

NHS pension scheme review in Scotland

Working together for a
21st century pension scheme

Your views and opinions

Consultation with NHS staff
in Scotland

Summary of 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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1. Introduction

You will have received a booklet with your payslip telling you that the review of the NHS pension scheme in Scotland (NHS scheme) had identified a number of options for the future of the NHS scheme.

This document contains a summary of those options. It also contains information on:

- the background to the review
- the reasons why it was necessary
- how recommendations and proposals for a new NHS scheme differ from the current scheme
- how changes may affect scheme members
- how you can obtain further information
- how to let us know what you think about the proposals for change.

The options which have been identified are set out in more detail in the *main consultation document*. Details on how you can obtain the *main consultation document* are given at the end of this document.

At the end of this document you will also find a response form, which will enable you to make known your views on the options for the future of the scheme. Your views will form part of the final recommendations made to Scottish Ministers, who will ultimately decide on the future of the NHS scheme.

Your views must be submitted by **25th April 2005** at the very latest.

2. Foreword by the Joint Chairs of the Scottish Pensions Review Group (SPensiR) – a sub group 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 employers and trade unions, rather than the Scottish Ministers or indeed the wider UK Government. We also recognise that they will have to be 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 (employer)

Michael Fuller
Joint Chair (trade unions/professional organisations)

3. Background to the review

In December 2002, the UK Government published the green paper "Simplicity, Security and Choice: Working and Saving for Retirement" (CM 5677), which contained the UK Government's proposals and recommendations to help people to work longer and save more for retirement. One of the recommendations contained in the follow up green paper of June 2003 "Action on Occupational Pensions" (CM5835) was that all public service pension schemes, including the NHS scheme, 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 were 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 service 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 that would meet the needs of an increasingly diverse and modern workforce.

At the end of April 2003, the Minister of State for Health, John Hutton, invited the NHS Confederation, on behalf of NHS employers and in conjunction with the Department of Health, the NHS Pensions Agency and the National Assembly for Wales, to lead a review of the NHS Pension Scheme in England and Wales.

Historically, pension provision for NHS staff in Scotland has mirrored that in place for NHS staff in England and Wales and Northern Ireland. In order to retain this consistency, and to meet the UK Government policy as outlined in the green paper, a review of the NHS scheme in Scotland is being carried out on the same basis and in the same timeframe as the review in England and Wales.

The review was carried out on the basis that it would be making recommendations for a new NHS scheme, although amending the current scheme was not ruled out. At the start of the review, Scottish Ministers gave the NHS staff in Scotland important assurances. These were:

- that the defined benefit principle would be maintained. (Defined benefit schemes promise a certain level of benefit, based on salary, while defined contribution schemes depend on the investment returns of contributions paid)
- that any increase in the age at which people normally take their pension would be unlikely to affect existing staff before 2013. Pension and lump-sum benefits earned in respect of scheme membership before 2013 would be fully protected and with a normal pension age of 60.

4. Why is a review necessary?

The 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. This is the first time the scheme has been fundamentally changed since its inception in 1948.

It is very important that the scheme aids the NHS in Scotland in recruiting and retaining staff and encouraging those staff who have left to return to the NHS, particularly staff among older age groups. The current scheme is less than ideal in this respect as it was designed around a career very few can or will achieve – a 40-year full-time career and overnight retirement at the age of 60. Today's workforce is 80 per cent female, around half of whom work part time.

Changes in the stock market and demographic pressures mean pension costs have grown, and although NHS scheme benefits are guaranteed to be paid, the scheme itself is not immune to cost pressures.

- The NHS is currently in an unparalleled period of expansion. Since 1999, the workforce has been expanding at nearly 3 per cent per annum and demand for staff will continue to rise.

