pensions/reform/key-elements) (and click on the document link)

## Equality Impact Assessment Scope:

- 1.6 This Equality Impact Assessment will primarily focus on the impact of key elements of the 2015 scheme design and will consider whether there are any significant impacts on “protected” groups by gender, disability, ethnic minority, working patterns and age. The Equality Impact Assessment considered all the “protected” groups, but then discontinued the consideration by religion, sexual orientation and transgender, as there was insufficient data to draw any conclusions. If further information becomes available it would, of course, be given careful consideration. It is highly unlikely that the proposed pension scheme design would have a direct impact that is related to an individual’s sexual orientation or transgender status, as the reformed scheme provisions apply irrespective of an individual’s sexual orientation or transgender status. Similarly, we would not expect the scheme to have a different impact because of an individual’s religious beliefs.
- 1.7 For the majority of the current members in the Civil Service pension scheme, they will in future have two separate elements of pension benefits. This will be made up of any benefits built up under the 2015 scheme and the benefits they have earned up until the point they move to the 2015 scheme. Benefits in current pension arrangements will be protected and, for those currently in final salary schemes, the benefits paid will be based on their final salary at the point at which they leave or retire (not at the point when they move to the 2015 scheme). Where relevant, the interaction of these two elements will be included in the assessment.
- 1.8 In the Civil Service, the majority of the workforce are still building up benefits in a final salary pension scheme (the benefits being paid out are based on your earnings when you leave or retire), although since July 2007 new joiners have been members of the **nuvos** scheme which is a Career Average Scheme that builds up benefits each year based on that year’s earnings. In the latest scheme resources accounts<sup>3</sup> the split of active membership between the different schemes is shown as approximately 57% for **classic**, 2% **classic plus**, 26% **premium** and 15% **nuvos**; final salary membership is approximately 85% of those on any scheme. In Chapter 2, further detail is provided on how the membership is split between current arrangements and the new scheme.
- 1.9 The increase in employee contributions introduced from April 2012 is not within the scope of this Equality Impact Assessment. The choice of index used for the uprating of pensions in payment is also not within scope, as this is not a change from the current arrangements in place in the Civil Service pension scheme. The current Civil Service Pension Schemes are not within the scope of this Equality Impact Assessment, except where there is an interaction with the 2015 scheme, as their benefits have not changed.

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<sup>3</sup> These figures are taken from the 2011 Civil Service pension scheme resource accounts and can be found at <http://resources.civilservice.gov.uk/wp-content/uploads/2012/02/20102011resource-accounts.pdf>

## Taking forward the reform – impact on the current workforce:

- 1.10 In taking forward Lord Hutton’s recommendations to reform public service pension schemes, the Government’s original intent was to move all current public service employees to new pension arrangements in April 2015. In addition to protecting all the benefits already earned in current pension arrangements, the Government also gave a commitment to maintain the final salary link for those in final salary schemes, so that benefits earned under the current schemes would be based on the salary at the point when an individual left or retired (not earnings at the point of transfer to the new scheme in April 2015). However, there was concern that for those closest to retirement there would be insufficient time to adjust to a change in circumstances due to a possible change in retirement income and a change in the age at which some of this income could be paid unreduced. This effect is directly related to older members of the workforce, given that younger staff will have more time to adjust to any changes in their circumstances before retirement.
- 1.11 In order to mitigate the effect of introducing reformed schemes on older public service workers, the Government gave a commitment on 2 November 2011 that for those public service workers who, as of 1 April 2012, have ten years or less to their current pension age, the Government’s objective was that they would see no change in when they can retire or any decrease in the amount of pension they receive at their current Normal Pension Age. The Proposed Final Agreement for the Civil Service scheme therefore includes transitional protection arrangements that deliver this commitment. In addition, in order to further mitigate the impact on those members who fall just outside the unchanged protected group, taper protection arrangements are also included. In practice, this means that there are three distinct groups within the Civil Service workforce which are determined by their age, as set out below.
- 1.12 More generally, for all those who are currently in the civil service scheme there will be no impact on any benefits that have been build up in their current pension arrangements up to 2015. Therefore, where this assessment considers the impact on the current workforce it will be in respect of the benefits that they would have earned under their current pension arrangements had they remained in that scheme (unchanged) after 2015 and what they will receive under the 2015 scheme.

### *Transitional Protection – unchanged group:*

- 1.13 The PFA set out the transitional protection arrangements for those members of the Civil Service scheme who are closest to retirement. Scheme members who, as of 1 April 2012, have 10 years or less to their current normal pension age will see no change to their pension arrangements. They will remain members of their existing pension schemes up to and including the point at which they draw their pension rights and all current pension scheme rules will continue to apply; they will experience no change in the benefits they earn as a result of introducing the 2015 scheme. For this reason, the impact of the

2015 scheme on this group will not be considered as part of the Equality Impact Assessment. It is estimated that there are around 170,000 Civil Servants in this group<sup>4</sup>, 37% of the total numbers of Civil Servants on pension schemes.

*Transitional Protection – taper group:*

- 1.14 Civil Service pension scheme members who are within a further 3.5 years outside the unchanged protected group described above will have the opportunity to remain in their current pension scheme arrangements for a period beyond 2015, before transferring to the new scheme. The additional period they can remain will be determined by their age; details can be found in the paper attached to Annex A to this Equality Impact Assessment (in Annex A of the paper). The Equality Impact Assessment will consider any relevant issues raised for this taper protection. We estimate that there are 58,000 Civil Servants in this group<sup>5</sup>, 12% of the total numbers of Civil Servants on pension schemes.

*2015 Transfer group:*

- 1.15 Civil Service Pension Scheme members who are not within the two groups described above will move to the 2015 scheme at the point of introduction on 1 April 2015 for any further pension accrual after this date. The Equality Impact Assessment will consider any relevant issues raised for this group. It is estimated that there are 238,000<sup>6</sup> Civil Servants in this group, 51% of the total numbers of Civil Servants on pension schemes.

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<sup>4</sup> Annex B, paragraph B12 sets out how this figure has been produced.

<sup>5</sup> See Annex B, paragraph B12.

<sup>6</sup> See Annex B, paragraph B12.

## 2. Potential impact of the 2015 Civil Service Pension Scheme – the Civil Service workforce

### Sources of data:

2.1 There are two main sources for data used in this document:

- the Annual Civil Service Employment Survey 2011 (ASCES) collected by the Office of National Statistics (ONS); and
- data held on the Penserver database for the Principal Civil Service Pension Scheme, which is administered by MyCSP.

These sources and any others are referenced in the document. Annex B sets out in detail what data has been used.

### Data limitations and approximations used in further analysis:

- 2.2 Where practicable, evidence is used that relates directly to members of the pension schemes (as is discussed above) but when this is not available data for the whole Civil Service has been used and it has been assumed that it is representative of those in the Civil Service scheme. Where it has been possible, in order to test whether these figures are valid comparisons have been made between those that opt out of pension schemes and the Civil Service as a whole. Annex B sets out in detail the approach taken to ensure that the best available data is used, as well as the conclusions drawn from the comparisons made with those that have opted out described above.
- 2.3 While the characteristics of the membership of the Civil Service pension scheme are not the same as the Civil Service as a whole, it is necessary for us to use data based on the latter to develop an understanding of the impacts on those that are in the pension scheme because it is the most reliable information available. It is important to bear in mind the potential impact that this might have on figures used in this document, but the resulting biases are not expected to have a marked impact on the conclusions because the proportion of Civil Servants that opt out of the Civil Service pension is relatively small (7%).

### Key characteristics of the Civil Service workforce:

2.4 The headline figures in the ONS statistics for 31 March 2011 are:

- Civil Service employment was 498,433<sup>7</sup>.

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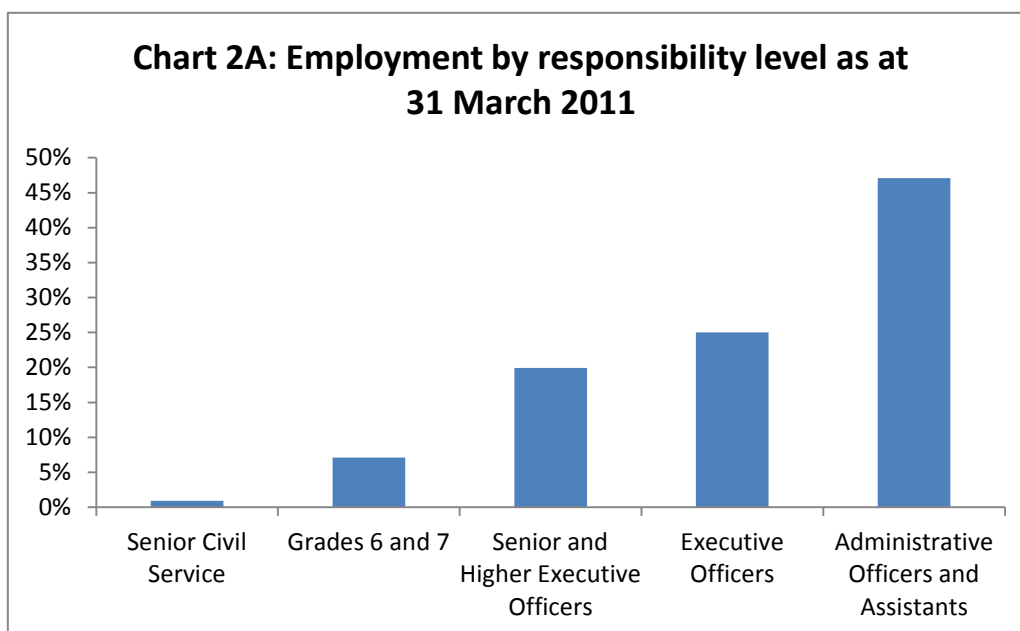
<sup>7</sup> This total excludes 15,000 people employed temporarily for the 2011 Census.



- 78% of employees worked full-time, with the remaining 22% working part-time.
- Approximately half (53%) of all employees were women. Women made up 84% of the part-time workforce. Median gross annual earnings (excluding overtime and one-off bonuses) for all employees were £23,760
- The senior Civil Service accounted for 1% of the Civil Service<sup>8</sup>.

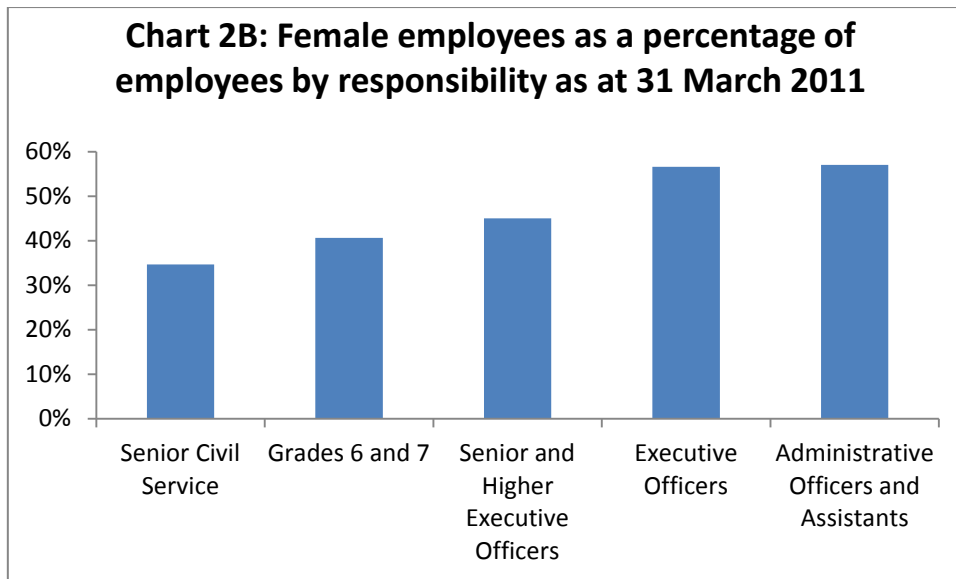
2.5 The following tables examine some of the key characteristics of the Civil Service workforce against the key “protected” groups in order to give the context for the analysis of scheme design elements in Chapter 3.

2.6 *Structure of Civil Service workforce.* The tables below show the spread of grades across the Civil Service workforce. As expected, chart 2A shows the number of senior staff is significantly smaller than more junior grades. Chart 2B shows women are over-represented in the lower grades and under-represented in the more senior grades, given that the workforce is broadly evenly split between men and women.



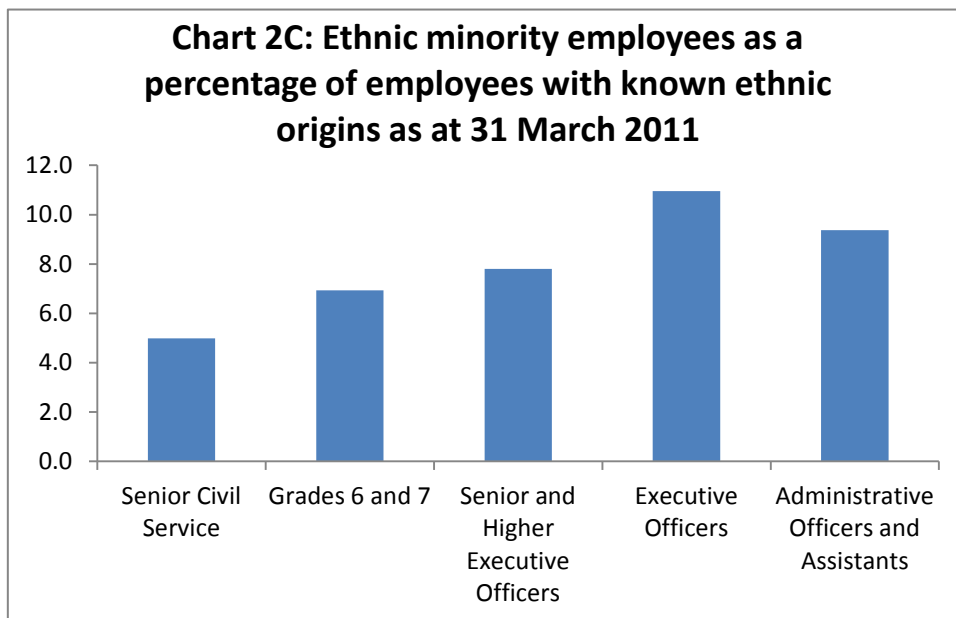
Source: ONS *Civil Service Statistics 2011*

<sup>8</sup> ONS *Civil Service Statistics, 2011*



Source: ONS Civil Service Statistics 2011

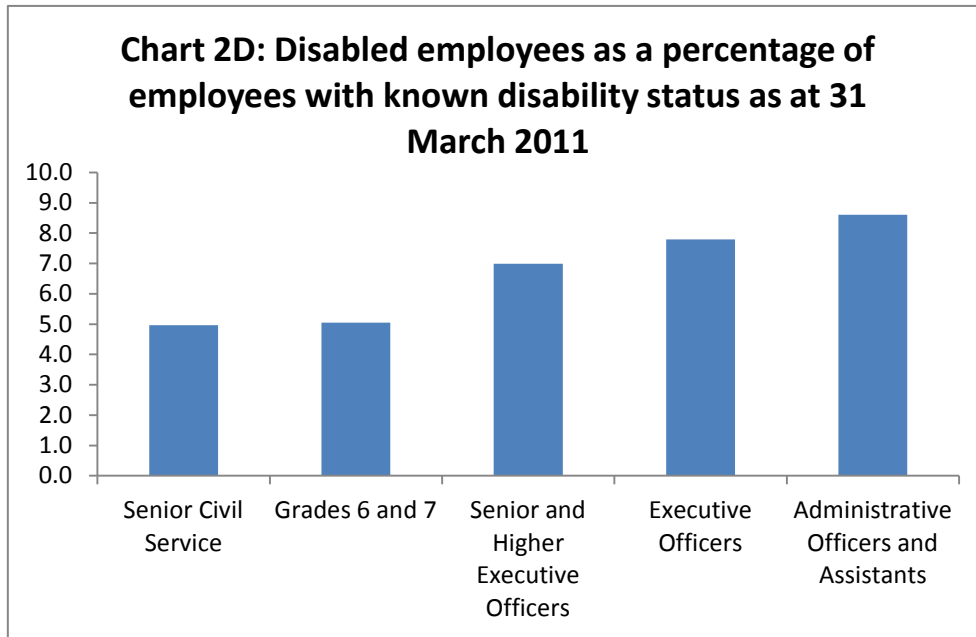
2.7 *Ethnic minorities in the Civil Service.* The proportion of the Civil Service workforce which provided information on their ethnicity who fall within the ethnic minority category is 9%. Chart 2C shows that employees from ethnic minorities were more highly represented in the Executive Officer and Administrative responsibility levels than at more senior responsibility levels.



Source: ONS Civil Service Statistics 2011

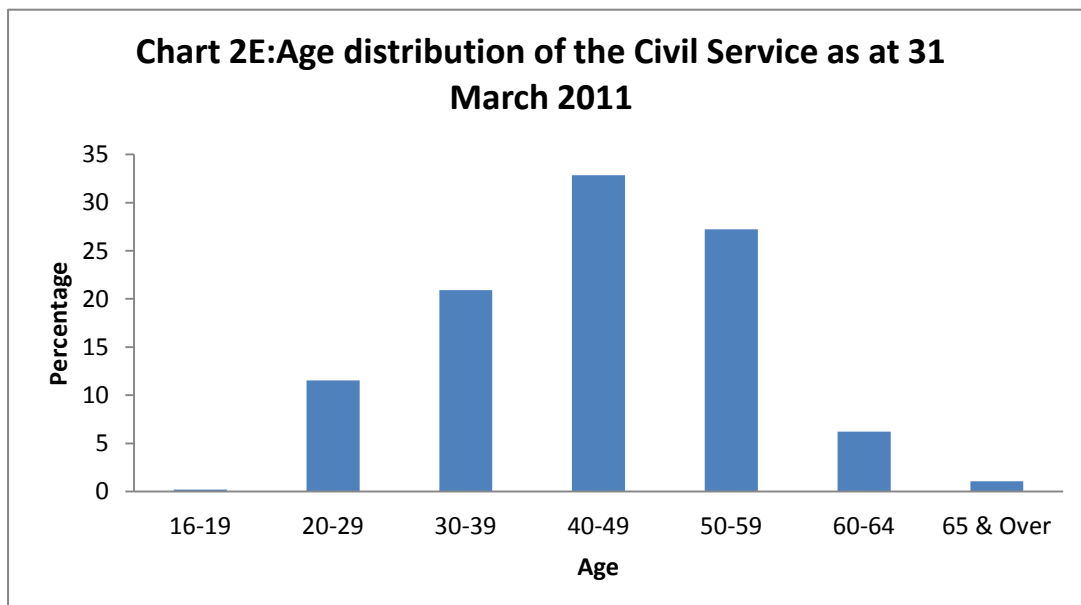
2.8 *Disability status.* The overall proportion of employees declared disabled in the ONS statistics is 8%. Chart 2D shows the proportion of employees with a declared disability was greater at the lower levels of responsibility; 9% of employees are at an Administrative responsibility level compared with 5% of the

Senior Civil Service. There are a large number of Civil Servants who do not declare their disability status and it is therefore likely that the number of those with a declared disability is an underestimate of this “protected” group.



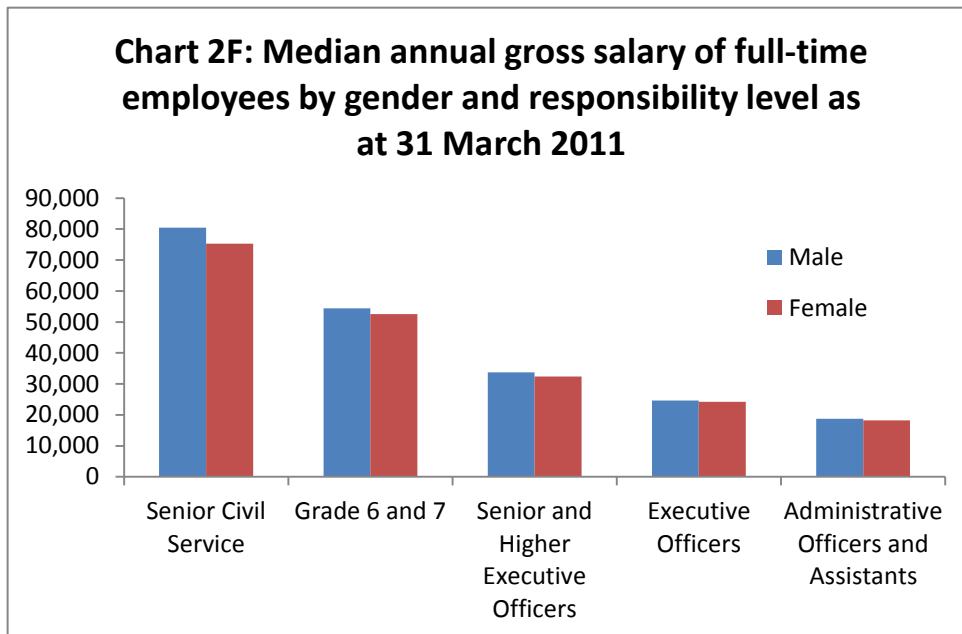
Source: ONS Civil Service Statistics 2011

2.9 *Age profile of the Civil Service.* Chart 2E shows that 54% of the Civil Service were aged between 30 to 49. Further, over 25% fall between the age of 50 to 60 compared with some 12% between the age of 20 and 29. This shows that a considerable proportion of the workforce, some 60% is over 40 years of age. Further ONS analysis showed that just under half of the Senior Civil Service were age 50 years and over (48%), compared with 34% of Civil Servants employed at an Administrative responsibility level.



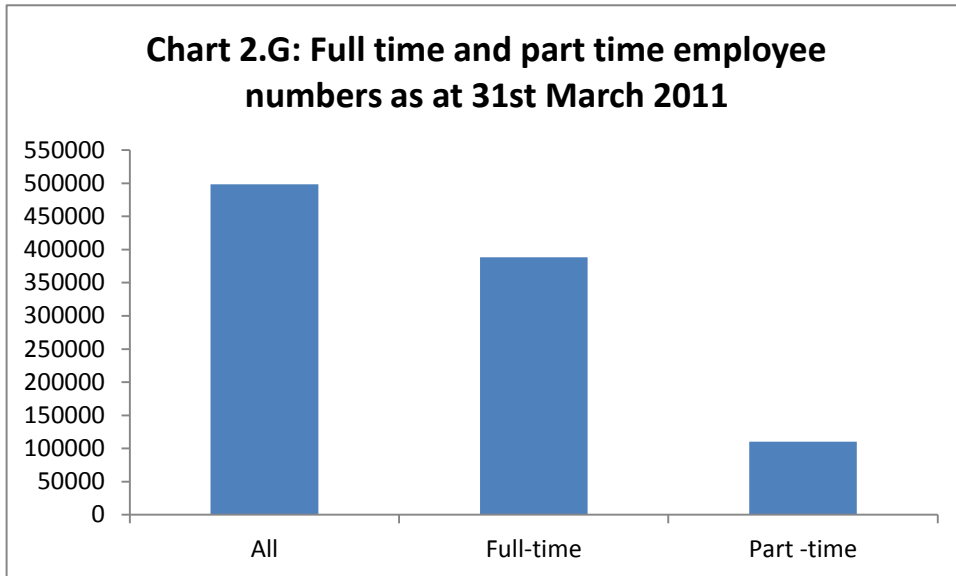
Source: ONS Civil Service Statistics 2011

- 2.10 At Annex C, there is further analysis of this age distribution by gender, disability status, ethnicity and salary. These key findings show that:
- women are represented to a greater degree than men at all age groups until the age of 60, when there are more men than women;
  - the proportion of Civil Servants with a declared disability increases with age up until the age of 50 when it stabilises; and
  - there is a trend of the salary increasing with age, tapering off towards the end of a career.
- 2.11 *Earnings.* Chart 2F shows the median gross earnings by level of responsibility and gender. The overall median gross annual earnings for all employees is £23,760. This chart shows that there remains a gender pay gap, but ONS analysis reports that this gap is reducing.



Source: ONS *Civil Service Statistics 2011*

- 2.12 *Working patterns.* The Civil Service offers the opportunity for flexible working and Chart 2G shows the proportion of staff who were working part time in 2010 and 2011. In the Civil Service 78% of employees worked full-time, with the remaining 22% working part-time. Of those working part-time, ONS analysis has shown that 84% of those working part-time are women.

