NHS pension scheme review in Scotland

Working together for a 21st century pension scheme

Your views and opinions

Consultation with NHS staff in Scotland

Main Consultation Document

SPensiR
A sub-group of the Scottish NHS HR Forum, consisting of representatives from the NHS employers and Trade Unions in Scotland and the Scottish Executive

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CONTENTS

Foreword, by the Joint Chairs of the Scottish Pensions Review Group

1 Why is a review necessary?

2 The review process

3 The wider pensions context

4 The NHS context

5 What staff said: the NHS pensions survey in Scotland

6 Review aims

7 Financial considerations

8 A new pension scheme

9 Existing members

10 Understanding your pension

11 Administrative issues

12 Next steps

Annexes

2. Foreword by the Joint Chairs of the Scottish Pensions Review Group (SPensiR) – a subgroup of the Human Resource Forum (HRF)

Pensions are very important to our colleagues in the NHS. For staff, they represent not only deferred pay, but financial security in retirement. For NHS employers they represent an essential tool for the recruitment and retention of high quality, motivated staff.

Working patterns, longevity and society generally have changed quite significantly since the NHS scheme was set up in Scotland in 1948. There was a feeling among the service that it was time that the scheme was modernised to reflect those changes. The stated aim of this review was to ensure that the scheme meets the needs of a modern NHS and its staff, by making benefits more appropriate for today's workforce. It is also important that different pension arrangements within the NHS and local authority partners should not be a barrier to the closer working between public sector employers.

The NHS scheme in Scotland has always mirrored that in place for our colleagues in England and Wales and Northern Ireland. This helped maintain a UK-wide consistency in working conditions for NHS staff, and ensured that pensions was not a barrier to NHS staff moving freely throughout the service, should it suit their careers or personal circumstances to do so.

During the review, we have strived to retain consistency with our other UK colleagues. However, we recognise that this consultation process may produce distinctive Scottish issues, which we, as a group, will address before we make any recommendations to the Scottish Ministers on the future of the NHS scheme in Scotland. It is important to remember that any recommendations that we make as a result of this consultation process will apply only to NHS staff in Scotland.

It is very important to us that the wider NHS is part of this review. That is the reason we are asking for your views on the options and recommendations that have been identified. Your views will form an integral part of the final recommendations we make to Scottish Ministers, who will ultimately decide on the future of the NHS scheme.

This consultation document is a product of the partnership that employers, trade unions and the Scottish Executive have in the NHS in Scotland. During the review process, we have not been able to agree on everything. It is clearly indicated in the document where a recommendation is a joint one. Similarly, we have made it clear where we have different views.

The approach taken to the review does mean that the recommendations made in this document are those of NHS employees and trade unions, rather than the Scottish Ministers or indeed the wider UK Government. We also recognise that they will have to assessed against wider UK Government policy, as well as the requirements of the NHS in Scotland.

We believe that the changes which are jointly recommended offer improved benefits to the dedicated individuals that make up the NHS workforce. The proposed new scheme will offer choice and flexibility to scheme members, giving them control over how and when they plan their retirement.

We believe that the joint recommendations would give the NHS in Scotland a pension scheme that will support ongoing recruitment and retention initiatives and will help make the NHS an employer of choice.

We urge you to take part in the review process, by sending us your views on the options that have been identified and the recommendations which have been made.

Remember, this is your pension scheme.

With our best wishes

Derek Lindsay
Joint Chair (management)

Michael Fuller
Joint Chair (trade unions/professional organisations)

1. WHY IS A REVIEW NECESSARY?

1.1 Occupational pensions policy in the UK is a matter which is reserved to the UK Government at Westminster. In December 2002, the Department of Work and Pensions published in the green paper "Simplicity, security and choice: working and saving for retirement" (*see fact box 1*) the UK Government's proposals and recommendations to help people work longer and save more for retirement.

1.2 One of the recommendations contained in the follow-up green paper of June 2003 "Action on Occupational Pensions" (Cm 5835) was that all public service pension schemes, including the NHS, should be reviewed. The aim was that from 2006 all new entrants to the public service would join on new pension terms that included higher pension ages. The reviews would also consider how the higher pension age would apply to the future service of existing staff and how to ensure that transitional arrangements are fair and balanced. The UK Government was of the view that this was necessary to reflect improved longevity, modern working patterns and practice in the private sector. It would ensure that public sector pension schemes were financially sustainable in the longer term, could meet the aspirations of the members in terms of the income they could achieve in retirement, and meet the needs of an increasingly diverse, modern workforce.

1.3 Acting on the UK Government's recommendation, reviews of pension schemes have been taking place across the public service in the UK. Over and above the UK Government's recommendation, there are a number of common factors across all of the public service schemes which are driving the reviews. Perhaps the most important are:

- the Inland Revenue proposals on changes to the tax regime for pensions which create new opportunities for making schemes more flexible (*see fact box 1*)
- the UK Government proposal to move the normal pension age to 65 for most public service schemes
- age discrimination legislation to be implemented by 2006
- pressure from within the NHS in Scotland from both employers and trade unions to make the scheme more appropriate for a 21st century NHS workforce.

1.4 In line with the UK Government's recommendation, Scottish Minister's agreed that a review of the NHS Superannuation scheme in Scotland ("the NHS scheme") should be carried out as soon as possible, and that this review should be carried out in partnership between the NHS trade unions, NHS employers and the Scottish Executive.

1.5 The aims and values of the review of the NHS scheme are set out in more detail in section five. The overall objective of the review was to develop a scheme which was better placed to support the aim of the NHS to be the employer of choice. The review would develop options for change that would provide secure personal and family benefits and allow staff to extend their working lives in a way which facilitated a gradual transition from work to retirement, or a mixture of both, and to provide the means for members to save more for their retirement if they wished to do so.

1.6 This document sets out the options and recommendations that have emerged from the review. In some areas, these are proposals agreed as the best way forward. In others, more than one possible option is set out. The issues we are seeking views on are set out throughout the text and are collected in the response form at the end of this document. Responses to this consultation will be considered by the review group before any final recommendations are made to Scottish Ministers. The Scottish Ministers will then decide how to take forward the modernisation of the NHS scheme in the light of the review report and the responses to consultation.

FACT BOX 1

Proposed changes to occupational pensions

The Inland Revenue's simplification proposals introduce a new tax regime for pensions effective from 6 April 2006. The new regime will replace the eight existing regimes and is designed to provide greater flexibility for members and reduced administration for schemes. The key proposals are:

- introduction of a lifetime allowance on the total accrued value of an individual's pension rights which benefit from tax relief. This will be set initially at £1.5 million
- introduction of an annual allowance on the amount of increase to pension benefits, initially set at £215,000
- 100 per cent of salary limit for tax relief on member contributions
- introduction of tax-free lump sums of up to 25 per cent of the value of benefits taken
- an increase to the minimum pension age from 50 to 55 by 2010 with limited protection for existing members
- increased opportunities for schemes to offer flexible retirement provisions, such as draw down.

Public service pension schemes

The Government's green paper on pensions, *Simplicity, security and choice: working and saving for retirement*, made the proposal that the normal pension age for public service pension schemes, the age at which pension benefits are payable in full, should be raised from 60 to 65. This was part of a package of reforms to ensure that people are adequately provided for in retirement, to encourage longer working lifetimes, greater participation of older workers and improved pension information. In its follow-up green paper "Action on Occupational Pensions", the UK Government has since announced its general intention to implement this.

1.7 Historically, the pension provision for NHS staff in Scotland has mirrored that in place for NHS staff in England and Wales and Northern Ireland. This reflected public service pensions policy generally, and the fact that Treasury provided funding for all public service pension schemes in the UK. A separate review of pension provision for England and Wales and Northern Ireland is currently being carried out. Whilst the review group recognises the benefits of consistency, any recommendations made to Scottish Ministers as a result of this review, will relate only to pension provision for NHS staff in Scotland.

2. THE PROCESS

2.1 The overall responsibility for the review of the NHS scheme lies with the Scottish NHS HR Forum (HRF). The HRF, in general terms, is charged with the role of addressing NHS staffing issues on a Scotland-wide basis, including pensions. Its membership is made up of NHS trade unions, NHS employers and the Scottish Executive. The membership of the HRF in outlined in annex A.

2.2 The HRF has delegated the task of reviewing the NHS scheme to a sub-group called the Scottish Pensions Review Group – SPensiR for short. The membership of SPensiR is outlined in annex B.

2.3 Historically, the pension provision for NHS staff in Scotland has mirrored that in place for NHS staff in England and Wales. A summary of the current NHS scheme is set out in annex C. This reflected the UK Government's policy on retaining consistency in pension provision for public service staff on a UK-wide basis, and took into account that Treasury provided most of the funding for public service pension schemes.

2.4 As a result, the review of the NHS scheme has been based on the review of pension provision for NHS staff in England and Wales, which is being carried out by the NHS Confederation. SPensiR is represented on the NHS Confederation review, and feeds Scottish interests directly into it. For a summary of the review process in England and Wales, see annex D.

2.5 While SPensiR recognises the reasons for maintaining a consistency in pension provision between NHS staff in Scotland and their counterparts in England and Wales, they also recognise that there may be distinctive needs and requirements within the Scottish NHS workforce which have to be met within this review of the NHS scheme.

2.6 With this in mind, SPensiR will review and analyse the results of this consultation, in conjunction with the results of the recent survey of NHS staff in Scotland, before making a recommendation to Scottish Ministers on the future shape of the NHS scheme.

2.7 As part of the review, the Scottish Ministers gave a number of assurances to NHS staff. These were:

- **Retention of a defined benefit scheme**. There are two types of pension: defined benefit and defined contribution. **Defined benefit** schemes promise a certain level of benefit, based on salary, or service or even a fixed pension. Examples are final salary schemes and career average schemes. Most public service schemes, including the NHS scheme, are defined benefit schemes. The Scottish Ministers have promised that this will continue. **Defined contribution** schemes cannot guarantee the level of benefits, as these depend upon the value of the investment return on the contributions paid into the scheme by the employer and employee and the annuity rates applying when the investment is converted into pension. Examples are money purchase schemes and personal pension schemes.
- **Protection for existing members**. Those NHS staff who intend to retire before 2013 will be able to do so without any loss of existing pension rights. NHS staff who intend to retire after 2013 will have their pension rights built up until 2013 protected under the existing terms. This means that service for existing NHS staff up until 2013 will be payable on retirement after the age of 60 without reduction, calculated on the basis of pensionable pay at the time of retirement. Those with special retirement rights, including those with Mental Health Officer (MHO) status, will have the same protection in relation to their right to retire at 55. In addition, consideration has been given to whether and to what extent improvements might be made to the current scheme which could encourage NHS staff to extend their working lives should they wish to do so (section 9). It is expected that existing NHS staff will be given the opportunity to choose to join any new pension arrangements that may be set up.

3. THE WIDER PENSIONS CONTEXT

3.1 Pension schemes have become much more newsworthy in recent years. Following the Mirror Group pension issue, the UK Government responded with the Pensions Act 1995, part of which provided for more communication with scheme members, and also introduced stricter funding requirements. Since then, a downturn in the stock market, through which most pension schemes have funds invested, has put further pressure on pension scheme assets and, in some extreme cases, resulted in there being insufficient funds to pay benefits. Additional changes to working practices and the fact that people are working for fewer years and living longer in retirement have also added to pension scheme costs.

3.2 Companies have responded to these pressures in a number of ways. Some have increased their contribution rates, others have closed schemes or restructured the benefits to reduce the risks to themselves and share the risks with employees. There is a general move away from defined benefit pension schemes towards defined contribution arrangements, where the costs are known but the benefits depend on investment returns.

3.3 The NHS scheme, like other public service schemes, is not immune to these changes, although it is not exposed to the vagaries of the stock market as it has no actual fund invested. Benefits are underwritten (guaranteed to be paid) by the Government. Nevertheless, the pressures created by changes in the financial world, people living longer and changing working patterns have an impact on the cost of the scheme and this needs to be considered when making any changes.

3.4 The UK Government has promoted a range of 'active ageing' initiatives, aimed to support older people returning to, or continuing in, active employment. More and more now, society is blurring the lines between the traditional stages of education, employment and retirement. Pension schemes need to adapt to recognise this.

3.5 Wider concerns around these issues resulted in the green paper on pensions, *‘Simplicity, security and choice: working and saving for retirement’*, and the joint Inland Revenue and Department for Work and Pensions document, *‘Simplifying the taxation of pensions’*. These documents, among other things, will create the ability for pension schemes to adapt to changes by creating flexibility around the levels able to be saved in a pension, and removing barriers to longer pensionable careers.

3.6 More recently, the Pension Commission report, *‘Pensions: challenges and choices’* (primarily aimed at reporting on private pension provision) highlighted that pensions saving and pensions costs were moving apart and that changes would be needed to prevent an increase in pensioner poverty. These changes included the suggestions of increased taxes, savings and retirement ages, probably a combination of all three.

Public sector pension schemes

3.7 The NHS scheme is a public service scheme and must operate within the UK Government’s public service pensions policy. The consent of the Treasury is required before NHS scheme regulations may be amended. It is important to consider the possible wider repercussive effects of changes both across other parts of the public service, and outside in the private sector.

3.8 Many other public service schemes are undergoing reviews for the reasons mentioned earlier. The options and recommendations contained in this document reflect best practice across the public service schemes, but is also the best possible fit for the NHS and its staff.

The European dimension

3.9 Over the next half century, the United Nations is forecasting that those above retirement age in the European Union will increase from 60 million to 100 million and that the proportion of the population over 80 will virtually treble. The European Commission in March 2002 stated that the effect of an ageing population would materialise over the next 10 years and that member states need to put in place credible and effective strategies to address this. The Commission also stated that member states should give clear signals to citizens about what they can expect from their pension systems and what they have to do to achieve an adequate living standard in retirement.

3.10 The EU has also put in place a statutory framework on equality issues that has an impact on all pension arrangements across the EU. The European Directive, which aims to ensure equal treatment[1], is generally described as the Employment Directive. The aim is to prevent unacceptable discrimination at work and training on grounds of age, sexual orientation, disability and religion or belief. It sets a framework which will ensure that there are minimum standards for combating discrimination throughout the European Union.

3.11 All member states are required to comply with European Union directives. This means that the review had to ensure that any new provisions would not contravene the principles of equal treatment. For example, from 2005 civil partnership registration is being introduced in the UK for same-sex partners. This means that partners of the same sex will be able to register their relationship and receive the same rights as married couples. With regard to age discrimination, laws preventing unjustifiable differences on the grounds of age will be in force in the UK by October 2006.

[1] Council Directive 2000/78/EC *Establishing a general framework for equal treatment in employment and occupation*

4. THE NHS CONTEXT

4.1 The NHS is currently in an unparalleled period of expansion. Since 1999, the workforce has expanded at nearly 3 per cent per annum. While the current rate of growth will slow, demand for NHS staff is likely to continue to rise in line with increased demand for healthcare and the needs of an ageing population. There will continue to be pressure points in certain workforce groups. Healthcare is likely to remain labour intensive.

4.2 Continuing growth in the healthcare workforce is likely to be set against a tightening labour market. The NHS will face challenges in securing the workforce it needs. The profile of the UK workforce is ageing. More women are participating in the UK workforce, although this is levelling off. The proportion of older workers relative to younger workers in the UK workforce is growing as the population ages and this is expected to continue.

FACT BOX 2

UK population trends

Over the current decade, the numbers in UK population in the 45–54 age group is expected to increase by 19 per cent and the over-65 group by 14 per cent. At the same time, the 25–34 group is set to decline by 19 per cent and the under-25 age group by 6 per cent. In the longer term the working age population in the UK is predicted to decline by 12 per cent from 2000 to 2050.

Life expectancy in the UK has been increasing from 69.2 in 1950 to 77.2 in 2000 and is expected to continue to rise. At the same time, average retirement age has been reducing: from 66.2 in 1960 to 62.7 in 1995.

4.3 The ageing of the workforce affects the NHS too. For example, the annual loss from the NHS nursing workforce in Scotland in 2004 is around 4500, and this is expected to rise in the next decade as a result of the age profile of the nursing workforce.

4.4 The available data suggests that the average age at retirement for staff (including those with the right to retire at age 55) reaching pension age in NHS employment has decreased gradually over the last decade to about 62. For this group, the average time that pensions are expected to be in payment has risen from about 21 years a decade ago to about 24 years currently and the assumption adopted in modelling new entrant costs is consistent with a further increase in this measure to about 26 years.

What this means

4.5 The demographic evidence emphasises the need for effective policies to recruit and retain older staff. NHS organisations will need comprehensive workforce strategies to ensure they recruit and retain sufficient staff to meet workforce demand. They will need to promote NHS careers for new entrants throughout the age range, encourage those who leave the NHS to return, conduct overseas recruitment and retain older workers. The challenge for a modernised NHS scheme is how it can support delivery of strategies for all these groups of workers through:

- **Recruitment.** The pensions survey of NHS staff in Scotland (see section 5) found that for almost 14 per cent of staff, the pension scheme was an important influence on their decision to join the NHS. However, for 60 per cent it was not an important influence. Given the increasing awareness of pensions issues among potential recruits, there is a real opportunity for the pension scheme to play a greater role in aiding recruitment.

- **Return.** A major issue for NHS staff, particularly female staff, is that of broken careers with less career progression and shorter service built up. Current pension legislation and Inland Revenue rules have further constrained the ability of these staff to build their pension. The current NHS scheme, with around 80 per cent female membership, was designed around a career few achieve; i.e. 40 years at the age of 60. The NHS scheme needs to address better the needs of the changing NHS workforce and diverse career patterns.
- **Retention.** Initiatives were carried out by NHS employers in England and Wales, which aimed to use the pension scheme to encourage staff to extend their working lives. It focused on protection for step-down arrangements where staff choose to take a less demanding post, wind-down arrangements where staff choose to work part time and arrangements for returning after retirement. While some people choose to continue working beyond the normal pension age, it was established that the current scheme is limited in the incentives it provides to encourage longer working. It is important that the NHS scheme take account of the lessons learned in England and Wales when examining how the scheme can aid the retention of NHS staff in Scotland.

Raising the normal pension age (NPA) to 65

4.6 The UK Government's intention to increase the normal pension age to 65 has been contentious. A significant proportion of representations received prior to this consultation set out opposition to the change. NHS employers and trade unions have different views on this issue.

Employers' view on a normal pension age of 65

4.7 NHS employer representatives believe it is important to recognise the demographic trends referred to earlier in this document. The current pension age for the NHS was set when life expectancy was shorter. Pensions have to be paid for by a partnership between employer and employee. As pension costs rise, it is right to look again at the balance between working life and retirement. Furthermore, the NHS has a pressing need to retain its older workforce and to secure longer working lives. The UK Government's concern that public and private sector pension ages should remain in broad balance is also recognised.

4.8 Older workers have an important and valuable contribution to make to the workforce. Evidence would suggest that the capability of older workers changes but does not decline. While physical and mental capacity generally reduce, social capacity, motivation and experience increase. Continued work can have a positive impact on health, providing that employers recognise the importance of changing work patterns to reflect changing capacity. NHS employers need to have positive age-related employment policies which enable them to offer older workers the opportunity to participate appropriately in the workforce.

4.9 It is clear that staff are prepared to consider working longer for the NHS, if they are physically able to do so, if they enjoy their work, find the work arrangements sufficiently flexible and feel supported and appreciated by their employer and co-workers. The pension survey found that 33 per cent of the sample indicated that they intended to work beyond the age at which they are eligible to retire. 55 per cent are interested in returning to work after retirement, mainly working part time, while 63 per cent are interested in stepping down or winding down. It is also clear that income in retirement is a major issue for many staff in the NHS. Many staff feel that they need to work beyond the current normal pension age to achieve the income in retirement that they desire.