- Our population is getting older. Over the current decade the numbers in the UK population in the 45–54 age group are expected to increase by 19 per cent while those in the 25–34 age group are set to decline by 19 per cent.
- UK life expectancy is increasing – from 69.2 in 1950 to 77.2 in 2000 – and is expected to continue to rise. At the same time the average retirement age in the UK has been falling: from 66.2 in 1960 to 62.7 in 1995. In the NHS in Scotland this means that the annual loss from, for example, the nursing workforce was around 4,500 in 2004 and is expected to increase in the next decade.

5. Legislative and policy changes

To help counter the increased costs of pension provision, the UK Government has proposed increasing the normal pension age (NPA) to 65 across UK public service pension schemes.

NHS employer and trade union representatives have different views on the proposal to increase the NPA. Employers believe that this is a reasonable response to the demographic pressures facing the scheme today, and brings the NHS scheme in line with its local authority partners. Although this proposal is contentious, an increase in the NPA would create savings that could be reinvested. This reinvestment gives the NHS the opportunity to create a scheme that better meets the needs of staff and employers.

Trade union representatives strongly oppose a compulsory increase in the NPA. They believe that the UK Government has not made the case for increasing NPA, that the environment in which NHS staff work is not always compatible with working longer, and that a voluntary approach to extending working lives would be more appropriate.

The NHS scheme will also have to comply with recent European Union and UK legislation, including directives on age and gender discrimination and new pensions tax legislation. The scheme is required to introduce the right for same-sex civil partners to receive the same rights as married partners in any new scheme and to ensure there are not unjustified differences of treatment simply because of age.

Your views are sought on the UK Government’s intention to increase the normal pension age to 65 for public service staff and its appropriateness for the NHS. How, in your view, could the NHS retain its older workforce and what issues need to be addressed in doing so?

6. Financial considerations

The NHS scheme is an unfunded scheme. This means a contribution rate has to be set that ensures benefits are paid for by contributions. The contribution rate is currently set at 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). After tax relief and national insurance rebate this equates to about 3.5 per cent for employees.

The UK Government explained in the December 2002 pensions green paper “Simplicity security and choice: working and saving for retirement” that the higher pension age would make savings and help the financial sustainability of schemes. It would also provide an opportunity to finance benefit improvements. The review has worked on the assumption that any improvements could only be financed by this or other structural changes to the scheme.

Trade union representatives have put forward the view that all savings made from an increase in the normal pension age should be re-invested in the scheme.

Your views are sought on these funding issues, recognising the firmly held view of trade union representatives that all savings made from the proposed changes to the scheme should be made available for improvements, and the UK Government’s position that savings should be made.

7. A new pension scheme

It is envisaged that if the UK Government decides to go ahead and implement a higher normal pension age for staff, there should be a new pension scheme for new staff.

Existing staff will have the opportunity to join the new scheme should they wish, probably on the basis that staff will transfer all existing membership into the new scheme with a pension age of 65. Staff would then have access to all of the benefits in the new scheme. Trade union representatives have also proposed the option of moving to the new scheme for future service only.

The principal points to be considered in a new scheme are:

- **changes to the way the pension is built up (accrual)**
- **choice over the size of tax-free lump sum that is taken**
- **survivor benefits for 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.**

Methods of Accrual

A single accrual rate

The accrual rate is the rate at which you build your pension. The current NHS scheme has an accrual rate of 1/80 (1.25 per cent) of pensionable pay for each year of pensionable service and 3/80 (3.75 per cent) of pensionable pay for the lump sum.

It is recommended that these rates are improved in order to increase the amount of pension members receive for each year of service. In a final salary scheme we recommend an accrual rate for both pension and lump sum at the rate of 1/60 (1.67 per cent) of pensionable pay for each year. (Historically, these calculations were done as fractions and so have come to be known as one-eightieth schemes, one-sixtieth schemes and so on, but for clarity and ease of comparison, all calculations shall be shown as percentages.)

There is strong support for improving the accrual rate.

