



Judicial Pension Scheme 2022 (JPS 22): Comparison with the legacy NJPS 2015

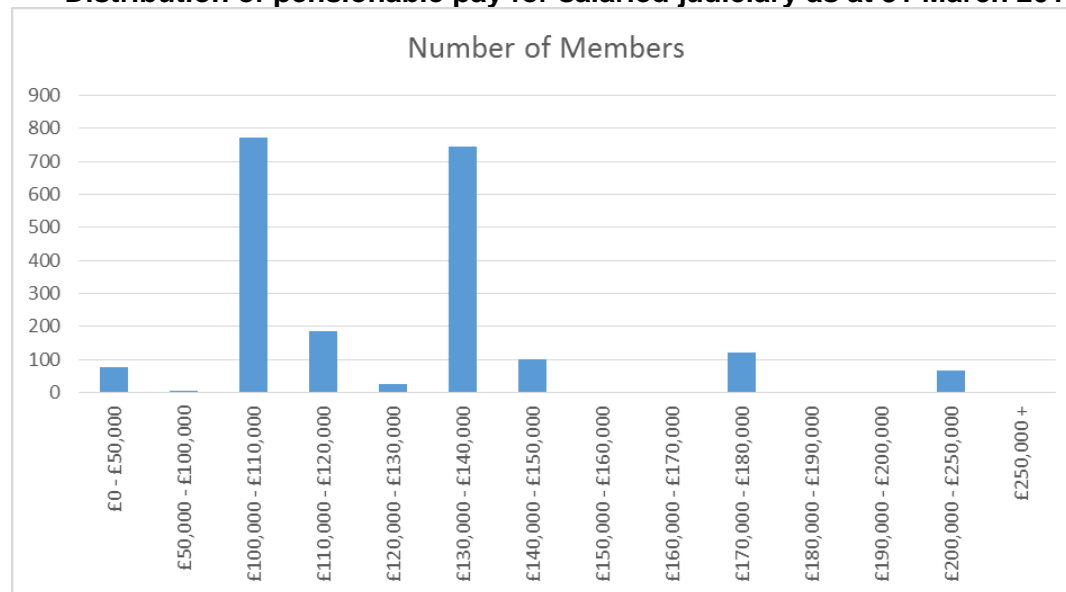
This paper has been prepared by GAD at the request of the Ministry of Justice (“MoJ”) for presentation at and consideration by their Senior Salaries Review Body (“SSRB”). This paper gives an approximate comparison of the value of member pension benefits in JPS 22 versus the legacy NJPS 2015 scheme. We have only considered the comparison with NJPS rather than other legacy arrangements as the accrual in other arrangements is due to cease after the protection period ends and default position in other public sector schemes is for members to be enrolled in the applicable 2015 scheme. [This paper is intended as a working draft and it is expected that it will develop through discussions with MoJ and the SSRB.] It includes:

1. A summary of the differences in the value of pensions accrual;
2. Breakdown of the difference in pensions accrual;
3. Breakdown of change in the value of pay and benefits - including Recruitment & Retention Allowance (RRA) where applicable;
4. An overview of the relative benefit summaries;

