

The NDA group Pension Reform

*Personas: some typical comparative
examples from across the group*

December 2023



Introduction

This note provides a comparison of final salary and CARE pension and lump sum benefits for six example individuals who represent a selection of the current membership across the CNPP and Magnox final salary schemes:

| Example | 1 | 2 | 3 | 4 | 5 | 6 |
|---------------------------------------|-----------|-----------|-----------|-----------|---------------|-----------|
| Age | 47 | 52 | 57 | 53 | 57 | 50 |
| Pensionable service in current scheme | 15 | 15 | 15 | 30 | 15 | 25 |
| Salary | £45,000 | £50,000 | £55,000 | £70,000 | £40,000 | £58,000 |
| Working hours | Full-time | Full-time | Full-time | Full-time | 50% part-time | Full-time |
| Normal Pension Age | 60 | 60 | 60 | 60 | 60 | 63 |
| Pension scheme | CNPP | CNPP | CNPP | Magnox | CNPP | Magnox |

These examples only include benefits in the CNPP and Magnox Pension Scheme, and not other possible benefits, for example, in the UKAEA Combined Pension Scheme.

Let's look at an example - this is member 3 from the tables above and in Annex A, Pat.

On the introduction of CARE, Pat will be 57 years old and will have three years until they reach their normal pension age of 60. Pat already has 15 years of pensionable service in the final salary scheme. When Pat retires and receives their pension benefits at age 60, they will have built up a further three years of pension benefits. Pat's current pensionable salary is £55,000 and rises to have pensionable final earnings of £56,662.

For this comparison, the pension and lump sums are shown in today's money and ignore the impact of future inflation. The figures quoted in the examples below have been individually rounded to £10 which means that some of the totals may not add up due to the rounding.

Final salary benefits if CARE was not being implemented

Under the final salary scheme Pat will receive a pension and automatic lump sum based on their final pensionable salary and their pensionable service in the scheme when they retire. The lump sum is usually three times the pension. If Pat was able to continue in the final salary scheme to age 60, they would receive an annual pension of £12,750 and a lump sum of £38,250.

However, whilst the table below illustrates the position if Pat had remained in the final salary scheme, this will no longer be the case once CARE is introduced.

Pre and post April 2024 – showing final salary benefits if CARE was not being implemented

| Pat | Annual pension at retirement | | | Lump sum at retirement | | |
|-----------------|------------------------------|-------------------------|----------------|------------------------|-------------------------|----------------|
| | Accrued pre-April 2024 | Accrued post-April 2024 | Total pension | Accrued pre-April 2024 | Accrued post-April 2024 | Total lump sum |
| Existing scheme | £10,620 | £2,120 | £12,750 | £31,870 | £6,370 | £38,250 |

Final salary benefits and three years of CARE benefits with maximum CARE pension

Once CARE is introduced, Pat will not build up any more pensionable service in the final salary scheme, although their benefits in it will continue to be linked to their final pensionable earnings. Pat will receive a final salary pension of £10,620 and a lump sum of £31,870 at retirement from their pre-CARE service.

Under CARE, Pat will receive a pension based on a proportion of their pensionable earnings each year averaged over time.

If Pat wishes to maximise their pension and simply draw their CARE pension without any CARE lump sum, they will receive a pension of £2,890 which will be added to their final salary pension.

In total, Pat will receive a pension of £13,510 and a lump sum of £31,870 as shown in the table below:

| Pat | Annual pension at retirement | | | Lump sum at retirement | | |
|--|------------------------------|-------------------------|----------------|------------------------|-------------------------|----------------|
| | Accrued pre-April 2024 | Accrued post-April 2024 | Total pension | Accrued pre-April 2024 | Accrued post-April 2024 | Total lump sum |
| Existing scheme and Maximum CARE pension | £10,620 | £2,890 | £13,510 | £31,870 | - | £31,870 |

The table below shows pre-April 2024 and post-April 2024 elements for the alternatives considered above:

| Pat | Annual pension at retirement | | | Lump sum at retirement | | |
|--|------------------------------|-------------------------|----------------|------------------------|-------------------------|----------------|
| | Accrued pre-April 2024 | Accrued post-April 2024 | Total pension | Accrued pre-April 2024 | Accrued post-April 2024 | Total lump sum |
| Existing scheme | £10,620 | £2,120 | £12,750 | £31,870 | £6,370 | £38,250 |
| Existing Scheme and Maximum CARE pension | £10,620 | £2,890 | £13,510 | £31,870 | - | £31,870 |

Pat's contributions

Pat currently contributes 5% of their pensionable earnings to their final salary pension.

