

# Compulsory Redundancy – guidance for staff

This guide tells you about the compensation benefits available under the Civil Service Compensation Scheme 2010 if you are made compulsorily redundant.

Before your employer can serve a redundancy notice, they will have followed the protocols for handling surplus staff situations or a similar process. A voluntary redundancy scheme must have already been offered and must be linked to the Compulsory Redundancy scheme, covering the same staff. If you were previously turned down for voluntary redundancy then later selected for compulsory redundancy under the linked scheme, you will receive voluntary redundancy terms.

If you are made compulsorily redundant you will receive a cash payment as compensation for giving up your job. Depending on your circumstances, you can use some or all of your compensation payment to increase your pension.

## How is compensation worked out for compulsory redundancy?

We take a number of things into account in working out your compensation. These are:

### 1) Pay

This is the full time rate of your basic pay on your last day of service plus any permanent pensionable allowances.

#### **Protection for the lower paid**

If you earn less than £23,000, we will treat you as if you earned that amount when we work out your compensation payment (your pension benefits will continue to be based on your final pensionable earnings).

#### **Restricting payments to the higher paid**

If you earn more than £149,820, we will treat you as earning that amount when we work out your compensation payment (your pension benefits will continue to be based on final pensionable earnings).

The upper and lower limits will be reviewed towards the end of each calendar year and any new limits will apply from 1 April the following year.

#### **Part-time pay**

If you work part-time, please see the paragraph 'working part time' below.

### 2) Tariff

Your employer will pay 1 month's pay for every year of service up to a maximum of:

- 12 months for those under scheme pension age
- 6 months for those over scheme pension age.

\* The compensation payment is reduced if you are near to scheme pension age. This is known as tapering. The maximum number of months' pay you can receive will be the lesser of:

- the normal maximum for those under scheme pension age and
- the number of months you have to scheme pension age plus 6 months.  
(Part months will be rounded to the nearest full month.)

Whether or not tapering will apply to you depends on your scheme pension age, how old you are and how many years' service you have. There is an example in Appendix A which will give you an idea of how tapering works.

### **3) Years of Service**

To qualify for a compulsory redundancy payment, you must have at least 2 years' qualifying service.

We will base your compensation payment on your current service (service with previous Civil Service employers will count if there has been no break in service). We use decimal years and days to work out your compensation, for example, 11 years 200 days =  $11 + (200 / 365) = 11.5479$  years.

Current service does not include:

- any added years or pension that you are buying in the Civil Service pension scheme
- any pension benefits you have transferred into the Civil Service pension scheme
- any earlier periods of pensionable service that you have built up in the Civil Service pension scheme before beginning your current employment.

If you work part time, please see the paragraph 'working part time' below.

## **How do my personal circumstances impact on my compensation payment?**

### **Fixed term employees**

If you are employed for a fixed term, you will normally receive the same compensation payment on compulsory redundancy as a permanent employee with the same pay and service, but this depends on the terms of your contract.

### **Working part time**

If you work part time your service will be based on your actual hours worked and full time equivalent pay. If you have worked part time in the last three years, the maximum number of months' pay you can receive may be restricted proportionately by comparing your service with what it would have been if you had worked full time throughout.

Tapering will also apply to part time workers, but again will be worked out proportionately. See example 9 in Appendix A.

## **Pre-fresh Start Prison Officers**

Pre-fresh Start Prison Officers who leave on compulsory redundancy before age 55, have a scheme pension age of 60 for the purposes of tapering.

## **Exit after partial retirement or formal retirement**

We'll use the whole of your current continuous service (both before and after partial or formal retirement) to work out your compensation payment. This is subject to the limits according to your age or any part time service.

If you have retired and been re-employed, your compensation will include only the service from the date of your re-employment.

## **Reserved Rights**

Some people who have remained in continuous employment since before April 1987 have pre 1987 'reserved rights'. (They were in post on 1 April 1987 under age 40 and in a mobile grade). If you are still under 50 on your last day of service you will receive the following terms:

Departure during Year 1\* – 60% of the reserved rights amount

Departure during Year 2 – 50% of the reserved rights amount

Departure after year 2 – 40% of the reserved rights amount

\*Year 1 will start on 22 December 2010. Year 2 will start on 22 December 2011.

The amounts will be worked out using the pay and service at 21 December 2010 and adjusted to take account of inflation during the period up to the last day of service.

If you would get a better result under the new terms, we'll pay you that instead.

## **Pension options**

### **Can I take my pension instead of a cash payment?**

If you are:

- a member of the Civil Service pension scheme, and
- have at least 2 years' qualifying service, and
- are over your **minimum** scheme pension age, (50 if you were in the scheme since before 6 April 2006, 55 if you joined after)

you can take your pension early. Normally, if you take your pension before your scheme pension age, we will reduce it because you will be receiving it over a longer period. However, you can use your compensation payment towards the cost of buying out this reduction.

