



briefing

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Aims and values: working together for a 21st century pension scheme

The NHS Confederation, in partnership with key stakeholders, including NHS trade unions, is leading a review of the NHS Pension Scheme. This *Briefing* is the first in a series reporting on the discussions that have taken place so far. It covers the initial discussions of the

review reference group on the aims and values that should underpin any new pension arrangements for the NHS. Other issues will be covered in later *Briefings*. These will be published throughout the review, which is expected to continue until spring 2005.

While this update sets out some emerging themes from the reference group's discussions, these should not be seen as proposals. The review partners want to encourage comments and feedback on the debate from staff and employers before drawing their conclusions.

Summary

The initial discussions of the NHS Pension Scheme review's reference group have highlighted a number of issues that should be further developed in the review. Firstly, there was a desire to base the design of any new pension arrangements on modern careers and working patterns, and to use the scheme more actively to support recruitment and retention. It was also felt the review should give a high priority to equality issues, for example in relation to survivor pensions. Thirdly, the review group found strong support for the principle of mutuality and the retention of a defined benefit scheme. Lastly, the group found limited support for extending flexibility and choice for scheme members.

These discussions also revealed the staff side of the review's reservations concerning the Government's proposal to increase the normal pension age to 65 across the public service, pending further discussions between the TUC and the Government.

All reference group seminars are facilitated by Dr Alan Arthurs of the University of Bath.

Background

David Jordison, chair of the review, and Jon Richards, chair of the staff side of the review, wrote to all NHS employees in England and Wales early in 2004 to tell them about the NHS Pension Scheme review. In that letter they promised, on behalf of the review partners, that the review would be an open process. They said

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that information would be available on all stages of the review and that NHS staff and employers would be able to comment, if they wished.

Although the review is at a very early stage, and is expected to continue until 2005, the review partners have asked the NHS Confederation to produce this *Briefing* on the initial discussions held by the review reference group on the aims and values which should underpin any new pension arrangements in the NHS.

Over the next few months the review partners intend to produce similar updates after each of the initial discussions of the review's reference group. The views and opinions of NHS staff and employers can be fed into the review via the contact

address given in the 'Your views' section at the end of this document. These will be taken into account in the further work of the review.

This *Briefing* has been cleared by the review steering group for use in informing the Service and for seeking views. However, it should not be assumed that the review partners necessarily support all the ideas it contains. Nor is it intended that this document includes everything that the review reference group will be discussing over the course of the review. A programme of seminars has been organised to look at particular areas in depth and there are a variety of views to be taken into account on the changes that need to be made in NHS pension arrangements.

Aims and values

The review's reference group met for the first time in November 2003 and includes a wide range of NHS managers, trade unionists and

pensions experts. They discussed, in particular, the aims and values that should guide the review of the NHS Pension Scheme and underpin any new pension arrangements.

The following themes emerged from this discussion:

Mutuality

There was strong support for mutuality in general and the defined benefit principle in particular. Mutuality means seeing a scheme as a jointly-owned benefit rather than as individual savings. A defined benefit scheme is one where the level of benefits payable is defined by the scheme's rules rather than by the level of contributions and the scheme's investment returns.

Equality

It was generally agreed that equality issues should be high on the agenda, for example in introducing survivor benefits for unmarried couples and same sex partners.

Modern working

A new scheme should be designed around modern careers and working patterns.

Contribution levels

There was limited support for introducing greater personal choice and flexibility over contributions. There was felt to be no difficulty, in principle, with employees having options to pay higher contributions in return for higher benefits. But some reference group members felt strongly that employees should not be able to choose lower contribution rates in return for lower benefits.

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Assurances

A number of important assurances have already been given by the Minister for Health and the review team:

- the defined benefit principle will be maintained, whereby members' benefits are based on scheme rules, offering security and predictability. The most common form of defined benefit scheme is one based on final salary
- if the age at which people would normally take their pension is raised this is unlikely to affect existing staff before 2013
- pensions and lump sum benefits earned in respect of scheme membership before the date of any change will be fully protected
- the position of groups of employees with different pension rights in the existing scheme, such as those with special class status and mental health officer (MHO) status, will be carefully considered as part of the review.

benefits could encourage people to under-provide for their retirement. However, there was some debate surrounding carefully targeted low contribution options to encourage the low paid to participate in the Scheme rather than opt out. The idea of compulsory membership was discussed, but it was recognised that this would require legislation.