When CARE is introduced, Pat's contribution rate will increase by 1% and will increase again by 1% each April for the next three years

Pat's contribution rate will ultimately increase to 9% which corresponds to Pat paying an additional £110 each month, after tax relief, on their current salary.

Appendix One:

Further examples of how CARE will affect different employees

In the table below, for each of the six examples, the pension and lump sum on accessing pension benefits is separated into their pre-April 2024 and post-April 2024 elements for comparison against current final salary benefits:

- **Existing scheme** – assuming the current final salary pension schemes if CARE was not being introduced;
- **Maximum CARE pension** – maximising the CARE annual pension without taking any CARE lump sum.

Please note, for the comparison the pension and lump sums are shown in today's money ignoring the impact of future inflation.

These examples only include benefits in the CNPP and Magnox Pension Scheme, and not other possible benefits, for example, in the UKAEA Combined Pension Scheme.

The figures quoted in the examples below have been individually rounded to £10 which means that some of the totals may not add up due to the rounding.

The NDA Pensions Reform portal contains more information, including a calculator so you can see how the changes affect you. Please use the link here to go to the website: <https://ndagrouppensionreform.co.uk/>.

Comparison of final salary and CARE pension and lump sums and employee contributions for each example

| | 1 | 2 | 3 | 4 | 5 | 6 |
|---------------------------------------|-----------|-----------|-----------|-----------|---------------|-----------|
| Age | 47 | 52 | 57 | 53 | 57 | 50 |
| Pensionable service in current scheme | 15 | 15 | 15 | 30 | 15 | 25 |
| Salary | £45,000 | £50,000 | £55,000 | £70,000 | £40,000 | £58,000 |
| Working hours | Full-time | Full-time | Full-time | Full-time | 50% part-time | Full-time |
| Normal Pension Age | 60 | 60 | 60 | 60 | 60 | 63 |
| Pension scheme | CNPP | CNPP | CNPP | Magnox | CNPP | Magnox |

| | | Existing Scheme | | | | | |
|------------------------------|-------------------------|-----------------|----------------|----------------|-----------------|----------------|----------------|
| Annual pension at retirement | Accrued pre-April 2024 | £10,090 | £10,400 | £10,620 | £28,700 | £3,860 | £21,670 |
| | Accrued post-April 2024 | £8,740 | £5,550 | £2,120 | £6,700 | £770 | £11,270 |
| | Accrued Total pension | £18,830 | £15,950 | £12,750 | £35,400 | £4,640 | £32,940 |
| Lump sum at retirement | Accrued pre-April 2024 | £30,260 | £31,210 | £31,870 | £86,100 | £11,590 | £65,010 |
| | Accrued post-April 2024 | £26,230 | £16,650 | £6,370 | £20,090 | £2,320 | £33,810 |
| | Accrued Total lump sum | £56,490 | £47,860 | £38,250 | £106,200 | £13,910 | £98,820 |

| Existing Scheme and Maximum CARE pension | | | | | | | |
|--|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Annual pension at retirement | Accrued pre-April 2024 | £10,090 | £10,400 | £10,620 | £28,700 | £3,860 | £21,670 |
| | Accrued post-April 2024 | £11,050 | £7,270 | £2,890 | £8,840 | £1,050 | £14,240 |
| | Accrued Total pension | £21,130 | £17,670 | £13,510 | £37,540 | £4,910 | £35,910 |
| Lump sum at retirement | Accrued pre-April 2024 | £30,260 | £31,210 | £31,870 | £86,110 | £11,590 | £65,010 |
| | Accrued post-April 2024 | - | - | - | - | - | - |
| | Accrued Total lump sum | £30,260 | £31,210 | £31,870 | £86,110 | £11,590 | £65,010 |

| Increase in Monthly Contributions Paid | | | | | | |
|--|------------|------------|-------------|-------------|------------|-------------|
| Increase before tax | £80 | £80 | £180 | £230 | £30 | £190 |
| Net increase i.e. increase after tax | £50 | £50 | £110 | £140 | £25 | £120 |

Appendix Two:

Understand the differences between final salary benefits and CARE benefits

Final salary pension and lump sum

Currently in the CNPP and Magnox Pension Scheme when you access your pension benefits you will receive a pension based on the length of your pensionable scheme service and your pensionable final pay. You build up an annual pension of $1/80^{\text{th}}$ of your pensionable final pay for each year of service in the scheme.