It is recommended that the scheme should allow members to choose the size of their tax-free lump sum and take advantage of the Inland Revenue's new tax provisions. Once a pension is calculated, members can opt for a lump sum by giving up £1 of pension for £12 of lump sum up to a maximum of 25 per cent of their pension. This is known as commutation.

Case study: A 1/80 and 1/60 pension comparison

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:

- an annual pension of $30 \times 1.25\%$ [1/80] of her final salary (£11,250)
- plus a lump sum of $30 \times 3.75\%$ [3/80] of her final salary (£33,750).

Under a 1/60 scheme her pension would be:

- an annual pension of $30 \times 1.67\%$ [1/60] of her final salary (£15,000) but with no separate lump sum.

If under the new scheme she chose to take a lump sum equivalent of what she would have got under the present scheme (£33,750), then her pension would be £12,187.

If she chose to take a pension equivalent of what she could have expected under the present scheme (£11,250), that would allow her a lump sum of £45,000.

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

Final salary or career average?

Two approaches were considered for calculating the accrual rate. The first, as shown above, would be to improve the rate to 1/60 while retaining a final salary scheme. While pensions would not be payable in full until the age of 65, the rate at which pension builds up each year would be around 6 per cent higher.

An alternative approach considered was career average revalued earnings (CARE). 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). GPs' and dentists' pensions are currently based on a form of CARE.

Case study: 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 (equivalent to 1/56) 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 (1.67%) 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.

In a theoretical comparison of a 1/60 final salary scheme and a CARE scheme costing the same amount, there would be winners and losers.

A final salary scheme:

- provides a pension that is predictable and easily calculated
- is well understood and valued by staff
- will ensure that any greater career progression provided through Agenda for Change is carried through to a better pension
- produces variations of up to 30 per cent (over a 40-year career) in the pension benefits received in relation to contributions, due to different pay progressions.

A properly designed and funded CARE scheme:

- considerably reduces the anomalies in pension benefits that different pay progressions produce in a final salary scheme
- benefits those with flat career structures. It does this by taking away from those with better career progression, There is a concern among trade union representatives that the potential benefits from pay modernisation may be clawed back through changes to the pension scheme if CARE is adopted
- ensures that all staff who stay until retirement would receive the same value in relation to their contribution
- will make it more difficult to predict how pension will relate to pay before retirement.

Other complexities include cost forecasts for active and deferred members (where members leave the NHS but do not transfer their pensions) and comprehending which is better in individual cases. The full consultation document has further information and examples in its annexes.

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

Pensionable pay

There are strong arguments that in a CARE scheme all NHS pay should be pensionable (as is now the case, for example, for the GPs' CARE scheme). This would increase pensions for staff who currently have pay, such as overtime, that is not currently pensionable. It would also increase the amount of contributions, both to staff and to employers, of such a scheme.

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

New limits to scheme benefits

Members of the current NHS scheme are limited to a maximum of 40 years' membership at the age of 60 and 45 years up to the age of 70. Moreover, for members joining after 1989, maximum annual pensionable pay is currently set at £102,000. It is recommended that these limits are replaced with the Inland Revenue's rule of a single lifetime allowance of £1.5m in 2006 (rising to £1.8m in 2010).

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

Career breaks

Staff who have taken career breaks are often unable to build up sufficient scheme membership to get a reasonable pension. We looked at whether it would be possible to offer staff a “free” added-year. It might be expected that at least half the membership would qualify for this, making it expensive. For this reason, this measure is not recommended. Instead, it is recommended that employers should be able to contribute to an employee’s additional pension purchase arrangements on a voluntary basis.

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

Currently, spouses receive survivor benefits of 1/160 (0.625 per cent) for each year of the member’s pensionable service. Dependent children also receive pensions. These are payable up to the age of 17 or until full-time education is complete. When members die in service, their spouses receive an initial pension at salary rate for a period of three to six months, depending on whether there are any dependent children. Spouses’ pensions cease on re-marriage or cohabitation.

