

A Comparison Between “alpha” and Scottish Widows “Partnership” Pension Schemes



Why the need to carry out this comparison?

The DPF has received a significant increase in the number of enquiries from members who are considering moving from “alpha” into the Civil Service “Partnership” scheme

The Cabinet Office has chosen two partnership pension providers:-

1. Standard Life
2. Scottish Widows

The majority of members who are considering moving to the “Partnership” scheme appear to be choosing Scottish Widows as their investment company.

Therefore the following generic comparison is based on the Scottish Widows Scheme



Basic Assumptions:-

Both “Alpha” and “Partnership”

- Only future service is considered
- Pensionable pay used is £36101 (current top rate MDP constables basic pay)
- Pensionable pay will increase by 1% per year inline with the Governments current policy on public sector pay restraint
- CPI rate of inflation is assumed to increase at 2.5% pa
- Member contribution rate used is 5.45%



Basic Assumptions continued:-

Alpha Specific:-

The actuarial reduction applied relates to drawing the pension 5 years before pension Age (this will be five years below the EPA agreed in TACoS ie 60)

Partnership specific:-

Both Member and Employer contributions are invested in a medium risk investment plan. (The member would be strongly advised to seek independent Pension advice when selecting an investment plan)

The member is 46 years or older in order for maximum employer contributions to be made



Alpha vs Partnership: Benefits

	Alpha http://www.civilservicepensionscheme.org.uk/members/alpha-guide/	Partnership http://www.civilservicepensionscheme.org.uk/members/partnership/
Type of benefit	Defined Benefit (“DB”)	Defined Contribution (“DC”)
Description	Your pension is calculated using a formula, based on your salary and years of service. The pension is guaranteed and is independent of the contributions paid by you or your employer.	Depends on how much you and your employer put into a personal pension pot, and how these contributions are invested and grow with investment returns.
Pension on retirement	Pension: $2.32\% \times \text{Service} \times \text{Average Salary}$ Lump sum: You can give up some pension for a cash sum	At retirement, you can use your pot to buy an annuity to provide an annual pension, take some (or all) of it as cash, or drawdown from your pot.
Normal retirement age	State Pension Age (“SPA”), but can take a reduced pension at any age from 55	Any age from 55
Pension increases	In line with inflation (CPI)	Chosen by you if an annuity is purchased
Death in service	Pension: 37.5% of your “increased” pension Lump sum: Higher of: (2 x final pay) or (5 x pension)	Pot transfers to dependant(s) <i>plus</i> Lump sum of 3 x pensionable pay
Death in deferment	Pension: 37.5% of your pension Lump sum: 5 x deferred pension at date of death	Pot transfers to dependant(s)
Death after retirement	Pension: 37.5% of your pension at date of death Lump sum (if die within 5 years): 5 x your pension <i>less</i> pension received before you died	Remaining pot transfers to dependant(s). Spouse’s pension payable only if chosen when annuity purchase
Ill-health benefits	Pension accrued to date (lower tier) Or “increased” pension (upper tier)	Lump sum: 20% x service (max 3 years) x pensionable pay

Contribution Rates

Alpha		
Pensionable Earnings	Employee Contribution rate	Employer Contribution rate
£0.00 to £15,000	4.60%	20.0%
£15,001 to £21,422	4.60%	20.0%
£21,423 to £23,000	5.45%	20.0%
£23,001 to £45,500	5.45%	20.9%
£45,501 to £51,005	5.45%	22.1%
£51,006 to £76,000	7.35%	22.1%
£76,001 to £150,000	7.35%	24.5%
£150,001 and above	8.05%	24.5%

Partnership		
Age	Employer normal contribution rate	Employer matching contribution rate
	Note (1)	Note (2)
Under 31	8%	Up to 3%
31 to 35	9%	Up to 3%
36 to 40	11%	Up to 3%
41 to 45	13.5%	Up to 3%
46 or over	14.75%	Up to 3%

Notes:

(1) The Employer will pay the “normal” contribution rate regardless of what the Employee pays. Employees can pay as much or as little as they wish

(2) In addition, the Employer will match Employee contributions up to 3%

Example: if an Employee over age 46 pays 3%, the Employer will pay 17.75%



Buying an annuity

An annuity is an insurance product that allows you to swap your pension savings for a guaranteed regular income that will last for the rest of your life.

There are a number of options, however the four main types of annuity are used in this comparison:-

Single life non-increasing

This provides a pension income for the member for the rest of their life. The amount is fixed for the whole term. Therefore over time the effects of inflation will reduce the value. Upon the death of the member the pension ceases.

