

NHS Pension Review Steering Group

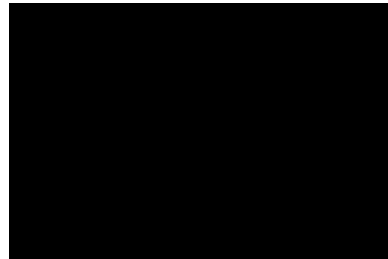
Agreement between NHS Employers and NHS Staff Side

This paper sets out the terms of the agreement reached between NHS Employers and the NHS staff side at the Pensions Review Steering Group. The agreement sets out a two scheme structure for the NHS Pension Scheme with new entrants joining the new Scheme and existing members being given the option to join the new Scheme.

Structure for existing staff

- The current final salary scheme structure with an accrual rate of eightieths for pension, a half rate spouse's pension, and a separate lump sum of three times the initial pension, with a Normal Pension age of 60 (NPA60), or 55 for the closed groups
- Tiered contribution rates on whole pay (see table on page 3)
- Current 40 year limit on service in the scheme to be removed¹
- Those covered by protection (pre April 2006 members) to retain MPA50 in line with pensions legislation
- Practitioners to retain their current CARE scheme with accrual of 1.4% for pension and 4.2% for lump sum but with dynamisation from April 2008 to be fixed at RPI plus 1.5%
- Subject to over-riding HMRC limits, pension may be commuted for additional lump at a rate of £12 of lump sum for each £1 p.a. of pension given up
- Introduction of partner pensions for life to eligible partners for service from 1988
- Removal of cessation of spouse/civil partner pensions on re-marriage/ new partnership
- Abatement of pension in payment on re-joining to be restricted to enhancement elements only
- Short-term death-in-service pensions to be standardised at six months
- Children's survivor pensions to be provided until the age of 23
- Additional pension purchase facility of up to £5,000 of additional pension to be provided replacing the current added year's arrangements. Existing added years contracts to be honoured
- The Department of Health will need to make a decision about whether to continue to offer an MPAVC facility. We are recommending that they

¹ For mental health officers (MHOs) and those with transferred in benefits, service limits would only be removed after they had reached 40yrs *actual* NHS service



should and that they should ask the providers to make a case as to why the benefits for members of having a single provider would outweigh the benefits of having a choice as at present

- Removal of the earnings cap for future service
- Existing scheme members to be given a choice to join the new scheme on a full service basis
- Staff returning within five years of leaving active membership of the scheme to be able to rejoin the old scheme but given the choice to join the new scheme on a full service basis (if they have not previously had the choice as an active member). Over five year returners to be given period of grace until 31 March 2008 to return to the old scheme. Pensions Agency to write to all deferred members with addresses to inform them of this
- Special Class staff to retain existing rights to Normal Pension Age 55, and, where appropriate, to double accrual after 20 years service. No further extension or reduction of Special Class status
- Staff returning after more than five years after 1 April 2008 to join the new NPA65 scheme but given the option to convert their old scheme service to the new scheme
- Changes for existing staff to be introduced at a date no later than 1 April 2008

New entrants

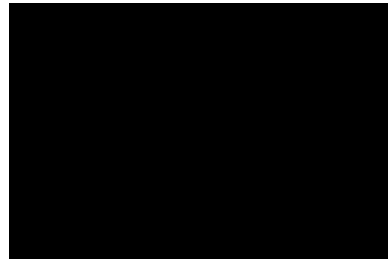
- A revised NPA65 final salary structure with an accrual rate of sixtieths for pension, lump sum by commutation of pension (at the rate of 12:1) and pensions for surviving partners and spouses accruing at the rate of three-eighths of the pre-commutation pension
- No restrictions on length of NHS pensionable service in the scheme
- Minimum pension age of 55
- Tiered contribution rates on whole pay (see table on page 3)
- FS calculation to be based on the average of the best three consecutive years in the last ten revalued by RPI; supporting step down and wind down in the run up to retirement (further detail at paragraph 6.6 of the consultation document)
- Practitioners to retain a CARE scheme with an accrual rate of 1.87% dynamised by RPI plus 1.5%, with lump sum by commutation
- Staff to have a range of flexibilities around taking pension:
 - ability to draw down all or part of pension whilst continuing to buildup pensionable service after reaching the minimum pension age
 - ability to return to pensionable employment after taking a pension
 - pension enhanced by late retirement factors if taken after the normal pension age



- Abatement of pension in payment on rejoining to be restricted to enhancement elements only
- Short-term death-in-service pensions to be standardised at six months
- Children's survivor pensions to be provided until the age of 23
- Additional pension purchase facility of up to £5,000 of additional pension
- The Department of Health will need to make a decision about whether to continue to offer an MPAVC facility. We are recommending that they should and that they should ask the providers to make a case as to why the benefits for members of having a single provider would outweigh the benefits of having a choice as at present
- Removal of the earnings cap
- Changes to be introduced from 2007

Contribution rate structure for all staff

New contribution structure based on whole pay, to be implemented from 1 April 2008 at the same time as benefit changes for existing staff and when new scheme is implemented for new entrants. For part timers, the rates apply to full time equivalent pay. Those currently paying 5% as manual staff will move onto the contribution rate appropriate to their pay point. Thresholds for the tiered contribution rates (including the highest tier) will be increased annually in line with Agenda for Change (AfC) pay increases (see table overleaf).



