NHS pension scheme review in Scotland

Working together for a 21st century pension scheme

Moving to the Future

Joint Proposals from NHS Employers and the NHS Trade Unions

Consultation Document

SPensiR
Representatives from the NHS employers and Trade Unions in Scotland and the Scottish Executive

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Contents

1. Joint Statement to Members from the Co-chairs of SPensiR

1.1 The Scottish Pensions Review Group (SPensiR) is a partnership between employers, trade unions/professional organisations for the NHS in Scotland and the Scottish Executive.

1.2 You will recall that in 2005 we consulted on proposals for the NHS pension scheme which were based on the UK Government's proposals to change the normal pension age to 65. In that document, we indicated that management and staff side had not been able to reach agreement on this issue.

1.3 Whilst we were consulting on those proposals, the UK Government announced that it was prepared to negotiate with the public service Trade Unions on the issue of moving the pension age to 65. The subsequent discussions in the Public Service Forum, resulted in an agreement that current pension scheme members could keep their current normal pension age but new entrants would move to a normal pension age of 65.

1.4 This document builds on the agreement reached in the Public Services Forum. We listened to what you said in the first consultation exercise. You said that you valued final salary pensions and wanted to keep them. You also indicated support for making survivor pensions available to unmarried partners.

1.5 The proposals in this document, that have been agreed in partnership, meet the wishes expressed by staff whilst ensuring the NHS pension scheme remains affordable to employers and the tax payer. These proposals will increase flexibility and choice for members and are also fairer in relating the level of employee contributions more closely to the level of benefits received.

1.6 We have managed to secure a final salary defined benefit scheme for staff whilst many such schemes are being discontinued in the private sector. We therefore consider that these proposals offer an excellent deal in the current climate and will ensure that the NHS pension scheme plays an important part in recruiting and retaining the staff the NHS needs and making the NHS the employer of choice.

1.7 We would encourage all NHS staff to get involved in this consultation as your comments will be taken into consideration when the Scottish Ministers make their final decision on the future of the NHS pension scheme in Scotland at the end of the consultation period.

Michael Fuller
Co-chair, SPensiR
(Trade Union and Professional Organisations)

Derek Lindsay
Co-chair SPensiR
(Employers)

2. Executive Summary

2.1 Following on from the UK Government's green papers of December 2002 and June 2003 "Action on Occupational Pensions", all public pension schemes, including the NHS, are being reviewed.

2.2 The review in Scotland has been undertaken in partnership by SPensiR. (Membership of SPensiR includes representatives from employers, trade unions, professional organisations and the Scottish Executive.) The review partners have now reached agreement on proposals for a new scheme and for changes to the current scheme as below.

2.3 This document sets out the proposals for two ongoing schemes; a new scheme for new entrants and the current scheme with improvements for existing members. The new scheme will be much more flexible reflecting likely changes in work patterns that will accompany the increase in the pension age to 65. If you are an existing scheme member, you will be able to choose to join the new scheme at a date to be agreed after the new scheme is set up.

2.4 If you are an existing scheme member under these proposals you will:

- keep your current normal pension age (60 for most, 55 for members of the special classes) and will keep the right to take a pension after the age of 50[1];
- keep your current final salary pension of a 1/80th pension and a 3/80th lump sum for each year of service based on the best of your last three years' pensionable pay;
- you will in future have the option to take a larger tax free lump sum, worth up to 25% of the value of your pension at retirement in return for giving up some of your pension;
- as well as being payable to widows, widowers and civil partners, survivor pensions, in future, will also be available to partners. Partner pensions will be available for service back to 1988 as with civil partners and widowers pensions. Also, survivor pensions will not cease if the partner remarries or lives with a new partner;
- practitioner members will continue to receive a career average re-valued earnings (CARE) pension based on an accrual rate of 1.4% with a lump sum of 4.2%. From 2008, the annual dynamisation rate (the increase applied to pensionable earnings) will be set at Retail Price Index (RPI) plus 1.5%.

[1] Note: The Finance Act 2004 allows for protection of a minimum pension age of 50 for members who had a right to take reduced benefits at that age on 5 April 2006. If afforded, this protection may continue as long as members retiring early after 6 April 2010 take all their benefits payable under scheme rules. In the NHS Scheme, for those without protection, members who first joined and some who returned to the Scheme after 6 April 2006, minimum pension age will change from 50 to 55 from 6 April 2010.