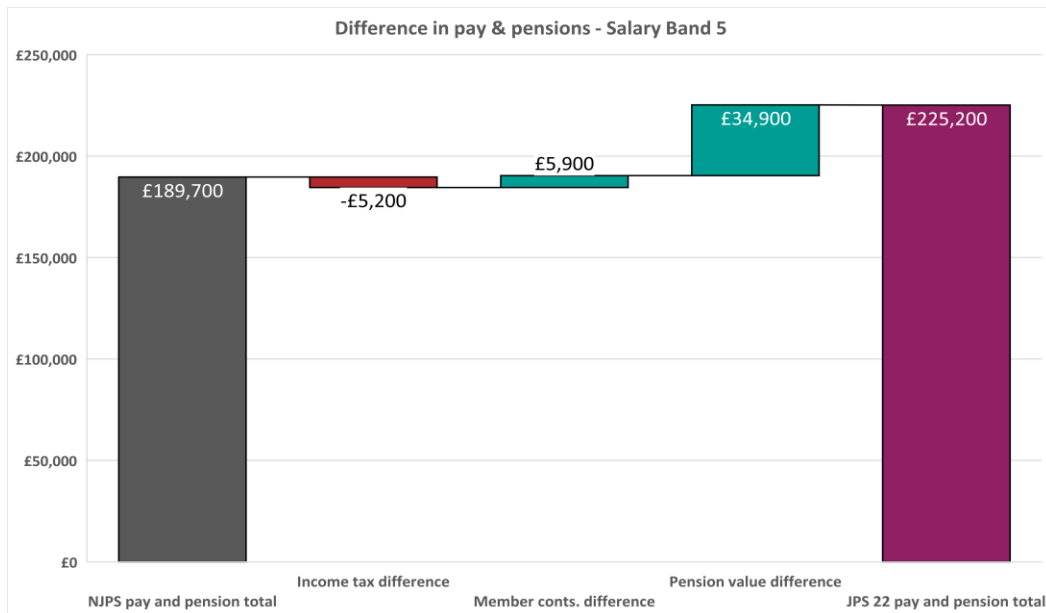
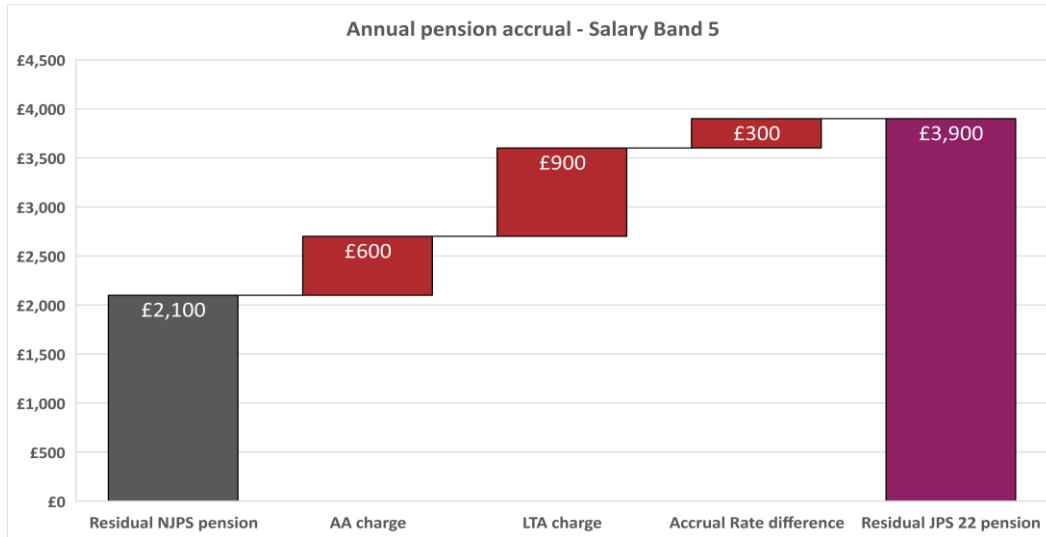
As requested, we have only compared the relative value of salary and pension benefits for full time salaried Judges salary bands 4 to 8. This includes full time Judges with pensionable salary from c.£90k to £200k.

Which as can be seen from the chart opposite produced from the last actuarial valuation allows for over c. 90% of the active membership. The impact on part time Judges or those in other salary bands is outside the scope of this report.

Distribution of pensionable pay for salaried judiciary as at 31 March 2016



1. Summary of pension accrual values JPS 22 vs NJPS



- There is a substantial increase in the annual pension accrual in JPS 22 compared to the legacy NJPS.
- Whilst the accrual rate is higher in JPS 22, most of the expected improvement comes from the change in the taxation status to an unregistered pension scheme. This removes any potential Annual & Lifetime Allowance tax charges.
- In particular, the removal of any Lifetime Allowance tax charge at retirement may be very valuable for Judges who would have pension in other tax-registered arrangements. It also allows Judges to use AVCs and other registered pension arrangements to increase their savings in a tax-efficient manner.

