



THE FDA GUIDE TO  
**CIVIL SERVICE  
PENSIONS 2015**

# Welcome to the FDA Guide to Civil Service Pensions 2015

In April 2015 your civil service pension arrangements are changing. In this booklet, the FDA provides information and an overview of the changes and what they mean for FDA members. You can find more information, including Frequently Asked Questions, on the FDA website at [www.fda.org.uk/Pensions2015](http://www.fda.org.uk/Pensions2015)

Whether you've just joined the civil service (and the pension scheme) or you've been in the Principal Civil Service Pension Scheme (PCSPS) for decades, some things are changing. The FDA believes it is important that everyone has a clear understanding of what is happening and for those of you who need to make a choice, what the consequences of that choice could be.

At the outset it is important to remember two things. Firstly, that these changes came about following several years of intense negotiations with the Government as the employer and were significantly improved as a result of the day of industrial action taken by FDA members. The PCSPS remains the highest value of the main

public sector schemes, with the flattest member contribution rate framework that is the lowest on average and has the lowest rates for high earners. This was a key objective of the FDA in the pensions negotiations. As a result of the improvements the FDA achieved, members were balloted on, and accepted, a package of reforms of which these 2015 changes are a part.

Secondly, while the FDA aims to provide informative, accessible guidance for members, we are not in a position to provide financial advice. The FDA has, however, recently launched a new member benefit scheme - FDA Portfolio.

As part of FDA Portfolio, we have linked up with Lighthouse Financial Advice, a leading provider of financial advice to trade union members that has extensive experience of advising on civil service pensions. Through FDA Portfolio, FDA members can take advantage of a no obligation complimentary consultation with a Lighthouse adviser by visiting [www.fda.org.uk/FDAPortfolio](http://www.fda.org.uk/FDAPortfolio)

# What will the changes mean for me?

Depending on what scheme you are in and what age you were on 1 April 2012, the changes will mean different things to different people. Everyone has their personal view on retirement and circumstances that they need to consider, so you will need to think through the impact of the changes on you and, potentially, your family.

## Contributions

Some changes will be universal. Everyone who is a contributing member of any civil service pension scheme - Classic, Classic Plus, Nuvos or the post 2015 scheme 'Alpha' - will have new contribution rates from April.

Over the last few years member contribution rates have been increasing as part of a public sector pension levy announced in 2010. The changes to contribution rates in 2015 are unrelated to those increases. Regardless of which scheme you are in, your contribution rate will be determined by your pensionable salary as set out in the table below. This table shows the rates for 2015-6, indicative tables for future years are available on the website.

Actual salary	Rate
Up to £21,000	4.6%
£21,001 - £47,000	5.45%
£47,001 - £150,000	7.35%
Over £150,000	8.05%



---

A few points to note:

- Contributions will be based on your actual pensionable salary, not the full time equivalent pensionable salary. For some part-timers this may mean you pay a lower contribution rate than would otherwise be the case.
- When tax relief is taken into account, the contribution rates typically range from 3.68% to 4.43% though this can depend on your tax arrangements.
- There is some protection for those members of Classic earning less than £15,000 who will have a staged increase from the current 1.5% to 4.6% over three years. As this protection fades out, the £47,001 threshold for paying 7.35% will increase, meaning some members will then drop down to the 5.45% rate.
- All thresholds below £150,000 will increase by 1% each year.
- All members earning up to £15,000 will see an increase in contribution rate.
- Most current members of Classic are likely to see their contribution rate increase.
- Most current members of Classic Plus, Premium and Nuvos will see their contribution rate drop (except those earning £47,001 - £50,000 who may have a 0.08% increase).
- No members have a higher contribution rate than that set out in the Agreement reached in 2012.

# Am I changing schemes?

---

It depends. If you are a current member of Classic, Classic Plus or Premium who was at least 50 years of age on 1 April 2012, or a current member of Nuvos aged at least 55 years on 1 April 2012, you will stay in that scheme. While your contributions will change, almost everything else remains the same.

