



briefing

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Working together for a 21st Century Pension Scheme

This briefing explains the recently announced review of the NHS Pension Scheme in England and Wales. It covers what has happened so far, what the review is, why the Confederation is leading the review, how the review will be taken forward, and how to get involved. The review will have direct implications for members in England and Wales, and may lead to changes in Northern Ireland and Scotland.

Summary

The NHS Confederation is leading a review of the NHS Pension Scheme in conjunction with the Department of Health, the NHS Pensions Agency and the National Assembly for Wales. The aim of the review is to develop proposals for a new scheme by autumn 2004.

The review has come about due to:

- pressure to modernise the scheme from staff and employers, which cannot easily be met without restructuring
- the Inland Revenue proposals on changes to the tax regime for pensions, which create new opportunities for making the scheme more flexible
- the Government policy of moving public sector schemes over time to a normal pension age of 65.

Important assurances have been given that:

- the review will maintain the principle of a defined benefit scheme
- existing scheme members will be given the right to transfer to a new scheme
- existing scheme members' accrued rights will be fully protected
- any change to the terms of future service are unlikely to affect anyone currently within ten years of retirement.

David Jordison (chief executive of Morecambe Bay PCT) has been appointed as project sponsor and chair. He will be supported by a small project team based at the Confederation. At present the team is carrying out preparatory work; following this, a steering group including NHS staff representatives, will be formed in the autumn to guide the review, together with a wider reference group to provide advice.

Further information will be made available via the Confederation website as the review progresses. A letter will also be sent to scheme members in the autumn, and there will be an opportunity for senior managers to participate in seminars that the Confederation will arrange later this year. Senior management nominees for the reference group will also be sought through the Confederation's representative structures for the English regions, Wales, Scotland and Northern Ireland later in the summer.

"The NHS Pension Scheme is one of the best there is, but it is vital that we make sure it meets the needs of tomorrow's staff and employers. There is a clear feeling from all sides that it can be improved."

David Jordison, project sponsor and chair

The NHS Pension Scheme in England and Wales

The NHS Pension Scheme in England and Wales is a statutory scheme, introduced in 1946. It has been amended a number of times since then, the most significant recent changes took place in 1995, when more choice and flexibility were introduced, together with some benefit improvements financed by withdrawing special early retirement rights for new entrants. The scheme is the largest employer pension scheme in the UK. Around 1.9 million people are in the scheme. Of these, over a million are still working in the NHS. The rest are either retired or working

outside the NHS but with a deferred right to an NHS pension when they reach pension age.

The NHS pension scheme is not backed by a pension fund. Instead payments to pensioners are made from the Government's general revenue. However, there are periodic reviews by the Government Actuary to ensure that contributions by employers and employees will over time support the costs of the scheme. An increase in scheme costs therefore eventually feeds through into higher contributions.

Separate but similar schemes exist in Scotland and Northern Ireland. While these schemes are outside the remit of the review of the scheme in England and Wales, changes to the English and Welsh schemes in the past have usually been followed by similar changes to the Scottish and Northern Irish schemes. However, the last major change took place before health was devolved to the Scottish Parliament and Northern Ireland Assembly. At the time of writing no announcements have been made about future plans for the NHS pension schemes in Scotland or Northern Ireland.

What has happened so far?

At the end of April, John Hutton MP, the Minister of State for Health, announced at the RCN congress that the Department of Health had asked the NHS Confederation to lead a review of the NHS Pension Scheme.

"This is an important opportunity for the Confederation to lead the development of a new pension scheme, so that the NHS continues to offer high standards of security for staff, but in ways which better reflect modern lifestyles and working practices, and which help the NHS recruit and retain the staff it needs in the 21st century."

Gill Morgan, chief executive, the NHS Confederation

He said that the aim of the review was the development of a new pension scheme that continues to offer high standards of security for staff, but better reflects modern lifestyles and working practices. He mentioned in particular that the review would look at ways of increasing the flexibility of the

scheme and at issues such as survivor benefits for unmarried couples. The minister also gave a clear assurance that the review would maintain the principle of 'defined benefits'.

