

Po-CH/NL/0885

PART 1

Part A.

Begins: 11/1/87.  
Ends: 2/12/87.

MANAGEMENT - IN - CONFIDENCE.

PO -CH /NL/ *MSA*  
*0885*




PART A

Chancellor's (Lawson) Papers

THE CIVIL SERVICE  
PENSION SCHEME

PO -CH /NL/ *MSA*  
*0885*

PART A

Disposal Directions: 25 Years

*J. H. Jones*

22/9/95



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

*pmp*

My ref:

Your ref:

The Rt Hon Peter Brooke MP  
Paymaster General  
HM Treasury  
Parliament Street  
LONDON  
SW1

CH/EXCHEQUER	
REC.	12 JAN 1988 ✓ 12/1
ACTION	PMG
COPIES TO	

// January 1987

*Dear Peter*

Thank you for sending me a copy of your letter of 23 December to John Moore explaining the way in which you propose to amend the Civil Service Pension Scheme to comply with the spirit of section 12 of the Social Services Act 1986.

As you will know, the local government scheme, for which I am responsible, is obliged to conform to the requirements of section 12, and I will be making the appropriate regulations as soon as possible. Although your proposals are framed on a narrower basis, they do not conflict with mine, and I am content that you should proceed as you propose.

I am copying this letter to the Prime Minister, other members of Cabinet Richard Luce and Sir Robin Butler.

*Nicholas Ridley*  
*Nicholas*

NICHOLAS RIDLEY



## MANAGEMENT IN CONFIDENCE

From: SIR PETER MIDDLETON

Date: 11 August 1987

CHANCELLOR

cc Paymaster General  
Mr Kemp  
Mr Luce  
Mr J Dixon

Sir Robert Armstrong - CO  
Sir Patrick Wright - FCO  
Mr N Wicks - No 10

GEOFFREY ARTHUR PRIME: FORFEITURE OF CIVIL SERVICE SUPERANNUATION BENEFITS

Introduction

Mr Geoffrey Arthur Prime, a former GCHQ employee, was convicted of offences under the Official Secrets Act, and imprisoned for 35 years. He was employed by GCHQ from 1968 until he resigned in 1977. It has now been recommended to me that Mr Prime should forfeit the whole of his pension benefits, payable in 1998 on his 60th birthday. At present, his pension is worth £1201.32 a year and his lump sum amounts to £3289.68. Their purchasing power is safeguarded by the pensions increase arrangements.

Forfeiture of all benefits by Mr Prime

2. Under the rules of the Principal Civil Service Pension Scheme, the Treasury is responsible for forfeiture. I consider that forfeiture of all benefits is the correct decision in this case. Sir Robert Armstrong agrees with this. Although Ministers are not formally required by the rules to do anything, I feel it is right that you and the Paymaster General should know what we are proposing. In addition, I am copying this minute to No 10 and to the Foreign Office.

## MANAGEMENT IN CONFIDENCE

### Mrs Prime

3. Mrs Prime was not involved in his crimes, and indeed was instrumental in revealing them. We feel therefore that she should receive death benefit and a widow's pension if Mr Prime were to die first. However, this presumes that she remains married to Mr Prime, as survivor benefits under the PCSPS are lost in the event of divorce. In addition, it is proposed that any pension that became payable to the children should not be forfeited.

### Discussion with the Unions

4. It has been the practice, following agreement with the unions in 1972, for the circumstances of each forfeiture case to be discussed with them, on a "without prejudice" basis before a decision is taken. In recent years, this informal discussion has been with the trade unions side of the Joint Committee on Superannuation. We believe, after taking the views of the GCHQ Co-ordinating Committee, that it would be advisable in this case to follow precedent by arranging for it to be discussed with the trade union side of the JCS, but to take account of the changed position at GCHQ by arranging also for it to be discussed with the Chairman of the Staff Federation.

5. The purpose of discussion is to try to ensure consistency of treatment in the application Service-wide of the forfeiture provisions of the PCSPS. We believe the risks of embarrassment involved in discussing the proposed forfeiture in the context of the JCS, which is the recognised machinery for discussion of questions concerning the administration of the PCSPS, to be less serious than the risk of accusations of bad faith or breach of agreement that might otherwise result. GCHQ and the GCHQ Co-ordinating Committee are content with this. An approach would also be consistent with the assurance the national unions have been given that on Service-wide matters the GCSF will be treated like the other departmentally recognised unions. Indeed, the legal advice is that we would risk a successful challenge by way of judicial review if we did not take this step.

MANAGEMENT IN CONFIDENCE

Next steps

6. A final decision on the proposed forfeiture will be taken after these discussions. Rule 8.2 gives Mr Prime a right of appeal against forfeiture, and, if he lodges one, the appeal would be heard by the Civil Service Appeal Board. If he does not appeal, or if his appeal is rejected, Superannuation Division will take action to cancel the pension award made in 1977.



P E MIDDLETON

MANAGEMENT IN CONFIDENCE



FROM: CATHY RYDING  
DATE: 13 AUGUST 1987

PS/SIR P MIDDLETON

cc Paymaster General  
Mr Kemp  
Mr Luce  
Mr J Dixon

**GEOFFREY ARTHUR PRIME: FORFEITURE OF CIVIL SERVICE  
SUPERANNUATION BENEFITS**

The Chancellor was most grateful for your minute of 11 August, the contents of which he has noted.

*CR*

CATHY RYDING

FROM: D G PAIN  
DATE: 30 NOVEMBER 1987

1. MR DIXON
2. MR LUCE
3. PAYMASTER GENERAL

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
Sir P Middleton  
Miss Mueller  
Mr Kemp  
Mrs Lomax  
Mr C W Kelly  
Miss Noble  
Mr Rayson  
Mr Corcoran  
Mr Sheridan  
Mr Cropper

**PRINCIPAL CIVIL SERVICE PENSION SCHEME (PCSPS): SOCIAL SECURITY ACT 1986**

The PCSPS, in common with other occupational pension schemes, will need amendment to take account of requirements of the Social Security Act 1986. We have had informal discussions with our Trade Union Side about the implications of the Act for the PCSPS. However, we need now to put formal proposals to them, to meet the consultation requirements of the Superannuation Act 1972 in respect of amendments to the PCSPS. This submission, therefore, seeks your agreement to the general approach that we intend to take. Where appropriate, it reflects the position agreed in extensive discussions between departments responsible for the main public service schemes.

**BACKGROUND**

2. The 1986 Act widens choice for occupational scheme members by
  - (a) allowing them to opt out of their employer's scheme from April 1988 (initially into SERPS with personal pensions coming on the scene from next July); and
  - (b) requiring occupational pension schemes to provide facilities for members to make additional voluntary contributions (AVCs) up to Revenue limits on contributions and benefits.



In addition, it reduces the qualifying period for preservation of benefits from 5 to 2 years; and requires contracted out schemes to provide guaranteed minimum pensions for widowers.

3. This last requirement is met in full by the introduction of equal survivor benefits under the PCSPS from July 1987. For the rest, the requirements are clear cut in themselves but not in the way that they might be met by a scheme. Our general approach is to amend the PCSPS in ways that keep additional benefit costs, and administration, to the minimum that is feasible. In doing so, we aim to promote membership of the PCSPS rather than personal pension schemes because of the public expenditure cost involved in staff taking up the personal pension option. Ministers made clear at the time of the 1986 Act that personal pensions are not regarded as a substitute for good occupational pension provision.

#### **PERSONAL PENSIONS**

4. The Act requires:

- a. members to be allowed to opt out of the PCSPS;
- b. service after April 1988 to be transferable to a personal pension;
- c. a minimum level of contribution to a personal pension.

Ministers have confirmed that public service employers should pay no more than the minimum required contribution; and we do not expect difficulties with the Trade Unions on this account.

5. **Original option and options to rejoin.** All existing staff, and all new entrants to the Civil Service, will be assumed to be members of the PCSPS but will be given a reasonable period to decide whether to opt out. That there is an option will be made very clear. This approach meets the Act's requirement that membership of the occupational pension scheme should not be a condition of employment, and does so in a way that simplifies administration and therefore resource costs. There is no requirement to offer an option to rejoin the occupational pension scheme and we believe that many private sector schemes will not do so. But, in our view, it will be difficult to defend giving no option at all. GAD's advice is that there should be relatively strict limits

on any option to rejoin, perhaps no more than a single option with suitable safeguards on health and an upper age limit in the region of 55. The main purpose of the limitations would be to protect the scheme against selection by individuals aiming to maximise their benefits at the expense of the scheme. We propose to introduce provisions in accordance with GAD's advice. We shall also be looking at those provisions of the PCSPS which allow two periods of service to be aggregated and for benefits then to be calculated on the final rate of pay. We do not consider that these provisions should apply where an optant for a personal pension remains in Civil Service employment. They would provide a strong incentive for the optant to rejoin the PCSPS for his final years of service so that the benefits preserved on opting out of the PCSPS are re-assessed on the basis of his final rate of pay.

6. **Transfers to personal pension schemes.** The Act does not require schemes to permit transfers of pre-April 1988 service to personal pension schemes where the individual is not changing employment. To allow personal pension optants to transfer pre-April 1988 service would have a potentially large immediate impact on the PSBR. We therefore see no reason for going beyond the Act other than in the limited circumstance of those optants with less than 2 years' service. We would, under the legislation, be required in that particular circumstance to preserve the PCSPS benefits. The administrative costs of preservation, and of the eventual payment of a pension, would be disproportionate to the size of the accrued benefits. We therefore propose to allow transfers of less than 2 years' service.

7. A similar, but nevertheless separate, point arises in relation to those who leave the Civil Service with less than two years' service. Social Security legislation does not require that benefits for leavers with less than two years' service be preserved or transferred. However, all public service schemes have long allowed those who leave public service employment to transfer such service to a new occupational pension scheme. We must, therefore, either allow leavers with less than 2 years' service to transfer their accrued benefits to personal pension schemes or withdraw for new entrants the existing provisions for transfer to occupational pension schemes. The intention would be to avoid discrimination between transfers to personal pensions and other schemes. There would be a cost to the PCSPS in allowing transfers to personal pension schemes, £2 million a year, but not for most other public service schemes. The reason for this is that the alternative to a transfer value (buying back into SERPS and refunding contributions) is less costly for the PCSPS than for other public service schemes.

In this instance, we feel that the PCSPS should meet the additional cost of allowing benefits accruing from less than two years' service to be transferred to personal pension schemes. There would then be no discrimination between transfers to occupational and personal pension schemes; to withdraw on the other hand the existing facility for transfers to occupational schemes, so as to avoid discrimination, would be a retrograde step against a background of recent legislation designed to promote transferability and pension choice.

**8. Personal pension optants: Eligibility for death and ill-health benefits; dependants' benefits; injury benefits; early retirement and redundancy benefits.**

The PCSPS contains provisions that are in the nature of insurance (death and ill-health benefits, dependants' benefits) or compensation (injury benefits, early retirement and redundancy benefits). In principle, there is no good reason for the PCSPS to provide "insurance type" benefits for those staff who opt out of the PCSPS - the level of provision for such benefits being a matter for an optant to decide in setting up their personal pension arrangement. However, particularly in the circumstances of the minimum contribution policy, the employer might reasonably be expected to continue to meet the cost of the "compensation type" benefits as there is management interest in doing so.

9. The injury benefit provisions of the PCSPS, and of the other public service schemes, provide for the payment of an injury compensation allowance. This allowance brings the total of occupational pension and certain Social Security benefits up to a pre-determined proportion of pensionable pay, according to the degree of impairment of earning capacity attributable to the qualifying injury. Subject to further consideration by some public service schemes of the administration of the approach, we propose to pay an injury allowance of an amount sufficient to top-up the actual benefits payable under a personal pension scheme to the level of the minimum income guarantee provided under the injury benefit provisions. This would be subject to the amount of the allowance being re-assessed at the normal retiring age (such re-assessment will ensure that those who make no provision for the early payment of personal pension benefits in the event of injury do not gain a continuing financial advantage).

10. Compensation for redundancy or early retirement is a cost borne by management, although for convenience the financial terms are set out in the rules of the PCSPS. Management will continue to need tools enabling it to prematurely retire members of staff irrespective of their pension arrangements. We propose, therefore, that personal pension optants should receive the same

compensation payments as a member of the PCSPS. This has been discussed with Establishment Officers, who are content.

#### **ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)**

11. Section 12 of the Act requires occupational pension schemes to provide facilities enabling members to make AVCs up to Revenue limits on contributions and benefits. It does not apply to statutory schemes. The reason, however, for this exemption is technical. The limits on contributions and benefits contained in Section 12 are expressed in terms of tax-exempt approved schemes. Public service schemes, which are generally unfunded, do not require tax-exempt status and, if Section 12 were to apply, it would have the wayward effect of allowing no upper limit at all on the AVCs which could be paid or the additional benefits which could be purchased. It was made clear at the time of the 1986 Act that the legislation governing public service schemes would be amended to allow AVCs to be paid up to the Revenue limits which apply to pension schemes at large.

12. Amendments will need to be made to the PCSPS to allow for the payment of AVCs. Preliminary discussions with the Civil Service unions suggest that their agreement, as is required under the Superannuation Act 1972, will be forthcoming to amendments needed to provide for any excess AVC provision to be clawed-back by reduction of PCSPS benefits. Primary legislation will, however, be needed to ensure that AVC benefits generally do not come within the scope of pensions increase legislation. The need for legislation, which would also apply to other public service schemes, will be the subject of a separate submission. Nevertheless, we do not see the pensions increase complication as reason for deferring introduction of AVC facilities for the PCSPS; any risk of misunderstanding about the eligibility of AVC benefits for pensions increase can be avoided by making the position quite clear in the explanatory material describing the facility.

13. We have considered how best to meet the spirit of Section 12 of the 1986 Act while limiting the additional administrative burden which will inevitably result from giving it effect. The introduction of free-standing AVCs, by the Finance (No 2) Act, <sup>1987</sup> does not remove the need for scheme AVC facilities. The PCSPS has a single facility, to purchase added years, which does not by itself meet the 1986 Act. A money purchase facility (a common form of AVC facility in the private sector) could be helpful from the administrative point of view, while being attractive in its own right and fully meeting the Section's requirements. The

approach we intend to take is to offer a money purchase facility with one or, possibly, two other specific facilities that are likely to be attractive: certainly an additional death benefit facility and possibly a facility providing additional ill-health retirement benefits. DHSS have confirmed that an approach along these lines would fully meet the letter of Section 12 as well as its intention to increase choice.

14. We have also considered whether these facilities should be offered in-scheme or through the scheme but by external providers (self-administered schemes in the private sector frequently use external AVC providers). We have concluded that it would make sense to look to external providers for the particular facilities that we have in mind, both from the point of view of limiting the resource implications of AVC facilities and from the point of view of benefit to those staff who contribute under the AVC arrangements. The particular administrative advantage in contracting out would, however, be lost if the panel of external providers were large. A limitation in the number will make it easier to standardise and computerise the information that will need to be exchanged, and also to monitor the emerging benefits so that Revenue limits are not breached. We would then also be able to offer potential providers with business of a size that will encourage them to give assistance in the setting-up of the computer procedures that will be needed to limit the resource implications of the monitoring requirements. Although normal practice in the private sector would be to look to a single provider, we would aim for a panel of three, if possible, so as to give staff a choice over provider and investment medium.

15. **Method of selection.** We have in mind a competitive selection process, that takes account of administrative needs and obtaining a good deal for staff, initiated by advertisement. Interested parties would then be able to express their interest in providing a scheme AVC facility against a demanding specification which would include inter alia: record on investment performance; minimum level for the size of funds managed; and provision for the exchange of monitoring information in standardised form. The process would be open to all types of financial institutions, and with principals rather than intermediaries being appointed.

16. Selection of the providers, which would involve a "beauty contest", would be a three-stage process. There would be

- i. a small panel to assess the bids, comprised of a small number of people

from the Treasury together with representatives of the trade unions. The panel would be advised by the GAD and, perhaps, an external independent expert. We are considering the question of expert advice further.

ii. this panel would make recommendations to the Joint Committee on Superannuation, who would be able to make known their views to the Treasury.

iii. "The Treasury" would then make the decisions. In practice, this would involve informing Ministers and interested Divisions in the Treasury of what was intended before the decisions were made and promulgated.

17. The involvement of staff interests in the selection process is, we believe, particularly appropriate in the circumstances of AVCs where the only contributions paid are those paid by employees and where returns depend upon the performance of the providers. Staff interest involvement would also help to deflect any criticism that the Government was favouring any particular financial institution or that the eventual choice was foisted on scheme members. At the same time, the use of the existing machinery of the Joint Committee on Superannuation would avoid any impression of enhanced status for the trade unions. The proposed selection procedure would be a way of meeting the consultation requirements of the Superannuation Act 1972 in circumstances of a rather unusual and significant change to the PCSPS. The final selection of the providers would, as has been explained, be the responsibility of the Treasury. Indeed, it is the Treasury who are empowered under the 1972 Act to amend the PCSPS.

#### **REDUCTION IN QUALIFYING PERIOD FOR PRESERVATION OF BENEFITS**

18. The 1986 Act also provides, quite separately from the provisions dealing with personal pensions and AVCs, for the **qualifying period for the preservation of benefits to be reduced from 5 to 2 years.** This reduction means that staff who leave after next April with between 2 and 5 years' service will no longer receive a short service gratuity. They will instead be awarded a pension and lump sum preserved for payment at the retiring age if benefits are not transferred to another pension scheme. The reduced qualifying period makes it necessary, however, to consider what benefits should be paid to those PCSPS members who leave on grounds of ill-health or redundancy with between 2 and 5 years' service.