4.10 NHS employer representatives recognise that the UK Government's intention to raise the NPA to 65 for public sector staff carries considerable concern for NHS staff. However, the increase in NPA also gives an opportunity for reinvesting savings in the scheme (see section 7) and the Inland Revenue's proposals on tax simplification provide the opportunity for greater flexibility in the pension scheme – for example, by removing the current 15 per cent employee contribution limit. Without the savings achievable by raising the normal pension age to 65, it would not be possible to make the improvements in the scheme that everyone wants to see.

4.11 The scheme is periodically valued to ensure that contributions are sufficient to meet the cost of paying benefits. A number of assumptions are made for valuations, such as life expectancy and retirement patterns. When the NHS scheme was last valued, it was assumed (taking into account the scheme experience) those NHS staff in Scotland with a pension age of 60 who stay in work to that age continue on average until they are just under 62. The rise in NPA to 65 will therefore be a smaller increase than for other public service schemes with a lower average retirement age. It should also enable staff who work to 65 to get increased pension value for each year they work and therefore to retire with larger pensions.

4.12 For those who are unable to work longer, there will still be the protection of ill-health retirement arrangements. In addition, proposals contained within this consultation document will make it easier for NHS staff to save more for their retirement if they wish to retire before 65.

4.13 Taken together as a package, the increase in the normal pension age and the changes in the wider legal framework, including the new Inland Revenue flexibilities, provide the opportunity for a new NHS scheme that better meets the needs of NHS staff and employers. The NHS needs to support its staff to work longer and needs a pension scheme that rewards staff for doing so.

4.14 The NHS HR strategies in Scotland set out the aspiration to make the NHS the employer of choice. The drivers and changes outlined in sections 1 to 4 provide the NHS with the opportunity to develop a pension scheme that helps make that aspiration a reality. The NHS already has a good pension scheme. It can be even better.

NHS trade union views on a normal pension age of 65

4.15 The NHS trade union representatives strongly oppose a compulsory rise in pension age for NHS staff. The reasons for doing so are that:

- the UK Government has not as yet made the case for reform in a way that convinces public sector workers that the changes can be justified or are fair
- the environment in which many NHS staff work and the types of roles they fulfil are not always compatible with extended working lives
- a voluntary approach may be more effective in achieving the joint aims of the UK Government and trade unions to encourage those NHS staff, who wish to continue working beyond their pension age to do so, and that a compulsory rise in pension age may have unintended and counter-productive outcomes.

4.16 NHS trade union representatives acknowledge the changing population demographics: that the average age of Britons is increasing; that the number of older people relative to the number of younger people is increasing and there are improvements in longevity. However, the UK Government's own analysis of population ageing is that the impact, in the long term, will not affect the sustainability of public sector finances. A Treasury publication stated that the changing demographic structure of the UK's population, and especially the ageing aspect, is projected to have only a limited impact on public sector spending over the coming decades.

4.17 Although the average life expectancy is increasing there is evidence that this is not associated with a simultaneous increase in the number of years of good health experienced by older people. This is particularly pertinent for NHS staff, many of whom work shifts in order to provide a 24-hour service. There is considerable research evidence that shows that working shifts for prolonged periods has a serious and negative impact on health and life expectancy.

4.18 NHS trade unions representatives believe that a compulsory, across-the-board increase in pension age is inappropriate for the NHS because the environment in which many NHS staff work and the types of roles they fulfil are not always compatible with extended working lives.

4.19 Historically, the special rights to early retirement without actuarial reduction were introduced in recognition of the physical and emotional demands of many roles in the NHS. These demands have not changed. Work commissioned by the Department of Health (1998) showed that stress levels among NHS staff were higher than for British employees generally (26.6 per cent compared with 18.4 per cent). For nurses the incidence was 40 per cent higher than their comparison group (associate professional and technical occupations) in the general population.

4.20 The NHS needs to retain a pension scheme that supports the recruitment, retention and return of staff, particularly as the healthcare labour market is forecast to become increasingly competitive. Like the population as a whole, the proportion of older NHS employees is increasing and there is not a replacement workforce readily available. Some occupational groups, such as nursing, are running hard to keep still. It is vital that those older workers who wish to work beyond retirement are supported to do so. NHS trade union representatives support the proposals in this document to allow flexibility in retirement and for work and pensions to be combined. This is a positive move that encourages the voluntary recruitment and retention of older staff. However, the evidence shows that the current retention of older staff could be improved. For example, while there is no constraint on nurses working beyond their retirement age, relatively few choose to do so and growing numbers are choosing early retirement.

4.21 A compulsory rise in pension age fails to address the reasons why many NHS staff either do not choose to or cannot continue working beyond the current normal pension age. NHS trade union representatives believe that more effective retention of staff will result from the implementation of appropriate support measures, in the form of older worker policies, which research shows are needed.

4.22 NHS trade union representatives believe a compulsory rise in pension age will have unintended and negative outcomes which undermine the aim of retaining older staff. These include:

- a risk to patient safety – people, whose capability is compromised by age-related challenges but are not eligible for ill-health retirement, may continue to work in vital occupations in order to avoid reducing their pension benefits
- reduction in staff morale, encouraging many older employees to leave the service before they may have done – either to take early retirement or to work elsewhere. Staff morale will be affected by the fact that a compulsory rise in pension age means that scheme members will need to work longer for the same annual pension. Those that benefit from Agenda for Change (AfC) will perceive that any gains have been removed by the financial losses incurred by increasing the normal pension age
- increases in costs to the public purse. The increase in ill-health retirement has already been mentioned. In addition, failure to address flexible work issues for older NHS staff may lead to increased employer costs for temporary staff. Employers' expenditure on bank and agency staff is a considerable burden on public finances. In 2001, the Audit Commission reported that agency and bank expenditure was £810 million in England and Wales.

4.23 The NHS has a good scheme. NHS trade union representatives partners believe that raising the NPA will make it worse.

Shared view

4.24 NHS employers and trade unions agree that increasing the normal pension age will not by itself result in staff working longer for the NHS. It is agreed that, regardless of the issue, the NHS needs to implement a range of measures to support retention of the older workforce. These include:

- job redesign taking account of patterns of shift working, workload etc
- appropriate occupational health services
- elder care policies
- providing continuing professional development
- tackling age discriminatory attitudes and employment practices
- addressing environmental pressures that undermine employee morale and organisational commitment. For example, the NHS staff pensions survey found that only 45 per cent of respondents agree that they can maintain a healthy balance between their work and personal lives, compared with 53 per cent of the wider workforce. Only 32 per cent of respondents believe that employees in the NHS are treated with dignity and respect, including by patients and the public, regardless of their position, age or background. This compares with 63 per cent in the wider workforce.

Your views on the issues contained within this section are sought, in particular:

- **the UK Government's intention to increase the normal pension age to 65 for public service workers**
- **its appropriateness for the NHS**
- **ways in which the NHS can retain its older workforce and the issues it needs to address in doing so.**

5. WHAT STAFF SAID: THE NHS PENSIONS SURVEY IN SCOTLAND

5.1 As part of the review process, Mercer Human Resource Consulting were commissioned to undertake a social survey research project during October 2004. The aim of the survey was to investigate the views and opinions of NHS employees in Scotland regarding the NHS scheme and retirement planning. The analysis was undertaken by Mercers, and this section is drawn from the executive summary of the report.

5.2 The main features of the research design were:

- The survey was administered to 3,000 employees (outgoing questionnaires).
- Questionnaires were distributed to a sample of GP practices and health boards in Scotland.
- A total of 546 completed questionnaires were returned, which is a response rate of 18 per cent, slightly below expectations.
- The final sample has been weighted so that it accurately matches the Scottish NHS workforce in terms of the following characteristics: age, ethnic group, gender and occupational group.

5.3 There are four major themes in the findings that have emerged from this research.

Pension awareness

5.4 Many employees have a poor understanding of the NHS scheme and lack confidence in their own retirement planning. A number of specific findings point to the need for greater communication and education efforts to improve pension planning and increase the level of savings for retirement.

5.5 This finding is important because the research also demonstrates that pension communication has a strong influence on satisfaction levels with the NHS scheme, which in turn has a significant influence on employee commitment.

Pension savings

5.6 There is a desire to increase pension savings. Among all occupational groups a majority of employees is interested in the option to increase their main monthly contribution. However,

- the vast majority of employees have not made additional contributions to the scheme (e.g. through additional voluntary contributions (AVCs) or added years). The number one reason cited was the lack of information to help the employee decide whether or not to invest more. This indicates that with the right information employees may decide to increase their pension savings.
- increasing pension savings is not an option open to all. For a third of current and former scheme members, who are not making additional savings, 'affordability' is an issue preventing additional savings. While this may be due to limited financial resources, it may also be due to a lack of awareness regarding the true costs and future benefits of increasing pension contributions.

Desire for flexibility

5.7 The research demonstrates a high level of interest in having greater flexibility to assist retirement planning. This is in terms of:

- having the option to increase the main monthly contribution level.
- varying the lump sum benefit in order to increase – or for some to decrease – monthly pension income.
- having options for flexible retirement, including the option to 'step down' into retirement – provided that the employees' pension is unaffected – and also the option of returning to work after retirement.

Satisfaction with the pension scheme in context

5.8 There is a high level of satisfaction with the NHS scheme. Only 5 per cent said that they were dissatisfied with the current scheme and 65 per cent said that they were satisfied.

- Pension satisfaction is found to be a significant driver of employee commitment and many employees report that the NHS scheme is one of the reasons that they remain working within the NHS.
- The NHS scheme is regarded as an important attribute of a job in the NHS, with 57 per cent expecting it to be the most important source of income in retirement.
- One of the consequences of employees' satisfaction with the NHS scheme and the importance that they attribute to it is that it has an impact on employee retention. This is most evident among career groups that are not involved in clinical practice and therefore less likely to be motivated by the clinical and vocational challenges provided by a career in the NHS.

5.9 While there are many issues affecting employee commitment and retention this research has established a causal link with the design and delivery of the NHS scheme. In summary, pension communication leads to greater satisfaction with the scheme, and this leads to higher levels of employee commitment and a greater willingness to defer retirement.

5.10 **The full report is available on the SPPA website at www.scotland.gov.uk/sppa**

6 REVIEW AIMS

Overall aim of the review

6.1 The overall aim of the review is to ensure the NHS scheme meets the needs of a modern NHS and its staff, by making benefits more appropriate for today's workforce.

6.2 It is important that the pension scheme reflects the values and meets the needs of the NHS. The NHS needs to provide a high quality statutory pension scheme that supports the aim of making the NHS the employer of choice by helping it to recruit and retain staff and to encourage staff who have left the NHS to return. We need a 21st-century pension scheme that provides staff with an assured income in retirement that recognises their service to the NHS and enables them to save appropriately for retirement.

Key principles

6.3 There is a set of principles for developing a modernised pension scheme which needs to underpin its design.

Mutuality

6.4 The NHS scheme should retain the mutuality principle – seeing the scheme as a jointly owned benefit rather than as individual savings. Mutuality means that members and their employers join together to fund the benefits.

Defined benefit

6.5 The Scottish Ministers have promised that defined benefit pensions will continue to be provided in the public service. A defined benefit pension scheme will be vital in attracting and retaining NHS staff.

Equity

6.6 The NHS scheme must be seen to be fair to members. The scheme should adopt an equitable approach with transparency of benefits for all NHS staff groups.

Equality and diversity

6.7 The design of the NHS scheme should seek to avoid discrimination on the grounds of age, race, sex, sexual orientation, marital status or disability, and must at all times reflect the spirit of all aspects of equality legislation.

Modern career patterns

6.8 The design of the NHS scheme needs to reflect modern career patterns such as part-time working, career breaks, portfolio careers and the changing job roles of NHS staff.

Supporting recruitment and retention

6.9 Incentives in the NHS scheme need to be aligned with NHS employers' responsibility to recruit and retain the workforce the NHS needs.

Flexibility

6.10 Retirement should no longer be seen as a once and for all occurrence, a one-off event separating employment and retirement. Rather, the NHS scheme should encourage, on a voluntary basis, a flexible boundary between employment and retirement. The scheme should also allow flexibility as to the sum members choose to save towards retirement.

Affordability and value for money

6.11 The NHS scheme must be affordable both for employers and employees. Proposals need to offer value for money for both employers and employees and minimise risk to the overall financial position of the NHS in the short and longer term.

Communications

6.12 General awareness of pension issues among members needs to be raised. Members and new recruits to the NHS need to be well informed about the NHS scheme, how it might change and how the changes might affect them. Where options are offered, they need to be sufficiently simple that members can make informed decisions. The NHS scheme must be a scheme that is easily understood by members, employers and the pension administrators at SPPA.

Choice

6.13 Current NHS scheme members should be offered choice in relation to scheme options. In addition, scheme members should be offered the choice to purchase improved benefits. scheme design should encourage members to make informed decisions about retirement and offer continued choice in retirement.

7 FINANCIAL CONSIDERATIONS

Pension scheme funding arrangements

7.1 The NHS scheme is an unfunded scheme. This means that instead of paying for benefits out of scheme investments, at each valuation of the scheme the Government Actuary's Department (GAD) aims to set a standard contribution rate that ensures benefits are paid for as they build up during active service. The current contribution rate is 20 per cent, made up of a 14 per cent contribution by employers and 6 per cent by employees (5 per cent for manual workers). Employees receive tax relief and a national insurance rebate on pension contributions; therefore the real cost to employees is around 3.5 per cent net.

The review's financial framework

7.2 Recommendations for change are based within the financial framework set by the UK Government, as outlined below.

- **There is no new money for improving pensions.**

  The UK Government requires pension schemes to make savings as part of the pension reviews.

- **Employer contribution rates should not be increased as a result of this review.**

  The pension scheme contribution rate is currently determined every five years by the Government Actuary based on a series of financial and other assumptions. Rates can vary depending on the assumptions used and the actual retirement practices of the members. The review should not introduce changes that cause the contribution rate to increase for employers.

- **Improvements in the schemes have to be funded from changes.**

  Logically, if no new money is available and employer contribution rates remain the same, any improvements in the scheme have to be paid for by changing the structure of the benefits to keep within the overall cost envelope or by increasing the employee contribution rate.

Creating savings for improvements

7.3 The main source of savings is from changing the normal pension age from 60 to 65. This will provide savings somewhere between 1 and 2 per cent of pensionable pay. Based on the experience of the review in England and Wales, this figure will likely be around 1.3 per cent of pensionable pay, but this cannot be confirmed for certain until the latest valuation of the NHS scheme – which is currently underway – is completed. The savings would be greater, but the cost of some other benefits increases as the pension age rises. For example, the cost of providing ill-health pensions is greater as the incidence of Ill-health retirement increases with age. Also, the average age at which NHS scheme members choose to retire (about 62) makes savings from changing the normal pension age smaller. As the savings are linked to a move in pension age, the UK Government's view is that benefit improvements funded from this should only be made available once members have moved to 65 as a pension age. There are other savings available from restructuring some existing benefits not related to the retirement age, and these could be made available for reinvestment sooner.

The trade union view on the financial framework

7.4 NHS trade union representatives do not accept the UK Government's position that improvements, including legislative changes to the scheme, have to be funded from within existing costs. There are a number of areas of change, created by the UK Government's proposals, that serve to increase the cost of pension provision. However, these costs are being met by reducing the value of benefits to scheme members, rather than by further funding from HM Treasury or sharing the cost increases between employers and employees.

7.5 If the UK Government's current position is maintained, trade unions consider that the revised pension package will result in detrimental changes to the value of NHS pensions.

7.6 Further trade union representative views on the financial framework are included in annex E.

Options for existing staff

7.7 It is recognised that the options which might be made available to existing NHS staff should be carefully considered. The preference of the trade unions was to see improvements made available to both existing and new NHS staff on an equal basis. However, this approach needed new money to be put into the review, which, as explained above, was unlikely to be forthcoming.

7.8 Despite this constraint, it was strongly felt that there needed to be some benefit improvements for existing staff, if possible before the end of the protection period. Further, NHS trade union representatives proposed that all of the savings from changing the normal pension age should be made available for improvements.

Your views on the funding issues set out in this section are sought.

8 A NEW PENSION SCHEME

8.1 This section describes options for a new scheme. The cost and resource implications of the improvements are detailed in annex F. It will not be possible to afford all improvements. The improvements have been prioritised in the tables. As previously indicated, any recommendations will be subject to agreement by Scottish Ministers.

8.2 If the decision is made to go ahead with an increase in the normal pension age to 65, then it is envisaged that a new pension scheme will be set up. The new arrangements will form part of the overall NHS scheme. All new entrants would only be eligible for the new scheme. Existing staff would be able to join the scheme subject to certain conditions (see section 9). The new scheme would have a normal pension age of 65 and a minimum pension age of 55. The latest a pension could be taken would be 75. Pension taken before normal pension age would be actuarially reduced. Pension taken after normal pension age would be actuarially increased.

8.3 Trade union representatives have accepted that the proposals are structured on a new scheme basis, but would wish for an amended scheme approach, by which new and existing staff are in the same scheme, to be evaluated if their arguments for a different financial framework were accepted. This issue is set out further in section 9.9.

8.4 This section describes the recommendations and options for the new scheme. They include:

- choice over the size of tax-free lump sum that is taken
- changes to the way the pension is built up (accrual)
- survivor benefits for all eligible unmarried partners
- more flexibility around taking the pension
- new ways to save more for retirement
- a review of sickness and ill-health arrangements
- widening access to the pension scheme for healthcare staff employed in the private sector.

Building the pension

8.5 The new pension scheme will be a defined benefit scheme in line with the Scottish Ministers' assurance. Two options for the new scheme have been considered:

- one based on final salary where pension is calculated on pensionable pay close to retirement
- one based on career average revalued earnings (CARE) where pension is calculated on an annual basis, depending on earnings in that year and then revalued (increased) each year.

Choice of lump sum

8.6 For both options, we recommend that the current approach of having an accrual rate for the pension of 1/80 (1.25 per cent) of pensionable pay for each year and 3/80 (3.75 per cent) lump sum be replaced with a single accrual rate for benefits taken. This gives members much more flexibility and the opportunity to choose how much lump sum they wish to take. Members would be able to choose the size of tax-free lump sum they wish to take up to 25 per cent of the value of the pension as calculated by the Inland Revenue methodology (see fact boxes 3 and 4). Members would receive a tax-free lump sum payment of £12 for every £1 of pension they gave up; this is known as commutation.

FACT BOX 3

The new Inland Revenue rules

As part of the new pensions arrangements, the Inland Revenue will be introducing rules for calculating the total value of defined benefit (final salary and career average) pension funds. The total value of the pension will be calculated as 20 times the pension after commutation plus the value of the lump sum. The value of a pension of £4,000 and a lump sum of £12,000 would be £92,000. In a scheme in which annual pension is exchanged for lump sum at the rate of £12 for £1, the maximum lump sum can be worked out by multiplying the pre-commutation pension by 30/7 (or 4.28).

FACT BOX 4

Lump sum options – 25 per cent example

Jack has earned a pension of £10,000. If he wishes, he can choose not to take a lump sum at all so that he can maximise his pension. The maximum 25 per cent lump sum he can take is £42,857. This would leave him with a residual pension of £6,429 – he has given up £3,571 of pension for which he receives 12 times that as a lump sum. He can take any size of lump sum between those two figures. For instance, if he wished to take a lump sum of £36,000, this would leave him with a pension of £7,000. If he took a lump sum of £24,000, this would leave him with a pension of £8,000.

