

MRC
Redundancy
Compensation
Scheme
2011

USING THIS BOOKLET

This booklet is a guide to the benefits to be provided in the event of redundancy and came into effect from 26 September 2011. It covers the key points and while care has been taken to ensure the accuracy of the examples shown, personal financial decisions should be taken on the contents of formal redundancy quotations only.

Transitional arrangements will apply to those staff put on written notice of redundancy prior to 26 September and with an exit date no later than 31 March 2012.

The redundancy terms that apply under the transitional arrangements can be found in the MRC redundancy and early retirement/severance benefits guide dated 1 October 2009.

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1 INTRODUCTION AND ELIGIBILITY

This booklet sets out the financial terms available to employees who leave for reasons other than resignation, retirement or disciplinary dismissal (i.e. they leave because of redundancy).

The MRC Redundancy Compensation Scheme described in this guide applies to all eligible MRC employees with effect from 26 September 2011.

The benefits to which you are entitled are dependent on a number of factors, including whether or not you are a member of the Medical Research Council Pension Scheme (MRCPS) and your length of reckonable service. You should consult the definition of reckonable service and pensionable salary on page 5 before looking at the appropriate worked examples that are given from page 7 onwards.

In addition to permanent staff, employees on fixed term contracts and Career Development Fellows, where the need for the work has diminished or ceased and who are unable to be redeployed, may be made redundant and qualify for compensation under these rules.

Voluntary redundancy requires a minimum of one year of service and compulsory redundancy requires a two year service minimum to be met.

MRC employees who are not members of the MRC Pension Scheme (MRCPS) are also eligible for redundancy benefits, but not pension benefits. A brief outline of the redundancy entitlement for non members can be found on page 12 of this Guide.

2 DEFINITIONS

Reckonable Service

The service which counts towards the period that determines the amount of benefit you would receive should you be made redundant. This is normally the most recent period of MRC employment.

Service transferred into the MRC Pension Scheme will count towards reckonable service for the purpose of determining pension benefits. It may also count towards reckonable service for the purpose of calculating compensation benefits in some circumstances.

For employees in post prior to 1 January 2004, transferred-in service only counts toward reckonable service for compensation benefits if it was transferred to MRCPS before 1 August 2005.

For employees who commenced work with effect from 1 January 2004, reckonable service for compensation benefits is calculated as the actual period of employment with the MRC, excluding any previous pension scheme service transferred into the MRCPS.

If you re-joined after a break in service on or after 1 January 2004, or if you did not transfer into the MRCPS previous pension service prior to 1 August 2005, the reckonable service that counts towards redundancy benefits will exclude previous MRC service and transferred-in pension service credit. However, it will continue to count towards your pension benefits due under MRCPS.

In certain circumstances, staff transferring to MRC from one of the other Research Councils will be treated as having continuous service for the purposes of calculating redundancy compensation (not pension). This will be stated in your contract of employment if it applies.

Calculations of Pension and Lump Sum Retiring Allowance

The pension and lump sum retiring allowance referred to in this booklet are calculated in the same way as a normal MRC pension.

For part-time staff reckonable service is based on actual service.

General formulae:

Annual Pension = $1/80 \times$ pensionable pay \times reckonable service

Lump Sum Retiring Allowance = $3 \times$ Annual Pension

Members of the MRC Pension Scheme will have the option to exchange some of their pension for additional tax free cash on retirement.

Normal Pension Age

The normal pension age for employees commencing employment with the MRC on or after 31 August 1997 is age 65 (except those appointed to work overseas prior to April 2006).

Employees who commenced employment prior to 31 August 1997 will have a fixed pension age (which is distinct from a retirement age) of either age 60 or age 65 depending on their individual decision when the one-off opportunity to opt for 60 or 65 was made available.

Employees appointed to work overseas prior to 1 April 2006 will have a normal pension age of age 60. New appointments from 1 April 2006 will have a normal pension age of 65.

Minimum Retiring Age from 6 April 2010

The statutory minimum retiring age for new staff since 6 April 2006 is age 55. From 6 April 2010, this statutory minimum retirement age also applies to other members of MRCPS, unless they qualify for an exemption to retain a minimum retirement age of 50. If you were an active member of MRCPS throughout the period between 10 December 2003 and 5 April 2006, you will retain a minimum retirement age of 50.

Pensionable Salary

This is calculated from whichever period of 12 consecutive months in your last 3 years' service gives the highest individual salary figure. It includes London Weighting but not overtime. It does not include any other non-pensionable salary supplement.

For part time employees, the length of service is pro-rated according to the number of hours worked and the full time salary equivalent is then used to determine benefits. This means that you will receive a full time equivalent pension, which is based on converting actual part time service to the full time equivalent service.

Staff employed on a part time basis throughout the three year period prior to redundancy will have their compensation calculated on actual pensionable salary and not the full time equivalent.

For the purposes of compensation (not pension), a lower paid protection will apply to those earning less than £23,000, which will be pro-rated for part time staff. A similar higher cap of £149,820 has been set.