19. The reduction of the qualifying period for preservation was made by the 1986 Act to help people build up pensions for their retirement. There is no

logical reason why the reduction in the qualifying period should therefore be followed by a reduction in the qualifying period for ill health, redundancy and early retirement benefits. We propose therefore to make immediate payments of pension, where appropriate, but without the reckonable service on which those benefits are based being enhanced in any way.

20. This is, however, a contentious area. The position of those retired on ill-health grounds is particularly difficult because of a desire on the part of management to treat such individuals sympathetically and because the costs are not large (in 1986, 60 civil servants with between 2 and 5 years' service were retired on ill health grounds). Departments responsible for other public service schemes are strongly of the view that the minimum that should be done is to award immediate payment of the accrued pension and lump sum instead of paying the existing gratuity and, as required by the Act, awarding a preserved pension. This would recognise the need for continuing financial support and the Act's introduction of pensionability by bringing the treatment of those who leave in these circumstances with between 2 and 5 years' service partly into line with those who leave with more than 5 years' service (where there is immediate payment of enhanced benefits). There would be a cost to the individual, in relation to present practice, in that the lump sum paid would be less than the existing gratuity. But, overall, such an approach would represent an improvement on present practice and on the minimum the Act requires.

21. We see merit in the public service schemes acting together and, as is explained in paragraph 19 above, propose to adopt this approach. We do not consider that we should go further and, as some schemes would like, bring treatment fully into line with the treatment of those with more than 5 years' service, by paying enhanced benefits, albeit that the costs involved would be very small (for the Civil Service, perhaps £100,000 or so in the first year but building up thereafter). Acceptance of enhanced benefits would mean acceptance that there is a logic in keeping in line the qualifying period for preservation purposes and the qualifying period for other purposes. This would have direct implications for the early retirement arrangements which were agreed with some difficulty earlier on this year on the clear understanding that no additional money would be available for the new arrangements. It would, we believe, be too generous to pay an immediate and enhanced pension and lump sum to a person made redundant or retired early for management reasons with less than 5 years' service.

## COMMENT

22. Personal pensions are unlikely to prove attractive to the vast majority of civil servants in circumstances of minimum contributions, a small actual contribution to the PCSPS and no pay adjustment to compensate for the notional employee's contribution. The concern felt by contributory schemes, that staff will opt for SERPS or a personal pension so as to increase take home pay, will not apply as a civil servant will save his or her 1½% survivor benefit contribution to the PCSPS but will have to pay an additional 2% national insurance contribution. Nonetheless, in common with other pension schemes, we see the need to present staff with the information they will need to make an informed choice. Work is in hand on this.

23. More generally, the changes introduced by the 1986 Act, along with other recent legislation, add to the pressure on resources of pension schemes and the PCSPS cannot escape this. We have, however, had very much in mind the need to contain so far as is possible administrative costs in formulating our response to the Act.

## CONCLUSIONS

24. This submission seeks the Paymaster General's agreement to our entering into detailed negotiations with the trade unions with a view to amendment of the PCSPS in the light of the 1986 Act along the lines set out. In summary, we propose:

- a. **On personal pensions:** the assumption of membership of the PCSPS unless an individual opts out, with an initial option period for staff to make up their minds; one option to rejoin with suitable health safeguards and exercisable before the age of 55; transferability of benefits earned before April 1988 to a personal pension scheme only where that service is less than two years in total; and the transferability of benefits after April 1988 to a personal pension scheme irrespective of the length of the PCSPS service; injury benefit allowances to be calculated using actual personal pension benefits as an offset against the minimum income guarantee, reviewable at the normal retiring age; no payments to personal pension optants for "insurance type" benefits (ill-health and dependant's benefits); payment



to a personal pension optant of the "compensation" payments that are payable now in the event of early retirement for management reasons, including redundancy.

b. **On AVCs:** meeting the requirements of the Act by means of money purchase, additional death benefit and, possibly, ill-health retirement enhancement facilities; all these to be contracted out to commercial providers; the providers to be selected against agreed criteria following advertisements and the issue of a specification to those who express an interest; involvement of the Trade Unions in the selection process; final selection to be made by the Treasury.

c. **On the reduction of the qualifying period:** the withdrawal of short service gratuities follows this change; existing compensation arrangements in the event of early retirement and redundancy where the individual has between 2 and 5 years' service; immediate payment of pension and lump sum, unenhanced, to those with between 2 and 5 years' service who are retired on ill-health grounds.

25. We shall report back on the progress of negotiations. In due course, we shall submit a Scheme Amendment, taking effect from April 1988, for the Paymaster General's approval in the normal way.



D G PAIN



**HM TREASURY**

**SUPERANNUATION DIVISION**

**DIVISIONAL PLAN 1987-88**

UNCLASSIFIED

FROM: J DIXON  
30 April 1987  
Room 53B/G  
Ext 4589

Last year was a good year for Superannuation Division. Despite some unexpected demands, we still managed to meet most of the objectives we set ourselves, and to do so efficiently and on time. Well done. Your efforts are appreciated.

The time has now come to take stock of what we wish to achieve in the coming year. This is your personal copy of the 1987-88 plan. It has been drawn up following consultation with a broad spectrum of divisional staff. If you have any comments, you are welcome to make them to me, or to your line manager.

As last year, our ongoing work is described fully for each Branch on the left-hand pages of the three branch plans. To help distinguish the three branches, each branch's plan appears on differently coloured paper. You should find that your own work is covered by one of these statements.

Specific objectives in that work, planned for 1987-8, are listed on the right-hand pages, with an indication of the person in the lead. Of course Superannuation Division is not an isolated entity within Treasury. Our plans have to fit in with wider initiatives in Government and in the Treasury as a whole, and the Division's priorities, as they appear in the Treasury's work programme, are starred.

The Branch plans are being carried through as far as possible into the job descriptions for staff, in the annual staff reports. So personal objectives link in with those set out in the plan.

I look forward to another busy and successful year.

JOHN DIXON

SUPERANNUATION DIVISION 1987-1988 DIVISIONAL PLAN

Grade 5: Mr J Dixon

Business of the division - the ongoing activities

The job of Superannuation Division is to advise Ministers:

- (1) and gain their direction, on general Government policy for public service pension and compensation schemes (Branch 1, Miss Walker)
- (2) and control particular public service pension and compensation schemes accordingly (Branch 2, Mr Bristow)
- (3) and manage the Principal Civil Service Pension Scheme (Branch 3, Mr Pain)
- (4) to control domestic resources - encourage staff to perform well, containing running costs, and improving value for money.

"Public service pension and compensation schemes" include those for teachers, police and firemen, armed forces, National Health Service employees, local authority staff, civil servants, and the judiciary. In addition, there are about 120 different schemes in non-departmental public bodies, overseas schemes in each country having UK locally engaged staff, and pension arrangements agreed individually for members of public boards and other holders of public offices. The Division also advises on the Parliamentary Pension Scheme and the European Assembly scheme.

The 1987-88 plan for each branch follows, and the specific objectives selected from these plans as priority divisional objectives are listed opposite.

Priority divisional objectives for 1987-88

(as in the Treasury's divisional Work Programme)

(all these items are starred in the specific objectives for 1987-88 listed under each branch)

**Concerning general policy and legislation**

1. Develop amendments to Pensions Increase legislation, in order to take account of policy developments on funding and widowers' pensions.
2. Complete work on the Parliamentary Pensions Bill, and prepare instructions for regulations to govern the Scheme under the terms of the Parliamentary Pensions Act (assuming it is passed).
3. Prepare corresponding amendments to the European Parliament Scheme.

**Concerning particular public service schemes**

4. Develop with departments the detailed implications for each scheme of the Social Security Act 1986, in particular personal pensions.
5. Review in conjunction with departments the funding, benefits and contributions for each scheme, in particular those with notional or real surpluses.
6. Follow up the review by officials of abatement.

**Concerning the Civil Service Scheme**

7. Meet agreed performance standards for the volume and quality of awarding work in relation to the resources allocated.
8. Implement the agreements concluded with the Civil Service unions on early retirement and the equal treatment of men and women.
9. Formulate and co-ordinate policy on public service transfer arrangements following the Social Security Act 1985, and to implement for the PCSPS the requirements of the Act concerning transfers.
10. Formulate a PCSPS response to the personal pension and AVC provisions of the Social Security Act 1986, negotiate changes with the Civil Service trade unions, and implement changes through an amendment scheme.
11. Develop, and begin to implement, Stage 2 of computerisation of the awarding process, as the basis for improved awarding performance.
12. Review the means by which information about the benefit provisions of the PCSPS, and the administration of those provisions, is made available; with the objective of improving the efficiency with which the scheme is administered.

STATE SOCIETY OF ACCOUNTANTS

**SUPERANNUATION DIVISION**

**BUDGET FOR 1987-88**  
(responsibility centre code 11013)

	£	£
Basic staff costs		
Staff Complement (cost centre codes in brackets):		
Policy branch (12200) (5 staff) (incl Grade 5 and PS)	88,352	
Public Sector Pensions branch (12201) (7 staff)	114,782	
Civil Service Pensions branch (12202) (41 staff)*	406,208	
Casuals		4,000
Specialists		Nil
<b>SUB-TOTAL</b>		<u>613,342</u>
Other Costs		
Overtime		1,000
Travel and subsistence		
- Overseas		1,400
- Home		4,400
IT Equipment etc		
- Capital		19,437
- Current		1,900
Consultancies/Fees		10,000
<b>TOTAL</b>		<u>651,479</u>

\* includes 1 AA for part year: stage 2 of computerisation is to be introduced.

**SUPERANNUATION DIVISION STAFF**

grade 5 Mr J Dixon  
ps Mrs S Howieson

Policy branch

Public sector pensions branch

Civil Service pensions branch

grade 6  
ps

Mr G Bristow  
Miss C Robinson  
(½ time)

Mr D G Pain  
Mrs P M Ryder

grade 7 Miss S Walker

Mr D Rayson

Mr M E Corcoran  
Mr M T Newman

awarding

casework, policy

seo

Mrs T Burnhams

Mr B Holland

Mr B Lewis  
Mr G Moss  
Mr T Pearson

heo

Mr P Hayden

Miss Y A Bobb

Mr B A White

Mr L L Chapman  
Mrs A P Charters  
Mrs M A Cross  
Mrs L A Harling

eo

Miss M Gillespie

Mrs J M Cresswell  
Mr S Y Jaunoo  
Mrs M John  
Mrs J Stimpson  
Mr K B Theobald

Mr O F Collins  
Miss A Dennard  
Mr I D Findley  
Miss S M Gouldthorpe  
Mrs J A Stevens

ao

Miss R Fisher

Mrs D D'Rosario

Miss A Culver  
Miss L L Hawkins  
Miss G J Gregory  
Miss K Lucas-Carter  
Mrs J Perry  
Mrs S Wagstaff  
Mrs L Weller  
Miss S Weston  
Miss K Wilson

Mr S J Connolly  
Mr C A Francis  
Miss S Simmons

aa

Mr M Bond  
Miss M Cross  
Mr J McIntosh  
Mrs H Moodie  
Miss A M Paganuzzi

Mr J E Rozario

typist

Mrs J E Clayton  
(½ time)

Branch  
Total

3

7

23

+

18

= 41

**POLICY AND PARLIAMENTARY PENSIONS: 1987-88 BRANCH PLAN**

Grade 7: Miss S Walker

**Business of the branch - the ongoing activities**

The Branch's job is to support Ministerial direction of general policy for public service pension schemes (these include those for teachers, police and firemen, armed forces, National Health Service employees, civil servants, and the judiciary). That means carrying out the following ongoing activities;

**(1) general policy**

- developing general policy on benefits, funding and contributions by employer and employees;
- developing policy on pensions and other staff aspects of privatisation, so as to avoid Government guarantees for pension liabilities, technical redundancy compensation, and successful claims for unfair dismissal compensation;
- collecting statistics on public service schemes;
- advising other Treasury divisions as necessary on general public sector pensions matters:

**(2) pensions increase**

- developing policy on pensions increase and preparing Pensions Increase Uprating Orders;

**(3) Parliamentary pensions**

- advising the Lord Privy Seal on the Parliamentary Pension Scheme;
- controlling the Exchequer grant to the House of Commons Members' Fund
- advising the Home Secretary on the European Parliament Scheme;

**(4) control and resource management**

- controlling domestic running costs and value for money, and engaging staff in performing well
- supporting the Head of Division on divisional planning and budgetary control.



## SPECIFIC OBJECTIVES FOR 1987-88

### Concerning general policy:

1. Brief incoming government (if necessary) on public service pensions issues and implement any policy changes (Miss Walker).
2. Report to Ministers on the further implications of personal pensions for public service schemes (Miss Walker).
3. Secure a smooth transition of pension and other staff arrangements in privatisations initiated by the Government, (including the Royal dockyards, the Plant Breeding Institute and the National Seed Development Organisation) (Miss Walker).

### Concerning parliamentary pensions:

- 4.\* Complete work on the Parliamentary Pensions Bill (Miss Walker/Mr Hayden).
- 5.\* Prepare instructions for regulations to govern the Scheme under the terms of the Parliamentary Pensions Act (incorporating amendments to meet the requirements of the 1986 Social Security Act) (Mr Hayden/Miss Walker).
- 6.\* Prepare corresponding amendments to the European Parliament Scheme (Mr Hayden).

### Concerning pensions increase:

- 7.\* Consider amendments to Pensions Increase legislation, to take account of policy developments on funding and equal survivor benefits (Miss Walker).
8. Start to revise guidance to awarding authorities, and to retiring public servants, on pensions increase procedures (Mr Hayden).

**PUBLIC SECTOR PENSIONS: 1987-88 BRANCH PLAN**

Grade 6: Mr W G Bristow

**Business of the branch - the ongoing activities**

The branch's job is to control particular public service pension and compensation schemes within general Government policy, and support Treasury Ministers' interests in relation to each scheme. (This includes schemes for teachers, police, firemen, armed forces, National Health Service employees, the judiciary, public board members, locally engaged staff overseas, fringe bodies and staff in international organisations. It excludes the Principal Civil Service Pension Scheme - see separate branch plan.) This requires the following ongoing activities:

**(1) on individual schemes and office-holders**

- developing Treasury policy in relation to individual schemes and advising other Treasury divisions as necessary
- approving specific developments in schemes as necessary
- developing policy concerning pension arrangements entered into by departments for members of public boards, statutory office-holders, and special appointments, and controlling those arrangements accordingly

**(2) on International Organisations pensions and compensation**

- developing UK policy concerning pension arrangements for the staff of international organisations (Mainly European Community and Coordinated Organisations).

**(3) on control and resource management**

- seeking the most economical pension and compensation arrangements consistent with the policy, controlling public expenditure on each scheme (including advising Treasury Ministers on expenditure proposals within the Public Expenditure Survey and Estimates rounds, and monitoring expenditure outturn)

- controlling domestic running costs and value for money

**Specific objectives for 1987-88**

**Concerning particular public service schemes**

- 1\* Co-ordinate with departments the detailed implications for each scheme of the Social Security Act 1986 (lead - Mr Rayson)
- 2\* monitor the further implications for each scheme of the general policy for benefits, funding and contributions (react, lead if necessary - Mr Rayson)
- 3\* follow up the review of abatement (lead - Mrs Burnhams)
- 4 monitor progress on the review of provisions governing re-employment benefits (lead - Mr Rayson)
- 5 issue amendments to guidance notes for board members at the appropriate time (lead - Mrs Burnhams)

**Concerning European Community pensions**

- 6 press for realistic contributions by European Community staff in the light of actuarial review of the scheme (react - Mrs Burnhams)

**Concerning control and resource management**

- 7 review with defaulting Departments the need for prompt, more accurate and better presented Estimates material (lead - Miss Bobb)

**Additional possible action in 1987-88**

- 9 continue with revisions to guidance notes on pension arrangements for the staff of non-departmental public bodies when appropriate (lead - Mr Rayson)
- 10 explore the feasibility of a computer in London in order to maintain and analyse information on Estimates, Board members and other cases, and pension schemes (other than PCSPS) within direct Treasury control (lead - Miss Bobb)

**CIVIL SERVICE PENSIONS: 1986-87 BRANCH PLAN**

Grade 6: Mr D G Pain

**Business of the branch - the ongoing activities**

The branch's job is to manage the Principal Civil Service Pension Scheme (PCSPS). That means carrying out the following ongoing activities:

(1) **awarding and casework** - making pension awards and dealing with cases (both demand-led), by

- authorising the Paymaster-General's Office to make the right and timely payment of each award;
- applying the rules of the Scheme reasonably and objectively to cases within the discretion given to the Treasury;
- giving a satisfactory service to Scheme members and anyone acting on their behalf (Members of Parliament, Ministers, departments, trade unions);
- providing advice and guidance material to departments for use in their roles as employers and delegated administrators of the PCSPS;
- administering other pension arrangements applicable to certain civil servants, special advisers, members of the judiciary and Members of the European Parliament;

(2) **policy development** - advising Ministers on the provisions of the Scheme, and gaining their direction on any matter concerning its development; implementing relevant legislation; responding to trade union claims; co-ordinating the public service transfer club;

(3) **control and resource management**

- controlling public expenditure on the PCSPS (including advising Treasury Ministers on expenditure proposals within the Public Expenditure Survey and Estimates rounds, and monitoring expenditure outturns);
- controlling domestic running costs, engaging staff in performing well, and seeking regular improvement in value for money (in the Treasury and in delegated awarding departments);
- preparing annually for senior officials and Ministers a performance report on administration of the PCSPS by the Treasury.