Improving the accrual rate: final salary option

8.7 In our discussions, there was strong support for improving the accrual rate – the amount of pension members receive for each year of service. The review looked at two approaches to doing this. The first approach would be to improve the accrual rate to 1/60 while retaining a final salary scheme. Any lump sum would be taken by commuting pension at the rate of £12 for every £1 of pension forgone. This would mean that although pensions were not payable in full until the age of 65, the member would receive additional value for each year they worked of around 6 per cent. An example is shown in the box below.

FACT BOX 5

A 1/60 scheme

Angela has chosen to retire at 65 with 30 years service. Her salary is £30,000. Under the current scheme she would be entitled to a pension of 30/80 of her final salary (£11,250) and a lump sum of three times her pension (£33,750). Under a 1/60 scheme, her pension would be 30/60 of her final salary (£15,000) but without a separate lump sum. If she chose to take the same lump sum of £33,750 then her pension would be £12,187. If she chose to take the same pension of £11,250, then her lump sum would be £45,000.

Improving the accrual rate: career average option

8.8 An alternative way of calculating a pension is career average revalued earnings (CARE). In a CARE pension scheme, benefits are built up on an annual basis and revalued (increased) typically in line with either national average earnings (NAE) or the retail price index (RPI).

8.9 GP and dentist pensions are based on a form of career average. Typically the accrual rate for a CARE pension is different than for a final salary pension: for example for practitioners (GPs and dentists) the current rate is 1.4 per cent (1/71) of salary per year compared to 1.25 per cent (1/80) for each year for the current final salary scheme. Some private sector pension schemes have moved from final salary to career average schemes as a way of reducing scheme costs or scheme risks. A CARE was only considered at the same cost as a 1/60 (1.67 per cent) final salary scheme. The Government Actuary's Department (GAD) has advised that at the current scheme costs the accrual rate for a CARE scheme would be around 2.05 per cent (1/49) per annum if revalued in line with RPI. If revalued in line with NAE, it would be around 1.8 per cent (1/56) per annum. Earnings have historically increased by more than prices so with RPI revaluation the accrual rate is higher with a lower revaluation, and vice versa for NAE .

8.10 How this would work is set out in the fact box 6 below. GAD will be undertaking a formal actuarial valuation of the NHS scheme as at 31 March 2004. If the new scheme were to be CARE-based, then the accrual rate might be appropriately set with regard to the costs of a 1/60 scheme after the valuation.

8.11 Of the two CARE options, an approach using NAE revaluation for active members is preferred, to provide an incentive for staff to stay with the NHS. The benefits of those who leave would be increased by RPI after leaving. All comparisons and examples use NAE revaluation.

8.12 The independent actuarial adviser for the pensions review in England and Wales has produced a theoretical modeller that is available to compare final salary and career average benefits. This will be equally applicable to pension provision in Scotland. If you wish to access the modeller please call 01896 893298. Some comparative examples are shown in annex G.

FACT BOX 6

How pension builds up in a CARE pension with a 1.8 per cent accrual rate and revaluation by national average earnings (NAE)

David is a newly qualified nurse. He starts his career in 2006 at age 23 at the bottom of pay band 5 with a salary of £18,114. At the end of that year he has earned 1.8 per cent of his income as pension (£326).

In the second year his salary increases to £18,927. He earns a further £341 of pension. His first year's pension is revalued by NAE to £331. He has now earned £672 of pension.

Each year 1.8 per cent of his salary will be added to his pension and all the previous years' pension is uprated by NAE. The pension earned will be payable without reduction when David is 65. At 32, David becomes a health visitor (band 6) and works full time until he retires at 65. His salary at retirement is £53,950 and his pension before taking a lump sum is £38,200. With a final salary 1/60 scheme his pension would be £37,765.

This example is at constant prices and assumes NHS pay and NAE increase at 1.5 per cent above RPI.

Your views on the strong recommendation that the proposed new scheme should improve the accrual rate are sought.

Comparing final salary and career average

8.13 To compare final salary and career average, the following assumptions have been made. For a final salary scheme, accrual would be at 1/60 (1.67 per cent). For CARE, the equivalent accrual rate is 1/56 (1.8 per cent) revalued by NAE. The definition of pensionable pay used for both arrangements is the current one. Lump sum is by commutation in both arrangements.

8.14 In a theoretical comparison of a final salary scheme with a career average scheme, costing the same amount, there would be winners and losers. A final salary pension calculation is based on years worked and final pensionable pay. It does not take account of the pensions contributions made over a career. In a simplified comparison, the annual pensions of the different staff groups were compared with their average annual contributions over a notional 40-year career.

8.15 In this comparison, there is a variation of approximately 30 per cent in the value different groups of scheme members receive from their contributions. A career average scheme maintains a much closer relationship between pension and contributions than a final salary scheme.

8.16 Using this comparison, men receive around 10 per cent more initial pension from their contributions than women, as a result of higher career progression. Typically those with the significant career pay progression (often higher paid staff) get more value from their pension contributions.

Pensionable pay definition

8.17 In the current final salary pension scheme, not all pay is pensionable. For instance, overtime pay is excluded for full-time staff. There are strong arguments that in a career average scheme more NHS pay should be pensionable. This is the approach now taken for GPs in their CARE pension scheme. It is anticipated that, if more pay were pensionable, then depending on the definition used, pay costs might eventually increase by 5 to 10 per cent. This cost would build up over time as staff moved into a career average scheme. This would increase pensions for staff who currently have pay that is not pensioned, for instance those who do overtime. The examples used in this document would show larger CARE pensions if this was included.

8.18 CARE schemes, if properly designed and funded, benefit those with flat career structures. However, compared with final salary schemes, they do this by taking away benefits from those with better career progression. Agenda for Change will introduce new pay structures, linked to a new Knowledge and Skills Framework, which are aimed at improving career prospects for all staff in the NHS. Trade union representatives are concerned that the potential benefits of these arrangements may be clawed back through changes to the pension scheme if CARE is adopted.

8.19 A final salary pension scheme provides a pension that is predictable and easily calculated from a member’s earnings before retirement. It ensures that the pension scheme benefits for all of a member's service grow in line with their salary.

Active and deferred members

8.20 In a final salary scheme, deferred members (those who have left the NHS but not transferred their pension benefits to another scheme) can subsidise those who stay and whose benefits are revalued by their final salary. In a CARE scheme with RPI revaluation it makes no difference to revaluation of pension whether a member is active or deferred. If revaluation by NAE is used for active members and returners and RPI revaluation for deferred members, then this gives an

incentive somewhat similar to a final salary scheme for members to stay in the NHS or rejoin. Given the strong imperative to retain staff, this approach is more likely to be appropriate for the NHS. However, final salary generally gives more benefits to active members compared to deferred members than the CARE arrangement being used for comparison.

Funding issues

8.21 Costs in a final salary scheme are more volatile. If overall pay progression increases and more staff stay in the NHS, then costs and member benefits will rise beyond the increase in the NHS pay bill. Likewise, if pay progression is lower and more people leave the NHS then member benefits will be lower. In a career average scheme, increases in costs as a result of pay progression are largely fixed and tied to increases in the overall pay bill.

Staff attitudes

8.22 Final salary schemes are widely seen as the 'gold standard' for pensions. They are known and trusted, which is particularly important in the current climate of uncertainty surrounding pensions. It is likely that retention of a final salary scheme will be welcomed by existing scheme members.

Complexity and understanding

8.23 It is clear that NHS staff generally have a good if limited understanding of a final salary scheme. CARE is not known or understood other than by practitioners. There is a view that schemes based on career average earnings are generally more complex to understand than final salary ones.

8.24 In an NHS context, if a new pension scheme were to be introduced based on CARE, it would make it significantly more difficult for existing members to decide whether or not it was in their best interests to transfer to the new scheme. There would need to be a major communications exercise if the new scheme were to include CARE, to enable NHS staff to understand the scheme.

NHS employer representatives' view

8.25 NHS employer representatives recognise the arguments for retaining a final salary approach, particularly the support that existing staff undoubtedly have for a final salary pension. However, they have major concerns about equity, equality and value for money.

8.26 The current final salary scheme has distributed benefits on an inequitable basis between members. It can be seen as distributing benefits away from groups of members who are less well paid. With interrupted service and lower career progression towards those groups with higher pay and better career progression. Career average would mean all receiving more or less equal value from their contributions.

8.27 At a time when the NHS is changing its pay systems, retaining a final salary pension scheme could bring increased risks of higher scheme costs, leading to an increase in the contribution rate. This could result in funding pressures impacting on NHS services. For example, the pensions review in England and Wales estimates that an increase in the employers' contribution rate for the pension scheme of 2 per cent would add around £500 million per annum to NHS costs in England and Wales. An increase in contributions for Scottish NHS employers would have a similar, if proportionate, financial impact. Increases in employers' pension costs reduce resources available for patient care, unless funded additionally by the UK Government.

8.28 Retaining final salary increases the risk of funding pressures on the scheme and therefore the risk of the NHS needing to increase the contribution rate in the future. There are a number of factors that impact on the costs of the pension scheme. NHS employer representatives believe that the NHS will benefit from a more stable contribution rate and that a career average scheme is more likely to deliver this.

NHS trade union representatives' view

8.29 Trade union representatives have not been convinced of the case for CARE. They believe that there is not enough information on its operation in practice for it to be properly evaluated and therefore command support. Conversely, a final salary scheme is known and valued by members.

8.30 NHS trade union representatives acknowledge that scheme members with non-traditional career patterns, for example those who work part time or take career breaks, can face additional barriers in terms of developing their careers in the NHS, which can in turn impact on their pensions. Most health boards in Scotland have put policies and training in place to break down these barriers, but there is undoubtedly more work to be done to achieve real equality. NHS trade union representatives believe that the best way to tackle this kind of discrimination is by getting to the root of the problem through the proper HR processes, and not through the pension scheme.

8.31 The trade unions in the NHS have been assured repeatedly that the cost of pay modernisation, in particular Agenda for Change, has been fully funded. The new pay system has been equality proofed and will provide for enhanced career progression. The trade union partners consider that the costs of this enhanced career progression should not be recovered in the NHS by the adoption of CARE. Additionally, they consider that a final salary pension scheme will be an aid to recruitment of new staff. Therefore they continue its support for a final salary scheme.

Your views are sought on which of the two alternative defined benefit options are favoured, the retention of final salary pensions or the introduction of career average pensions in the new scheme.

Your views are also sought on the pensionable pay definition to be used should CARE be adopted.

Other accrual issues

New limits to scheme benefits

8.32 Within the current scheme, members are limited to 40 years' membership at the age of 60 and 45 years' membership at the age of 70. The service limits for MHOs and special classes are different. A very low proportion of members are restricted by these rules because they have more than 40 years service. In addition, for members joining after 1989, maximum pensionable pay is set at £102,000. Under the Inland Revenue's new rules, a single lifetime allowance for the level of tax-privileged pension saving of £1.5 million in 2006, rising to £1.8 million in 2010 is put in place. This limit is a maximum for tax-privileged pension saving. The scheme could choose to set lower limits or other restrictions if it chose to.

8.33 It is recommend that the new NHS scheme should not set lower limits than the Inland Revenue maxima on the lifetime tax-privileged pension allowance. It is also recommended that there should be no limits to years of membership in the new scheme, in line with Inland Revenue rules. A summary of the Inland Revenue proposals is in annex H.

Your views are sought on the recommendation that there should be no limits on membership or restrictions below the Inland Revenue allowances.

Career breaks

8.34 There was some support for the proposal of allowing a 'free' added year to members who took career breaks, provided they returned to work for the NHS for a certain period of time. The idea was to compensate those with broken careers who were often unable to build up sufficient scheme membership to get a reasonable pension and who also may experience lower career progression. It would be a similar arrangement to the 'golden hellos' offered to some returning health professionals.

8.35 It is believed that only a very small minority of private sector schemes offer any measure of pensioning career breaks (other than statutory requirements on maternity and paternity leave).

8.36 It has proved very difficult to cost this option. It was assumed that given the high female membership and large number of career breaks, we might expect at least half the membership to qualify for an added year. In this case, costs could be high. It might be possible to implement a much more restricted scheme. However, it was felt that this would be difficult to achieve, particularly given that there would be no financial incentive on health boards to restrict access. Given the likely high cost, including recognition for career breaks cannot be recommended. If this was implemented, there would be no money to improve accrual rates. However, it is recommended that employers should be able to pay additional contributions, perhaps on a matched-funding basis. Such an arrangement would be voluntary for employers targeting key staff they wanted to retain.

Your views are sought on the issue of pensionable career breaks and in particular the proposal that recognition of career breaks should be available at the employer's discretion.

Survivor benefits

Current scheme benefits

8.37 In the current scheme, survivor benefits of 1/160 of a member's final annual pensionable pay for each year of service are paid to spouses. In addition, on death in service, spouses receive pension at salary rate for between three and six months. The employer pays this but costs are reimbursed by the scheme. Lump sum death benefits are set at two times pensionable pay. Dependent children are awarded pensions worth varying amounts depending on their circumstances. These are payable up to the age of 17 unless children are in full-time education or vocational training, in which case they are paid until they leave.

New options considered

8.38 To comply with legislation, the new scheme will have to provide survivor benefits to same-sex partners who have registered their relationship. The review has examined whether these benefits should be extended. Two options were considered: extending benefits to partners or extending benefits to any nominee. The option of extending benefits to any nominee was discounted. It was felt that the scheme was not intended to pay survivor benefits as a general right regardless of relationship. Such proposals were both difficult to scope and appeared expensive.

8.39 The proposed pensions for the surviving partners of people who are in relationships but who are not married (including same-sex relationships) assumes that the definition of partner broadly follows that adopted by the Principal Civil Service Pensions scheme. This is that, to qualify for a partner's pension, the member would need to have nominated their partner and, together, completed a joint declaration of partnership. At the time of the member's death, they would need to have been living together in an exclusive committed long-term relationship, have been free to marry or have a civil registration and there needed to have been financial dependence or interdependence.

8.40 There is a clear issue of the pension scheme needing to reflect current social patterns of behaviour and to treat all members and their partners fairly. This change would also mean that the practice of stopping a survivor pension on remarriage would cease. This affects surviving widows/widowers who have to give up their survivor pension if they remarry. It is strongly recommended that the new scheme includes survivor benefits for partners.

Your views are sought on the recommendation that the scheme should provide partner pensions and that cessation on remarriage should end.

Payment of pension at salary level on death in service

8.41 Paying pension at salary rate on death in service for six months in every case was considered. Currently this benefit is paid for three or six months depending on whether a member has dependent children. There is uncertainty as to whether the new Inland Revenue rules will allow schemes to continue to do this. It is recognised that this is a valuable benefit for bereaved partners who would otherwise be dependent on the pension benefits being put in to payment. We recommend that this benefit should be paid for six months in all cases. If it is no longer possible for the pension scheme to pay this benefit, and another way of achieving the desired results cannot be identified within the scheme, then it is recommended that employers be asked to continue to pay this benefit but without reimbursement from the scheme. It is recognised that this would be an additional burden on employers. However, this would be a relatively small cost to employers compared, for instance, with the cost of sickness absence, and is consistent with the NHS acting as a good employer.

Your views are sought on the recommendation that the partners of members who die in service should receive a payment at salary level for six months and, if the scheme cannot provide this or equivalent benefits, then employers should be asked to meet the costs of paying this.

Increasing the value of survivor pensions

8.42 Consideration was also given to increasing the value of survivor pensions to 1/120 of pensionable pay for each year of service. As survivor pensions would be based on uncommuted pension this would mean enhancing the partner pension generally to a greater degree than is represented by moving to a 1/60 scheme for member benefits. It was felt that, given the costs, this was not achievable without extending the financial envelope.

Your views are sought on whether survivor pensions should be improved in the new scheme.

Standardising children's pensions

8.43 The current arrangements for children's survivor pensions are complex to administer and are not paid to those over 17 who do not undertake higher full-time higher education. The Inland Revenue requires that the child must be dependent on the member at the time of death, and that pensions should not be paid beyond 23. The cost of providing children's benefits to the age of 23, regardless of educational status, was considered. Young adults, whether or not in full-time education are often dependent on their parents and would therefore suffer the loss of a parent financially. It was also considered whether or not the NHS should be providing pensions to children of deceased members who were in full-time employment. An alternative approach would be to broaden the criteria for those receiving the pension after the age of 17 to include, for instance, those in part-time education, while still restricting payment of pensions to 23.

Your views are sought on whether the new scheme should pay all children's pensions to 23 or have restrictions after the age of 17 until 23.

Increasing the death in service lump sum

8.44 The cost of providing an increase in the death in service benefit from two times to three times pensionable pay was considered. Whilst this is clearly a useful benefit, it is unlikely that this would be affordable within the financial envelope currently envisaged by the UK Government. An additional multiple of salary for those without a dependant was considered.

8.45 Some NHS staff in Scotland feel that there is an unfairness in only being able to name one beneficiary on the death in service lump sum nomination form. It is recognised that members might want, for instance, to divide the death in service lump sum among several children. While it is also recognised that there are some administrative complications with allowing multiple nominees, we agree that this is an unreasonable restriction. We recommend that members be allowed to nominate multiple recipients for their death in service lump sum.

Your views are sought on:

- **the increasing of the death in service lump sum benefit**
- **allowing multiple nominees for the death in service lump sum**
- **paying an additional year's lump sum payment where no dependent's benefits are payable.**

Flexibilities on taking a pension

8.46 We recommend that the new scheme should be designed to remove the cliff edge between retirement and work that exists in the current scheme. The pension scheme needs to encourage staff to join the NHS, return to the NHS if they do leave and work longer for the NHS. A critical issue for NHS staff is income in retirement. The average level of new awards of pension is currently approximately £7,400 a year and the average membership to achieve that was 19 years. In the NHS staff survey, their NHS pension was by far the most important source of retirement income for staff. However, understanding of the benefits they will receive is limited. Only half those surveyed thought they knew what proportion of final salary they would receive as a pension. Of those, over half expected their pension to be more than half their final salary. The pension scheme needs to support work by NHS employers to recruit and retain NHS staff and provide opportunities for staff to extend their working lives.

8.47 In a new scheme, the normal pension age of 65 should become simply the date around which benefits are calculated rather than the date when people are expected to retire. The NHS needs a scheme that enables members to plan effectively for their retirement and to build up sufficient pension savings to enable them to retire at the age after 55 that they decide. It needs to offer members a range of options for balancing work and leisure, particularly for staff approaching retirement. In the pension survey, 63 per cent of people said they would be interested in working reduced hours before retirement if pension was unaffected, and 55 per cent expressed an interest in returning to work after retirement, the vast majority on a part-time basis.

Draw down, pensionable re-employment and late retirement factors

8.48 It is recommended that, in the new scheme, members be allowed to access a range of flexibilities on taking their pension permitted by the new Inland Revenue rules. These would include the following:

- the opportunity to take the pension (including exercising the above flexibilities) at any age between 55 and 75. If this were before 65, then benefits would be subject to an actuarial reduction. If after 65 then benefits would be actuarially increased. This might mean that a pension taken at age 60 would be reduced by around 27 per cent because it would be in payment for five years longer than if taken at 65, while a pension taken at 70 might be increased by around 35 per cent because it would be in payment for five years less.

- the ability to draw down a part-pension while continuing to work and build up further pension
- the opportunity to take full pension benefits and continue to work without a break in service, thus building up further pension benefits
- the opportunity to retire, take full pension benefits and then rejoin the scheme after a break

Supporting wind down

8.49 Wind down means that members can choose to reduce their hours of work. This is available within the current scheme. Protection is provided as their pensionable pay is calculated on the full-time equivalent salary. Years in the scheme accumulate at the proportion of full-time equivalent worked. It is recommended that this facility should continue.

