

Voluntary Redundancy – guidance for staff in the Research Councils' Pension Scheme (RCPS)

This guide tells you about the compensation benefits available under the **Civil Service Compensation Scheme 2010** if your employer is offering you voluntary redundancy.

Who can be offered voluntary redundancy?

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

You do not have to apply for voluntary redundancy. If you do apply, you do not have to accept the offer to go. However, your employer could make you compulsorily redundant at a later stage. If you apply for voluntary redundancy and your employer does not select you, they cannot make you leave under compulsory terms for that exercise.

If you accept voluntary redundancy, 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 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 £23,000, 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, commencing December 2011 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 1 months' pay for every year of service up to a maximum of:

- 21 months for those under scheme pension age*
- 6 months 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 until 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

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 added pension that you are buying in the RCPS
- any pension benefits you have transferred into the RCPS from a former job
- any earlier periods of pensionable service that you have built up in the RCPS 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 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 calculated proportionately. See Example 9 in Appendix A.

Exit after partial retirement or formal 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?

Yes, if you are:

- a member of the RCPS, 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 you choose to do this, your compensation payment may not be enough to meet the full cost of buying out the reduction to your pension for the current period of service. If this is the case your employer will top up the payment to buy out any remaining reduction. (The employer top up will apply to pension for current service only; in other words, on the service on which your compensation payment is based.) If the compensation payment is more than the cost of the buyout, you will be paid the remainder of the payment at the time you leave.

If you have any service that does not count towards your compensation payment, you can also take the related pension benefits early on a reduced basis. You can buy out the reduction, although your employer will not provide any top up. You will have the option to do this at the time of leaving, or later at any time up to scheme pension age. If you do not take these benefits at the time you leave, they will be preserved for payment at your scheme pension age. Please note that if you have a minimum scheme pension age of 50, you leave on voluntary redundancy before age 55, and opt to take your pension, current tax rules mean that you must also take any pension based on service that does not count towards your compensation payment at the same time.

If this is reduced for early payment, your pension must be more than what is known as Guaranteed Minimum Pension. If it is not, JSS will advise you.

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 (made payable to the "Research Councils Superannuation Account") or bank transfer to JSS before your leaving date. Your pension will not be paid until the payment is cleared. If you want to do this, you must buy out the full reduction on all your service.

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. As an alternative to this, 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 we will pay you your pension immediately.

If this is reduced for early payment, your pension must be more than what is known as Guaranteed Minimum Pension. If it is not, JSS will advise you.

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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 (made payable to the „Research Councils Superannuation Account) and send it to JSS before your leaving date. Your pension will not be paid until the cheque is cleared. If you want to do this, you must buy out the full reduction on all your service.

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What if I am over scheme pension age?

You will receive your compensation payment, and we will pay you your pension immediately.

Other information**Notice**

You will be entitled to 3 months' notice unless your employment terms and conditions specify otherwise. 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 of or all your compensation payment to do this. If you think that you may be interested you can use the added pension calculator which is available via the JSS website.

Added Pension is subject to the Annual Allowance for tax. If the value of your pension increases during a scheme year, (April to March), by more than £60,000 (2025-26 rate), 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 11 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 CILON payments (and to your pension if in payment). National Insurance will also apply to CILON payments.

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

Re-employment

If you are re-employed in an organisation that participates in the RCPS and / or is covered by the Civil Service Compensation Scheme arrangements within 28 day of leaving your current employer, your compensation will be cancelled and your service will be treated as continuous. You will have to repay the full compensation amount.

If you are re-employed in an organisation that participates in the RCPS and / or is covered by the Civil Service Compensation Scheme 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 on re-employment.

This guidance does not cover every aspect of the Civil Service Compensation Scheme and 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 £40,000pa and has 15 years' service. Joe would receive a payment of £50,000 ($15 \times £40,000/12$).