**Performance standards for ongoing business 1987-88**

- 1 awarding costs - limit as far as possible the increase in unit costs that will result from changes in scheme provisions and from the development and implementation of Stage 2 of the computerisation process
- 2 quality of administration - maintain, at least constant, the proportion of awards receiving compensation for delayed payment (0.06%); the proportion of decisions overturned on appeal (0.002%); and the number of cases in relation to pensions in payment (1.2%)
- 3 customer service - provide a timely response as issues arise, with casework normally dealt with within 4 weeks; but, in any event, minimize response time overall by giving priority to consultation and correspondence which may be necessary before a reply can be given
- 4 value for money - maintain current staffing, despite substantial increase in policy work

## Specific objectives for 1987-88

### **Concerning awarding and casework**

- 1.\* develop and begin implementation of Stage 2 of computerisation of the awarding process (lead - Mr Moss)
- 2.\* improve communications with scheme members with object of reducing the volume of case-work; involves drafting and publishing explanatory leaflets and revising existing leaflets to comply with disclosure provisions of Social Security Act 1985 (lead - Mr Moss)
3. consider claims for restitution in relevant past awards in the light of the Taylor case (lead - Mr Corcoran)
4. effect bulk transfers to and from the PCSPS including the Commonwealth Institute, Crown Prosecution Service, and Royal Dockyards (react when required - Mr Holland)

### **Concerning policy development**

- 5.\* implement for the PCSPS the requirements of the Social Security Act 1985, concerning disclosure and transfer values (lead - Mr Lewis; for transfer values the lead is also for transfer club members generally)
- 6.\* formulate and agree with the unions a PCSPS response to the provisions of the Social Security Act 1986, as they affect personal pensions and AVCs, and implement the changes (lead - Mr Corcoran)
- 7.\* implement the equal treatment package through an amendment scheme and issue explanatory material (lead - Mr Pearson)
- 8.\* prepare and issue explanatory material on revised early retirement arrangements (lead - Mr Moss)
9. process outstanding trade union claims including inverse commutation, common law spouses, and greater involvement in discretionary cases (lead - Mr Newman)
10. consider and act as necessary on the recommendations of the review of the injury benefit provisions (lead - Mr Pearson)
11. review definition of pensionable pay (lead - Mr Pearson)
12. prepare an outline of the Annual Report on the PCSPS which it is proposed to publish by analogy with the requirements of the Social Security Act 1985. The Report would bring together various statistical and financial data for the PCSPS (lead - Mr Holland)

### **Concerning control and resource management**

- 13.\* consider how communications with departments can be improved with object of improving the efficiency with which PCSPS is administered and also reducing the volume of cases - covers code/guide improvements, improved forms, stock letters, training (lead - Mr Moss)
14. continue to monitor the performance of awarding work in other departments and review the operation of delegated awarding arrangements (lead - Mr Holland)

Additional possible action in 1987-88 or later - subject to availability of resources

15. promote improvements in the PGO's forecasting system (lead - Mr Holland) (AS00.0)
16. review statistical base used for costing and other purposes (lead - Mr Holland)
17. consider changes in the method of financing Civil Service superannuation by a move to repayment (lead - Mr Holland)

CIVIL SERVICE PENSIONS ADMINISTRATION : FACT SHEET

Figure 1: awards processed by HM Treasury

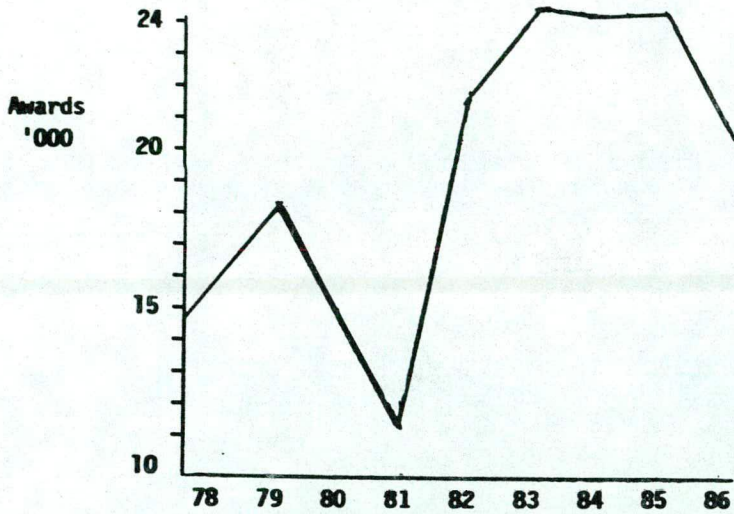


Figure 2: main casework 'subjects'

Subject	prop of totals	change 84-85
reckonable service	11%	+39%
injury benefits	15%	+ 6%
family benefits	14%	- 9%
transfers	10%	-30%
early payment	9%	+71%
scheme administration	8%	-35%
re-employment	3%	+ 5%
premature retirement	3%	-26%
ill-health & death ben	3%	- 7%

Figure 3: cost of awarding function\*

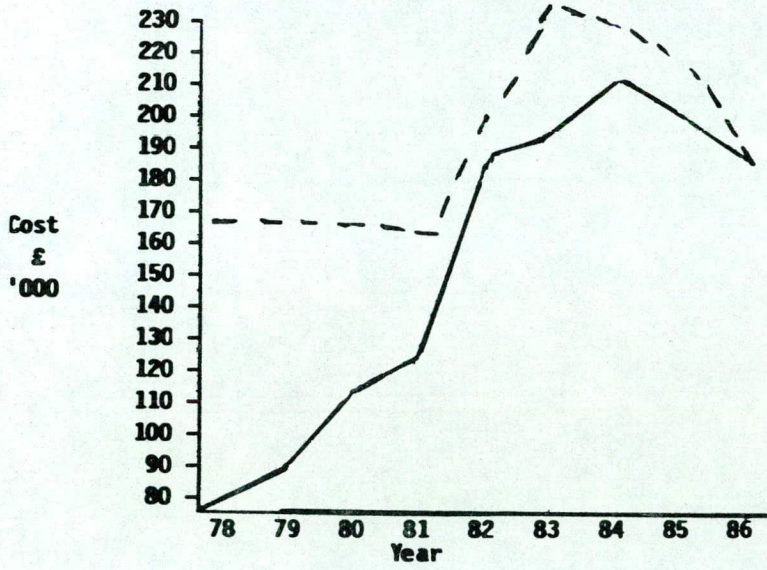
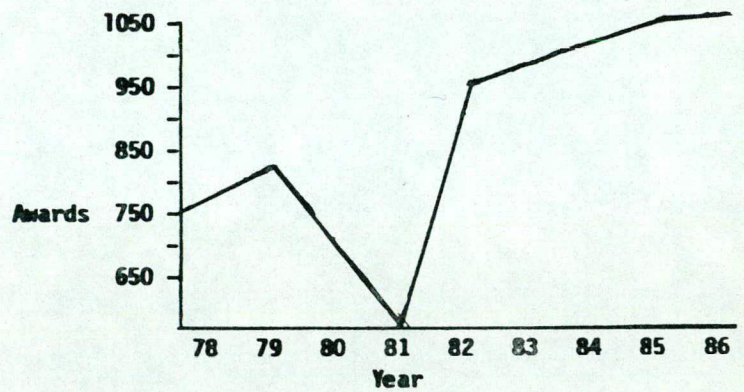


Figure 5: awards per staff unit



Number of cases where compensation has been agreed for delayed payment of benefits: 0.04 per cent of awards processed.

Number of cases where decisions are changed as a result of appeals considered in the Treasury: 0.002 per cent of pensions in payment.

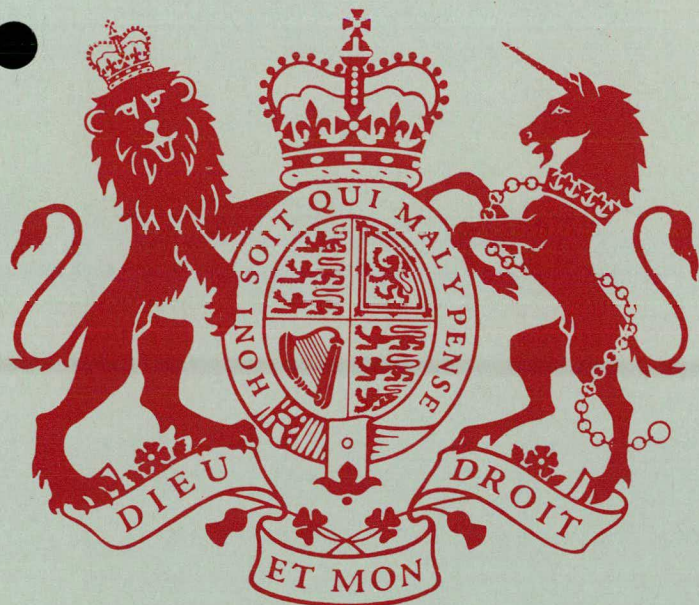
Number of cases including enquiries from those still in employment as a proportion of pensions in payment: less than 0.8 per cent.

Fig 3

\* solid line  
= at prices current in each year

dotted line  
= at constant 1986 prices

30/11/87.



# REPORT ON THE ADMINISTRATION OF CIVIL SERVICE PENSIONS 1986

TREASURY SUPERANNUATION DIVISION  
PENSION AWARDING BRANCH

01 The Pension Awarding Branch of the Treasury Superannuation Division administers and develops the Principal Civil Service Pension Scheme (PCSPS). Its work is divided as follows.

- *Pension awarding* The Treasury is responsible for awards under the PCSPS. It handles just under a quarter of all awarding activity itself, with six large departments making their own awards under delegated authority. All pension payments are made by the Paymaster General's Office.
- *Control and resource management* The branch controls public expenditure on the civil superannuation programme and vote, and seeks improvement in the performance of departments that administer Civil Service pensions.
- *Casework* The branch handles casework that relates to the PCSPS as a whole and not just to the Treasury's own awarding activities. This involves providing Members of Parliament, trade unions, and departments with advice about the PCSPS, and the application of the rules of the scheme to individuals. Inquiries by members are normally dealt with by the establishment division in the individual's department; with advice or a ruling, as necessary, from the Treasury.
- *Policy* The branch is responsible for developing the scheme in the light of legislation, management needs, and trade union claims. It forms the official side in the joint committee on superannuation, where Civil Service pensions are negotiated with the trade union side; participates in the official committee of major public service pension schemes (MOCOP), which is chaired by the Treasury; and co-ordinates the public-sector transfer club.

#### BRANCH RESOURCES

02 The branch comprises forty staff, about half of whom are employed on awarding work. The managerial staff are listed at Annex 1. Annex 2 shows the grades employed at the end of the year. It includes one SEO post added during the year to provide resources to take forward work arising from the Social Security Acts 1985 and 1986, the development of stage two of the computerization of the awarding process, and performance monitoring in other departments. This post was financed from productivity savings on awarding work. There was an overall reduction of two posts on complement, reflecting a fall in awarding work, and productivity improvement showing in reduced unit cost. The overall branch staff cost, on the basis of complement, was £506,000.

#### SPECIFIC IMPROVEMENTS IN 1986

03 Performance in each of the four areas of work is described in more detail in the sections that follow.



Specific improvements achieved during the year 1986 are listed below.

- continuing (though, by now, slight) reduction in awarding costs, staff reductions made at the end of 1985 offsetting the effect of a smaller number of awards received in 1986
- bringing into operation common output measures - to allow comparison of awarding performance between the delegated departments, and monitoring of their progress in cost reduction
- completing a programme of visits to the delegated awarding departments - to review the early output measures returns, and common aspects of awarding practice
- securing acceptance of proposals for stage two of computerization of the awarding process, and carrying forward development work with payroll and superannuation centres
- setting up arrangements for monitoring casework response time
- publishing three further PCSPS explanatory leaflets (on family benefits, on injury benefits, and on the benefits to those who leave the scheme early), which are critical to containing the number of inquiries and cases
- reaching agreement in principle with the Civil Service unions on equal treatment (survivor benefits), and provisions for early retirement
- securing the agreement of the trade unions to interim transfer arrangements, and beginning implementation of the agreed response to the disclosure provisions of the Social Security Act 1985

#### PENSION AWARDING

04 The branch processed some 21,000 superannuation awards (including estimates of awards payable) in 1986. Annex 3 shows that the number fell back in the year from the 1985 level of 23,000. This did not represent a fall in the number of new awards, but resulted from a fall in the number of awards needing revision (because the pay settlement was implemented earlier than in previous years).

05 Some specific indicators of the *quality* of awarding work are as follows.

- the number of cases where compensation has been agreed by the Treasury for delayed payment of benefits remains very low, falling slightly in the year to 0.04% of the total of awards processed by all departments

- the number of cases where decisions are changed as a result of appeals considered in the Treasury continues to average about one a month, or 0.002% of all pensions in payment
- the number of cases as a proportion of all pensions in payment is around 0.8%, and includes inquiries from those still in employment; so is a negligible proportion of the population liable to give rise to cases
- management audits of the Treasury's own awarding work indicate that the reduced level of checking introduced in 1985 has not resulted in a deterioration in accuracy. The error rate found is low (about 3%), and the amount of money involved in correction relatively small (the largest underpayment of pension was at the rate of £100 a year, no overpayment of pension was found in the sample)

06 The *staff cost* of processing 21,000 awards a year is £188,000 (at 1986 prices). The introduction of computerized awarding arrangements from 1980, with subsequent system enhancements and reviews of procedures, has enabled substantial reductions in unit costs to be achieved. Annex 4 shows the overall trend in the branch's staff costs; the solid line recording the movement in terms of prices current in each year, and the dotted line movement in constant 1986 prices.

07 The *improvement in productivity* gained in recent years, in terms of the number of awards processed by each unit of staff, was consolidated - in spite of the fall in the number of awards in 1986 - by achieving a saving of three posts. Annex 5 shows the number of awards dealt with per head.

08 For every hundred awards processed in 1978 we now process 127 for the same real cost, coupled with a *real improvement in the service* provided to employing departments and beneficiaries. Unit costs by year are shown in Annex 6. After a 9% reduction in unit cost in 1985, the reduction in 1986 was less than 1% (a fall of 5p, to a current cost - per award - of £8.99 at 1986 prices). This reduction was achieved despite a change in the mix of awards, with fewer of the relatively straightforward revision of awards following pay increases; and despite the fact that the existing clerical and computer procedures have been developed virtually to their full extent. Following a system and investment appraisal, financial approval was obtained in 1986 for major enhancement of the computer system. Development work is now in hand. Implementation will begin in the Treasury, and will be made in two parts. The first part, at the end of 1987, will introduce direct input of award data and magnetic-tape transfer of payment details; the second part, at the end of 1988, will move on to fully interactive on-line

processing of awards. The bulk of the savings will arise in the Paymaster General's Office. For the Treasury, the additional task of direct data input will initially require an extra Administrative Assistant post, but that will be overtaken later by savings to be gained from continuity of operation when full on-line processing is achieved. The first of the other awarding departments is expected to be ready to start its implementation of the enhanced system about a year later than the Treasury.

09 Awards are processed using Chessington's computer facilities. All pension payments are made by the Paymaster General's Office at an average cost of £11.11 a year per pension.

#### CONTROL AND RESOURCE MANAGEMENT

10 In view of the overall responsibility for the PCSPS, the branch controls expenditure on the civil superannuation programme and vote. It has *expenditure division responsibility* in the annual Public Expenditure Survey and estimates rounds; monitors expenditure and out-turn; and seeks, with the Paymaster General's Office, improvements in forecasting methods for the demand-led vote that in 1986-87 showed an out-turn about 3% lower than the estimate provision of £1,161 million.

11 Following the introduction of computerized awarding in the Treasury in 1980, all the other awarding departments have now brought into some stage of use the same *standard computer system*, securing economy in maintenance and development costs. During 1986, the Home Office implemented parallel running arrangements, to replace its manual awarding system by the computer system for the first of its three areas of awarding activity (for non-industrial staff). The Department of the Environment completed arrangements to introduce its parallel running of the computer system from January 1987.

12 In 1986, a *common set of output measures* for awarding work was put in place in the six departments which carry out awarding under delegated authority. These measures provide information on the costs of administering the scheme; and, by highlighting potential for improvement, allow a judgement to be made about how the delegated arrangements are working. Annex 7 shows, for each department, the overall unit cost for the year; and the percentage cost reduction achieved by each between the first and last quarters of the year. These unit costs are not directly comparable with the awarding unit costs for the Treasury quoted in Annex 6; as the Treasury figure covers only the awarding service it provides to its customer departments, whereas the unit costs for the delegated departments cover the whole of their pension administration work, including activities additional to awarding.

13 The reduction in awarding unit cost achieved by all delegated departments between the first and last quarters of 1986 reflects a general improvement in their experience of and effectiveness in running the computerized system. An awareness of the Treasury's monitoring of unit-cost information may have provided departments with additional encouragement to give attention to reducing costs. There is some fluctuation in quarterly costs arising from normal variations in workload, and a truer measure of underlying progress will emerge from continued monitoring against the 1986 overall unit cost. The two departments showing the highest unit costs for 1986 are those which have most recently been making the changeover to the computerized system (the Department of the Environment and the Home Office). The Home Office is the smallest of the delegated awarding departments, and has a fragmented awarding organization. Its progress towards achieving similar unit costs to other departments, through computerization and organizational change, is being considered against the possible cost effectiveness of transferring its awarding work to the Treasury.