Changing the reference period for calculating scheme benefits

8.50 Alternative ways of calculating final salary benefits have also been considered. Currently, pensions are calculated on the best of the last three years' pensionable pay. This means that there is a strong incentive to maintain salary at its highest level until just before retirement. This particularly discourages step-down options, by which people choose to take a less onerous role with a lower salary. Protected step down is currently only available in a limited form. Pension benefits will be preserved at the final salary when the staff member stepped down to a lower paid post. This protection only applies to rights earned up to that point. As it is a preserved right, the pensionable pay for the calculation is only revalued at RPI. This means that the salary after step down will often be greater than the preserved salary. Step down is little used.

8.51 Costings have been produced for a range of options designed to allow final salary calculations to be made on earnings up to 13 years before retirement.

8.52 Revaluation by NAE has also been considered, but costs were outside the possible range of options for the review. RPI revaluation is currently used to calculate the pensions of deferred members. This means that the pensionable pay figure used for final salary increases in line with prices, rather than with NHS pay. There are affordability issues relating to RPI revaluation. However, without RPI revaluation, there would be far less of an incentive to step down as the value of salary in earlier years is considerably eroded. The effect of these alternatives would be that all service, including that after step down, would be used for calculating pensionable pay. There would still be the issue of earnings growth outstripping RPI.

Further step-down options

8.53 Two further options for encouraging step down were considered:

- paying contributions at the previous higher salary level
- extending the current protection arrangements.

Paying contributions at a higher level

8.54 An alternative approach to the one set out above is to extend the current step-down provisions. The Teachers' Pension scheme allows for the member, with employer agreement, to elect to continue to pay contributions at the salary rate before step down from minimum pension age. This notional salary is revalued annually. The employer can elect to pay the additional employer's contributions as a retention support. Otherwise the member of staff has to meet the additional employer's contributions as well as his or her own. Such an approach would be broadly cost neutral to the scheme as the level of contributions would be maintained.

Extending the protection arrangements

8.55 Under the current arrangements, protected step down is only permitted when employees lose pay through no fault of their own (through organisational change, for example). Service until the point of step down is protected. In effect the person who steps down is treated as a returner and previous service as preserved. This is of only limited value as the value of the protection may be quickly eroded by pay increases. There is a strong case for making this protection available for employees who wish to step down.

8.56 It is recommended that step down should be supported in the new scheme; either through an increased reference period for a final salary scheme, or if that is not affordable, by allowing higher contributions to be paid along side a widening of the provisions for protection.

Your views are sought on the recommendation that there should be flexibilities of step down, draw down, pensionable re-employment and enhanced pensions for late retirement in the new scheme. Views are also sought on the preferred approach to supporting step down in the new scheme.

Abatement

8.57 Members are currently only able to retire, bring benefits into payment and return to NHS employment on a non-pensionable basis (unless retirement was on ill-health grounds and they are under 50 in which case they can rejoin the scheme). If they do return to work their pension is abated (reduced) if their total income from NHS employment and pension is greater than their pensionable pay on retirement. Abatement ceases at age 60 so in practice applies to re-employed pensioners who retired early on ill-health, redundancy or employer-agreed voluntary early retirement grounds or re-employed members of the special classes who retired before age 60. Abatement does not apply to those who retire before age 60 with actuarially reduced benefits.

8.58 In the new scheme, it is proposed that members will be able to take advantage of a range of flexibilities. All these flexibilities will be actuarially neutral around a normal pension age of 65. There are particular issues about staff with protection that are discussed in section 9. However, for staff with service wholly in the new scheme, it is clearly inappropriate to abate pensions when members exercise the flexibilities.

8.59 There remains an issue about whether to abate pensions when staff have been given an enhancement in respect of ill-health or redundancy. It has been considered whether abatement should be totally removed. Whilst this would encourage staff to return to work, it could also be perceived as unfair as staff had been given an enhancement to retire. There is a cost to this option.

8.60 Options for abatement that applied solely to the enhanced element of the pension in payment have been considered. The enhanced element is defined as the difference between the member's actual pension and the pension that they would have received if they took voluntary early retirement. Two methods were explored, one which abated in respect of the whole enhancement and a second which reduced the abatement to recognise loss of office.

Your views on how abatement should be addressed are sought.

Increasing saving for retirement

8.61 It is clear that most members should increase saving for retirement. Within the current scheme, if members wish to increase their saving for retirement, they have the option of buying added years or taking out additional voluntary contributions (AVCs). Added-years contracts are typically taken out over a long period of time and are paid until retirement. Within the current scheme, there are 4,247 members currently buying added years (3 per cent of active scheme

members). Proportionately, more senior staff take up the option of buying added years. The rates may be less to reflect their take-up by those with high career pay progression. This means that they are less financially attractive for some staff with lower pay progression. There are even fewer members using AVC arrangements. The key test of any arrangement is whether it encourages a substantial proportion of NHS staff to save more for their retirement.

8.62 Perhaps the biggest disadvantage for staff is the requirement to make a long-term commitment to paying additional contributions from salary to improve their pension. Many feel unable to make that commitment. In our survey, 50 per cent of those not making additional pensions contributions said that it was because of lack of information and 30 per cent said that they could not afford it. However, 69 per cent said that they would like the opportunity to pay a higher contribution rate to build up their pension more quickly. While added years are valued by some staff, it is clear that there is a gulf between the desire of people to pay more to build up their pension and take-up of the current scheme.

Additional voluntary contributions (AVCs)

8.63 The changes that the Inland Revenue is making to the tax regime provide the opportunity to look again at how members can make additional contributions in the new scheme. From 2006, rules will allow NHS staff to make contributions of up to 100 per cent of their salary tax-free into their pension. This will be subject only to an annual allowance of increasing the value of their pension pot by £215,000 and to a lifetime allowance of £1.5 million before incurring additional tax liabilities. For members in a defined benefit scheme such as the NHS, this means that the annual amount of their pension before commutation can be up to £87,500 before tax is payable.

8.64 The Inland Revenue rules are permissive and the NHS scheme does not have to allow members to build benefits up to this level or allow this level of contributions. However, members should be offered encouragement to save for their retirement within the scheme.

8.65 Consideration has been given to whether to end or amend added years arrangements in the new scheme. In addition, a new pension purchase arrangement has been considered.

A new pension purchase arrangement

8.66 This would mean that members would be able to set up an arrangement with their employer and the SPPA to pay additional contributions set by the member at a level that suits their circumstances. At the end of the pension year (31 March), the additional contributions made by the member over the preceding year would be used to purchase additional pension. The cost of pension purchased would be subject to the age of the member and would be set out in tables produced by GAD.

8.67 The pension purchased would be revalued annually using either NAE or RPI. Pension benefits thus earned would be treated exactly the same as benefits earned in the main scheme. They would be payable in full at the age of 65 but subject to the same flexibilities as main scheme benefits. Members would be able to decide annually how much they wish their additional contribution to be. This would mean that a member could pay higher contributions when their outgoings were lower and reduce additional contributions when things were tighter.

Limits on in-scheme savings

8.68 The strong view of the UK Government is that there should be limits on the amount of additional savings members are able to make within the scheme. This would provide guaranteed benefits underwritten by the UK Government and in setting those limits, the UK Government is likely to want to strike a balance between encouraging staff to save more for their retirement and taking on additional liabilities.

8.69 Members are of course free to put money into other pension plans outside the NHS scheme. This will be the subject of discussions with the Treasury who have the authority to approve such a scheme. Another issue is what the limit should be on pension contributions in any one year. The Inland Revenue would allow this to be up to 100 per cent of salary, rather than the current 15 per cent. The scheme could use the IR maximum limits or introduce its own limits.

8.70 It is considered that a pension purchase arrangement would be more appropriate for the majority of NHS staff and should replace added-years arrangements. Trade union representatives believe that pension purchase and more flexible added-years arrangements should both be offered.

Your views are sought on the proposed additional pension purchase arrangement including the issue of contribution limits and limits on the overall amount of pension purchased.

Views are also sought on the issue of removing added years arrangements in the new scheme.

Money purchase additional voluntary contributions (AVCs)

8.71 In the current scheme members have the opportunity to contribute additional voluntary contributions through payroll to schemes run by two external providers. The current level of take up of AVCs in the NHS is very low. Confidence in AVCs was affected by the difficulties experienced by one of the providers.

8.72 We consider that there are three options for an externally provided AVC scheme in the future-

- not offer an AVC scheme linked to the main scheme
- offer an AVC scheme with a choice of providers
- offer an AVC scheme with a single provider.

8.73 There is a view among the AVC providers that that members would benefit most from an AVC option with a single provider. They believe that the system of regulation that has been put in place will provide safeguards against a repeat of previous problems with a single provider.

8.74 Offering members an AVC option that is simple, quality-assured by scheme managers and which they can contribute to through payroll has value, and many members are more likely to increase retirement savings if the logistics involved are relatively simple.

8.75 On the other hand, there is a risk in the NHS scheme being seen to endorse private sector providers over whose performance the scheme has no control. Members are free to set up their own pension top-up arrangements.

8.76 If an AVC arrangement were to continue, there are benefits to the single and multiple provider routes. Using multiple providers gives members more of a choice. However, it is possible that members would receive a better service from a single provider who might invest more in providing a better quality product. Availability of independent financial advice is a critical issue.

Your views are sought on which of the three approaches should be taken:

- **To not offer an AVC scheme linked to the main scheme**
- **To offer an AVC scheme with a choice of providers**
- **To offer an AVC scheme with a single provider.**

Practitioner pensions (GPs and dentists)

8.77 General practitioners and dentists have different pension arrangements from NHS staff. As they are self-employed, a final salary method for calculating pension benefits would not be appropriate. This is because the earnings pattern is typically different from salaried staff, with peak earnings often occurring in mid career. In addition, self-employed members have greater control over their earnings in any one year and may be able to influence the level of final salary in a way not open to salaried staff.

8.78 Practitioner pensions are therefore calculated using the CARE method. The CARE accrual rate calculated to deliver a pension equivalent to 50 per cent of final salary with 40 years' service is 1.4 per cent (1/71) per year of service rather than 1.25 per cent (1/80) in the final salary scheme. Pension is dynamised using a bespoke formula based on the increase in practitioner profits for GPs and NHS earnings for dentists. Following implementation of the new General Medical Service (nGMS) contract, all of GPs' NHS profits are pensionable. Otherwise, practitioners receive broadly the same pension benefits as other staff.

8.79 It is recommended that the practitioners' pensions should continue on a CARE basis for new practitioners. If the main scheme were to become a CARE scheme, then logically arrangements for practitioners should move onto the same basis. If the main scheme moves to a final salary 1/60-based scheme, then it is recommended that practitioner pensions also move to a single accrual rate with commutation of pension for the lump sum. The comparable accrual rate for practitioners to maintain parity with the improvement in the main scheme accrual rate would be 1.87 per cent. Trade union representatives favour maintenance of the current approach to dynamisation.

8.80 Other than accrual it is recommended that new entrant practitioners after 2006 should receive the same benefits package as other new entrants would receive as outlined in this section.

Your views are sought on the recommendation that practitioner pensions should continue to be on a CARE basis and that the accrual rate for the practitioner scheme should be set to maintain the current relationship with the main scheme.

Employee contribution rate

8.81 Currently most employees pay a contribution rate of 6 per cent. Manual staff currently have a contribution rate of 5 per cent. This was originally given in recognition that manual staff had less opportunity for career progression and received a lower level of benefits from the scheme.

8.82 It is recognised that a different contribution rate solely for manual workers is inappropriate after implementation of Agenda for Change (AfC). In relation to existing staff, it is proposed that this is addressed by giving all staff in pay bands 1 and 2 a 5 per cent contribution rate.

8.83 With regard to new staff, three options were examined:

- move all staff to a 6 per cent contribution rate
- giving all with pay below or equal to the top pay band 2 a 5 per cent contribution rate
- restructuring contribution rates so that every member's pay up to the top of band 2 attracts a lower contribution rate but a higher rate is paid on all pensionable pay above that level. It has been calculated that for every 1 per cent that the lower rate is below 6 per cent, the higher rate would need to be 1.5 per cent-1.75 per cent above 6 per cent, so, if the lower rate was to be 5 per cent then the higher rate would 7.5 per cent-7.75 per cent.

8.84 There is a strong argument for lower paid staff having a lower contribution rate within a final salary scheme as they are likely to experience lower career progression than other scheme members. On the other hand, AfC is expected to address the issue of career progression. Increasing the contribution rate for higher pay levels while reducing it for lower pay levels would be cost neutral. However, this is likely to be seen as a pay reduction by higher paid staff. It is important to note that there is an affordability issue if staff in pay bands 1 and 2 are given a 5 per cent contribution rate.

Your views are sought on the options for the contribution rates as set out above .

Ill-health retirement

8.85 Currently, the NHS provides a single level of ill-health retirement. This involves enhancement of service on retirement for those permanently incapable of carrying out their employment. For members with over twenty years' service, the maximum enhancement is six years, 243 days, between ten and twenty years the maximum is ten years and below ten years the maximum is five years. The rates of ill-health retirement experienced in recent years have gone down significantly, and GAD has undertaken a preliminary calculation suggesting that a reduction of one-half in the rates of ill-health retirement experienced in the older age-ranges might lead to a reduction in scheme costs of around half per cent of pay.

8.86 Ill-health retirement formed a major part of the discussions at the review of pensions in England and Wales. A number of points emerged which apply equally to the NHS in Scotland.

- There were felt to be significant problems with the way that ill-health, including ill-health retirement, was dealt with in the NHS.
- Currently the processes for dealing with sickness and ill-health retirement were not very well integrated: the former being the responsibility of employers and the latter of the pension scheme.
- There is a group of NHS staff currently left in limbo: deemed too ill to work by their employer but not given ill-health retirement.
- Occupational health services were often reactive rather than proactive, only becoming involved when sickness was entrenched.
- Redeployment was an important part of dealing with NHS staff who were unable to continue in their current post. However, many health boards found this difficult to cope with in terms of finding suitable alternative employment. This was a particular issue for ambulance services, where it was felt that frontline duties were difficult to sustain until normal pension age, but where there were very few alternatives.
- The Public Sector Review of Ill-health Retirement in 2000 recommended a two-tier approach to ill-health retirement. In a two-tier scheme, typically there would be two levels of benefit depending on the degree of incapacity. Other public service schemes have introduced or are proposing to introduce such two tier ill-health pensions. There were different views as to whether there could be an advantage in moving to this type of arrangement.
- The issue of ill-health retirement would become even more important if normal pension age rose to 65. There was a risk that ill-health retirements would rise rapidly.

8.87 It was felt that in the interests of both NHS staff and employers, there needed to be an integrated approach to ill-health retirement between employees and the pension scheme. An integrated approach might include the following considerations.

- As a good employer wanting to improve working lives, the NHS should seek to minimise work-related sickness absence through proactive line management. This would include earlier access to occupational health services before sickness becomes a major problem.

- Where ill-health absence occurs for work or non-work-related reasons, the NHS needs to actively manage sickness absence and enable employees to return to their job.
- Where employees are unable to return to their post, redeployment should be offered to a post that suits their skills and abilities. Often this will involve stepping down to a less demanding and lower paid job. This might include some protection of salary and pension rights. Redeployment may be to another employer in the health economy. Health boards need to work together and with other partners, for instance higher education, to re-deploy staff.
- Where an employee is unable to return to work when sick pay runs out, there might be an additional period of sick pay at ill-health pension rate.
- Where there was a strong possibility that a person may recover sufficiently to come back to work, ill-health pensions could be granted with a review after five years.
- Ill-health retirement would still be available for those deemed to be permanently incapable of returning to work in their current post or any suitable alternative post in the NHS.

8.88 The pension scheme cannot deal with ill-health in isolation. It is important that any changes to the pension scheme are part of an integrated approach to managing ill-health absence.

8.89 It is, however, difficult to develop an effective method of integrating terms and conditions of employment within pension scheme regulations. It is recognised that ill-health is primarily an employment issue, and the pension provisions are only part of the picture. The review of NHS pensions in England and Wales recommended that a review of sickness and ill-health arrangements should be carried out, which will help determine this aspect of pension scheme design. It is recommended that Scottish interests are represented in that review of ill health retirement, with a view to considering how its conclusions can be applied in Scotland.

Your views are sought on this approach to reviewing sickness and ill-health retirement arrangements.

Extending scheme coverage

8.90 UK Government policy is that staff of private sector employers should not be admitted to unfunded public sector pension schemes, like the NHS scheme. This is because of the risk to an unfunded scheme of incurring liabilities generated as a result of private sector employment policies and transferring the risk of factors such as increased longevity from private sector employers and schemes to the taxpayer. A different approach is taken with regard to the funded Local Government Pension scheme (LGPS), in which private sector employers carrying out best value contracts can be given 'admitted body status' to the LGPS.

8.91 NHS employees transferring to private sector partners are guaranteed broadly comparable private sector pensions. This broad comparability, a benefits test at the time of transfer, is certificated by GAD. However, Direction body status (the equivalent of admitted body status in the NHS) is only permitted to voluntary sector organisations such as hospices.

8.92 It is clear that pensions are seen as a major issue where staff are transferred away from NHS employers. NHS employer representatives regarded ensuring a broadly comparable pension scheme as a significant administrative complication in advancing private finance initiative (PFI) schemes. This particularly concerns the issue of certification of proposed comparable schemes and how pension costs feed into contract costs.

8.93 Some private sector employers have argued that it is considerably more expensive for them to provide a scheme with comparable benefits than it is for the NHS. This means that those costs are potentially fed into a higher contract cost for the NHS. Representations were made that if the UK Government is moving to a definition of NHS services as those paid for by the NHS, not

necessarily provided by the NHS, then the pension scheme also ought to reflect that definition. It was argued that, as a matter of fairness for staff, they should be able to keep their NHS pension. A number of examples have been cited of NHS staff losing out, despite broad comparability.

8.94 The independent actuarial adviser to the pensions review in England and Wales has produced a paper discussing options on scheme coverage. This paper argues that it would be possible for separate schemes within the NHS scheme to be set up for the workforce relating, for instance, to a PFI contract. The costs for those staff could be assessed separately and employers' contributions could be set according to the liabilities relating to that group of staff. This would protect against the risk of, for instance, employers raising salaries close to retirement to increase pension. The employer would also pay a bond protecting against the impact of insolvency or market exit.

8.95 There is a distinction between increased liabilities incurred as a result of private sector employer action (that employers should pay) and those incurred as a result of external factors such as an increase in longevity. The demand for staff providing NHS services (whether NHS or private sector-employed) is set to continue to increase. There is a relatively low risk of staff numbers reducing or the need for widespread redundancies. In this environment, it could be seen as reasonable that liabilities related, for instance, to longevity should be born by employers at the time those liabilities are assessed. Enabling all staff to access the same pension scheme would provide a more level playing field for contractors and would certainly be welcomed by staff and trade union representatives. There is a strong argument that broadening scheme access, with appropriate safeguards, would promote UK Government policy on plurality of provision.

8.96 It is noteworthy that there is a strong consensus across NHS and private sector employers and staff representatives that scheme access should be broadened. However, it is recognised and understood that issues of the coverage of public service schemes in general, including the NHS scheme, may be subject to wider debate.

Your views are sought on whether scheme coverage should be extended for both the new and existing schemes. Views may also inform the wider debate on public service scheme coverage.