Defined benefit schemes are pension schemes in which retirement benefits are defined by the scheme rules rather than the performance of an individual's investment in the scheme. The most common way of defining benefits is by reference to final salary; however, career average salaries are also commonly used to define benefits. (Most members of the NHS scheme have benefits defined by final salary, but a form of career averaging is used for GPs and dentists.)

Shortly after the announcement, the Confederation issued a press release saying that it had accepted the invitation. This said that the review would take as its starting point the recent scheme modernisation report published by the NHS Pensions Agency, *Pension Scheme modernisation: a millennium health check for the NHS*

Pension Scheme. It would also take into account the recommendations of the Government green paper on pensions, and the proposed changes to the pensions tax regime announced by the Inland Revenue.

In addition to confirming that the review would maintain the defined benefit principle, the press release contained a number of further assurances to members of the current scheme. It said that amendments would continue to be made to the current scheme as necessary while the review progresses, including the changes agreed as part of the GMS contract negotiations. It went on to say that if a new scheme is agreed, members of the current scheme would have their accrued rights protected. They would also be given a right to transfer to any new improved scheme subject to rules which would be agreed as part of the review.

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Why is the review taking place?

There are a number of issues which have come together to make a review necessary. Staff organisations have been pressing for a number of years for improvements to the NHS Pension Scheme. Some of these improvements are in areas where the NHS scheme is beginning to fall behind other schemes, such as offering wider provision of survivor benefits. However, they have been difficult to accommodate in the current scheme because of cost, particularly if they are not accompanied by structural changes. *Pension Scheme modernisation: a millennium health check for the NHS Pension Scheme* therefore concluded, among other things, that to incorporate the modernising opportunities described in the report, a new scheme offered the best way forward.

Staff organisations have been pressing for a number of years for improvements to the NHS Pension Scheme.

The Inland Revenue green paper *Simplifying the taxation of pensions: increasing choice and flexibility for all* has proposed some very radical simplifications of the rules that pension schemes have to meet to gain tax relief. If these proposals are confirmed following consultation, they will provide a significant opportunity to make the NHS scheme more flexible. For example, the proportion of the pension that could be taken as a lump sum might increase, and it might become possible to draw a pension while continuing to work for the same employer without a break in service.

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The Government green paper on pensions, *Simplicity, security and choice: working and saving for retirement*, set out the problem posed by rising life expectancy – itself a tribute to the NHS – and the case for people either to work longer or save more if they wished to maintain current standards of living in retirement. It proposed that in future, new entrants to public sector pension schemes should have a normal pension age of 65, and that there should be further consultation on how this could be extended to existing staff. (In parallel, the Inland Revenue has proposed an increase in the minimum pension age from 50 to 55.)

Minimum pension age is the earliest age at which a pension can be paid, either under scheme rules or under Inland Revenue rules for tax relief.

More recently the Government published an action plan following consultation on the green paper. *Simplicity, security and choice: an action plan* stated the intention to proceed with the proposal to increase the normal pension age to 65 through reviews of public sector pension schemes in consultation with employers and employee representatives.

Normal pension age is the age at which an unreduced pension can be taken. It is not necessarily the age at which someone has to retire. Most pension schemes, including the NHS, allow people to go earlier but in that case the pension is actuarially adjusted to reflect the change in the period for which the pension is likely to be paid.

It said that precise details of the reform package would depend on the particular scheme, but it envisaged that by the end of 2006 all new staff

would join on the new conditions. It reaffirmed that pension rights already accrued from past service would be fully protected, and said that a key task for the scheme reviews would be to decide how the higher pension age would apply to the future service of existing staff.

"We welcome the fact that the Government has confirmed it intends to work with employers and employee representatives on the transition to a normal pension age of 65 in the public sector."

Gill Morgan, chief executive, the NHS Confederation

In the briefing accompanying the action plan, the Government has however made clear that the protection of accrued rights of existing staff would include protection of any right to retire earlier than 65 with an unreduced pension based on service up to the point of change. It has also indicated that the timetable for the reviews, together with the need for transitional arrangements, mean that anyone currently within a decade of retirement is unlikely to be affected by the proposed change. The proposed change to the normal pension age will also help the financial sustainability of public sector schemes and should generate some savings that can be used to finance scheme improvements.