#### CASEWORK

14 The branch handled some 4,000 cases in the year, including some one hundred Ministers' cases on superannuation. A high proportion of casework arises in respect of staff in service, or concerns the benefit provisions of the scheme. The volume, nature, and outcome of casework does not therefore usually relate to the quality of awarding work. The table at Annex 8 shows the number of cases processed under each subject heading, and the nature and outcome of complaints and appeals. Of the total number of cases handled, appeals against the provisions of the scheme represent about 2%, and appeals against earlier decisions about 1%. Annex 9 shows the proportion of cases arising under the main subject headings. Casework costs are not readily separable from those of policy work; but, from assessment of the proportion of staff time spent on casework, the estimated average cost per case is £31.

15 Many of the staff engaged on casework also contribute to policy work and draft explanatory leaflets, guidance material, and operating instructions. A welcome fall in some areas of casework helped to contain some of the pressure on resources arising from an increase in policy work. The fall came for a variety of reasons: as some return for earlier investment in the issue of guidance and explanatory leaflets; from earlier work in verifying, for computerized awarding purposes, records of reckonable service; from rule changes; and from changes in policy or practice, such as a reduction in re-employment after age sixty, and a reduction in injury benefit cases because of a decrease in the numbers of industrial staff. An example of one of the explanatory leaflets published during 1986 is contained in a pocket at the back of this booklet.

16 Ministerial cases illustrate the fact that few superannuation queries are straightforward. There is invariably a substantial research task to get the facts right and, with the element of discretion present in the rules of the pension scheme, a careful judgement has to be made and checked.

## POLICY

17 The PCSPS is affected by the significant changes required by the *Social Security Acts of 1985 and 1986*. The year, therefore, saw a heavy load of work on the development of the scheme. The 1985 Act introduced rights for occupational scheme members to information about their scheme, and this was followed through during the year. It also introduced new requirements for transferring pension benefits between occupational pension schemes. Interim arrangements were in place at the beginning of the year, following agreement with the trade union side and other public-service schemes. Discussions have continued about the substantive transfer arrangements that should apply to transfers within the public-sector transfer club, and with other employers. The major requirements of the 1986 Act - in respect of personal pensions, additional voluntary contribution facilities, and a reduction in the qualifying period for preservation of benefits - do not come into effect until 1988; but all the public-service schemes were involved in 1986 in considering the form of the amendments that will be required. They also offered comment on a number of consultative documents issued during the year by the Department of Health and Social Security.

18 The changes arising out of the 1985 and 1986 Acts have involved a great deal of detailed consideration with the departments responsible for the other major public-service schemes; with the branch co-ordinating work on transfer arrangements, in view of its responsibility for the public-service transfer club. They have also led, in part, to a significantly increased requirement for the branch, as the official side, to meet the trade union side in the joint committee on superannuation. Apart from these changes, the branch negotiated and agreed an equal-treatment package with the trade union side, which came into effect, with other benefit improvements, from 1 July 1987. It was also actively involved in the negotiations that were led by the Management and Personnel Office about the changes in Civil Service early-retirement arrangements, and made the consequent amendment to the scheme in order to effect the introduction of these changes from 1 April 1987.

19 These are the major changes that have been taking place or are in prospect. There has, however, been continuing discussion with the trade union side in the joint committee on superannuation; including claims for other benefit improvements, such as inverse commutation facilities and survivor pensions for common-law spouses.

20 Future work plans provide for the directing of particular effort to the following areas.

- *Policy work* implementing the equal-treatment package through an amendment scheme; implementing the requirements of the Social Security Act 1985 concerning transfer values; reviewing injury-benefit provisions; formulating and agreeing with the unions the response to the provisions of the Social Security Act 1986 concerning personal pensions, additional voluntary contributions, and the reduction in the qualifying period for the preservation of benefits; and amending the scheme.
- *Communications* improving communications with employing departments and scheme members so as to reduce the volume of casework and inquiries, to improve understanding of scheme changes, to improve efficiency of administration of the scheme, and to meet legislative requirements. Work on communications has in the past been done in the area of awarding activity, and is continuing in the area of the leaflets and guidance material that explain the provisions of the scheme. This is being extended to a wider review of communications as a whole. Already, for employing departments, there have been offered a series of training seminars on changes in the scheme; and this will continue to be used as a method of explaining future changes. The relationship between employing departments and the centre will be examined from the point of view of the efficient administration of the scheme, including the question of where particular functions are best performed.
- *Computer system development* implementing the stage two development of the computerized awarding system, and ensuring that departments build on the substantial manpower savings (over three hundred posts) achieved across the service under the present first stage. Further savings of some forty posts, accompanied by an improved standard of service, should eventually be realized from full implementation of the stage two development.
- *Performance monitoring* monitoring and reviewing, with awarding departments, the information from the output measures now in place; and considering the operation of the delegated awarding arrangements against developments in unit costs.

**ANNEX 1**

**MANAGERIAL STAFF AT THE END OF 1986**

Mr D G Pain	Mr C Groves	Mr L Chapman
Mr M E Corcoran	Mr B Holland	Mrs A C Charters
	Mr B Lewis	Mrs M A Cross
	Mr G Moss	Mrs L A Harling
		Mr B White

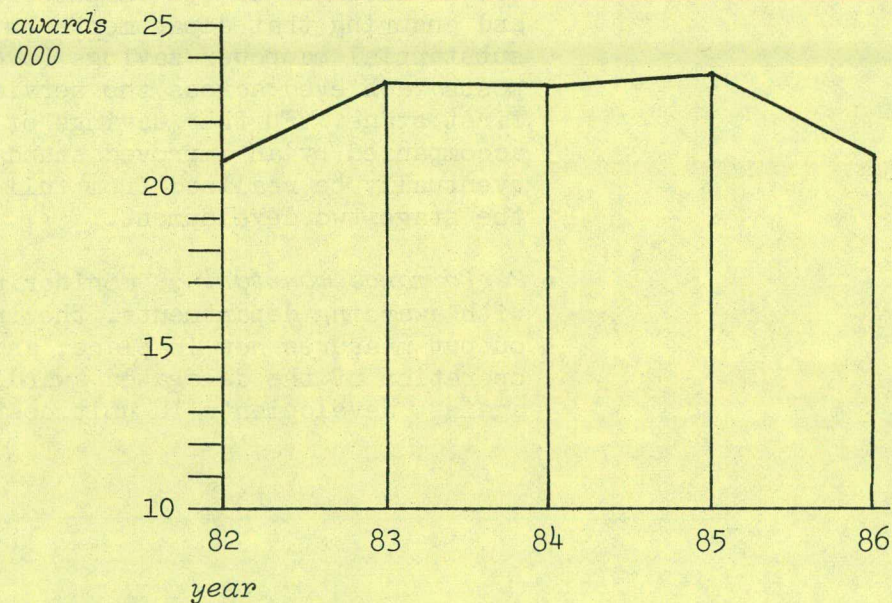
**ANNEX 2**

**STAFF COMPLEMENT AT THE END OF 1986**

<i>Grade</i>	<i>Complement</i>	<i>% of total</i>
Senior Principal	1	2
Principal	1	2
Senior Executive Officer	4	10
Higher Executive Officer	5	13
Executive Officer	10	25
Clerical Officer	12	30
Clerical Assistant	6	15
Personal Secretary	1	2
<i>Total</i>	40	

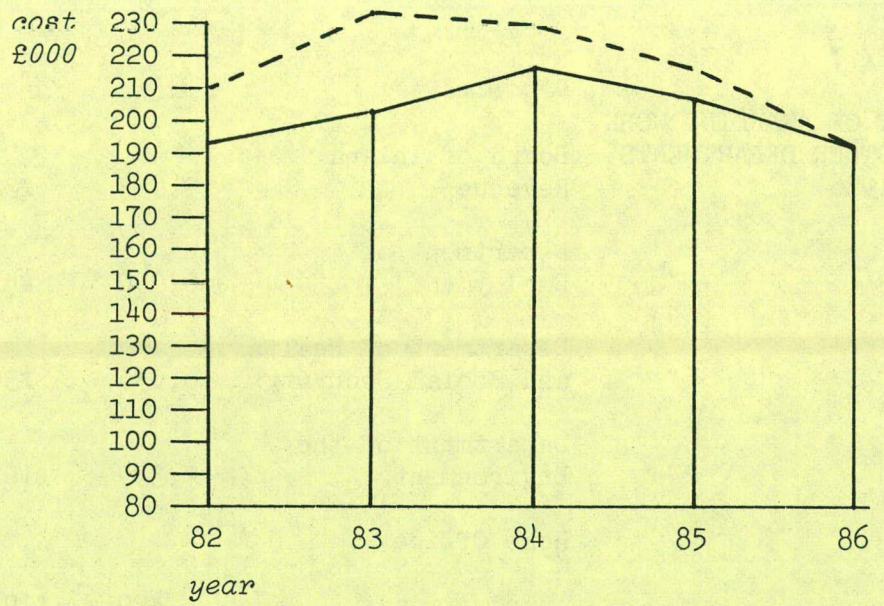
**ANNEX 3**

**AWARDS PROCESSED BY THE TREASURY**



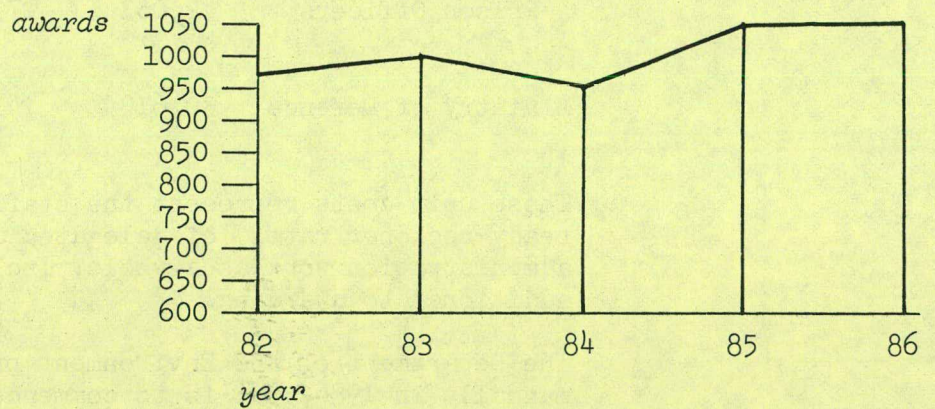
**ANNEX 4**

**COST OF AWARDING FUNCTION**



**ANNEX 5**

**AWARDS PER STAFF UNIT**



**ANNEX 6**

**COST OF AWARDING WORK IN THE TREASURY**

<i>Calendar year</i>	<i>Awards processed</i>	<i>Unit cost (actual price)</i>	<i>Unit cost (1986 price)</i>
1982	20640	£9.08	£11.46
1983	23243	£8.70	£10.00
1984	23098	£9.16	£9.43
1985	23390	£8.68	£9.04
1986	20913	£8.99	£8.99



## ANNEX 7

COST OF AWARDING WORK  
IN OTHER DEPARTMENTS  
IN 1986

<i>Department</i>	<i>Awards</i>	<i>Unit cost for year</i>	<i>Change from 1st to 4th quarter</i>
Board of Inland Revenue	9,953	£32.21	-12%
Department of Employment	6,950	£41.88	-15%
Department of Health and Social Security	16,055	£30.65	-39%
Department of the Environment	7,379	£107.47	-14%
Home Office			
Industrials	429	£194.70	-27%
Non-industrials	1,257	£102.38	-15%
Prison Officers	2,063	£79.17	-2%
Ministry of Defence	30,618	£41.24	-7%

These unit costs represent the staff cost (at 1986 ready-reckoner rates) of delegated departments' pension administration work as a whole, including activities additional to awarding.

The Department of the Environment processed awards manually in 1986, but is to commence parallel running of the computer system in 1987.

The Home Office introduced parallel running in 1986 for its non-industrials; and is to carry out organizational changes in 1987, to bring together its separate awarding sections.

## ANNEX 8

	1984	1985	1986
<b>CASES ARISING UNDER EACH SUBJECT</b>			
PCSPS membership	18	25	48
Reckonable service	400	572	476
Refunds of gratuities	69	72	121
Pensionable pay	78	114	159
Re-employment	168	176	131
Premature retirement	182	134	85
Ill-health and death benefits	166	154	82
Added years	108	71	62
Transfers, secondments, etc	801	557	481
Family benefits	827	753	464
Injury benefits	745		
Agreed		275	174
Rejected		71	95
More information sought		447	369
Restoration			
Agreed	50	48	47
Rejected	28	9	12
More information sought	109	107	30
Early payment			
Agreed	41	71	49
Rejected	73	139	73
More information sought	163	263	197
Allocation	149	196	51
FSSU	389	280	270
Other pension schemes	161	133	185
Scheme administration	655		
Awarding practice		43	36
Compensation cases		55	62
Competition memoranda		192	183
Recovery of debts		135	133
<i>Totals</i>	5,480	5,092	4,075

*Cases (including those above) of exceptional treatment, exercise of Treasury discretion, or overturn on appeal*

Compensation claims/complaints delay			
Treasury served departments	30	16	20
Delegated departments	42	39	42
Compensation agreed			
Treasury served departments	18	13	13
Delegated departments	35	31	28
Appeals (MPs, unions, departments, etc) - provisions of the scheme	25	103	79
Appeals (MPs, unions, departments, etc) - previous provisions			
Treasury served departments	52	40	32
Delegated departments	44	23	26
Decisions overturned on appeal	15	8	9
Exceptional treatment agreed			
Belated options	59	25	47
Aggregation of service	33	11	10
Other	5	3	4

**ANNEX 9****MAIN CASEWORK  
SUBJECTS**

<i>Subject</i>	<i>% of total</i>	<i>% change 85-86</i>
Reckonable service	13	-12
Re-employment	3	-26
Premature retirement	2	-44
Ill-health and death benefits	2	-47
Transfers	12	-17
Family benefits	12	-39
Injury benefits	16	-20
Early payment	7	-43
Scheme administration	10	-3

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£8250 and an injury benefit lump sum of one half his pensionable pay, £5000.

iii. Death

If the same civil servant had died after 4 months on sick pay at pension rate, his wife would have received an allowance designed to provide a minimum income guarantee of 45% of her husband's pensionable pay. She will receive industrial death benefit. She will also receive a long term pension from the Civil Service at one half the rate of her husband's pension entitlement if he had been medically retired on the day he died, and a pension at one third the rate of her husband's pension from his former public service employer.

Her annual allowance would be calculated as follows:

Minimum Income Guarantee		£4500.00
Less		
Civil service pension	£1354.17	
Industrial death benefit	£ 28.69	
Other public service pension	£ 150.00	
	<u>£1532.85</u>	
		<u>£1532.85</u>
Annual Allowance		<u>£2967.15</u>

For the first six months after her husband's death, the widows pension payable under the scheme is enhanced to the rate of his pensionable pay of £10,000. At the end of that time, the annual allowance is brought into payment.

In addition, a death benefit equal to his pensionable pay of £10,000 will be payable from the pension scheme to the person nominated to receive it or to his estate. A further lump sum of £5,000 will be payable to the widow.

The allowance payable is calculated as follows:

Minimum income guarantee 85%		£8500.00
Less		
Civil service sick pay at pension rate	£2708.34	
Invalidity benefit	£3245.32	
Disablement benefit	<u>£ 607.36</u>	
	£6561.02	
		<u>£6561.02</u>
Temporary Allowance		<u>£1938.98</u>

An officer in receipt of half pay is also eligible to receive a temporary allowance, but it will often be the case that, as in this example, the total of half pay (£5,000) and social security benefits will exceed the minimum income guarantee.

ii. Medical retirement

After four months, it becomes finally apparent that the officer will not be able to return to duty and he is retired on medical grounds. He receives a pension of £2708.34 and continues to receive invalidity benefit of £3245.32. His disablement benefit is confirmed at 20% and he is also eligible for special hardship allowance which brings the total of his disablement benefit to £1214.72 a year. Because he has retired on medical grounds a small pension from a former public service employer also comes into payment. The allowance payable is calculated as follows:

Minimum income guarantee for total impairment 85%		£8500.00
Less		
Civil service pension	£2708.34	
Invalidity benefit	£3245.32	
Disablement benefit	£1214.72	
Other public service pension	<u>£ 450.00</u>	
	£7618.38	
		<u>£7618.38</u>
Annual Allowance		<u>£ 881.62</u>

In addition, the officer receives his superannuation lump sum of

## Special cases

23. The injury benefit rules apply to all persons serving full-time or part-time in the Civil Service, other than locally-engaged staff abroad for whom satisfactory provision is made locally. Generally, benefits are related to pensionable pay as defined in the rules of the PCSPS but special provision is made for apprentices and other employees receiving pay at a lower rate than is payable to adult workers doing similar work. In such a case, the allowance payable for any period after the person concerned reaches adult age will be based on the adult rate of pay.

24. For persons not actually employed in the Civil Service but who are injured or killed while undertaking paid or voluntary work for the Government, injury benefits are based on the pensionable pay of an equivalent Civil Service grade. This applies, however, only to persons who are employed directly for the purposes of HM Government. Contractors' staffs (eg painters employed by a private firm or specialists employed by consultancy companies) are not covered by the injury benefit rules and must look to their own employers for injury compensation if they are injured or killed whilst working on government premises.

25. The injury benefit rules do not apply to the dependants of civil servants but *ex gratia* payments, analogous to those payable under the Criminal Injuries Compensation Scheme, may be paid to, or in respect of, the wives and other dependants accompanying UK-based civil servants serving abroad if they are injured or killed as a result of terrorist or criminal acts whilst overseas.

