Compulsory Redundancy – guidance for staff

This guide tells you about the compensation benefits available under the Civil Service Compensation Scheme if you are made compulsorily redundant. Before making a decision it is strongly recommended that you obtain a written estimate from JSS.

Before your employer can serve a redundancy notice, they will have followed the protocols for handling surplus staff situations or a similar process. A voluntary redundancy scheme must have already been offered and must be linked to the Compulsory Redundancy scheme, covering the same staff. If you were previously turned down for voluntary redundancy then later selected for compulsory redundancy under the linked scheme, you will receive voluntary redundancy terms.

If you are made compulsorily redundant you will receive a cash payment as compensation for giving up your job. Depending on your circumstances, you can use some or all of your compensation payment to increase your pension.

How is compensation worked out for compulsory redundancy?

We take a number of things into account in working out your compensation. These are:

1) Pay

This is the full time rate of your basic pay on your last day of service plus any permanent pensionable allowances.

Protection for the lower paid

If you earn less than £24,500, you will be treated as if you earned that amount when your compensation payment is calculated (your pension benefits will continue to be based on your final pensionable earnings).

Restricting payments to the higher paid

If you earn more than £149,820, we will treat you as earning that amount when we work out your compensation payment (your pension benefits will continue to be based on final pensionable earnings).

The upper and lower limits will be reviewed towards the end of each calendar year, and any new limits will apply from 1 April the following year

Part-time pay

If you work part-time, please see the paragraph "working part time" below.

2) Tariff

Your employer will pay 3 weeks' pay for every year of service up to a maximum of:

- 9 months (39 weeks) for those under scheme pension age
- 6 months (26 weeks) for those over scheme pension age.

The compensation payment is reduced (tapered) if you are near to scheme pension age where the maximum number of months' pay you can receive will be the lesser of:

- the normal maximum for those under scheme pension age and

- the number of months you have to scheme pension age plus 6 months. (Part months will be rounded to the nearest full month.)

Whether or not tapering will apply to you depends on your scheme pension age, how old you are and how many years' service you have. There is an example in Appendix A which will give you an idea of how tapering works.

3) Years of Service
To qualify for a compulsory redundancy payment, you must have at least 2 years' qualifying service.

Your compensation payment will be based on your current service (service with previous Research Councils employers will count if there has been no break in service).

Current service does not include:

- any added years or pension that you are buying in the Research Councils pension scheme

- any pension benefits you have transferred into the Research Councils pension scheme

- any earlier periods of pensionable service that you have built up in the Research Councils pension scheme before beginning your current employment.

How do my personal circumstances impact on my compensation payment?

Fixed term employees
If you are employed for a fixed term, you will normally receive the same compensation payment on compulsory redundancy as a permanent employee with the same pay and service, but this depends on the terms of your contract.

Working part time
If you work part time your service will be based on your actual hours worked and full time equivalent pay. If you have worked part time in the last three years, the maximum number of months' pay you can receive may be restricted proportionately by comparing your service with what it would have been if you had worked full time throughout.

Tapering will also apply to part time workers, but again will be worked out proportionately. See example 9 in Appendix A.

Exit after partial retirement
The whole of your current continuous service (both before and after partial retirement) is used to work out your compensation payment. This is subject to the limits according to your age or any part time service.
If you have retired and been re-employed, your compensation will include only the service from the date of your re-employment.

Pension options

Can I take my pension instead of a cash payment?
If you are:

- a member of the Research Councils pension scheme, and
- have at least 2 years' qualifying service, and
- are over your **minimum** scheme pension age, (50 if you were in the scheme since before 6 April 2006, 55 if you joined after)

Normally, if you take your pension before your scheme pension age, it will be reduced because you will be receiving it over a longer period. However, you can use your compensation payment towards the cost of buying out this reduction.

If the compensation payment is less than the amount required for the total buy out of the reduction:

- The whole compensation payment can be put towards the 'partial buyout' of the reduction. The reduction in pension benefits will be lessened by the amount that the payment buys out;
- You may also choose to use your own funds to buy out some or all of the remainder of the reduction (by sending in a cheque to made payable to "Research Councils Superannuation Account"). You may do this in £1000 increments, up to the cost of the full buyout. Your pension benefits will not be paid until the cheque has cleared.