Reference group members also felt that employer contributions should remain the same for everybody, whatever their personal contribution rate. Any scheme that allowed employers to vary their contributions (for example to match the contributions paid by employees), might mean those able to afford higher contributions could thereby secure more help from their employers.

Pension benefits

The idea of greater personal choice in the level of in-service death and ill-health benefits was discussed but drew little support. However, there was widespread interest in providing more flexibility for Scheme members in the benefits they received at retirement. There was interest in a more individualistic approach where members are able to decide at retirement the proportion of their pension rights that they could take as a pension or lump sum and the level of survivor benefits.

Flexibilities

The reference group expressed support for using the new flexibilities suggested by the Inland Revenue to allow a more managed step down into retirement. They felt there was no objection, in principle, to encouraging people to work for longer if they wanted to do so.

Retirement age

The Government's proposal to increase the normal pension age of public servants from 60 to 65 was discussed. The reference group expressed different views on this issue with some group members asserting strong opinions against it. The staff side of the review reserved

'The review partners would very much welcome your comments on the themes emerging from the review so far'

their position pending further discussions between the TUC and the Government.

Background to the review

At the end of April 2003 the NHS Confederation announced that it had been invited by the Department of Health to lead, on behalf of NHS employers and in conjunction with the Department of Health, the NHS Pensions Agency and the National Assembly for Wales, a review of the NHS Pension Scheme.

There are four main drivers for the review:

- the Inland Revenue's proposed changes to the tax regime for pensions which will create new opportunities for making the scheme more flexible
- the government proposal to move the normal pension age to 65 for all public service schemes
- age discrimination legislation to be implemented by 2006
- pressure from within the Service to make the scheme more appropriate for a 21st century NHS workforce.

The current review follows an earlier review in 1999 that culminated in the publication of the report *A millennium health check for the NHS pension scheme* by the NHS Pensions Agency last year. The report concluded that it would be difficult to make the changes suggested by employers and members without structural change to the scheme. Therefore, there should be consideration given to creating a new pension scheme for the NHS. However, the current review will not make a decision on whether to recommend a new scheme or simply amend the current scheme until it has considered all the evidence.

The review will be a partnership process, working with key stakeholders, including the NHS trade unions, and consulting on all stages. A steering group has been set up, comprising representatives from both management and staff, to give direction to the project team. The wider reference group which includes representatives of all the stakeholders in the review, together with some independent experts, has a remit to ensure that any recommendations for a new pension scheme meet the needs of the modern NHS and its staff, are affordable and are consistent with good pension practice.

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Communication

There was broad consensus that the new scheme must be accepted and understood by its potential members; namely all NHS employees. This would necessitate enhanced and effective communications.

Recruitment and retention

There was a widespread feeling that the NHS is not using the present scheme aggressively enough in recruitment, and that the impact on recruitment and retention should be a consideration in any new design. There is growing evidence that employees are increasingly recognising the value of a pension scheme as part of their remuneration package. As private sector schemes attract further negative attention a Government-backed defined benefit scheme should be attractive to current and potential employees.

A number of specific ideas were also raised by individual reference group members for possible further

Consultation documents

At the end of 2002 the Government published two consultation documents:

- a green paper on pensions – the key proposal of which was to increase the normal pension age of public servants from 60 to 65
- Inland Revenue tax simplification. The key proposal is to remove current contributions limits and allow members a high single-lifetime limit of £1.4 million. Other ideas included setting a new minimum age of 55 at which a pension could be taken with tax relief (other than in cases of ill-health), allowing people to take their pension in stages, and greater scope to take a pension while still working.

Further consultation documents were published in June and December 2003. These documents set a new context for the operation of pension schemes and played a large part in the impetus for the NHS Pension Scheme review.

consideration later in the review. These will be covered in later updates when the reference group has had an opportunity to discuss them in more detail at future meetings.

Your views

The review partners would very much welcome your comments on the themes emerging from the review reference group's discussion of values and aims. If you would like to make any comments, please send them to Sarah Chrispin, Project Administrator, NHS Pension Scheme Review, NHS Confederation,

1 Warwick Row, London SW1E 5ER
or by e-mail
nhsensionsreview@nhsconfed.org

Further information

For further information on the NHS Pension Scheme review visit:

www.nhsconfed.org/ourpriorities/pensions/asp

www.nhs.gov.uk

www.dwp.gov.uk/lifeevent/penret/index/asp

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The NHS Confederation
1 Warwick Row London SW1E 5ER
Tel 020 7959 7272 Fax 020 7959 7273
E-mail enquiries@nhsconfed.org