

ASCL PENSIONS

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RPI/CPI

The Government has changed its measure of inflation for most purposes from the Retail Price index (currently 4.6%) to the Consumer Price Index (currently 3.1%).

Index for 2012-13 5.2% (RPI 5.6%)

State pension

- Change to State Pension and NI contributions.
- Change to a single flat rate pension
- Removal of “State Second pension”
- Increase in NI contributions

Tax changes

- New 50% tax threshold

Payable on salaries of £150,000+, pension contributions count as income.

New £50,000 a year cap on increase in annual pension savings.

This is a cap on the growth of pension fund that can be made in a year before incurring tax.

NB Possible impact on enhanced pensions and ill health retirements, as well as substantial salary increases.

Increased contributions

The Government has quoted 3.2% across the public sector pensions

It appears that this will be phased over two to three years

Current consultation on implementation for 2012 -13 only

Increased Contributions

Lower Salary	Higher Salary	Contribution Rate in 2012-13	Increase (against 6.4%)	Membership	% of membership
	14,999	6.4%	0%	1,400	0.2%
15,000	25,999	7.0%	0.6%	116,000	17.1%
26,000	31,999	7.3%	0.9%	117,000	17.2%
32,000	39,999	7.6%	1.2%	271,000	39.6%
40,000	74,999	8.0%	1.6%	172,000	25.2%
75,000	111,999	8.4%	2.0%	4,000	0.6%
112,000		8.8%	2.4%	600	0.1%

Transitional arrangements

The Government has proposed new transitional arrangements to provide some protection for those approaching retirement.

Benefits already earned are protected

For those in final salary schemes, those past benefits will be linked to their final salary when they leave the scheme or retire

Accrued Rights/Accrued Benefits

- No retrospective changes to accrued pension.
- All current regulations will apply, even after scheme change, including pensionable age and tax free lump sum.
- Link to final salary to be maintained for those close to retirement.
- Inflation to be added to deferred pensions.

Transitional arrangements contd.

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 is that they 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. Schemes

Components of a Pension Scheme

- **Cost Ceiling** – total funding available for the scheme – 21.7%
- **Employees' contribution** – plus 3.2%
- **Employers' contributions** - ?
- **Accrual rate** – pension acquired as a % of salary – 1/60
- **Pension Age** – SPA or 65
- **Ancillary benefits** – death, ill health, dependents

The Government's preferred scheme

The Government revised their proposals on 2nd. November. The scheme design was modified by offering an accrual rate of 1/60 rather than 1/65. This represents an increase in the funding of the scheme.

The Government's preferred scheme

A Career Average Revalued Earnings (CARE) pension scheme

Public service workers benefits to be earned at a rate of 1/60ths of pensionable earnings each year

Public service workers will have their benefits increased each year they are working in the public services in line with earnings revaluation

The Government's preferred scheme

A Normal Pension Age linked to State Pension Age (or 65, whichever is higher)

Pensions in payment to increase in line with the Consumer Prices Index (CPI)

Benefits earned by leavers to increase by CPI from the date of leaving until retirement

Average member contributions for the unfunded public service pension schemes set at the level of the existing schemes after the increase of 3.2 percentage points currently planned

The Government's preferred scheme

Members given the option at retirement to convert £1 of annual pension into a £12 one-off lump sum payment in accordance with HMRC limits and regulations

Ill-health, death and survivors benefits (ancillary benefits) to match those currently provided by schemes that are open to new members;

Members who leave the scheme and rejoin within 5 years to be able to link their new service with previous service, as if they had always been an active member;

The Government's preferred scheme

Members transferring between public service schemes to be treated as having continuous active service (which would include those transferring between schemes who had re-joined public service after a gap of less than 5 years)

An employer contribution cap to provide backstop protection to the taxpayer against unforeseen costs and risks