The NHS scheme must reflect current social patterns of behaviour and treat all members and their partners fairly. It is strongly recommended in the new scheme:

- the legislation for provision of survivor benefits to same-sex partners be extended to the surviving partners of people who are in long-term, financially dependent or inter-dependent relationships but are not married
- pensions to be paid to spouses or other partners for life.

Your views are sought on the recommendation that the NHS scheme should provide partner pensions, and that survivor pensions should not cease on re-marriage or co-habitation.

There is uncertainty as to whether Inland Revenue rules will prevent a new scheme from continuing to pay salary to a surviving spouse after the death in service of a member. It is recommended that partners of members who die in service should receive a payment at salary level for six months.

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, that employers should be asked to meet the cost.

Consideration was given to increasing the value of partner pensions from 0.625 to 0.833 per cent (1/160 to 1/120) of pensionable pay for each year of service. However, this change is not achievable within the financial limits imposed.

Your views are sought on whether or not survivor benefits should be improved.

We looked at different options for simplifying children’s pensions. Currently children only receive a pension after 17 if they are in full-time education. One option was that all children’s pensions be paid up to the age of 23 regardless of the child’s educational status. Another was that the current restrictions should continue to a maximum age of 23. An alternative approach would be to broaden the present criteria – for instance, to include those in part-time education, but restrict children’s pensions after the age of 17 so as not to be providing NHS pensions to those in full-time employment.

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

The possibility of increasing the death in service lump sum from two times to three times pensionable pay was considered, but it was concluded that the costs were outside the financial constraints. However, it is recommended that members be allowed to nominate multiple recipients for the death in service lump sum.

Your views are sought on:

- **increasing the death in service lump sum**
- **allowing multiple nominees for the death in service lump sum**
- **paying an additional year's lump sum where no dependant's pension is payable.**

Flexibility

The NHS needs a pension scheme that enables members to plan effectively for retirement. It needs to offer members – particularly those nearing retirement – a range of options for balancing work and leisure.

We recommend the new scheme offer a range of opportunities, including:

- taking the pension at any age between 55 and 75. If before 65, benefits would be subject to actuarial reduction to allow for the fact that the pension would be paid for longer; if after 65, then benefits would be actuarially enhanced to reflect the fact that they would be paid for a shorter period of time
- “drawing down” a part-pension (otherwise known as partial retirement) while continuing to work and build up further pension
- taking full pension benefits and continuing to work without a break in service to build up further pension benefits
- retiring, taking full pension benefits and then rejoining the scheme after a break
- reducing hours of work (wind-down), as is possible under the current scheme
- stepping down (taking a lower paid job) with some protection of pensionable pay.

Protecting pensions when pay is reduced in the run-up to retirement

It is recommended that a new scheme should support “step down”, whereby members can move to a lower paid job but have their pension rights protected. Under the current system, this opportunity is only available in limited form and is little used. We want to extend this to become a more general employee right.

One reason for this limited use is that at present the reference period – the working period on which pension benefits are calculated – is taken as the best of the last three years of pensionable pay. This discourages members from taking jobs with a lower salary just before retirement.

One way of supporting step down would be to increase the reference period to up to 13 years for a final salary scheme, with pensionable pay being revalued by the retail price index (RPI). This can be implemented in a variety of ways, but might be too costly for the scheme.

The alternative would be to allow the member, with employer agreement, to elect to pay higher contributions at the salary rate prior to step down. The employer could elect to pay the additional employer's contribution as a retention support, otherwise the employee would have to meet the additional employer's contributions as well as the employee's.

Your views are sought on the recommendation that there should be flexibilities such as step down, draw down, pensionable re-employment and enhanced pensions for late retirement.

What is your preferred approach to supporting step down in a new scheme?