If the compensation payment is more than the cost of the buy-out, you will be paid the remainder of the payment at the time you leave.

Can I take my pension and get my compensation paid as cash payment?
If you are over your **minimum** scheme pension age (see above), you can take your pension, reduced for early payment, and receive your compensation as a cash payment. Alternatively, you can buy out the reduction using your own money (rather than your compensation payment).
If using your own money you must pay it in the form of a cheque to JSS before your leaving date. Your pension will not be paid until the cheque is cleared.

You cannot use your pension lump sum to buy out the reduction to your pension.

What if I am over scheme pension age?
You will receive your compensation payment and you will be paid your pension immediately.

Other information

Notice
The notice period is normally 6 months, unless you have a different period of notice in your contract of employment. For those who join the on or after 9 November 2016, the notice period is normally 3 months, unless you have a different period of notice in your contract of employment. Notice will commence from the date the notice of redundancy is issued.

If your employer does not give you full notice, they must pay you compensation in lieu of notice (CILON). The CILON payment will be paid through the payroll. Tax and National Insurance Contributions will apply to this payment.

Buying added pension
If you have qualified for a pension you can buy added pension when you leave. You can use some or all of your compensation payment to do this. If you think that you may be interested contact JSS to find out more.

Added Pension is subject to the Annual Allowance for tax. If the value of your pension increases during a tax year, by more than £40,000, you will have to pay extra tax on the excess, under current tax rules. The value of the pension increase is 16 times the increase in pension from the previous year plus the increase in pension lump sum. See Example 10 in Appendix A.

Tax
Under current tax law, the first £30,000 of a compensation payment will be tax-free. Normal tax rules will apply to payments in excess of this.

Normal tax rules will apply to compensation in lieu of notice payments (and to your pension if in payment). National Insurance will also apply to compensation in lieu of notice payments.

The Government announced changes to the Annual Allowance (effective from tax year 2011-12) and the Lifetime Allowance (effective from 6 April 2012). There is no impact on the Annual Allowance if you are taking your pension early (whether or not it is reduced for early payment).

If you have any questions concerning your tax position, please contact your local tax office.

Re-employment
If you are re-employed in an organisation covered by the Research Councils pension and civil service compensation arrangements within 28 days of leaving your current employer, your compensation will be cancelled and your service will treated as continuous. You will have to repay the **full** compensation amount.

If you are re-employed in an organisation covered by the Research Councils pension and civil service compensation arrangements outside the 28 day period, but within the lesser of:

a) six months, and
b) the notional period of the compensation payment you will have to pay back the compensation payment pro-rata.

The repayment will be reduced in cases where the new employment is at a lower salary level than before.

In all cases, if you have taken your pension on leaving, it may be subject to abatement on re-employment.

This guidance does not cover every aspect of the Civil Service Compensation Scheme. As a “by analogy‟ scheme the full details are contained only in the rules of the Civil Service Compensation Scheme. In the event of any difference, the rules will apply.

Appendix A

Examples of calculations

Example 1 – Full time worker
Joe works full-time. He earns £30,000 a year and has 10 years' service. Joe would receive a payment of £17,307.
Calculated as (10 x 3 weeks) * (£30,000/52).

Example 2 – Full time worker (with maximum number of months' tariff applied)
Hamish works full-time. He earns £30,000 a year and has 30 years' service. Hamish applies for Compulsory Redundancy. Even though Hamish has 30 years' service, his redundancy payment is capped at 9 months' pay. Hamish will receive redundancy payment of £22,500.
Calculated as (30 x 3 weeks) * (£30,000/52) limited to 9 x £30,000/12.

Example 3 - Part time worker – service only
Mary worked full time for 3 years. Her conditioned hours were 37. She then reduces her hours to 29 a week for the next 5 years. Mary's service is based on her actual hours worked therefore 3 + (5x29/37) = 6.9189 years.

Example 4 – Worker over scheme pension age
David is 63 and is a member of **premium**. David earns £24,000 a year and he has 8 years' service. He will receive a payment of £12,000 (6 x £24,000/12). David's pension (and any pension commencement lump sum he chooses to take) will come into payment immediately after his last day of service.