## Examples of the operation of the injury benefit rules

26. A 52 year old married male civil servant with no dependent children whose pensionable pay is £10,000 is injured at work. After exhausting his sick absence on full pay and half pay, he goes on to sick pay at pension rate and is entitled to benefit under the temporary allowance arrangements.

### i. Temporary allowance

He has 15 years' reckonable service in the Civil Service which is enhanced under the pension scheme rules by  $6\frac{2}{3}$  years to provide sick pay at pension rate of £2708.34 a year. In addition, he is in receipt of certain social security benefits: invalidity benefit for his wife and himself totalling £3245.32 a year, and industrial disablement benefit based on a provisional assessment of 20% which produces a further £607.36 a year.



### **Pensions increase**

19. Annual allowances payable under the minimum income guarantee arrangements described are increased annually in line with increases in the cost of living so that they keep their original purchasing power. (Full details are given in the Pensions Increase leaflet.)

### **Damages and Criminal Injuries Compensation Scheme benefits**

20. The injury benefit scheme is a “no-fault” scheme; that is, benefits are payable whether or not the Government, as your employer, was negligent and whether or not the injury was caused by a third party. Benefits will be withheld only if the injury was wholly or mainly due to your own serious and culpable negligence or misconduct (for example, if you were driving a car whilst under the influence of drink or drugs). You and your dependants have the right, however, to sue for damages if there is evidence that a department, one of its employees, or a third-party was responsible for the accident or incident that caused your injury or death. Similarly, you or your dependants may claim under the Criminal Injuries Compensation Scheme (CICS) if your injury or death was caused by a criminal act, which includes terrorist activities.

21. If your claim for damages is successful, the moneys you or your dependants receive will be taken into account in assessing injury benefits under the Civil Service scheme. This applies also to any compensation payable to you or your dependents under local legislation if the injury or death occurs in another country. In the case of CICS benefits, it is usually the case that the Criminal Injuries Compensation Board will be advised of the benefits payable under the Civil Service scheme and the Board will take those benefits into account in making its award.

### **Staff serving overseas**

22. A UK-based civil servant serving abroad may not be eligible for certain Social Security benefits and will not be able to make a claim under the CICS. The injury benefit scheme therefore provides for the payment of benefits by analogy with both schemes, if that would produce a more favourable result for you and your dependants than reliance on the injury benefit rules alone. Locally-engaged staff abroad are covered by the scheme only if the Treasury is satisfied that local legislation does not provide for satisfactory injury compensation payments.

pension scheme to which contributions have been made from public funds is taken into account in determining the injury benefit payable but the fact that a woman had not opted to contribute for a widower's pension would not debar payment of injury benefit to her husband, if he is otherwise eligible. The annual allowance payable to a widow is reduced by the annual value of the industrial death benefit payable under the Social Security Acts but the reduction is not increased if the value of that benefit subsequently changes.

15. For other dependants, the guaranteed minimum incomes are—

	Proportion of pensionable pay	
	Where there is a widow eligible for benefit	Where there is not a widow eligible for benefit
Children, including brothers and sisters	10% for each child	20% for each child
Mother or father, adult children, brothers and sisters	20% each	45% each

16. The benefits in respect of your own children are payable so long as they are receiving full-time education or training but only for a maximum of 4 children at any one time. The cover extends to adopted children, step-children, illegitimate children, half-brothers and half-sisters; the primary condition is that the child or children were wholly or mainly dependent on you at the time of your death. The limitation to 4 children does not apply to incapacitated children, brothers or sisters who have ceased to be in the period of childhood as defined above, but the total of injury benefit allowances payable may not exceed 100% of your pensionable pay.

17. Benefits may be paid to your mother or father only if she or he was wholly or mainly dependent on you. Step-parents and adoptive parents are covered.

18. A lump sum equal to 6 months of your pensionable pay may be paid in addition to widow's and dependants' allowances if a lump sum was not paid to you in respect of the injury. Normally, this will be paid to your widow or widower but, if there is no eligible spouse, it may be paid for the benefit of your children, dependant parents or dependant brothers or sisters. Unlike the lump sum death benefit payable under the main provisions of the PCSPS, however, this lump sum is not payable to your estate and, if you have no dependants, no lump sum will be paid.

you. The amounts payable are—

For slight impairment	— $\frac{1}{8}$ th of pensionable pay
For impairment	— $\frac{1}{4}$ pensionable pay
For material impairment	— $\frac{3}{8}$ ths of pensionable pay
For total impairment	— $\frac{1}{2}$ pensionable pay.

### Minimum income guarantees

11. Your guaranteed minimum income depends in part on your service at the time of the injury or at the time of retirement as shown by the following table—

	Guaranteed minimum income Proportion of pensionable pay			
	Less than 5 years' service	5-15 years' service	15-25 years' service	25 years' or more service
Slight impairment	15%	30%	45%	60%
Impairment	40%	50%	60%	70%
Material impairment	65%	70%	75%	80%
Total impairment	85%	85%	85%	85%

12. The guaranteed minimum income will include any occupational pension payable under the main provisions of the PCSPS. It will also include any other occupational pension payable from public funds or for which all or part of the contributions are payable from public funds (this includes benefits payable under a personal annuity contract, if your rate of pay was determined on the basis that you would pay premiums under such a contract).

13. The annual amount or the annuity value of payments made under an insurance policy is also included in the guaranteed minimum income if the premiums were paid out of public funds. If only a proportion of the premiums were paid out of public funds, only the same proportion of the insurance benefits are taken into account and, if all the premiums were paid by you, none of the insurance benefits will be taken into account.

14. The guaranteed minimum income for a widow is 45% of her husband's pensionable pay. Injury benefits within the limit of 45% of pensionable pay may also be paid to a widower but only if he was permanently incapacitated and wholly or mainly dependent on his wife at the time of her death. Any widow's or widower's pension payable under the main provisions of the PCSPS or under another

reach the retiring age and, again, social security benefits may be payable as well. If you die, a lump sum death benefit of at least one year's pensionable pay is payable to the person you have nominated to receive it or to your estate and a widow's, widower's and children's pension may also be payable. Your widow may also receive industrial death benefit. The injury benefit scheme provides for:

- i. a temporary allowance to bring your income, including social security benefits, up to 85% of your pensionable pay if you are on sick absence at a reduced rate of pay;
- ii. an annual allowance in respect of your impaired earning capacity if you have to change to a lower paid job;
- iii. the payment of additional lump sum benefits and for a topping-up of pensions and social security allowances to provide you or your dependants with a guaranteed minimum income, if you have to retire on medical grounds, or die, or if you leave voluntarily, but can demonstrate impairment of earning capacity at the retirement age as a result of your injury.

9. The benefits payable to you depend on the extent to which your earning capacity is impaired by the injury or disease and there are 4 broad categories—

- |                     |   |
|---------------------|---|
| Slight impairment   | —more than 10% but not more than 25% impaired |
| Impairment          | —more than 25% but not more than 50% impaired |
| Material impairment | —more than 50% but not more than 75% impaired |
| Total impairment    | —more than 75% impaired                       |

It should be borne in mind that assessments of impairment of earning capacity for the purposes of the injury benefit scheme are not necessarily the same as the degrees of disablement used by DHSS in their assessments of industrial injury benefits. It should also be noted that injury benefits are not payable in respect of minor injuries resulting in less than a 10% impairment of earning capacity. An annual benefit deriving from the assessment may be reviewed if your condition deteriorates due to your injury, and in certain other limited circumstances.

10. Lump sum compensation is not payable if you are on sick absence or if you remain in Civil Service employment. It is, however, additional to any lump sum retirement benefit that is also due to

UK-based staff serving abroad are covered, whether on duty or not, if injury or death is directly attributable to the state of affairs in the country or area concerned (eg if it results from war, revolution or political or other disturbances) or if a disease from which they already suffer is aggravated by service abroad.

### **Travel**

5. Injury benefits will not normally be payable if you are injured or killed while travelling to or from work (although duty journeys, which may include travel to and from detached duty stations are covered) or if the injury or death is unrelated to the nature of your duties (eg it occurs during your meal-break or while you are taking part in sporting or social activities), unless, of course, para 4(ii) above applies.

### **Eligibility for injury benefit**

6. Unlike some of the benefits payable under the Social Security Acts or under personal accident insurance policies, the scheme is not intended to compensate you for pain and suffering or for loss of a particular faculty (eg for the loss of a limb or eye or hearing). You will be eligible for injury benefit only if your earning capacity is impaired because of the injury. Thus, benefits may be payable:

- i. if you are on sick absence at less than your full rate of pay;
- ii. if you have to be downgraded or moved to some other less well-paid job in the Civil Service as a result of the injury;
- iii. if you are retired on grounds of ill-health; or if you leave the Civil Service voluntarily before the retiring age or retire on age grounds and, at the retirement age, impairment of your earning capacity as a result of the injury can be demonstrated.

7. Benefits may be payable to your wife, husband, children and other dependent relatives if you are killed or if you die as a result of your injury.

### **The benefits**

8. While you are on sick absence, you will receive pay in full or in part and you may also be eligible for certain social security benefits. If you have to change to a lower paid job, you will receive pay for that job and, perhaps, social security benefits. On retirement on health grounds, you may be eligible for a pension and/or lump sum under the ill-health retirement provisions of the PCSPS and for social security benefits. If you leave the Civil Service for other reasons, you may receive superannuation benefits immediately or when you

## **INJURY BENEFITS**

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### **Introduction**

1. This is a brief guide to the benefits that may be payable to you or your family if you are injured or killed on duty or as a result of a terrorist attack, if that attack is directly attributable to the fact that you are working for the Government. These benefits do, however, depend very much on the particular circumstances of individuals and of the accidents or incidents in which they are involved and nothing that is said in this guide can be taken to over-ride the provisions of the Principal Civil Service Pension Scheme (PCSPS) or the Pay and Conditions of Service Code.

### **Sick absence**

2. Provided that there is a reasonable prospect of your recovery and return to duty, you will be allowed time off from work on full or reduced pay, if you are medically incapacitated. Normally you are allowed 6 months' sick absence on full pay in any period of 12 months followed by a period on half pay, subject to an overriding maximum of 12 months' sick absence in any period of 4 years or less. If you are covered by the PCSPS, you may then be allowed a further period of sick absence at a rate of pay equivalent to the pension that would be payable to you if you had to be retired on grounds of ill-health. Extension of paid sick absence on a similar basis may be allowed if you are covered by some other pension scheme, depending on the provisions of the scheme with regard to the reckoning of sick absence for pension purposes.

### **Extension of sick absence for injury**

3. If your sick absence is due to an injury or disease which qualifies you to be considered for injury benefits under Section 11 of the PCSPS, the maximum period of sick absence on full pay is increased by 6 months.

### **Qualifying conditions for injury benefits**

4. You or your dependants will qualify for injury benefits if
- i. you are killed or suffer an injury while on duty;
  - ii. you are killed or suffer an injury, whether on duty or not, as a result of a terrorist attack or similar act, if the incident is directly attributable to your being employed in the Civil Service;
  - iii. you contract a disease to which you are exposed by the nature of your duties.

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ИЗДАТЕЛЬСТВО

МОСКВА

# INJURY BENEFITS

This leaflet outlines the benefits payable to or in respect of civil servants who are injured or killed on duty or as a result of an attack attributable to their employment. It should not be taken as a complete or authoritative statement of the relevant provisions of the PCSPS. Superannuation branches of employing departments will answer questions about the detailed operation of the arrangements.

HM Treasury  
Superannuation Division  
Alencon Link  
BASINGSTOKE, Hampshire

February 1986



30/11/87.

PRINCIPAL CIVIL SERVICE PENSION SCHEME  
(AMENDMENT) SCHEME 1987 (No 3)

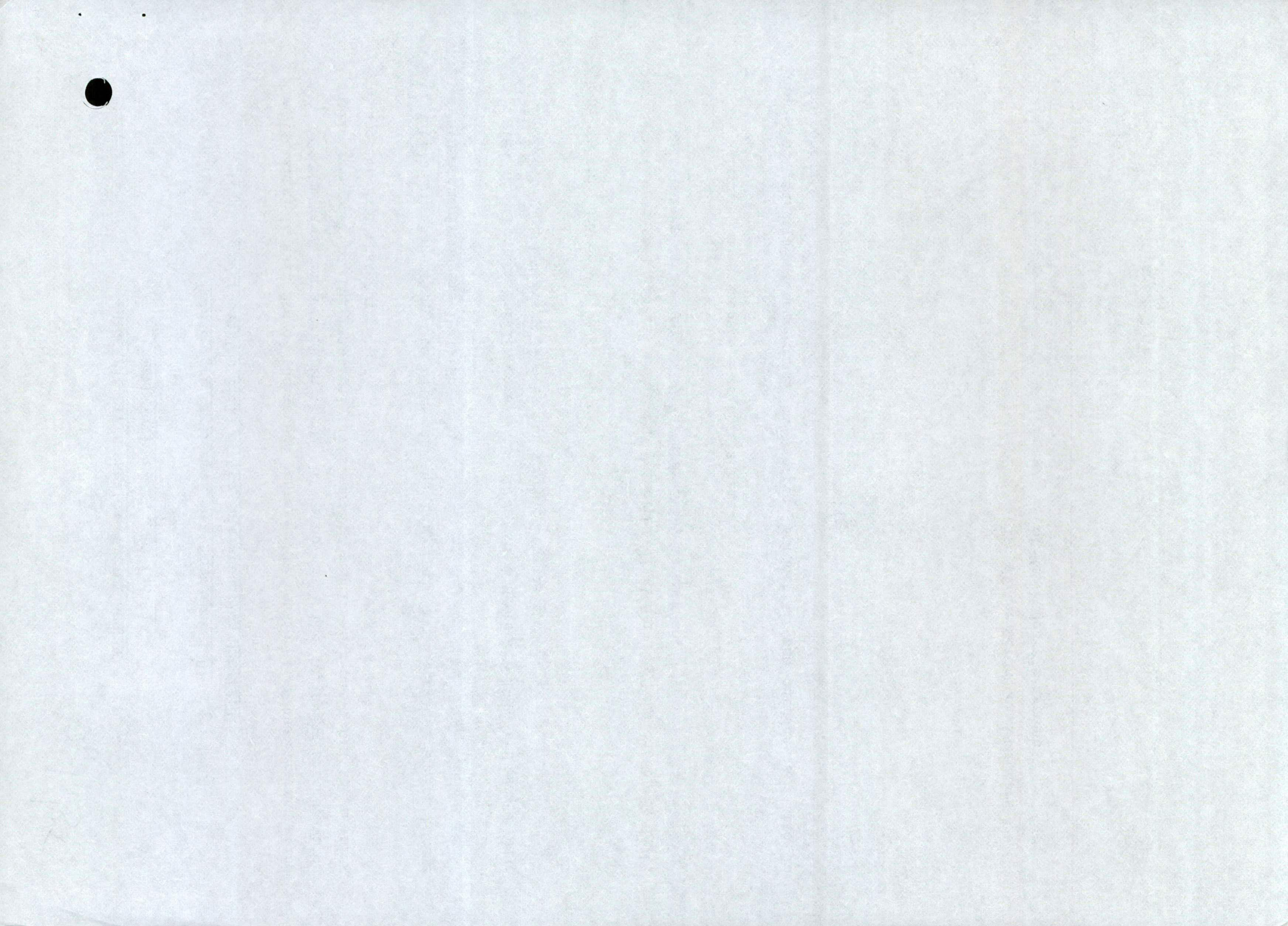
Laid before Parliament on September 1987  
under section 2(11) of the Superannuation Act 1972

The Treasury, in exercise of the powers conferred by section 1 of the Superannuation Act 1972 (a) and now vested in them, (b) hereby make the following scheme, which shall form part of the principal civil service pension scheme within the meaning of section 2 of that Act:

1. (1) This scheme may be cited as the Principal Civil Service Pension Scheme (Amendment) Scheme 1987 (No     ).  
  
(2) This scheme shall come into force on 6 September 1987 and shall have effect from 1 January 1986 except where otherwise stated.
2. In this scheme -  
  
"the principal scheme" means the Principal Civil Service Pension Scheme 1974, laid before Parliament on 19 November 1974, as amended;  
  
"schedule" means schedule to this scheme.
3. The principal scheme shall have effect subject to the amendments listed in the schedule.

Two of the Lords Commissioners  
of Her Majesty's Treasury

- 
- (a) 1972 c.11.  
(b) S.I.1981/1670, Art.2(1)(c).



**SCHEDULE**

**AMENDMENTS TO THE PRINCIPAL CIVIL SERVICE PENSION SCHEME**

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1. **Rule 1.11**

In line 5, after "it is 60.", add "'Normal retiring age' for the purposes of section 6 means the age specified in the foregoing sentence of this rule."

2. **Rule 1.13a**

Add at the end of this rule

(xi) "transfer premium,"

3. **Rule 2.20**

Delete and substitute

"2.20 A civil servant joining the civil service on or after 1 June 1972 may transfer into the scheme his accrued pension benefits under, and in accordance with, the rules set out in section 6 or appendix 11, whichever is applicable. Reckonable and qualifying service will therefore be credited in the scheme in accordance with those rules. Appendix 12 of this scheme shall continue to have effect for the purposes of paragraph 16 of Appendix 11."

4. **Rule 2.21**

After "(SI 1967/364)" at the end of the third sentence, add "as amended by the Superannuation (Public Offices) (Amendment) Rules 1982 (SI 1982 No 1207)."

This provision shall have effect from 1 October 1982.

5. **Rule 2.28a**

Delete from "rules 6.9 to 6.11" to the end of this rule and substitute

"paragraphs 9 to 11 of appendix 11 or rules 6.22, 6.23 and 6.27 as appropriate will not operate, if this would result in a larger pension under this scheme."