Abatement

Currently, members are able to retire and then return to NHS employment on a non-pensionable basis. 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 60 so, in practice, applies to re-employed pensioners who retired early on the grounds of ill-health, redundancy or agreed voluntary early retirement.

For staff with service in a new scheme offering the range of flexibilities outlined above, it is clearly inappropriate to abate pensions. There remains the issue of whether to abate pensions when staff have been given an enhancement in respect of ill-health or redundancy. Abatement could either be totally removed or applied solely to the enhanced element of the pension. In the latter case, two methods were considered: abatement in respect of the whole enhancement, or reducing the abatement to recognise loss of office.

Your views on how abatement should be addressed are sought.

Increasing saving for retirement

In the current scheme members wanting to increase their retirement savings can buy added years. However, this entails a long-term commitment to paying additional contributions.

Under a pension purchase arrangement, members could set up an annual arrangement to pay additional contributions at a level that suits their circumstances, and which could vary from year to year. At the end of the pension year the additional contributions would be used to purchase additional pension. This pension would be revalued annually either by NAE or by RPI.

To encourage members to save more for their retirement within the scheme it is recommended that a pension purchase arrangement be offered. This could replace the added-years option or be in addition to more flexible added-years arrangements.

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.

Your views are also sought on the issue of removing added years arrangements in the scheme.

Money purchase additional voluntary contributions (AVCS)

The current scheme offers members the opportunity to contribute additional voluntary contributions into schemes run by two partner providers. Take up is very low. We consider there are three options for an externally provided AVC scheme in the future:

- an AVC scheme with a choice of providers
- an AVC scheme with a single provider
- not offering a linked AVC scheme.

Having multiple providers would offer members choice. However, a single provider might offer a better service and better quality product.

Your views are sought on which approach should be taken to AVCS.

Practitioner pensions

The pensions of GPs and dentists are calculated using the CARE method because their typical earnings pattern peak in mid-career and, since they have greater control over their earnings in any one year, they may be able to influence a final salary in ways not open to salaried staff.

To give practitioners broadly the same pension benefits as NHS staff, the accrual rate is calculated on 1.4 per cent per year of service rather than 1.25 per cent (1/80) in the current NHS final salary scheme.

It is recommended that the practitioners' pension scheme continue on a CARE basis. If the main scheme was to become a CARE scheme then, logically, arrangements for practitioners should move on to the same basis. If the main scheme moves to a final salary, 1/60-based scheme, then it is recommended that the practitioner scheme also moves 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 1.8 per cent.

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

Employee contribution rate

Employees currently pay a contribution rate of 6 per cent, except manual employees, who pay 5 per cent. This was originally set in recognition that manual staff had less opportunity for career progression and received a lower level of benefit from the scheme, but with Agenda for Change this has become inappropriate. To address this, it is proposed to set a 5 per cent contribution for all existing staff in Agenda for Change pay bands 1 and 2.

Regarding new staff, three options were considered:

- 1 moving all staff to a 6 per cent rate
- 2 giving staff in pay bands 1 and 2 a 5 per cent rate
- 3 restructuring contribution rates so that all pay up to the equivalent of the top of band 2 attracts a lower contribution rate and a higher rate is applied on all pensionable pay above that level.

Affordability becomes an issue with option 2. Option 3, which is cost-neutral, may be seen as a pay reduction by higher paid staff. The strong argument for lower paid staff having a lower contribution rate may be mitigated by the effect on career progression of Agenda for Change.

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

Ill-health retirement

The current scheme provides a single level of ill-health retirement, involving enhancement of service, for those permanently incapable of carrying out their work. For members with over 20 years service, the maximum enhancement is $6\frac{2}{3}$ years, between 10 and 20 years service the maximum is 10 years and below 10 years the maximum is 5 years.

However, there are significant problems with the way ill-health and ill-health retirement are dealt with. Sickness and ill-health retirement are poorly integrated (the former being the responsibility of the employer and the latter of the pension scheme), occupational health services are reactive rather than proactive and it is difficult to find suitable redeployment opportunities for employees.

