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Guidance

Guidance on the public service pension scheme consultation response

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In 2015 the government introduced reformed pension schemes across all the main public service workforces. The reforms included a policy of transitional protection that meant members closest to their Normal Pension Age (NPA) stayed in their legacy schemes.

The Court of Appeal later found this transitional protection to be discriminatory against younger members in the judicial and firefighters' pension schemes. The government accepted that the judgment had implications for the other schemes including the police pension

scheme, as they contained similar transitional arrangements. Since then the government has been working to address the discrimination.

The government cannot simply put all members back into their legacy schemes to remove the discrimination, as that would leave some members worse off – particularly lower or middle earners who are often better off in the reformed schemes. Therefore, the final policy design needs to allow members a choice of which scheme is better for them.

HM Treasury (HMT) ran a public consultation during the summer of 2020 to gather stakeholder views on the government’s two final policy proposals – a deferred choice underpin or an immediate choice exercise. The consultation closed in October 2020 and the government is now announcing the final approach.

What the government announced

HMT public consultation response

The government has today published a response to the consultation on proposals to remove the discrimination identified in the McCloud/Sargeant litigation, via a deferred choice underpin (DCU).

The public service pension scheme consultation response sets out two key decisions:

1. Moving forward, at the point benefits are paid, e.g. at retirement, eligible members will be able to choose to receive legacy pension scheme benefits or benefits equivalent to those available under the reformed pension scheme for service between 2015 and 2022 (DCU). Not all members are better off in the legacy schemes, so it is important that individual members can choose which scheme benefits they want to receive.
2. From 1 April 2022 all those who continue in service will do so as members of the reformed schemes, regardless of age, meaning all members will be treated equally in terms of which pension scheme they are a member of.

[Read the details on the consultation response.](#)

Cost Control mechanism

Separate to the consultation, the government has decided to waive the impact of any ceiling breaches that arise as part of the 2016 cost control valuations process, but to honour any floor breaches. This means no member will see a reduction in benefits and be worse off as a result.

[Read details of this announcement.](#)

Details about the consultation response

Why the government’s reforms to the main public service pension schemes led to discrimination

Following negotiations with groups representing workforces, the 2015 public service pension scheme reforms included a policy of transitional protection. This meant members closest to retirement stayed in their legacy scheme as they had the least amount of time to prepare for the changes.

The Court of Appeal later found this policy to be discriminatory against younger members in some schemes. Following the ruling the government confirmed that it would take steps to address the discrimination in all affected public service schemes.

If members need to submit a legal claim to receive any pension changes to address the discrimination identified by the courts

No, members do not need to submit a legal claim to receive any pension changes addressing the discrimination.

The government has committed to applying any changes across the main public service pension schemes and so both claimants and non-claimants who are eligible members will receive the pension changes.

The steps the government has taken so far to address the discrimination

Since the judgment the government has been working on different options to address the discrimination.

The government set out two proposals in a public consultation in July 2020 to gather views on which proposal would be better to remove the discrimination.

Since the public consultation closed in October 2020, the government has been working through all the responses and has now published its response setting out its final policy decisions. The government will address the discrimination through a ‘deferred choice underpin’. This will allow eligible members a choice, at the point their benefits are paid, of which pension scheme benefits they would prefer to take for the remedy period.

What is a deferred choice underpin and why the government has chosen this approach

To address the discrimination identified by the courts, eligible members who were moved to the reformed pension scheme in 2015 (or later if they had tapered protection) will be moved back into their legacy pension scheme for the period during which the discrimination occurred, between 1 April 2015 and 31 March 2022.

When payment of pension benefits commences for those members, or members who were originally protected, they will then receive a choice of which pension scheme benefits they would prefer to take for the period. This is called a ‘deferred choice’.

The choice will be between the member’s legacy pension scheme benefits and their reformed pension scheme benefits.

Deferring the choice until the point benefits are paid allows individuals to make their choice of which pension scheme benefits are better for them, based on facts and known circumstances as opposed to assumptions on their future careers, health, retirement and other factors. The level of both pension scheme benefits will be known at retirement.

Those in scope for these pension changes and so will receive the ‘deferred choice underpin’

Individuals that meet the following criteria are in scope of the changes:

- Were members, or eligible to be members, of a public service pension scheme on 31 March 2012;
- Were members of a public service pension scheme between 1 April 2015 and 31 March 2022; and
- The two periods above were continuous (or treated as continuous under the scheme regulations, including those with a qualifying break in service of less than 5 years).

Why members are being asked to make a choice between their legacy and reformed pension scheme benefits

The differences between the legacy and reformed pension schemes mean the set of benefits that is best for members depends on personal circumstances and preferences. This is why the government is providing members with a choice, to ensure they can choose which scheme benefits are better for them.

At retirement, schemes will provide information to members setting out their entitlement under both options, so members will have a clear understanding of the benefits available to them.

Why the government is not returning everyone to their old schemes

The government cannot simply place all members into their legacy scheme without allowing them access to their reformed scheme benefits, because some members are better off in the reformed schemes.