6. **Rule 3.10**

Delete and substitute

"3.10 A civil servant who resigns

(i) on or before 31 December 1985 may be eligible for the payment of a transfer value to his new employer, subject to the provisions set out in appendix 11;

(ii) on or after 1 January 1986 may be eligible for the payment of a transfer value in respect of his accrued pension benefits under, and in accordance with, the provisions set out in section 6."

**Rule 3.11 and Rule 3.17**

Delete "and who does not opt for the payment of a transfer value" from the first sentence of each rule, and substitute "and who does not opt to transfer his accrued pension benefits out of the scheme" in each case.

**8. Rule 3.20**

Delete "(see rule 6.14);" at the end of (iii), and substitute "(see paragraph 14 of appendix 11);".

**9. Rule 3.22**

Delete "- see rule 6.14.)" at the end of this rule, and substitute "- see paragraph 14 of appendix 11.)".

**10. Rule 4.16 and 4.23a**

Delete "rule 6.1" in (ii)(b), and substitute ",and in accordance with, section 6" in each case.

**11. Rule 4.21h**

Delete "4.22b" and substitute "4.22a".

This provision shall have effect from 1 July 1987.

**12. Rule 4.22a**

(a) In line 1 of rule 4.22a(iii)(a) insert after "option" the words "under this rule".

(b) In line 2 of rule 4.22a(iii)(b) delete "4.22(a)(i)" and substitute "4.22a(i)".

This provision shall have effect from 1 July 1987.

**13. Rule 4.61**

Add at the end of this rule "and appendix 11."

**14. Section 6**

Delete section 6 and substitute

**"SECTION 6 TRANSFERS**

**INTRODUCTION**

6.1 (i) Parts 1, 3 and 4 of this section make provision in respect of transfer values payable where a civil servant leaves pensionable service in the civil service on or after 1 June 1972. A civil servant may apply for a transfer value in accordance with the rules in parts 1, 3 or 4, whichever is applicable in his case. If an application for a transfer value may be made under the rules in more than one part, the application may be dealt with in accordance with the rules of whichever part is appropriate in order to meet the civil servant's requirements.

- (ii) Part 2 of this section makes provision in respect of incoming transfers.
- (iii) Part 5 of this section makes provision in respect of certain miscellaneous matters.
- (iv) Appendix 11 to this scheme shall continue to have effect for the cases, persons, purposes, and in the circumstances set out in this section.

## **PART 1 : OUTGOING TRANSFERS**

### **General**

- 6.2 (i) Under this part, a civil servant whose pensionable service in the civil service ends on or after 1 January 1986 has a right to a transfer value in respect of his accrued pension benefits in accordance with the rules set out in this part.
- (ii) Where his normal retiring age is 60, his pensionable service must end at least one year before the normal retiring age; where the transfer value is to be applied in accordance with rule 6.8(i), or where the normal retiring age is below the age of 60, his pensionable service must end before the normal retiring age.
  - (iii) The transfer value payable under this part will be the cash equivalent of the civil servant's accrued pension benefits at the date when his pensionable service ends, or at the date on which the application for a transfer value is made if that is later. However, cases falling within rule 6.34(ii)(a) will only have a right to a transfer value under part 4 (and not to a cash equivalent transfer value).
- 6.3 (i) The civil servant must make an application in writing for the payment of a cash equivalent transfer value, and must include instructions as to the pension scheme or, where appropriate, the other arrangement(s) to which payment or payments should be applied.
- (ii) An application may be withdrawn at any time by notice in writing but that notice shall be of no effect if it is given after an agreement has been entered into with a third party to use the whole or part of the cash equivalent in the way set out in rule 6.8.
- 6.4 An application for a cash equivalent transfer value payment may not be made except in accordance with the time-limits set out below.
- (i) Subject to (ii) below, an application must be made on or before the date one year before the date on which the civil servant reaches the normal retiring age, or 6 months after his pensionable service terminates whichever is the later.
  - (ii) Where a transfer value is to be applied in accordance with rule 6.8(i), an application may be made on or before the date immediately preceding the date on which the civil servant reaches the normal retiring age.

- (iii) The time-limits in (a) and (b) also apply to civil servants whose normal retiring age is below the age of 60 but, for the purposes of the application of (a) and (b), their normal retiring age will be treated as if it is 60.

6.5 A civil servant will lose the right to a cash equivalent transfer value payment if a pension, or benefit in lieu of a pension or any part of it or an annual compensation payment has become payable before he attains normal retiring age.

6.6 If, when a civil servant applies for a cash equivalent transfer value, he is in the process of buying added years of pension credit, only the added years he has actually bought by the date on which his pensionable service ends will reckon for the purposes of the calculation of his accrued pension benefits (and thus his transfer value).

6.7 The Treasury have a duty to ensure that any necessary action is taken to carry out what the civil servant requires within 12 months of the date of receipt of his application or of the date on which he reaches the normal retiring age. Where it appears to the Treasury that disciplinary proceedings, or proceedings before a court may lead to the forfeiture of the whole or part of the pension or benefit in lieu of the pension, the provisions of paragraph 16(4) of Schedule 1A to the Social Security Pensions Act 1975 (as amended) will apply.

#### **Benefits preservable on leaving the scheme**

6.8 Where the accrued pension benefits are, or may be, preserved in accordance with rule 3.11 (or 3.12 where appropriate) the civil servant may require the Treasury to apply the cash equivalent transfer value in one, or more, of the following ways:

- (i) for acquiring transfer credits in an occupational pension scheme which is able and willing to accept him and which satisfies prescribed requirements;
- (ii) for purchasing one or more insurance policies or annuity contracts which satisfy prescribed requirements from one or more insurance companies which are chosen by the civil servant, are willing to accept payment and which meet specified requirements;
- (iii) subscribing to any other pension arrangement which satisfies prescribed requirements.

6.9 For the purposes of rule 6.8, the prescribed requirements are to be determined in accordance with the Social Security Pensions Act 1975, as amended, and regulations made under it.

6.10 (i) The cash equivalent transfer value will be calculated in accordance with the transfer value tables provided from time to time by the Government Actuary to the Treasury and which are in force at the relevant date.

- (ii) The tables will contain such factors as from time to time are considered appropriate by the Government Actuary, having regard to the provisions of paragraph 14 of Schedule 1A to the Social



Security Pensions Act 1975 and to regulations made under that Act. The factors to be used for benefits under part 4 or part 5 of section 4 will be those which are provided from time to time by the Government Actuary to the Treasury and which are in force at the relevant date.

- (iii) The preserved benefits will be calculated under rules 3.11 or 3.12 (whichever is appropriate) and rules 4.6, 4.21c, 4.43 or 4.54 as applicable, and the preserved pension benefits will be subject to pensions increase in accordance with the Pensions (Increase) Act 1971 as amended.
- (iv) The tables will be applied using the civil servant's age and the value of his preserved pension benefits, that is personal pension, lump sum and, where appropriate, widow's or widower's pension or benefits under part 4 or part 5 of section 4, at the relevant date. However, in the circumstances referred to in rules 6.15 and 6.21, the civil servant may instead exercise the option conferred by, and in accordance with, rule 6.15(ii) or 6.21(ii), whichever is appropriate.

6.11 A minimum transfer value payment may be made where the civil servant is transferring to a pension scheme or arrangement(s), other than an occupational pension scheme approved by the Treasury for the purposes of the public sector transfer arrangements. The minimum transfer value will comprise the sum of:

- (i) any transfer payment or payments previously received in respect of the civil servant concerned and which have increased the reckonable service on the basis of which the accrued pension benefits are calculated; and
- (ii) his contributions paid during service in order to secure pension benefits, but excluding any contributions in respect of benefits which would not be taken into account in the calculation of his cash equivalent transfer value.

If this amount is greater than the cash equivalent transfer value, it will be paid as the transfer value instead of the cash equivalent.

6.12 A cash equivalent transfer value may be divided into different portions and applied in different ways between the pension schemes or arrangements referred to in rule 6.8, but guaranteed minimum pension rights must be transferred to another scheme which is contracted-out under the Social Security Pensions Act 1975, as amended, to a single insurance policy or annuity contract, or, where the transfer is to a pension scheme which is not contracted-out and no other arrangement has been requested by the civil servant, by payment of a transfer premium. A sum equivalent to that premium will be deducted from the amount of the transfer value.

6.13 If the transfer value is not paid within 6 months of the relevant date, and there is no reasonable excuse for the delay, the transfer payment must be increased to the greater of the following sums:

- (i) the cash equivalent transfer value recalculated as if the date of payment had been the relevant date; or



- (ii) the cash equivalent transfer value together with interest calculated on a daily basis over the period from the relevant date up to the date of payment, at the same rate as that payable for the time being on judgment debts by virtue of section 17 of the Judgment Act 1838.

6.14 Guaranteed minimum pensions in the scheme are revalued by reference to orders issued under section 21 (Revaluation of earnings factors) of the Social Security Pensions Act 1975 as amended. Where, in accordance with paragraph 13(2)(b) of Schedule 1A to that Act, a civil servant opts on or after 1 January 1986 to have his transfer value applied to the purchase of an approved insurance policy or annuity contract, any guaranteed minimum pension benefits to be so transferred may be revalued by reference to the fixed rate.

6.15 (i) The civil servant referred to in this rule is one who has the right to have accrued benefits preserved in accordance with rule 3.11 (or 3.12, if appropriate).

(ii) The option referred to in rule 6.10 is as follows. Where a transfer value is calculated for a civil servant who falls within the scope of rule 4.22(ii) or who has opted for benefits under part 4 or 5 of section 4, any benefits based on contributions paid, including any element for widower's benefits in contributions in respect of added years bought under section 7, will not be included in the transfer value unless the civil servant so wishes, and instead

(a) he will be entitled to have the benefits purchased by the contributions paid (which may include, in the case of a widower's pension, contributions paid on or after 1 July 1987 and on or before 5 April 1988) preserved, any liability for contributions by deduction from the lump sum being cancelled; or

(b) he may opt to have preserved benefits calculated by reference to the whole of his reckonable service up to the time of transfer, the liability for contributions for deduction from the lump sum being taken into account in the calculation of the preserved personal benefits by reference to which the transfer value is calculated; and

(c) in either case, the preserved benefits will be brought into payment on the date on which they would have been brought into payment had the civil servant remained subject to part 2, 4 or 5 of section 4.

6.16 (i) To the extent that contributions due under rules 4.15, 4.16, 4.23, 4.23a, 4.48 or 4.54, as appropriate, have not been paid before the date of transfer by periodical contributions the balance will, subject to paragraph (ii) below, be deducted from the preserved lump sum before calculation of the transfer value.

(ii) If contributions due under rules 4.15, 4.16, 4.23, 4.23a, 4.48 or 4.54, as appropriate, have not been paid before the date of transfer by periodical contributions because, by reason of departmental default, the necessary sums have not been deducted from the civil servant's salary (or wages), these contributions

will be treated for the purposes of this scheme as if they had been paid but will be treated by the relevant department as an overpayment of salary.

- (iii) Contributions will not be refunded under rule 4.19 or 4.23d as appropriate where the civil servant has applied for a transfer value before leaving the civil service or before the refund has been made. However, where contributions for a widow's or widower's pension have been refunded under rule 4.19 or 4.23d, as appropriate, they may be repaid with the addition of compound interest. For the purposes of this rule a reference to compound interest means compound interest added to the relevant sum at a rate of 4% a year with yearly rests. Any repayment of refunded contributions must be made before a transfer value can be paid.

#### **Benefits not preservable under the scheme**

6.17 Where the accrued benefits may not be preserved under rule 3.11 (or 3.12 if appropriate), a civil servant, whose last day of pensionable service is on or after 6 September 1987, may require a cash equivalent transfer value to be paid to an occupational pension scheme which meets the requirements in rule 6.8(i) above provided that the conditions specified in rule 6.18 are met. Where the receiving scheme is not contracted-out, and the civil servant has a guaranteed minimum pension in relation to this scheme, a contributions equivalent premium must be paid. A sum equivalent to that premium will be deducted from the amount of the transfer value.

6.18 A transfer value will be paid under rule 6.17 only if:

- (i) the break between leaving pensionable employment in the civil service and joining the new pension scheme is not more than 12 months; and
- (ii) application for payment is made within 6 months of joining the new scheme; and
- (iii) any short service payment awarded under rule 3.17 or any ill health payment awarded under rule 3.5 has first been refunded.

The Treasury may, however, allow a longer period than the 12 months specified in (i) above in cases where it is satisfied that the break exceeds 12 months for a reason outside the civil servant's control, or because he has undertaken a period of appropriate training or education before assuming new employment.

6.19 Interest will be payable on a short-service payment or an ill-health payment which is refunded. The rate of interest will be 2 $\frac{1}{4}$ % compound for each completed 3 months of interval between the date on which the payment was made and the date on which it is refunded, except that no interest will be payable if the refund is made within 12 months of leaving the civil service.

6.20 The cash equivalent transfer value will be calculated in accordance with rules 6.10 and 6.11, except that there will be no minimum period of qualifying service for the calculation of the accrued pension benefits on which the transfer value is based. As payment can be made only to an occupational pension scheme, the transfer value cannot be divided into different portions and applied in different ways between pension schemes

and other arrangements. If payment is not made within 6 months of the relevant date, the transfer value may be increased in accordance with rule 6.13. Contributions due under rules 4.15, 4.16, 4.23a, 4.48 or 4.54, as appropriate, will be dealt with in accordance with rule 6.16.

6.21 (i) The civil servant referred to in this rule is one who meets the requirements set out in rules 6.17 and 6.18.

(ii) The option referred to in rule 6.10 is as follows. Where the transfer value is in respect of a civil servant who falls within the scope of rule 4.22(ii) or who has opted for benefits under part 4 or 5 of section 4, the benefits arising from any contributions paid, including any element for widower's benefits in contributions in respect of added years bought under section 7, will not be included in the transfer value unless the civil servant so wishes. Instead, the contributions paid (which may include, in the case of a widower's pension, contributions paid on or after 1 July 1987 and on or before 5 April 1988) will be refunded, in the same way as contributions are refunded under rule 4.19, and the civil servant will cease to be eligible for benefits under part 2, 4 or 5 of section 4. Any liability for contributions by deduction from the lump sum will be cancelled.

## PART 2 - INCOMING TRANSFERS

6.22 (i) A civil servant whose pensionable service in the civil service begins on or after 1 January 1986 may apply in writing to bring in a transfer value in respect of any earlier pensionable service within 12 months of the date on which he takes up pensionable service in this scheme or within 12 months of the date on which this section comes into operation, whichever is later.

(ii) If he exercises the option referred to in sub-rule (i), the transfer value payment must be received within the periods specified in (i), or within 6 months of the date of his application, whichever is later; except that, if the transfer value is a cash equivalent payable in accordance with Schedule 1A to the Social Security Pensions Act 1975 and if the trustees or managers of his former pension scheme fail without reasonable excuse to do what is needed to carry out what the civil servant requires of them, the transfer value may be received at a later date.

(iii) Subject to rule 2.28a, which applies in the case of a person who takes up service as a prison officer, a civil servant to whom sub-rule (i) applies will be credited with such reckonable service as is applicable to the amount of his transfer value in accordance with the incoming transfer value tables which are provided from time to time by the Government Actuary to the Treasury and which are in force on the date when the transfer value is received. However, if a civil servant applies to bring in a transfer value, and if, before the date on which the transfer value is received, amendments to the incoming transfer value tables (in force on the date of the application) have been made, the civil servant will be credited with reckonable service in accordance with whichever set of tables gives the better result having regard to rule 6.23 and to the factors applicable by virtue of rule 6.24.



- (iv) Where the transfer value relates to the civil servant's guaranteed minimum pension, the Treasury will have discretion to refuse it if, in their opinion, its amount is insufficient to meet the minimum test to be specified by the Treasury from time to time.

6.23 (i) Subject to rule 2.28a, the transfer value tables will be applied to the transfer value (irrespective of the particular benefits of the scheme making the payment) to give equal periods of reckonable service for personal pension, lump sum and (for both married and unmarried civil servants) half rate widow's or widower's pension, as appropriate.

- (ii) Where the transfer value is received on or before 31 December 1985, the length of reckonable service credited may, however, be restricted in those circumstances where the limits laid down by the Inland Revenue for approved occupational pension schemes would otherwise be exceeded. Where the transfer value is received on or after 1 January 1986, the length of the reckonable service credited will be restricted at the time of the award of a pension under this scheme if the limits laid down in rule 2.3 would otherwise be exceeded.

6.24 (i) If a civil servant to whom rule 6.22(i) applies opts to bring in a transfer value from a scheme other than one approved by the Treasury for the purposes of the public sector transfer arrangements, the adjustment for market conditions, starting pay, age, and marital status at the date of joining the scheme (to be referred to as "the joining date") will be used in applying the transfer value tables for the purposes of crediting reckonable service provided that the payment is received within a specified period starting on the joining date. For civil servants who join the scheme on or after 1 January 1986 and on or before 5 September 1987, the specified period is the period of 6 months starting on the joining date: for those civil servants who join on or after 6 September 1987, the specified period is the period of 12 months starting on the joining date.

- (ii) Where the transfer value payment is received on or after the day following the last day of the specified period referred to in (i) above, the adjustment for market conditions, age, pay and marital status at the date of receipt of the payment will be used in applying the transfer value tables.