2.5 New entrants from a date to be confirmed in 2007 will join a new scheme and will:

- have a normal pension age of 65 with the right to take a pension after the age of 55;
- have a defined benefit final salary pension of 1/60th for each year of scheme membership. The pension will be calculated on the basis of the average of the three best consecutive years membership in the 10 years before retirement, revalued by RPI. This means members will be able to choose to step down to a lower paid job in the run up to retirement but have their pension calculated on the basis of the higher salary before they stepped down;
- be able to choose to take a lump sum by commuting part of their pension. Members will have the choice of converting up to 25% of their pension value into a tax free lump sum at the rate of £12 lump sum for every £1 per annum of pension given up;
- have survivor pensions for eligible partners that will not cease on remarriage or co-habitation;
- have a more flexible pension with the ability to take all or part of the pension whilst continuing to work and build up more pension;
- practitioner members will be in a CARE scheme with a 1.87% accrual rate dynamised annually by RPI plus 1.5%. They will also be able to convert up to 25% of their pension value into lump sum by commutation.

2.6 A new tiered contribution rate structure will be introduced for both schemes This is intended to be fairer as it relates contributions more closely to the benefits received. The new contribution structure recognises that those on low salaries may be able to afford less in contributions but are still in need of a high quality pension scheme. It also increases the overall level of member contributions to pay for benefit improvements and helps the long term sustainability of the scheme. Existing staff will move to the new contribution structure by April 2008 when changes are introduced. New entrants will pay the new contribution rates when the new scheme is set up.

Contribution rate structure

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

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

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

Earnings above the earnings cap are currently not pensionable for staff who joined the pension scheme after 1989[2]. Under the new arrangements the earnings cap will no longer apply for future earnings but see paragraphs 5.17 to 5.19.

2.7 The employer contribution rate in 2008 should not vary markedly from 14% (see paragraph 7.2). It has been agreed that, there will be a cap on employer contributions in valuation years 2004 and 2008 when the results are implemented in 2008 and 2012 of 14.2%. From the 2012 valuation to be implemented in 2016, the employer contribution rate will be capped at 14%. A further agreed aim is to maintain employer contributions at or just above the 14% level and employee contributions at the levels proposed until 2016.

Reductions in the employer or employee contribution rate would therefore not arise. This is covered further in section 7.

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

3. Background

3.1 In December 2002, the UK Government published in the Green Paper "Simplicity Security and Choice: Working and Saving for Retirement" which contained the UK Government's proposals and recommendations to help people 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" was that all public service pension schemes, including the NHS should be reviewed. The UK Government was of the view that normal pension age would be increased and schemes changed to reflect improved longevity, modern working patterns and practice in the private sector. Changes are required to ensure that public sector pension schemes are financially sustainable in the longer term, are able to 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.

3.2 There are several common factors across all public sector schemes, as well as issues specific to the NHS. The main drivers for the NHS pensions review included:

- Her Majesty's Revenue and Customs (HMRC) changes to the tax regime for pensions which create new opportunities for making the scheme more flexible
- the UK Government proposal to increase the normal pension age to 65 for most public service schemes
- age discrimination legislation to be implemented before the end of 2006
- pressure from within the NHS from both employers and trade unions to make the scheme more appropriate for a 21st-century NHS workforce.

3.3 In Scotland the review of the pension arrangements for NHS staff has been taken forward by SPensiR. SPensiR is a partnership between employers, Trade Unions, professional organisations for the NHS in Scotland and the Scottish Executive.

3.4 Historically the main driver for pension reform has been from development in England and Wales. In terms of the current review SPensiR has been examining the output from the review group in England led by NHS employers and using this information for parallel discussions in Scotland. In particular SPensiR has looked at their appropriateness for the Scottish Workforce. SPensiR members have also had an influence in the English and Welsh discussions through their various UK constituencies.

3.5 You will recall that in January 2005, we produced a consultation document "Moving to a 21st Century Pension Scheme" which was based on new entrants moving to a normal pension age of 65 by 2006 and current staff moving to a normal pension of age 65 by 2013. Consultation on these proposals and similar proposals for other public pension schemes highlighted considerable opposition from members and their representatives. In light of this general strength of feeling over the proposals the UK Government undertook further discussions with unions and employers resulting in the Public Service Forum (PSF) reaching an agreement on pension age. These joint proposals have therefore been developed since that agreement between the public service Trade Unions and the

UK Government last October. At the PSF, it was agreed that current pension scheme members would keep their current normal pension age (60 for most members, 55 for members of the special classes). New entrants to the pension scheme would, however, have a normal pension age of 65. The proposals in this document reflect that agreement.

