Voluntary Exit – guidance for staff

This guide tells you about the compensation benefits available under the Civil Service Compensation Scheme if your employer runs a voluntary exit scheme. Before making a decision it is strongly recommended that you obtain a written estimate from JSS.

Who can be offered voluntary exit?

Employers decide if they want to run a voluntary exit scheme. Your employer will decide who they want to let go and will tell you what selection criteria they are going to use.

If you apply, you do not have to accept the offer to go. If you do accept, 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 voluntary exit?

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

1) Pay

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

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).
This limit 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

This is the basis of your compensation payment, normally expressed in terms of an amount of pay (for example, three weeks pay) for each year of service up to a maximum limit of 18 months (78 weeks) and 6 months (26 weeks) for those over scheme pension age. Your employer will tell you what tariff applies to the voluntary exit scheme it is running.

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. The examples below will give you an idea of how tapering works.

Example – Tapering (full-time worker)
Bernard leaves on voluntary exit on 30 June. He will reach 60 (his scheme pension age) on the following 3 March – in other words, in 8 months and 3 days. Bernard has 32 years' service and his pay is £25,000pa. Bernard will receive the lesser of:

- The normal maximum (18 x £25,000 /12) = £37,500
- X months" pay where X = 8 + 6 = 14. This is 14 x £25,000/12 = £29,167

Bernard will receive £29,167

Example – Tapering (lower-paid and part-time worker)
Zilla leaves on voluntary exit 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.

Zilla"s voluntary exit compensation is worked out as the least of:

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

- The normal maximum (scaled for part-time) = 18 x £24,500/12 x 8/11 = £26,727

- X months' pay where X = (12 x 0.6) + (6 x 8/11) = 12 (rounded to nearest whole number). This is 12 x £24,500/12 = £24,500

Zilla will receive £11,308

3) Years of Service
We will base your compensation payment on your current service (service with previous Research Councils employers will count if there has been no break in service). We use decimal years and days to work out your compensation, for example, 11 years 200 days = 11 + (200/365) = 11.5479 years. Current service does not include:

- any added years or added pension that you are buying in the Research Councils pension scheme
- any pension benefits that you have transferred into the Research Councils pension scheme from a former job
- 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 voluntary exit 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 proportionally 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.

Exit after partial retirement
We'll use the whole of your current continuous service both before and after partial retirement 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?
Yes, 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 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 more than is required for the total buy out of the reduction, you will receive the remainder of the compensation payment at time of leaving.

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;
- or, If you are aged 55 and over, the employer may top-up compensation payments where they are not enough to buy out the full reduction (subject to the Minister for the Cabinet Office approval process where the total value exceeds £95,000).

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.

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 (made payable to the 'Research Councils Superannuation Account') 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 happens if I have not qualified for a pension?

You will receive a refund of your pension contributions, less a deduction for tax and the cost of buying you into the State Second Pension scheme for any period prior to 31 March 2016. You can choose to transfer the notional value of your pension to a recognised pension scheme. JSS will write to you about your options when it has been notified of your leaving.

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

You will be entitled to 3 months' notice. The date of your departure will be decided in discussion with your employer. Your notice period will begin when you sign the agreement to depart.
If your leaving date is before the end of 3 months from that date, your employer must pay you compensation in lieu of notice (CILON) on the balance. 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.

Example: 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.

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.

If you have taken your compensation in the form of pension, the repayment is based on the compensation payment that would otherwise have been paid.

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

This guide 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 and in the event of any difference, the rules will apply.