3 CATEGORIES OF REDUNDANCY

There are two categories of redundancy:

Voluntary redundancy **At management request with employee consent**

Compulsory redundancy **At management initiative**

4 VOLUNTARY RETIREMENT

Criteria & notice period

This category covers all cases of voluntary redundancy at age 55 or over. The notice period for voluntary redundancy is set at three months.

Staff eligible to retire early on voluntary grounds will have the option of taking an immediate, unreduced pension or a deferred pension and compensation payment.

The tariff for compensation under voluntary terms has been set at one month's pensionable salary for each year of service, up to a maximum of twenty one months.

4.1 5 OR MORE YEARS RECKONABLE SERVICE

Retirement

Your pension and the lump sum retiring allowance from MRCPS can be taken immediately or deferred until normal pension age.

If you are under normal pension age and choose to retire, any compensation you are entitled to will be put towards the cost of your pension being paid early without reduction. Any shortfall in the cost will be met by MRC.

If you have chosen to work beyond your normal pension age and are made redundant, you will be entitled to a lump sum compensation payment of six months' pensionable pay. Your pension from MRCPS will be paid immediately.

Pension – 1

Your pension is paid to you immediately on early retirement.

Example 1 – All service is reckonable for benefits under redundancy

Age	56
Pensionable Pay	£26,000
Reckonable Service	20 years
Lump Sum Compensation Payment	Nil – used to meet cost of pension
Pension	$£26,000 \times 1/80 \times 20 = £6,500$ pa
Lump Sum Retiring Allowance	$3 \times £6,500 = £19,500$

Example 2 – transferred-in service does not reckon for redundancy benefits

Age	55
Pensionable Pay	£38,000
Reckonable Service	10 years with MRC and 10 years transferred into MRCPS
Lump Sum Compensation Payment	Nil – used to meet cost of pension
Pension	$£38,000 \times 1/80 \times 10 = £4,750$ pa <u>Plus</u> $£38,000 \times 1/80 \times 10 \times 50\% = £2,375$ pa Total = $£4,750 + £2,375 = £7,125$ pa
Lump Sum Retiring Allowance	$£38,000 \times 3/80 \times 10 = £14,250$ <u>Plus</u> $£38,000 \times 3/80 \times 10 \times 75\% = £10,687$ <u>Total</u> = $£14,250 + £10,687 = £24,937$

Notes

Transferred in service for those joining MRC on and after 1 January 2004 is subject to actuarial reduction.

For staff that joined MRC prior to 1 January 2004 service transferred in after 31 July 2005 is subject to actuarial reduction.

Represents the reduction applied to early payment of the pension in respect of transferred in service. The factors that are applied are reviewed periodically by the Government Actuary's Department.

* Represents the reduction applied to early payment of the lump sum retiring allowance in respect of transferred-in service. The factors that are applied are reviewed periodically by the Government Actuary.

Staff will have the option to exchange annual pension for an additional cash lump sum on retirement. Figures will be provided by MNPA as part of the retirement process when the redundancy has been finalised.

Pension – 2

Your pension and lump sum retiring allowance are preserved until normal pension age.

Example 3 - transferred-in service does not reckon for redundancy

Age	56
Pensionable Pay	£42,000
Reckonable Service	10 years with MRC and 10 years transferred into MRCPS
Lump Sum Compensation Payment	$£42,000/12 \times 10 = £35,000$
Preserved Pension – deferred until normal retiring age	$£42,000 \times 1/80 \times (10 + 10) = £10,500 \text{ pa}$
Preserved Lump Sum Retiring Allowance – deferred until normal retirement age (cannot be paid early if pension is not paid early)	$£42,000 \times 3/80 \times (10 + 10) = £31,500$

Notes

Transferred in service for those joining MRC on and after 1 January 2004 is subject to actuarial reduction if paid before normal pension age.

For staff that joined MRC prior to 1 January 2004 service transferred in after 31 July 2005 is subject to actuarial reduction if paid before normal retiring age.

First £30,000 of the compensation payment is tax free.

4.2 AT LEAST 1 BUT LESS THAN 5 YEARS RECKONABLE SERVICE

Compensation

The lump sum compensation payment is based on one month's pensionable pay x reckonable service.

Pension (for employees with at least 2 years service)

Provided you have at least 2 years service your pension and lump sum retiring allowance is preserved and paid to you when you reach normal pension age.

If you have less than two years service you will be entitled to a refund of contributions from MRCPS.

Example 4

Age	55
Pensionable Pay	£24,000
Reckonable Service	4 years
Lump Sum Compensation Payment	$£24,000/12 \times 4 = £8,000$
Preserved Pension	$£24,000 \times 1/80 \times 4 = £1,200 \text{ pa}$
Preserved Lump Sum Retiring Allowance	$3 \times £1,200 = £3,600$

Notes

First £30,000 of the compensation payment is tax free.

The deferred pension can be put into payment before normal pension age and would be reduced to take account of early payment.

5 VOLUNTARY REDUNDANCY

Criteria & notice period

This category covers all staff offered voluntary redundancy. The tariff is set at one month for each year of service up to a maximum of twenty one months. The notice period for voluntary redundancy is set at three months.

