

Civil Service Compensation Scheme

Cabinet Office Q&A December 2010

The new Civil Service Compensation Scheme (CSCS) which takes effect on 22 December 2010 sets out the level of compensation that Departments can pay their civil service staff if they leave under voluntary or compulsory redundancy.

The following Q&A sets out the key facts and answers to frequently asked questions. These are intended to provide a high level summary of key elements of the proposals. The definitive detail of the scheme will be covered in the rules once these are in place.

What are the key facts of the new scheme?

The scheme applies to staff in an employment covered by the Civil Service pension and compensation arrangements (including those staff on the nuvos pension terms who were previously only entitled to the statutory redundancy terms).

Voluntary Redundancy

Below normal pension age on exit – one month's pay for each year of service up to 21 months.

Above normal pension age on exit – one month's pay per year of service up to a maximum of six months.

All staff will be given three months' notice which, subject to mutual agreement between the employer and employee, may be paid in lieu of working through the notice period; i.e. where the parties agree a release date before the end of the notice period.

Staff who have reached the **minimum pension age (either 50 or 55)** – can choose to opt for early retirement on their current pension entitlement.

- This will be the pension that staff are entitled to for their work in the civil service at their point of departure, i.e. the pension that has been earned at that point in the latest period of continuous service (so previous service, transferred in service and added years will not normally be included).
- Staff will be asked to surrender some (or all) of any severance payment to meet the cost of receiving their pension early.
- Where the severance payment is not sufficient to fund an unreduced pension, the employer will make a top up payment.
- Where all of the severance payment is not required to fund an unreduced pension, the balance will be paid as cash compensation.

Compulsory Redundancy

One month's pay per year of service up to 12 months. All staff who may face compulsory redundancy will first have had the opportunity to exit under voluntary redundancy terms where it will have been made clear to them that they are at risk of redundancy.

- Under the new terms voluntary redundancy (1 month's pay for each year of service up to a maximum of 21 months) must be offered when there is a risk to an individual of compulsory redundancy following the start of formal consultation.
- In the event that an individual, who has been informed that their post is at risk following the start of formal consultation, does not apply for the voluntary terms and is then subsequently selected for compulsory redundancy, then the compulsory redundancy terms will apply. There will be no further opportunity to apply for voluntary terms.

Voluntary Exit

Where departments wish to run a voluntary exit scheme before commencing formal consultation on compulsory redundancy, they will have some discretion over the terms on offer. Any such scheme will require Cabinet Office approval before departments embark on consultation.

Departments will need to run a further voluntary redundancy scheme, where they will not have discretion over terms, open to all staff at risk of redundancy before they make anyone compulsorily redundant.

Protection for the lower paid

All staff earning less than £23,000¹ (on FTE basis) will be treated as if they earn £23,000 for the purpose of calculating redundancy payments.

- For example, an individual paid £19,000 per year (FTE) will have their payment calculated as if they were paid £23,000 instead. We are describing this as a "deemed salary". This protection will be automatically applied in Voluntary Redundancy and Compulsory Redundancy cases. Employers will have discretion to offer such protection in the case of Voluntary Exits.

¹ This figure is calculated using Private Sector Median Annual Earnings figures.

Limiting payments to the higher paid

There will also be an upper pay threshold of £149,820². **Staff will have their salary capped at this figure for the purpose of calculating redundancy payments.**

- For example, an individual working full time earning £160,000 would have their redundancy pay calculated on a salary of £149,820.

Tax and deductions

The first £30,000 of redundancy payments will be tax free. Notice periods will be taxed at the usual rate and National Insurance contributions will also be payable.

Scheme Summary

<u>Civil Service Compensation Scheme Element</u>	<u>Voluntary Redundancy</u>	<u>Compulsory Redundancy</u>
Tariff	1 month's pay per year of service	1 month's pay per year of service
Cap for those below pension age ³	21 months' pay	12 months' pay
Cap for those above pension age	6 months' pay	6 months' pay
Lower paid protection (the £23,000 salary)	Must be applied	Must be applied
Higher paid cap	Must be applied	Must be applied
Early access to unreduced pension ⁴	Must be permitted	Can not be permitted
Notice Period	3 months	3 months ⁵

² As above.