Summary

8.97 This section has described options for a new scheme and has identified options for improvements and change. The cost of the improvements, and their resource implications are set out in annex F. It will not be possible to afford all improvements. The improvements have been prioritised in the tables. As previously indicated, any recommendations will be subject to agreement by the Scottish Ministers.

Your views are sought on the recommendation that the highest priorities are improving the accrual rate, providing end career flexibilities and providing partner pensions.

9. EXISTING MEMBERS

Protection arrangements

9.1 Under the UK Government's plans, pension benefits earned after 2013 by existing members will only be payable in full at 65. In 2003, the Scottish Ministers promised that for existing NHS scheme members, all service earned up to 2013 would be protected in full and pension benefits earned up until 2013 would be payable in full at the age of 60. Full protection is also extended to all added-years contracts payable at 55 or 60 that members have taken out. How protection works is set out in fact box 7 below. Under the recommendations set out below, these arrangements would operate for those members who chose not to transfer to the new scheme.

9.2 No existing scheme member will have to work until 65 in order to achieve the same pension as they would have had at 60. The amount of protection would vary according to age. If you wish to know how it will affect you, please call 01896 893298.

FACT BOX 7

Protection arrangements

Ravi will be 57 in 2013 and expects to have 30 years' service. He intends to retire fully at 60 in 2016 and is able to take the 30 years of benefits he has built up before 2013 in full. This means that they will be worked out on his pensionable pay in 2016 not 2013. The benefits relating to the three years after 2013 will be reduced by around 27 per cent, using the published early retirement factors to reflect the fact that they have been taken before the new normal pension age of 65. Ravi would need to work less than one extra year after the age of 60 to make up the shortfall to the benefits he would previously have received at 60. If he chose to work an extra year, he would also have the benefit of a further year's earnings growth in his pensionable pay, which would provide a higher pensionable pay figure on which to calculate his benefits.

Deborah will be 45 in 2013 and expects to have 15 years' service by then. If she continues working full time, she would build up a further 15 years' service by the time she is 60 in 2028. If she chooses to retire, she will be able to take the benefits she built up to 2013 in full. The fifteen years' service after 2013 will be reduced by around 27 per cent. Deborah would have to work two years longer to achieve the same pension that she would have received at 60 under the old arrangements. If she chose to work an extra two years, she would also have the benefit of two further years' earnings growth in her pensionable pay.

9.3 Trade union representatives have emphasised their concerns about the UK Government's proposal for public sector pensions to move to NPA65. Their case for a voluntary approach to extending working lives is set out in section 4. The pensions review in England and Wales have explored the possibility that, if the UK Government did decide to press ahead with its plans, an extension of protection might make this move more palatable to staff. It is the view of the review in England and Wales that extending protection to existing NHS staff would be broadly cost-neutral as this would also delay the receipt of benefit improvements funded by increasing the normal pension age. However, this may not achieve the UK Government's objective of more staff working longer.

9.4 Should an extension of protection be applied for NHS staff in England and Wales, consideration will be given to recommending to Scottish Ministers that the same extended protection be applied to NHS staff in Scotland. It is recognised, however, that any recommendation made would take cognisance of UK Government policy on protection arrangements, and also the fact that the issue spans all public sector pension schemes.

Your views are sought on whether an extension of protection by between three and five years for NHS staff in Scotland should be recommended to Scottish Ministers, if in fact it is applied for NHS staff in England and Wales.

Members with special retirement rights

9.5 There is a group of NHS staff who have special retirement rights and a normal pension age of 55 rather than 60. In addition, pensions for staff with Mental Health Officer (MHO) status, who have the right to retire at 55, are subject to double the accrual rate after 20 years' membership of the NHS scheme. Trade union representatives argued that an explicit agreement was reached in 1995 guaranteeing that special retirement rights would be maintained. It is also important to consider that if these groups of staff have an increase in their NPA to 65 this would be double the increase that other NHS staff groups face.

9.6 NHS employers' representatives recognise that what is decided for these groups will need to be set in the context of other special status groups outside the NHS and establish a position that is defensible for other staff doing the same or similar jobs. The special class groups are closed groups and are shrinking. Maintaining protection for these groups would be broadly cost-neutral, as special class groups would receive no further scheme improvements when protection ends for other NHS staff, although they would access some improvements made available in 2006. Given the finite nature of this group and the strength of views expressed in relation to the 1995 agreement, it is recommended that NHS staff with special retirement rights have indefinite protection maintained and are allowed to keep their rights as they currently stand.

Your views are sought on the recommendation that protection for special class groups be maintained.

Moving to the new pension scheme

9.7 From the beginning of the review a commitment was made that existing members would be offered the choice of moving to the new arrangements. It is recognised that a significant proportion of NHS staff expect or are prepared to work beyond the current normal pension age of 60, particularly if NHS employers develop more flexible employment options. For these staff, the new scheme with a higher accrual rate but a later normal pension age may give them an opportunity to earn a bigger pension.

9.8 It is recommended that all existing NHS staff should be given the opportunity to move to the new scheme, transferring over existing service. Existing service would be given a transfer value assessed by those implementing the new scheme in consultation with GAD. Depending on what benefits are in the new scheme, it is expected that the transfer value for years of service earned in the old scheme would be at or close to one year in the new scheme for one year in the old. A year-for-year transfer would mean that existing NHS staff who chose to move to the new scheme would be treated on exactly the same basis as new members. All their service would be eligible for all benefits, but they would only be payable in full at 65. Members would be voluntarily giving up their protection in return for the benefits in the new scheme. If members were intending to retire at or close to their 65th birthday, then this option would be likely to bring about improved benefits. If the new scheme were to be a CARE scheme, then it would be considerably more challenging to provide members with meaningful comparisons of benefits in the old and new schemes. Trade union representatives have also proposed the option of moving to the new scheme for future service only.

9.9 Trade Union representatives consider that as an alternative to a new scheme approach, it would be possible to retain a single scheme for all employees but with differing benefits for staff whilst they retained current pension ages and for staff who had increased pension ages.

This approach would in practice require that existing staff be conceded a greater range of benefit changes than the UK Government's financial framework. Trade union representatives have accepted that the review proposals are structured on a new scheme basis but would wish for an amended scheme approach to be evaluated if their arguments for a different financial framework were accepted. Trade union representatives believe an amended scheme approach would avoid many of the difficulties associated with a higher pension age for existing staff.

Your views are sought on the options set out for existing members who choose to transfer to the new scheme.

Arrangements for those who choose not to transfer

scheme improvements before the pension age is changed

9.10 Under the protection arrangements, if members do not wish to transfer into the new scheme then they will remain in the old scheme, building up pension that can be taken unreduced at their current normal pension age until 2013. The old scheme will need to be amended to give survivor benefits to same-sex civil registered partners from 2005, backdated to 1988. It will also need to be made compliant with age discrimination legislation from October 2006.

9.11 The financial framework (see 7.2) precludes making scheme improvements available to existing members before savings are made in the scheme costs relating to their pensions. The largest part of potential savings available relates to NPA65, which means that improvements funded from that source would only be available after 2013. However, there is a range of improvements that should be affordable before 2013 and could be made available to existing members after 2006.

9.12 A potential package of improvements have been considered which are broadly cost-neutral, using the costing assumptions adopted for the review. It is set out in annex I. This package would be aimed at supporting increased retention of existing NHS staff, while providing some other improvements, such as increased tax-free lump sums, that some staff will value. The main retention measure would be the provision of late retirement factors. These would mean that staff in the open groups who choose to work beyond the average retirement age at which people retire in those groups would have their pensions increased. Two options were considered. The first involved offering late retirement factors to everyone who worked beyond the current normal pension age of 60. The second would offer higher factors but only to staff who worked beyond the current average retirement age for open groups.

9.13 It is also proposed that the current service limits that restrict members to 40 years' service at age 60 should be removed. This will remove a disincentive for long-serving staff to work longer. For MHOs, this would only apply when they reached 40 years' of actual service.

9.14 Currently manual staff pay a contribution of 5 per cent. It is recognised that a different contribution rate solely for manual workers is inappropriate after the implementation of Agenda for Change (AfC). In relation to existing staff, it is proposed that this is addressed by giving all staff AfC pay bands 1 and 2 a 5 per cent contribution rate.

9.15 Other measures in the potential package include a number of improvements proposed for the new scheme that are discussed in section 8. These include:

- survivor pensions for civil partners including retrospection to 1988
- removal of cessation of survivor pensions in re-marriage
- standardising payment of survivor pensions after death in service at a salary rate for six months

- changing children's pension arrangements
- allowing multiple nominees for death in service lump sum
- Protected step down.

9.16 It is anticipated that any changes in arrangements for ill-health retirement and for extending scheme coverage, as discussed in section 8, would also apply to existing staff. The proposed pension purchase arrangements could also apply to existing staff. However, issues concerning the interface with current added-years arrangements need to be considered.

Your views are sought on the package of improvements set out above and in annex I.

Transition after protection ends: potential improvements for existing NHS staff after the pension age increases

9.17 For those existing NHS staff who choose to retain protection and stay in the old scheme until protection ends, two possible options were considered:

- to close the old scheme to new contributions when protection ends and move members into the new scheme for future service. It would be possible to offer the choice of transferring their past service into the new scheme (see 9.8)
- to leave existing members who choose not to transfer in a revised version of the old scheme, with an NPA of 65 for future service from when protection ends.

Closing the old scheme

9.18 Closing the old scheme from the end of protection has administrative advantages. However, it also creates problems in mixing old and new scheme benefits. There is a considerable cost involved in NHS staff with normal pension ages of 60 and 55 being able to exercise end-career flexibilities such as those set out in section 8. This is because scheme costs currently take account of the actual retirement ages for those staff. The likely costs in respect of existing staff would be around 3 per cent of pensionable pay across both NPA60 and NPA55 staff.

9.19 It would not be possible to provide end-career flexibilities such as pensionable re-employment and partial draw down for service in the old scheme within the financial framework set out in section 7. Under this option, there would probably need to be rules that restricted members with service in both schemes from exercising flexibilities in respect of old scheme service. This might, for instance, include a special abatement rule for those with mixed service under the old and new terms, and reducing pension payments if pension and salary together exceed salary at the time of drawing pension. The maximum a member would be able to earn in salary and pension would be their salary on retirement increased annually by inflation. This would be likely to encourage step down and wind down. A key issue to consider is whether, even with abatement, there would be a tendency for staff to take benefits earlier, thus increasing scheme costs and reducing their total work contribution.

Retaining the old scheme and introducing a new scheme

9.20 Continuing with the old scheme from 2013 would increase administrative complexity. However, it could avoid the complications arising from mixing service in two schemes. If a decision were made to introduce career average in the new scheme, it would enable existing members to choose to remain wholly in a final salary scheme, not just until 2013.

9.21 Under this option, some further improvements would be made to the existing scheme in 2013 to compensate for the increase to NPA65. This might include partner pensions in respect of future service and an improvement in the accrual rate for future service.

Trade union representatives' view

9.22 Trade union representatives consider that there are problems with both of these transition options, arising from the separation of the new scheme and of protected benefits in the old scheme. These are driven by the financial framework. The proposed choice exercise at the centre of the transition process will be difficult for members to understand and will generate enormous administrative difficulties. A policy of amending the existing scheme as set out in paragraph 9.9 would avoid many of these difficulties. It would also permit the extension of full flexibilities on drawing a pension to all staff in a way which would benefit all and encourage many to extend their careers. This would need a less restrictive financial framework.

Practitioner issues

9.23 The same issues with regard to transition apply to practitioners as to main scheme members and the same considerations as discussed in this section would apply.

Your views are sought on transition, including the two options set out for moving to a new scheme.

Rejoiners

9.24 Under the current arrangements, scheme members who return to the scheme are counted as new members if they return after a break of more than 12 months. Those with special retirement rights can maintain those rights if they return within 5 years.

9.25 The view of the NHS employer's representatives is that the current arrangements should be maintained. Staff who return after a break of more than twelve months would return with a normal pension age of 65.

9.26 The trade union representatives' view is that scheme members who return to the scheme during the protection period should have a right to return to the old scheme until protection ends.

9.27 It is recommended that returners should be given the choice of joining the new scheme.

Your views are sought on the options for rejoiners.

Retrospection

9.28 Costings have been obtained in relation to giving existing members improvements to benefits in respect of existing service. The case was made to the review that benefits that relate to equal treatment, such as those relating to pre-1988 widowers' pensions, and partner pensions, should be provided retrospectively for all staff as all NHS staff paid the same contribution rate.

9.29 While understanding the strength of feeling on this issue, recognition must also be given to the long-standing UK Government policy that the additional costs of any retrospective improvements in scheme benefits should not fall to the tax payer. There was also a view that providing retrospection for a proportion of scheme members was not a good use of any available resources, given the financial framework. Members have already had the opportunity to purchase pre-1988 widowers' retrospection. It would be appropriate to offer a similar opportunity, should partner benefits be granted to existing members. This would be costly for individuals. Illustrative figures produced by GAD suggest that each year of service for which retrospection was being purchased might be reduced to 0.84 for men and 0.925 for women. Under the recommendations for a new scheme, existing members would also be able to achieve retrospection for all scheme improvements through transferring to the new scheme.

Your views on the retrospection issues are sought.

10 UNDERSTANDING YOUR PENSION

10.1 Both NHS employers and trade union representatives agree that there appears to be a lack of understanding about the NHS scheme. Many employees and employers do not appear to understand what the scheme provides. There appears to be little understanding of the value of the pension package, which offers pension and risk benefits (family and ill-health benefits) at a standard employee contribution rate of 5 or 6 per cent (around 3.5 per cent net with tax relief and national insurance rebate). With a combined contribution of 20 per cent, the NHS scheme offers excellent value for money. However, there was concern that information coverage of NHS employees was not as high as it might be, particularly among low-income groups. Also, very few employers actively referred to the scheme within their recruitment literature or during exit/return interviews.

10.2 The effectiveness of current pensions communications in the NHS in Scotland echoed the Government's green paper on pensions, which emphasised the need for employers to make pension information available in the workplace in order for staff to make informed decisions about their pension rights and eventual income in retirement.

10.3 The NHS need to ensure that its staff understand what is available to them, its value and its part in the overall remuneration package. Communication is a vital component in ensuring that staff know what the current arrangements offer, how these compare with the new arrangements and how staff might best maximise their eventual income in retirement if this was an important part of their financial plans.

The tools

10.4 A final salary scheme has been a part of the NHS for well over 50 years, but the scheme as a whole is still widely misunderstood by scheme members and employers. Whether the final conclusion is that a defined benefit arrangement should be in the form of a final salary scheme or a career average scheme (as explained in section 8), communications should aim to be simple to understand and offer a greater degree of clarity, to help NHS staff make informed decisions about their income in retirement.

10.5 Employers and members appear to be of the view that more support is needed to aid understanding, particularly scheme literature that breaks through the perception that pensions are confusing and complex. The diversity of the NHS means that the traditional methods of communicating might not be appropriate. English may not be the first language of many NHS staff, and current terminology can seem alien and irrelevant to those who simply wish to know how much they might secure as a pension when they retire. An important part of this process will be the continued issue by SPPA of annual benefit statements, which will allow staff to see the value of their benefits year on year and information on how they might achieve their target income in retirement. See section 11 for more information about annual benefit statements.

Ready reckoners

10.6 SPPA will be able to direct members to a ready reckoner, which will show members:

- how protection works within the current 1/80 scheme
- value of benefits within a 1/60 scheme
- value of benefits within a CARE scheme.

Your views on how changes might be better communicated both locally and centrally are sought.

11. ADMINISTRATIVE ISSUES

11.1 Modernisation of the pension scheme has considerable implications for the employers and also for the SPPA. This section examines these issues.

SPPA issues

11.2 The key elements for scheme modernisation from an administrative point of view are:

- accuracy of data
- availability of information technology
- understanding of the scheme
- training and development.

Cost

11.3 The above issues will have a major impact for the SPPA, employers and employees, system suppliers and third-party pension/payroll providers. Each element is explained in more detail below.

Accuracy of data

11.4 In order for the new scheme to operate effectively, it is vital that the scheme is underpinned by accurate data relating to employees and their employment status. This same requirement applies to the current scheme and is a key factor in the processing of retirement applications and the production of annual benefit statements.

11.5 The SPPA has invested significant resources into improving the quality of the data currently contained in the NHS scheme data base with the aim of significantly reducing the number of member records with errors or omissions.

This data cleansing work will be ongoing throughout 2005 and is a key requirement for the introduction of the new scheme. Employers have a vital role now, and in the future, in the timely and accurate submission of data to the NHS scheme and any failures in this regard could have major implications for the implementation of the new scheme and new systems.

Availability of information technology

11.6 The introduction of a new pension scheme will require a new IT system for its administration. Given the scale of the NHS scheme this is a major project within a very demanding timescale. There will need to be clear processes set out to cover the intervening period from the start of the scheme until the implementation of any IT system and also for any transitional arrangements between 2006 and 2013.

12. NEXT STEPS

12.1 SPensiR want to hear views on the proposals contained in this document. At annex K there is a response form with a series of specific questions on which we would like your views. SPensiR urge you to take the time to complete it.

12.2 When completed please post the response form to the NHS Pension Review Team, SPPA, 7 Tweedside Park, Galashiels TD1 3TE.

12.3 If you want to complete the response form electronically, you can access an electronic version at www.scotland.gov.uk/sppa. Once you have completed it, you should e-mail it to SPensiR at nhspensionsreform@scotland.gsi.gov.uk.

12.4 You can access a summary of this main consultation document by:

- logging onto the review website at www.scotland.gov.uk/sppa
- e-mailing your request to nhspensionsrefom@scotland.gsi.gov.uk
- calling 01896 893298.

Local trade union representatives will be able to advise members on how they can respond to the review either collectively or individually.

Regional seminars

12.5 SpensiR are also holding a series of events throughout Scotland in March 2005, the purpose of which is to provide background on the review itself and explain options and recommendations. Feedbackby SpensiR at these events will not constitute part of the formal consultation, but the events will give delegates the opportunity to hear first hand the review partners' proposals and discuss their impact in order that they can provide members with information at a local level.

Timescales

12.6 All responses to the consultation must be received by SpensiR by **25 April 2005**.

12.7 Responses will then be collated and analysed by SpensiR, after which a recommendation will be made to Scottish Ministers on the shape of the new NHS scheme. A summary of responses will be made available on the SPPA website in spring 2005.

12.8 If you have a query that is specific to your current pension entitlements or questions about the current pension scheme please contact the SPPA at 7 Tweedside Park, Galashiels TD1 3TE.