Joint life non-increasing

This provides a pension income for the member for the rest of their life. The amount is fixed for the whole term. Therefore over time the effects of inflation will reduce the value. Upon the death of the member the pension continues to be paid to their partner for the rest of their life.



Single life increasing

This provides a pension income to the member for the rest of their life. The amount increases each year in line with the CPI rate of inflation (capped at 2.5%) Upon the death of the member the pension ceases.

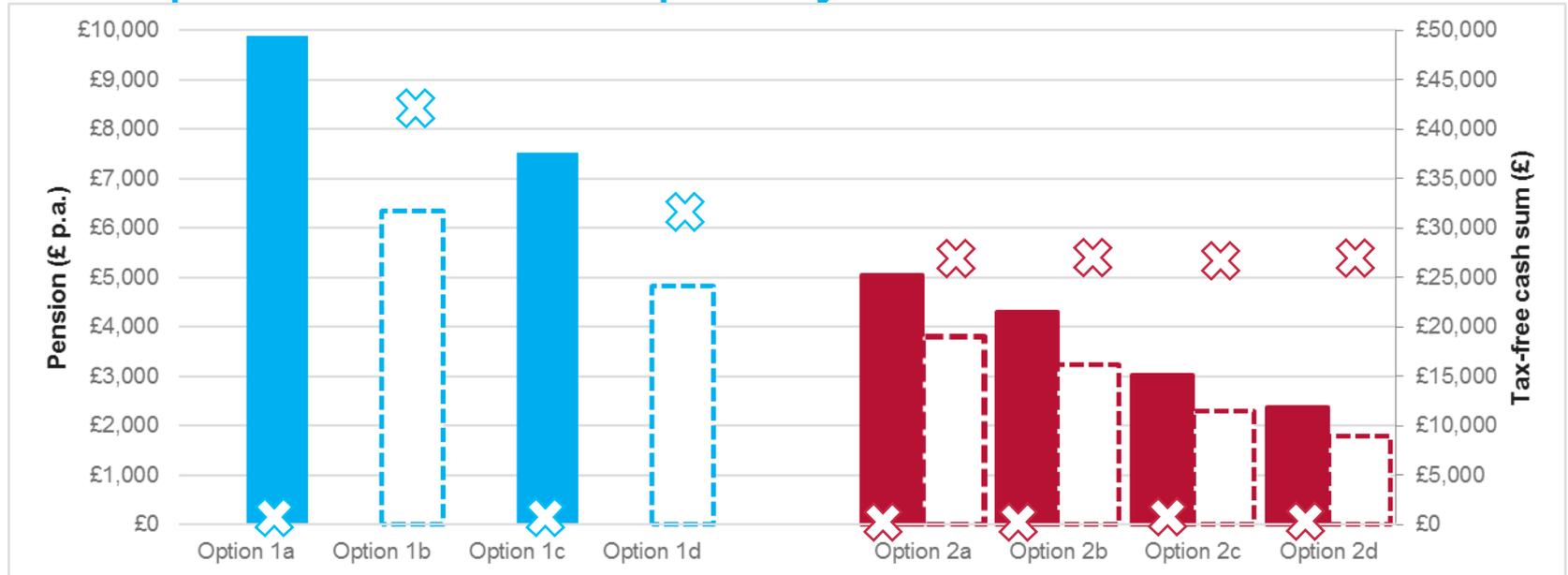
Joint life increasing

This provides a pension income to the member for the rest of their life. The amount increases each year in line with the CPI rate of inflation (capped at 2.5%). Upon the death of the member the pension continues to be paid to their partner for the rest of their life.

The decision as to which annuity best suits the individual and their family can not be made until retirement. However members should be advised to consider seeking professional advice regarding the options and the relevant impact each could have on the future retirement income of both themselves and their partner.