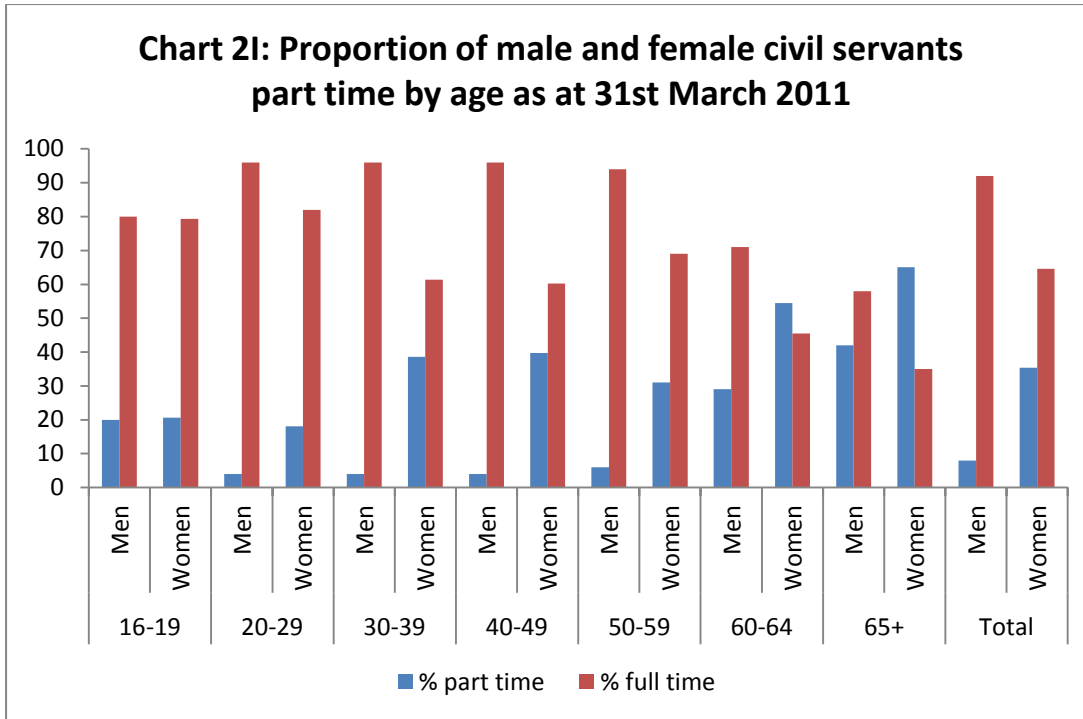


Source: ONS Civil Service Statistics 2011

2.13 Charts 2H, 2J and Table 2.A below show the ages at which men and women are most likely to be part time in the Civil Service in March 2011. This shows that women in their 30s and 40s are the most likely to be part time. This suggests that women tend to go part time when they are at an age when they are likely to be looking after children. However, over the entire age range, women are more likely to be part time than men. For men, there are very small numbers of part time staff but the numbers increase as they approach retirement age. As we do not have the information to allow us follow members of staff over time, we are unable to ascertain whether individual members of staff move into and out of part time work at different stages in the career, but the age profile in the chart implies that this is the case.



Source: Internal analysis of ASCES 2011

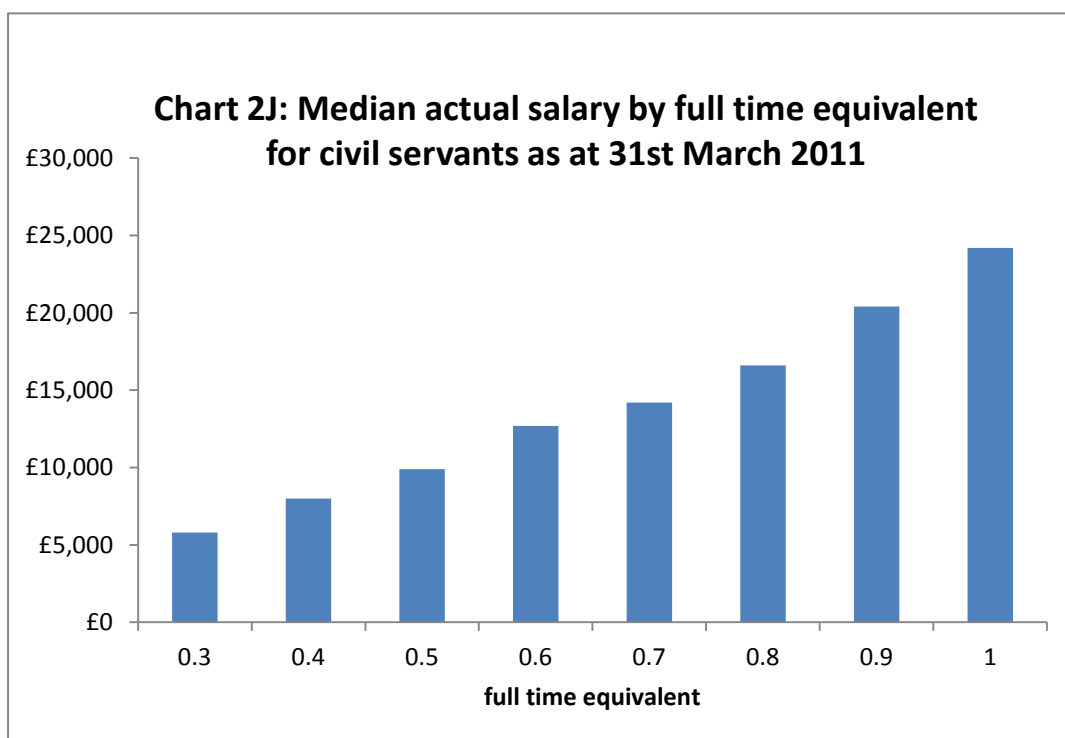


Source: Internal analysis of ASCES 2011

**Table 2.A: Part-time working by age and gender**

Age in March 2011		% part time	% full time
16-19	Men	20	80
	Women	21	79
20-29	Men	4	96
	Women	18	82
30-39	Men	4	96
	Women	39	61
40-49	Men	4	96
	Women	40	60
50-59	Men	6	94
	Women	31	69
60-64	Men	29	71
	Women	55	45
65+	Men	42	58
	Women	65	35
Total	Men	8	92
	Women	35	65

Source: Internal analysis of ASCES 2011



Source: Internal analysis of ASCES 2011

Table 2B: Median actual salary by full time equivalent for civil servants (31.3.2011)

full time equivalent	number	Percentage of civil servants	median actual salary	FTE salary
0.3	1,600	0.3	£5,800	£19,300
0.4	10,000	2.1	£8,000	£20,000
0.5	16,700	3.4	£9,900	£19,800
0.6	23,300	4.8	£12,700	£21,200
0.7	12,100	2.5	£14,200	£20,300
0.8	28,200	5.8	£16,600	£20,800
0.9	15,100	3.1	£20,400	£22,700
1	381,600	78.0	£24,200	£24,200

Source: Internal analysis of ASCES 2011

2.14 Chart 2J and Table 2B provide further analysis of the average earnings of those who work part-time. Chart 2J shows that there is a broadly linear reduction in the median actual earnings. However, the actuals for part-timers are slightly lower than the relevant proportion of those who work full-time. This reflects the fact that more women work part-time and women's average FTE earnings are lower than men, as described in Chapter 2.

- 2.15 *Summary of key characteristics.* The Civil Service workforce overall has a broadly even split between men and women, consistent with the UK population as a whole. However, the distribution across responsibility levels shows that women are under-represented at the higher levels. Further, women are more likely to work part-time than men. The Civil Service has broadly the same level of representation of ethnic minorities as the UK population as a whole, but the distribution across responsibility levels shows that ethnic minorities are under-represented at the higher levels. Those with a declared disability have similar patterns of representation across responsibility levels as for women and ethnic minorities, although to a lesser degree. There is no relevant data on religion, but there is unlikely to be any scheme design element that would directly affect those of different religions differently.

#### The Civil Service pension scheme:

- 2.16 The Principal Civil Service Pension Scheme has four sections – the 1972 section known as **classic**, the 2002 section known as **premium, classic plus** (also introduced in 2002 as part of a choice exercise) and the 2007 section known as **nuvos**.
- 2.17 New entrants joining the Civil Service from 30 July 2007 are offered membership of **nuvos**, a whole career pension with a pension age of 65. Before 30 July 2007 those joining the Civil Service would have been eligible to join one of the previous final salary arrangements of **premium, classic** and **classic plus**. **Classic** and **premium** are final salary schemes with a Normal Pension Age of 60 for the majority of staff, while **nuvos** provides benefits calculated on a career average basis and has a Normal Pension Age of 65.
- 2.18 Money purchase pensions known as **partnership** are available as an alternative for employees joining on or after 1 October 2002. **Partnership** is delivered through employer-sponsored stakeholder pensions from a choice of pension providers; **partnership** is not considered in this Equality Impact Assessment as the changes do not affect members of this arrangement.
- 2.19 The Civil Service pension scheme resource accounts for 2010-11<sup>9</sup> also noted that the approximate split of active membership at 31 March 2011 was 57% **classic**, 2% **classic plus**, 26% **premium** and 15% **nuvos**. It is only active members who are affected by the PFA and will be the focus of this EIA.
- 2.20 Precise and up-to-date information which provides a detailed assessment of the scheme member characteristics is not held, but the following points can be made based on a 2010-11 estimates of the numbers in each scheme (supported by Charts 2K and 2L below):
- Members of the **nuvos** scheme will be younger on average than the Civil Service as a whole and the other sections of the pension scheme, given that it

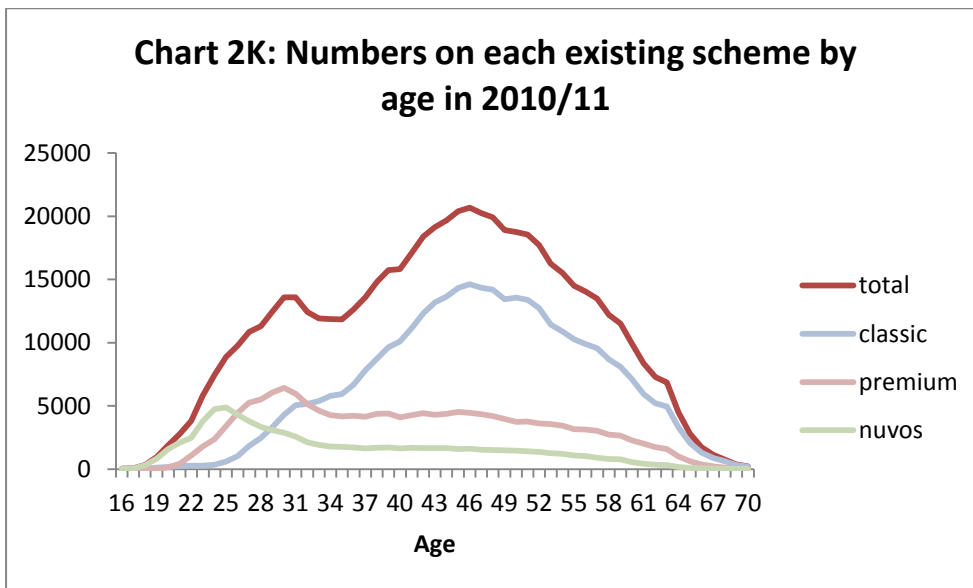
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<sup>9</sup> The Cabinet Office Civil Superannuation Accounts 2010-11 can be found at:  
<http://resources.civilservice.gov.uk/wp-content/uploads/2012/02/201011resource-accounts.pdf>

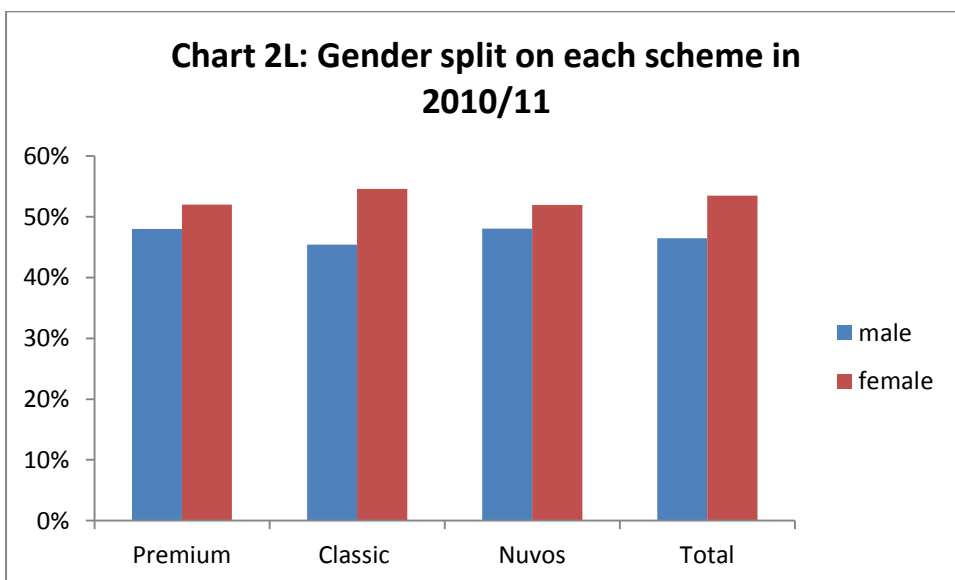


was introduced in 2007. There will be some older members, but the numbers are not significant;

- Members of the **classic** scheme will be older on average than the Civil Service as a whole, as no new entrants have been able to join since 2002 and it was introduced in 1972;
- Members of the **premium** scheme will on average not be as old as **classic** members, given that the scheme has been open since 2002 – although there may be some older scheme members who moved from the **classic** scheme during the choice exercise; and
- Members of the **classic** scheme are marginally more likely to be female than those on **nuvos** or **premium**.



Source: Aon Hewitt, 2011



Source: Aon Hewitt, 2011

## Moving to the new 2015 arrangements – unchanged group, transitional taper group and those moving in 2015:

2.21 At Annex D, there is an analysis of the numbers of the Civil Service workforce who we estimate will be in each of the areas described below by age, gender, disability, ethnicity, earnings and working patterns. This shows that nearly 50% of the workforce will be offered some form of transitional protection; the remainder will move to the new scheme in 2015. In summary:

- Only a small proportion of those in the Unchanged group will have a Normal Pension Age of 65, as are those in the Transitional Taper Group. One quarter of those in the 2015 Group have a Normal Pension Age of 65.
- Those in the Unchanged and Transitional Taper groups are marginally more likely to be declared disabled than those in the 2015 group. This is what we would expect as the chances of becoming `disabled increases significantly with age. See chart D2 in Annex D.
- The proportion of women in the Transitional Taper group and 2015 group roughly correspond to the Civil Service average. The proportion of women in the unchanged group is lower reflecting the lower proportion of older Civil Servants who are female, see Chart D3 in Annex D.
- Those in the unchanged group are more likely to be white and less likely to come from another ethnic background than the Civil Service average (see Chart D4 in Annex D).
- The Transition group and the unchanged group are slightly more likely to be on a higher income and less likely to be on a low income than the 2015 group (see Chart D5 in Annex D).
- The unchanged group are more likely to be part time than the 2015 group.

2.22 *Transitional protection – unchanged group.* The Government set out its intention in the Command Paper entitled “Public Service Pensions: good pensions that last” (published 2 November 2011)<sup>10</sup> that for those public service workers who, as at 1 April 2012, have ten years or less to their current pension age, the Government’s objective is that they will see no change in when they can retire, or any decrease in the amount of pension they receive at their current Normal Pension Age”. The PFA tabled on 9 March 2012 confirmed that this means that those who fall within the category described above will be allowed to remain in their current pension arrangements until they leave or retire, as follows:

- With some exceptions<sup>11</sup>, members of the **classic**, **classic plus** and **premium** schemes who were 50 years of age or older on 1 April 2012; and
- Members of the **nuvos** scheme who were aged 55 or older on 1 April 2012.

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<sup>10</sup> [www.hm-treasury.gov.uk/d/pensions\\_publicservice\\_021111.pdf](http://www.hm-treasury.gov.uk/d/pensions_publicservice_021111.pdf).

<sup>11</sup> Prison officers on pre-Fresh Start terms have the right to take their pension in full at age 55 and those in this group aged 45 and over on 1 April 2012 would remain in their current pension scheme.

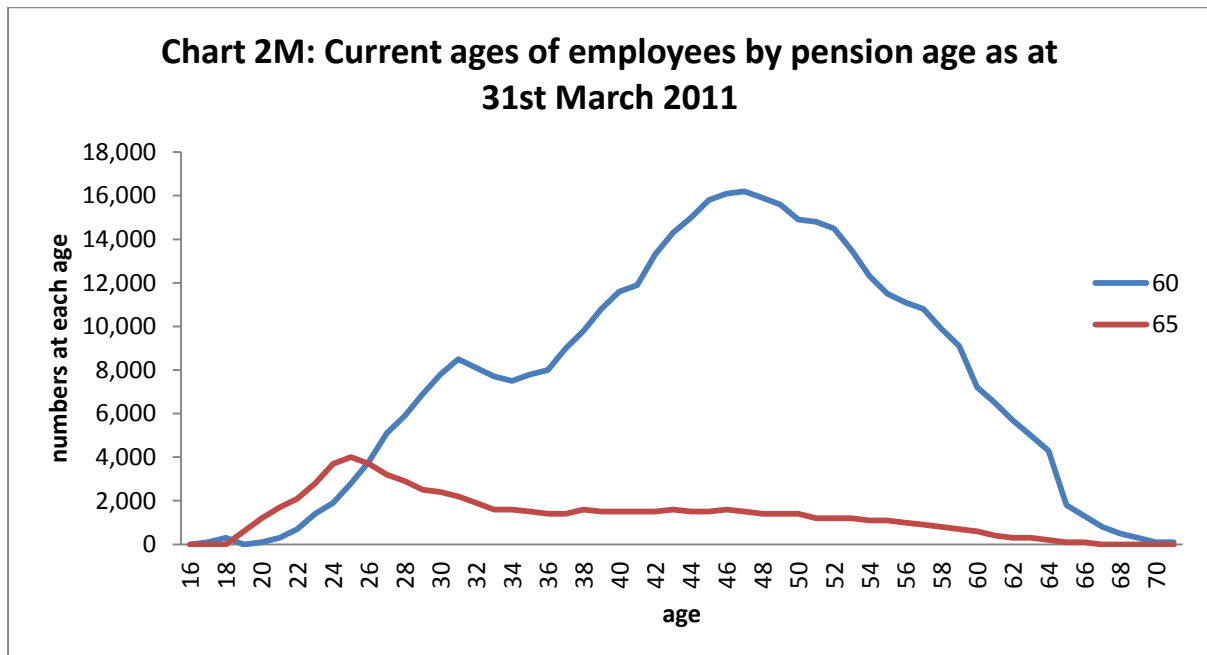
2.23 *Transitional protection - taper group.* For those scheme members who are within a further 3.5 years outside the unchanged protected group described above, there will be an opportunity to remain in their current pension arrangements for a further period of time – the length of which will be determined by their age. This group will be as follows:

- With some exceptions, members of **classic**, **classic plus** and **premium** who were between 46.5 and 50 years of age on 1 April 2012; and
- Members of the **nuvos** scheme who were between 51.5 and 55 years of age on 1 April 2012.

2.24 *2015 group.* For those scheme members who do not fall within the groups described above, they will move to the 2015 scheme at the point it is introduced. This group will be as follows:

- With some exceptions, members of **classic**, **classic plus** and **premium** who were 46.5 years of age or younger on 1 April 2012; and
- Members of the **nuvos** scheme who were 51.5 years of age or younger on 1 April 2012.

2.25 Chart 2M below shows the ages of those in schemes with a Normal Pension Age of 60 and 65 (**classic**, **premium** and **classic plus** being generally age 60 and **nuvos** 65). This shows that members of the **nuvos** scheme are, on average, far younger than those on the other pension schemes, as we would expect and are therefore likely to be moving to the 2015 scheme from the start. There are very few staff close to retirement age that are in **nuvos**.



Source: Internal analysis of ASCES 2011

## 3. Potential impact of key aspects of the 2015 Civil Service Pension Scheme

- 3.1 There will be a period when around 250,000 members of the Civil Service scheme will have benefits in two pension arrangements; namely benefits in their current pension arrangements as well as those built up in the 2015 scheme. For those in the transitional taper protection group, the proportion of benefits built up in the new scheme is generally expected to be lower than for those who move immediately to the 2015 scheme. All those with benefits in the current arrangements will be able to draw these benefits at their current Normal Pension Age without reduction and for those in final salary arrangements these benefits will be based on salary at the point of retirement or when an individual has left the Civil Service.
- 3.2 The following analysis focuses on the key elements of the 2015 scheme design and the transitional arrangements for those who are close to retirement. However, where there is interaction with the current pension arrangements of Civil Servants who have moved to the 2015 scheme that has a potential impact, this will be covered too. It focuses on those aspects of scheme design that are considered to have a potential impact on one or more of the “protected” groups and any mitigation that exists or might be necessary to minimise the potential risk of discrimination. These are as follows:

### 2015 scheme:

- Career average
- Accrual rate/revaluation of active member benefits in line with prices (currently CPI)
- Normal Pension Age linked to an individual’s State Pension Age
- Member contribution rates
- Spouses/partner benefits
- Death in service lump sum
- Ill-health benefits
- Cost cap and floor
- Abatement
- Split pension
- Transfer club

### Transitional arrangements:

- Taper protection

## 2015 Scheme:

### *Career Average*

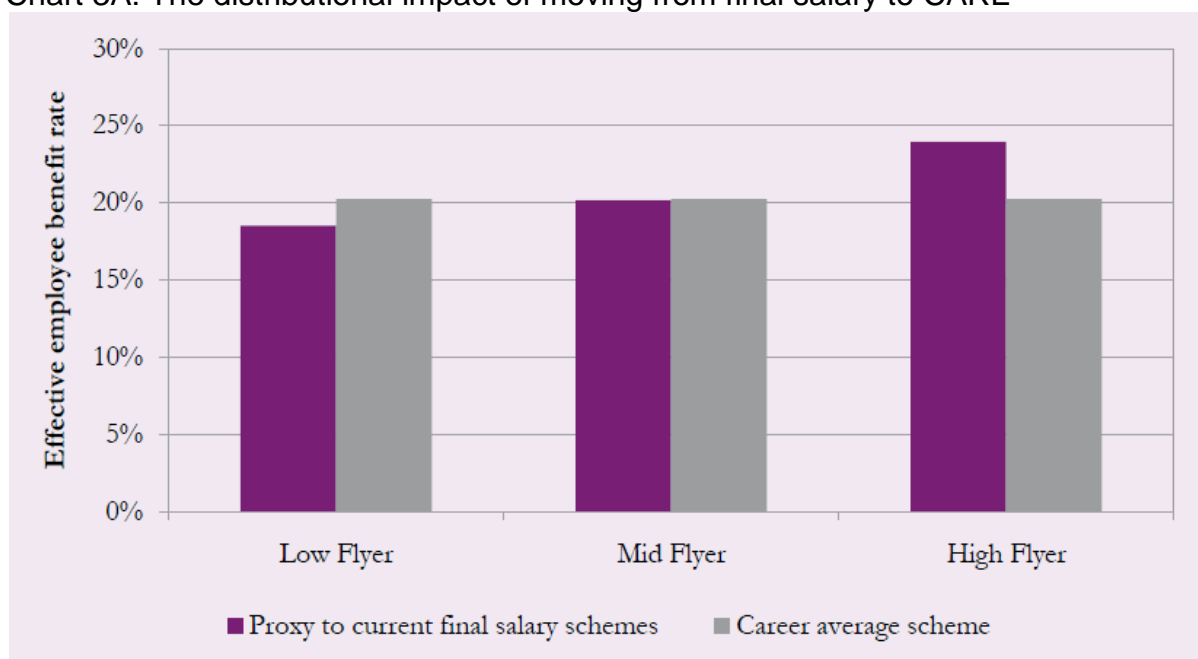
- 3.3 In the Civil Service, the majority of the workforce are still building up benefits in a final salary pension scheme (the benefits being paid out are based on earnings when the members leaves or retires), although since July 2007 new joiners have been members of the **nuvos** scheme which is a Career Average Scheme that builds up benefits each year based on that year's earnings. In the latest scheme resources accounts<sup>12</sup> the split of active membership between the different schemes is shown as approximately 57% for **classic**, 2% **classic plus**, 26% **premium** and 15% **nuvos**; final salary membership is approximately 85% of the current workforce. It is estimated that 179,000 Civil Servants will be affected by this change in 2015, with a further 54,000 being affected after a period of transition.
- 3.4 In the final salary schemes, Civil Servants who experience relatively fast wage growth benefit compared to those who do not. Lord Hutton, who chaired the Independent Public Service Pensions Commission, found that 'high flyers' (i.e. people who have been promoted several times over the course of their careers) receive almost twice as much pension for every £100 of their contributions than people on more modest salaries. Larger benefits for high flyers, relative to their contributions, are an inherent feature of final salary pension schemes<sup>13</sup>. A career average scheme addresses this feature which the Government believes is unfair.
- 3.5 Chart 3A below is taken from Lord Hutton's final report and was produced from some modeling undertaken by the Pensions Policy Institute to demonstrate the distributional effects of pension scheme design by comparing final salary with a career average design. This clearly shows the redistributive effect of a move to career average.