Example 2 – Full time worker (with maximum number of months' tariff applied)

Hamish works full-time. He earns £30,000pa and has 30 years' service. Even though Hamish has 30 years' service, his redundancy payment is capped at 21 months' pay. Hamish's redundancy payment is worked out as $21 \times £30,000/12 = £52,500$.

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 $3 + (5 \times 29/37) = 6.9189$ years.

Example 4 – Part-time worker (lower paid and with uncapped service)

Jenny works part-time and earns £10,000pa for a 2.5-day week (0.5). Jenny's full-time rate of pay is therefore £20,000 so her compensation will reflect the deemed minimum full-time pay of £23,000. Jenny has a total of 7 years' current service, and she has built this up over 14 years.

Jenny's voluntary redundancy compensation is worked out as the lesser of:

Unlimited compensation = $7 \times £23,000/12 = £13,417$

Scaled maximum compensation = $21 \times (£23,000/12) \times 7/14 = £20,125$

Jenny will receive £13,417.

Example 5 – 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 ($6 \times £24,000/12$). 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 6 – Protection for the lower paid

Jane works full-time. She earns £15,000 and has 20 years' service. If Jane opts for voluntary redundancy she will receive a payment, based on the deemed minimum of £23,000, of £38,333 ($20 \times £23,000/12$). If Jane does not volunteer but is dismissed as compulsorily redundant her payment will be £23,000 ($12 \times £23,000/12$). If Jane is close to scheme pension age, she might choose to take her pension and use some or all her payment to offset the early payment reduction that would otherwise apply.

Example 7 – 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 without reduction – even if this costs more than the compensation payment she would have received. But Kirsty does not have to take an immediate pension. She can take a compensation payment under the terms of the voluntary redundancy scheme and leave her pension (and associated pension commencement lump sum) preserved for payment at scheme pension age (60).

Example 8 – Tapering (full-time worker)

Bernard leaves on voluntary redundancy 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 £24,000pa. Bernard will receive the lesser of:

The normal maximum ($21 \times £24,000 /12$) = £42,000

X months' pay where $X = 8 + 6 = 14$. This is $14 \times £24,000/12 = £28,000$

Bernard will receive £28,000

Example 9 – Tapering (lower-paid and part-time worker)

Zilla leaves on voluntary 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 £23,000. Zilla's compensation calculation takes account of both the tapering and the part-time restrictions to maximum compensation.

Zilla's voluntary redundancy compensation is worked out as the least of:

- Unlimited compensation = $8 \times £23,000/12 = £15,333$
- The normal maximum (scaled for part-time) = $21 \times £23,000/12 \times 8/11 = £29,273$
- X months' pay where $X = (12 \times 0.6) + (6 \times 8/11) = 12$ (rounded to nearest whole number). This is $12 \times £23,000/12 = £23,000$

Zilla will receive £15,333

Example 10 – Redundancy after partial retirement

Caspar is aged 66. He took partial retirement a couple of years ago when he went part-time. Caspar has total service of 43 years accumulated over 44 years and his full-time equivalent rate of pay is £15,000. Caspar will receive compensation reflecting his entire service, not just the period after his partial retirement. Caspar's compensation will reflect the deemed minimum (£23,000) and he will receive £11,238 ($6 \times £23,000 / 12 \times 43 / 44$) or a payment worked out according to the statutory redundancy rules if this is greater.

Example 11 – Using compensation to purchase Added Pension

Henry asks his employer to pay all of his compensation payment into the pension scheme to buy 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 ($16 \times £1,500 + £4,500$). This is well within Henry's Annual Allowance of £60,000 so Henry does not incur any extra income tax charges.

Example 12 – Re-employment

Upma receives a severance payment of £30,000 which represents 12 months' pay. 4 months later, Upma is re-employed in an organisation that offers the Research Councils Pension and Compensation 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 $£30,000 \times 8 / 12 \times 24,000 / 30,000 = £16,000$. The compensation payment – being no more than £30,000 – would not have attracted tax but where tax was payable, any repayment is adjusted.