If you are a current member of Classic, Classic Plus or Premium who was under 46 years and seven months old on 1 April 2012, or a current member of Nuvos who was under 51 years and seven months old on 1 April 2012, then you will be moving to the new scheme, Alpha, in April 2015.

The pension you will have built up in your current scheme will be protected, that is it can be drawn without reduction if you retire when you reach 60 or 65 (depending on your current Normal Pension Age) and if you are in a final salary scheme, it will be the salary on retirement that is used to determine your final salary pension, not your salary in April 2015. You should familiarise yourself with the terms of the new scheme so that you are aware of what it provides.

If you are a current member of Classic, Classic Plus or Premium who was at least 46 years and seven months old

on 1 April 2012, or a current member of Nuvos who was at least 51 years and seven months old on 1 April 2012 but had not reached 50 (Classic, Classic Plus or Premium) or 55 (Nuvos) then you will be taking part in the options exercise. This means that you will be asked to decide whether to join the new scheme in April 2015 or at a later date (the exact date depends on your age/current scheme). If you choose to join later, you will build up some more pension in your current scheme before joining Alpha.

If you are in one of these groups, you will receive an options pack from MyCSP in October and you will have two months to decide whether to join the new scheme at your protection date (option 1) or in April 2015 (option 2). If you do not make a choice, you will stay in your current scheme and start Alpha at your protection date (option 1).

You need to look carefully at the provisions of the new scheme and decide whether you are likely to be better off joining as early as you can (i.e. April 2015) or by building up some more pension in your current scheme. There will not be one 'right answer': it will depend on when you think you will retire, how much income you will need and what is likely to happen to your salary.

# What are the benefits of the new scheme?

Alpha is a defined benefit scheme (like Classic, Premium and Nuvos), specifically it is a career average scheme (like Nuvos). You may also hear the terms 'CARE' or 'Career Average Revalued Earnings'.

Before we start, it's worth remembering that this new method will only apply to your pension built up from 1 April 2015. All pension earned before then will still be calculated using current scheme rules, which in Nuvos is also CARE although a different accrual rate is used.

Defined benefit pension schemes - including career average pensions - calculate pensions using a set formula. In the case of the civil service schemes that formula is as follows:

$$\text{Pension} = \text{Membership} \times \text{Accrual Rate} \times \text{Pensionable Pay}$$

In a final salary scheme it is the pay at the end of the period of membership that is used in the calculation. With career average, the pensionable pay for each year is used to calculate a pension for that year. Each year's pension is then revalued by inflation. Each year's revalued pension is then added together to arrive at the total pension. So the total pension builds up as follows:

Pension for year 1 x revaluation plus  
Pension for year 2 x revaluation plus  
Pension for year 3 x revaluation plus  
And so on....until plus  
Pension for final year

Let's look at each element in the formula...

**Membership** - This is normally the amount of time you are contributing to the pension scheme and is also known as pensionable service.

**Accrual rate** - The accrual rate is the proportion of pensionable pay that each year of membership adds to your pension. The rate is normally expressed as a fraction, although some schemes show it as a percentage. For Alpha, the accrual rate is 2.32% (or 1/43.1 if expressed as a fraction). This means that for each year of membership you will build up a pension of 2.32% of your pensionable pay for that year. You may see the terms 'accrue' or 'accrual' used. These just mean the amount of pension that has been built up for the year or in total.

**Pensionable pay** - Pensionable pay is the actual amount you earn that is, for contractual purposes, 'pensionable'. This is the amount you pay contributions on and the amount on which your benefits are based.

# The basic calculation

To explain how your pension builds up and is revalued, let's take one step at a time. We have already said that each year's pension is a percentage of that year's pensionable pay. The example below shows how that builds up over time to create the total pension.