6.25 Where reckonable service credited is less than the period actually served in the civil servant's former pension scheme, qualifying service in this scheme will be determined as follows:

- (i) where the whole of the transfer value arising from service in the former pension scheme is transferred into this scheme, the whole of the period actually served in the former scheme will count for the purposes of the qualifying period for pension benefits. However, it will not count towards the qualifying period for a short service payment under rule 3.17;

- (ii) where only part of the transfer value arising from service in the former pension scheme is transferred into this scheme, the whole of the period actually served in the former scheme will

count towards the qualifying period for the preservation of pension benefits under rule 3.11. However, it will neither count towards the qualifying period for a short service payment under rule 3.17 nor will any benefits preserved solely by virtue of service in the former scheme be enhanced under rule 3.4 or section 10. In such cases, only the reckonable service credited in respect of the transfer value brought in will count as qualifying service for the purposes of an award under rules 3.4 and 3.17 or an award under section 10.

6.26 (i) Where a person enters the civil service on or after 1 January 1986, rules 3.19 to 3.23 will not apply to any reckonable service credited in this scheme as a result of a transfer value from his former pension scheme.

(ii) In cases other than those to whom sub-rule (i) applies, modification on account of national insurance benefits will apply in accordance with paragraph 14 of appendix 11.

6.27 Where a transfer value is received from a scheme approved by the Treasury for the purposes of the public sector transfer arrangements, it will be dealt with in accordance with paragraph 11 of appendix 11.

6.28 Where a transfer value is received from a pension scheme other than a scheme to which rule 6.27 applies in respect of a civil servant whose pensionable service began on or before 31 December 1985, it will be dealt with under, and in accordance with, the rules set out in appendix 11.

### **PART 3: MIXED TRANSFER VALUES**

6.29 A civil servant whose pensionable service ends on or after 6 September 1987 who would have been entitled, had his pensionable service ended before that date, to a transfer value calculated in accordance with the rules in appendix 11, and who has served continuously since that date, may apply for a transfer value calculated in part in accordance with those rules and calculated in part in accordance with the rules in part 1 of this section (to be referred to as a "mixed transfer value") if:

- (i) subject to (iii) below, he meets the conditions for the payment of a cash equivalent transfer value specified in the rules in part 1 of this section;
- (ii) the conditions specified in the rules in appendix 11 are met;
- (iii) the accrued benefits are being transferred to an occupational pension scheme (other than one approved by the Treasury for the purposes of the public sector transfer arrangements); and
- (iv) the mixed transfer value produces a greater transfer value than one calculated entirely in accordance with part 1 of this section.

6.30 Where the conditions of rule 6.29 are met, the civil servant's reckonable service will be divided into:

- (i) that part which relates to his service on or before 5 September 1987; and
- (ii) that part which relates to his service after that date.

The pension benefits attributable to the two periods of service will be calculated by reference to pensionable pay at the date on which pensionable service ends.

6.31 The transfer value payable will therefore be:

- (i) the amount calculated in accordance with the rules in appendix 11 based on benefits in respect of the reckonable service referred to in rule 6.30(i) added to the amount calculated in accordance with the rules in part 1 of this section based on benefits in respect of the reckonable service referred to in rule 6.30(ii), if the aggregate is greater than the amount of a transfer value calculated in accordance with (ii) below; or
- (ii) the amount calculated by reference to part 1 of this section, based on the whole of the civil servant's reckonable service,

whichever is payable to meet the civil servant's requirements. Where a civil servant has an option under paragraph 3 of appendix 11, or under rule 6.10(iv), the option, if it has been exercised, will be taken into account in calculating benefits under (i) and (ii) above.

6.32 When calculating a mixed transfer value, one or more of the following matters may be taken into account, as appropriate:

- (i) where added years of pension credit are being bought by periodical contributions which began on or before 5 September 1987, the whole of the additional pension credit actually purchased on or before the date on which pensionable service ends will be added to the period of reckonable service referred to in rule 6.30(i) above;
- (ii) any guaranteed minimum pension benefits to which the civil servant is entitled will be divided between the periods of reckonable service referred to in rule 6.30(i) and rule 6.30(ii) in the same proportion that the service which gives rise to such benefits on or after 6 April 1978 and on or before 5 September 1987 bears to the service which gives rise to such benefits on or after 6 September 1987 up to the date on which pensionable service ends. Where a transfer value has been received by this scheme which includes the transfer of guaranteed minimum pension benefits, the actual service which gives rise to those benefits should be taken into account for the purposes of calculating the proportion referred to above in the following manner.
  - (a) Where the transfer value is received on or before 5 September 1987, the actual length of service in the previous scheme(s) on or after 6 April 1978 which gives rise to guaranteed minimum pension benefits should be added to the service under this scheme on or before 5 September 1987 (regardless of the amount of reckonable service that the transfer value bought in this scheme).
  - (b) Where the transfer value is received on or after 6 September 1987, the actual length of the service in the previous scheme(s) on or after 6 April 1978 which gives rise to guaranteed minimum pension benefits should be added to the

service under this scheme on or after 6 September 1987 (regardless of the amount of reckonable service that the transfer value bought in this scheme);

- (iii) where more than 6 months has elapsed between the date on which pensionable service ends and the date on which the transfer value is payable, the amount based on the period of reckonable service referred to in rule 6.30(i) will be increased by a sum of interest calculated by reference to paragraph 6 of appendix 11. No interest will be payable in respect of the amount based on the period of reckonable service referred to in rule 6.30(ii) since that amount will be calculated in accordance with rule 6.10.

#### **PART 4: OLD CASES, INTERIM TRANSFERS AND PUBLIC SECTOR TRANSFER ARRANGEMENTS**

6.33 Where transfer values are payable in respect of transfers to and from schemes which are a direct charge on the Consolidated Fund or on monies provided by Parliament, the payment and receipt of such transfer values will, subject to the agreement of the Treasury, be waived.

6.34 A transfer value may be paid in respect of a civil servant whose pensionable service ended on or after 1 June 1972 under, and in accordance with, the rules set out in appendix 11 where

- (i) his pensionable service ended on or before 31 December 1985; or
- (ii) his pensionable service ended on or after 1 January 1986 and on or before 5 September 1987 and, either
  - (a) he had insufficient qualifying service for his benefits to be preserved in accordance with rule 3.11 (or where appropriate 3.12), or
  - (b) his accrued benefits were capable of being, or were, preserved under rule 3.11 (or 3.12 where appropriate) and a transfer value calculated under this rule is of a greater amount than one calculated under part 1 of this section; or
- (iii) his pensionable service ended on or after 1 January 1986 and his accrued benefits are transferred to an occupational pension scheme approved by the Treasury for the purposes of the public sector transfer arrangements; or
- (iv)
  - (a) he was in pensionable service on 5 September 1987;
  - (b) he would have been entitled to the payment of a transfer value under, and in accordance with, the rules set out in appendix 11, but is not entitled to the payment of a cash equivalent transfer value under the rules set out in part 1 of this section; and
  - (c) he has been in pensionable service under this scheme continuously since 5 September 1987.

Cases falling within (ii)(b) or (iii) above may instead be dealt with under, and in accordance with, the rules set out in part 1 of this section.





**PART 5: MISCELLANEOUS**

6.35 For groups of persons who are transferred out of the civil service together with their work there may be paid to another scheme a transfer value of an amount to be determined by the Government Actuary instead of one calculated either by reference to the transfer value tables referred to in rule 6.10 or by reference to the transfer value tables set out in the annex to appendix 11, except that a transfer value so determined by the Government Actuary may not be paid in respect of a person who has not consented to the transfer who has accrued rights under this scheme. For groups of persons who transfer to this scheme, the Treasury may apply the rules in this section with necessary modifications to those persons if any Ministerial undertaking has been given about the pension position of such staff, or if the transfer is directly or indirectly attributable to an Act of Parliament, or if there are other special circumstances to justify exceptional treatment.

6.36 The Treasury may apply the rules of this section with necessary modifications in order to comply with the terms of any transfer arrangements concluded with the Communities Pension Scheme of the Institutions of the European Communities or an overseas pension scheme.

6.37 For the purposes of this section, "the relevant date" means the date on which pensionable service ends or the date on which the transfer value application is made, whichever is the later."

**15. Appendix 10 (Rules 7.8, 7.9, 7.16, and 7.25)**

(a) Delete the tables showing the rates of contribution in paragraphs (i) and (ii) and substitute:

"1(i). For a civil servant whose retiring age is 60, and who opts to buy added years by periodical deductions from salary on or after 6 September 1987, the following table shows the rate of contribution for each added year:

<b>Age next birthday at exercise of option</b>	<b>Contribution (excluding family benefits) %</b>	<b>Contribution for family benefits %</b>
21	0.46	0.09
22	0.47	0.09
23	0.48	0.09
24	0.49	0.09
25	0.51	0.09
26	0.51	0.10
27	0.52	0.10
28	0.54	0.10
29	0.56	0.10
30	0.57	0.11
31	0.59	0.11
32	0.62	0.11
33	0.63	0.12
34	0.66	0.12
35	0.69	0.13
36	0.72	0.13
37	0.75	0.14
38	0.79	0.15



Age next birthday at exercise of option	Contribution (excluding family benefits) %	Contribution for family benefits %
39	0.84	0.15
40	0.88	0.16
41	0.93	0.17
42	0.99	0.18
43	1.05	0.19
44	1.12	0.20
45	1.20	0.21
46	1.29	0.23
47	1.41	0.24
48	1.54	0.26
49	1.69	0.28
50	1.86	0.31
51	2.08	0.34
52	2.35	0.38
53	2.71	0.42
54	3.19	0.47
55	3.86	0.55
56	4.85	0.66
57	6.51	0.82
58	9.82	1.12

1(ii). For a civil servant whose retiring age is 60 and who opts to buy added years by a lump sum payment on or after 6 September 1987 the following table shows the rate of contribution for one added year for each £100 of pensionable pay:

Age next birthday at exercise of option	Contribution (excluding family benefits) £	Contribution for family benefits £
21	22.40	4.40
22	21.70	4.30
23	21.10	4.20
24	20.50	4.10
25	20.00	4.00
26	19.60	3.90
27	19.20	3.80
28	18.90	3.70
29	18.60	3.60
30	18.30	3.50
31	18.00	3.50
32	17.80	3.40
33	17.60	3.40
34	17.40	3.40
35	17.30	3.40
36	17.30	3.30
37	17.20	3.30
38	17.20	3.30
39	17.20	3.30
40	17.30	3.30
41	17.30	3.30

Age next birthday at exercise of option	Contribution (excluding family benefits) £	Contribution for family benefits £
42	17.40	3.30
43	17.60	3.30
44	17.80	3.30
45	18.00	3.30
46	18.20	3.30
47	18.50	3.30
48	18.80	3.30
49	19.10	3.30
50	19.40	3.30
51	19.60	3.30
52	19.80	3.30
53	20.00	3.30
54	20.10	3.30
55	20.30	3.20
56	20.40	3.20
57	20.60	3.10
58	20.80	3.00
59	21.00	2.90
60	21.20	2.80

(b) In paragraph 2 after "his" (two places) insert "or her".

(c) Delete paragraph 3 and substitute the following:

"3. If part 1 or part 2 of section 4 applies to the civil servant, and the civil servant is married, the contribution for family benefits in the final column of the table in paragraph 1 will be payable in addition to the contribution in the second column. A male civil servant to whom Part 1 of section 4 does not apply in respect of service before 6 April 1978 will pay the contribution in the second column of the table only. If part 1 of section 4 applies to a male civil servant, and he is unmarried and he opts before 6 April 1978 to buy added years, he may pay either the contribution in the second and final columns of the table (in which case he will be covered for widow's pension for the added years bought) or only the contribution in the second column; if he opts for the latter, and subsequently gets married while still in service, he will be eligible for a widow's pension for the added years bought but the lump sum under section 3 will be reduced by 3/80ths of pensionable pay for each added year. If he is unmarried and opts on or after 6 April 1978 to buy added years, the contributions for family benefits must be paid. A female civil servant who opted on or before 30 June 1987 to purchase added years and to whom part 2 of section 4 did not apply will not pay the family benefit contribution unless she opts to do so under Rule 7.23."

(d) In paragraph 4 delete "fourth" in the penultimate sentence and substitute "final".

(e) Delete paragraph 5 and substitute:

"5. If a male civil servant who opted on or after 6 April 1978 or a female civil servant who opted on or after 6 April 1988 to buy added

years is unmarried at the time he or she dies or leaves the civil service, any contributions for family benefits which he or she has paid will be treated in the same way as contributions under rule 4.16(ii) and 4.23a(ii) respectively and will be subject to the same conditions governing refunds as are laid down for those contributions in rule 4.19 and 4.23d respectively. Where appropriate, lump sum payments will be apportioned as in paragraph 4(ii) above."

(f) In the first sentence of paragraph 6 between "a" and "civil servant" insert "male".

(g) After paragraph 6 add the following:

"7. Where a female civil servant marries after leaving the civil service, rule 4.21c provides that the widower's pension will be based only on reckonable service occurring on or after 6 April 1988. For the purposes of that rule, added years will not be treated as being reckonable service occurring on or after 6 April 1988 if the civil servant opts to buy added years before 6 April 1988."

This provision shall have effect from 6 September 1987.

## 16. Appendix 11

Delete "(Rules 6.3 and 6.9)" after APPENDIX 11 and insert "(Rules 6.1, 6.23, 6.29, 6.32 and 6.34)

Transfer arrangements for civil servants in post from 1 June 1972 to 31 December 1985; and, in certain circumstances, for civil servants in the interim period and for transferees under the public sector transfer arrangements; and for the purposes of calculating a mixed transfer value.

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### Outgoing transfers

1. A person leaving pensionable employment in the civil service on or after 1 June 1972 may apply for a transfer value to be paid to his new pension scheme provided the scheme is approved for this purpose by the Inland Revenue and is prepared to accept the transfer value. However, where a person whose pensionable employment in the civil service ends on or after 6 April 1978 has a guaranteed minimum in relation to this scheme, a transfer value may be paid to a scheme which is not contracted-out under the Social Security Pensions Act 1975 in relation to such person's new employment only if a contributions equivalent premium has been paid. (Formerly Rule 6.1.)

2. Transfer values will not be paid in respect of service for which pension or annual compensation payments have been brought into payment under the provisions of Sections 3 and 10. They will be paid in other cases only if

(i) where a civil servant has less than five years' qualifying service

(a) the break between leaving pensionable employment in the civil service and joining the new pension scheme is not more than twelve months; and

(b) application for payment is made within six months of joining the new scheme, or within six months of the introduction of these rules if that is later, and



- (c) any short-service payment awarded under rule 3.17 or any ill-health payment awarded under rule 3.5 has first been refunded, or
- (ii) where a civil servant has preserved pension benefits awarded under rule 3.11
  - (a) application for payment is made within six months of joining his new scheme; or
  - (b) application is made within six months of being notified that his new scheme, although initially unable to take a transfer value, will, after all, accept one.

The Treasury may, however, allow a longer period than the twelve months specified in i(a) above in cases where it is satisfied that the break exceeds twelve months for a reason outside the civil servant's control, or because he has undertaken a period of appropriate training or education before assuming new employment. (Formerly rule 6.2.)

3. The transfer value will be calculated according to the transfer value tables given in the annex. The tables will be applied using the civil servant's age when he left the civil service and his preserved pension benefits at that date; ie personal pension, lump sum and where, and as appropriate, widow's pension or, after 1 January 1986, widower's pension and any benefit under part 4 or 5 of section 4. The preserved pension benefits will be calculated under rule 3.11 or 3.12 (whichever is appropriate) and rule 4.6 or rule 4.21c, or rules 4.43 or 4.54, as appropriate, except that there will be no minimum period of qualifying service. Where the transfer value tables do not contain factors relating to the benefit to be transferred ie a widower's pension or a benefit under part 4 or 5 of section 4, the factors to be used will be those which are provided from time to time by the Government Actuary's Department to the Treasury and which are in force at the date of the transfer. However, in certain cases, the civil servant may instead exercise the option conferred by, and in accordance with, paragraph 4. (Formerly rule 6.3.)

4. The option referred to in paragraph 3 is as follows. Where a transfer value is calculated for a civil servant who falls within the scope of rule 4.22(ii) or who has opted for benefits under part 4 or 5 of section 4, any contributions paid, including any element for widower's benefits in contributions for added years under section 7, will not be included in the transfer value unless the civil servant so wishes but will be treated as follows:

- (i) where the qualifying service is less than 5 years, any contributions paid will be refunded, in the same way as contributions are refunded under rule 4.19, and the civil servant will cease to be eligible for benefits under part 2, 4 or 5 of section 4. Any liability for contributions by deduction from the lump sum will be cancelled.
- (ii) where the qualifying service is 5 years or more, and the civil servant has paid contributions in respect of service before 6 April 1975 and in respect of service of less than 5 years after 5 April 1975, and he opts for a refund of all contributions paid, the contributions will be refunded to him in the same way as contributions are refunded under rule 4.19 and he will cease to be eligible for benefits under part 2, 4 or 5 of section 4. Any liability for contributions by deduction from the lump sum will be cancelled.