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<sup>12</sup> These figures are taken from the 2011 Civil Service pension scheme resource accounts and can be found at <http://resources.civilservice.gov.uk/wp-content/uploads/2012/02/20102011resource-accounts.pdf>

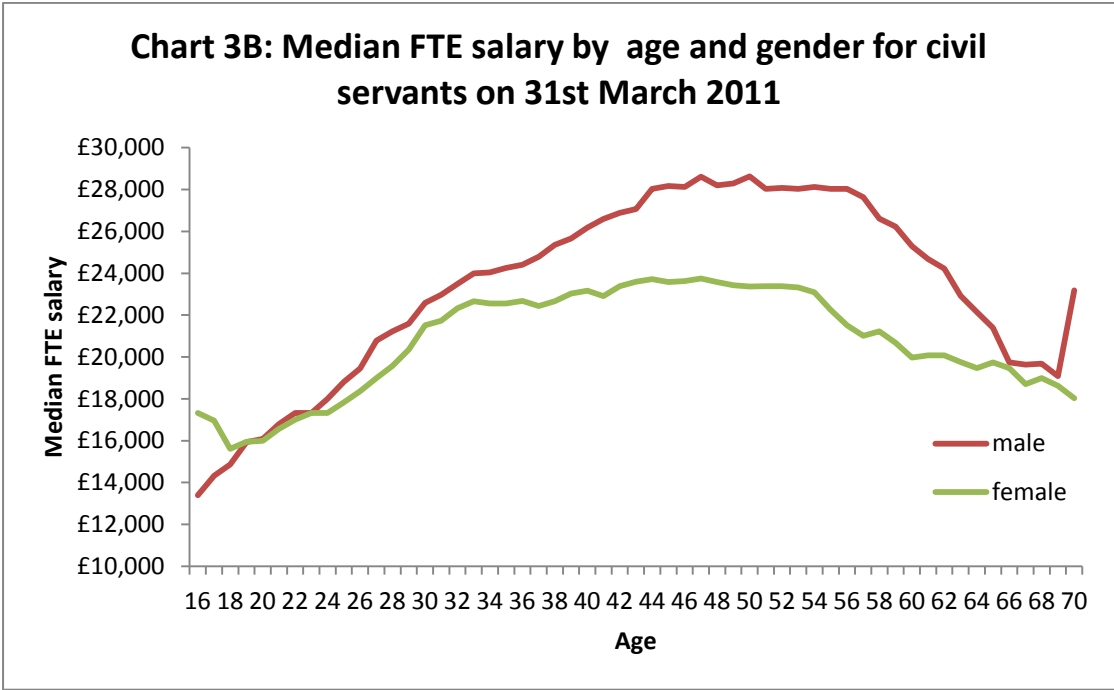
<sup>13</sup> Independent Public Service Pensions Commission Final Report 10 March 2010, page 10 and 23 [http://treasury.gov.uk/d/hutton\\_pensions.htm](http://treasury.gov.uk/d/hutton_pensions.htm). See also Box 3.D of the final report for a chart demonstrating the different benefit levels offered under final salary and career average arrangements by career profile.

Chart 3A: The distributional impact of moving from final salary to CARE

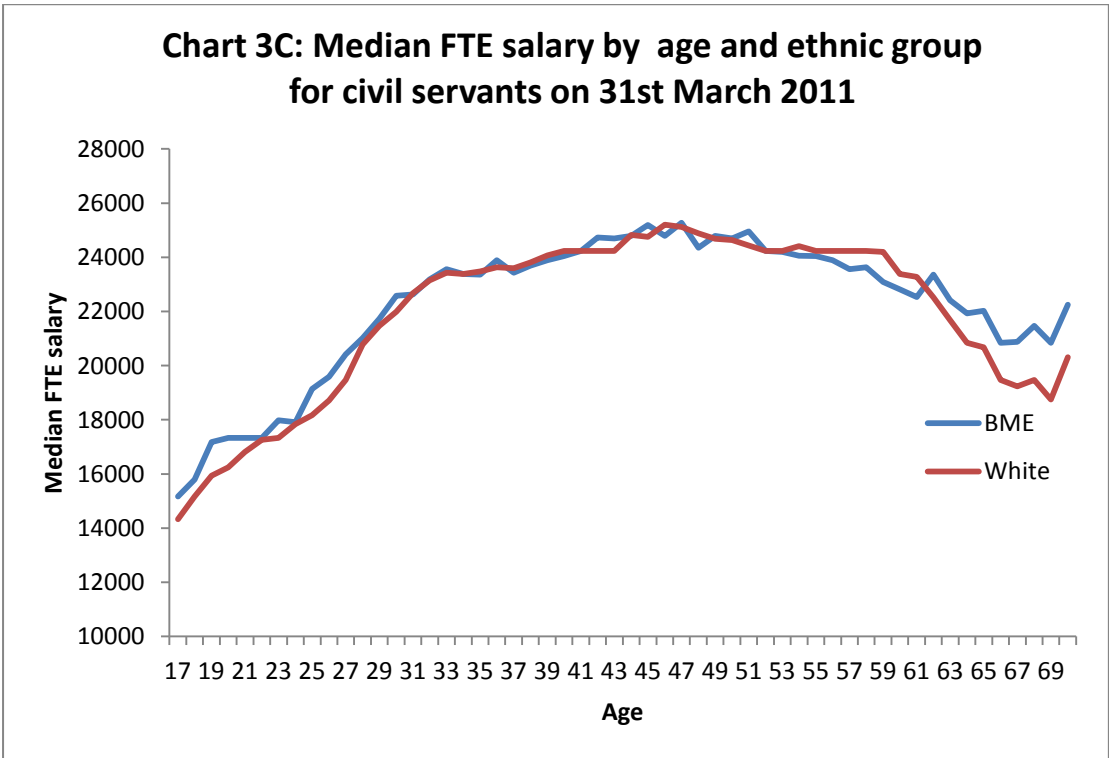


Source: Hutton Report, 2010

3.6 In the Civil Service, the career average scheme design will offer a more even, fairer distribution of benefits across the scheme membership, with those who do not experience salary growth towards the end of their career benefitting relative to a final salary agreement. Those groups who are likely to benefit from this are women who, although they make up just over half of the workforce, tend to typically experience lower salary growth than men as shown in Chart 2B in Chapter 2. As Charts 2C and 2D show, for ethnic minorities and disabled the career average scheme design is also likely to offer fairer outcomes. A career average scheme is less beneficial to individuals who are high flyers than a final salary scheme; typically this is likely to be men but as described above this change is designed to address the effects of the final salary design from which this group has previously benefitted. No sufficiently reliable long term data is held on pay progression for Civil Servants, so it is not possible to estimate the numbers of high flyers. However, it is possible to show how salaries vary by age and gender in the Civil Service. Chart 3B below shows that as age increases pay is significantly higher for men than for women. The gap between the median earnings for men and median earnings for women increases until they reach their mid-fifties. This would support the view that women will benefit to a greater extent from a move to a career average pension scheme. Chart 3C shows that the median salary for Civil Servants by age and ethnic group and does not identify any significant difference between the pay progression of white and ethnic minority Civil Servants and therefore the move to career average will not create a differential effect.



Source: Internal analysis of ASCES 2011



Source: Internal analysis of ASCES 2011

- 3.7 For those scheme members who have transferred from current pension arrangements and are in final salary arrangements, the impact of a change to career average for high flyers will be mitigated by the maintenance of the final salary link for those benefits build up before they move to the 2015 scheme (either in 2015 or later if they are in the taper protection group). This means that the benefits they receive at retirement under their current arrangements will be based on their salary at the point they retire or leave the Civil Service, not when they move to the 2015 scheme. The maintenance of the final salary link for all transferees in final salary scheme ensures that the benefits they have earned under their old pension arrangements reflect earnings increases over time; this provides greater benefits than if these final salary benefits had been based on their salary at the point they transfer to the 2015 scheme. Civil Servants who are currently members of the **nuvos** scheme will experience no effects from this element of the scheme design.

#### *Accrual Rate/Revaluation of active member benefits*

- 3.8 The PFA sets out that the accrual rate will be 2.32% and indexation of active member benefits will be CPI. This offers higher accrual and a less generous revaluation method than the Government's reference scheme set out at the end of last year and was one of the elements that were revised following trade union discussions (delivering a scheme with the same overall cost). It is the combination of these two elements that determine the value of the pension benefits that are paid in retirement.
- 3.9 **Nuvos members.** For those Civil Servants who are members of the **nuvos** scheme, these scheme design elements (higher accrual/lower revaluation) mean that there is no change in the equality impact when they move to the new scheme from **nuvos**. The accrual rate (the rate at which benefits build up) is higher than **nuvos**; this means that benefits will build up more quickly and the revaluation method for active members is the same.
- 3.10 **Final salary scheme members.** It is estimated that 179,000 Civil Servants who are members of one of the final salary sections of the Civil Service pension scheme will be affected by this change in 2015, with a further 54,000 being affected after a period of transition. For these Civil Servants, the effect of building up benefits in the 2015 scheme for part of their career will be dependent on a number of factors. For example, for those in the **premium** scheme with an accrual rate of 1.67% of pay per year much will depend on whether an individual experiences significant career progression. If an individual has a steady career until retirement, the benefits they build up to their Normal Pension Age under the 2015 scheme are likely to be broadly the same or could be higher than under their current arrangements as the accrual rate is 2.32% of pay per year. As long as the current pattern continues to remain as now relative to one another (with long term earnings growth higher than inflation) the benefits earned should be broadly as good as under their current arrangements. If, however, an individual were to experience significant career progression during their membership of the 2015 scheme, especially shortly before retirement, then the benefits they earn might not be as high as

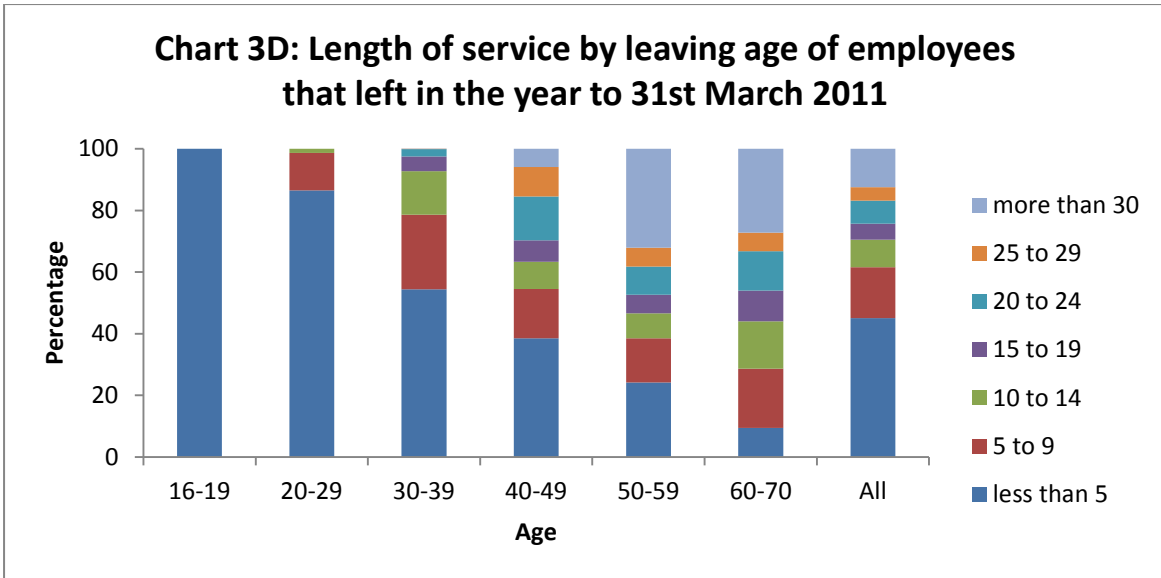


those they would have built up under their current final salary arrangements. This outcome is considered reasonable and proportionate given desire to introduce a scheme that spread benefits more evenly; as the final salary link is maintained they already have some mitigation.

- 3.11 *New entrants.* For new entrants who join the 2015 scheme after it has been introduced (or those with little service in the current pension arrangements) the age at which people participate in the scheme can have a material effect on the benefits earned by members. The charts 3F and 3G<sup>14</sup> below, taken from the final report of Lord Hutton's Independent Public Service Commission show that joining a career average scheme at a reasonably young age for a period of 20 years will deliver pension benefits at normal pension age that are less valuable than somebody who joined later in their working life and served 20 years to their Normal Pension Age; these charts are not based on the PFA scheme design for the Civil Service and are therefore purely illustrative of the likely effects. These charts show the expected effect of trading off higher accrual against a lower revaluation rate than earnings indexation. For those who serve a full career in a CARE scheme these effects are smoothed out. This "age" effect may have a particular impact on those Civil Servants who serve a short career early on, due to changes in their personal circumstances such as raising a family. It is therefore likely to have a greater impact on women.
- 3.12 Chart 3D and Table 3A below show the length of service of those that left the Civil Service in 2011 by age. They show that there are significant numbers of younger people who leave after a relatively short career (17,500 people under 40 leave after less than 15 years in the Civil Service in 2011) and would thus be adversely affected by this scheme design feature. Conversely, this scheme design feature is likely to benefit those who have a later career in the Civil Service. 7,400 Civil Servants aged 50 or above left after less than 15 years of service. This analysis was repeated using data from the year ending 31<sup>st</sup> March 2009 in order to assess whether the 2011 data was skewed by the numbers of people leaving on early departure schemes. In 2009, more people under 40 (20,100) and less people 50 or over (6,900) left than in 2011. This is likely to be due to the higher numbers of early departures in 2011 and the perception of fewer job opportunities outside the Civil Service. The 2009 figures are likely to be a more accurate estimate of the numbers who will be affected positively and negatively by the move to the new scheme assuming that the economy stabilises in coming years. Chart 3E and Table 3B show that the majority of those that join the Civil Service at age 40 or older are male; until the age of 49 women are the majority of new entrants. This means that more men than women benefit as later joiners.

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<sup>14</sup> To note that these charts are 3.A and 3.B in the final Hutton report.

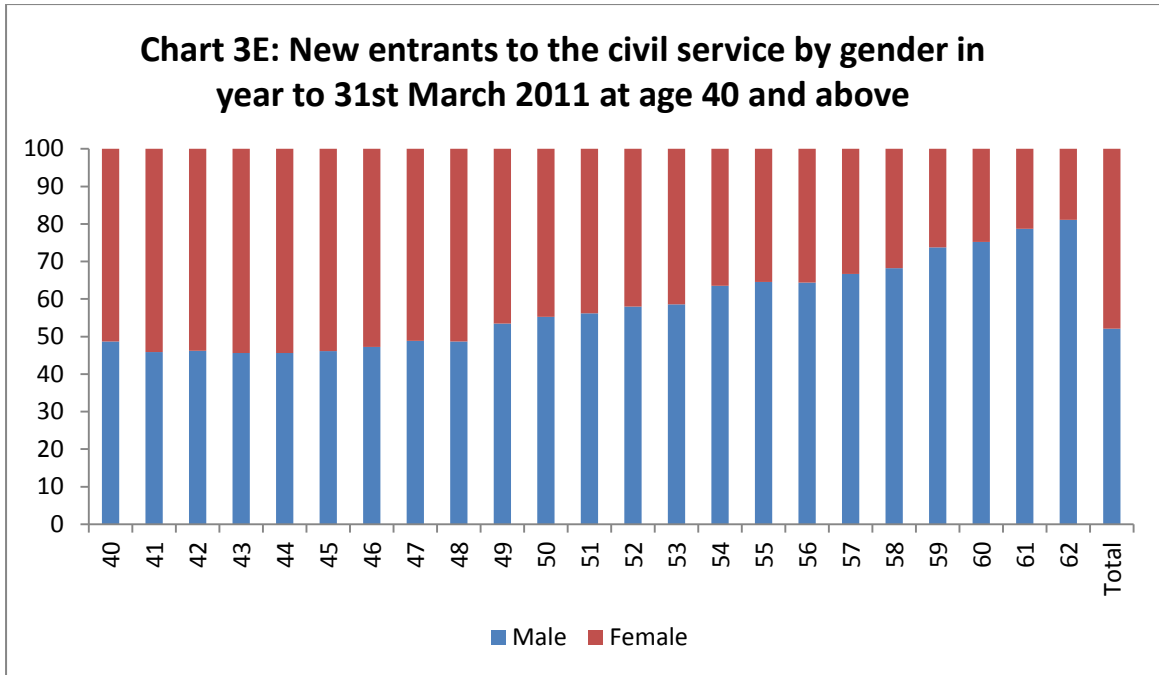


Source: Internal analysis of ASCES 2011

Table 3A: Length of service and age of leaving

Age	length of service							All
	less than 5	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	more than 30	
16-19	700	0	0	0	0	0	0	700
20-29	8,500	1,200	100	0	0	0	0	9,800
30-39	4,100	1,800	1,100	400	200	0	0	7,600
40-49	3,600	1,500	800	700	1,300	900	600	9,400
50-59	2,200	1,300	700	600	800	600	2,900	9,200
60-70	700	1,400	1,100	700	900	400	2,000	7,300
<b>Total</b>	<b>19,800</b>	<b>7,300</b>	<b>3,900</b>	<b>2,300</b>	<b>3,300</b>	<b>1,900</b>	<b>5,500</b>	<b>44,000</b>

Source: Internal analysis of ASCES 2011



Source: Internal analysis of ASCES 2011

Table 3B: Age and gender of new entrants at age 40 and above

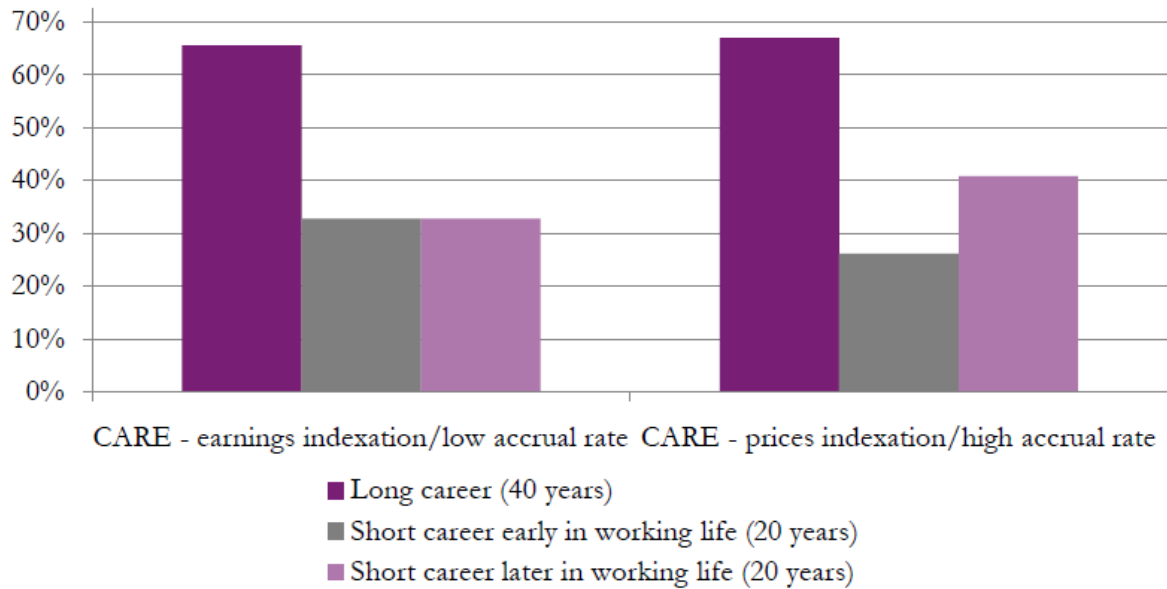
age	Male	Female	Total
<b>40-49</b>	35,800	39,600	75,400
<b>50-59</b>	20,400	13,200	33,700
<b>60-64</b>	1,700	500	2,200
<b>Total</b>	57,900	53,300	111,300

Source: Internal analysis of ASCES 2011

3.13 *Effects on those with career breaks.* Because the scheme design has opted for revaluation in service by prices, which is the same as revaluation in deferment, the pension earned will increase in line with prices whether an individual carries on working, remains employed but takes a break in service, leaves employment and returns later date, or leaves employment never to return. This means that those who take mid-career breaks, which experience suggests is typically more likely to be women, will not suffer any adverse effects compared with others within the new scheme. For those who are currently in a final salary arrangement and take a career break before the new scheme is introduced and return after 2015 and join the new scheme (as they are outside the transitional protection group), they will still retain the final salary link for their past service under current arrangements if they return within 5 years (based on their salary at the point they retire or leave the scheme). This means that this group are treated no differently than those who remain in the scheme, or those who leave employment and subsequently return within 5 years.

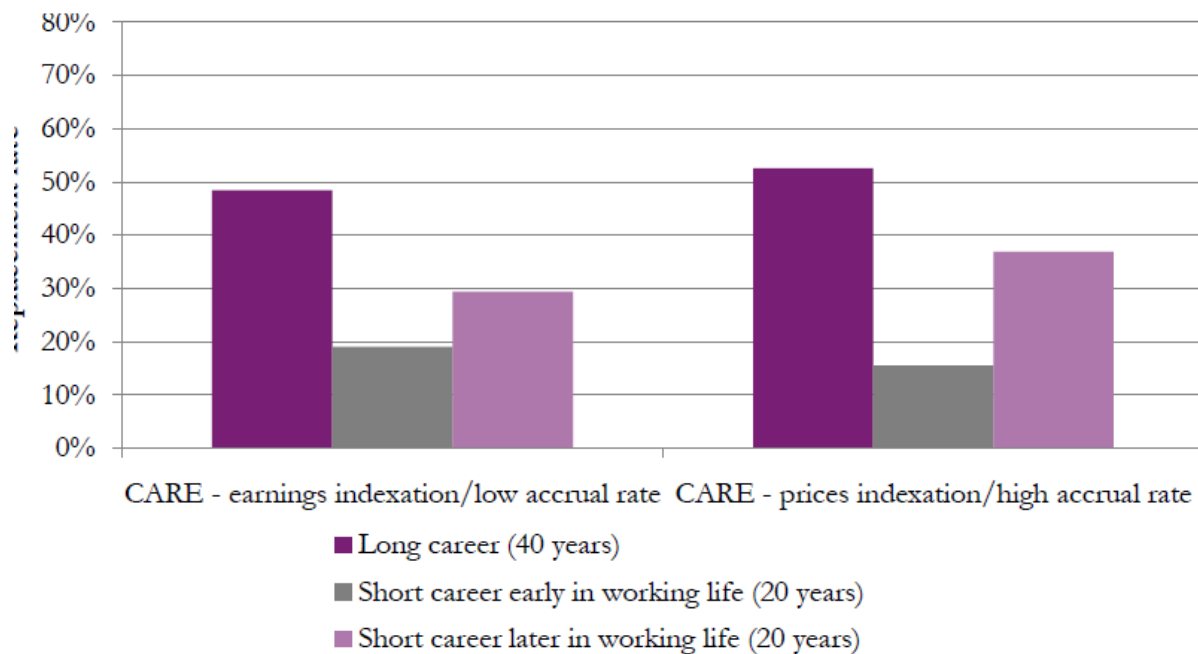
3.14 *Effects of differing revaluation approaches.* The charts (3F and 3G) below<sup>15</sup> demonstrate the effect of using different revaluation approaches.

Chart 3F: Illustrative replacement rates at retirement for a low flyer



Source: Hutton Report, 2010

Chart 3G: Illustrative replacement rates at retirement for a high flyer



Source: Hutton Report, 2010

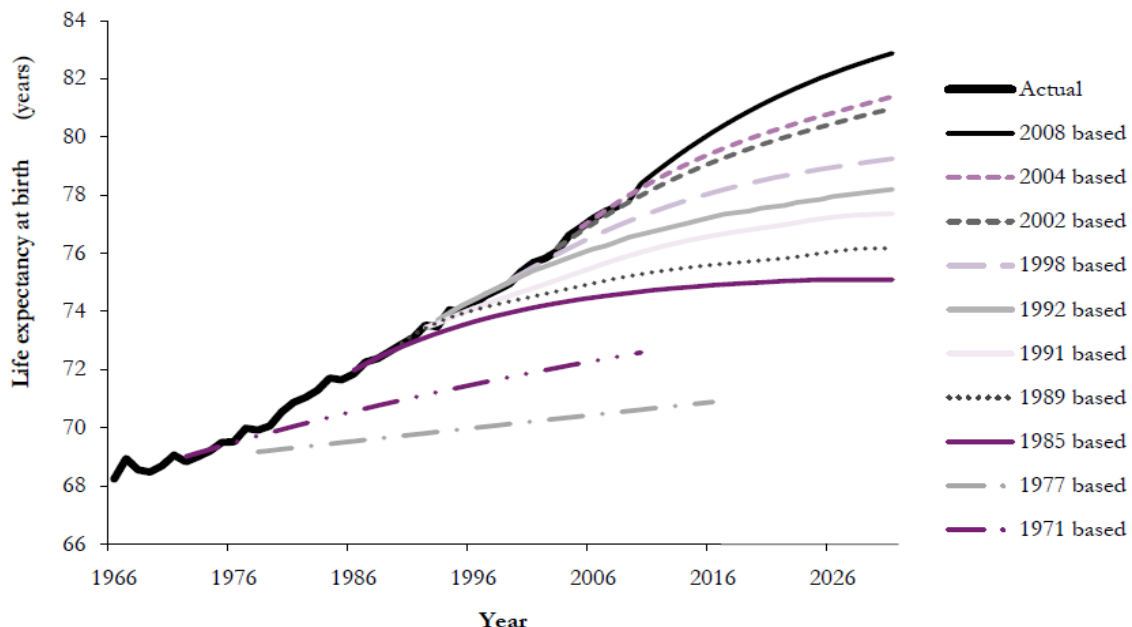
<sup>15</sup> Charts 3.D and 3.E are taken from Lord Hutton’s Independent Public Service Pensions Commission final report on public service pensions and were charts 3.C and 3.D.

3.15 The approach taken in the PFA to accrual and revaluation (higher accrual and lower revaluation) mirrors the approach taken in the currently open **nuvos** section of the Civil Service scheme. Taking the same approach as **nuvos** is expected to lead to greater confidence by the scheme membership as it is familiar and should help to limit opting-out and supports the Government's objective of continued support of its workforce in retirement. Adopting lower accrual and more generous earning revaluation could mitigate the age effects of the scheme design, but would be less familiar to the scheme membership who might not understand the trade-off between accrual rates and revaluation risking increased opt-outs as the headline accrual rate would be lower than **nuvos**. This approach is reasonable and proportionate, as it achieves objectives around minimising opt-outs. Further, for those who do not stay very long in the Civil Service early on in their career it is reasonable to assume that they might earn the majority of their retirement benefits with other employers.