- Employee contributions to JPS 22 are no longer tax-deductible as the pension scheme is unregistered. This has the impact of reducing take home pay.
- However, this is broadly offset by the reduction in the employee contribution rate to 4.26% p.a..
- The value of members' overall pay and benefits is substantially higher due to the implementation of JPS 22.
- This is mainly due to the unregistered taxation status which eliminates any potential Annual & Lifetime Allowance tax charges.
- JPS 22 is more valuable than NJPS for all members due to the higher accrual rate but the effect is biggest for those with a higher salary due to the tax benefits.

2. Breakdown of the difference in pensions accrual

Difference in annual pension accrual p.a.								
Salary Band	Salary	NJPS Accrual	AA charge*	LTA charge*	Residual NJPS pension	JPS 22 pension	Difference in annual pensions accrual	Pension accrual increase (%)
4	£192,679	£4,500	£1,100	£1,000	£2,400	£4,800	£2,400	100%
5	£154,527	£3,600	£600	£900	£2,100	£3,900	£1,700	86%
5.1	£148,820	£3,500	£500	£900	£2,100	£3,700	£1,600	76%
5.2	£143,095	£3,300	£400	£800	£2,100	£3,600	£1,500	71%
6	£134,717	£3,100	£300	£800	£2,000	£3,400	£1,400	70%
7	£114,793	£2,700	£100	£800	£1,800	£2,900	£1,000	61%
8	£91,217	£2,100	£0	£600	£1,500	£2,300	£800	53%

- The table above shows the change in annual pensions accrual between NJPS and JPS 22 for Judges in bands 4 to 8 inclusive.
- The figures assume that members would be impacted by the Annual Allowance each year (a pension accrual value of £40k p.a.) and exceed the Lifetime Allowance at retirement. *The estimated pension debits are based on an average member with a current age of 60 and State Pension age of 67 as an illustrative example.
- The annual accrual is higher and most of this increase is due to the unregistered tax status of JPS 22. This means that Annual and Lifetime Allowance tax charges do not apply to benefits that are accrued within JPS 22.
- The new scheme is better for all members, but the tax advantages have a greater value for those members with a higher salary.
- In the next section we show a breakdown of the change in pay and the value of pensions. The changes in income tax and member contributions are broadly offsetting and the increase in the total value of members benefits comes from the implementation of the new scheme.

3. Breakdown of change in the value of pay and benefits

Difference in pay & pensions (£1 pension = £20 consistent with HMRC calculations)										
Salary Band	Salary	RRA	Difference in income tax	Difference in National insurance	Difference in member contributions	Difference in value of pensions accrual	Value of pay & NJPS	Value of pay & JPS 22	Total difference in pay and pensions	JPS 22 pay & pension increase (%)
4	£192,679	-£21,195	£2,600	£400	£7,300	£48,300	£243,900	£280,800	£36,900	15%
5	£154,527	£0	-£5,200	£0	£5,900	£34,900	£189,700	£225,200	£35,500	19%
5.1	£148,820	£0	-£4,400	£0	£4,600	£32,800	£183,900	£216,900	£33,000	18%
5.2	£143,095	£0	-£4,200	£0	£4,400	£30,500	£177,900	£208,500	£30,600	17%
6	£134,717	£0	-£4,000	£0	£4,200	£27,400	£168,800	£196,300	£27,500	16%
7	£114,793	£0	-£3,400	£0	£3,500	£20,800	£146,400	£167,300	£20,900	14%
8	£91,217	£0	-£2,700	£0	£2,800	£15,600	£117,200	£132,900	£15,700	13%