## EXAMPLE 1

Evelyn has a pensionable pay of £50,000 this year so will 'accrue' 2.32% of that pay towards her pension, i.e. **£50,000 x 0.0232 = £1,160**

If Evelyn was in membership for five years and there were no pay rises or inflation to take into account, her pension would build up as follows:

Year	Pensionable pay	Pension accrued
1	£50,000	£1,160
2	£50,000	£1,160
3	£50,000	£1,160
4	£50,000	£1,160
5	£50,000	£1,160
Total pension		£5,800 per year

However, pay does normally rise over time and there is inflation to consider, so we will see how revaluation is needed to ensure the pension does not lose its value.

## Revaluation

One of the most important features of Alpha is the way that your pension is revalued as it builds up. This is significant as there could be a period of 40 years or more between your first year's pension saving and your retirement date. Over this period of time the real value of the early years' pension will have been reduced by the effects of inflation.

To mitigate against this erosion in value, Alpha will revalue each year's pension build up in line with inflation (CPI).

---

### EXAMPLE 2

If Evelyn receives no pay rises but inflation is 3% each year, then her pension would be revalued as follows. The further in the past the pension is earned, the more multiples of 3% it is increased by. This results in an increased total pension when compared with Example 1:

Year	Pensionable pay	Pension accrued	Revalued pension
1	£50,000	£1,160	£1,305.59
2	£50,000	£1,160	£1,267.56
3	£50,000	£1,160	£1,230.64
4	£50,000	£1,160	£1,194.80
5	£50,000	£1,160	£1,160.00
<b>Total pension</b>			<b>£6,158.59 per year</b>

You can see that compared with Example 1, the first four years of pension built up have been increased to take account of inflation. Year 1 has been increased by the most as it is furthest in the past, and so it needs a greater increase to retain its value against inflation.

---

### EXAMPLE 3

Finally, let us assume that Evelyn did receive pay rises and a promotion during this period. As a result, the pensionable pay for each year would increase before revaluation is applied. With inflation at 3% each year, one promotion and pay increases of £500 per year, the calculation of her total pension would be as follows:

Year	Pensionable pay	Pension accrued	Revalued pension
1	£50,000	£1,160.00	£1,305.59
2	£50,500	£1,171.60	£1,280.24
3	£60,000	£1,392.00	£1,476.77
4	£60,500	£1,403.60	£1,445.71
5	£61,000	£1,415.20	£1,415.20
<b>Total pension</b>			<b>£6,923.51 per year</b>

# The basic calculation

So in this example, both increases in pensionable pay and inflation have been built into the calculation of Evelyn’s pension. Another way to represent the above pension build-up would be to show the revaluation applied each year as follows:

Pensionable pay	Revalued pension				
	No revaluation	1 year of revaluation	2 years of revaluation	3 years of revaluation	4 years of revaluation
£50,000	£1,160.00	£1,194.80	£1,230.64	£1,267.56	Year 1 £1,305.59
£50,500	£1,171.60	£1,206.75	£1,242.95	Year 2 £1,280.24	
£60,000	£1,392.00	£1,433.76	Year 3 £1,476.77		
£60,500	£1,403.60	Year 4 £1,445.71			
£61,000	Year 5 £1,415.20				

As you can see, the first year’s pension gets four years of revaluation, the second gets three years and so on, until the final year which needs no revaluation. Adding all these years together gives us Evelyn’s total annual pension of £6,923.51.

## Career average versus final salary

For some members, Alpha will produce a better pension than they would have got under a continued final salary scheme, albeit at a different pension age. Final salary suits some career patterns, usually those with a structured promotional scale and regular pay rises. Career average is generally a better fit for those whose opportunity for promotion is limited,

or when pay rises are lower than the pension revaluation rate. Individual circumstances differ but there is nothing automatically worse about career average schemes.

# When can I retire?

---

Technically at any age above the minimum benefit age, which at the moment is 50 or 55. However, if you take your pension below the Normal Pension Age it will be reduced for early payment. This is usually at a rate of around 5% a year, so if you retire five years before Normal Pension Age your pension is likely to be permanently reduced by 25%. This doesn't apply in cases of ill health retirement.