In 2000 the Public Sector Review of Ill-Health Retirement recommended a two-tier approach to ill-health, with benefits determined by the degree of incapacity, and that any pension enhancements should build up more evenly. A number of schemes are implementing such an approach.

The NHS 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 that could mean changes in employment practices. The review of pensions in England and Wales has recommended that a partnership review of sickness and ill-health arrangements should be carried out by NHS Employers, the new employers organisation for England and Wales, which will help the pension scheme review determine this aspect of pension scheme design. It is recommended that NHS employers and trade unions in Scotland play an active role in that review, 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

Pensions are a major issue when staff are transferred away from NHS employers, for instance in private finance initiative (PFI) schemes. The demand for staff providing NHS services (whether employed by the NHS or the private sector) is set to increase. Giving all staff access to the same pension scheme would provide a more level playing field for contractors and would certainly be welcomed by staff. However, it is understood that issues of the coverage of the public service schemes are 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.

Priorities for improvement

Not all the improvements or changes outlined above are affordable, and any recommendations will be subject to agreement from Scottish Ministers. It is recommended that the highest priorities are:

- improving the accrual rate
- providing end-career flexibilities
- providing partner pensions.

Your views are sought on this set of priorities.

8. Existing members

Pension benefits earned after 2013 will only be payable in full at 65. However, the Scottish Ministers have promised that existing staff will have all service earned up to 2013 fully protected. Pension benefits earned up until 2013 will be payable in full at the age of 60 (55 for special classes; see below). Full protection is also extended to all added-years contracts payable at 55 or 60 that members have taken out. It is important to understand that no existing member of staff will have to work until the age of 65 in order to achieve the same pension they would have had at 60.

The review of NHS pensions in England and Wales concluded that extending the protection beyond 2013 by a further three to five years would make raising the NPA to 65 more palatable to existing NHS staff. If this extension is granted for NHS staff in England and Wales, consideration will be given to introducing the same extended protection for existing NHS staff in Scotland.

As protection period arrangements are an issue which spans all public service schemes, the review recognised that any decisions made will be in light of the issues across the public service.

Case studies: 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 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 15 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.

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 to NHS staff in England and Wales.

Members with special retirement rights

There is a group of NHS staff which has special retirement rights and a normal pension age of 55 rather than 60. In addition, staff with Mental Health Officer (MHO) status after 20 years of membership are subject to double the accrual rate and have the right to retire at 55.

It was argued during the review 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 staff groups face (that is, 10 years rather than five). It is recommended that staff with special retirement rights are given indefinite protection and allowed to keep their rights as they currently stand.

It is recognised 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.

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

Moving to the new NHS Scheme

The review is committed to offering choice to existing members and proposes that staff are given the opportunity, should it suit them, to transfer their existing membership in the current scheme into the new scheme. Assuming the transfer value was, for example, year-for-year, this would mean:

- existing staff would be treated on exactly the same basis as new members and would voluntarily give up their protection in return for the benefits in the new scheme
- all their service would be eligible for all benefits, but payable in full at 65
- members who intended to retire close to 65 anyway would be likely to have improved benefits.

The option of moving future service only to the new scheme was also proposed.

Staff who chose not to transfer into the new NHS scheme would remain in the current scheme, building their pension until the protection period ends in 2013. The existing scheme would need to be amended slightly due to forthcoming legislation, such as same-sex civil registration partners and age discrimination legislation.

A potential package of improvements for existing staff was also considered. These improvements would be cost-neutral using the costing assumptions adopted for the review and should not increase the contribution rate. This package would be aimed at supporting increased retention of existing NHS staff, while providing some other improvements. The following is proposed:

- the option for members to give up part of their pension for increased tax free lump sums
- the provision of late retirement factors to improve retention
- the removal of the current service limits that restrict members to 40 years' service at age 60. This will remove disincentive for long-serving staff to work longer. For MHOs, this would only apply when they reached 40 years of actual service
- the 5 per cent currently paid by manual staff should be extended to all staff with pay equal to or below the top of the Agenda for Change pay band 2.

