



Employer Pensions Notice

EPN199

Pension reform: introduction of partial retirement

Audience This notice will be of particular interest to HR Managers and staff responsible for:

- pension issues and liaison with your pensions administrator
- policy on flexible working arrangements and workforce planning
- administration of HR processes.

Action

- Note the introduction of partial retirement on 1 March 2008
- Study the guide for employers and step by step process chart
- Introduce a process for handling enquiries and applications from employees for job reshaping, considering what timescales would be appropriate for the steps involving HR.

Timing Immediate

Background

1. EPNs 177 and 186 (and associated Q&A) gave details of the introduction of partial retirement for **classic**, **classic plus** and **premium** members from 1 March 2008. Partial retirement enables staff who reduce their pensionable earnings by at least 20% (by reshaping their job through a reduction in working hours and/or level of responsibility) to take some or all of the pension they have built up, while continuing to work.
2. Partial retirement is intended to facilitate a gradual move from work to retirement and can potentially have considerable business benefits. It is likely to attract significant interest from staff, and you will need to put in place arrangements to deal with enquiries and with applications for job reshaping. In particular, you will want to consider what timescales would be appropriate for the steps in the process which involve HR.



3. Guidance for employers was issued to HR Directors in HR Directors' Bulletin No.16 on 19 November 2007. A further copy of the guidance is attached to this EPN together with a step by step process chart which highlights the actions you will need to take at various stages. Please note that your APAC will not be able to begin processing applications for partial retirement quotes until February 2008. Until that time, you should address any general enquiries about the new arrangements to our Employer Helpdesk rather than your APAC.

4. We will send you a further EPN in January when we amend the Principal Civil Service Pension Scheme rules to include the partial retirement provisions. Attached to the EPN will be a newsletter for you to send to your staff announcing the introduction of partial retirement. We will also make available a booklet, "Partial retirement – a guide for scheme members" (which will include an application form), and a calculator to help individuals understand the possible effect of partial retirement on their income during their transition to retirement and on their final pension. These will be available mid January.

Reference This document refers to EPN177 and EPN186.

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You can find electronic copies of the EPG, all current EPNs and forms on our website

www.civilservice-pensions.gov.uk in the Guidance for employers section.

Partial retirement: a guide for employers

Summary

Partial retirement, whereby staff who reshape their job (with the agreement of their employer) can take some or all of their pension and pension lump sum, is a provision available to members of **nuvos** and is being introduced for **classic**, **classic plus** and **premium** members from March 2008. This note explains how the facility will work and outlines some of the potential benefits for employers. It distinguishes between the employment and pension aspects of the new arrangements, and describes the actions which employers will need to take.

Partial retirement - what is it?

Partial retirement (also known as flexible or phased retirement) enables staff who reduce their pensionable earnings by at least 20% (by reshaping their job through a reduction in working hours and/or level of responsibility), to take some or all of the pension and pension lump sum they have built up, while continuing to work.

Historically (with a few very limited exceptions), staff have only been able to take their pension when they finally retire. This was partly due to the tax rules relating to pensions and partly due to the fact that allowing staff to take pension before retirement involves a cost to the pension scheme. However, the tax rules now allow partial retirement and, following consultation with Civil Service employers and the Council of Civil Service Unions, it is being introduced in the Civil Service from 1 March 2008 as part of a wider package of pension reform. From that date, "formal retirement", whereby certain **classic** members could retire, take their pension lump sum, be immediately re-employed and remain in **classic**, will no longer be available (except to "pre-Fresh Start prison officers").

What are the potential benefits to the employer?

Partial retirement is intended to facilitate a gradual move from work to retirement. Cabinet Office consulted Civil Service employers in April 2007 about the benefits of partial retirement ([HR Directors' Bulletin No.1 of 23 April 2007](#)), and feedback received indicates that offering staff the opportunity to take partial retirement will provide employers with considerable business benefits. These benefits will flow from job reshaping. But, since such changes have to be voluntary on the part of the individual, it is the availability of pension benefits on partial retirement which will make them affordable to many employees for the first time.

Job reshaping allows you to retain skilled and experienced staff who would otherwise leave the workforce entirely, and therefore reduce or defer recruitment costs. Furthermore, by allowing older staff to find a better work/life balance in the run up to final retirement, it can raise morale, decrease absenteeism and result in a more diverse workforce.