ANNEXES

Annex A	Membership of the HRF
Annex B	Membership of SPensiR
Annex C	Outline of the current scheme
Annex D	The review process in England and Wales
Annex E	Trade union representatives' view on the financial framework
Annex F	Costings of current package and possible changes for new members
Annex G	CARE comparisons
Annex H	Inland Revenue tax simplification proposals
Annex I	Costs for existing members
Annex J	Glossary of terms
Annex K	Response form

ANNEX A

Membership of Human Resources Forum

Employers

Eileen Moir Nursing Director, NHS Borders
Susan Russell Agenda for Change Project Team, NHS Greater Glasgow
Lex Gold CBE Chair NHS Lanarkshire
Marie Vannet NHS Tayside
Dick Manson Chief Executive, NHS Western Isles
Campbell Christie CBE Chair NHS Forth Valley Acute Operating Division
Ian Reid Acting Chief Executive, NHS Greater Glasgow Primary Care Division
Alistair Brown Head of Performance Management Division, Scottish Executive
George Brechin Chief Executive, NHS Fife
Malcolm Iredale Director of Finance, NHS Highland
Jim McCaffery Director HR, NHS Lothian
Peter Bates Chair NHS Tayside
Jonathan Best Chief Executive, NHS Greater Glasgow
Robert Anderson Chair NHS Lothian, West Lothian Healthcare Division
John Reid Medical Director, NHS Forth Valley
Gordon Walker Director HR, NHS Lanarkshire
Jim Cameron Director HR, South Glasgow University Hospitals
Lynne Khindria Deputy Director HR, NHS Lothian
Lindsey Ferries HR Manager, NHS Greater Glasgow
Shirley Rogers Director HR, Scottish Ambulance Service
Ian Jones Learning and Development Adviser, The State Hospitals Board for Scotland
Ed Rennie Assistant Director HR, NHS Grampian
Mark Butler Director HR, Scottish Executive Health Department
Alistair Brown Head of Performance Management Division, Scottish Executive Health Department
Alex Killick Assistant Director, Partnership and Employment Practice Division, Health Department, Scottish Executive

Staff side

Clive Davis BMA
Gordon Wenham RCN
Eddie Egan Unison
Lillian Macer Unison
Billy Parker Amicus-MSF
Joe McLaren UCATT
Graham Pirie Society of Chiropodists and Podiatrists
Catherine Mackay Unison
Jim Devine Unison
Elizabeth Stow Society of Radiographers
Julie McNutt CDNA
Dougie Lockhart RCN
David Esplin BMA
Patricia McNally Chartered Society of Physiotherapy
Anne Thomson RCN
Michael Fuller AMICUS MSF
Gillian Lenaghan RCM
Jim Farrelly T&G Scotland
Susan Russell GMB Scotland
John Callaghan Associate Director, NHS Arran & Ayrshire Community Health Division

ANNEX B

Membership of SPensiR

Management side

Derek Lindsay Director of Finance, Ayrshire & Arran Health Board
Peter O'Hagan Director of Human Resources, Argyll & Clyde Trust HQ
David Robertson Glasgow NHS Payroll Services
Helen Ostrycharz HR Director, Yorkhill Hospital, Glasgow
Shirley Rogers Director of Human Resources, Scottish Ambulance Service

Scottish Executive, Health Department

Alex Killick Assistant Director, Partnership and Employment Practice Division,
Alan Penman Learning and Careers Strategy Division
Linda Toland Partnership and Employment Practice Division

Staff representatives

Mark Belchamber BMA
Linda McAllister BMA
Bobby Corbett BMA
Wallace Mair BDA
Michael Fuller AMICUS
Gordon Wenham RCN
Eddie Egan UNISON
John Gallacher UNISON
William Duffy UNISON
Gillian Lenaghan RCM

SPPA

Neville Mackay Chief Executive (from September 2004)
Gordon Taylor Director of Operations
Ian Clapperton Director of Policy
John Provan Policy Manager, NHSSS
Sharon Liptrott Policy Officer, NHSSS

ANNEX C

CURRENT SCHEME BENEFITS

Benefits	Options
1. Normal retirement age (NRA)	60, but members can continue in pensionable employment until age 70. Certain members employed prior to 6.4.95 retain a right to retire at 55.
2. Pensionable earnings	Basic pay plus allowances deemed to be pensionable up to full-time, overtime is not pensionable unless part-time.
3. Pay for calculation	GPs and dentists: career average of pensionable earnings. All other members: best of the last 3 years' pensionable pay.
4. Relation to state earnings related pension scheme (SERPS)	Contracted out of SERPS – reduced NI contributions.
5. Member's contributions	5 per cent of pensionable pay for manual staff. 6 per cent of pensionable pay for non-manual staff. Tax relief – contribution deducted prior to taxation real costs near 3.5 per cent for a standard tax payer.
6. Entitlement to benefits	Completion of at least 2 years' membership (or over age 60). 1/80 of pensionable pay for each year of membership or for practitioners: earnings uprated to current value times 1.4 per cent.
7. Pension	Membership: a. Z/80 x pensionable pay = annual pension b. 3 x Z/80 pensionable pay = tax free lump sum where Z is years of service. GPs and dentists: a. 1.4 per cent of all career uprated earnings = annual pension. b. 4.2 per cent of all career uprated earnings = tax free lump sum.
8. Benefits for early leavers	Ill-health – from any age with minimum of 2 years' membership. Redundancy – from age 50 with minimum of 5 years' membership (excluding practitioners).

Benefits	**Options**
9. Voluntary early retirement	• From age 50. • Accrued pension reduced to meet cost of early payment, OR • Accrued pension unreduced (employer can choose to meet the cost) – option not available to GPs and dentists.
10. Ill Health enhancement Accrued Membership a. 2 to 5 years b. 5 to 10 years c. More than 10 years	Increased service to compensate for involuntary early retirement. a. No enhancement. b. Membership doubled (subject to scheme limits. c. Greater of (subject to scheme limits): • service enhanced to 20 years • extra 6 2/3 years' membership.
11. Redundancy enhancement	Increased to compensate for early retirement • option not available to GPs and dentists • employer meets cost of enhancement and early payment.
12. Death in Service a. lump sum b. spouse's pension c. child allowance	a. 2 x annual pensionable pay – tax free. b. 50 per cent of member's pension based on enhanced pension. c. 25 per cent of members pension based on enhanced pension for each child up to a maximum of 50 per cent.
13. Death in retirement a. lump sum b. spouse's pension c. child allowance	a. 5 years' pension less pension and lump sum already paid. b. 50 per cent of member's pension. c. 25 per cent of member's pension based on enhanced pension for each child up to a maximum of 50 per cent.
14. Allocation: giving up part of a pension	Members can choose to allocate up to 1/3 of their pension for a dependant, but is irrevocable.
15. Refund and preservation	Refund • Less than 2 years' membership, member's contributions refunded. Deductions include 20 per cent 'tax charge' and an amount to buy employee back into the state scheme. Overall refunds generally amount to the net contributions paid into the scheme. Preservation • 2 years membership or more, benefits are preserved in the scheme and increase in line with Retail Price Index (RPI), payable from age 60.

Benefits	Options
16. Increasing benefits	Overall contributions cannot exceed • 15 per cent of pensionable pay in any one year • pension benefits must not exceed 2/3 of gross pensionable pay at retirement. Different methods available: a. purchase of additional membership b. money purchase added voluntary contributions (AVCs) c. stakeholder pensions d. free-standing added voluntary contributions (FSAVCs).
17. Purchasing added years	Purchase by: a. single lump sum payment b. additional contributions
18. Money Purchase AVC	The NHS scheme offers a choice of providers • additional contributions are invested in a fund which is used to buy an annuity at retirement
19. Stakeholder pension	The NHS scheme offers a choice of stakeholder providers a. no employer contribution b. charge of 1 per cent or less on person's fund c. maximum annual contribution of £3,600 d. 25 per cent of fund may be taken as a lump sum
20. Free-Standing AVC	Independently arranged outside scheme.
21. Transferring pension benefits into the NHS scheme	Application within 12 months of joining the NHS scheme and before age 60 Acceptable from: a. occupational pension scheme b. personal pension c. annuity contract
22. Transferring pension benefits outside the NHS scheme	Application after leaving the scheme and under age 60. Acceptable to: a. occupational pension scheme b. personal pension c. annuity contract

Benefits	Options
23. Non-NHS employments – application for 'direction' status	Non-NHS employers may be allowed to operate the NHS scheme in respect of ex-NHS employees. Criteria • status is approved under Section 7(1) or 7(2) of the Superannuation (Miscellaneous) Act 1967 • charitable or voluntary bodies providing healthcare • employees who have contributed to the NHS pension scheme during the previous 12 months • application to retain membership should be made within the first 3 months. Early retirements are not included in the provisions but employers have the option to make equivalent payments. Direction employees typically include: • Hospices • Voluntary Service Overseas • Care in the Community

ANNEX D

REVIEW OF NHS PENSIONS IN ENGLAND AND WALES

THE REVIEW PROCESS

Initial ideas were developed in a Reference Group with a wide range of staff and management representation, including representatives from other public service pension schemes to provide a wider perspective. Reference Group discussions covered: aims and values, survivor benefits, building a pension, taking a pension and transition issues. A special session was held to discuss issues around raising the normal pension age (NPA) to 65.

The ideas emerging from the Reference Group were turned into options for assessment and approved by the Steering Group. The options were scoped by a Technical Advisory Group (TAG). To carry out the analytical work for the review, the project team engaged the services of the Government Actuary's Department (GAD). In addition, an independent actuarial adviser was appointed by competition from First Actuarial, who supported and advised the joint Technical Advisory Group on a range of issues, including best practice in the public and private sectors, detailed impact analysis of the options and the costs. As well as the options papers, the project team commissioned further work that explored the policy and administrative implications of the options for change. In addition views were gathered from a wider group of stakeholders through seminars, human resource networks and Confederation briefings.

The chart below sets out the process.

THE PROCESS

Project team

David Jordison NHS Employers – Project Sponsor and Chair
Mike Evershed NHS confederation – project manager (to March 2004)
Tim Sands NHS Employers – Project Manager (from March 2004)
Angie Walsh Pensions Policy Adviser, NHS Employers
Caroline Robson Communications Manager, NHS Employers
Natasha Henry Project Administrator,NHS Employers (from August 2004)
Sarah Chrispin Project Administrator, NHS Confederation (until August 2004)

Steering Group

Management side

David Jordison Project Sponsor and Chair – NHS employers
Martin Staniforth Department of Health – NHS Deputy Director of HR
Stephen Redmond National Assembly for Wales – Director of HR
Alan Stuttard Chief Executive, NHS Pensions Agency
Keith Johnston HR Advisor, NHS Confederation
David High HR Director, Lewisham Hospital NHS Trust
John Ward East Somerset NHS Trust – HR Director
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Ruth McAll HR Director, Maidstone and Tunbridge Wells NHS Trust (from July 2004)

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Eddie Saville Director of Industrial Relations, Society of Chiropodists and Podiatrists – Staff-side Chair (from May 2004)
Jon Richards National Officer, Unison – Staff-side Chair (until May 2004)
Verity Lewis RCN – Deputy Staff-side Chair (from April 2004)
Josie Irwin RCN – Deputy Staff-side Chair (until April 2004)
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Heidi Benzing GMB
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Phil Green National Officer, Unison
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Sharon Holder National Officer, GMB
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Reference Group

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Carol Byatt Portsmouth Hosptials NHS Trust
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Liz Nicholson Avon and Wiltshire Mental Health NHS Trust
Anne-Marie Walker Tees, East and North Yorkshire Ambulance Service
Warwick Heale Torbay PCT
Terry Crawford Mansfield PCT
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William Urry Department of Health
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Jayne Butler NHS Pensions Agency
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Peter Noonan Government Actuary's Department
Hilary Salt Independent Actuary, First Actuarial

ANNEX E

Trade union representatives' view on the financial framework

The NHS scheme represents a key benefit for NHS career staff and embodies a promise of a level of pension benefits. Trade union representatives believe it is a betrayal of trust for this promise to be reduced on account of an imposed cash limit on its cost and that employer contributions above the level of 14 per cent of salary are justifiable relative to the cost of similar final salary pension schemes provided by private sector companies.

While it is accepted that the cost of the scheme's benefits are rising due to employees living longer, they do not accept that this unfunded scheme faces the same degree of problems that funded private sector schemes do in respect of poor investment returns and financial deficits.

Trade union representatives therefore do not accept the UK Government approach that any benefit improvements resulting from the review can only be financed out of savings resulting from an increase in the normal pension age. They also do not accept the longer-standing policy, which this extends, of insisting that any benefit improvements should be paid for entirely by higher employee contributions.

The current scheme incorporates elements of discrimination in its benefit provision which are morally objectionable, most notably the denial of dependants' pensions to unmarried partners and the limitation of dependants' pensions for widowers to pension rights earned after 1988. They believe the costs of remedying these injustices should be paid through higher employer contributions. They should not be paid by scheme members, whether collectively out of pension age savings or individually by affected individuals having to sacrifice part of their own pension or pay extra contributions.

Trade union representatives believe that all savings arising out of any increase in normal pension age should be reinvested in improving other benefits of the scheme. If this is not the case then the review will amount to a pay cut for NHS staff and important opportunities will be lost to remedy deficiencies in the scheme and to make changes that will provide real encouragement in the form of better pension to those who extend their careers in the NHS.

The financial framework insisted upon by the UK Government has the effect of denying access for existing members to flexibilities in respect of drawing pension benefits that are crucial to encouraging employees to extend their NHS careers or to return to NHS employment after retirement. These flexibilities will only be accessible to staff who give up rights to maintain the current normal pension age. This is an unfortunate and perverse result, as clearly the UK Government's priority should be to extend encouragement and flexibility to older existing employees if it wishes to maximise the retention of the older workforce.

Trade union representatives believe that the way in which the savings deriving from a higher pension age are calculated is unfair and that this results in the compensatory benefit changes suggested being inadequate. At the present time large numbers of staff opt voluntarily to continue working after their normal pension age and this reduces substantially the cost of providing the pension benefits they have earned. The UK Government approach insists on taking advantage of this saving by saying that the saving from a higher normal pension age is the difference between what the scheme actually costs now and what it would cost at the higher pension age.

This approach denies all NHS staff the opportunity of fair recompense for the reduction in the value of their individual benefit rights, due to their option of retiring with a full pension at their current normal pension age being replaced by an option to retire at a higher pension age in future. If savings were calculated by reference to the reduction in the value of members' rights then the savings associated with an increase in normal pension age would be 50 per cent higher than the figure on which the review's consultation proposals are based.

A further problem with the way in which savings are calculated is that they are reduced substantially by additional costs which the scheme incurs in providing ill-health pensions and death in service benefits that result directly from the imposition of a higher pension age. This has an even larger effect in terms of reducing the savings resulting from a normal pension age, but the money here at least recycles into providing benefits to the minority of members of the scheme affected by these contingencies. What it does bring into question is the wider case for raising the normal pension age as a means of reducing the cost of the scheme and it suggests that for a significant proportion of NHS staff a higher pension age would be associated with adverse health problems.

ANNEX F

COSTINGS OF CURRENT PACKAGE AND POSSIBLE CHANGES FOR NEW MEMBERS

Basis for costings

Benefit costings in this consultation document have been produced by the Government Actuary's Department. As the current valuation of the NHS scheme is still to be completed, these figures have been based on those produced for the review in England and Wales. Therefore, they are an estimate and subject to change once the valuation has been completed.

Two sets of costings have been produced. The first is for new NHS staff from 2006, who under the UK Government’s proposals will have a normal pension age (NPA) of 65. The second is for existing NHS staff, who will have protection under their current terms until 2013. Baseline costings were established for both groups. Then the costs of various benefit improvements for each group were assessed. The results are set out below. Table IA shows a package of improvements for new entrants which might fall within the cost envelope, and Table IB shows improvements for new entrants which might not fall within the envelope. Costings for existing members are contained in annex I

Costings of potential benefit changes are expressed as a percentage of pensionable pay. They have been calculated separately for new staff and for existing staff and have been calculated on the basis of a normal pension age (NPA) of both 65 and 60. The baseline costs of the current scheme benefits for new and existing members are set out in the table below. The costs for both existing staff and new entrants have been based on the valuation assumptions outlined in the first paragraph, except that new entrants costs include allowance for some further projected improvements in longevity, meaning that their pensions are expected to be in payment for longer (and except where the benefit to be costed is such that new assumptions are required).

There is a general right to retire at 60 without reduction of benefits but also included are the costs of those NHS staff in special class groups with the right to retire at 55 without reduction of benefits and those with Mental Health Officer (MHO) status. This right was removed for new staff in 1995. The new entrant costs are shown only with a normal pension age of both 60 and 65.

The difference in costs between a scheme for new entrants with an NPA of 65 and an NPA of 60 will be between 1 and 2 per cent. Based on the experience of the review in England and Wales, this figure is likely to be in the region of 1.3 per cent of pensionable pay. This represents the savings from moving to a NPA of 65.

Table: Costs of current benefit package

Benefit category	New Members NPA65	New Members NPA60	Existing Members
Member’s normal retirement and withdrawal benefits	11.0 per cent	13.6 per cent	13.5 per cent
Member’s benefits on Ill-health retirement	4.6 per cent	3.4 per cent	4.5 per cent
Spouse’s benefits	1.0 per cent	0.9 per cent	1.3 per cent
Lump sum death benefits	0.3 per cent	0.3 per cent	0.3 per cent
Total	16.9 per cent	18.2 per cent	19.6 per cent

Ill-health costs are the total cost of pension benefits for those that retire on ill-health pensions and not just the increased costs attributable to ill-health retirement.

The actual contribution rate paid of 20 per cent is 0.4 per cent higher than the assessed baseline rate of 19.6 per cent.

The costs for existing NHS staff are a mix of those with the right to retire at 60 and 55.

Existing staff have a different demographic profile from new entrants, and the new entrant costings also reflect more projected future longevity improvements than those for existing members.

IA. Table of package of proposed changes which might fall within the cost envelope for new entrants from 2006

Description	Cost
Baseline cost	16.90 per cent
Provide lifelong survivor pensions to eligible unmarried and unregistered partners and remove cessation on remarriage of widow(er)s	0.25 per cent
Increase accrual rate to 1/60 with commutation at 12 for 1	0.8 per cent
Provide end-career flexibility of pensionable reemployment, partial draw down and actuarial enhancement after NPA	0.05 per cent
Standardise end date for children's survivor pensions to 23	negligible
Provide an additional one times salary life cover for members without eligible partners	negligible
Increase the period for short-term spouses' pensions payable on death in service to six months in all cases	negligible
Allow multiple nominees for death benefits	Nil
Protected step down	Nil if paid for by either the employee alone or with the employer, negligible if met from the scheme
Changed abatement formula	negligible
Packaging costs rounding effects and summation of de minimis items	negligible
Total cost	18.1 per cent

IB. Table of possible individual changes unlikely to fall within the cost envelope for new entrants from 2006

Description	Cost
Improve accrual rate for survivors' pensions to 1/120	0.40 per cent
Provide an additional one times salary life cover for all members	0.15 per cent
Extend reference period for final salary calculation to best of last ten years	0.10 per cent-0.20 per cent
End abatement	0.1 per cent
5 per cent contribution rate for all staff in Agenda for Change bands 1 and 2.	0.05 per cent
Provide a year's free accrual to those on approved career break (50 per cent take-up assumed)	1.00 per cent

ANNEX G

CARE COMPARISONS

Brief commentary for NHS pension scheme review on final salary versus career average benefit design

Benefits Structure

Final salary schemes promise a level of benefits based on salary at retirement or leaving.

Career average revalued earnings (CARE) schemes promise a level of benefit based on average salary over a career. Earnings from years before retirement or leaving are revalued so they keep their real value. The suggested CARE scheme for the NHS will revalue prior year earnings in line with salary inflation as measured by national average earnings (NAE) increases.

Accrual Rates

CARE benefits, being based on an average salary over a career will tend to be based on a lower pensionable salary, so a CARE scheme can have a higher accrual rate than a final salary scheme and still cost the same amount of money to provide.

For comparison purposes, the figures below assume a final salary accrual rate of 1/60 (or 1.67 per cent).

The proposal is that a CARE scheme for the NHS, equivalent in cost (on the current costing basis) to a 1/60 final salary accrual, would have an accrual rate of 1.8 per cent which is midway between a 1/55 and a 1/56 accrual rate.

In both cases, there is no automatic accrual of lump sum although members may commute, or give up, pension in exchange for a lump sum at the rate of £12 for every £1 per annum of pension given up.