These three things: the internal demand for more modern benefits, the opportunity for greater flexibility created by the Inland Revenue proposals, and the Government policy of higher pension ages in public sector schemes, have come together to prompt a review. Since the review was announced the Government has also published proposals to outlaw age discrimination, which may also require supporting changes to the pension scheme.

Why is the NHS Confederation leading the review?

The invitation for the Confederation to lead the review is part of the Government's general policy of shifting the balance of power from the Department of Health to the NHS. The Confederation considered its position very carefully before accepting leadership of the review. Following consultation with the NHS Confederation Council and trustees, we concluded that this was an important opportunity for the Confederation to lead on behalf of the service, the development of a new pension scheme, so that the NHS continues to offer high standards of security for staff, but in ways which better reflect modern lifestyles and working practices, and which will help the NHS recruit and retain the staff it needs in the 21st century.

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We very much want to make a reality of NHS ownership of the review by involving members as far as possible, and our continued involvement will depend on our members remaining content with the direction of policy. We regard the NHS pension arrangements as one of the NHS strengths, and our leadership of the review will help us ensure this is not devalued.

The costs of the review are being funded by the Department of Health.

How will the review be taken forward?

The Minister of State has asked us to work in partnership with NHS staff organisations and to develop proposals for consultation by the autumn of 2004.

As a first step we have formed a small project team to start preparing material for the review, and to meet key stakeholders to gain an early understanding of views. From October we plan to form a project steering group consisting of both management and staff-side representatives to oversee the review. A wider reference group will also be formed to provide input to the review from all the main stakeholders, including all nationally recognised staff organisations.

Steering group A small group of about ten officials, managers and trades unionists which will meet roughly every six weeks to guide the review. This group will provide the main forum for analysis and detailed discussion.

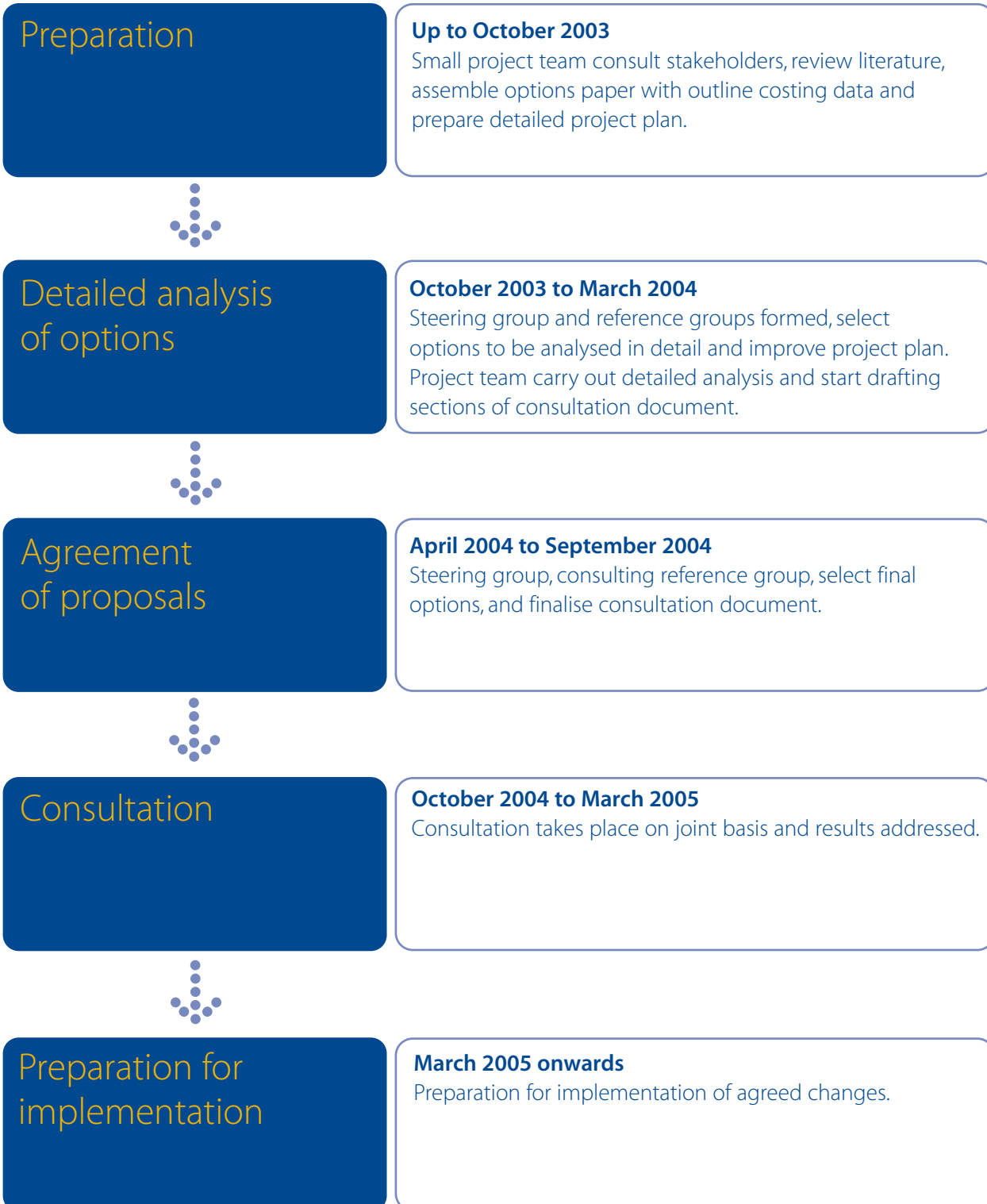
The steering group, assisted by the reference group, will start by looking at a wide range of options for a new scheme. We hope it will then start to narrow these down to a small number of options by the summer of 2004, with final proposals emerging in the autumn of 2004. As far as possible we want this to be an open process, with opportunities for input from NHS organisations, managers and staff at each stage.