In the new scheme, Normal Pension Age will be whatever your State Pension Age is (with a minimum of 65). So a lot of people will have two pension ages: one for their pre-April 2015 service and one for post-March 2015. You need to remember that the State Pension Age can move as well, so while your State Pension Age (and therefore your Alpha pension age) may be 66 now, by the time you get to that age it may have moved and it will be the new State Pension Age that counts.

If you choose to retire at your current scheme's Normal Pension Age you will be able to take your pre 2015 pension without reduction. Your Alpha pension may be reduced though, if your State Pension Age is higher. You may want to defer your Alpha pension until your State Pension Age when it will be payable without reduction. Alternatively if you work longer and retire later than your Normal Pension Age, your Alpha pension (and Nuvos pension if you have one) will be enhanced for late payment.

As with all major financial decisions, the FDA would suggest members consult an independent financial adviser when considering retirement options. FDA members can take advantage of a no obligation complimentary consultation with a Lighthouse adviser by visiting [www.fda.org.uk/FDAPortfolio](http://www.fda.org.uk/FDAPortfolio)

# What about other benefits?

---

Broadly speaking, the new scheme's provisions for benefits such as ill health retirement, death in service and survivor benefits are in line with those provided for in Nuvos.

In terms of a lump sum, only Classic has an automatic lump sum on retirement. For all other schemes, including Alpha, you will be able to trade some pension for lump sum when you come to take your benefits. Any lump sum automatically payable for Classic members will also be paid on retirement. More information on added pension, tax implications and other provisions is available on the FDA website.

Current Premium members moving to Alpha will have a tapered transition to the new death in service provision. The death in service lump sum benefit will taper down from three-times salary to two-times salary between 2015 and 2025.

## **How does the new scheme compare with other civil service pension schemes?**

The table opposite outlines the main benefits of Alpha, Nuvos, Premium and Classic:



## Civil Service Pension Scheme benefits

	Alpha	Nuvos	Premium	Classic
<b>Basis of pension</b>	Career Average Revalued Earnings (CARE)	Career Average Revalued Earnings (CARE)	Final salary (FS)	Final salary (FS)
<b>Accrual rate</b>	2.32% (approx. 1/43.1)	2.30% (approx. 1/43.5)	1.67% (approx. 1/60)	1.25% (approx. 1/80)
<b>Revaluation rate</b>	Consumer Price Index (CPI)	Consumer Price Index (CPI)	Based on final salary	Based on final salary
<b>Pensionable pay (for contributions)</b>	Actual pensionable pay	Full-time equivalent pensionable pay	Full-time equivalent pensionable pay	Full-time equivalent pensionable pay
<b>Maximum pension</b>	No limit	Pension of 75% of highest scheme earnings	45 years and an earnings cap (£145,800*)	45 years and an earnings cap (£145,800*)
<b>Normal Pension Age</b>	Equal to the individual member's State Pension Age (minimum 65)	65	60	60
<b>Lump sum/ trade off</b>	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum	Automatic lump sum of 3x pension
<b>Death in service lump sum</b>	2 x pensionable pay	2 x pensionable pay	3 x pensionable pay	2 x pensionable pay
<b>Death in service survivor benefits</b>	3/8ths of pension based on enhanced service	3/8ths of pension based on enhanced service	1/160 accrual with enhanced service	50% of an enhanced pension
<b>Ill health provision</b>	<b>Lower Tier</b> – immediate payment of pension paid without early payment reduction or enhancement <b>Upper Tier</b> – immediate payment of pension with service enhanced to pension age	<b>Lower Tier</b> – immediate payment of pension paid without early payment reduction or enhancement <b>Upper Tier</b> – immediate payment of pension with service enhanced to 65	<b>Tier 1</b> – immediate payment of pension paid without early payment reduction and with enhancement for those with less than 10 years service <b>Tier 2</b> – immediate payment of pension with service enhanced to 60	Immediate payment of pension paid without early payment reduction and with enhancement for those with more than five years service
<b>Indexation of pension in payment</b>	CPI	CPI	CPI	CPI
<b>Late payment enhancement</b>	Yes	Yes	No	No

\*current cap

---

### **How does the new scheme compare with other public sector pension schemes?**

The table opposite shows how the new scheme compares with the other main public sector pension schemes.