Contribution rate structure

Annual pay (Full time equivalent)	Current contribution	New contribution
AfC pay point 9 and below (currently up to and including £15,107) <u>Non AfC</u> Up to and including £15,107	5% and 6%	5%
AfC pay point 10 up to 48 (currently £15,446 - £60,880) <u>Non AfC</u> Above £15,107 - £60,880	6%	6.5%
AfC pay point 49 and above (currently £63,417 up to £88,397) <u>Non AfC</u> Above £60,880 up to £100,000	6%	7.5%
Above £100,000	6%	8.5%

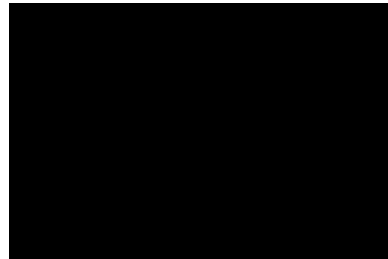
Note:

Staff classified as manual staff currently pay 5% and all other staff pay 6%. In future all staff will have their contributions based on the new arrangements.

For AfC members, NHS pay rises will also apply to pay points. Movement between pay bands will therefore not depend on the level of any agreed NHS pay rise, but in most instances on promotion to a higher pay point. Further work is ongoing to determine how the tiered rates will operate in practice.

Earnings above the earnings cap are currently not pensionable for staff who joined the pension scheme after 1989².

² For dental practitioners have a separate additional Maximum Allowable Remuneration – MAR, which can affect high earners not subject to the normal earnings cap. Dental earnings cap from 1 April 2005 £112,400.



Funding issues

As part of the overall package, a new basis for dealing with future increases in Scheme costs has been agreed. The Government Actuary is currently undertaking a valuation of the NHS Pension Scheme and the recommendations are likely to be implemented in 2008. The Government Actuary makes the funding valuation report independently and it is too early to say what the recommendations will be. However, our analysis suggests that the employer contribution rate in 2008 should not vary markedly from 14%. It has been agreed that there will be a cap on employer contributions in 2004 and 2008 when the valuation result are implemented in 2008 and 2012 of 14.2%. From the 2012 valuation to be implemented in 2016, the employer contribution rate will be capped at 14%. A further agreed aim is to maintain Employer contributions at or just above the 14% level and employee contributions at the levels proposed until 2016. Reductions in the employer or employee contribution rate would therefore not arise. Any surplus as a result of this will be used to reduce any upward pressure on the member contribution rate.

It is possible that in the future, the costs of the Pension Scheme might reduce. If this was to happen any reductions in the costs of the scheme would go to the member until the overall contribution rate returned to 20.4%. Any subsequent reductions below 20.4% would be shared on a 50% employee 50% employer basis as would any subsequent cost increases back to 20.4% and the employer 14% cap.

Governance arrangements

A partnership group, involving management and staff side representatives with expert advice, to consider the emerging valuation work at each valuation. Subject to the overall employer cap, the group would make recommendations to government (health departments and HM Treasury) on how to implement the valuation results; in terms of any increase to employee contributions or alternatively changes to the benefit structure to reduce costs. The output of this work would form recommendations to Government who would decide on and consult on any regulations needed to implement changes. In some cases, the changes in value may be due to other factors such as legislative changes that might be imposed from outside the Scheme, and the treatment of these would be agreed if and when they arose.



The partnership group would also consider issues around 'red circling' and whether and to what extent current arrangements might change. For example, additional protective arrangements in relation to the current formula for calculating pension benefits, should be put in place to avoid increases in costs that would ultimately be met by the rest of the membership and five year protection for those returning to the existing scheme.

Further work

The Steering Group supported by the Technical Advisory Group and Administration Sub Group will continue to discuss the detail around the proposals during the consultation period and more information will be posted on the NHS Employers website – www.nhsemployers.org – and communicated to staff as necessary. Immediate areas for consideration will be:

- Implementation and operation of tiered contribution rates
- Multiple nominations
- Extra one times lump sum where there is no nominee/partner

Timing

Agreement to be announced on 1 August. Consultation to extend from the beginning of September to the end of November. Following an analysis and study of consultation responses by the review partners, final decisions will be made by Health Ministers.

NHS Employers
July 2006