#### Normal Pension Age link to State Pension Age

3.16 *The context.* The Government set out the case for reform of public service pensions in its publication "Public Service Pensions: good pensions that last" in November 2011. This included the fact that people are living longer and this means that public service pensions are being paid for much longer than was expected when these schemes were designed. The interim report of Lord Hutton's Independent Public Service Pensions Commission set out the facts on longevity - the average 60 year old is living ten years longer now than they did in the 1970s. As 3H, taken from this interim report, shows that the life expectancy of pensioners has been systematically underestimated in the past.

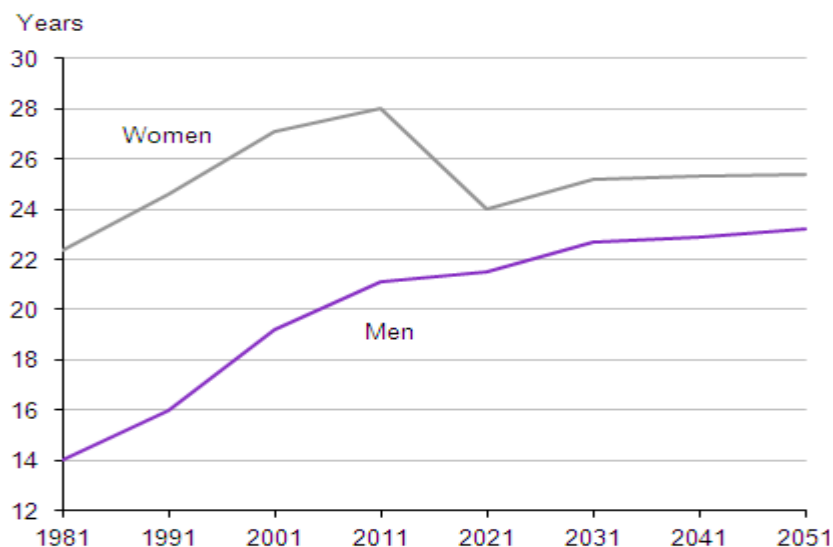
Chart 3H: Actual and projected period life expectancy at birth for UK males<sup>16</sup>



<sup>16</sup> Taken from Lord Hutton's interim report – chart ex.3

3.17 These improvements in life expectancy have resulted in public service pensions, including the Civil Service pension scheme, becoming much more expensive, with the bulk of the cost falling on the taxpayer. While the increase in life expectancy is good news, not all of these years can be spent in retirement; this means current arrangements are unsustainable. In Lord Hutton’s final report he recommended that, in order to better manage the effects of improvements in life expectancy, scheme member Normal Pension Ages should be linked to an individual’s State Pension Age. Chart 3I shows that life expectancy in the UK is projected to continue improving over time<sup>17</sup>.

Chart 3I: Cohort life expectancy at State Pension Age, UK



Source: Office for National Statistics

3.18 It is recognised that the information held about the behaviour of Civil Service retirement ages cannot easily be extrapolated to predict future behaviours in the Civil Service workforce. However, the Pensions Policy Institute have published a report on retirement income and assets<sup>18</sup> and have identified that there is already a general trend for people working longer in the UK and that in other countries an increase in the state pension age has seen an increase in the age at which people retire. The report identifies exceptions to this general trend, which relate primarily to those experiencing ill-health but has identified the various approaches to mitigation. In the Civil Service scheme provision already exists for ill-health benefits which can be paid early where an individual is unable to continue working in the Civil Service or at all. The State provides additional benefits that address such issues across the population as a whole.

3.19 *Scheme Design.* For the benefits earned under the 2015 scheme, members will have their Normal Pension Age linked to their State Pension Age, which means that if an individual’s State Pension Age increases so will their Civil

<sup>17</sup> The “dip” in women’s life expectancy is because the lines represent the length in retirement beyond State Pension Age and this reflects the realignment of the State Pension Age for women.

<sup>18</sup> Pensions Policy Institute. Retirement income and assets: the implications for retirement income of Government policies to extend working lives.

Service pension scheme Normal Pension Age. Civil Servants who are members of **classic**, **classic plus** and **premium** they currently have a normal pension age of 60 and for those who are members of **nuvos** it is 65; this will change for service in the 2015 scheme – currently ranging from 66 to 68 depending on the age of an individual<sup>19</sup>. The Office for National Statistics 2010 Period and Cohort Life expectancy tables show a continuing improvement in life expectancy, projecting that cohort life expectancy for those born in 2035 is 94.2 for men and 97.2 for women<sup>20</sup>.

- 3.20 *Those unaffected.* Not all current members of the Civil Service scheme will move to the 2015 scheme; those who have 10 years or less until their current Normal Pension Age will remain in their current pension arrangements and will be able to retire under the rules that currently apply in their section of the Civil Service pension scheme. It has been estimated that some 170,000 people (36% of scheme members) are covered by this protection, a further 58,000 (12%) will receive transitional protection and 238,000 (51%) will be affected from April 2015 onwards. (See Annex D).
- 3.21 *Those affected.* For those scheme members who move to the 2015 scheme, on or after 2015 (the group with taper protection may join later), then the benefits earned under the new arrangements will be payable at a later Normal Pension Age. At Annex D, further analysis by the main “protected” groups shows that there is no significant difference in the proportion of each “protected” group when looking at those who will remain in their current arrangements and those who will move to the new scheme.
- 3.22 For those transferring to the 2015, most current members of the **classic**, **classic plus** and **premium** currently have an NPA of 60, while those on **nuvos** have an NPA of 65. The move to an NPA linked to an individual’s State Pension Age could potentially have a greater impact on those who currently have a lower NPA, in that the gap between the age at which benefits can be paid unreduced under the current scheme and new scheme is greater. However, it would be difficult to justify giving different pension ages to different groups based purely on the pension ages under current arrangements – thereby perpetuating the already advantageous position of those with an earlier retirement age under current arrangements going forwards. Analysis of the ethnicity and gender by pension age, as set out in Tables 3C and 3D below, shows that those with a current NPA of 60 are less likely to be an ethnic minority and slightly more likely to be women than those with a current NPA of 65. However, these differences are not large. This issue is already addressed for the taper group discussed below, by setting the access to the taper protection based on current NPAs; this provides greater protection to those who have an earlier NPA (i.e. 60). As is demonstrated in Chart 2M, a large proportion of individuals with an NPA of age 60 will not move to the new scheme or will have transitional taper protection. It is also

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<sup>19</sup> Individuals can find out their state pension age by going to [www.direct.gov.uk/en/pensionsandretirementplanning/statepension/dg\\_4017919](http://www.direct.gov.uk/en/pensionsandretirementplanning/statepension/dg_4017919)

<sup>20</sup> Period and cohort life expectancy table 2010-based by ONS can be found at: [www.ons.gov.uk/ons/rel/lifetables/period-and-cohort-life-expectancy-table/2010-based/index.html](http://www.ons.gov.uk/ons/rel/lifetables/period-and-cohort-life-expectancy-table/2010-based/index.html).

likely that many of those in schemes with an NPA of 60 will have built up a number of years service in these schemes which is unaffected by this change (described in more detail below). The transitional protections provide mitigation to the effect described above.

Table 3C: Percentage of civil servants in different ethnic groups by pension age as of 31<sup>st</sup> March 2011

	Ethnic Minority	White
pension age 60	9	91
pension age 65	11	89
total	9	91

Table 3D: Percentage of civil servants by pension age and gender as of 31<sup>st</sup> March 2011

	Male	Female
pension age 60	46	54
pension age 65	49	51
total	47	53

3.23 *Those transferring in 2015.* For those outside the taper protection, either 46.5<sup>21</sup> years of age or below for the final salary scheme members or 51.5 years of age or below for **nuvos** scheme members, they will move to the scheme in April 2015. These individuals will have benefits payable at different pension ages and the balance between the two schemes will be determined by their years of service before and after 2015. Those who have a few years of service before 2015 will have more of their benefits in the 2015 scheme (if they serve a full career) and less of their benefits in their current scheme arrangements; this balance shifts for members of the schemes with many years of service before 2015. It is recognised that there is a potential indirect impact on younger scheme members, but this is considered proportionate. No individual will be required to work until their State Pension Age and will have choice about when to retire, but there will be an impact on the value of pension benefits for those that retire before the State Pension Age. Often, this will be a voluntary choice, based on an individual's circumstances.

3.24 Some people will be unable to work until their State Pension Age and so may receive less benefits from this change compared to the benefits that they would have built up under their current arrangements or had been able to work until their State Pension Age; 30% of the English population aged 60-64 have a disability that impacts on their ability to work, 15% of 60-64 year old women in England have caring responsibilities and people with less wealth

<sup>21</sup> See footnote 8.



and education are less likely to work beyond 50<sup>22</sup>. However, for those where it prevents their ability to work for the Civil Service the pension provisions allow for early ill-health retirement without financial penalties and for those who are unable to work at all, pension benefits are enhanced thus mitigating these possible effects.

- 3.25 However, based on behaviours in other countries where pension ages have changed, it is reasonable to expect the change in pension age to drive increases in retirement ages. Work undertaken by the Pensions Policy Institute, discussed above, supports the expectation that people will work longer. In addition, standard retirement ages and the generosity of pension schemes explain about a third of changes in retirement ages across the OECD<sup>23</sup> over the past few decades. For instance, in New Zealand, the rapid transition from 60 to 65 in the standard retirement age during the 1990s was accompanied by a pick-up in the labour force participation of the 55-64 age group by over 15 percentage points<sup>24</sup>.
- 3.26 Younger scheme members can be expected to be affected to a greater degree by the change in the NPA than older members, but should also benefit from improved life expectancy. However, for those members who joined after July 2007 the gap between the different scheme NPAs is not so great. It is considered reasonable and proportionate to take this approach, as those who are likely to be most affected by the change will have a considerable period of working life in which to adjust to a later retirement age and can be expected to be the beneficiaries of the improved longevity<sup>25</sup>. Without the proposed changes, younger scheme members would have benefitted relative to older scheme members with more years in retirement and would have pushed up the overall cost of the scheme; changing the Normal Pension Age addresses this differential impact that would have otherwise occurred under current arrangements. However, younger staff will still have a choice about when they retire, including retiring before their new NPA. This is part of the adjustment of the pension scheme to reflect the expected changes in the longevity of the civil service as a whole rather than differentiating between the life expectancies of different groups within the Civil Service.
- 3.27 *Current retirement ages.* Charts 3J and 3K below show the ages at which Civil Servants currently retire. This done by identifying the Civil Servants that leave due to retirement at or above the minimum age, retirement on grounds of ill health and actuarially reduced retirement. Data on those who have taken early retirement due to early departure schemes<sup>26</sup> have been excluded from

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<sup>22</sup> Pensions Policy Institute Retirement income and assets: the implications for retirement income on Government policies to extend working lives 2012

<sup>23</sup> Organisation for Economic Co-operation and Development, see more details on: [http://www.oecd.org/home/0,2987,en\\_2649\\_201185\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/home/0,2987,en_2649_201185_1_1_1_1_1,00.html)

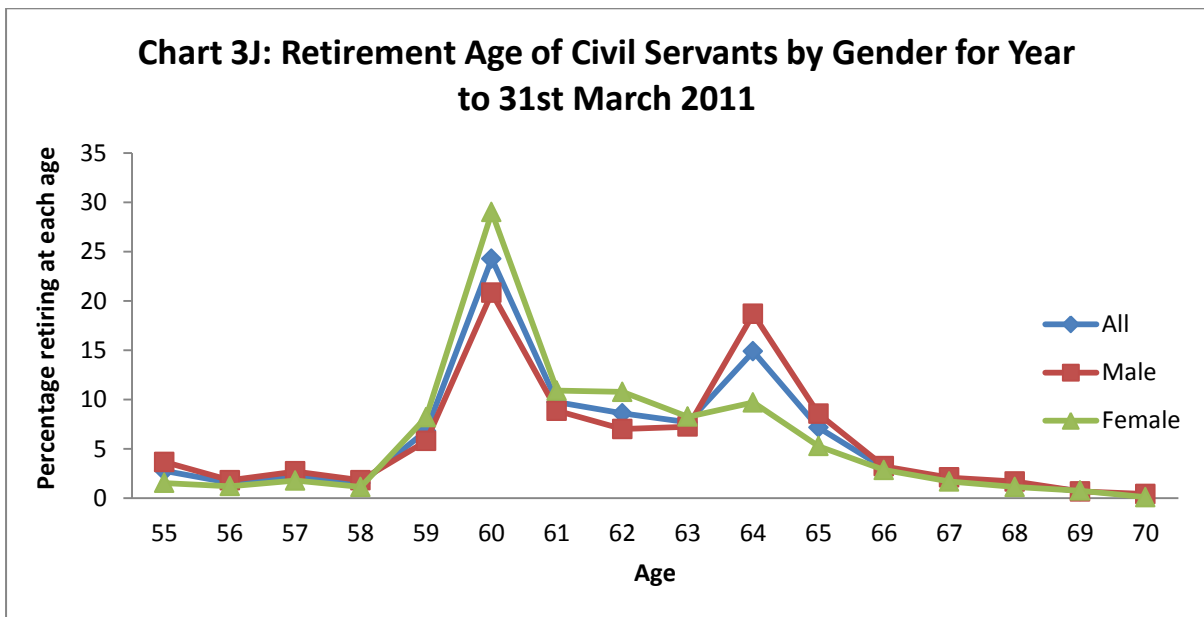
<sup>24</sup> Romain Duval The retirement effects of old-age pension and early retirement schemes in OECD countries OECD 2003

<sup>25</sup> This assessment is based on data about the UK population as a whole, but would expect similar trends in longevity improvements for the civil service.

<sup>26</sup> The excluded data is for those with approved early retirement and flexible early retirement.

these charts, to avoid any distortion of the general patterns created by the recent increase in such departures. Graph 3J looks at the retirement ages in 2011 for women and men and shows that more women retire at 60 than men and also shows the high numbers of people retiring around the ages of 60 or just before people turn 65 (with lower levels in the ages in between). There are a number of reasons why this might be the case, but could be explained by a tendency to retire at the State Pension Age (which is lower for women in this age group). This tendency for large jumps in retirement rates to cluster around standard retirement ages holds in different countries and over time<sup>27</sup>. If this is the case, the retirement age for women may move closer to men as their State Pension Ages fall in line with those for men. Apart from this issue, the profiles are noticeably similar.

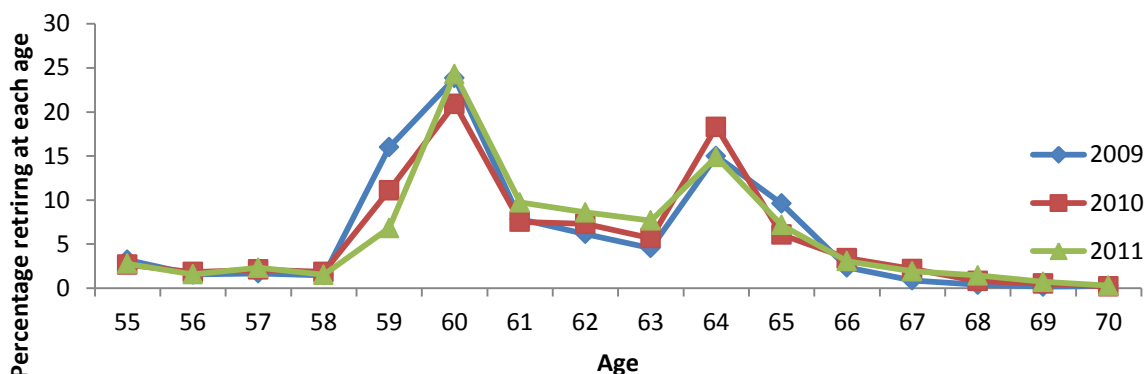
3.28 Graph 3K shows the retirement ages of Civil Servants in 2009, 2010 and 2011 to establish whether the pattern is fairly constant. The graphs show that the retirement ages are actually very similar across all three years. There is no evidence that leaving due to other reasons, such as inefficiency increased over this time period. Graph 3J shows that in general there is already a trend to work beyond Normal Pension Age (60) in the Civil Service.



Source: Internal analysis of ASCES 2011

<sup>27</sup> Romain Duval The retirement effects of old-age pension and early retirement schemes in OECD countries OECD 2003

**Chart 3K: Retirement Age of Civil Servants in 2009, 2010 and 2011**



Source: Internal analysis of ASCES 2011, 2010 and 2009

3.29 *Transition – taper protection group.* Those scheme members who are covered by the taper protection (see also section on transition etc), will have the opportunity to remain in their current pension arrangements beyond April 2015; the length of which will be determined by age. Those near the end of protection may have a few extra months, whereas those closest to the age of 50 in April 2012 will remain in their old arrangements until 2022 (some 7 years longer). These arrangements mean that the impact of the later retirement age in the 2015 scheme can be mitigated, should members of the taper group chose to remain in their current arrangements for longer. However, this will be a matter of choice for this group and they will have the flexibility to decide whether they want to work longer and benefit from the higher accrual rate in the 2015 Career average scheme for a longer period<sup>28</sup> and therefore move sooner to the new scheme or maximise the level of benefits paid at an earlier retirement age and the retention of the benefit package on offer in that scheme.

3.30 *Those with known medical conditions.* Concern has been raised about scheme members who have known medical conditions may, on average, not live as long as others. It has not been possible to get any data that might assist in the consideration of this issue that directly relates to those with known medical conditions or disabilities, such as how long they draw a pension in retirement or how many die while in service. This is because the Penser database is not set up to record this level of detail, as its primary function is to support the administration of pension payments. There is limited information relating to the payment of ill-health benefits that identifies the broad conditions that have lead to payment in the Scheme Medical Advisers Annual Report (such as musculo-skeletal or mental health), but this does not identify those cases that were pre-existing conditions. Much of the information

<sup>28</sup> See Annex A - the tables in annex B of the Proposed Final Agreement show how the taper protection works.

held would be medical in-confidence. The ONS statistics do not collect relevant data either that would assist in the consideration of the issues raised.

- 3.31 It is recognised that people with certain conditions may experience reduced life expectancy.<sup>29</sup> Life expectancy is always changing, sometimes with rapid improvements in the average life expectancy for certain conditions. It has been proposed that a different pension age might be granted to those scheme members diagnosed with particular health conditions, but there may be members with other conditions with similar effects that are undiagnosed who would not have been given this dispensation. Such an approach does not reflect the way in which defined benefit pension schemes operate in respect of the sharing of risks across the scheme membership thereby making the benefits more affordable. In setting the level of contributions required to pay for pension scheme benefits there is an actuarial assumption that some staff will not survive to pension age due to unforeseen events such as accidents as well as ill-health.
- 3.32 A pension scheme is not designed to provide a set minimum period of support in retirement; in the case of ill-health the scheme is there to provide income once members are unable to work. Further, benefits are paid to members' dependants in the event of their death and if this is not the expected average period of retirement these benefits will generally be paid for a longer period. It has therefore been concluded that the provisions already made in the 2015 sufficiently address the concerns of those with known and unknown health conditions. Any adjustment to benefits for specific groups would require a reduction in benefits offered to other scheme members to meet the additional costs. This approach is not considered a proportionate response, given the provisions that already exist.<sup>30</sup>
- 3.33 *Different retirement ages.* Under the 2015 scheme there will be individuals with different retirement ages which are determined by their State Pension Age (which in turn derives from the date of their birth). While this means that the benefits that individuals earn will vary, this is considered reasonable and proportionate. Those with a later Normal Pension Age can be expected to live longer and without such an adjustment would benefit from a longer period in retirement. Further, the mitigating effect is that those who work to a later Normal Pension Age will also accrue further years of pension benefits in reaching that later age.

### *Member Contribution Rates*

- 3.34 *The context.* Until April 2012, scheme member contribution rates for the Civil Service schemes were flat – regardless of earnings. For example, the **classic** scheme had a 1.5% member contribution and the **premium** and

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<sup>29</sup> For example, there is data on the life expectancies of those suffering from diabetes in the UK population as a whole in the National Diabetes Mortality Analysis 2007-08; no similar data is held for the Civil Service workforce relating to this condition.

<sup>30</sup> Guidance on ill-health under current schemes can be found at: <http://www.civilservice.gov.uk/ill-health-retirement-guide-for-members>.

**nuvos** schemes had a 3.5% member contribution. This changed in April 2012 with increased member contributions, which were tiered<sup>31</sup> with the lowest paid paying no increase and those with pensionable pay of £60,000 or more paying an extra 2.4%; the equality impacts of this change were considered separately. Further increases will be introduced in April 2013 and April 2014 and consideration will be given to any equality impact.

3.35 The planned average member contribution for the 2015 scheme is 5.6%. In annex B of the PFA, the approach to how member contributions will be structured was set out, including the criteria on how this might be assessed.

3.36 *Scheme Design*. Further discussions will take place, but the proposed structure of the member contributions is:

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 - £150,000	7.35%
£150,001 and above	9.0%

3.37 *Effects across the workforce*. There is a balance to be struck between a contribution structure that reflects the benefit structure and the aim to minimise the opt outs of lower paid staff. It is of benefit to the whole scheme membership if there is a high participation rate in the pension scheme and this is considered an important policy objective. Therefore it is reasonable that lower paid staff, especially at the start of their careers, make lower contributions to help limit opting out at start (thus reducing the risk that lower paid workers will never get into the habit of paying contributions and so never join). There is an objective that the scheme remains affordable to the whole scheme membership. Tiered contribution rates mean that higher paid members are cross-subsidising member benefits for the lower paid; this is because of the move for most from final salary to career average benefit accrual means members with significant career progression no longer receive proportionally more benefits against the level of contributions paid. It is therefore possible that opt-outs for higher earners may increase, which would not be consistent with the criteria set out in the PFA (described below). The group most likely to be affected are white, middle-aged men, as can be seen from Chart 2B which shows that 64% of the SCS is male and 60% of grades 6 and 7 are also male coupled with Chart C4 that shows earning increasing with age, with people age 40-59 most likely to be on higher incomes. Tiered contributions could also act as a disincentive to seek or take promotion and may distort pay structures.

<sup>31</sup> <http://resources.civilservice.gov.uk/wp-content/uploads/2011/12/response-to-consultation-14-December.pdf>

- 3.38 The tiering structure will need regular review to ensure that the contributions deliver the average contribution level of 5.6%, to ensure that the Civil Service scheme remains sustainable, but also to ensure that in total the member contributions do not exceed the 5.6%.
- 3.39 *Effects on part-time workers.* Although a tiered approach based on FTE addresses the objective of protecting the low paid, which will be of greater benefit to women, ethnic minorities and disabled groups given their proportionately greater representation at lower grades, the pensionable earnings on which contribution levels are determined is full-time equivalent (FTE) pay, not their actual earnings. Concern has been raised that part time workers could be disproportionately impacted by this approach (which has already been adopted in the contribution increases for 2012-13). Given that women represent 84% of part time workers, this approach will have a greater impact on women than men and could be considered to be indirect discrimination.
- 3.40 Careful consideration was given as part of the analysis of the contribution increase for 2012-13. Using the FTE pensionable earnings ensures that the same level of contribution is paid for staff earning the same amount per hour; if those working part time paid lower level contributions it would require a further cross-subsidy by higher paid staff to ensure the average level of contributions is raised. Work undertaken as part of the consultation on 2012-13 contribution increase identified that the increase arising from adopting an actuals approach would be most likely to impact on those in the middle tiers, given the Government's objective to limit the maximum increase. The additional tiering necessary for an actuals approach could exacerbate the deterrence to taking and seeking promotion. There is also likely to be an unfair advantage for those who opt for partial retirement at the end of their careers and work part-time, as they would have much reduced contributions while maintaining their overall income levels; again subsidised by full-time workers in higher paid roles.
- 3.41 There is no evidence to suggest that part-time workers will never return to full time work during their career; much will depend on the reasons for working part-time. It has been concluded that any difference in treatment which indirectly arises as a result of this approach (based on the objectives set out in paragraph 3.41 below) is proportionate and reasonable. But, it should be stressed that no final decisions have been taken and equality issues will be considered and taken into account in further discussions.
- 3.42 In the planned further discussions on the way ahead, the following priorities will be considered:
- Impact on the low paid;
  - The tax regime at that time;
  - Minimising the risk of opt-outs across the whole scheme membership; and

- Need to ensure the scheme remains sustainable, a valuable part of remuneration and affordable to all members.

### *Spouses/partner benefits*

- 3.43 *The context.* The 2015 scheme will provide spouses/partner benefits at 3/8ths of the member pension. For members of the **nuvos** and **premium** scheme there is no change from the proportion of the member's pension provided under their current arrangements; there is therefore no change in equality impacts.
- 3.44 *Scheme Design and Impact.* The majority of members of **classic** currently have spouses benefits generally based on half of the member's pension paid to their spouse; as the pension and lump sum accrue separately under the **classic** scheme this means the benefits are the same as those under the **premium** scheme. This apparent difference therefore has no impact.