The differences between the legacy and reformed schemes

All public service pension schemes have different arrangements. However, the main changes between the legacy and reformed schemes for most schemes included a change to career-average pension schemes from final salary and an increase in normal pension age.

The change to career-average means members’ pensions are now calculated on their average salary throughout their career as opposed to their final salary.

The reformed schemes were designed to make public service pensions more affordable and sustainable for the future, while still ensuring public servants received appropriate pension provision in retirement. The reforms created a fairer system. The move from (mostly) final salary to career average pension means members accrue their pension at a typically higher annual rate based on their average salary in most of the public sector pension schemes.

Although some members are better off in legacy schemes, including many police members, the reformed schemes are more beneficial for others, particularly many lower paid members.

Will members who had ‘tapered protection’ also be asked to choose between legacy and reformed scheme benefits?

Members who received tapered protection in 2015, or would have received such protection but for the provision that unlawfully excluded younger members from transitional protection, will be offered a choice of whether to receive legacy or reformed scheme benefits in relation to any continuous service between 1 April 2015 and 31 March 2022.

This will remove the discrimination that arose between older members who were subject to transitional protection and younger members who were not.

How people who retire before the introduction of the deferred choice underpin will be treated

Members who have retired before the deferred choice underpin is implemented and have a period of relevant service between 1 April 2015 and 31 March 2022 will be offered a choice once the legislative changes have been made to implement the deferred choice underpin. The choice will be retrospective and backdated to the point that payment of pension benefits began.

In some cases, it may be possible for schemes to offer members a choice before the deferred choice underpin is implemented. However, the legislation that allows schemes to do this is limited in effect. It allows schemes to return eligible members who retired from the reformed schemes to the legacy schemes in relation to service after 1 April 2015 but does not allow for all consequential matters to be dealt with satisfactorily in all cases. For example, in cases where there are interactions with the tax system, perhaps where members have incurred or will incur tax charges or where contributions differ between the schemes, it might not be possible to address all these issues before new legislation is made to implement the deferred choice underpin.

Where possible, schemes will seek to offer reformed scheme members who retire before October 2023 a choice of legacy or reformed scheme benefits for the relevant period at retirement.

In due course it may be possible for schemes to revisit cases of reformed scheme members who have already retired ahead of the introduction of the deferred choice underpin.

However, there are still some complex issues to be resolved before schemes are in a position to process cases - further details will be provided as soon as possible.

In all cases where an individual receives a revised pension award, this will be backdated to the date that their pension award relating to the remedy period was originally made.

Will the survivors of eligible members who have died since 1 April 2015 also be asked to make a choice between the different pension schemes?

Where an eligible member has died since 1 April 2015, schemes will review these cases as a priority. Where the member retired from the reformed scheme, schemes will seek to revisit cases ahead of the introduction of the deferred choice underpin where this is possible. Individual schemes will check whether a higher pension or lump sum amount would be due under the alternative scheme.

In the case of any increase, schemes will inform surviving beneficiaries, and the higher amount will be paid with their agreement. If the higher amount is already in payment, the survivors will be notified.

The choice between benefits will fall to the late member's surviving spouse or partner. If there are children also in receipt of a survivor pension, and the decision maker lives in a separate household to the child, any decision taken will not affect the child's pension. Where the child and decision maker live in the same household, the usual rules around total survivor benefits payable will apply.

The other proposal set out in the consultation and why the government did not choose that approach

The other proposal set out in the consultation was called an 'immediate choice' which would allow members to choose which pension scheme benefits they would prefer to take for the period between 2015 and 2022 soon after the point at which schemes implemented the changes.

While this approach would have resolved the issue sooner and provided individuals with more certainty around pension benefits, it would have placed higher risk on the member. This is because they would be basing their choice around assumptions on their future careers, health, retirement and other factors, rather than the facts and known circumstances that will apply at the point of retirement. This would have meant that some members had ended up in a position whereby they would have been better off had they chosen the benefits of the alternative scheme, but would be unable to change their decision.

Why the period when members will be receiving a choice of which pension scheme benefits they would prefer is only between 2015 and 2022

Members will receive a choice for the period between 2015 and 2022 because 1 April 2015 is the date when the reforms were introduced, and 31 March 2022 will be the point at which the legacy schemes will be closed to future accrual.

Details about future pension provision

The pension scheme individuals will be a member of from 1 April 2022

From 1 April 2022, all those who continue in service will be eligible to do so as members of their respective reformed pension schemes (i.e. those introduced in 2015, of which many are already members), regardless of age. This includes members who were previously covered by 'transitional protection'.

This means that members will keep any service earned within the legacy schemes up until that date and will be able to access those benefits in the same way and at the same time as they are currently able to, but any pension benefits earned after will be within the reformed pension schemes.

The legacy schemes will be closed to future accrual from April 2022.

Why the government is saying all members should be in the reformed pension schemes from 1 April 2022

The 2015 schemes that were introduced following the recommendations of the Independent Public Service Pensions Commission (the reformed schemes) offer generous pension provision, improve affordability and sustainability, and are fairer to lower and middle earners.

The reformed schemes are some of the most generous available in the UK: backed by the taxpayer; index-linked; and offering guaranteed benefits on retirement; comparing very favourably to the typical private sector scheme.