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

- survivor pensions for civil partners, including retrospection to 1988
- removal of cessation of survivor pensions on re-marriage
- standardising payment of survivor pensions after death in service at salary rate for six months
- changing children's pensions arrangements
- allowing multiple nominees for death in service lump sum
- protected step down.

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

When the protection period ends, two possible options for those who have elected to remain in the current scheme were considered:

- to close the current scheme to new contributions and move members into the new scheme. This is administratively simple but adds complexity and cost in mixing old and new scheme benefits
- to leave existing members in an improved version of the old scheme with an NPA of 65 for future service. Under this option, some further improvements would be made to the existing scheme in 2013 to compensate for the increase to NPA 65. This might include partner pensions in respect of future service and an improvement in the accrual rate for future service. This is administratively more complex yet avoids the complications of mixing two schemes, but it would enable existing members to remain wholly in a final salary scheme if the new scheme was established on a CARE basis.

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 would, however, need a less restrictive financial framework.

Your views are sought on the options for existing members who choose to transfer to the new scheme. Your views are also sought on the package of improvements (these are set out in more detail in section 9 of the *main consultation document*)

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

Rejoiners

Currently, members who return to the scheme are counted as new members if they return after a break of more than 12 months. Returners should be given the choice of joining the new scheme, but if they don't wish to, there are two options:

- the present arrangement, which means returning with an NPA of 65
- members returning during the protection period continuing to receive the protection offered as if they had not left.

Your views are sought on the options for rejoiners.

Retrospection

The review accepted that it would not be possible to give existing members with unmarried partners (that is who are not married or with a civil partnership) entitlement to survivor pensions in respect of service before they move to the new scheme. The strength of feeling on this issue is recognised. However, this would be a costly move and opposes the long-standing UK Government policy that any changes in benefits made at the scheme's expense should be made for future service only. Those who transfer to the new scheme and convert past service would be able to obtain such benefit rights in respect of all the years of service with which they are credited in the new scheme. It is recommended that members who do not convert their past service at the date that they move to new pension terms for future service are offered the opportunity to purchase unmarried partners' rights for their past service. This would, however, be costly for the individuals.

Your views on the retrospection issue are sought.

9. Understanding your Pension

The review process has highlighted a general lack of understanding about the NHS scheme, on the part of both employees and employers. This means a lack of understanding about actual scheme benefits as well as the comparative benefits of present and new arrangements and its value in staff recruitment and retention.

In addition to explanatory material and literature, the Scottish Public Pensions Agency will be able to provide basic information on the impact of protection, value of a 1/60 scheme and CARE arrangements.

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

10. Next steps

We want to hear views, both from individuals and organisations, on the proposals contained in this document. You can feed your views into the review process by completing the response form at the end of this document and posting it to NHS Scheme Review Team, SPPA, 7 Tweedside Park, Tweedbank, Galashiels TD1 3TE.

If you would like to complete the response form electronically, you can access an electronic version at www.scotland.gov.uk/sppa

After completion, you should e-mail it to SPensiR at nhspensionsreform@scotland.gsi.gov.uk.

All responses must be received by **25th April 2005**.

11. Further information

A detailed breakdown of options and costs are contained in the *main consultation document*. You can access this:

- on the web at www.scotland.gov.uk/sppa
- by e-mailing nhspensionsreform@scotland.gsi.gov.uk.
- by calling 01896 893298
- by writing to the NHS Scheme Review Team at SPPA, 7 Tweedside Park, Tweedbank, Galashiels TD1 3TE.

If you need any guidance on filling in the response form, or have any other questions, please:

- e-mail nhspensionsreform@scotland.gsi.gov.uk
- call 01896 893298
- contact your local trade union representative, who can offer advice on how to respond individually or collectively.