If you choose to do this, your compensation payment may not be enough to meet the full cost of buying out the reduction to your pension. If this is the case, you will need to make the additional payment yourself by sending a cheque to your Pension Service Centre (made payable to 'GBS RE CO Civil Superannuation'). Your pension benefits will not be paid until the cheque has cleared.

If the compensation payment is more than the cost of the buy out, we will pay you the remainder of the payment at the time you leave.

### **Can I take my pension and get my compensation paid as cash payment?**

If you are over your **minimum** scheme pension age (see above), you can take your pension, reduced for early payment, and receive your compensation as a cash payment. Alternatively, you can buy out the reduction using your own money (rather than your compensation payment). If using your own money you must pay it in the form of a cheque to your Pension Service Centre before your leaving date. Your pension will not be paid until the cheque is cleared. If you want to do this you must buy out the full reduction on all your service.

You cannot use your pension lump sum to buy out the reduction to your pension.

### **What if I am over scheme pension age?**

You will receive your compensation payment and we will pay you your pension immediately.

## **Other information**

### **Notice**

You will be entitled to 3 months' notice unless you have a contractual right to a different period of notice. Notice will commence from the date the notice of redundancy is issued.

If your employer does not give you full notice, they must pay you compensation in lieu of notice (CILON). The CILON payment will be paid through the payroll. Tax and National Insurance Contributions will apply to this payment.

### **Buying added pension**

If you have qualified for a pension you can buy added pension when you leave. You can use some or all of your compensation payment to do this. If you are interested, look at the calculator on the Civil Service Pensions website [www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions) under 'Calculators' to see how much you would like to spend, and how much pension it will buy for you. You will need to attach a printout from the calculator showing your selected amount to the Compensation Declaration Form accepting the compensation payment.

Added pension is subject to the Annual Allowance for tax. If the value of your pension increases during a scheme year, (January to December), by more than £50,000 from January 2011, you will have to pay extra tax on the excess under current tax rules. See Example 10. Speak to your tax office if you have any questions.

For those earning £130,000 or more, there will be a potential charge under the special Annual Allowance arrangements in 2010/11 if you buy added pension.

## **Civil Service Additional Voluntary Contributions Scheme (CSAVCS)**

Your Pension Service Centre will write to you separately with options on how you would like your CSAVCs to be treated.

### **Tax**

Under current tax law, the first £30,000 of a compensation payment will be tax-free. Normal tax rules will apply to payments in excess of this.

Normal tax rules will apply to compensation in lieu of notice payments (and to your pension if in payment). National Insurance will also apply to compensation in lieu of notice payments.

The Government announced changes to the Annual Allowance (effective from tax year 2011-12) and the Lifetime Allowance (effective from 6 April 2012). There is no impact on the Annual Allowance if you are taking your pension early (whether or not it is reduced for early payment).

If you have any questions concerning your tax position, please contact your local tax office.

### **Re-employment**

If you are re-employed in an organisation covered by the Civil Service pension and compensation arrangements within 28 days of leaving your current employer, your compensation will be cancelled and your service will be treated as continuous. You will have to repay the **full** compensation amount.

If you are re-employed in an organisation covered by the Civil Service pension and compensation arrangements outside the 28 day period, but within the lesser of:

- a) six months, and
- b) the notional period of the compensation payment

you will have to pay back the compensation payment pro-rata.

The repayment will be reduced in cases where the new employment is at a lower salary level than before.

In all cases, if you have taken your pension on leaving, it may be subject to abatement on re-employment.

The guide does not cover every aspect of the Civil Service Compensation Scheme. Full details are contained only in the rules, which are the legal basis of the scheme.

In the event of any difference, the rules will apply. It has been produced by My Civil Service Pension (MyCSP) who administer Civil Service and pension and compensation arrangements.

## Examples of calculations

### Example 1 – Full time worker

Joe works full-time. He earns £30,000pa and has 10 years' service. Joe would receive a payment of £25,000 ( $10 \times £30,000/12$ ).

### Example 2 – Full time worker (with maximum number of months' tariff applied)

Hamish works full-time. He earns £40,000pa and has 30 years' service. Even though Hamish has 30 years' service, his redundancy payment is capped at 12 months' pay. Hamish's redundancy payment is worked out as  $12 \times £40,000/12 = £40,000$ .

### Example 3 - Part time worker – service only

Mary worked full time for 3 years. Her conditioned hours were 36. She then reduces her hours to 29 a week for the next 5 years.

Mary's service is her actual hours worked therefore  $3 + (5 \times 29/36) = 7.0278$  years rounded to the nearest whole day (by multiplying .0278 by 365) = 7 years 10 days reckonable service.