### *Death in service lump sum*

- 3.45 The minimum level of the 2015 death in service lump sum is the same level as that provided by the **nuvos** and **classic** schemes (two times salary). However, members of the **premium** scheme have higher death in service benefits (three times salary). The death-in-service benefits paid out will be under the scheme the member is currently a member of, so this will mean that if a former member of **premium** is in the 2015 scheme and they die in service, their dependants may get a lower benefit. However, the death-in-service benefit could be considered akin to an annual insurance **premium** and the move to the 2015 means that members are paying for a different benefit structure of which this but one element.
- 3.46 The Charts E1, E2 and E3 at Annex E show the level of deaths in service. The key findings are that in 2010-11 there were 550 deaths in service and that 58% were men; this is a very small group in respect of the total workforce. The vast majority of people who die in service would not have been on **nuvos**, but it is not possible to differentiate between **classic**, **classic plus** and **premium**. However, the majority of people who die in service are within ten years of their pension age and so would not be affected by this change as they will either be remaining in their current scheme or have the option to remain for longer in their current scheme in the taper. For those in **premium** who transfer to the new scheme, the longer they remain in the 2015 scheme the greater the death-in-service benefit will be (up to a maximum of 5 times pension). For those who transfer with little service in the premium scheme, the fact that there is a tendency for deaths-in-service to occur later in life will mean that higher benefits are likely to be available when needed and the period when a lower benefit is payable will be when members are younger and therefore less likely to die in service. Therefore, over time this issue will no longer arise.

3.47 However, concern has been raised about the overnight reduction of the death in service benefit for those who are in **premium** and **classic plus**. This concern has been highlighted by cases where individuals are already ill and fear that the benefit that they were relying on to help their dependants in the event of their death would be reduced and they would find it very difficult to purchase extra life cover in the market. Further work to identify a mitigation has led to a change to the 2015 scheme, allowing the benefit to taper away gradually over 10 years rather than overnight. This will mean that there is no sudden cliff edge to the benefits paid out to the dependants of such individuals who die in service and will allow those with longer term conditions time to make other provisions as needed.

### *Ill-health benefits*

3.48 Ill-health benefits under the 2015 scheme will be in line with those in the current open scheme (**nuvos**); this provides two levels of ill-health benefit depending on whether an individual is assessed as being unable to continue working in their current role or unable to work in any capacity. Providing two levels of benefits ensures that those who are unable to work in any capacity receive higher benefits; this is considered reasonable and proportionate within the new schemes membership. Table 3E below shows the small number of retirements on ill-health grounds in the last three years.

Table 3E: Ill-health retirements in 2009, 2010 and 2011

	<b>Numbers retiring on grounds of ill health</b>	<b>percentage of those that leave the Civil Service who retire on grounds of ill health</b>
<b>year to 31st March 2011</b>	450	1
<b>year to 31st March 2010</b>	550	1
<b>year to 31st March 2009</b>	700	2
<b>average</b>	550	1

Source: Internal analysis of ASCES 2011, 2010 and 2009

3.49 For those who are members of the **nuvos**, **premium** and **classic plus** schemes who transfer to the 2015 scheme, they will see no change in the equality impact of these benefits as they all offer two levels of ill-health benefit. However, for those who transfer from the **classic** scheme there is a potential impact due to the difference in the ill-health provisions. Over 57% of the workforce are in the **classic** scheme, but a large proportion of these are expected to remain in their current arrangements under the transitional protection arrangements or could remain longer in their current arrangements under the taper protection. For those who are in classic and do transfer in



April 2015, it is expected that these members will have a relatively large number of years accrued under classic in comparison to the new scheme.

- 3.50 The requirements to satisfy entitlement to ill-health benefits in **classic** are broadly the same as those under the lower tier ill-health benefits in the 2015 scheme; so there will be no change in accessing the lower tier of ill-health benefits. However, under the **classic** scheme there is a potential for an enhancement to the benefits paid, dependent on the specific circumstances that may on occasion be paid to those with conditions that prevent their continued working in the Civil Service, but not prevent other work; this potential enhancement will not be available under the lower tier of ill-health benefits in the 2015 scheme. However, the impact of this potential effect will be tempered by the period of service under which **classic** ill-health benefits will be paid.
- 3.51 For those members of **classic** who transfer to the 2015 scheme and have a condition that would prevent them from working in any capacity, the benefits paid under the 2015 will be more generous. The effect of this difference will be dependent on the length of service in the 2015 scheme before ill-health retirement.
- 3.52 It is considered that the effects of this potential impact on those in the **classic** scheme is reasonable and proportionate, given the size of the population likely to be affected and the fact that those unable to work in any capacity will receive more generous benefits.
- 3.53 More generally, it is considered reasonable to view the awarding of ill health benefits as serving a valuable function in mitigating any negative impacts arising from the increase in NPA for those members who may not benefit from the statistical trends of increasing longevity and improved health into later life; in particular where a higher tier award is made. As such, these benefits represent an example of the scheme actively promoting equality of opportunity for members of those “protected” groups who may be more likely to encounter ill health, such as older people. In the context of ill health benefits, the increase in Normal Pension Age will benefit younger scheme members who are awarded ill health retirement enhancement (higher tier award), as the calculation of the pension for total incapacity takes account of the number of years to normal pension age.

#### *Cost cap and floor*

- 3.54 The PFA sets out proposals to have a cap and floor in place to protect the Exchequer from unforeseen cost pressures (excluding financial assumptions), not addressed by the 2015 design, and allow for improvements of member benefits should costs fall below a certain level. The current Civil Service schemes already have a cap and share policy in place to control cost pressures and it is proposed that the same issues that are covered by this policy will feed in to the cap and floor arrangements. This means that only those costs that are attributed to the cost of the benefits provided to scheme

members will have an effect – for example, greatly improved life expectancy, changes in career paths, age and gender mix.

- 3.55 The employer will be responsible for meeting the cost of the following categories:
- changes to scheme administration costs;
  - changes to financial assumptions, such as a change in the discount rate;
  - changes to actuarial methodology; and
  - the effect of overpayments by employers.
- 3.56 In the PFA, the cap and floor has been set at 2% on either side of the scheme's cost at the point of the first full valuation before implementation.
- 3.57 The current active members of the Civil Service scheme will benefit from the addition of a floor in this arrangement, as the cap and share agreements do not have the ability to reduce member contributions or improve benefits should costs go down. The specific effects will depend on what is decided in discussions with the trades unions.

#### *Abatement*

- 3.58 Under the current Civil Service pension schemes, if an individual returns to work in the Civil Service having drawn their pension they cannot have an income (through salary and Civil Service pension payments) greater than their salary at the point of departure; if they do, then their pension benefits will be abated to this level. For benefits earned under the 2015 scheme, should an individual return to work after drawing their 2015 pension they will not have any abatement of their 2015 pension benefits and can therefore work full time should they chose to do so without suffering any reduction to their 2015 pension. This improvement will benefit all those who transfer to the new scheme, but will be proportionately more beneficial to those who earn greater levels of benefit in the 2015 scheme and subsequently chose to return to work after retirement. It is reasonable to assume that there is a link to the age of a scheme member, as those with an opportunity to earn more of their benefits in the new scheme will by necessity be further away from their Normal Pension Age (and therefore younger) than those who will benefit to a lesser degree. This scheme design removes barriers for those who wish to return to work after retirement.

#### *Split pension payments*

- 3.59 For those members of the Civil Service scheme who build up benefits under a current scheme and the 2015 scheme, they will have a choice to draw their current scheme benefits at that scheme's Normal Pension Age without being required to draw their 2015 benefits. This allows individuals the flexibility to make their own decisions about when they want to draw their 2015 benefits. Individuals will not be forced to take 2015 benefits early with an actuarial reduction; there will be a judgement to be made about the level of income

required at the point of retirement. This will benefit all those members who have split benefits, but may offer greater flexibility to those who have a greater proportion of benefits under current arrangements; this is likely to benefit older members of the pension scheme. There are no particular effects on other “protected” groups.

3.60 At Annex F, charts provide analysis of the split between current and 2015 schemes by age, gender, working pattern, salary, ethnicity and disability. These charts look at the proportional split between years on existing schemes and expected years on the new scheme. The approach taken is described in the Annex. It is important to note that these figures only cover people in the group that will be changing their pension scheme in 2015, and not to the Taper Group. People in Taper Group may also have split pensions if they continue to work after their taper has ended or if they choose to move onto the new scheme before then. Significant differences are not expected between the Taper Group and this group, except they will be older and consequently more likely to be male. They are also more likely to be in the lower proportion split groups i.e. they are more likely to have proportionally more years built up in the old schemes.

3.61 The key points from the charts at Annex F are:

- There are a significant number of current Civil Servants who will have split pensions under the new scheme; roughly 245,000. This is roughly half of the Civil Service;
- Most people will have a significant number of years in each scheme;
- There are small numbers of people with either very few years saved up under the old scheme or very few expected under the new scheme. This is likely to be because the Transition Group is excluded from this analysis, it does not take into account people who join the Civil Service between March 2011 and 2015 and because of difficulties estimating how long people will stay in the Civil Service;
- As expected, those with a larger proportion of years under the old schemes and less time under the new scheme will be older;
- There are not large differences between the proportion splits by gender. However, men are more likely to have higher proportions, probably due to having more time saved up under the current schemes;
- Full time people are more likely to have proportionally more time built under the current schemes than part time people;
- There is no clear pattern for the salaries of people with different proportions of years in the different schemes. However, those with a high proportion of years in the current scheme are more likely to have a higher salary; and
- There is little difference between the proportions of ethnic groups in the different bands.
- People with a declared disability are more likely to have proportionally less time built up under the current schemes than others. This may be due to disabled people having less time built up under current schemes. However, it is hard to identify clear trends in the data due to the large proportion of people who do not declare whether or not they have a disability. It is worth noticing

that Chart D2 shows that a greater proportion of those with a declared disability in the transitional protection groups, compared with those moving directly to the 2015 scheme.

### *Transfer club*

- 3.62 The PFA gave a commitment to continue the Public Sector Transfer Club. Work is underway to develop a suitable approach across public service schemes and further consideration of equality issues will be given when more detail is known.

### *Transitional arrangements:*

- 3.63 As set out in Chapter 1, the transitional protection arrangements provide mitigation against the impact of introducing changes to pension arrangements for older workers, who would otherwise have had less time to adjust to a change in circumstances than those with longer careers ahead of them. In taking this approach, it means that those who are younger will not be offered any transitional protection but this is considered reasonable and proportionate given that they will have time to adjust and that they are likely to benefit from the expected improvements in life expectancy when they come to retire unlike older scheme members. Further, all the pension benefits earned under their current pension arrangements are protected.
- 3.64 As discussed in Chapter 1, within the transitional arrangements there are two groups. First those who on 1 April 2012 have 10 years or less to their Normal Pension Age who will remain in the current pension arrangements. Second those who at 1 April 2012 have more than 10 years, but less than 13.5 years to their Normal Pension Age. At Annex D, further analysis has been undertaken to establish how the different “protected” groups are represented across the transitionally protected groups and those that will move to the new scheme in April 2015. This does not show any significant differences in respect of disability, gender, ethnicity or earnings. It does show, however that a larger group of those who are moving across to the new scheme in 2015 already have a pension age of 65 compared to those who are covered by transitional protection; but this would be consistent with the evidence that shows that the age group of those **nuvos** members is lower than in the other sections of the pension scheme.

### *Taper protection*

- 3.65 In the PFA (annex A) there are tables setting out how much longer those who are entitled to taper relief can remain in their current pension arrangements. The tapering gives those closest to retirement an opportunity to build up more pension benefits under their current arrangements which have an earlier retirement age. However, they have a choice about whether they want to do this or move to the new scheme in April 2015:

- For those with the greatest protection as they are closer to retirement – it means that they can take a larger proportion of their pension at their current NPA – so if they wish to retire earlier than their SPA they may be attracted to this option;
  - For all those in the taper, the ability to take pension benefits from their current scheme without being required to take actuarially reduced benefits built up in the new scheme gives individual members greater flexibility;
  - For those towards the end of the taper, there will be a choice about whether to gain a small additional period in their current schemes or move sooner to the 2015 scheme which offers higher accrual rates. Much will depend on individual decisions, based on their expectations for the rest of their career.
- 3.66 For those scheme members who are just outside the taper group, the benefit of being in the taper group reduces the closer to the 13.5 years away from Normal Pension Age and therefore the difference between those just within the taper group and just outside will be small. Those close to the end of the taper may choose to move straightaway to the 2015 scheme, removing this difference. At this stage it is difficult to anticipate the behaviours of this subset of the taper group. Having a taper was considered a reasonable and proportionate response to the group just outside the 10 year protection group, and it was considered that those with more than 13.5 years should have sufficient time to adjust to the changes being introduced.

#### *Choice Exercise*

- 3.67 The taper protection group are being offered a choice about whether to take the opportunity to stay for a longer period in their current pension arrangement, or to move straightaway to the new scheme. The considerations described above will be key influencing factors. Further information will be provided to those who participate in the choice exercise to assist them in taking an informed decision.
- 3.68 In taking forward a choice exercise for those with transitional protection, it was considered appropriate to limit this to the taper group who will have benefits in both schemes unlike those within the 10 year protection period. The issue of choice was considered for those who are remaining in their current pension arrangements. However, the Government's commitment ensures that this group will be getting the same benefits paid at the same time as if the new scheme had not been introduced. For some individuals, it might be possible for them to increase the level of retirement benefits they receive due to the different scheme design and its effect at the end of a career (as discussed in paragraphs 3.7 to 3.14 above). The exact outcomes of such a choice would be dependent on an individual's circumstances and various assumptions that they would need to make about their future behaviour and actions.
- 3.69 For individuals who are within the 10 year protection group, they may have planned their retirement based on their current pension arrangements and while for some a chance to move to the new scheme might mean they could increase their benefits, the Government has not given a commitment to offer

this group improved terms beyond what they currently receive. To allow such a group to move to the new scheme if they could gain personally would mean that the benefits for members of the 2015 scheme would need to be reduced to meet this cost. While in the long term a less generous 2015 scheme would save the taxpayer money, it would make the Civil Service pension scheme a less attractive part of the package for future staff. Not offering a choice is considered reasonable and proportionate, given that the 10 year protection group has not been affected by a move to the new scheme.

## 4. Summary and action plan

- 4.1 This Equality Impact Assessment of the 2015 Civil Service Pension Scheme has examined the key design features of the new scheme in accordance with the public sector equality duty (section 149 of the Equality Act 2010); both within the membership of the new arrangements, but also where there is an interaction with current pension arrangements for those who will transfer. Not all of those currently in the Civil Service Pension Scheme will be affected by the changes described in this document. It is estimated that some 37% will remain in their current pension arrangements until they retire or leave. It has also been estimated that some 12% will receive some taper protection, so that they do not have to move to the scheme in April 2015 but at a later date determined by their age.
- 4.2 In Chapter 2, the information held for the key “protected” groups within the Civil Service workforce is explored. The characteristics of the Civil Service as a whole are not the same as those in the Civil Service Pension Scheme. However, although the analysis of those who opted-out of the Civil Service Pension Scheme (set out in Annex B) shows that there are some differences, it has been concluded that the Civil Service wide data provided by the ASCES database produced by the ONS provides a reasonable approximation for the Civil Service Pension Scheme membership for the purposes of this EIA. Further data has also been provided from the Civil Service Pension Scheme Penserver database.

### Key characteristics of the Civil Service workforce

- 4.3 As was explained in Chapter 2, the Civil Service workforce overall has a broadly even split between men and women. However, the distribution across responsibility levels shows that women are under-represented at the higher levels. Further, women are more likely to work part-time than men. The Civil Service has broadly the same level of representation of ethnic minorities as the UK population as a whole, but the distribution across responsibility levels shows that ethnic minorities are under-represented at the higher levels. Those with a declared disability have similar patterns of representation across responsibility levels as for women and ethnic minorities, although to a lesser degree.
- 4.4 Although there is no data available on marriage/civil partnerships, it has been concluded that no element of the proposed scheme design discriminates against those who are married or are in a civil partnership, on the basis that the reformed scheme provisions apply irrespective of the marital status of the member. In respect of pregnancy and maternity (and carers), although there is no specific data on this group matters that are relevant to this group such as part-time working and treatment of those on career breaks are considered.

## Key finding of the assessment

4.5 The assessment has identified the following issues in respect to the key design elements of the 2015 scheme:

- *Career average.* Offers a fairer outcome in terms of the sharing of the benefits across the workforce than the traditional final salary arrangements in place for many – in particular women and those with a declared disability will benefit, given the tendency for higher representation at lower pay levels;
- *Accrual rate/indexation.* The higher accrual rate coupled with a lower revaluation in service will mean that benefits earned in short early career will be less than for the same period of service nearer retirement. However, using the same design as currently on offer in the **nuvos** scheme is expected to reduce future opts-outs and for those with early careers in the Civil Service it was considered reasonable given that their main period in which to earn pension benefits would be from other employment.
- *Linking the Normal Pension Age to State Pension Age.* Without this element of scheme design younger workers will be building up benefits worth more than older members due to the continued improvement of average life expectancy. Having a moving Normal Pension Age means that younger scheme members can be expected to be affected to a greater degree than older members, but should also benefit from improved life expectancy. The transitional arrangements in place will mitigate the effects of this change for older staff. Ill-health benefits within the scheme provides for those who are unable to work until their Normal Pension Age due to ill-health.
- *Member contribution rates.* Further equality consideration will be given in developing the contribution structure for the increases in 2012-13 and 2013-14 and before confirming the structure from April 2015, taking account of the criteria set out in the 9 March Proposed Final Agreement.
- *Death in service lump sum.* An impact has been identified for a specific group of individuals who are currently members of the **premium** or **classic plus** pension schemes who are suffering from serious health conditions. Further work to identify a mitigation has led to a change to the 2015 scheme, allowing the benefit to taper away gradually over 10 years rather than overnight.
- *Ill-health benefits.* For those on **classic** the benefits are different. For a member of **classic** who transfers to the 2015 scheme, the benefits in the 2015 will be lower for conditions which only prevent working in their current role and higher for those conditions that prevent any form of future work. This is considered a reasonable approach and is mitigated by the benefits already built up under the **classic** element of service.
- *Transitional protection.* These arrangements provide mitigation against the impact of introducing changes to pension arrangements for older workers who would otherwise have had less time to adjust to a change in circumstances than those with longer careers ahead of them.



## Follow up actions:

### *Data gathering and monitoring*

- 4.6 In undertaking this assessment, there are some gaps in the data available that have been identified. Where practicable, alternative information has been used to inform the analysis. However, going forwards further consideration will be given to what further data might be captured through the pensions database or related activities.
- 4.7 As further data becomes available, consideration will be given to equality implications. Work is already underway to collect data on opt-outs which will help to inform further work developing the contribution structures for employee contribution increases in 2013-14 and 2013-15, as well as the final structure of the contributions when the 2015 scheme is introduced.

**CIVIL SERVICE PENSION SCHEME – PROPOSED FINAL AGREEMENT**

1. This document sets out the Proposed Final Agreement on the scheme design for the Principal Civil Service Pension Scheme to be introduced in 2015. The Government has made clear this sets out their final position on scheme design, which unions will now take to their Executives as the outcome of negotiations on scheme design. This includes a commitment to seek Executives' agreement to the cessation of any industrial action on pension reform whilst consulting with members. If the proposals do not gain support from a sufficient number of Trade Unions, the Government reserves its position on all aspects of this proposed scheme design.
2. This is the Proposed Final Agreement which reflects the conclusion of discussions on the final details with Civil Service unions since the Minister for the Cabinet Office made his Written Ministerial Statement on pension reform, on 20<sup>th</sup> December 2011.

Transitional protection arrangements

3. 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 remain members of their existing schemes up to and including the point at which they draw their pension rights and in which case all current scheme rules will continue to apply.
4. Members who are within a further 3.5 years outside this protected group will be offered a choice to 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. More details of this protection are provided at Annex A.
5. Members who are in either protected group with existing Added Years contracts will be able to continue to contribute to them under current arrangements.
6. Members with protection who leave active service and return within five years will return to their current arrangements with final salary linking if they are in the fully protected group. If they are in the tapered protection group, they will return to the scheme arrangements that they would have been in had they remained in service, again retaining final salary linking. (However, their period out of active service will count towards the length of their transitional protection.) Members not covered by protection will be able to relink their accrued rights to final salary on retirement if they return within five years. Those who return after more than 5 years will as now be offered the choice of converting their past service to the current scheme terms on a Cash Equivalent Transfer Value basis or leaving it as an accrued benefit without final salary linkage.

Scheme design

7. The main parameters of the new scheme are provided below, many of which are modelled on the existing **nuvos** scheme. The Government intends to legislate to give effect to the new scheme.
- i. A pension scheme design based on career average;
  - 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);
  - vii. Average member contributions of 5.6%; (see Annex B)
  - viii. Optional lump sum commutation at a rate of 12:1, in accordance with HMRC limits and regulations;
  - ix. Spouses/Partner pension of three-eighths of pension, in line with the current open scheme;
  - x. Lump-sum on death in service of 2 times salary;
  - xi. Ill-health benefits in line with those in the current open scheme;
  - xii. Actuarially fair early/late retirement factors on a cost-neutral basis;
  - xiii. An employer contribution cap and floor to provide backstop protection to the taxpayer against unforeseen costs and risks (see Annex B). This floor will also allow for an improvement in member benefits if the value of the scheme falls beyond a fixed level;
  - xiv. Abatement will not apply for post-2015 service in the new scheme when members return from retirement. Abatement rules for the current schemes will continue to apply;
  - xv. 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;

- xvi. 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;
- xvii. 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 3 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;
- xviii. Existing Added Years contracts will continue in the new scheme;
- xix. Added Pension arrangements will continue;
- xx. Members who leave the new scheme and return within 5 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 iii and vi above); and
- xxi. 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.

#### Fair Deal

8. On the basis that this scheme design is agreed, the Government agrees to retain Fair Deal provision and extend access to public service pension schemes for transferring staff. This means that all staff whose employment is compulsorily transferred from the Civil Service under TUPE, including subsequent TUPE transfers, will still be able to retain membership of the Principal Civil Service Pension Scheme when transferred once the necessary amendments to primary legislation have been made. These arrangements will replace the current provisions for bulk transfers under Fair Deal, which will then no longer apply. Guidance on the operation of the future Fair Deal policy will be developed, in discussion with key stakeholders.
9. For staff transfers within the public sector, the Government will consider how best to achieve the continued objective to facilitate movement in the light of the revised Fair Deal policy. Existing COSOP guidance states that in circumstances where TUPE does not apply in strict legal terms to certain types of transfer between different parts of the public sector, the principles of TUPE should be followed (where possible using legislation to effect the transfer) and the staff involved should be treated no less favourably than had the Regulations applied. Any necessary amendment to the COSOP guidance will be made in discussion with key stakeholders.

#### Further detail on employer cost cap, NPA/SPA and 25 year guarantee

10. This agreement also covers arrangements for an employer cost cap, the treatment of NPA following any further changes to SPA, and a 25 year guarantee. These are set out in more detail at Annex B.

#### Equality Impact Assessment

11. An Equality Impact Assessment (EIA) of this scheme design will be carried out in pursuance of the public sector equality duty, at s149 of the Equality Act 2010. This requires public bodies to:
- have due regard to the need to eliminate discrimination;
  - advance equality of opportunity; and
  - foster good relations between different people when carrying out their activities.
12. Cabinet Office is committed to completion of an EIA covering the scheme design for a reformed Civil Service Pension Scheme. In taking this work forward, the Cabinet Office will consider the likely equality impact of the scheme design changes and whether or how scheme design might be adjusted in furtherance of the three aims set out above. This process will involve full engagement with Civil Service unions, employers and other stakeholders. Given the need to ensure that these assessments are robust, it is acknowledged that the assessment process will need to continue beyond the final completion of this Agreement. Further detail on this is outlined at Annex C.

#### Total Reward

13. Cabinet Office recognises that Total Reward is an important issue and will continue to engage constructively with the Trades Unions and this will form the basis of further separate discussions.

#### Scheme actuary verification

14. The scheme design has been reviewed by HM Treasury who have agreed the approach taken to risk management.
15. The Government set out the gross cost ceiling of 22.5% and the net cost ceiling of 16.9% in *Public Service Pensions: good pensions that last*, Cm8214. Separate to this Agreement, to support HMT's verification of scheme design costs, is a report by the scheme actuary verifying that the proposed scheme design above is within the cost ceiling. This report has been prepared in accordance with the advice in the Government Actuary's Department's report of 7 October 2011: Cost ceilings for scheme level discussions: Advice on data, methodology and assumptions.

## ANNEX A to PFA: ADDITIONAL TAPERING FOR TRANSITIONAL PROTECTION

1. Scheme members in **classic** and **premium** who on 1 April 2012 are between 46 years and 6 months and 50 (or who are in **nuvos** and aged between 51 years and 6 months and 55) will have a choice to continue to accrue additional pension in their existing schemes, on a tapered basis. They will accrue for two months in their existing schemes for every month they are older than 46 years and 6 months (51 years and 6 months for **nuvos**), as set out in the table below.
2. Staff in this 'tapering group' will be able to take their "Part 1" pension at their current Normal Pension Age, including any additional accrual they build up post 2015. If they remained an active member after the transitional protection has ended, they would then begin to accrue "Part 2" pension in the new scheme, which would become payable in full from the NPA of the new scheme (or taken early with an actuarial reduction).

