HSC Business Services Organisation
HSC PENSION SERVICE

Your Future In Our CARE
HSC Pension Service

Changes to the HSC Pension Scheme from April 2015 FAQ's

CARE Scheme FAQs

Q1. What is a CARE pension Scheme?

A. CARE stands for Career Average Revalued Earnings

CARE is a form of defined benefit pension scheme. A defined benefit scheme guarantees a certain level of benefit at retirement, according to a fixed formula. In this respect it is similar to the current final salary sections of the HSC Pension Scheme.

Q2. How does a CARE pension work?

A. In a CARE scheme your pension is based on your pensionable pay right across your career. The pension you earn each year is based on pensionable pay in that year and is increased by a set revaluation rate, linked to inflation, for each year up to retirement or leaving. The final pension is calculated by adding together the pension earned in each year of membership.

Q3. How does this differ to a final salary scheme?

A. In a 'final salary' scheme the pension you receive for all of your years of membership is based on your pensionable pay at or close to retirement. This could be your best year's pensionable pay in the three years leading up to retirement (as in the 1995 section) or the average of the best three consecutive years in the 10 years leading up to retirement (2008 section).

Q4. How much pension will I earn each year?

A. The amount of pension you earn each year is determined by a factor known as the 'accrual rate' and is usually shown as a fraction of your pensionable pay.

In the 2015 HSC Scheme the accrual rate is 1/54th. So if you earned £18,000 in a year you would earn a pension for that year of £18,000 x 1/54 = £333.

Note: The lower the bottom number of that fraction, the more of your salary you earn as a pension for each year of membership – so 1/54 is better than 1/60 or 1/80.

Q5. How is each year's pension revalued?

A. Your pension earned each year will be subject to 'revaluation' to account for inflation in the period before you retire or leave. In the 2015 HSC Scheme the revaluation is Consumer Price Index (CPI) inflation plus 1.5% per year. The pension earned in a Scheme year (April to March) is revalued on the first of April of the following Scheme year and each subsequent Scheme year until you retire or leave. For example, if CPI inflation in a year was 2% then CARE pensions would revalue by 3.5% in the following year.

If you leave the 2015 HSC Scheme before becoming entitled to claim your retirement benefits, your CARE pension would be revalued each year in line with CPI inflation only.

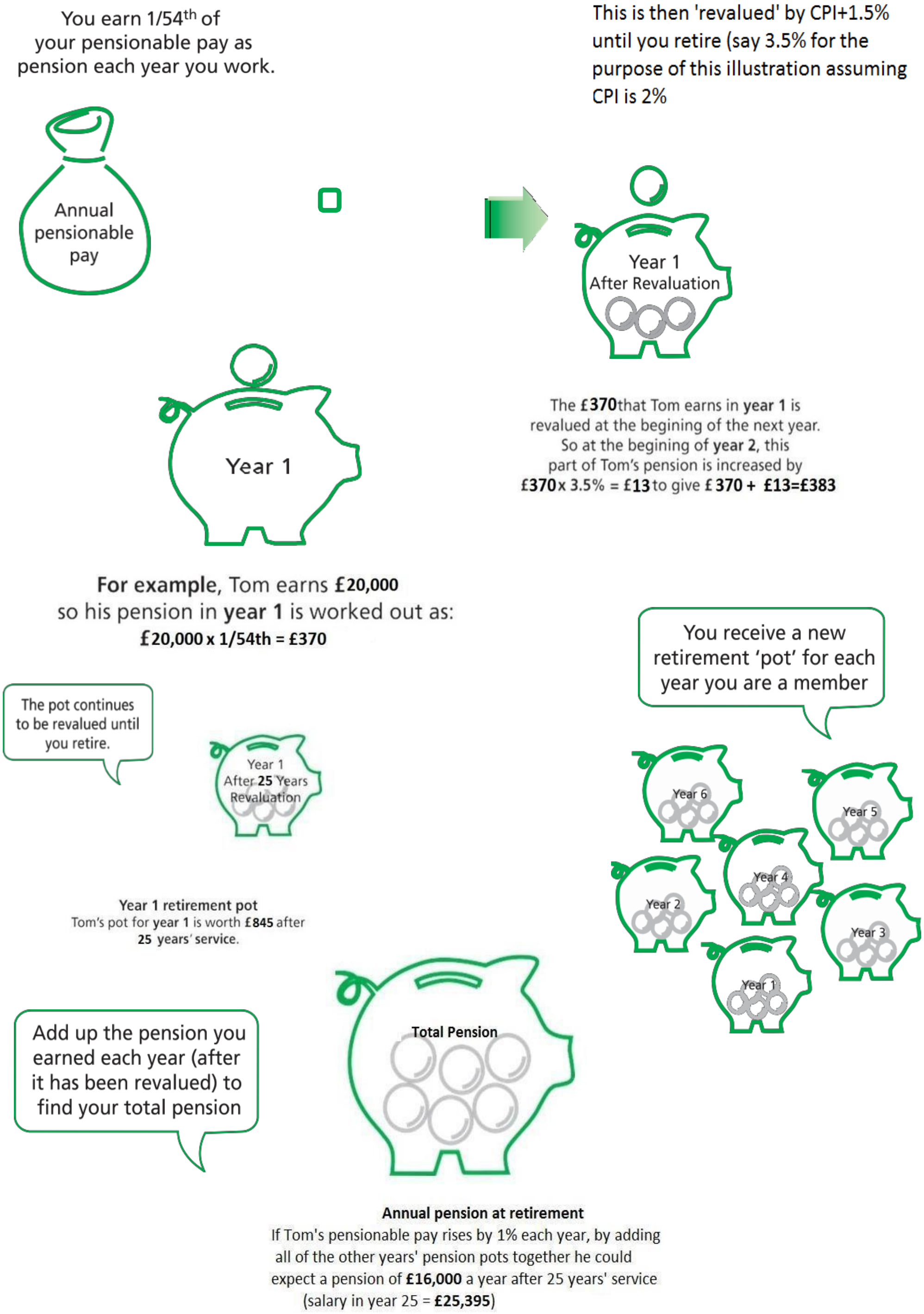
Q6. Will there still be a lump sum payable for service in the new 2015 CARE scheme?

A. There is no automatic lump sum payable in the new 2015 scheme. However members will have the option to commute some of their pension for a tax free lump sum at a rate of £12 tax free cash for every £1 of pension given up (subject to HMRC limits)

Q7 How are Survivors Benefits calculated in a CARE scheme?

A. Survivor's benefits are calculated in the new scheme in the same way they are calculated in the current scheme, i.e. using the fraction 1/160th of the member's pensionable earnings. The survivor's benefits from the new scheme will not be approximately half of the member's pension benefits because the accrual rate for members for the new scheme has risen from 1/80th to 1/54th.

Below is a simplified pictorial illustration of how a CARE pension scheme works:



The parameters used here are purely illustrative. For the purposes of illustration it has been assumed that CPI inflation and pay rises are projected at the same levels throughout the 25 year period, but in practice they will change from year to year. The figures quoted in the above illustration have been rounded for the purpose of simplification. Actual calculations would be in pounds and pence if appropriate