³ Subject to any tapering

⁴ Pensions are usually reduced if they are taken before normal pension age to reflect the fact that they are paid for longer. Early access to an unreduced pension is permitted on voluntary redundancy subject to surrender of some or all of the severance payment.

⁵ Individuals should discuss their circumstances with their HR team as entitlement may be greater depending on length of service and contract

Q &A:

Why do we have to have a new scheme?

The previous scheme was no longer fit for purpose and had to change. The new scheme drafted following negotiations with five of the six civil service unions has produced proposals including extra protection for the lower paid, while limiting payments for higher earners. The proposed scheme is affordable, sustainable and fair for civil servants and taxpayers.

How is the new scheme different from the effect of the Superannuation Act?

The Superannuation Act caps the amounts payable at 15 months' pay for voluntary redundancies and 12 months' pay for compulsory redundancies. However, the Government's preferred outcome has been to reach a negotiated settlement hence discussions with the 5 unions which have resulted in a package of proposals which are comparable to the rest of the public sector and the best of those on offer in the private sector. The caps in the Act, which received Royal Assent on 16 December, will not apply to payments under the new scheme.

Can the compensation tariff be varied?

Departments can not offer more than 21 months' pay for voluntary redundancies and 12 months' pay for compulsory redundancies but where departments wish to run a voluntary exit scheme before commencing formal consultation on compulsory redundancy, they will have some discretion over the terms on offer. However, Cabinet Office approval will be required before embarking on any consultation.

Are there any circumstances in which a Department can go straight to compulsory redundancies if timing requires?

Departments cannot go straight to compulsory redundancies. They would need to commence formal consultation with the trade unions before identifying those at risk of redundancy. Employers must provide staff with an opportunity to exit under the voluntary redundancy terms making clear to individuals that they are at risk of compulsory redundancy. Individuals must also be provided with clear timelines of the process.

Do people who applied for voluntary redundancy terms preserve a right to these if later selected for compulsory redundancy.

Staff who applied for, but were not chosen, for departure under voluntary redundancy terms will be offered the opportunity to exit under voluntary redundancy terms if they are later selected for compulsory redundancy **as part of the same exercise**. The right to the voluntary redundancy terms only applies for the exercise in which the individual volunteered. If there is a further round of redundancies the person will need to apply again to be able to leave under the voluntary redundancy terms. The underlying objective is to maximise the use of voluntary releases and minimise the use of compulsory redundancy.

We understand that compensation to staff over normal pension age (60 in classic/premium and 65 in nuvos) will be limited to 6 months' salary. Is this discrimination on the grounds of age?

We do not believe that it is discriminatory. The purpose of the scheme is to provide a proportionate financial cushion to those who lose their jobs. There is less need for that financial cushion when an employee is able to draw a pension during the time they are looking for new employment.

Will there be any restriction on payments to staff who are close to the normal pension age?

There will be a degree of tapering of the award so that those who are particularly close to pension age are not advantaged over those who have reached pension age. Therefore the cap on the number of months' pay can not be any larger than the time to normal pension age (rounded to the nearest whole month) plus six months. Therefore someone with a pension age of 60 leaving under voluntary redundancy at age 59 years and 3 months will be able to receive a maximum payment of 15 months' pay (9 months for the time remaining until 60, plus the 6 months maximum that could be paid to those past pension age).

Is service to be based on the latest period of unbroken service?

Service will be based on the latest period of unbroken service but it **excludes** any years brought into the pension scheme from other employment and any purchased added years or added pension. Where employers wish to take into account other periods of service they will need to seek approval from the Cabinet Office. Where an individual has joined the Civil Service as a result of a TUPE transfer their total service will be used to reflect their TUPE-protected terms.

How would the terms apply to part-timers?

The calculation will be based on the full time equivalent rate of pay and pro-rated service. For example working for 2.5 days per week for four years will count as two years of service.

In addition there are limits to the maximum benefits that part-time workers can receive so that they do not receive disproportionately more than full-time workers.

Will I have to repay my compensation payment if I re-join the Civil Service?

You will have to repay a proportionate part of your compensation payment if you join any employer covered by the Civil Service Compensation Scheme. You will not, currently, need to repay if you join another public sector employer (although this may change in the future). No repayment will be required if you find work in the private sector. Departments wishing to re-employ a member of the senior civil service for a period covered by a compensation payment will require CO approval.