### Tapering - **classic** and **premium**

Age at 1 Apr 2012		Age at 1 Apr 2015		Months of protection	Age at end of protection		Date of end of protection
year	month	year	month		year	month	
49	11	52	11	82	59	9	Feb-22
49	10	52	10	80	59	6	Dec-21
49	9	52	9	78	59	3	Oct-21
49	8	52	8	76	59	0	Aug-21
49	7	52	7	74	58	9	Jun-21
49	6	52	6	72	58	6	Apr-21
49	5	52	5	70	58	3	Feb-21
49	4	52	4	68	58	0	Dec-20
49	3	52	3	66	57	9	Oct-20
49	2	52	2	64	57	6	Aug-20
49	1	52	1	62	57	3	Jun-20
49	0	52	0	60	57	0	Apr-20
48	11	51	11	58	56	9	Feb-20
48	10	51	10	56	56	6	Dec-19
48	9	51	9	54	56	3	Oct-19
48	8	51	8	52	56	0	Aug-19
48	7	51	7	50	55	9	Jun-19
48	6	51	6	48	55	6	Apr-19
48	5	51	5	46	55	3	Feb-19
48	4	51	4	44	55	0	Dec-18
48	3	51	3	42	54	9	Oct-18
48	2	51	2	40	54	6	Aug-18
48	1	51	1	38	54	3	Jun-18

48	0	51	0	36	54	0	Apr-18
47	11	50	11	34	53	9	Feb-18
47	10	50	10	32	53	6	Dec-17
47	9	50	9	30	53	3	Oct-17
47	8	50	8	28	53	0	Aug-17
47	7	50	7	26	52	9	Jun-17
47	6	50	6	24	52	6	Apr-17
47	5	50	5	22	52	3	Feb-17
47	4	50	4	20	52	0	Dec-16
47	3	50	3	18	51	9	Oct-16
47	2	50	2	16	51	6	Aug-16
47	1	50	1	14	51	3	Jun-16
47	0	50	0	12	51	0	Apr-16
46	11	49	11	10	50	9	Feb-16
46	10	49	10	8	50	6	Dec-15
46	9	49	9	6	50	3	Oct-15
46	8	49	8	4	50	0	Aug-15
46	7	49	7	2	49	9	Jun-15
46	6	49	6	0	49	6	Apr-15

**Tapering – nuvos**

Age at 1 Apr 2012		Age at 1 Apr 2015		Months of protection	Age at end of protection		Date of end of protection
year	month	year	month		year	month	
54	11	57	11	82	64	9	Feb-22
54	10	57	10	80	64	6	Dec-21
54	9	57	9	78	64	3	Oct-21
54	8	57	8	76	64	0	Aug-21
54	7	57	7	74	63	9	Jun-21
54	6	57	6	72	63	6	Apr-21
54	5	57	5	70	63	3	Feb-21
54	4	57	4	68	63	0	Dec-20
54	3	57	3	66	62	9	Oct-20
54	2	57	2	64	62	6	Aug-20
54	1	57	1	62	62	3	Jun-20
54	0	57	0	60	62	0	Apr-20
53	11	56	11	58	61	9	Feb-20
53	10	56	10	56	61	6	Dec-19
53	9	56	9	54	61	3	Oct-19
53	8	56	8	52	61	0	Aug-19
53	7	56	7	50	60	9	Jun-19

53	6		56	6		48		60	6		Apr-19
53	5		56	5		46		60	3		Feb-19
53	4		56	4		44		60	0		Dec-18
53	3		56	3		42		59	9		Oct-18
53	2		56	2		40		59	6		Aug-18
53	1		56	1		38		59	3		Jun-18
53	0		56	0		36		59	0		Apr-18
52	11		55	11		34		58	9		Feb-18
52	10		55	10		32		58	6		Dec-17
52	9		55	9		30		58	3		Oct-17
52	8		55	8		28		58	0		Aug-17
52	7		55	7		26		57	9		Jun-17
52	6		55	6		24		57	6		Apr-17
52	5		55	5		22		57	3		Feb-17
52	4		55	4		20		57	0		Dec-16
52	3		55	3		18		56	9		Oct-16
52	2		55	2		16		56	6		Aug-16
52	1		55	1		14		56	3		Jun-16
52	0		55	0		12		56	0		Apr-16
51	11		54	11		10		55	9		Feb-16
51	10		54	10		8		55	6		Dec-15
51	9		54	9		6		55	3		Oct-15
51	8		54	8		4		55	0		Aug-15
51	7		54	7		2		54	9		Jun-15
51	6		54	6		0		54	6		Apr-15



## **ANNEX B TO PFA: FUTURE SPA CHANGES, EMPLOYER COST CAP, 25 YEAR GUARANTEE FUTURE CONTRIBUTIONS, AND SCHEME GOVERNANCE**

### Future increases to SPA

1. As set out in the heads of agreement, normal pension age in the Civil Service scheme will be set equal to State Pension Age for post 2015 accruals. The Government believes that the SPA should continue to keep pace with increases in longevity to ensure fairness between generations, and, as set out in the 2011 Autumn Statement, is considering how best to continue dialogue on the process that will be used to determine future changes to the SPA. This will be based on demographic evidence and allow for the views of interested parties to be considered. DWP consulted on this over the summer.
2. As recommended by Lord Hutton, the Government will keep under review the link between Normal Pension Age in the public service schemes and State Pension Age to determine whether the link between the two continues to be appropriate.

### Employer Cost Cap

3. As recommended by Lord Hutton, the Government proposes to introduce an employer cost cap. This would provide backstop protection for the taxpayer, protecting them from highly exceptional and unanticipated events which very significantly increase scheme costs. Accordingly, the Government believes this cap is highly unlikely to bite in the next 25 years.
4. The Government intends that only changes to scheme costs due to 'member costs', such as a dramatic change in longevity and as defined by previous cap and share arrangements, would be controlled by the cap. The employer cost cap will be symmetrical so that, if there are reductions in member costs such that the cost falls below a 'floor', the savings would go back into the scheme to the benefit of members, such as by improving members' benefits or reducing member contribution rates.
5. The employer cost cap will be set following a full actuarial valuation. The cap will be set at 2% above, and the floor set 2% below, the employer contribution rates calculated ahead of the introduction of the new scheme in 2015 and will be calculated on the basis that all members with transitional protection are in the new scheme. Caps will not be based on cost ceilings, but on the full actuarial valuation.
6. Detailed guidance will be developed based on the guidance that was produced for the cap and share arrangements; it will require adjustment to take account of the introduction of a cost floor which was not part of the cap and share arrangements.
7. The start of the process will be an actuarial valuation of the Civil Service pension scheme that will determine the cost of the scheme based on actuarial assumptions determined by the Minister, with input from the Scheme Actuary, the Treasury and the Governance Group.
8. At subsequent actuarial valuations, the actuary must produce a report that sets out the overall scheme cost and a statement on the movement in scheme costs since that first valuation. For the purposes of the cost cap and floor, only those scheme costs that are

attributed to member costs will have an effect – for example, greatly improved life expectancy, changes in careers paths, age and gender mix.

9. In the previous cap and share regulations different cost categories were identified. The equivalent for the purposes of the cap and floor would be:
  - Those costs that fall within the cap and floor; and
  - Those that fall without the cap and floor.
10. As with cap and share, the employer will be responsible for any movement in scheme costs that the scheme actuary has listed in the statement of movement in scheme costs in the following categories:
  - a. changes to scheme administration costs;
  - b. changes to financial assumptions, such as a change in the discount rate;
  - c. changes to actuarial methodology; and
  - d. the effect of overpayments by employers.
11. This means that none of the above will have an effect on the cap and floor.
12. The changes in costs will be allocated in accordance with the principles set out above. As now, if there has been a change in the costs that fall to the scheme membership which have the effect of either increasing costs or reducing costs and the difference between the employer contribution rate at first valuation is greater than 2%, then the Governance Group will be invited to put forward proposals for handling the cost pressure/cost reduction, and there will be further discussion with the Trade Unions. Options may vary, but might include:
  - a. Benefit design; and
  - b. Member contribution rates.
13. If a decision cannot be reached about how rising or falling costs should be taken into account, then an automatic default will apply and the accrual rate will be adjusted accordingly.
14. Government has not yet determined further detail on the operation of the policy of the cost cap, such as whether any adjustment would be intended to return scheme costs back to their original 2015 level, or to another level between the cap and floor. The development of this detail will be carried out following further discussion with Trades Unions in due course.
15. The timing of the first valuation will be subject to further consideration and discussion with the Trade Unions.

### 25 year Guarantee

16. The Chief Secretary set out to Parliament on 2 November 2011 an offer on public service pensions that is fair and sustainable, and one that can endure for 25 years. This means that no changes to scheme design, benefits or contribution rates should be necessary for 25 years outside of the processes agreed for the cost cap. To give substance to this, the Government intends to include provisions on the face of the forthcoming Public Service Pensions Bill to ensure a high bar is set for future Governments to change the design of the schemes. The Chief Secretary will also give a commitment to Parliament of no more reform for 25 years.

### 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

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 Governance

21. The Independent Public Service Pension Commission looked at issues around scheme governance across the public service schemes. Lord Hutton made a number of recommendations aimed at spreading best practice and establishing clarity in a number of areas. In particular, Hutton recommended that every public service pension scheme should have a properly constituted, trained and competent Pensions Board, with member nominees, responsible for meeting good standards of governance, including effective and efficient administration. In addition he recommended that there should be a Pension Policy group for each scheme at national level, for considering major changes to scheme rules.
  
22. Cabinet Office will have further discussions with Trade Unions on the details of these recommendations and ways in which the governance of the Civil Service scheme can be improved.

## **ANNEX C to PFA: EQUALITY IMPACT ASSESSMENTS**

1. The Government takes its obligations to have regard to equality impacts very seriously, and this commitment was reiterated by the Chief Secretary to the Treasury in his letter of 15 February 2012 to the General Secretary of the TUC. The Government has confirmed that the responsible Departments will undertake Equality Impact Assessments for each of the reformed public service pension schemes before the legislation enacting the schemes is introduced. The Government is committed to conducting assessments that are transparent and as robust as possible as part of a genuine and serious process to identify and have due regard to equalities impacts, as required by the Equality Act 2010.
2. A working group met on Tuesday 6 March to discuss the overall approach to the Equality Impact Assessments, establishing principles and timescales for how they should be carried out. The group was chaired by the Cabinet Office and included officials from the Treasury, Government Equalities Office and the lead departmental officials for the three large unfunded schemes. Union participants were drawn from the TUC negotiating team.
3. Following the discussion on 6 March it was proposed that the following approach should be adopted:
4. The equality impact assessments will be conducted by the relevant sponsoring departments. In addition, the Government will conduct a central analysis in order to compare and assess the impact across all of the schemes.
5. The timescale for the assessment is pressing, and the process must be completed in good time to allow the analysis to influence decision making and the conclusion of the policy development process, prior to the introduction of legislation. Departments will therefore aim to complete the EIAs by the end of May 2012. The Government will then complete the central analysis over the following four weeks. The central working group will meet in June to discuss the analysis and consider any further action.
6. The EIAs should be conducted in a way that demonstrates compliance with the public sector equality duty and good practice guidance from the Equality and Human Rights Commission. The EIAs must assess the impact of the reforms on all of the relevant equality strands.
7. In line with the EHRC guidance, the process of conducting the EIAs should consider:
  - What are the key findings of the engagement? i.e. Based on the evidence gathered, what if any positive and negative impacts of the changes can be identified for people with any particular characteristics?

- If the policy has negative impacts on people with particular characteristics, what steps can be taken to mitigate these effects?
  - Does any part of the policy discriminate unlawfully?
  - Does the policy miss opportunities to advance equality of opportunity and foster good relations?
8. Stakeholders including the relevant unions should be engaged and consulted from the outset, including on the scope and methodology for the assessment. Unions will have the opportunity to submit evidence and views on equality impact and the Government will seek feedback on the analysis and reasoning during the process and share the results of the EIAs with unions. Departments should also be given access to GEO/EHRC support in conducting the assessments.
9. Following the completion of the EIAs, in having due regard to its findings, the Government will consider what further mitigating actions might be necessary in pursuance of the public sector equality duty. The next steps including any mitigating actions will be discussed with unions, prior to the introduction of legislation.

## Annex B to the Equality Impact Assessment: Sources of data

B.1 This annex sets out the data sources used in this EIA, how the data has been used and the limitations of the data. There are two main sources for data used in this document:

- the Annual Civil Service Employment Survey 2011 (ASCES) collected by the Office of National Statistics (ONS); and
- data held on the Penserver database for the Principal Civil Service Pension Scheme, which is administered by MyCSP.

These sources and any others are referenced in the document. Further detail and charts can be found in Appendix 1 to this Annex.

B.2 *ACSES 2011*. The ACSES data includes all home Civil Servants that were in post at a Home Civil Service organisation on 31<sup>st</sup> March 2011. It also has information on numbers of Civil Servants entering and leaving the Civil Service in the year up to the 31<sup>st</sup> March 2011. Civil Service Statistics do not include employees of the Northern Ireland Civil Service, employees in the wider public sector or Civil Servants on secondment to non-Civil Service organisations. For example, employees of most Non-Departmental Public Bodies (NDPBs)<sup>32</sup> and the National Health Service (NHS) are not included.

B.3 In some cases, where the results of analysis do not appear representative comparisons have been made with data from 2010 and 2009 to check findings.

B.4 *Scope of ACSES 2011 data*. The ONS Annual Civil Service Statistics publication produces summary statistics based on the ACSES data<sup>33</sup>. Some of these statistics are lifted directly into the document without any further analysis. Where this has been done, the publication in which they appear is referenced. For the majority of the statistics in the document, further analysis was required. There is information in the data on a range of factors including the age, gender, ethnicity, disability status and earnings and location of the Civil Service workforce, which allow us to split the data to identify the numbers in these groups. There is no centrally-collected data on religion or sexual orientation so we are unable to estimate the impact of the reforms on these groups.

B.5 There is no information in the data set on what pension scheme Civil Servants are in, or whether they have opted out. It is possible to identify those who would be in the **nuvos** scheme (unless they have opted out) as their date of entry into the Civil Service will be after July 2007. It is not possible to differentiate between those in **classic**, **classic plus** or **premium**.

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<sup>32</sup> Except for three Crown Non-Departmental Bodies that as Crown Bodies are recognised as Civil Service organisations.

<sup>33</sup> <http://www.ons.gov.uk/ons/rel/pse/civil-service-statistics/2011/stb---civil-service-statistics-2011.html>

B.6 *Information provided from the Penserver database.* This database relates to the Principal Civil Service Pension Scheme and is administered by MyCSP. Where possible, data on those Civil Servants who are in pension schemes from the Penserver database has been used. However, this information is not as rich as the ACSES data and its use is more problematic. It has been possible to run various data requests that have provided some summary statistics from MyCSP. The Penserver data includes 'Schedule 1' people who are not Civil Servants but are on the Civil Service pension schemes. It also includes people on the Partnership defined contribution scheme, who are not affected by these reforms. However, it is not expected that Schedule 1 members and those on the Partnership scheme would differ significantly in their characteristics from Civil Servant members of the PCSPS and thus would not affect the assessment of any impacts<sup>34</sup>.

B.7 Three information sources from the Civil Service pension scheme are included in this EIA:

- The data on those that opt out comes from the Penserver data and captures those that opted out of Pension Schemes prior to the end of April 2012 and remain in post. There are some concerns with the accuracy of the data as there are a significant number of outlying observations, however the summary statistics are plausible. In addition, the data comes from a different time to the ACSES 2011 data. It is unlikely that this would have a significant impact on the results; although overall numbers of Civil Servants have changed between March 2011 and April 2012, it is not expected that the proportions with different characteristics have changed significantly;
- Data from Penserver on the numbers and characteristics of part time people on the pension schemes, extracted in April 2012. This is used as a second method of testing the validity of the ACSES Civil Service data by comparing the characteristics of part time people in pension schemes to all part time Civil Servants;
- Some high-level statistics from the Civil Service Scheme Management Executive providing the characteristics of people on different Pension Schemes. Like the other figures, these also include 'Schedule 1' members who are not Civil Servants. This data comes from Aon Hewitt<sup>35</sup> projections for 2010/11 captured on 31<sup>st</sup> December 2011.

#### Data limitations and approximations used in further analysis:

B.8 Where practicable, evidence is used that relates directly to members of the pension schemes (as is discussed above) but when this is not available data for the whole Civil Service has been used and it has been assumed that it is representative of those in the Civil Service scheme. Where it has been possible, in order to test whether these figures are valid comparisons have

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<sup>34</sup> As part of the EIA exercise, the Cabinet Office wrote to Schedule 1 Employers in the PCSPS and asked for any evidence that might suggest the overall workforce structure identified by the ONS statistics did not serve as a reasonable representation of their organisations. No evidence was provided.

<sup>35</sup> The scheme actuaries for the Principal Civil Service Pension Scheme.



been made between those that opt out of pension schemes and the Civil Service as a whole. The key findings are:

- An estimated 7% of Civil Servants opt out of the Pensions Scheme or are on the Partnership Scheme.
- Those that opt out have significantly fewer years of service than those in the Civil Service as a whole; 96% of those that opt out have less than 10 years of service compared to 44% of all Civil Servants.
- Those that opt out are significantly more likely to work part time than Civil Servants more widely; 35% of those that opt out are part time compared to 22% of all Civil Servants.
- 55% of those that opt out are female compared to 53% of all the Civil Service. This is not a practically significant difference and is likely to be explained by the higher proportion of women who work part-time.
- Those that are on pension schemes and are part time have slightly higher mean and median incomes than Civil Servants in general that are part time. This implies that part time Civil Servants that opt out have lower incomes on average than those who do not.
- The median and mean full time equivalent incomes of those that opt out of pension schemes are significantly lower than those of Civil Servants as a whole.
- Those on the Civil Service Pension Schemes have the broadly the same age profile as the Civil Service as a whole. Those that have opted out are significantly younger than the Civil Servants more generally.

B.9 While the characteristics of the membership of the Civil Service pension scheme are not the same as the Civil Service as a whole, it is necessary for us to use data based on the latter to develop an understanding of the impacts on those that are in the pension scheme because it is the most reliable information available. It is important to bear in mind the potential impact that this might have on figures used in this document, but the resulting biases are not expected to have a marked impact on the conclusions because the proportion of Civil Servants that opt out is relatively small.

B.10 The ACSES data dates from 31<sup>st</sup> March 2011 and does not cover people that join the Civil Service after this time. There are going to be people who move into and out of the Civil Service after this date who will be affected by the changes in April 2015. In a recent National Audit Office Report<sup>36</sup> it was reported that the overall size of the Civil Service will contract to 380,000 FTE and for numbers entering the Civil Service to be low during this period. This will mean fewer people overall will be affected by the pension scheme changes in 2015. There are no detailed forecasts of how the characteristics of those in the Civil Service will change over this time. However, it might be expected that the proportion of Civil Servants in their twenties and those near retirement age will reduce because of low recruitment and more people opting for early retirement. Apart from this change, it is expected that the

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<sup>36</sup> National Audit Office HC 1795 Session 2010-2012 15 March 2012 "Managing early departures in central government.

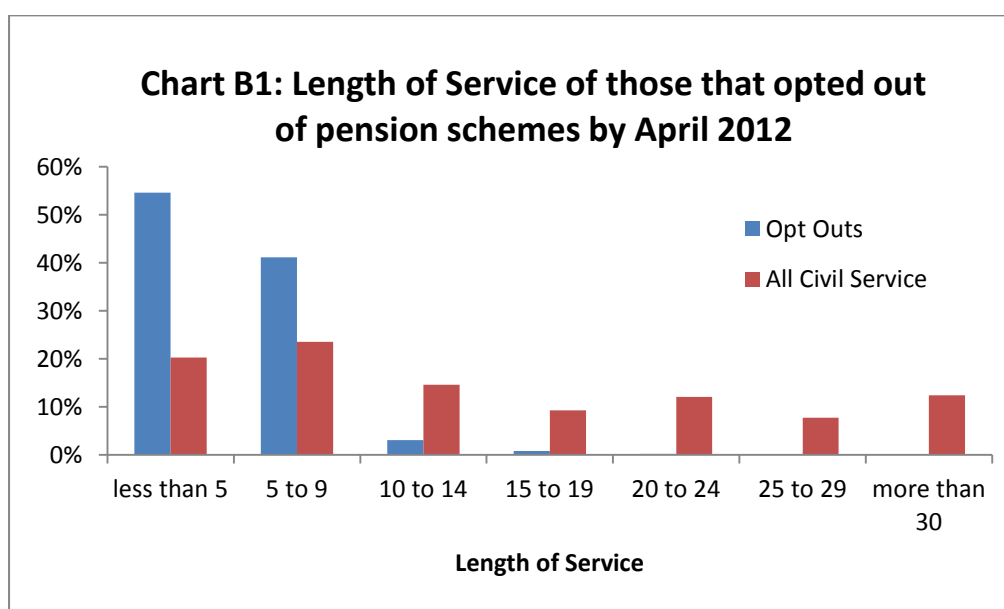
characteristics of the Civil Service will be similar to those in 2011 and so analysing impact based on 2011 will be robust.

- B.11 In order to calculate at what age people currently retire, the following information has been looked at: the numbers of Civil Servants who are recorded as leaving due to retiring on age grounds at or above the minimum retirement age; retirement on grounds of ill health; approved early retirement; actuarially reduced retirement; and, flexible early retirement in 2009, 2010 and 2011 in order to ensure that we are not capturing the impacts of larger numbers of earlier retirement as part of Spending Review 2010.
- B.12 For all the internal data analysis using ACSES 2011, those people in the data with no Civil Service date of entry or age recorded have been removed as this is needed to calculate their pension age and thus whether they will be in transition group or the unchanged protected group. This reduces the data set by 9,147 (less than 2%), which should not have a significant overall impact. Final figures in the data have been scaled up by a small amount to take this into account. Headline figures are also adjusted downwards to take into account the 7% of individuals working for PCSPS employers that are not members of the pension schemes.
- B.13 Where salaries data implies that the salary is lower than the minimum wage, then this is removed. When salary data is missing, it is replaced by the mean salary for the person's grade.
- B.14 In order to work out how many people will be affected by the changes, it has been necessary to estimate how long we expect people to remain in the Civil Service. This has been done by working out the average expected number of years that people will stay in the Civil Service based on their current age and applying these figures to each individual.

## Appendix 1 to Annex B: Comparison of those that opt out with Civil Service as a whole

Calculation of numbers of people opting out:

- 30,400 people have opted out of the pension scheme, this includes some 'Schedule 1' members who are not Civil Servants.
- There are an estimated 524,800 active members in the pension schemes, again including 'Schedule 1'<sup>37</sup> members.
- Taking 524,800 as the population of active members, add approximately 30,400 optants out and 7,500 members of partnership then there is an estimated total workforce of 562,700.
- 30,400 as a percentage of 562,700 is approximately 5.4% and 7,500 as a percentage of 562,700 is approximately 1.3%. If these figures are removed from the total, then it suggests that around 93% of Civil Servants are members of the pension scheme. This implies that roughly 26,900 Civil Servants opt out and 6,500 are on Partnership.



Source: internal analysis of Penserver opt out data 2012 and Aon Hewitt 2011<sup>38</sup>

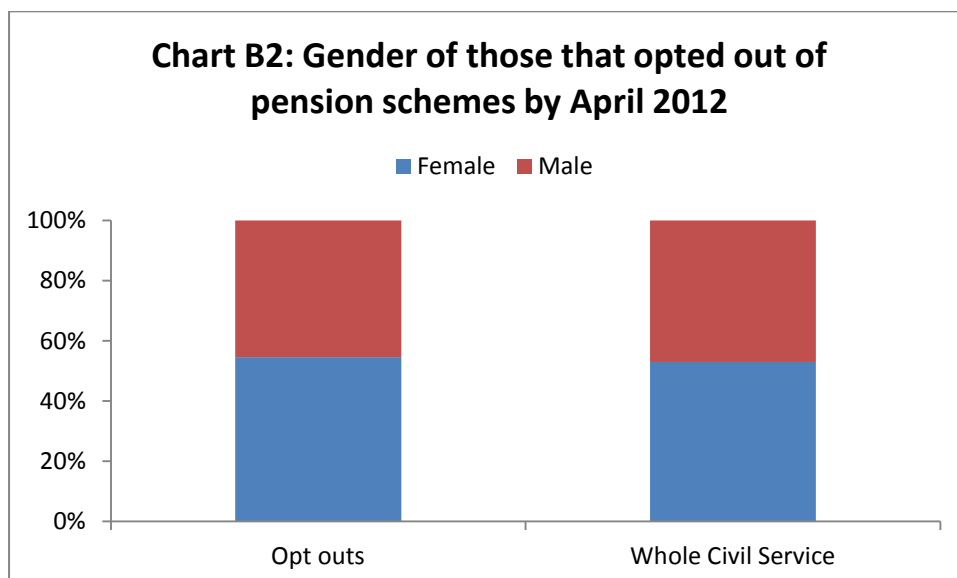
<sup>37</sup> A list of schedule 1 bodies can be found at the following website address:  
<http://www.civilservice.gov.uk/pensions/governance-and-rules>

<sup>38</sup> Due to missing data, it is not possible to calculate the length of service for all civil servants. For around 9,000 Civil Servants this data is not available and this is why the total number of Civil Servants in this table differs from the figures shown elsewhere. The omission of these individuals is not expected to significantly affect the overall results.