You also earn a lump sum of three times your annual pension. You can choose to give up some of your annual pension to increase the lump sum amount you receive. The rate of exchange of final salary pension and lump sum is set by the Trustees of the CNPP and Magnox Pension Scheme and will depend upon your age and gender.

CARE pension and lump sum

Under CARE, each year you build up a 'slice' of pension equal to $1/58^{\text{th}}$ of your pensionable pay in that year. When you retire, your total pension under the CARE arrangement will be calculated by adding up each of the slices you have built up throughout the years. Each year, each slice of pension will be adjusted in line with the Consumer Price Index (CPI) to recognise changes in the cost of living.

Although there is no 'automatic' cash lump sum under the CARE arrangement, you can take a lump sum from CARE, by giving up some of your annual pension. Each £1 of annual CARE pension can be exchanged for £12 of cash lump sum.

Employee contributions

You contribute to your final salary pension scheme. Employees typically contribute 5% of their pensionable earnings, with some employees in the Magnox Pension Scheme contributing 6%.

Your contributions with CARE will increase on 1 April 2024. This increase will be introduced in 1% steps over three years, with a fourth-year increase where required.

The amount of contributions you will pay will depend on which earnings band you fall into, taking account of your pensionable pay. The contribution bands will increase every year in line with price inflation as measured by CPI.

The rate you contribute will be reviewed each April and may change if your pensionable pay moves from one band to another. Most employees will eventually pay 7% or 9%.

The tables below reflect the typical contribution transitions. For the minority of members who pay different contribution rates now (see above), there will be a different transitional arrangement.

Employee contributions for CNPP members:

| Earnings Bands | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|--------------------|---------|---------|---------|---------|
| £13,944 or less | 5% | 5% | 5% | 5% |
| £13,945 - £54,509 | 5.66% | 6.33% | 7% | 7% |
| £54,510 - £190,147 | 6% | 7% | 8% | 9% |
| More than £190,148 | 6% | 7% | 8% | 11% |

Employee contributions for ESPS members:

| Earnings Bands | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|--------------------|---------|---------|---------|---------|
| £13,944 or less | 6% | 6% | 6% | 6% |
| £13,945 - £54,509 | 6.33% | 6.66% | 7% | 7% |
| £54,510 - £190,147 | 7% | 8% | 9% | 9% |
| More than £190,148 | 7% | 8% | 9% | 11% |

It's important to remember that your employer will continue to deduct your contributions from your pay before income tax is paid, so that you receive tax relief at your marginal rate. This means that if you are a basic rate taxpayer and pay tax at 20%, every £1 of contribution costs you 80p. If you are higher rate taxpayer and pay tax at 40%, every £1 of contribution will cost you 60p.

If you participate in your employer's salary sacrifice for pensions arrangement, you have agreed to a reduction in earnings that is equal to your pension contribution. In return, your employer enhances the contribution it pays by the employee contribution you would have paid, had you not been in salary sacrifice. Under these arrangements, employee contributions are therefore 'notional'. When the term 'employee contribution' is used in this note it's intended to refer to both actual and notional employee contributions.

Payment of pension benefits

When you bring your benefits into payment, you will receive a lump sum and an annual pension. Your lump sum and annual pension will be the combined total of the final salary and CARE amounts. Your lump sum will be payable free of tax, subject to HMRC allowances.

Once in payment, the annual pension will increase each year in line with price inflation: your final salary pension element in line with price inflation as measured by the Retail Prices Index (RPI); and your CARE pension element in line with price inflation as measured by the Consumer Prices Index (CPI). Increases in the final salary pension element in the Magnox pension scheme can be capped at 5% with increases above that at the discretion of Magnox. The increases applying to the CARE pension element are not subject to any cap.