What happens to my pension lump sum if I opt for early retirement? Is it surrendered to meet the cost of taking the pension early?

Members in classic and classic plus receive an automatic pension lump sum. This is three times the classic pension and is paid out in full when the pension is put into payment. If you leave on voluntary redundancy and opt for early retirement on an unreduced pension you will be asked to surrender some (or all) of any severance payment to meet the cost of receiving your pension early. Only the severance payment is surrendered to meet the cost of taking the pension early.

How much severance payment is likely to be required to meet the cost of taking the pension early?

The cost of taking the pension early depends on age and length of service. The further from normal pension age the higher the cost is. The more service in the scheme the higher the cost.

The following calculator can be used to give an indication of the likely cost of taking the pension early:

http://www.civilservice.gov.uk/Assets/Actuarial_Reduction_100pc_Buy-out_Calc_tcm6-36945.xls

The Government recently announced changes to the tax relief applicable to pensions. Will these changes result in higher tax charges for early pensions?

No. The Government's new pension tax regime values a certain level of pension the same regardless of the age it is drawn at. This means that severance payments or employer top-ups used to meet the cost of taking pensions early do not attract extra tax charges.

I have already taken Partial Retirement, what impact will this have on benefits?

The act of Partial Retirement does not affect redundancy benefits; full current reckonable service will be used in the calculation.

Why are voluntary terms more generous than compulsory terms?

The Government believes that this approach is most likely to allow departments and other bodies to run orderly departure exercises. However no individual will depart on compulsory terms without being offered the option to take voluntary terms. A principal aim will be to minimise the number of departures on compulsory terms.

Is it possible that my application for voluntary terms could be rejected and I could then be selected for redundancy and forced to leave on compulsory terms?

No.

Will leaving on voluntary terms impact on my ability to claim social security benefits or on insurance policies?

This will depend on the circumstances involved and the rules / policy wording in each case.

What are the notice provisions?

Departures on voluntary terms will be subject to 3 months' notice. Subject to mutual agreement between the employee and employer this may be paid in lieu of working the notice period.

Departures on compulsory terms will be subject to 3 months' notice unless the individual has a contractual right to a different period of notice.

Trade Unions

What is the result of the unions' ballots

FDA, Prospect, GMB and Unite ballots have now closed and we are aware that the members of the FDA, GMB, Prospect and Unite have voted to accept the new scheme. The PCS and POA ballots are due to close in January.

Examples:

- Phil works full time on £17,467. He is 48 and has accumulated 24 years of service. His employer decides to run a voluntary redundancy scheme. Phil will be eligible (if selected) to a payment of 21 months salary (the upper limit of the scheme) together with 3 months notice. However, as his salary is below £23,000, any actual payment would be 21 months of £23,000 per year (therefore a payment of £40,250 – the first £30,000 is tax free plus a further three months notice at his salary of £17,467 (subject to usual tax, pension and NI deductions).
- Bob and Jane work full time, are both 35, have accumulated 15 years' service and are both paid £20,650 per year. With Cabinet Office approval their employer announces that they intend to restructure the office and begin a formal consultation on the possibility of compulsory redundancy. The employer therefore offers a voluntary redundancy scheme.

Jane volunteers and is accepted. She receives 15 months of salary (at one month per year) together with three months notice. As her salary is below £23,000, the actual payment is based on 15 months of £23,000 (therefore a payment of £28,750- tax free) plus a further three months notice at her salary of £20,650 (subject to usual deductions).

Bob was told his job was at risk but chose not to volunteer. He is selected for compulsory redundancy. He receives 12 months of salary (the maximum under compulsory dismissal) together with three months notice. As his salary is below £23,000, the actual payment is based on 12 months of £23,000 (therefore a payment of £23,000) plus a further three months notice at his salary of £20,650.

- Kirsty is aged 56 and is a member of the classic pension scheme. Kirsty's employer has announced redundancies and is inviting volunteers. As Kirsty is over her minimum pension age, Kirsty can choose to receive the pension (and lump sum) that she has earned immediately without reduction – even if this costs more than the severance payment she would have received. But Kirsty does not have to take an immediate pension. She can take a severance payment under the terms of the voluntary redundancy scheme and leave her pension (and associated pension commencement lump sum) preserved for payment at pension age (60). Whichever option she chooses, Kirsty will also receive 3 months' notice.