Table B1: Length of service of those that opt out of pension schemes compared to Civil Servants as a whole

length of service	Opt outs		Whole Civil Service	
	Number	Percentage	Number	Percentage
less than 5	16,600	55%	99,300	20%
5 to 9	12,500	41%	115,200	24%
10 to 14	900	3%	71,600	15%
15 to 19	200	1%	45,300	9%
20 to 24	100	0%	59,100	12%
25 to 29	-	0%	38,000	8%
more than 30	-	0%	60,700	12%
total	30,400		489,200	

Source: internal analysis of Penserver opt out data 2012 and ASCES 2011

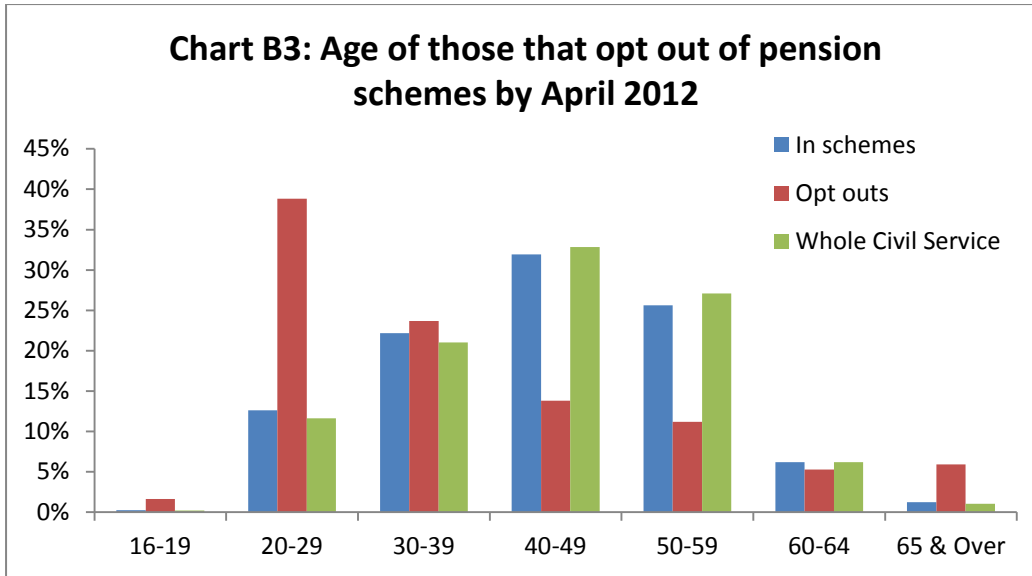


Source: internal analysis of Penserver opt out data 2012 and ASCES 2011

Table B2: Gender of those that opt out of pension schemes compared to Civil Servants as a whole

	Opt outs		Whole Civil Service	
	Number	Percentage	Number	Percentage
Female	16,600	55%	264,100	53%
Male	13,800	45%	234,300	47%
Total	30,400		498,400	

Source: internal analysis of Penserver opt out data 2012 and ASCES 2011

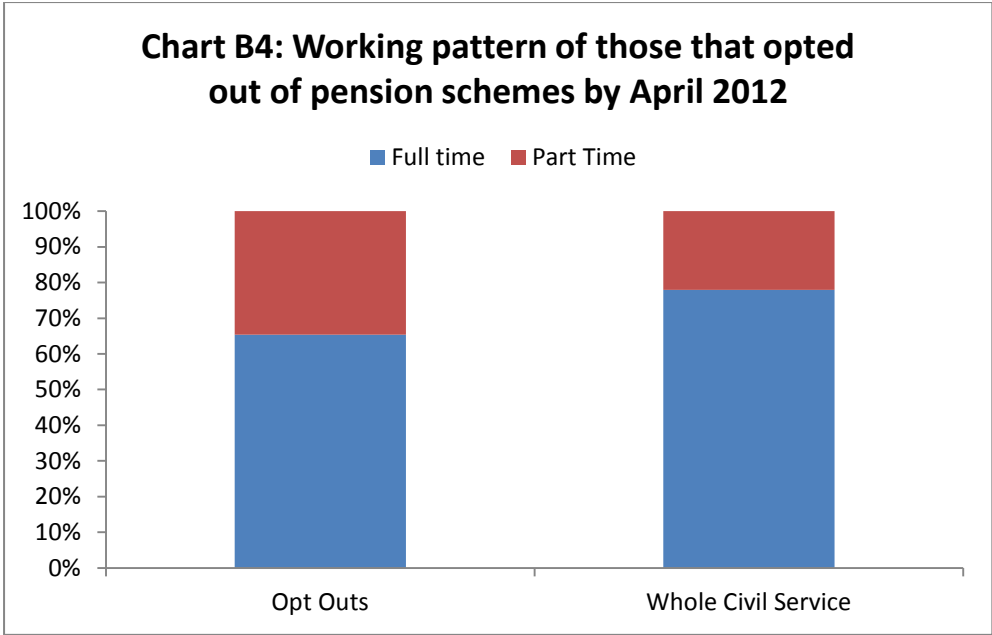


Source: internal analysis of Penserver opt out data 2012 and ASCES 2011

**Table B3: Age of those that opt out of pension schemes compared to Civil Servants as a whole**

	Opt outs		Whole Civil Service		Those in schemes Percentage
	Number	Percentage	Number	Percentage	
16-19	500	2%	1,000	0%	0%
20-29	11,800	39%	57,900	12%	13%
30-39	7,200	24%	104,800	21%	22%
40-49	4,200	14%	163,600	33%	32%
50-59	3,400	11%	134,900	27%	26%
60-64	1,600	5%	30,800	6%	6%
65 & Over	1,800	6%	5,200	1%	1%
<b>Grand Total</b>	<b>30,400</b>		<b>498,200</b>		

Source: internal analysis of Penserver opt out data 2012 and ASCES 2011



Source: internal analysis of Penserver opt out data 2012 and ASCES 2011

Table B4: Working patterns of those that opt out of pension schemes compared to Civil Servants as a whole

	Opt outs		Whole Civil Service	
	Number	Percentage	Number	Percentage
Full time	19,900	65%	388,300	78%
Part Time	10,500	35%	110,100	22%
Total	30,400		498,400	

Source: internal analysis of Penserver opt out data 2012 and ASCES 2011

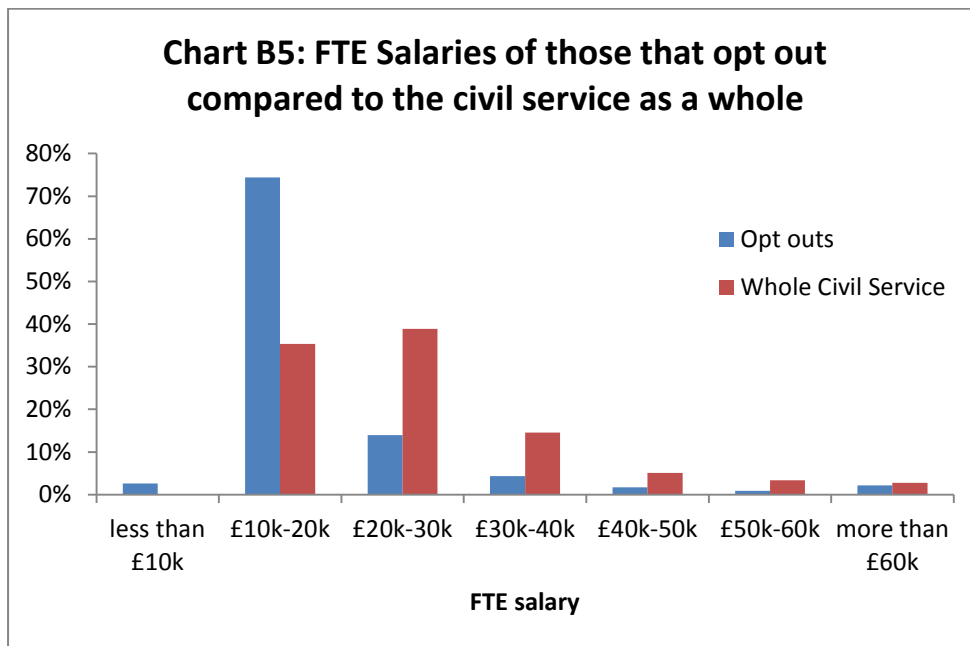
Supplementary Analysis- comparing part time people in the pension scheme with the Civil Service more widely:

- The large majority of part time Civil Servants are female. This is the same for those that are on pension schemes and the Civil Service as a whole.
- The median and mean part time hours for scheme members and all Civil Servants are 25.
- Median salaries for part time Civil Servants are lower than the mean salaries. This implies that there are a large number of part time Civil Servants on lower salaries. Part time employees who are on pension schemes have higher median and mean salaries than Civil Servants as a whole. This implies that those that opt out have lower average wages than other part time Civil Servants.

Table B5: Median and mean full time equivalent salaries of those that opt out compared to Civil Servants as a whole

	Opt Outs	Whole Civil Service
Median Salary	£15,800	£23,800
Mean Salary	£18,800	£26,900

Source: internal analysis of Penserver opt out data 2012 and ACSES 2011



Source: internal analysis of Penserver opt out data 2012 and ACSES 2011

Table B6: Gender of part time scheme members and all Civil Servants

	Percentage of Part Time Scheme Members	Percentage of Part Time Civil Servants
Male	16%	16%
Female	84%	84%

Source: internal analysis of Penserver part time data 2012 and ACSES 2011.

Table B7: Average hours of part time scheme members and all Civil Servants

	Part Time Scheme Members	Part Time Civil Servants
Part time hours median	25	25
Part time hours mean	25	25

Source: internal analysis of Penserver part time data 2012 and ACSES 2011.

Table B8: Average salaries of part time scheme members and all Civil Servants

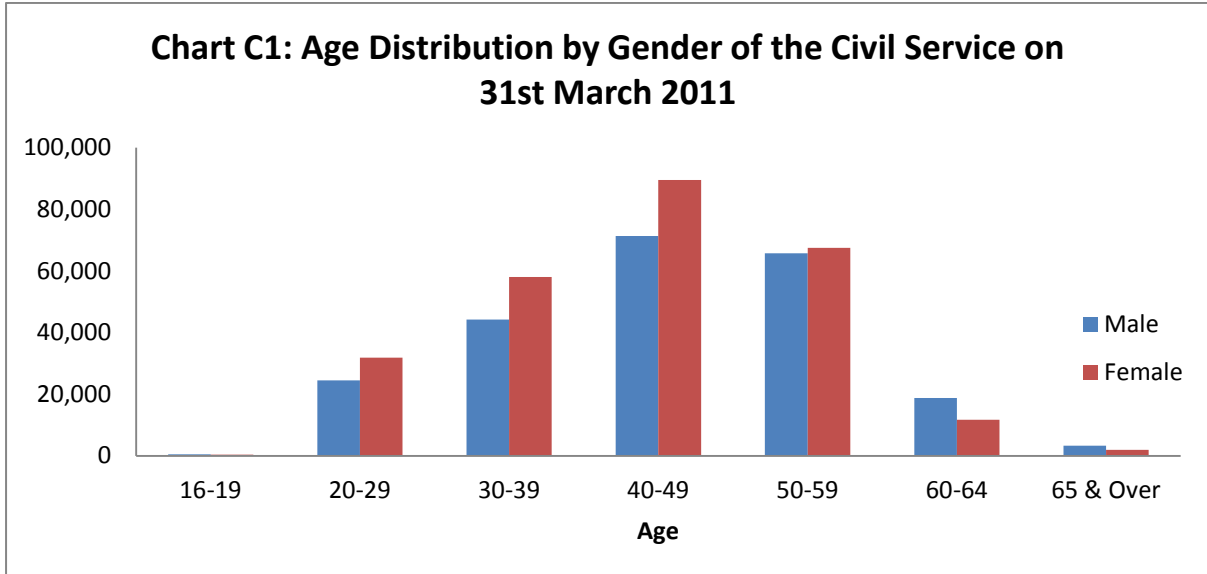
	Part Time Scheme Members	Part Time Civil Servants
Median Salary	£ 21,200	£ 20,000
Mean Salary	£ 24,100	£ 23,500

Source: internal analysis of Penserver part time data 2012 and ACSES 2011.

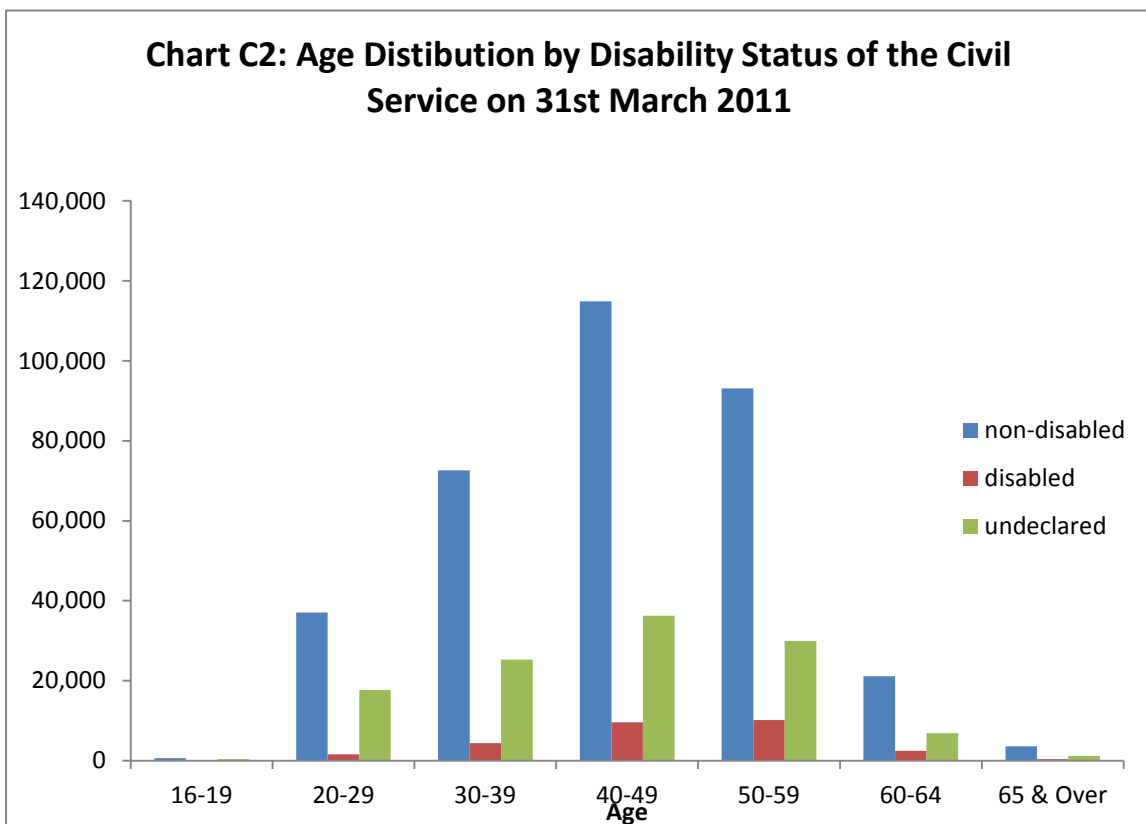


## Annex C to the Equality Impact Assessment: Analysis of Age Distribution by “Protected” Groups

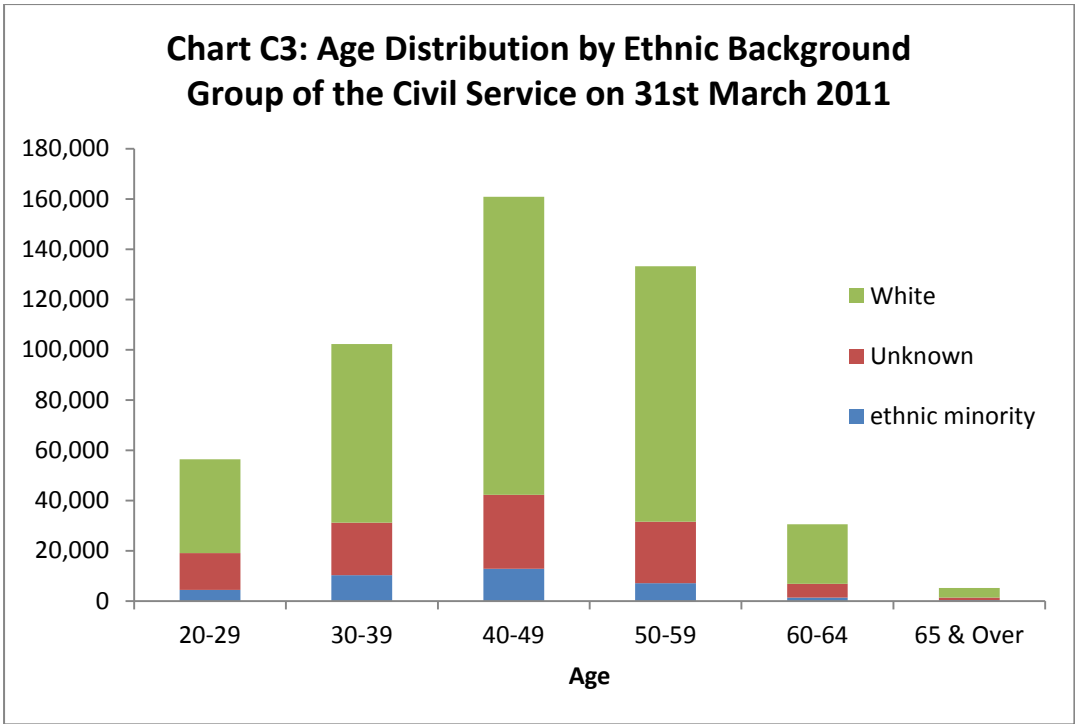
This annex shows the age distribution of Civil Servants in the different “protected” groups, based on the ASCES 2011 data.



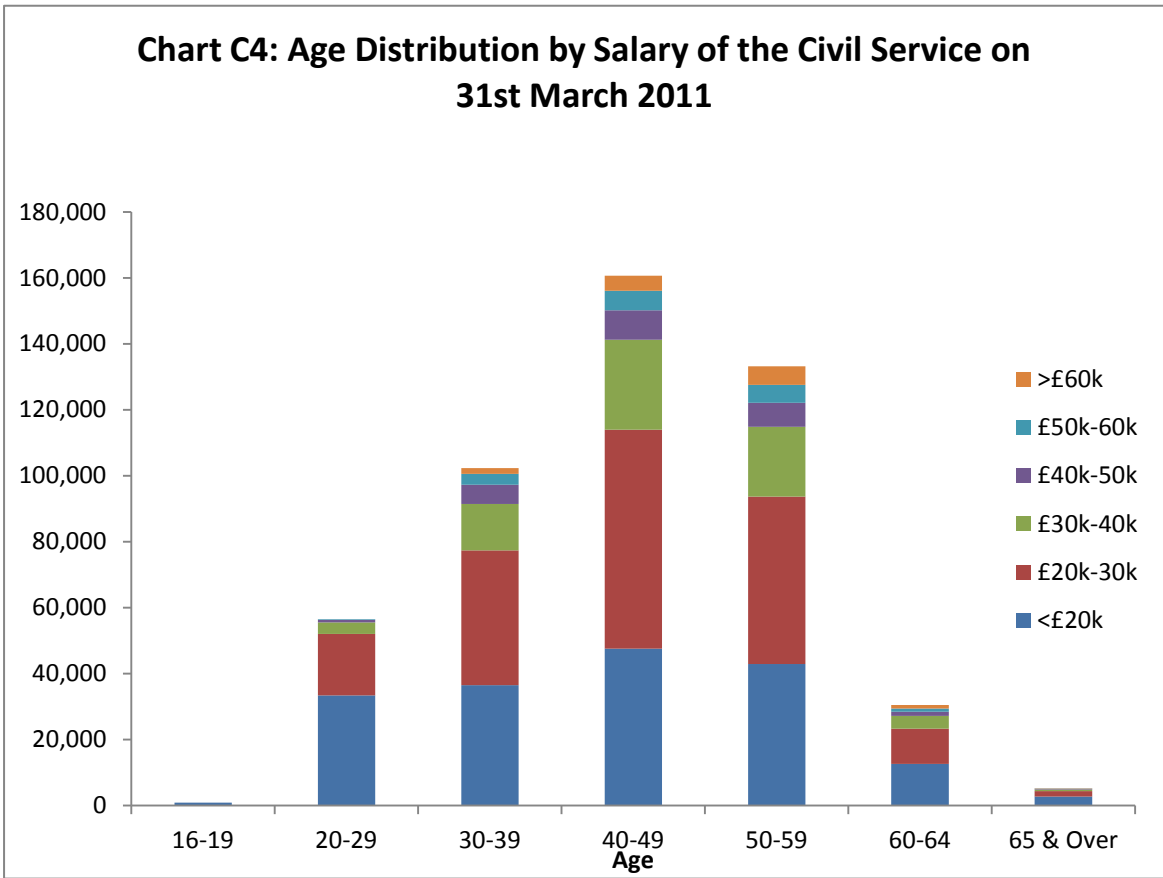
Source: Internal analysis of ASCES 2011



Source: Internal analysis of ASCES 2011



Source: Internal analysis of ASCES 2011

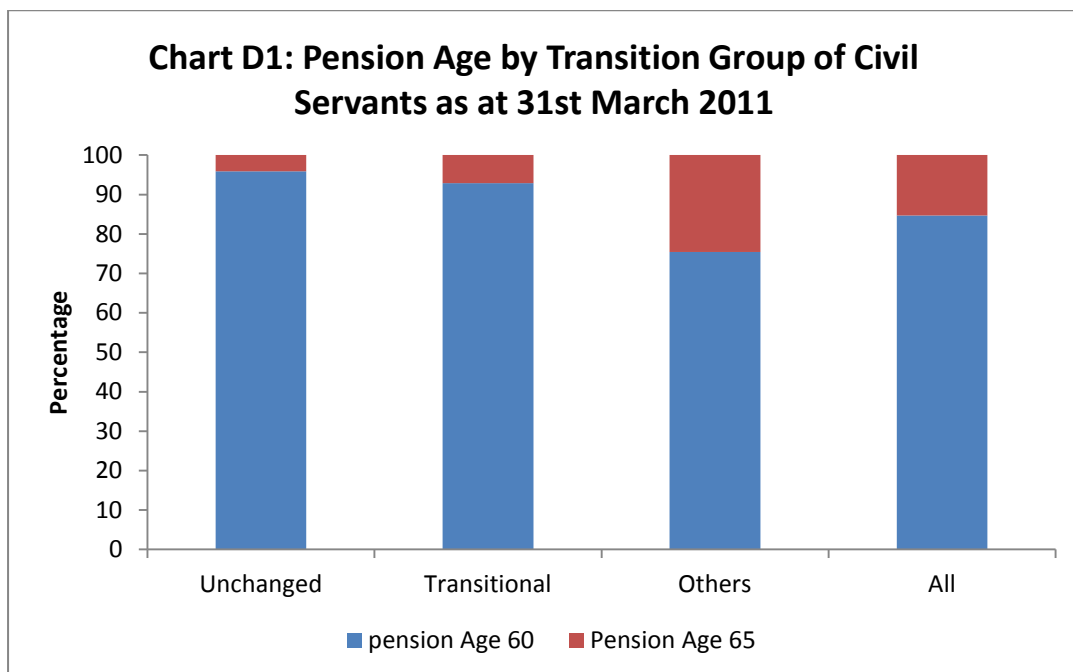


Source: Internal analysis of ASCES 2011

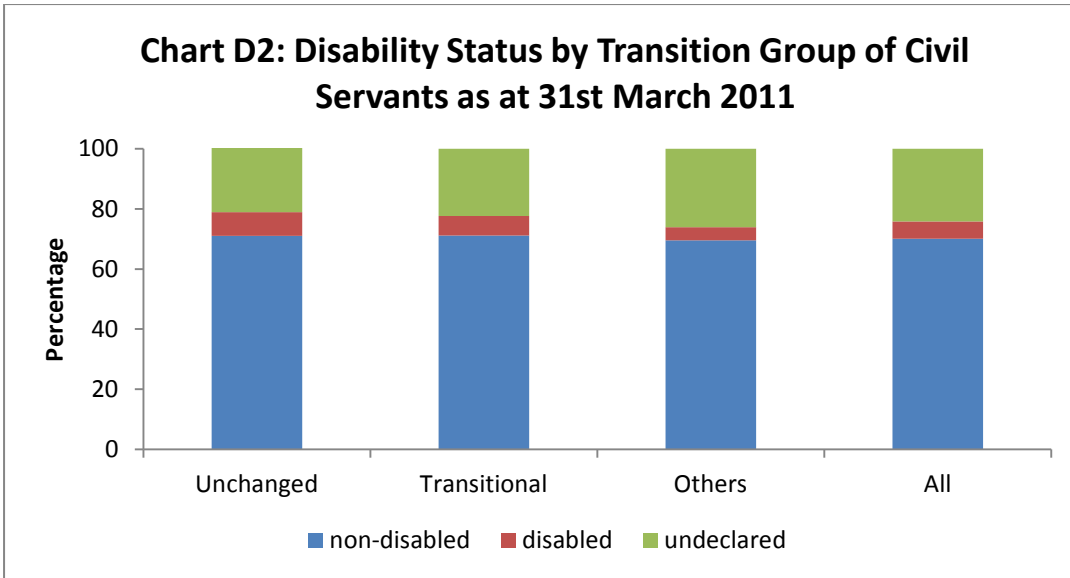
## Annex D to the Equality Impact Assessment: Analysis of workforce within transitional protection