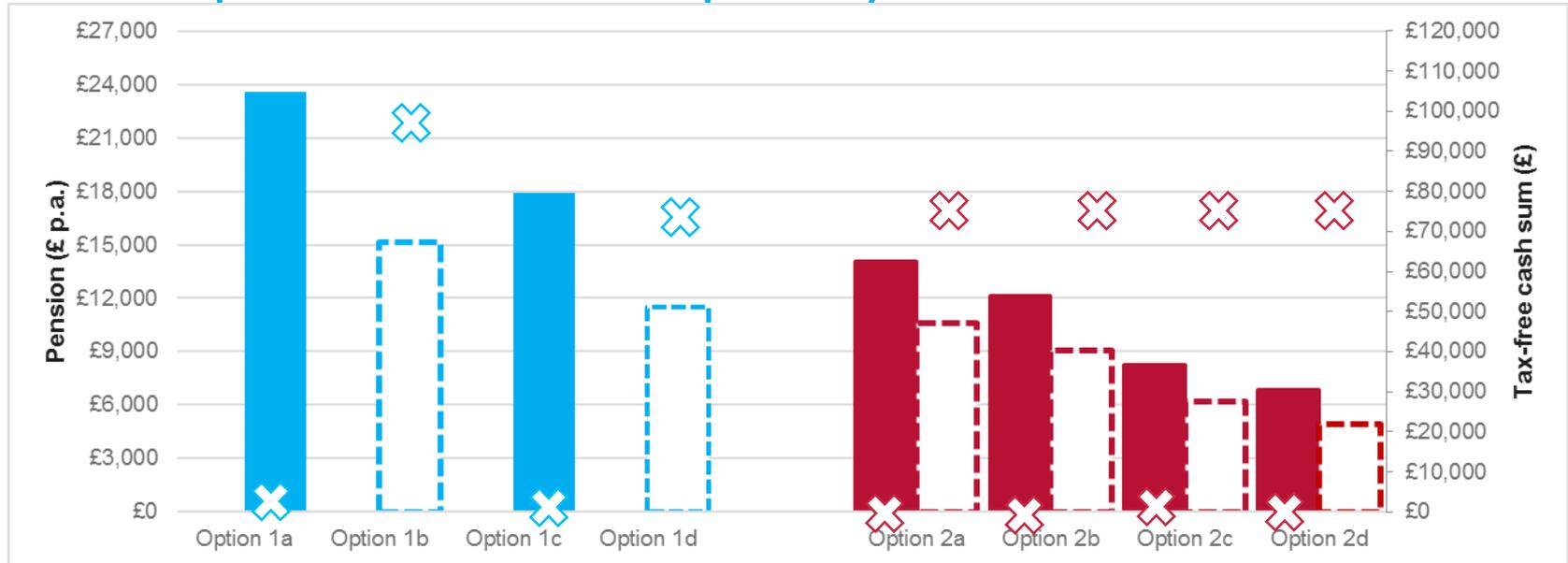
Alpha vs Partnership: 10 years' future service



	Alpha				Partnership			
	Option 1a	Option 1b	Option 1c	Option 1d	Option 2a	Option 2b	Option 2c	Option 2d
Description	No cash (Unreduced)	Max tax-free cash (Unreduced)	No cash (Reduced for 5 years' early)	Max tax-free cash (Reduced for 5 years' early)	Single life annuity, non-increasing	Joint life annuity, non-increasing	Single life annuity, increasing	Joint life annuity, increasing
Total "Pension Pot" at retirement	n/a				£107,100			
Full pension (£ pa)	£9,900 pa	n/a	£7,520 pa	n/a	£5,060 pa	£4,320 pa	£3,040 pa	£2,380 pa
Tax-free cash (£)	£0	£42,410	£0	£32,230	£26,780	£26,780	£26,780	£26,780
Residual Pension (£ pa)	n/a	£6,360 pa	n/a	£4,830 pa	£3,800 pa	£3,240 pa	£2,300 pa	£1,790 pa



Alpha vs Partnership: 20 years' future service



	Alpha				Partnership			
	Option 1a	Option 1b	Option 1c	Option 1d	Option 2a	Option 2b	Option 2c	Option 2d
Description	No cash (Unreduced)	Max tax-free cash (Unreduced)	No cash (Reduced for 5 years' early)	Max tax-free cash (Reduced for 5 years' early)	Single life annuity, non-increasing	Joint life annuity, non-increasing	Single life annuity, increasing	Joint life annuity, increasing
Total "Pension Pot" at retirement	n/a				£308,400			
Full Pension (£ pa)	£23,600 pa	n/a	£17,930 pa	n/a	£14,090 pa	£12,100 pa	£8,290 pa	£6,870 pa
Tax-free cash (£)	£0	£101,130	£0	£76,860	£77,100	£77,100	£77,100	£77,100
Residual Pension (£ pa)	n/a	£15,170 pa	n/a	£11,530 pa	£10,570 pa	£9,070 pa	£6,220 pa	£4,910 pa

This presentation is not intended to promote one scheme over the other, it is simply intended as an illustration to demonstrate the differences between the schemes.

It does however demonstrate the complex options members need to take into account and the possible future impact on their financial position in retirement when considering their pension provision.

The DPF can not give members any individual advice in this area. Members should always be advised to seek Professional, Independent Advice from a qualified pensions advisor.