“There is clearly a problem to be addressed with an ageing workforce in their later years of service. The ‘cliff edge’ constraints that presently exist are not conducive to getting the best from employees in the approach to retirement and results in many requests to leave the Service early. Such arrangements result in a serious loss of valuable expertise.... Partial retirement will allow the retention of staff who have decided for one reason or another (especially for compassionate/domestic reasons) that they cannot continue to work full-time. This would have a twofold benefit allowing the employer to retain the skills and experience of the individual, and for the employee the ability to have a better work-life balance.” **(HR, Scottish Government)**¹

Job reshaping can also help you tackle headcount and running cost pressures, and to make space to bring on talent, whilst still retaining valuable expertise and avoiding redundancies.

“Recent statistics show that 64% of our staff reaching age 60 carried on working and 49% of those reaching age 65 similarly continued to work. Some staff leave within a short time of reaching age 60 or 65, but most do not. It is likely that partial retirement would encourage many of those who stay on, to do so on a part-time basis. This is particularly important as we have to achieve resource efficiencies and now have no retirement age.” **(HR, HM Revenue & Customs)**

Job reshaping – what obligations does the employer have?

Your primary responsibility is at the start of the partial retirement process – handling applications from employees who want to reshape their jobs and deciding, in the light of your business needs, whether the reshaping should take place. The obligations described in this section all relate to this. If an employee meets the criteria in the pension scheme rules for payment of their pension on partial retirement, you have no involvement in deciding whether it should be paid, or in advising what working pattern will give them the best pension outcome. Your potential role in the pension process is described below in the section entitled “How will the procedure of applying for pension on partial retirement work?”

Providing information to staff

Employees will be aware of the introduction of partial retirement from newsletters about pension reform that you will have issued and from publicity from the trade union side. Guidance for scheme members will be available from January 2008. You will need to consider what information you provide about the opportunities for job reshaping and about the process for applying. As well as using standard means of communication such as the intranet and staff handbooks to provide information, you may wish to consider using pre-retirement courses and performance review discussions for those approaching pension age.

¹ From the response of HR Division, Scottish Government to Cabinet Office’s consultation with Civil Service employers on partial retirement, April 2007

You should draw the attention of anyone who expresses an interest in job reshaping to information about pensions available at www.civilservice-pensions.gov.uk. A booklet entitled “Partial retirement – a guide for scheme members” and a calculator to help individuals understand the possible effect of partial retirement on their income during their transition to retirement and on their final pension, will be available from January 2008. If they want information about how much pension they have already built up, they should refer to their most recent annual benefit statement.

A process for dealing with enquiries, applications and complaints

You will need to introduce and publicise a process for handling enquiries and applications from employees about reshaping their jobs, whether the individuals intend to take their pension or not. The application form relating to pension on partial retirement (from the booklet “Partial retirement – a guide for scheme members” or from the Civil Service Pensions website) should be used in all cases to kick off the process of an employee being given information about the availability of pension, but it does not place any obligation on the individual to take any pension. You may therefore wish to use the application form to formalise applications for job reshaping generally. You will also need to decide who you permit to authorise the application form – that is, whether it will be the line manager, HR or some other person.

Some individuals who have applied to reshape their jobs but been turned down may wish to complain. You will need to consider, with employee representatives, whether there should be any formal complaints or appeals procedure.

Management of employees whose jobs are reshaped

You will need to consider ways of providing reassurance to staff considering job reshaping and to their line managers. Employees will need to feel comfortable about job reshaping and any perceived reduction in their status, and line managers will need to address any negative assumptions they have about the capability of such employees. Taking time to develop communications and procedures with both managers and employee representatives should assist with producing positive engagement from all parties. Effective performance management systems for all staff, underpinned by robust appraisal processes should also counteract concerns of line managers about what to do if the staff concerned are underperforming.

Setting and managing expectations

It is important that you set and manage expectations about job reshaping so that employees are not given the impression that it will happen automatically on request. Examining the demographics of the organisation may assist you in foreseeing the number of possible requests that might arise from staff in any one period.

Employers must consider applications for job reshaping in the light of their business needs. The Cabinet Office guidance for employees makes it clear to them that they do not have a right to demand changes to their jobs, that they can only reshape their job with the agreement of their employer, and that it may not be possible for the employer to agree. Again, it is important that you discuss this issue with employee representatives.