5.1 5 OR MORE YEARS OF RECKONABLE SERVICE

Compensation

If you have 5 or more years reckonable service and are age 55 or over, but have not reached normal pension age, you will be able to choose between early retirement and taking a compensation payment.

Tapering will apply to your compensation payment to ensure that those particularly close to pension age are not advantaged over those who have already reached pension age.

Example 5

Age	64
Pensionable Pay	£30,000
Reckonable Service	24 years
Maximum Compensation Payment	$£30,000/12 \times 21 = £52,500$
Tapered Compensation Payment	$£30,000/12 \times (12 + 6) = £45,000$

Notes

The number of months compensation cannot be greater than the period to normal pension age plus six months.

First £30,000 of the compensation payment is tax free.

Those past normal pension age will be entitled to a compensation payment based on six months salary.

5.2 AT LEAST 1 BUT LESS THAN 5 YEARS RECKONABLE SERVICE

Compensation

Immediate lump sum compensation payment based on one month's pensionable pay x reckonable service.

Pension (for employees with at least 2 years service)

Provided you have at least 2 years service your pension and lump sum retiring allowance is preserved and paid to you when you reach normal pension age.

If you have less than two years service you will be entitled to a refund of contributions from MRCPS.

Example 6

Pensionable Pay	£16,000
Reckonable Service	4 years
Lump Sum Compensation Payment	$4 \times £23,000/12 \times 4 = £7,666$
Preserved Pension	$1/80 \times £16,000 \times 4 = £800 \text{ pa}$
Preserved Lump Sum Retiring Allowance	$3 \times £800 = £2,400$

Notes

The minimum salary for compensation of £23,000 applies, but not to the pension entitlement.

6 COMPULSORY REDUNDANCY

Criteria & notice period

This category covers all cases of compulsory redundancy including redundancy for employees past normal pension age. The notice period is set at six months.

6.1 2 OR MORE YEARS RECKONABLE SERVICE

Compensation

- Immediate lump sum compensation payment based on one month for each year of service up to a maximum of twelve months.
- Tapering will apply to ensure that those particularly close to pension age are not advantaged over those who have already reached pension age.
- Those past normal pension age will be entitled to a compensation payment based on six months pensionable salary.
- Any outstanding annual leave entitlement will be paid to those leaving on compulsory terms.

Pension

- Preserved pension and lump sum retiring allowance is paid to you when you reach normal pension age.
- The option to take your pension early on an unreduced basis is not available under the terms of compulsory redundancy.

Example 7

Age	48
Pensionable Pay	£16,000
Reckonable Service	20 years
Lump Sum Compensation Payment	$£23,000/12 \times 12 = £23,000$
Preserved Pension	$£16,000 \times 1/80 \times 20 = £4,000 \text{ pa}$
Preserved Lump Sum Retiring Allowance	$3 \times £4,000 = £12,000$

Notes

The minimum salary for compensation of £23,000 applies, but not to the pension entitlement.

Example 8

Age	64 1/2
Pensionable Pay	£30,000
Reckonable Service	20 years
Lump Sum Compensation Payment	$£30,000/12 \times (6 + 6) = £30,000$
Preserved Pension	$£30,000 \times 1/80 \times 20 = £7,500 \text{ pa}$
Preserved Lump Sum Retiring Allowance	$3 \times £7,500 = £22,500$

Notes

The number of months' compensation cannot be greater than the period to normal pension age plus six months.

First £30,000 of the compensation payment is tax free.

7 COST OF LIVING INCREASES

If you are over age 55 when you retire your pension will be increased to keep you in step with the Consumer Price Index (CPI).

For benefits received before then, if you have retained a minimum retirement age of 50, the increases accumulate (not any arrears) and become payable when you reach age 55. The increase in pension from age 55 will be advised by MNPA.

8 TAXATION OF BENEFITS

The pension from MRCPS is taxable as earned income. The lump sum retiring allowance is tax free.

The lump sum compensation payment is tax free up to £30,000 and taxable on any excess over £30,000.

Any payments made in lieu of notice are taxable as earned income, but will not include the deduction of pension contributions.

9 COMMUTATION OF ANNUAL PENSION PAYMENTS

If the benefits you are entitled to include a pension from MRCPS, part of it can be exchanged and taken as an additional tax-free lump sum when you retire.

Figures are provided by MNPA when your early retirement has been formally approved. A Q&A sheet on commutation is available from the Portal or at www.mrcps.co.uk using access code **672785**.

10 REFUND OF PENSION CONTRIBUTIONS

Employees who leave with less than 2 years reckonable service will have a refund of their own contributions. Refunds consist of the employee's own contributions, less income tax and any necessary contribution to the State pension scheme.

11 NON MEMBERS OF MRC PENSION SCHEME

Criteria

The compensation entitlement under voluntary and compulsory terms is the same as for those staff in the MRC Pension Scheme, except there are no pension benefits payable.

For the purposes of calculating compensation, non members of MRCPS will be deemed to have a notional pension age of 65.