**The PCSPS remains the highest value of the main public sector schemes, with the flattest member contribution rate framework that is the lowest on average and has the lowest rates for high earners. This was a key objective of the FDA in the negotiations.**

The new civil service scheme is worth around 26.7% of pensionable pay, compared with 19.5% for the Local Government Pension Scheme (LGPS), 24.1% for the NHS and 26% for teachers.

The top rate of member contributions in the NHS and LGPS is 14.5% and 12.5% respectively, compared with 8.05% in the civil service, while on average a teacher will contribute around 70% more than a civil servant to their pension.



## Public Sector Pension Scheme benefits

	Alpha	NHS	LGPS	Teachers
<b>Basis of pension</b>	Career average	Career average	Career average	Career average
<b>Accrual rate</b>	2.32% (approx. 1/43.1)	1.85% (approx. 1/54 )	2.04% (approx. 1/49)	1.75% (approx. 1/57)
<b>Revaluation rate</b>	Consumer Price Index (CPI)	Consumer Price Index (CPI) +1.5%	Consumer Price Index (CPI)	Consumer Price Index (CPI) + 1.6%
<b>Pensionable pay (for contributions)</b>	Actual pensionable pay	Full-time equivalent pensionable pay	Actual pensionable pay	Actual pensionable pay
<b>Normal Pension Age</b>	Equal to the individual member's State Pension Age (minimum 65)	Equal to the individual member's State Pension Age (minimum 65)	Equal to the individual member's State Pension Age (minimum 65)	Equal to the individual member's State Pension Age (minimum 65)
<b>Lump sum/ Trade off</b>	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
<b>Death in service lump sum</b>	2 x pensionable pay	2 x pensionable pay	3 x pensionable pay	3 x pensionable pay
<b>Death in service survivor benefits</b>	3/8ths of pension based on enhanced service	1/160th accrual based on upper ill health service enhancement	1/160th accrual based on upper ill health service enhancement	1/160th accrual based on upper ill health service enhancement
<b>Ill health provision</b>	Lower Tier – immediate payment of pension paid without early payment reduction or enhancement Upper Tier – immediate payment of pension with service enhanced to pension age	Lower Tier – immediate payment of pension paid without early payment reduction or enhancement Upper Tier – immediate payment of pension with service enhanced to 50% of pension age	Tier 1 - immediate payment with service enhanced to Normal Pension Age Tier 2 - immediate payment of pension with 25% service enhancement to Normal Pension Age Tier 3 - temporary payment of pension for up to 3 years	Lower Tier – immediate payment of pension paid without early payment reduction or enhancement Upper Tier – immediate payment of pension with service enhanced to 50% of pension age
<b>Average member contribution rate</b>	5.6%	9.8%	6.5%	9.6%
<b>Average employer contribution rate</b>	21.1%	14.3%	13%	16.4%

---

### **More information**

There is more detail on the new civil service pension arrangements on the FDA website, which also contains regular updates relating to pensions and other relevant information. We are regularly updating the Frequently Asked Questions section on the site so do check back for the latest news.



**More detailed information  
including FAQs can be found  
on the FDA website at  
[www.fda.org.uk/Pensions2015](http://www.fda.org.uk/Pensions2015)**

Published by the FDA, 8 Leake Street, London SE1 7NN

**[www.fda.org.uk/Pensions2015](http://www.fda.org.uk/Pensions2015)**

**@FDA\_Union**