Flexible working and the law

You should note, however, that there are some categories of staff who have a legal right to request to work flexibly. Flexible working in this context includes part-time working, which is one of the ways that an employee can meet the criteria for partial retirement. The Employment Act 2002 and the Work and Families Act 2006 enable parents with a child under age 6 or a disabled child under age 18, or carers of adults, to make a request for flexible working, and place a duty on employers to consider such requests seriously and only reject them for good business reasons.

Although many of those who apply to you for job reshaping may not have a legal right to request to work flexibly, it is likely that employee representatives will make strong representations to you that you should treat all applications for job reshaping consistently regardless of the circumstances.

What triggers eligibility for pension on partial retirement?

If someone (whether working full-time or part-time) reshapes their job so that their pensionable earnings reduce by at least 20% and they are over minimum pension age (50, or 55 for those who joined on or after 6 April 2006), they meet the criteria for partial retirement.

The individual can then choose (but is not obliged) to draw some or all of the pension and pension lump sum they have built up. If they draw their pension before pension age, it will be reduced for early payment (partial retirement is not available in conjunction with the approved, compulsory or flexible early retirement provisions).

Any pension drawn will be subject to abatement. Abatement applies if pension drawn plus the individual's new pay is bigger than their "salary of reference" (normally actual pensionable earnings in the preceding 12 months, but if the person's "best year" was not their final one, it could be based on a different period).

The individual can continue building up more pension until their final retirement (subject to overall limits on maximum pension).

Example:

Beth is 61 and agrees with her employer to move from full-time working to 3 days per week. Beth's full-time salary is £20,000 and her

part-time salary will be £12,000. Beth has built up an annual pension of £10,000 (based on 40 years' service) in **classic** but Beth realises that any pension drawn over £8,000 a year will be abated. Because she is over pension age, she can draw pension without it being reduced for early payment. Beth decides to draw £8,000 pension a year (and a lump sum of £24,000), which represents 32 years' service.

Beth has 8 years' reckonable service left and this, combined with her reckonable service in her part-time job, will build up further pension and lump sum in **classic**, which Beth will take when she finally retires.

There are further examples in the booklet, "Partial retirement – a guide for scheme members" (available from January 2008).

The reduction in pensionable earnings must be due to job reshaping, and the expectation at the time must be that it will continue until final retirement (there is no problem with earnings increasing with normal pay rises during that period). A contrived temporary reduction, for example, will not trigger eligibility for pension. Cabinet Office will monitor how partial retirement is being used, and may modify the arrangements if they are not working as intended; namely, to facilitate gradual transition from work to retirement.

How will the procedure of applying for pension on partial retirement work?

Time limits

Employees can make applications from 1 February 2008 to draw pension on partial retirements (job reshaping) taking place from 1 March 2008 onwards. They can apply before job reshaping has taken place but no later than three months afterwards (that is, no later than three months after the reduction in pensionable earnings of at least 20% has occurred). Pension will be payable from the date of job reshaping, so arrears of pension will normally be due.

Concession for those who have already reshaped their job after reaching pension age

There has been interest in partial retirement from people who reached pension age and then reduced their working hours or level of responsibility before 1 March 2008. Provided that their pensionable earnings reduced by 20% when they reshaped their job, these people can also apply to take some or all of their pension. It does not matter how long ago the relevant pay reduction took place or whether the pay reduction was cumulative following more than one change to the job over time. However, the reduction must have occurred after the individual had reached pension age. They must apply no later than 31 May 2008, and pension will be backdated to 1 March 2008 (not the date of job reshaping). Any abatement of pension will be calculated by reference to the "salary of reference" immediately before drawing pension, not the "salary of reference" immediately before job reshaping.

Example:

Malcolm moved from full-time working to 4½ days per week when he reached age 60. When he was 62 he moved to 4 days a week. He is now 64. Under the concession, he applies to draw all of his **classic** pension benefits from 1 March 2008. Because his pay will not change on drawing his pension, his “salary of reference” is the same as his pay from 1 March. The pension he has built up of £10,000 will therefore be fully abated. However, Malcolm still proceeds with his application because he does not want to wait until he finally retires to receive his pension lump sum of £30,000.

Applications

Individuals must discuss with their line manager and/or HR whether job reshaping will be possible. If they are considering drawing their pension, you must refer them to the relevant information (see the section, “Providing information to staff” above). If job reshaping is agreed, the individual will complete the application form from the booklet “Partial retirement – a guide for scheme members” or from the Civil Service Pensions website, giving details of the job reshaping and its timing, and submit it to their employer in the first instance. You will then authorise the form to confirm that the reshaping will be taking place or has already done so, confirm details on the form of the employee’s new salary and the date of change, and then send it to your pensions administrator. You should not complete a CSP13 form (the CSP13 form should only be used if there is a subsequent change in circumstances – see below). Your pensions administrator will take the necessary action if the employee decides to take any of their pension.