- (iii) in any other case, the civil servant will be entitled to have the benefits purchased by the contributions paid preserved, any liability for contributions by deduction from the lump sum being cancelled. Alternatively, he may opt to have preserved benefits calculated by reference to the whole of his reckonable service up to the time of transfer, the liability for contributions for deduction from the lump sum being taken into account in the calculation of the preserved personal benefits by reference to which the transfer value is calculated. In either case, the preserved benefits will be brought into payment on the date on which they would have been brought into payment had the civil servant remained subject to part 2, 4 or 5 of section 4. (Formerly rule 6.4.)
5. (i) To the extent that contributions due under rules 4.15, 4.16, 4.23, 4.23a, 4.48 or 4.54, as appropriate, have not been paid before the date of transfer by periodical contributions the balance will, subject to paragraph (ii) below, be deducted from the preserved lump sum before calculation of the transfer value.
- (ii) If contributions due under rules 4.15, 4.16, 4.23, 4.23a, 4.48 or 4.54, as appropriate, have not been paid before the date of transfer by periodical contributions because, by reason of departmental default, the necessary sums have not been deducted from the civil servant's salary (or wages), these contributions will be treated for the purposes of this scheme as if they had been paid but will be treated by the relevant department as an overpayment of salary.
- (iii) Contributions will not be refunded under rule 4.19 or 4.23d, as appropriate, where the civil servant has applied for a transfer value before leaving the civil service. However, where contributions for a widow's or widower's pension have been refunded under rule 4.19 or 4.23d, as appropriate, they may be repaid with the addition of compound interest. For the purposes of this rule a reference to compound interest means, in a case where the repayment is made before 6 April 1978, compound interest added to the relevant sum at a rate of 3% a year with yearly rests and, in a case where the repayment is made on or after 6 April 1978, compound interest added to the relevant sum at a rate of 4% a year with yearly rests. Any repayment of refunded contributions must be made within the time limits described in paragraph 2. (Formerly rule 6.5.)
6. (i) A transfer value paid before 1 April 1979 will be increased by 6% compound interest for each completed year of interval between the date of leaving the civil service and the date of payment of the transfer value.
- (ii) A transfer value paid on or after 1 April 1979 will be increased by
- (a) 6% compound interest for any completed year of interval between the date of leaving the civil service and 1 April 1977, and
- (b) 2½% compound interest for each completed three months of interval between 1 April 1977 or the date of leaving the

civil service, whichever is the later, and the date of payment of the transfer value; except that no interest will be added to a transfer value paid within 6 months of the date of leaving the civil service. (Formerly rule 6.6.)

7. Where a civil servant is in the process of buying added years of pension credit, only the added years he has actually bought in by the time of transfer will reckon for the purpose of the calculation of his preserved pension benefits (and thus his transfer value). (Formerly rule 6.7.)

8. No interest is payable on a short-service payment refunded before 1 August 1984. Interest at the rate specified in paragraph 6(ii)(b) will be payable on a short-service payment or an ill-health payment refunded on or after 1 August 1984, except that no interest will be payable if the refund is made within twelve months of leaving the civil service. (Formerly rule 6.8.)

### **Incoming transfers**

9. Subject in the case of a person who takes up service as a prison officer to rule 2.28a, a person taking up pensionable employment in the civil service on or after 1 June 1972 and who brings with him a transfer value from his former pension scheme will be credited with such reckonable service as, according to the transfer value tables given in the annex, corresponds to the amount of the transfer value received. Where the transfer value relates to his guaranteed minimum the Treasury will have discretion to refuse it if, in their opinion, its amount is inadequate to cover that liability. (Formerly rule 6.9.)

10. Subject to rule 2.28a, the transfer value tables will be applied to the transfer value (irrespective of the particular benefits of the scheme making the payment) to give equal periods of reckonable service for personal pension, lump sum and (for both married and unmarried men) half rate widow's pension. The length of reckonable service credited may, however, be restricted in those circumstances where the limits laid down from time to time by the Inland Revenue for approved occupational pension schemes would otherwise be exceeded. (Formerly rule 6.10.)

11. Subject to rule 2.28a, where a transfer value is received from a scheme approved by the Treasury, the pensionable pay and age in the old scheme at the time of leaving that scheme will be used for calculating reckonable service to be credited. Pensionable pay is the pay used by the old scheme in the calculation of the transfer value but shall be increased by the amount of any salary disregard in respect of national insurance modification. Interest added to the transfer value will be ignored in using the transfer value tables. (Formerly rule 6.11.)

12. Where a transfer value is received from a scheme other than one of those referred to in paragraph 11 the starting pay and age on joining the civil service will be used in applying the transfer value tables for the purpose of crediting reckonable service. If, however, a transfer value is received more than twelve months after the person took up pensionable employment in the civil service the pay and age on the date the transfer value is received will be used in applying the transfer value tables; any interest element in the transfer value will not be distinguished from the rest of it. (Formerly rule 6.12.)

13. Where service credited is less than service actually served in the old scheme, the previous service will count as to its actual length for the purpose of the five year qualifying period for pension benefits. (Formerly rule 6.13.)

14. (i) Where a person enters the civil service before 1 April 1980, service credited in the scheme by means of a transfer value received from a scheme referred to in paragraph 11 will be subject to modification as described in rules 3.19 to 3.23 as if the service had been service as a civil servant, except where the transferee came from such a scheme and his pension was unmodified in respect of flat-rate national insurance pension or basic social security pension in that scheme for the whole of his service. In that case, the reduction under rule 3.19 will not apply. If the transferee came from such a scheme with flat-rate modification at a rate of £1.70 (or its equivalent) and was unmodified for part of his service in that scheme the reduction under rule 3.19 will apply only to the equivalent proportion of his reckonable service credited under this scheme (see rule 3.20(ii)).
- (ii) Where a person enters the civil service before 1 April 1980, service credited in the scheme by means of a transfer value received from a scheme other than one referred to in paragraph 11 will be modified under rule 3.19.
- (iii) Where a person enters the civil service on or after 1 April 1980, rules 3.19 to 3.23 will not apply to any reckonable service credited in this scheme as a result of a transfer value from his former pension scheme. (Formerly rule 6.14.)

#### **Miscellaneous**

15. The provision of this section shall not affect the operation of the provisions of appendix 12 in their application to a person who has left the civil service and for whom a transfer value has been paid before 3 May 1973 or to a person who has entered the civil service and for whom a transfer value has been received before that date. (Formerly rule 6.15.)

16. Where, in respect of a transfer which took place before 1 July 1978, a transfer value is paid to, or received from, a scheme still operating the provisions of appendix 12 the transfer will be dealt with by reference to those provisions. A person transferring to such a scheme before that date may, however, apply to have his pension benefits preserved and converted to a transfer value when the receiving scheme introduces transfer arrangements similar to these rules. (Formerly rule 6.16.)

17. Transfers to and from schemes which are a direct charge on the Consolidated Fund or on monies provided by Parliament will be dealt with on the basis described in paragraphs 1 to 14 but subject to the arrangements of the Treasury the payment and receipt of transfer values will be waived. (Formerly rule 6.17.)

18. A transfer value will not be paid in respect of service for which a pension, gratuity or annual compensation payment has become payable under this scheme. (Formerly rule 6.18.)

19. For groups of persons who are transferred out of the civil service together with their work there may be paid to another contracted-out scheme a transfer value of an amount to be determined by the Government Actuary instead of one calculated by reference to the transfer value tables given in the annex, except that a transfer value so determined by the Government Actuary may not be paid in respect of a person who has not consented to the



transfer of his accrued rights under this scheme. For groups of persons who transfer to this scheme, the Treasury may apply these rules with necessary modifications to those persons if any Ministerial undertaking has been given about the pension position of such staff, or if the transfer is directly or indirectly attributable to an Act of Parliament, or if there are other special circumstances to justify exceptional treatment. (Formerly rule 6.19.)

20. The Treasury may apply these rules with necessary modifications in order to comply with the terms of any transfer arrangements concluded with the European Communities or an overseas pension scheme. (Formerly rule 6.20.)

21. Guaranteed minimum pensions in the scheme are revalued by reference to orders issued under section 21 (Revaluation of earnings factors) of the Social Security Pensions Act 1975. Where, in accordance with paragraph 13(2)(b) of Schedule 1A to the Social Security Pensions Act 1975, a civil servant opts on or after 1 January 1986 to have his transfer value applied to the purchase of an approved insurance policy or annuity contract, any guaranteed minimum pension benefits to be so transferred may be revalued by reference to the fixed rate.

ANNEX (paragraphs 3 and 9)  
(Formerly appendix 11)".

17. **Appendix 12**

Delete "(Rule 6.16)", and substitute "(paragraph 16 of appendix 11)".

## EXPLANATORY MEMORANDUM

Amendments 1 and 2. These provide for definitions of terms to be used in connection with the new section 6 on transfers provided for by amendment 14.

Amendments 3, 5 to 10, 13 and 17. These amend various references in the rules to section 6 of the principal scheme which is being replaced by a new section.

Amendment 4. This amendment provides for a reference to regulations which amend the Superannuation (Public Office) Rules 1967.

Amendment 11. This amendment corrects a reference made in the Amendment Scheme laid before Parliament on 30 June 1987.

Amendment 12 (a) and (b). These are clarifying amendments.

Amendment 14. This amendment replaces the existing section 6 on transfers in the principal scheme with one which has been revised to bring the arrangements for civil servants into line with the provisions of the Social Security Act 1985 which amends the Social Security Pensions Act 1975.

Part 1 provides for the payment of transfer values in respect of civil servants leaving pensionable employment under the principal scheme on or after 1 January 1986, equivalent to the value of the benefits accrued in the principal scheme. It provides for the method of calculation and for the provision of tables of transfer value factors by the Government Actuary's Department from time to time on which to base the individual calculations. The calculations include an adjustment for market conditions. Where accrued benefits would otherwise be preserved in the principal scheme for payment at the retiring age, it also provides that the transferee may determine how the cash equivalent is used in accordance with the provisions of the 1985 Act and the regulations made under it. Where the accrued benefits are not preservable under the principal scheme, the section provides for a transfer value to be paid to another occupational pension scheme.

Part 2 provides for those joining the civil service on or after 1 January 1986 who wish to bring with them a transfer value. It provides for the calculation of a credit of reckonable service in the principal scheme by reference to tables of transfer value factors prepared from time to time by the Government Actuary's Department. The calculation includes an adjustment for market conditions.

Part 3 provides for civil servants in post at the date of introduction of this scheme to have a transfer value which takes into account their entitlement under the arrangements in force up to 5 September 1987.

Part 4 makes miscellaneous provisions which include the waiving of the payment of transfer values where transfers are to and from pension schemes which are a direct change on the Consolidated Fund; transitional powers governing the period from 1 January 1986 to the date of this scheme, for transfers to and from members of the public services transfer club; and a residual power to pay transfer values under the arrangements in force up to 5 September 1987, in respect of staff in post at that time but who are not eligible for a transfer value under part 1.

Part 5 makes miscellaneous provisions which include the bulk transfer of groups of people transferred into or out of the civil service; and transfers to the European Communities or an overseas pension scheme.

Amendment 15. This amendment provides for tables giving revised rates of contributions and for changes to the arrangements for purchasing added years following the introduction of widowers' pensions in the Amendment Scheme laid before Parliament on 30 June 1987.

Amendment 16. This amendment enables the rules on transfers contained in the old section 6, replaced by Amendment 14, to become part of appendix 11 of the principal scheme so that those rules may continue to be applied in accordance with rule 6.1(iv).

*mp*  
MANAGEMENT IN CONFIDENCE

FROM T R H LUCE  
2 December 1987  
Room 55/G  
Ext 4544

PAYMASTER GENERAL

cc Chancellor  
Chief Secretary  
Financial Secretary  
Economic Secretary  
Sir P Middleton  
Mr Anson  
Miss Mueller  
Mr A Wilson  
Mr Kemp  
Mr C W Kelly  
Miss Peirson  
Mr Dixon  
Mr Gieve  
Miss Noble  
Mr D Pain  
Mr Rayson  
Mr Corcoran  
Mr Sheridan  
Mr Cropper  
File A  
File B

**CIVIL SERVICE PENSION SCHEME AND THE SOCIAL SECURITY ACT 1986  
PERSONAL PENSIONS AND ADDITIONAL VOLUNTARY CONTRIBUTIONS**

1 Mr Fowler's pension reforms, and the Social Security Act 1986 which reflects them, require changes and innovation in all occupational pension schemes.

2 In his attached submission, Mr Pain invites you to consider proposals for changing the Civil Service pension scheme:

- (i) in consequence of the personal pension and certain other provisions of the 1986 Act
- (ii) to introduce additional voluntary contributions.

The issues for decision are summarised in Mr Pain's paragraph 24.

3 On personal pensions, the main decision - the minimum employer contribution - has already been taken and was endorsed this morning



by 'H' Committee. The remaining issues are second order. They do not have significant expenditure effects. Neither should the proposals for additional voluntary contribution facilities which we propose should be contracted-out through a mechanism designed to keep the flows of contributions and benefits out of the public expenditure system and to minimise the Government's contingent liability.

4 There will be some inescapable administration costs here and in departments, though Mr Pain's proposals keep them as low as possible. We warned departments about this before the end of the 1987 Survey.

#### Personal Pensions etc

5 I support Mr Pain's proposals (summarised in paragraph 24(a)).

6 I am sure it is right to give personal pension optants one subsequent option to join or rejoin the Civil Service scheme, even though the Act does not require it. We could not have people hopping in and out of the scheme at will; but any who opt out may do so on an expectation of job mobility which proves unrealistic. And though the minimum employer contribution is perfectly justified, it would be harsh to prevent people reversing a choice (perhaps made when young and footloose) which could deprive them of a large part of the contribution that their employer could make to their retirement benefits.

#### Additional Voluntary Contributions (AVCs)

7 Choice of Facilities. The three facilities Mr Pain suggests - better death and ill-health benefits and a general "money purchase" facility - are well chosen. All three would be at the individual's cost and option though within the Inland Revenue's limits he would get tax relief on his contributions.

8 Our level of death and ill-health benefits are below those in most occupational schemes. Offering AVC facilities to enhance

them at the individual's cost reduces the likelihood of our being forced in due course to improve them for everyone at the Government's cost; and enables the individual to get tax relief on what are in reality forms of insurance cover that would not otherwise attract it. The general money purchase facility will provide a flexible form of top-up for gaps between the scheme's benefits and the Inland Revenue ceilings enabling people to make extra contributions (including for deficits in past service) variably to reflect what they can afford in any given year.

9 Method of Provision. Inviting private financial institutions to tender for the provision of these facilities, as Mr Pain proposes, is the sensible course though it may possibly attract criticism in quarters where the phrases "contracting-out" and "the private sector" generate heat. If so, the critics' argument would be that the 1986 Act provides for two sorts of AVC - "Free-standing" private market facilities, which individuals can take up directly without the mediation of their occupational schemes, and "in-scheme" facilities arranged by their occupational schemes. Contracting-out the "in-scheme" facilities, when the main scheme benefits (including the present added years facility) are financed and administered by the Government as employer is, they might say, an evasion of responsibility probably based on a doctrinaire preference for private provision.

10 But most occupational schemes which now have AVCs (as many in the private sector already do) contract them out. AVCs are optional and will in practice be taken up by a minority of scheme members. AVC benefits depend on the accumulation of the individual's actual contributions and will not be dynamised by contributors' future salary movements; and there will be no employer contribution. It is therefore difficult for funded occupational schemes to use their main scheme funds for AVCs, and they face a choice between setting up and managing a special fund for the purpose or contracting with a large commercial pension provider. Contracting-out to an external provider will usually be the sensible choice, if only because the number of voluntary contributors even in a large scheme would not be enough to provide

for a decent spread of investment risk or an economical amortisation of the administrative overhead.

11 For the Civil Service - where the main benefits are not funded or even notionally funded - setting up and managing a special fund would create other problems. If "HM Treasury's Civil Service Supplementary Pension Investment Fund" performed well we should be accused of insider dealing; if badly, of incompetence. Nor would it be attractive to finance these benefits, like those of the main scheme, on a "pay-as-you-go"/average investment return basis. We should not want either contributions or benefits to pass through the public expenditure system; and contributors should prefer the value of their benefits to be settled by the external and independent market, not determined by whatever Government happened to be in power at the time of their retirement.

12 We are convinced that contracting-out is right from every point of view. If we sufficiently emphasise the economies of scale that contributors should benefit from, the staff interests will almost certainly accept it too.

13 Method of Selecting Providers. The three-tier process for assessing providers' claims is designed to bring to bear appropriate expertise; give the staff interests an appropriate role; but reserve the final decision to the Treasury as statutory manager of the pension scheme. All three elements are important, if only because a poor choice of provider could imply some contingent liability for the Government and we would need to be able to show, in the fairly unlikely event of very poor provider performance, that staff interests had had a role and that expert advice was properly sought. It is partly with this in mind that we are considering including an outside "assessor" as well as a nominee of the GAD in the assessment panel. I am in favour of doing so myself if we can quickly enough find someone suitable (e.g. a pension consultant, or an occupational scheme manager with experience of this kind of operation). But there is likely to be some objection from the Government Actuary.

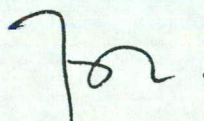
14 Abatement and Forfeiture. AVC benefits will be paid for entirely by their contributors, and will be optional. The existing "added years" facility has the same characteristics; but the extra service, once purchased, is treated as indistinguishable from the main service benefits of the scheme. For that reason, added-year benefits are liable to abatement on re-employment and forfeiture on conviction for espionage or serious crimes judged to bring the public service into disrepute.

15 If, as we propose, the new AVCs are financed through and largely administered by the private market, we do not think that either provision should apply.

Other Ministers and Public Service Schemes

16 Other Ministers have an interest in these AVC developments as employers of Civil Servants; and some of them because they are responsible for other public service pension schemes. At present, work on the development of AVCs in other public service departments seems to be going a little slowly.

17 When you have considered these Civil Service proposals, you may want to write to Cabinet colleagues summarising what is intended in terms likely to prompt other public service Ministers to ask their departments about progress in their schemes. We will let you have a draft, but think it would be diplomatic to warn the other departments first.



T R H LUCE