### Example 4 – Worker over scheme pension age

David is 63 and is a member of **premium**. David earns £24,000 a year and he has 8 years' service. He will receive a payment of £12,000 ( $6 \times £24,000/12$ ). David's pension (and any pension commencement lump sum he chooses to take) will come into payment immediately after his last day of service.

### Example 5 – Protection for the lower paid

Jane works full-time. She earns £15,000 and has 20 years' service. If Jane is made compulsorily redundant her payment will be £23,000 ( $12 \times £23,000/12$ ). If Jane is close to scheme pension age she might choose to take her pension and use some or all of her payment to offset the early payment reduction that would otherwise apply.

### Example 6 – Early access to pension

Kirsty is aged 56 and is a member of **classic**. As Kirsty is over her minimum scheme pension age, Kirsty can choose to receive her pension (and lump sum) immediately with reduction for early payment. However Kirsty does not have to take an immediate pension. She can take a compensation payment and leave her pension (and associated pension commencement lump sum) preserved for payment at scheme pension age (60).

### Example 7 – Tapering (full-time worker)

Bernard leaves on compulsory redundancy on 30 June. He will reach 60 (his scheme pension age) on the following 3 March – in other words, in 8 months and 3 days. Bernard has 32 years' service and his pay is £24,000pa. Bernard will receive the lesser of:

The normal maximum ( $12 \times £24,000 /12$ ) = £24,000

X months' pay where  $X = 8 + 6 = 14$ . This is  $14 \times £24,000/12 = £28,000$   
Bernard will receive £24,000

### **Example 8 – Tapering (lower-paid and part-time worker)**

Zilla leaves on compulsory redundancy on her 59<sup>th</sup> birthday. Zilla works part-time (she is currently working 3 days a week or 0.6) and she is a member of **premium**. Zilla has a total of 8 years of service, built up over 11 years. Zilla's full-time equivalent pay rate is £20,000 so her compensation is based on the deemed minimum full-time rate of £23,000. Zilla's compensation calculation takes account of both the tapering and the part-time restrictions to maximum compensation.

Zilla's compensation is worked out as the least of:

- Unlimited compensation =  $8 \times £23,000/12 = £15,333$
- The normal maximum (scaled for part-time) =  $12 \times £23,000/12 \times 8/11 = £16,727$
- X months' pay where  $X = (12 \times 0.6) + (6 \times 8/11) = 12$  (rounded to nearest whole number). This is  $12 \times £23,000/12 = £23,000$

Zilla will receive £15,333

### **Example 9 – Redundancy after partial retirement**

Caspar is aged 66. He took partial retirement a couple of years ago when he went part-time. Caspar has total service of 43 years accumulated over 44 years and his full-time equivalent rate of pay is £15,000. Caspar will receive compensation reflecting his entire service, not just the period after his partial retirement. Caspar's compensation will reflect the deemed minimum (£23,000) and he will receive £11,238 ( $6 \times £23,000/12 \times 43/44$ ) or a payment worked out according to the statutory redundancy rules if this is greater.

### **Example 10 – Using compensation to purchase Added pension**

Henry asks his employer to pay all of his compensation payment into the pension scheme to buy Added pension for him. The Added pension increases Henry's pension by £1,000 a year. Over and above this, Henry's pension had increased in real terms during the year (as a result of his ongoing service and a small pay rise) by £500 a year. In total, then, Henry's pension has increased by £1,500. Henry is in **classic** so his lump sum has also increased in real terms – by £4,500. For Annual Allowance purposes, Henry's pension increases are valued at £28,500 ( $16 \times £1,500 + £4,500$ ). This is well within Henry's Annual Allowance of £50,000 so Henry does not incur any extra income tax charges.

### **Example 11 – Re-employment**

Upma receives a severance payment of £30,000 which represents 12 months' pay. 4 months later, Upma is re-employed in an organisation that offers the Civil Service Pension arrangements, on a salary of £24,000. Upma will be required to repay 8 months' compensation, adjusted for her new salary level. The amount to be repaid will be worked out as  $£30,000 \times 8/12 \times 24,000/30,000 = £16,000$ . (In this case, the compensation payment – being no more than £30,000 – would not have attracted tax. In cases where tax is payable, any repayment is adjusted, as now, to take account of tax paid.)

### **Example 12 – Reserved rights pre1987**

Graham joined the Civil Service in 1986 as an Executive Officer. He leaves on voluntary redundancy on 31 March 2011 when he is 49. Graham's full "reserved rights" compensation works out at £300,000. This is a "Year 1" departure, so Graham receives 60% of his reserved rights compensation – that is, £180,000.

**Example 13 – Reserved rights pre 1987**

Julie joined the Civil Service in 1986 as an Executive Officer. Julie leaves on voluntary redundancy on 30 September 2011, when she is 50. Although Julie would have had access to "reserved rights" terms had she left before age 50, these terms stop on reaching age 50. Julie will receive a compensation payment of 12 months' pay (she has more than 12 years' service).