	Number	Percent
Unchanged	170,000	36
Transitional	58,000	12
Others	238,000	51

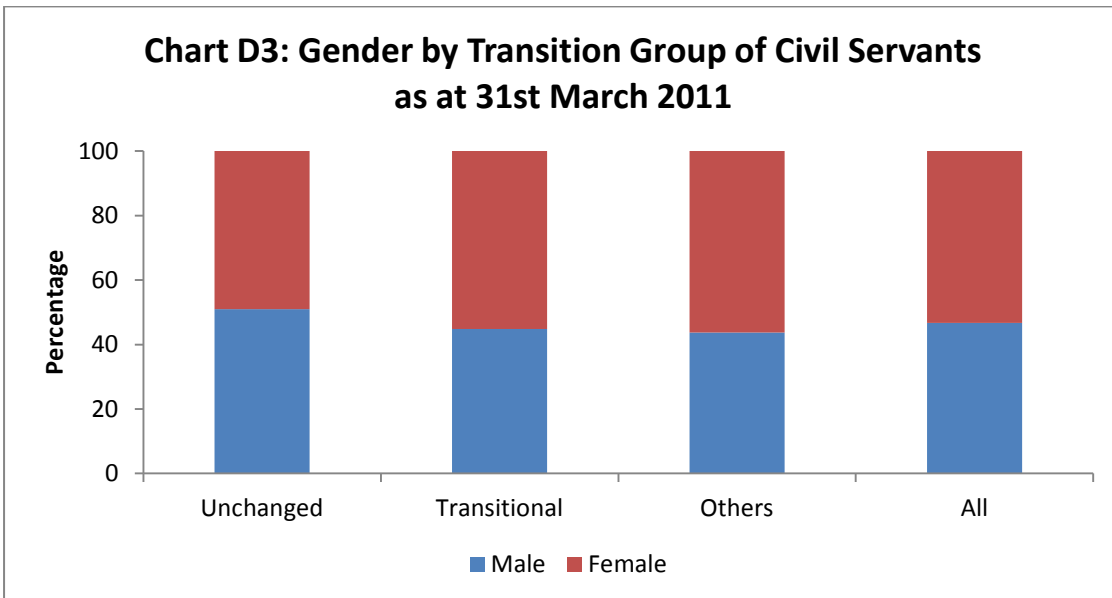
Source: Internal analysis of ASCES 2011



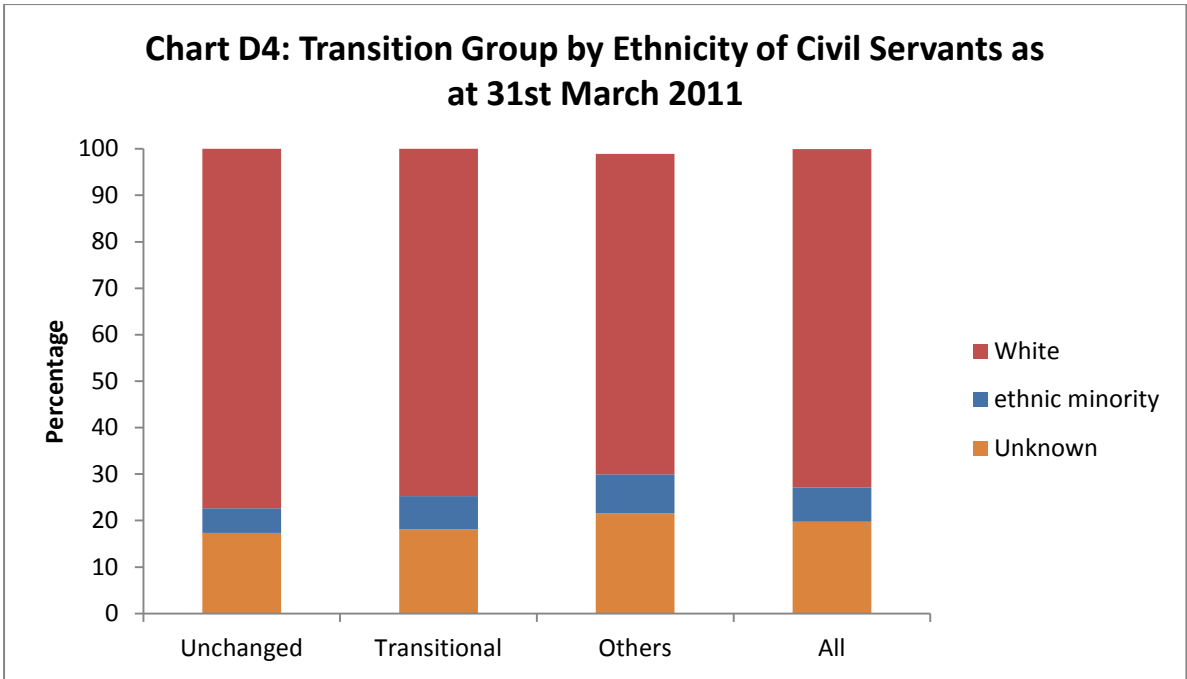
Source: Internal analysis of ASCES 2011



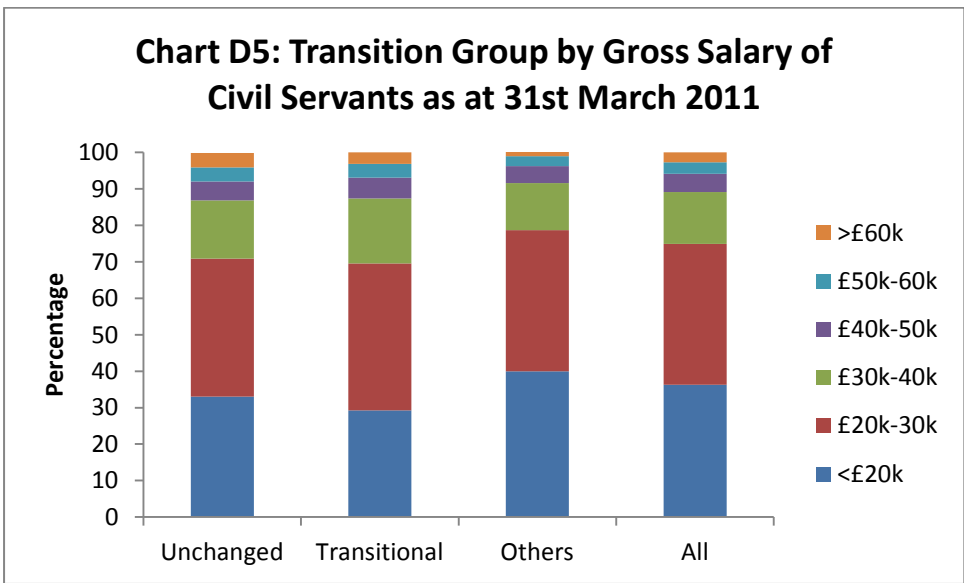
Source: Internal analysis of ASCES 2011



Source: Internal analysis of ASCES 2011



Source: Internal analysis of ASCES 2011



Source: Internal analysis of ASCES 2011

## Annex E to the Equality Impact Assessment: Deaths in service

Table E1: Deaths in Service by Age of Civil Servants in the year to 31<sup>st</sup> March 2011

	Number	Percentage
Male	300	58
Female	250	42
Total	550	

Source: Internal analysis of ASCES 2011

Table E2: Deaths in Service by Pension Age of Civil Servants in the year to 31<sup>st</sup> March 2011

Pension Age	Number	Percentage
60	500	92
65	50	8

Source: Internal analysis of ASCES 2011

Table E3: Deaths in Service by Age of Civil Servants in the year to 31<sup>st</sup> March 2011

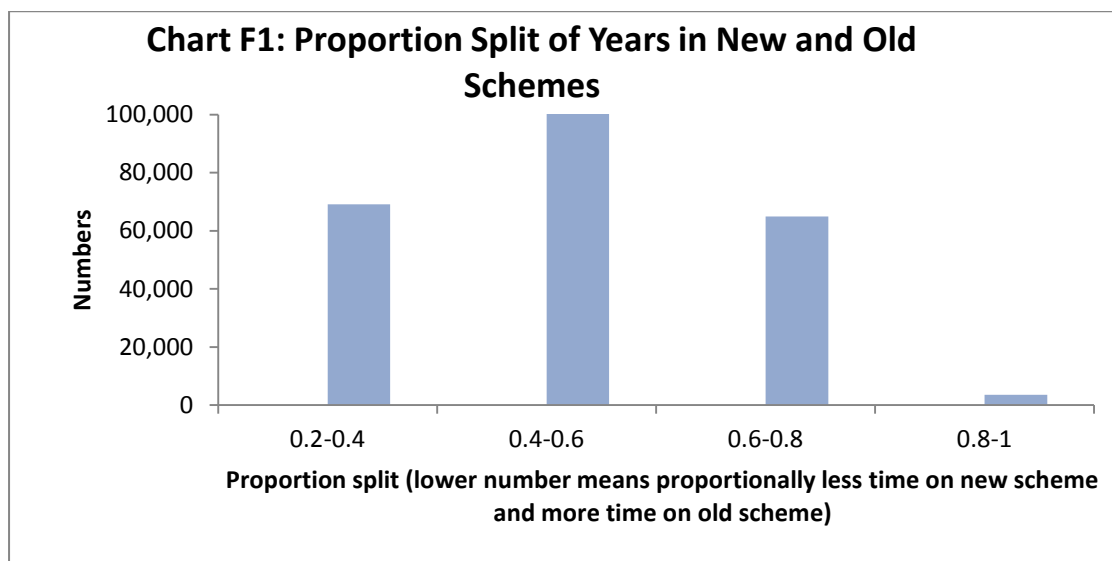
Age	Number	Percentage
40 or less	60	11
50 or less	150	27
60 or less	250	46
greater than 60	100	16

Source: Internal analysis of ASCES 2011

## Annex F to the Equality Impact Assessment: Split service between current schemes and 2015 scheme

This analysis is done by dividing the number of years we expect them to be in the Civil Service after 2015 (using our projections for how long a person of a particular age stays in the Civil Service on average) by the total number of years that we estimate that they will have been in the Civil Service by the end of their career. Therefore, a low proportion suggests that they won't be greatly affected by the changes to pensions and a high proportion indicates that they will be highly affected as they won't have built up much pension under the old scheme.

The charts split the numbers of people with different proportional splits by a number of characteristics to see if they are over represented in each group.

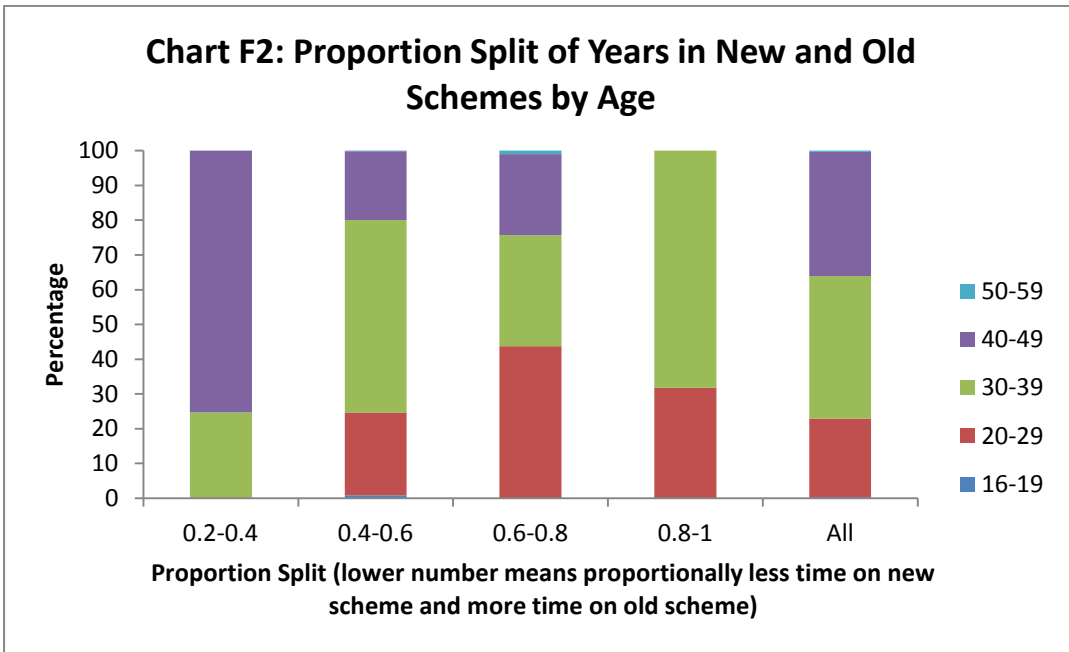


Source: Internal analysis of ASCES 2011

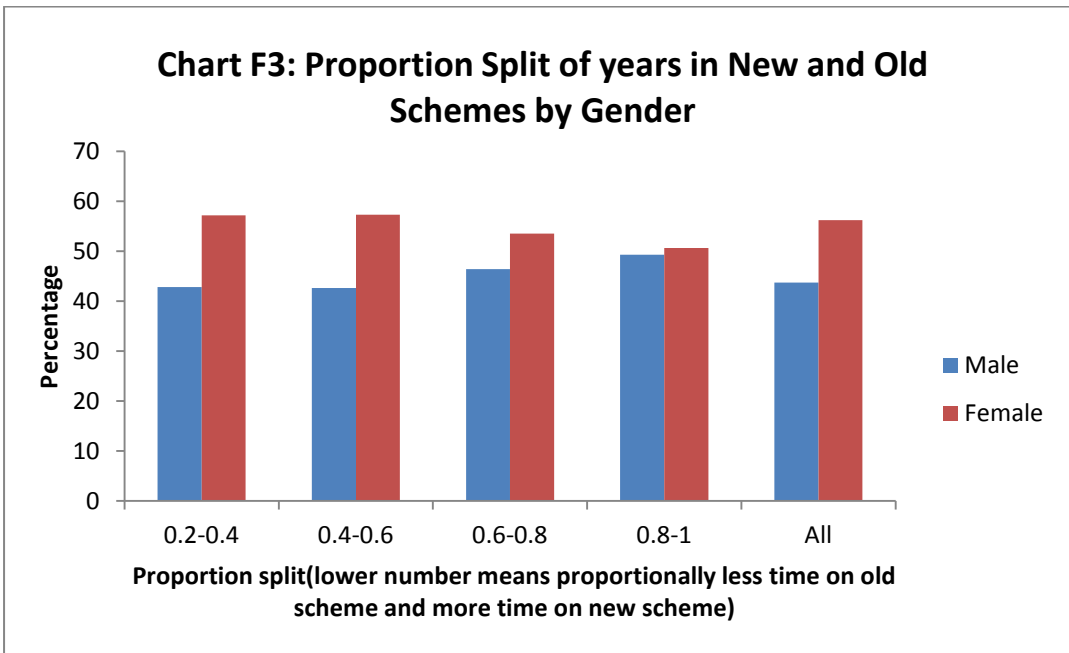
Table F1 Proportion split of years in new and old schemes

Proportion Split	Number	Percentage
0.2-0.4	69,100	28
0.4-0.6	112,400	45
0.6-0.8	64,900	26
0.8-1	3,500	1
All	249,800	100

Source: Internal analysis of ASCES 2011

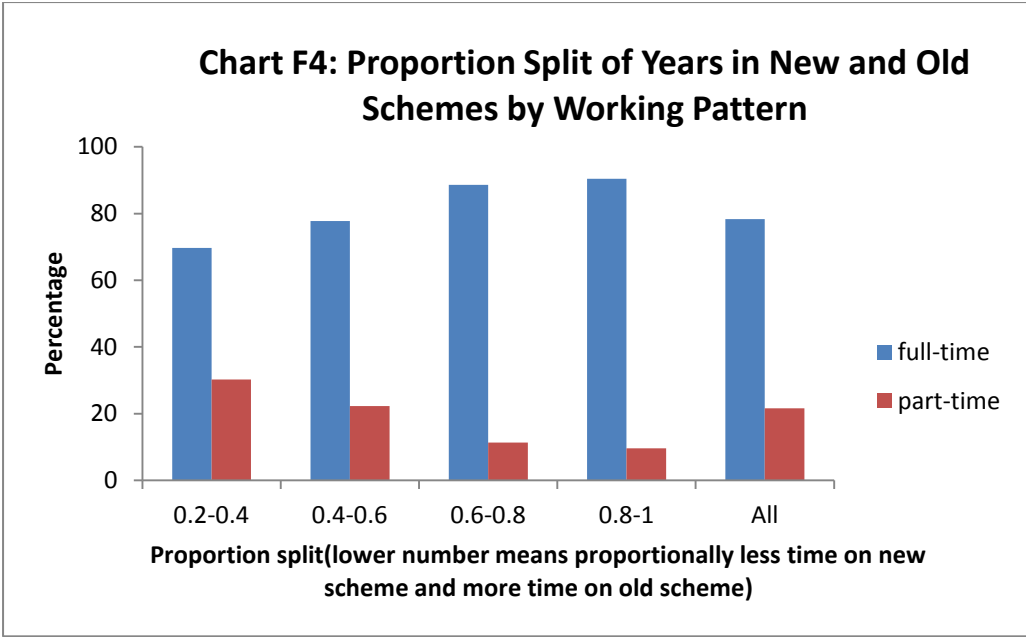


Source: Internal analysis of ASCES 2011

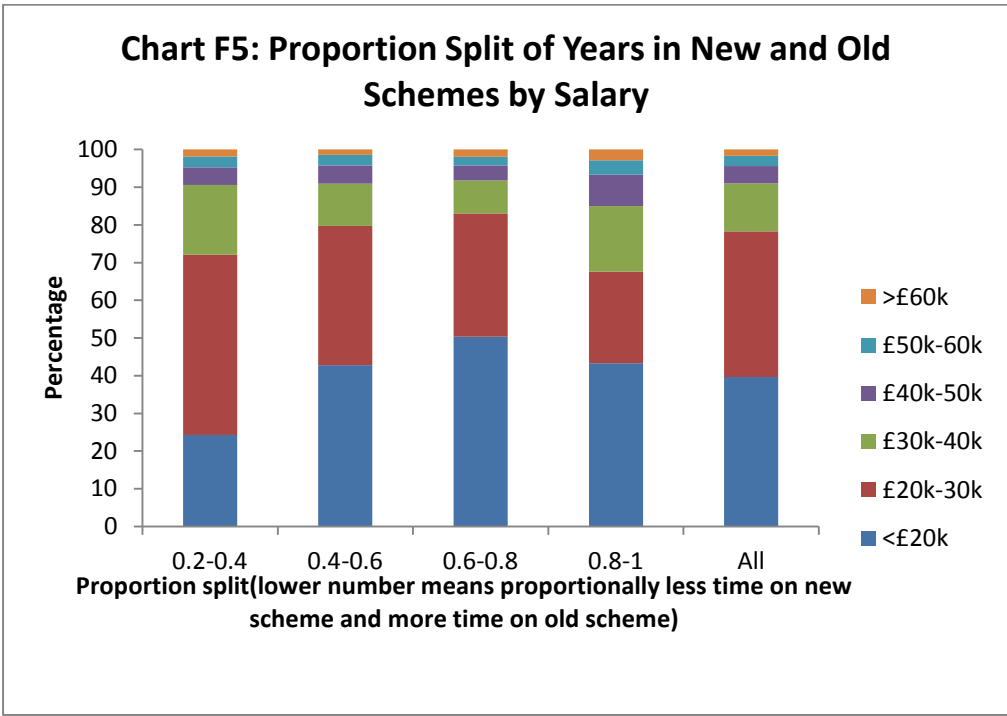


Source: Internal analysis of ASCES 2011



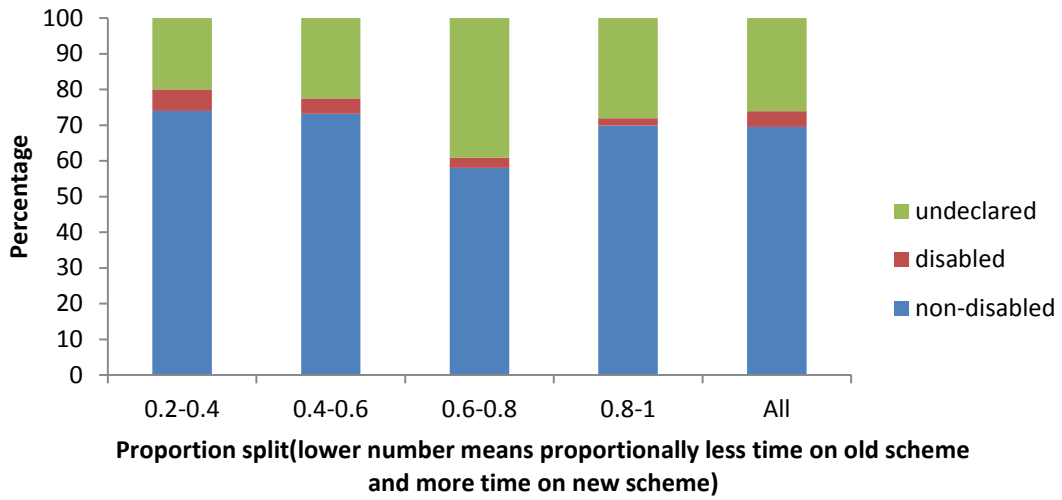


Source: Internal analysis of ASCES 2011



Source: Internal analysis of ASCES 2011

**Chart F6: Proportion split of years in new and old schemes by disability status**



Source: Internal analysis of ASCES 2

## **Annex G to the Equality Impact Assessment: Glossary of technical terms**

### **Accrual rate**

The rate at which benefits build up for members of defined benefit schemes. It is commonly expressed as a fraction or percentage of pensionable earnings for each year (or part year) of pensionable service completed.

### **Accrued rights**

What an individual has already earned in their current pension scheme and are entitled to keep.

### **Career average scheme**

In a career average scheme, each year an individual builds up a slice of pension based on their salary in that year.

It is type of defined benefit scheme that builds up benefits each year (or part year) based upon pensionable salary from that year. At the end of each year, each 'slice' is increased – typically either to reflect price or earnings increases – the current nuvos scheme increases benefits to reflect prices. When an individual finally leaves, their total pension is calculated by adding up the slices they have built up (plus increases). It averages the member's earnings from the whole of their membership period, not just the final years, as happens in a traditional final salary scheme.

For those individuals who move into the 2015 career average scheme, benefits under the scheme will be based on earnings from the point of joining the new scheme; benefits built up in current pension arrangements are protected.

### **Defined benefits/Defined benefit scheme**

A type of workplace pension where the amount an individual gets at retirement is based on their earnings and years of membership in the pension scheme, and not on stock market investment returns or annuity rates.

### **Defined contribution scheme**

A pension arrangement where the member (and employer) pay contributions into an investment fund. The amount in a member's pension 'pot' at retirement will depend upon the investment returns achieved. Retirement income will also depend on the "annuity rate" available when the pension pot is used to buy a pension from an insurance company. There is greater investment risk with defined contribution schemes – unlike defined benefit pensions, you will not know in advance how much pension you will receive at retirement.

### **Employee contribution**

The amount/percentage of an individual's monthly salary contributed to their pension.

### **Employer contribution**

The amount/percentage of an individual's monthly salary their employer pays into their pension.

### **Final Salary scheme**

In a final salary scheme, an individual's pension is typically worked out as a fraction of their final salary for each year of service. 'Final salary' is generally your last 12 months' pay or your best 12 months in your last few years of service.

For instance, members of premium receive a pension calculated as  $1/60^{\text{th}}$  x final salary x years. Members of classic receive a pension calculated as  $1/80^{\text{th}}$  x final salary x years. On top of this classic members get an automatic lump sum on retirement of three times pension.

### **Indexation**

Public service pensions are usually increased in April by reference to the price inflation measure for the previous September. This currently uses the Consumer Price Index (CPI).

CPI is an internationally comparable measure of inflation based on structures in international legislation and guidelines and launched in 1996.

### **Normal Pension Age**

The minimum age specified by the pension scheme at which members are able to retire without pension benefits being reduced for early payment.

### **Pension benefit**

The pension (and lump sum) an individual receives after their retirement, or their dependents receive after their death.

### **Pension scheme**

An arrangement that provides financial benefits: on retirement having reached a particular age; on death; or, in the event of ill-health.

### **Pensionable earnings**

Those member earnings used by schemes to determine the benefits payable at pension age.

### **Pensionable service**

The time period a pension member is credited as being an active member of the pension scheme which, in a defined benefit scheme, is used in the calculation of that member's benefits.

### **State Pension**

The core State Pension paid to all who have paid full rate National Insurance Contributions for a specific period or have received contribution credits. It is based on an individual's national insurance contributions history or credits from years when they were not working but doing other things that qualify for earning a credit

### **State Pension Age**

The earliest age an individual can get their basic State Pension. It is based on an individual's date of birth.

### **Tax relief**

Pension contributions to registered pension schemes attract tax relief. For members of defined benefit schemes, contributions are typically deducted from pay and tax relief is provided by calculating PAYE tax on pay after deduction of pension contributions.

### **Tiered contribution structure**

A method of setting employee contributions so that the percentage of salary contributed depends on what an individual's full time equivalent salary is. The Government has proposed a tiered contribution structure so that lower earners pay a lower contribution rate than higher earners.

### **Transfer club**

The purpose of the transfer club is to facilitate free interchange of staff between public sector employers (and a few private sector employers). The transfer club provides for people transferring voluntarily between participating pension schemes to receive day-for-day credit in the receiving scheme.

### **Transitional protection/ Taper protection**

A new pension scheme will be introduced in April 2015; the transitional protection arrangements have been put in place for those who are closest to retirement. For those with 10 years or less until their Normal Pension Age on 1 April 2012, they will remain in their current pension arrangements. For those with more than 10 years but less than 13.5 years from their Normal Pension Age on 1 April 2012, there will be

an opportunity to remain in their current arrangements for longer before transferring to the 2015 scheme (the details of which are set out in the PFA in Annex A to this document).