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Reference group A much larger group, which will meet less frequently, designed to ensure all the main parties with an interest in the review have an opportunity to contribute. The precise composition and details have yet to be agreed. All nationally recognised NHS staff organisations will have a seat, as will management representatives and representatives of the Scottish and Northern Irish NHS pension schemes.

Once final proposals have been made, detailed information will need to be given to all scheme members and formal consultation will need to take place as required by legislation. A new scheme is unlikely to be agreed before 2005.

NHS Pension Scheme Modernisation



How can members find out more and get involved?

The Confederation has established a pensions section on its new website which can be found at www.nhsconfed.org/pensions Although the information on this site is fairly limited at present, it should build up quickly from October as the review gathers pace.

Later this year we will also plan some regional seminars for board members, HR managers, pensions managers, and senior trades unionists from member organisations. If you are in these categories and would like to receive information in due course, please register your interest at the e-mail address below.

Senior NHS managers from Confederation member organisations who would be willing to be on the reference group should contact in the first instance their English regional representatives or the Welsh, Scottish or Northern Ireland office. Later this year we also plan to write to all scheme members.

Contact point

For more information contact Marie Thompson, project administrator at nhsensionsreview@nhsconfed.org or phone 020 7959 7256.

The project team

David Jordison project sponsor and chair

Currently chief executive of Morecambe Bay PCT, David will soon retire following 12 years as a chief executive in a succession of NHS organisations in the North West. Following his retirement he will work part time for the Confederation providing strategic leadership for the review.

Mike Evershed project manager

Mike is a career civil servant on secondment from the Department of Health where he led the team managing the Agenda for Change pay modernisation talks.

Angela Walsh pensions adviser

Angie is a pensions expert on secondment to the project from the NHS Pensions Agency, where she was closely involved in the work on the millennium health check for the NHS Pension Scheme.

Marie Thompson project administrator

Marie has joined the project from the Confederation team managing the successful GMS contract negotiations.

A **communications manager** will also be appointed.

Further reading

Pension Scheme modernisation: a millennium health check for the NHS Pension Scheme www.nhs.gov.uk/library/cfm

Simplifying the taxation of pensions: increasing choice and flexibility for all www.inlandrevenue.gov.uk/consult_new/pensions_consult.htm

Simplicity, security and choice: working and saving for retirement www.dwp.gov.uk/consultations/consult/2002/pensions/index.asp

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