The reforms created a fairer system. The move from (mostly) final salary to career average pension means members accrue their pension at a typically higher annual rate based on their average salary in most of the public sector pension schemes. Although some members are better off in legacy schemes, the reformed schemes are more beneficial for others, particularly many lower paid members.

The transitional protection policy, which gave rise to discrimination, will have been removed and, from 1 April 2022, all those who remain in service will do so as members of the reformed schemes, treating everyone equally in this respect, and ensuring the aims of the 2015 reforms are met.

Post consultation response

The next steps following the consultation response

Following the consultation response, the government will introduce new legislation when parliamentary time allows, expected to be in mid-2021.

The government intends that the provisions for the deferred choice underpin will be implemented by 1 October 2023, or earlier where schemes are able to implement legislative change and processes ahead of that date.

The next steps for the police pension scheme

Before new legislation can be introduced, several remaining technical policy decisions on the overarching approach will be taken, including around interactions with tax. It is intended that legislation to move people to the reformed schemes will take effect on 1 April 2022.

Scheme specific policy decisions will also be taken, and necessary legislation drafted. We will engage with stakeholders including the Police Pension Scheme Advisory Board for England and Wales (SAB) during this process.

Following the publication of the consultation response and in parallel to introducing new legislation, the Home Office will engage with scheme managers and administrators to allow them to prepare for implementation of the deferred choice underpin. The changes will be implemented by October 2023.

When the pension changes will be implemented and introduced

Legislation is necessary to implement a deferred choice underpin in the schemes, but the government is committed to ensuring that all eligible members are treated equally and are able to choose to receive pension scheme benefits from either scheme. Where necessary, payments will be backdated to 2015.

Provisions for the deferred choice will be implemented by 1 October 2023 for all members. Schemes may implement provisions for deferred choice earlier where it is possible to do so.

Where possible, schemes will also seek to offer a choice to members of the reformed schemes who retire before October 2023 before the legislation is implemented.

Information on additional areas

Will these pension changes result in any tax changes for members?

The majority of members will see no change to their tax position over the remedy period. For a minority of members, the pension changes will cause their tax position to change, which could result in tax charges for the member, or the member becoming entitled to a reimbursement of tax previously paid.

In some cases, the pension changes may mean that individuals will have to pay new or higher annual allowance charges, but typically only where their projected pension at retirement has increased. Adjustments to lifetime allowance charges may also be required, where retired members' accrual changes.

Some members may also face changes in their contributions in respect of the remedy period, which may also affect their income tax position.

Where a member has already retired, a member's total pension income may also change, and tax will be payable on any increase in pension.

What this announcement means for taper protected members

Members who received tapered protection in 2015 will be offered a choice of whether to receive legacy or reformed scheme benefits for the entire period of 1 April 2015 to 1 April 2022 (or their retirement date, if earlier).

This is consistent with the Court of Appeal judgment that discrimination applied to all of those who did not receive full transitional protection.

The consultation response says all Ill Health Retirement (IHR) cases will be reviewed as soon as practicable. What does this mean?

The government sees addressing Ill Health Retirement (IHR) cases as a priority, as set out in the consultation response in Annex A,], “all Ill Health Retirement cases (including members refused IHR) will be reviewed by schemes as soon as practicable. This will involve reconsideration of cases where they may have been a different outcome (or higher pension award) under the alternative scheme.”

The government is working hard to resolve outstanding areas that need to be addressed before some members will be able to have their cases reviewed. There are some complex outstanding issues to work through, which means it may not be possible to resolve some cases, particularly for those who have retired and are already in receipt of some pension, until after the deferred choice underpin and supporting legislation are in place. Any additional payments of pension that result will be backdated.

Will non-claimants receive injury to feelings compensation alongside these retrospective pension changes as claimants will?

A deferred choice underpin will apply to all eligible scheme members regardless of whether they have made a legal claim. Members do not need to submit a legal claim to benefit from these changes.

Any further legal claims for compensation made by claimants in respect of their individual circumstances will be decided by the courts. Remedy hearings for the claims against the police pension scheme (known as the Aarons case) are underway. We are unable to comment further on ongoing litigation.

Can a member still retire after 30 years of service?

As set out in the consultation response in more detail in Chapter 3, Future Pension Provision “since the legacy schemes have a lower Normal Pension Age (NPA) than the reformed schemes, members who have accrued service in both types of scheme may choose to retire when they reach that NPA, and the relevant Minimum Pension Age (MPA) has been reached, and access the relevant pension benefits from both schemes. They will not have to wait until the NPA in the reformed scheme, which in most schemes is linked to State Pension Age (SPA)”.

For the police pension scheme, this means that individuals can still retire after 30 years’ service, subject to the normal rules.

Whether COVID-19 has affected the project

COVID-19 has not caused any major delays to the project timeline.

Please note this guidance will be kept under review.

Over the coming months, the Home Office, NPCC Pensions Team, local Police Forces and pension administrators will work through the implications of today's announcement and will be publishing further information including illustrating the impact of remedy for a scheme member.