Difference in pay & pensions (£1 pension = £25 consistent with JPS 22 consultation)										
Salary Band	Salary	RRA	Difference in income tax	Difference in National insurance	Difference in member contributions	Difference in value of pensions accrual	Value of pay & NJPS	Value of pay & JPS 22	Total difference in pay and pensions	JPS 22 pay & pension increase (%)
4	£192,679	-£21,195	£2,600	£400	£7,300	£60,400	£255,900	£304,900	£49,500	19%
5	£154,527	£0	-£5,200	£0	£5,900	£43,600	£200,300	£244,500	£44,200	22%
5.1	£148,820	£0	-£4,400	£0	£4,600	£41,000	£194,300	£235,500	£41,200	21%
5.2	£143,095	£0	-£4,200	£0	£4,400	£38,100	£188,100	£226,400	£38,300	20%
6	£134,717	£0	-£4,000	£0	£4,200	£34,200	£178,800	£213,200	£34,400	19%
7	£114,793	£0	-£3,400	£0	£3,500	£25,900	£155,500	£181,600	£26,100	17%
8	£91,217	£0	-£2,700	£0	£2,800	£19,500	£124,700	£144,300	£19,600	16%

4. Summary of pension scheme benefits

	NJPS 2015 Scheme	JPS 2022 Scheme
Basis of provision	Career average with revaluation of CPI whilst in service	Career average with revaluation of CPI whilst in service
Taxation status	Registered pension arrangement for taxation purposes	Unregistered pension arrangement for taxation purposes i.e. no AA or LTA charges
Normal Pension Age	State Pension age (or age 65, if later)	State Pension age (or age 65, if later)
Contribution rate	Member contribution rates at 1 April 2015 to 31 March 2016 Contributions paid from pre-tax earnings. Up to but not including £21,001 4.6% £21,001 to but not including £47,001 5.45% £47,001 to but not including £150,001 7.35% £150,001 and above 8.05%	4.26% (default) or 3.00% (optional choice until 1 April 2025) [impacts net pay directly as no income tax savings]
Pension accrual rate	2.32%	2.50% (default) or 2.42% (optional choice until 1 April 2025)
Retirement lump sum	Cash by commutation only	Cash by commutation only (£12: £1pa – designed to replicated tax free cash benefits of registered schemes with equivalent 35.7% of pension maximum). Commutation supplement payable on top of commutation to meet tax payable due to scheme's unregistered tax status which is 'grossed' up at the marginal tax rate payable.
Dependant benefits-death in service	Lump sum: Greater of 2 x Final pay, 5 x member's pension. Surviving adult's pension: 37.5% of the scheme member's pension plus an enhancement factor. Children's pension may also be payable.	Lump sum: Greater of 2 x Final pay, 5 x member's pension Surviving adult's pension: 37.5% of the scheme member's pension plus an enhancement factor. Children's pension may also be payable.
Dependant pension - death after retirement	37.5% of member pension (pre-commutation)	37.5% of member pension (pre-commutation)
Ill health pension	Pension equal to the accrued pension, plus half of the expected pension that the member would have accrued before scheme pension age (or end of fixed term contract), no reduction for immediate payment	Pension equal to the accrued pension, plus half of the expected pension that the member would have accrued before scheme pension age (or end of fixed term contract), no reduction for immediate payment
Early retirement	Benefits reduced for early payment. The reduction is actuarially neutral on a deferred benefit basis (allows for impact of commutation supplement).	Benefits reduced for early payment. The reduction is actuarially neutral on a deferred benefit basis (allows for impact of commutation supplement).
Pension increases	In payment and deferment – increased in line with the PI Act	In payment and deferment – increased in line with the PI Act
Benefits on leaving service	Either a refund of contributions, a preserved pension payable from NPA or a transfer payment to another scheme or to an insurance company.	Either a refund of contributions, a preserved pension payable from NPA.

Limitations

As requested, we have only compared the relative value of salary and pension benefits for full time salaried Judges salary bands 4 to 8. We have only approximately allowed for the difference in taxation status between the schemes. This includes the interaction of the relative scheme benefits with the current tax regime and, in particular, the Annual and Lifetime Allowances, however, only using an illustrative member example. It is worth noting that whilst we might expect the difference in the value of scheme benefits to be broadly similar for fee paid and other Judges at other salary bands the necessary the analysis was outside the scope of this report. In particular, the tax regime may have a markedly different impact on these Judges.

We have also not considered the impact of Judges selecting the lower contribution rate for lower accrual rate option.

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