Pensionable earnings

In final salary schemes (including the NHSPS), elements of pay such as overtime tend to be excluded from pensionable pay. As such earnings tend to reduce as employees approach retirement, including them as pensionable would mean that employees would pay contributions on overtime earnings but not receive benefits on them. It is usual under a CARE scheme for all earnings to be pensionable including elements such as overtime. As benefits are based on average revalued earnings over a career, overtime earnings do contribute to the total pension benefit.

Example benefits

The following tables show example benefits for two different careers. The careers are short to make the numbers manageable but the principles apply over longer periods. All the numbers are expressed in today's prices (in other words assuming price inflation is zero) but assume that national average earnings increases will be at 1.5 per cent per annum. It is this general earnings growth which sets the revaluation factors and not the rates at which the employee's earnings grow.

Employee with flat earnings

Year	Earnings	Revaluation Factor	Revalued Earnings
1	£15,000	1.08	£16,200
2	£15,500	1.06	£16,430
3	£15,750	1.045	£16,459
4	£16,100	1.03	£16,583
5	£16,500	1.015	£16,747
6	£17,000	1	£17,000
Average revalued-earnings			£16,570
Final salary pension	= 1/60 x 6 x £17,000 = **£1,700**		
CARE pension	= 1.8 per cent x 6 x £16,570 = **£1,790**		

Employee with rising earnings

Year	Earnings	Revaluation Factor	Revalued Earnings
1	£15,000	1.08	£16,200
2	£15,500	1.06	£16,430
3	£17,000	1.045	£17,765
4	£18,000	1.03	£18,540
5	£20,000	1.015	£20,300
6	£25,000	1	£25,000
Average revalued earnings			£19,039
Final salary pension	= 1/60 x 6 x £25,000 = **£2,500**		
CARE pension	= 1.8 per cent x 6 x £19,039 = **£2,056**		

In these particular examples, CARE benefits tend to be better than final salary for those with flat salaries. Conversely, final salary benefits are better for those who have more steeply rising salaries.

Within the Agenda for Change pay structure, CARE would tend to be better for:

- those who remain in the same pay band throughout their career (especially for those who join at a young age)
- those who stay to retirement, receiving one promotion to a higher pay band very early in their career but then are on the same earnings level for the rest of their career.
- those who have significant overtime earnings if these were pensionable under CARE.

Conversely, final salary tends to be better for:

- those with promotional pay increases over the course of their career – including those who move over three or more pay bands
- those who are promoted late in their career.

For members who do not fall within either of these groups, the comparison is less predictable with final salary being better sometimes and CARE other times, depending on the timing of the career progression.

Risks

A CARE scheme can significantly reduce the risks in the scheme, meanings the risk of the cost of the scheme escalating. This is because the possibility of an employee's salary increasing near retirement and so substantially affecting past service liabilities is removed. Once an individual has earned salary in one year, those benefits are fixed in real terms – that is they may revalue each year but they will not be affected by that employee's particular career path.

Examples

The next sheets show some example careers and compares the pension they would receive under

- a final salary scheme where the pension accrues at 1.67 per cent (or 1/60) per annum, and
- a CARE scheme where the pension accrues at 1/8 per cent (or approx 1/56) per annum.

The pensions shown are payable at age 65. Figures are expressed in today's earnings terms.

The examples show the benefits over an NHS career up to retirement. In practice, many scheme members leave before reaching retirement.

The examples assume no difference in the pensionable pay definitions under the final salary and CARE options. If pay which is currently non-pensionable under the final salary scheme were to become pensionable in a CARE arrangement, this could make the CARE option more attractive for those with high non-pensionable earnings early in their careers.

The examples show various career paths within the NHS based on Agenda for Change or current doctor pay scales. There are no examples for GPs or dentists who are already pensioned by the CARE method as it is proposed that a CARE basis is retained for these groups.

Example career paths and benefits earned

Career – Grade and Earnings History	Part time hours	Final pensionable salary	Final salary benefits at 65	CARE benefits at 65
A Band 4 to 8b Member Full Time Age 21: Band 4, £15,504 Age 28: Band 5, £19,180 Age 31: Band 7, £26,106 Age 38: Band 8a, £33,298 Age 42: Band 8b, £38,786	Full Time Throughout	Top of Band 8b: £47,949	£35,200	£28,800
B Band 5 to 8c Member Full Time Age 21: Band 5, £18,114 Age 30: Band 6, £24,401 Age 36: Band 7, £30,155 Age 40: Band 8b, £38,786 Age 42: Band 8c, £46,471	Full Time Throughout	Top of Band 8c: £57,539	£42,200	£33,100
C Band 5 to 6 Member Full Time Age 21: Band 5, £18,114 Age 30: Band 6, £24,401	Full Time Throughout	Top of Band 6: £29,302	£21,500	£21,500
D Band 5 to 6 Member Part Time With Breaks Age 18: Band 5, £18,114 Age 40: Band 6, £24,401	Age 18: Full Time Age 28: Career Break Age 33: 50% Hours Age 37: Full Time	Top of Band 6: £29,302 Top of Band 6: £29,302	£19,500 £15,600	£18,800 £15,600
E Band 5 to 6 Member Part Time With Breaks Age 23: Band 5, £18,114 Age 27: Band 6, £24,401	Age 23: Full Time Age 30: Career Break Age 32: 50% Hours Age 34: Career Break Age 36: 50% Hours Age 45: Full Time			

Example career paths and benefits earned *(continued)*

Career – Grade and Earnings History	Part time hours	Final pensionable salary	Final salary benefits at 65	CARE benefits at 65
A Band 5-7 Member, Part Time with Breaks Age 23: Band 5, £18,114 Age 27: Band 6, £21,630 Age 40: Band 7, £30,155	Age 23: Full Time Age 30: Career Break Age 32: 50% Hours Age 34: Career Break Age 36: 50% Hours Age 46: Full Time	Top of Band 7: £34,417	£18,400	£17,500
B Band 2/3 Member, Part Time with Break Age 23: Band 2, £11,508 Age 36: Band 3, £14,598	Age 23: Full Time Age 30: Career Break Age 33: 50% Hours Age 43: Full Time	Top of Band 3: £15,877	£9,000	£9,200
C Band 5-7 Member, Full Time Age 21: Band 5, £18,114 Age 27: Band 6, £21,630 Age 36: Band 7, £30,155	Full Time Throughout	Top of Band 7: £34,417	£25,200	£24,000
D Band 3-4, Member, Full Time Age 34: Band 3, £13,266 Age 41, Band 4, £16,463	Full Time Throughout	Top of Band 4: £18,647	£9,600	£9,800

ANNEX H

Inland Revenue tax simplification proposals

For explanation of some of the terms used here, see Glossary (annex J)

The tax simplification proposals, which are due to come into operation in April 2006, introduce a greatly simplified tax regime for qualified pension arrangements and flexibility in the form that benefits can be taken. The Finance Act 2004 that introduces the changes represents the most thorough overhaul of the tax treatment of UK schemes since 1921. The changes introduce one set of rules covering occupational pension or employer-based schemes. Benefits and contribution limits generally are to be replaced with allowance, in particular the individual lifetime allowance and annual allowance.

There is no restriction on what can be saved for retirement within registered pension schemes but tax changes will be levied where contributions or benefits exceed the permissible allowance. Members will be able to contribute to any number of registered pension arrangements at the same time. Annual tax relief on personal contributions will be given on the higher of £3,600 and 100 per cent of UK earnings. Personal contributions in excess of that limit will not attract tax relief. There will be no limit on employers' contributions.

schemes will no longer need to seek formal approval from the Inland Revenue. A new registration process will require new schemes to submit a form with core registration information. Existing approved schemes will automatically be registered under the new regime.

Lifetime allowance (LTA)

There will be a maximum amount for all forms of registered pension saving, known as the lifetime allowance. The limit is the total capital value of a member's pension and lump sum benefits from all registered pension schemes of which he or she is a member. The limit is £1.5 million for the tax year 2006/07. Funds will be tested against the LTA at each benefit vesting event.

The LTA will be increased in stages to £1.8 million in 2010/11. The basis for its indexation beyond that date will be reviewed, maybe on the basis of RPI or earnings.

The current earnings cap and existing limits on benefits will no longer apply.

At each vesting event, part of the individual's LTA is used up. Pension benefits must be valued according to the rules outlined below in order to determine the amount of LTA available after each vesting.

- Where lifetime annuities are purchased, the value of the fund will be used. This covers money purchase arrangements including cash balance.
- For scheme pensions, a standard factor of 20 will be used to value the annual pension and any lump sum benefit (whether accrued separately or via a commutation). Therefore the capital value will be the starting annual amount of the pension times 20, plus the amount of any lump sum. This applies to accrued rights not yet in payment.
- For scheme pensions in payment at A Day, the standard factor will be 25 to allow for lump sums assumed to have been taken at retirement. Therefore, the capital value for a pension in payment will be the annual rate of pension times 25.
- For hybrid schemes, the value will depend upon how the benefits are calculated. Where the benefit is based upon the higher of a defined benefit scale and a defined contribution account, the higher will be taken. Where there is a combination of both, their combined value is taken.
- For transfers to recognised overseas pension schemes, the transfer value is taken.
- Each amount previously claimed must be adjusted in line with the increase in the standard lifetime allowance over the period between the previous and current benefit claims.

Calculation of continued membership

Based on a member on £132,000 with 40 years' membership in the current scheme:

Pension	£66,000 x 20	= £1,320,000
Lump sum		= £198,000
Pension pot		£1,518,000

Transitional protection

Transitional protection has been provided for those people who have accrued rights under the existing tax regimes that are greater or are likely to be greater than those that will be tax exempt under the new regime.

There are two forms of transitional protection for pension rights which have been built up before A Day:

Primary protection can only be used if the individual member's benefits for all registered schemes are greater than £1.5 million at A Day. Benefits are also subject to a test against the current (pre-A Day) revenue limits. The value of those pre-A Day benefits becomes the individual's lifetime allowance which increases in line with the standard lifetime allowances. Further benefits can be accrue under primary protection, but will be subject to the lifetime allowance charge.

Enhanced protection is available to any individual with benefits accrued at A Day. It will allow the value of pre-A Day rights to be linked to movements in earnings (for defined benefit schemes), the greater of 5 per cent or the RPI (for cash balance scheme) or investment growth (for money purchase schemes). Enhanced protection removes the lifetime allowance charge.

However, this is subject to several important conditions.

Benefits at A Day are also subject to a test against the current Revenue limits.

No further benefits accrual or condition will be allowed into a registered pension scheme after 6 April 2006. Contributions to secure death and the payment of NI rebates in a contracted-out money purchase arrangement, however, will be allowed.

There are restrictions on salary. For members who were subject to the earnings cap, pensionable salary must not be more than:

- the best 12 months' earnings in the three years before first taking scheme benefits

  or
- 7.5 per cent of the LTA, if this is lower.

For members whose salary was not capped, pensionable salary must not be more than:

- the best 12 months' earnings in the three years before first taking benefits, if this is less than 7.5 per cent of the LTA

  or
- their average salary over the three years prior to first taking benefits, if this is more than 7.5 per cent of the LTA.

Individuals will normally have until 5 April 2009 to make their decisions and register their pre-6 April 2006 accrued benefits. However, if they wish to register for enhanced protection then benefits accrual must stop by 6 April 2006.

There will be an option to go back to primary protection provided the individual has registered for it but this must be exercised by 6 April 2009.

Individuals can register for both forms of protection, if appropriate.

Annual allowance (AA)

In addition to the lifetime allowance, there will also be an annual limit on the increase in the value of registered pension saving, known as the annual allowance. The annual allowance will not apply in the tax year during which the member becomes entitled to all his or her benefits, or in the year of the member's death.

The annual allowance will at first be set at £215,000 and will rise to £255,000 for 2010/11. The basis for its indexation beyond that date will be reviewed, maybe on the basis of RPI or earnings.

The annual allowance will apply to:

- contributions made by the member to money purchase arrangements (including money AVCs) and by the employer.
- increases in the capital value of defined benefit pensions (including added year AVCs) and lump sum for active members, whether due to pensionable pay increases, normal accrual or augmentation. If the increase exceeds the greater of 5 per cent or the RPI, the Inland Revenue has the power to specify an alternative maximum
- increases in the capital value of pensions and lump sums above the greater of 5 per cent or the RPI, for scheme members who are not actively accruing pension rights
- for cash balance schemes, increases in the capital value of cash balance benefits above the greater of 5 per cent or the RPI.

The following will not count towards the AA:

- contributions for death in service benefits (unless part of the 'ordinary' contribution to a money purchase arrangement)
- any member contributions not qualifying for tax relief
- 'minimum payments' to contracted-out schemes, including age-related rebates

The total pension amount in each year is tested against the AA.

For money purchase arrangements (other than cash balance arrangements), the pension input amount is the value of contributions paid during the year (subject to the exemptions).

For other arrangements, the pension input amount is the difference between the benefit accrued at the end of the year and the benefit accrued at the start. To determine the value of the difference, pension benefits must be valued according to the following rules.

- The annual increase in defined benefit arrangements, including any 'added years' AVCs, is valued using a standard factor of 10. The value in is the increase in the accrued pension in excess of the greater of 5 per cent or the RPI, times 10.
- Cash balance arrangements are valued as the difference in the values at the beginning and at the end of the year, in excess of the greater of 5 per cent or the RPI.

Calculation of increase to test against annual allowance

Year: 2006/07		
Pension value	£28,000 x 10	= £280,000
2007/08		
Pension value	£30,000 x 10	= £300,000
Annual increase		= £20,000

Pension age

The minimum pension age at which benefits can be taken, other than in the event of ill-health is 50 but this will rise to age 55 from 6 April 2010.

Those in registered pension schemes who at 5 April 2006 have an actual or prospective right under the pension scheme to draw a pension before 55, which was documented before 10 December 2003, may keep that right. However they must draw their pension fully and leave employment.

Draw down (flexible retirement)

It will be possible to claim benefits (whether wholly or partially) while remaining in the same employment and continuing to accrue future benefits in the same scheme, before or beyond normal pension age.

Lump sum

Lump sums of up to 25 per cent of the Revenue's definition of the capital value of the pension up to the lifetime allowance can be paid tax-free from registered schemes. This means (ignoring transitional protection) the maximum tax-free lump sum available will be £375,000 at 6 April 2006.

Trivial commutation

If the member's total funds from all registered schemes are less than 1 per cent of the lifetime allowance, all benefits may be commuted. The member may choose to commute only between age 60 and 75, all benefits must be removed from all schemes and commutations must be completed within a 12-month period.

25 per cent of the trivial commutation sum will be tax-free and remainder will be taxed as income.

Divorce

For pension-sharing orders that are implemented after A Day, pension credits will count towards the recipient's lifetime allowance. Both debits and credits are ignored for the purposes of the annual allowance.

For pension sharing orders that were implemented before A Day, the value of any pension shared will be ignored for the purposes of both parties' lifetime allowances.

Taxation

Recovery charge – excess over the lifetime allowance, if taken as a pension, will be subject to a lifetime allowance charge of 25 per cent at the time benefits are vested. The individual will then pay income tax on their pension, giving an effective tax rate, for a higher taxpayer, of 55 per cent. If the benefit is taken entirely as a lump sum, the lifetime allowance charge is 55 per cent.

Excess over the annual allowance is charged to the individual through his or her self-assessment return at a rate of 40 per cent. There is no charge if the member dies in the tax year or vests all benefits under the scheme.

Lump sums paid on death before benefits are taken are free of up to the lifetime allowance. Any part of the non-vested pension pot paid as dependant's pension escapes being tested against the lifetime allowance.

Lump sum death benefits after pension payment are taxed at 35 per cent.

Lump sum payments of up to 25 per cent of the pension post or the lifetime allowance are tax free. Higher sums accrued to A Day may be protected.

Refunds to scheme members known as short-term refund lump sums will be taxed at 20 per cent up to £10,800 and 40 per cent of the excess.

ANNEX I

COSTING OF POSSIBLE CHANGES FOR EXISTING MEMBERS

IIA Table of package of proposed changes which might fall within the cost envelope for existing members in 2006 who decide to remain in a closed scheme.

Description	Cost (saving)
Increase lump sum available to the 25 per cent maximum permitted under IR rules: commutation rate £12 for every £1 of pension forgone to obtain additional lump sum	(0.40 per cent) past service plus (0.10 per cent) in respect of period from 2006 to 2013
Late retirement factors for staff who work beyond current average retirement age (or at an equivalent cost) on an increasing sliding scale from age 60.	0.35 per cent
Protected step down.	Nil if paid for by either the employee alone or with the employer, negligible if met from the scheme
Removing limits to years in the scheme for all except MHOs	negligible
5 per cent manual contribution extended to all staff in Agenda for Change bands 1 and 2.	0.05 per cent of total pay (future service only)
Allow multiple nominees for death benefits	Nil
Standardise end date for children's survivor pensions to 23	negligible
Standardise period of full salary paid on death in service at 6 months	Nil on valuation assumptions
Civil partners pensions including retrospection to 1988	negligible
Removal of cessation on re-marriage	0.1 per cent of total pay
Subtotal for 2006 package	0.0 per cent of total pay
Implementation of NPA65 for future service of open groups	(1.00 per cent)
Implementation of NPA 65 for future service of closed groups	(0.30 per cent)
Partner pensions for future service from 2013 (including lifetime pensions for partners)	0.15 per cent
Improvement in accrual rate to 1/60 with commutation rate of 12 for 1.	0.85 per cent
Indefinite protection for staff in closed groups	0.30 per cent
Subtotal for 2013 package	0.00 per cent of total pay
Packaging costs, rounding effects and summation of de minimis items	negligible
Combined cost of 2006 and 2013 changes*	0.00 per cent*

IIB Table of possible individual changes unlikely to fall within the cost envelope for existing members in 2006 who decide to remain in a closed scheme.

Description	Cost (saving)
Giving existing members in open groups actuarially neutral late retirement factors based around NPA60	0.65 per cent of total pay in 2006 for future service and about 0.8 per cent for past service
Giving existing members in open groups the right to partially draw down pension and have pensionable reemployment	
Giving existing members in closed groups late retirement factors based around NPA55	0.55 per cent of total pay in 2006 for future service and about 1 per cent for past service
Giving existing members in closed groups the right to partially draw down pension and have pensionable reemployment	
Increasing reference period for calculating final salary benefits to either best of the last ten years or alternative of best of last three or best three-year average of last 13. RPI indexation.	0.45 per cent with an illustrative allowance for scheme differences and behaviour change
Retrospection for partner pensions and pre 1988 widowers	0.30 per cent*
Removing limits to years in the scheme for MHOs	0.2 per cent of total pay (future service only)

*With a very approximate allowance for run-off of staff with pre-88 service up to 2013.

ANNEX J

GLOSSARY OF TERMS

This glossary is provided to help employers and members comment on the issues arising in the NHS pension scheme review and should not be taken as a guide to entitlements under the current pension scheme. References in italic indicate a separate entry.

A Day The appointed day for implementation of a specific set of changes to be made to a scheme.

ABS Annual benefit statements. Produced every year, these provide an estimate of the likely level of retirement benefits at normal pension age.

Abatement Within the NHS pension scheme, the method of restricting the amount of pension NHS pensioners can secure if the return to NHS employment. NHS pension scheme abatement rules set a maximum threshold of pension and re-employment earnings for re-employed NHS pensioners. This uses the pensionable pay figure at retirement which is compared with the pension and re-employment earnings. If pension and re-employment earnings exceed pensionable pay at retirement, then the pension is reduced pound for pound.