The pensions administrator will send the individual a letter giving them an estimate of what pension they would receive if they took all of their accrued pension on partial retirement, and asking them to indicate how much, if any, they would like to take. The letter will refer the individual again to the calculator on the Civil Service Pensions website which may help them to make this decision. Once the individual has indicated the amount they would like, the pensions administrator will send Capita Hartshead the pension award and details of the individual’s new salary so that they can determine whether the pension will be abated and, if so, to apply the abatement.

If there is then any change in the individual’s pay that would affect abatement of their pension or they resign, you should complete box B, C or D of the CSP13 form and send it to Capita Hartshead (see Section 4.3 of the Employers’ Pension Guide).

Are there any financial implications for employers?

You will continue to pay ASLCs (Accruing Superannuation Liability Charges) relating to the individual’s salary after job reshaping in the normal way. There are no extra charges payable by employers.

Partial retirement step by step

Step	Owner	Trigger points and pension actions	Timelines / comments
1	Employee	Considers partial retirement. <ul style="list-style-type: none"> ▪ Reads booklet 'Partial retirement – a guide for scheme members' (available from January 2008) ▪ Uses calculator on Civil Service Pensions website (available from January 2008) ▪ Discusses possibility of job reshaping with line manager/HR. 	To access their pension, employee must be a member of the Civil Service Pension Scheme, reduce their pensionable earnings by at least 20%, be over minimum pension age and have qualified for payment of a pension.
2	Employer	Tells employee that their request for job reshaping will be considered in the light of business needs. Considers request for job reshaping and advises employee of decision. If the employee's request is accepted and they are reducing their pensionable earnings by at least 20%, asks employee if he/she has read the booklet 'Partial retirement – a guide for scheme members' and used calculator on website: If employee replies 'yes' – go to Step 3 If employee replies 'no' - <ul style="list-style-type: none"> ▪ Advises employee that they may be eligible for partial retirement ▪ directs employee to the CSP website (publications, rules and forms) to look at the booklet ▪ advises the employee to use the partial retirement calculator on the website to help them understand the possible effects of partial retirement on their income immediately after job reshaping and when they finally retire. 	CSP website: www.civilservice-pensions.gov.uk
3	Employer	<ul style="list-style-type: none"> ▪ Agrees date with employee from which job reshaping will start, and advises him/her to complete the application form (at the end of the partial retirement booklet and also on the CSP website under Publications, rules and forms) if he/she has not already done so. 	You may want to set timescales for the application and reshaping date so that the member can receive their pension quote before they reshape their job. (The member will then

			have confirmation of how much pension and lump sum they can take).
4	Employee	Completes job reshaping application form and sends it to employer.	
5	Employer	Completes Employer authorisation part of the application form. This involves providing the start date of the reshaped job, full details of the old and new salary, and the number of hours per week to be worked in the reshaped job. The employer then sends the authorised form to the APAC.	
6	APAC	Sends the employee a letter with an estimate statement of the total pension and lump sum available to them, and asks them how much, if any, pension they would like to take.	The letter will refer the member to the calculator on the CSP website which may help them in making this decision. Your contract manager may want to discuss respective roles in the process at review meetings with your APAC.
7	Employee	<ul style="list-style-type: none"> ▪ Decides whether or not to take any pension and lump sum. ▪ If yes, completes option form enclosed with the estimate statement, saying how much pension they wish to take, and ▪ sends it to the APAC. 	Member must return the option form within 3 months of reshaping their job and their pension will be backdated to the reshaping date.
8	APAC	<ul style="list-style-type: none"> ▪ Confirms details to the member of their pension award and any lump sum taken. ▪ Processes partial retirement award and sends to Capita Hartshead with details of the member's new salary so that Capita Hartshead can assess whether abatement will apply. 	Capita Hartshead make pension payments under contract to Civil Service Pensions.
9	Capita Hartshead	Starts paying pension from agreed date, abating pension where appropriate. Writes to member confirming amount of pension and any abatement.	
10	Employer	If there is any change to the employee's pay that would affect abatement or they resign, completes box B, C or D of the CSP13 form and sends to Capita Hartshead.	