RESPONSE FORM

Name

Job title

Organisation

Address

Are you replying on behalf of:

Your organisation?

As an individual?

Other? (please specify)

Please tick if you wish your response to be kept confidential

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

Question 1

Your views are sought on the UK Government's intention to increase the normal pensions age for public service workers and its appropriateness for the NHS. How, in your view, could the NHS retain its older workforce and what issues need to be addressed in doing so (see page 5).

Answer 1

Question 2

Your views are sought on funding issues, 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 (see page 5).

Answer 2

Question 3

Your views on the strong recommendation that the proposed new scheme should improve the accrual rate are sought (see page 7).

Answer 3

a. Should the accrual rate improve? Yes No

b. Other comments

Question 4

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 (see page 8).

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 page 8).

Answer 5

Question 6

Your views are sought on the recommendation that there should be no limits on the number of years membership or restrictions below the Inland Revenue allowances (see page 8).

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 and in particular the proposal that recognition of career breaks should be available at the employer's discretion (see page 9).

Answer 7

Question 8

Your views are sought on the recommendation that the new scheme should provide partner pensions (see page 9).

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 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 (see page 9).

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 re-marriage or co-habitation (see page 9).

Answer 10

Question 11

Your views are sought on whether the new scheme should pay all children’s pensions to age 23 or whether there should be restrictions after the age of 17 until 23 (see page 9).

Answer 11

a. Which statement do you most agree with:

Children’s 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:

- increasing death in service lump sum
- multiple nominees for death in service lump sum
- an additional year’s lump sum payment where no dependant’s pension is payable (see page 10).

Answer 12

Question 13

Your views are sought on the recommendation that there should be flexibilities such as step down, draw down, pensionable re-employment and enhanced pensions for late retirement in the new scheme. Your views are also sought on the preferred approach to supporting step down in the new scheme (see pages 10 and 11).

Answer 13

Question 14

Your views are sought on the way abatement should be addressed (see page 11).

Answer 14

Question 15

Your views are sought on the proposed additional pension purchase arrangement including contribution limits and limits on the overall amount of pension purchased. Your views are also sought on the suggestion of removing added years arrangements in the new scheme (see page 11).

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)

b. If pension purchase is introduced, should added years be retained?
Yes No

c. Other comments

Question 16

Your views are sought on the approaches to money purchase additional voluntary contributions (see page 11).

Answer 16

Question 17

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 (see page 12).

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 (see page 12).

Answer 18

Question 19

Your views are sought on the approach to sickness and ill-health retirement arrangements (see pages 12-13).

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 scheme coverage should be extended for both the new and existing schemes. Views may also inform the wider debate on public service scheme coverage (see page 13).

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 for scheme improvement are improving the accrual rate, providing end career flexibilities and partner pensions (see page 13).

Answer 21

Question 22

If a three- to five-year extension on the protection period is given to NHS staff in England and Wales should a similar extension be applied in Scotland? Your views please (see page 14).

Answer 22

Question 23

Your views are sought on the recommendation that protection for special class groups be maintained (see page 14).

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 for existing members who choose to transfer to the new scheme. Your views are also sought on the package of improvements (set out in section 9 of the *main consultation document*) (see pages 14-16).

Answer 24

Question 25

Your views are sought on transition, including the two options set out for moving to a new scheme once protection has ended (see pages 14-16).

Answer 25

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 staff the option of transferring service from existing scheme to the new scheme.
- Retain existing scheme with improvements, with a normal pension age of 65 for future service.

b. Other comments

Question 26

Your views are sought on the options for rejoiners (see page 16).

Answer 26

Question 27

Your views on retrospection are sought (see page 16).

Answer 27

Question 28

We would value your comments on how changes might be better communicated both locally and centrally (see page 16).

Answer 28

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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