Accrual The method of building pension benefits. In the NHS pension scheme the current accrual rate is 1/80 of pensionable pay for each year of membership.

Actuarial adjustment The adjustment made to a pension where it is expected to be paid for a longer or shorter time than normal. The most common actuarial adjustment is a reduction when a member retires before a pension scheme's *normal pension age (NPA)*, to allow for the fact that the pension will be paid for longer than expected.

Actuarial enhancement See Actuarial adjustment.

Actuarial reduction A reduction to retirement benefits which are paid before the normal pension age. In the NHS Pension scheme, from the age of 50 (the current minimum pension age) member can apply for the early payment of retirement benefits; this is described as *voluntary early retirement (VER)*. Where benefits are paid before the age of 60 (the current normal pension age) they are 'actuarially reduced' to reflect the that that they will be paid longer than planned for. The factors used in working out the reduction are produced by the Government Actuary's Department (GAD) and mean that benefits paid from age 50 will reduce by around 5 per cent a year. For example, VER at 50 means a member will retain around 60 per cent of the pension and 75 per cent of the lump sum that would have been paid at 60.

Additional voluntary contributions (AVCs)
Extra payments of scheme contributions, to buy years and days of membership or to invest in pension arrangements outside the main occupational pension scheme in order to top up retirement benefits.

Added years
Additional years of scheme membership for pension purposes bought by paying extra contributions. Members of the NHS scheme who will not complete 40 years' membership by their normal pension age may be eligible to purchase membership in this way.

Annuity
Insurance contract that guarantees to pay annual amounts for a fixed period. For example, some defined contribution pension schemes provide a pension for members by buying an annuity for them when they retire.

Buy-out policy
The policy of buying scheme members a deferred annuity to secure pension rights that have been built up in a scheme.

CARE
Career average revalued earnings. Retirement benefits are built up on an annual basis and revalued, typically in line with either national average earnings (NAE) or the retail price index (RPI).

Career average scheme
A defined benefit scheme which pays a pension based on the average of a member's pensionable earnings throughout their whole career. For example, the NHS scheme does this for self-employed members of the scheme such as GPs.

Calendar service
This is the actual length of scheme membership.

Closed groups
The group of NHS scheme members who have special retirement rights. These were withdrawn from 6 March 1995 for new entrants. Those with special retirement rights are described as a 'closed group' because no new members were included after the closure date.

Commutation
Giving up part of the pension in exchange for a lump sum, i.e. scheme members 'commute' part of their pension. Many occupational schemes have a single accrual rate with rules which specify how much lump sum can be given up. For example, if the commutation factor was 12:1, members would get £12 cash in the lump sum payment for every £1 per year of pension given up in exchange.

Concurrency
Simultaneous active membership of both a *personal pension scheme* and an *occupational pension scheme*.

Deferred benefits
Pension scheme benefits which have been earned in a scheme, but which have not yet been paid. For example, people who have been members of the NHS scheme but leave the service before retirement, will normally have deferred benefits which are paid when the person reaches normal pension age.

Defined benefit (DB) scheme A pension scheme where the scheme rules define the level of benefits payable rather than the level of contributions and the scheme's investment returns.

Defined contribution pension scheme (DC) A pension scheme where the benefits are determined by the level of contributions to the scheme and their Subsequent investment growth. Defined contribution schemes also usually provide a pension by buying an *annuity* for members when they retire.

Direction employers Non-NHS employers who the Scottish Ministers have directed can operate the NHS scheme for eligible employees. For example, charities that indirectly support the wider NHS by providing palliative care or Care in the Community may be direction employers.

Draw down 'Draw down' allows members to apply for part of their retirement benefits without stopping work – not currently available in the NHS pension scheme. Currently members must retire in order to apply for retirement benefits. Draw down would normally be available from the minimum pension age, which is currently age 50 but which will increase to 55.

Dynamisation The method of building pension benefits for NHS Pension scheme contractors (general medical and dental practitioners). Benefits are based on pensionable earnings throughout their whole career which is brought up to a current value. The factors used are based on the average estimated increase in GP contractor pay. Currently the pension is based on 1.4 per cent of all the revalued earnings. Three times the pension is also paid as a tax-free lump sum.

Earnings cap The maximum annual level of pensionable earnings that may count towards calculation of retirement benefits. The cap was set at £102,000 for 2004/05. It does not apply to people who joined a pension scheme before 1989.

Employing authority (EA) Employers who operate the NHS scheme, i.e. NHS health boards, special health boards, NHS National Services Scotland, The Mental Welfare Commission, GPs and *direction employers*.

Enhance The method of increasing pension benefits. For example, in the NHS pension scheme, retirement benefits paid on the ground of ill-health may be 'enhanced' to increase membership to the amount the member would have secured had they been able to work to the normal pension age. Retirement benefits may also be enhanced where they are taken later than at the normal pension age.

Final salary The level of earnings in a period close to retirement, used to calculate retirement benefits. For example, the NHS scheme uses the best of the last three years' *pensionable pay* for members other than self-employed contractors such as GPs.

Financial Services Authority (FSA) The independent regulator for financial services business.

Flexible retirement The facility for people to phase in the transition from work to retirement, for example the ability to *draw down* pension or to *step down* to a job that carries less responsibility.

Group personal pension An arrangement for employees of a particular employer to participate in a *personal pension scheme*, usually on common terms and conditions with an employer's contribution.

Guaranteed annuity An *annuity* where payments are guaranteed to continue for an agreed period of up to 10 years even if the person dies before the end of the period.

Life expectancy The estimated likely length of life at a particular age. May be based on the general population or take account of individual factors such as lifestyle and illness.

Lifetime allowance (LTA) The amount on which the Inland Revenue will allow tax relief on a scheme member's contributions. Current proposals will allow a lifetime allowance of up to £1.5 million rising to £1.8 million in 2010.

Lump sum A tax-free one-off payment. For example, in the NHS scheme a tax-free lump sum is paid at retirement equal to three times the annual pension.

Marginal rate The rate of income tax that would apply to an additional pound of income; normally the same as an individual's highest rate of income tax.

Member An employee who is a member of a pension scheme.

Mental Health Officer (MHO) A person who qualified for the *special retirement rights* granted to specified NHS staff who worked in the mental health field. MHO status includes accelerated accrual of benefits after 20 years in this type of employment, i.e. two years' membership for every year actually worked, and a normal pension age of 55. These special retirement rights were withdrawn for new entrants after 1 April 1995.

Minimum pension age The youngest age at which pension benefits may be taken. This is currently at the age of 50 in the NHS scheme, except for retirement on the grounds of ill-health, which can apply at any age.

Money purchase (MP) Contributions made by a member to secure pension benefits in a *defined contribution scheme*. Contributions are invested and the returns from the investments used to buy an *annuity* at retirement. Some *defined benefit schemes* also provide a money purchase facility to allow members to buy additional pension rights in this way. In the NHS scheme, in-house money purchase facilities are available from Equitable Life Assurance Society, and Standard Life.

Mutuality
Within the NHS pension scheme, the principle whereby all scheme members and employers join together to fund a package of pension benefits for a *defined contribution* rate. This acts like an insurance scheme where benefits such as ill-health retirement are available but may not be needed by all members.

National average earnings (NAE)
The average growth in national earnings across the UK.

Net pay arrangement
The arrangement by which employers deduct pension contributions from employees' pay before applying income tax so that employees receive tax relief on pension contributions at their marginal rate.

Normal pension age (NPA)
The age at which a pension scheme assumes its members will normally apply for a retirement pension. Most schemes allow members to retire earlier or later if they wish.

Notional whole time pay (NWT Pay)
The equivalent *pensionable pay* that a part-time worker would receive if they were working full-time.

Occupational pension scheme
A pension scheme for staff working for a particular employer or related employers.

Open groups
The group of active NHS scheme members which excludes those who have left the scheme with a deferred pension and NHS pensioners.

Part-time membership
Years of membership of a pension scheme built up by a part-time worker. In the NHS scheme, the amount of part-time membership is converted to the equivalent amount of full-time membership in order to calculate retirement benefits. For example, members working half the normal number of full-time hours would be credited with six months' membership for each full year worked.

Pension
The regular payment made by a pension scheme to its retired members. For example, the current NHS scheme provides regular monthly payments to retired members which provide an annual income based on 1/80 of their *final salary* (best of the last three years) for each year of service or, for self-employed members such as GPs, their *career average salary*.

Pensionable pay
This is the pay which is used by a pension scheme to determine contributions to the scheme and pay-related benefits from the scheme. In the NHS pensionable pay can be less than actual pay because overtime payments and some allowances are not normally pensionable.

Pension-sharing on divorce An arrangement whereby pension rights are shared between both parties to the divorce under a pension-sharing order, an agreement or equivalent provision in accordance with the Welfare Reform and Pensions Act 1999.

Personal pension scheme A pension scheme, membership of which is not dependent upon a contract of employment. For example, several insurance companies run personal pension schemes. Some members of occupational pension schemes also take out a personal pension to top up their retirement pension.

Preservation The preservation of benefits for members who leave a pension scheme before retiring can also be referred to as *deferment*. Benefits are index linked so they keep pace with inflation. Some schemes set a minimum period of membership before pension rights are preserved. For example, the NHS scheme requires members to have two years' membership before their pension rights are preserved and benefits can be held in the scheme until their *normal pension age*.

Protected rights Rights to continue to receive benefits from a pension scheme irrespective of future changes to the scheme. For example, part of a person's pension which is funded by a rebate of National Insurance contributions in return for forgoing part of the state earnings related pension (SERPS) or the second state pension (S2P), is protected

Refund of contributions Most occupational pension schemes offer a refund of contributions for membership of less than two years. In the NHS scheme, a tax payment and a deduction to buy the member back into the state pension scheme is payable from the refund. For membership of over two years, pension rights may be transferred to other pension arrangement or left in the scheme until normal pension age.

Retained benefits Retirement benefits deriving from an earlier period of employment or self-employment, which have not been transferred.

Retail price index (RPI) An indicator which provides an economic tool to monitor inflation. The RPI figures focus on the rate of change in prices. NHS pensions are increased each year in line with the RPI.

SB Number Each member of the NHS pension scheme in Scotland is allocated a Superannuation reference number. This number is prefixed SB followed by the year of the member's birth. This SB number or the national insurance number can be used to trace individual membership records.

Serious ill-health commutation The facility for members with severely reduced *life expectancy* to withdraw the full value of their pension benefits as a l*ump sum*.

Special classes
NHS pension scheme members who have special retirement rights. These members include nurses, midwives, health visitors and physiotherapists who have a normal pension age of 55 and *Mental Health Officers (MHOs)*.

Special retirement rights
See **Special classes**

Step down
To move to a job that is less onerous or with less responsibility. Normally means a reduction in pensionable pay.

Stakeholder pension
A type of *personal pension scheme* which meets set criteria, including a ceiling on charges and flexibility.

Tax-free lump sum
scheme benefits which can be taken as a cash payment, which is not subject to income tax. See also *lump sum*.

Transfer
The transfer of membership from one pension scheme to another. There are strict conditions that determine when and how this can be done. In the case of the NHS scheme, transfers into the scheme must be made within 12 months of joining or rejoining the scheme.

Trivial commutation
The facility for people to convert small amounts of pension into a lump sum payment by *commutation*.

Unfunded unapproved retirement benefit scheme (UURBS)
A retirement benefits scheme that is not approved by the Inland Revenue and does not attract tax relief.
Such a scheme may be useful alongside a normal pension scheme where members exceed the *earnings cap*, but still wish to save for their retirement. The NHS scheme does not currently operate an UURBS.

Vesting
The creation of rights to draw benefits from a pension scheme. In the NHS scheme vesting occurs after two years' membership. Before this point, no benefits are paid but there may be a *refund of contributions*. After this point members have rights in the scheme which may be transferred to another scheme or taken as benefits when they retire.

Voluntary early retirement (VER)
The application for retirement benefits before the normal pension age. In the NHS pension scheme the current minimum pension age is 50 and members can apply for retirement benefits with an *actuarial reduction* or with no reduction if the employer agrees to meet the cost.

Wind down
To wind down to final retirement normally means that a member may reduce his or her hours for a period before final retirement. In the NHS pension scheme this would typically involve members moving from full-time to part-time employment.

ANNEX K

RESPONSE FORM

Please tick if you would like your response to be kept confidential ☐

Name

Job title

Organisation

Address

Are you replying on behalf of:

Your organisation ☐

As an individual ☐

Other (please specify)

If you run out of space for your comments, please continue on additional sheets.

Question 1

Your views are sought on the issues contained in section 4, in particular:

- the UK Government's intention to increase the normal pensions age for public service workers
- its appropriateness for the NHS
- ways in which the NHS retain its older workforce and what issues need to be addressed in doing so (see sections 4.20-4.22).

Answer 1

Question 2

Your views are sought on the funding issues set out in section 7, recognising the firmly held view of the trade union representatives that *all* the savings from the proposed change to normal pension age should be made available for improvements and the UK Government position that savings should be made.

Answer 2

Question 3

Your views on the strong recommendation that the proposed new scheme should improve the accrual rate are sought (see section 8.5-8.12).

Answer 3

a. Should the accrual rate improve? Yes ☐ No ☐

b. Other comments

Question 4

Views are sought on which of the two alternative defined benefit options are favoured, the retention of final salary pensions or the extension of career average pensions to all members (see sections 8.13-8.31).

Answer 4

It is my view that the new scheme should be based on:

a. final salary ☐

b. career average revalued earnings ☐

c. Don't know ☐

d. Other comments

Question 5

Your views are sought on the definition of pensionable pay to be used should CARE be adopted (see sections 8.17-8.19).

Answer 5

Question 6

Your views are sought on the recommendation that there should be no limits on the number of years of membership or restrictions below the Inland Revenue allowances. (see sections 8.32-8.33).

Answer 6

a. Should be there be no limit on the number of years membership in the scheme below that permitted by the Inland Revenue?

Yes ☐ No ☐

b. Other comments

Question 7

Your views are sought on the issue of pensionable career breaks as set out in section 8.34-8.36, and in particular the proposal that recognition of career breaks should be available at the employer's discretion.

Answer 7

Question 8

Your views are sought on the recommendation that the new scheme should provide partner pensions (see sections 8.38-8.40).

Answer 8

a. I agree that the scheme should provide pensions for surviving partners

Yes ☐ No ☐

b. Other comments

Question 9

Your views are sought on the recommendation, as described in section 8.41, that the partners of members who die in service should receive a payment at salary level for six months and, if the scheme cannot provide this or equivalent benefits, then employers should be asked to meet the costs of paying this.

Answer 9

a. I agree that a payment equal to salary should be paid for six months to a partner following death in service

Yes ☐ No ☐

b. I consider that if the scheme cannot pay this then the employer should meet the cost

Yes ☐ No ☐

c. Other comments

Question 10

Your views are sought on the improvement of partner pensions, including cessation of pension on remarriage (see sections 8.38-8.42).

Answer 10

Question 11

Your views are sought on whether the new scheme should pay all children's pensions to age 23 or whether that there should be restrictions after the age of 17 until 23? (see section 8.43).

Answer 11

a. Which statement do you most agree with:

Childrens' pensions should be paid up to the age of 23 ☐

Children's pensions should be paid up to age 23, but with restrictions after age 17 ☐

b. Other comments

Question 12

We seek your views on the issues contained in sections 8.44 and 8.45, namely:

- increasing death in service benefits
- multiple nominees for death in service benefit
- an additional year's lump sum payment where no dependant's pension is payable

Answer 12

Question 13

Your views are sought on the recommendation that there should be flexibilities of step down, draw down, pensionable re-employment and enhanced pensions for late retirement in the new scheme as set out in 8.46-8.56. Your views are also sought on the preferred approach to supporting step down in the new scheme.

Answer 13

Question 14

Your views are sought on the way abatement should be addressed (see sections 8.57-8.60).

Answer 14

Question 15

Yours views are sought on the proposed additional pension purchase arrangement including, contribution limits and limits on the overall amount of pension purchased, set out in section 8.61-8.70. Your views are also sought on the suggestion of removing added-years arrangements in the new scheme.

Answer 15

a. In your view, which of these two methods of purchasing additional pension best suits the NHS scheme

- Added-years contract ☐
- Additional contributions (at a level to suit the member), the sum over a fiscal year then being used to purchase additional pension at level advised by the Government Actuary ☐

b. If pension purchase is introduced, should added-years be retained?

Yes ☐ No ☐

c. Other comments

Question 16

Your views are sought on which of the three approaches to money purchase additional voluntary contributions, expressed in sections 8.71-8.76, should be taken.

Answer 16

If the new scheme was to continue the opportunity to purchase additional voluntary contributions (AVCs), which of the following options, in your view, would be best for the scheme? (tick one box).

a. No AVC scheme linked to the main NHS scheme ☐
b. An AVC scheme with a choice of providers ☐
c. An AVC scheme with a single provider ☐
d. Other comments

Question 17

Your views are sought on the recommendation, as expressed in section 8.77-8.80, that practitioner pensions should continue to be on a CARE basis and that the accrual rate for the practitioner scheme should be set to maintain the current relationship with the main scheme.

Answer 17

a. Do you agree that practitioners' pension should continue on a CARE basis?
Yes ☐ No ☐ Not sure ☐
b. Should the accrual rate for practitioners in the new scheme be set to maintain the current relationship with the main scheme?
Yes ☐ No ☐ Not sure ☐
c. Other comments

Question 18

Your views are sought on the options for employee contribution rates as set out in section 8.81-8.84.

Answer 18

Question 19

Your view are sought on the approach to ill-health retirement expressed in section 8.85-8.89.

Answer 19

a. Do you agree that a review of the whole issue of ill-health, including pensions, should be carried out?

Yes ☐ No ☐

b. Other comments

Question 20

Your views are sought on whether or not scheme coverage should be extended, as proposed in section 8.90-8.96, for both the new and existing schemes. Views may also inform the wider debate on public service scheme coverage.

Answer 20

a. Do you consider that staff of non-NHS employers should be given access to the NHS pension scheme if carrying out work for the NHS ?

Yes ☐ No ☐

b. Other comments

Question 21

Your views are sought on the recommendation that the highest priorities are improving the accrual rate, providing end career flexibilities and partner pensions, as set out in section 8.

Answer 21

Question 22

If a three- to five-year extension on the protection period is given to NHS staff in England and Wales, as outlined in 9.4, should a similar extension be applied in Scotland? Your views please.

Answer 22

Question 23

Your views are sought on the recommendation that protection for special class groups be maintained. (see section 9.5-9.6).

Answer 23

a. Do you consider that special class members should retain their current rights?

Yes ☐ No ☐

b. Other comments

Question 24

Your views are sought on the options set out in 9.7-9.9 for existing members who choose to transfer to the new scheme.

Answer 24

Question 25

Your views are sought on the package of improvements set out in annex I.

Answer 25

Question 26

Your views are sought on transition, including the two options set out in section 9.17-9.23 for moving to a new scheme.

Answer 26

a. Please tick which transition options you consider should apply at the end of the protection period

- close existing scheme and move all members to new scheme, offering a choice of transferring service from existing scheme the new scheme ☐
- Retain existing scheme with improvements, with a normal pension age of 65 for future service ☐

b. Other comments

Question 27

Your views are sought on the options for rejoiners, as laid out in section 9.24-9.27.

Answer 27

Question 28

Your views on retrospection are sought (see sections 9.28-9.29).

Answer 28

Question 29

We would value your comments on section 10 and on how changes might be better communicated both locally and centrally.

Answer 29

Any other views that you have on the NHS scheme and the review that you would like to express would be most welcome.

THANK YOU FOR TAKING THE TIME TO RESPOND

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