Example 5 – Protection for the lower paid
Jane works full-time. She earns £20,000 and has 20 years' service. Her compensation payment will be based on the deemed minimum of £24,500 and she will receive a compensation payment of £18,375.
Calculated as (20 x 3) * (£24,500/52) limited to 9 x £24,500/12.
If Jane is close to scheme pension age she might choose to take her pension and use some or all of her payment to offset the early payment reduction that would otherwise apply.

Example 6 – Early access to pension
Kirsty is aged 56 and is a member of **classic**. As Kirsty is over her minimum scheme pension age, Kirsty can choose to receive her pension (and lump sum) immediately with reduction for early payment. However Kirsty does not have to take an immediate pension. She can take a compensation payment and leave her pension (and associated pension commencement lump sum) preserved for payment at scheme pension age (60).

Example 7 – Tapering (full-time worker)
Bernard leaves on compulsory redundancy on 30 June. He is 59 years 10 months on his last day of service. Bernard has 20 years‟ service and his pay is £25,000pa. Bernard will receive the lesser of:

- (£25,000/52) x (20*3) = £28,846
- (£25,000/12) x 9 = £18,750
- (£25,000/12) x (2+6) = £16,666

Bernard will receive £16,666

Example 8 – Tapering (lower-paid and part-time worker)
Zilla leaves on compulsory redundancy on her 59th birthday. Zilla works part-time (she is currently working 3 days a week or 0.6) and she is a member of **premium**. Zilla has a total of 8 years of service, built up over 11 years. Zilla's full-time equivalent pay rate is £20,000 so her compensation is based on the deemed minimum full-time rate of £24,500. Zilla's compensation calculation takes account of both the tapering and the part-time restrictions to maximum compensation.

- Unlimited compensation = (8 * 3) x (£24,500/52) = £11,308

- The normal maximum (scaled for part-time) = 9 x £24,500/12 x 8/11 = £13,363

- The scaled down number of months to pension age plus scaled down 6 months = (12 x 0.6) + (6 x 8/11) = 12 (rounded to nearest whole number).
  12 x £24,500/12 = £24,500

Zilla will receive £11,308.

Example 9 – Redundancy after partial retirement
Caspar is aged 57. Caspar took partial retirement 2 years ago and went part-time. Caspar has total service of 33 years accumulated over 34 years and his full-time equivalent rate of pay is £20,000. Caspar will receive compensation reflecting his entire service, not just the period after his partial retirement. Caspar's compensation will reflect the deemed minimum (£24,500). Casper will receive the lesser of:

- (33 * 3) x (£24,500/52) = £46,644

- £24,500/12 x 9 x 33/34 = £17,835

Casper will receive £17,835 or a payment according to the statutory redundancy rules if this is greater.

For anyone who has fully retired and is later re-employed, it is only the service from the date of re-employment that will count for any future compensation.

Example 10 – Using compensation to purchase Added pension
Henry asks his employer to pay all of his compensation payment into the pension scheme to purchase Added Pension for him. The Added Pension increases Henry's pension by £1,000 a year. Over and above this, Henry's pension had increased in real terms during the year (as a result of his ongoing service and a small pay rise) by £500 a year. In total, then, Henry's pension has increased by £1,500. Henry is in **classic** so his lump sum has also increased in real terms – by £4,500. For Annual Allowance purposes, Henry's pension increases are valued at £28,500 ((16 x £1,500) + £4,500)). As Henry does not have an adjusted income exceeding £150,000, Henry's Annual Allowance is £40,000 so Henry does not incur any extra tax charges.

Example 11 – Re-employment
Upma receives a severance payment of £30,000 which represents12 months' pay. 4 months later, Upma is re-employed in an organisation that offers the Research Councils Pension arrangements, on a salary of £24,000. Upma will be required to repay 8 months' compensation, adjusted for her new salary level. The amount to be repaid will be worked out as £30,000 x 8/12 x 24,000/30,000 = £16,000. (In this case, the compensation payment – being no more than £30,000 – would not have attracted tax. In cases where tax is payable, any repayment is adjusted, as now, to take account of tax paid.)