3.6 Negotiations since October 2005 have considered all aspects of pension provision for NHS staff. The changes are intended to increase the flexibility of the scheme for staff whilst ensuring the long-term financial stability of the scheme. Allied to pension reform, NHSScotland is proactively seeking ways of retaining its older workforce, encouraging staff to work beyond what they would have regarded as a normal retirement age should they feel fit and healthy enough to do so. Undeniably in the past, NHSScotland has adopted a rigid policy of retiral at age 65. However, given our success in improving health, not just for NHS staff but across the whole of Scotland's workforce, this approach is no longer necessary or indeed desirable. NHS Boards now treat requests from older workers to work beyond age 60 or indeed 65 sympathetically and seriously, and actively seek ways of retaining that very valuable element of the workforce. The proposals contained in the pension review will support that process. The review partners have carefully considered the equality dimension in developing these proposals.

3.7 Further information about the review can be found at www.sppa.gov.uk

4. What Our Proposals Mean for Existing Pension Scheme Members

Pension age and final salary benefits – existing members are able to retain current normal pension age and final salary

4.1 When we consulted on our previous proposals, both staff and employers who responded gave a strong message that they wanted existing staff to keep their current pension arrangements with the right to retire at their current normal pension age (60 for most, 55 for members of the special classes) and keeping final salary pensions.

4.2 Following the PSF agreement, our proposals for existing staff build on and retain the current benefits structure. current scheme members will keep their current normal pension age and will retain final salary pensions based on an accrual rate of 1/80th for each year of service and a 3/80th lump sum. Practitioners will retain their current career average accrual rate of 1.4% with a 4.2% lump sum. We recognised that the retention of the lower normal pension age of 55 for members of the closed special class groups[3], was consistent with the maintenance of a normal pension age of 60 for other existing staff, that there should be no change to the reserved rights of this group.

[3] Nurses, midwives, health visitors, physiotherapists and Mental Health Officers (MHOs) in post up to 1995 have a reserved right to draw an unreduced pension at age 55. In the case of MHOs, an unreduced pension at age 55 after 20 years and double accrual of pension.

Lump Sum – able to take up to 25% of pension value as tax-free lump sum

4.3 Currently, existing members have no choice about the size of lump sum that they take. We propose that you should be given a new option to take an increased lump sum, greater than the 3/80th lump sum automatically provided, by converting a part of your 1/80th pension on the basis of receiving £12 of lump sum for each £1 of pension given up. The maximum total lump sum which HMRC will allow a member to take is 25% of the overall value of the benefits (including lump sum) after allowing for converting pension to lump sum. The value of the pension is taken as 20 times its annual amount. This means in practice that the maximum lump sum that may be taken can be calculated by multiplying the standard 1/80th pension by 5.36 and the potential extra lump sum is the difference between this figure and the standard 3/80th lump sum provided.

Increased Choice on Lump Sums for Existing Scheme Member

John is aged 60 and is entitled to a pension of £6,000 with a tax-free lump sum of £18,000. He can choose to take a bigger lump sum anywhere between £18,000 and £32,160.

He opts to take the maximum tax-free lump sum of £32,160 (25% of the combined value of his pension and lump sum after conversion), to increase its overall value by £14,160.

In return for the extra £14,160, John gives up £1,180 of his pension – exchanging £1 per annum of his pension for every £12 extra in his lump sum – to give him a total pension of £4,820.

Step Down – pension to be protected on voluntary step down

4.4 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 at the higher pensionable pay. We are proposing that this protection will also be made available to those who step down voluntarily.

Partner Pensions – all partners will keep 'survivor' pensions for life and eligible partners will receive survivor pensions

4.5 Currently, the scheme provides survivor benefits for the spouses and civil partners of members. This means that they will receive a survivor pension if you die before them. If they subsequently remarry, cohabit or enter another civil partnership, they will lose that pension. We were concerned that this excluded a significant group of members who were unmarried or not in a civil partnership but lived with a partner in a similarly committed relationship. Survivor pensions for widowers and civil partners are based on pensionable service since 1988. In future, survivor pensions will also be available to your unmarried partner on the same basis if you have nominated him or her with the scheme. Further, these will not be removed if your survivor remarries, enters another civil partnership or cohabits.

4.6 The definition of a partner is still being considered, but we expect that the definition of partner will be comparable to that adopted by other public service schemes. To qualify for a partner pension, the member would need to have nominated their partner and, together, completed a joint declaration of partnership. The partners would also need to demonstrate their financial interdependence; for instance by having a shared mortgage or bank account.

Initial Pensions on Death in Service – will be paid for six months in every case and children's pensions provided to age 23

4.7 Currently, if a member dies in service, initial pension is paid at salary rate for a period of six months if there are dependent children or three months if not. In future this will be paid for six months in all cases.

4.8 Currently, after the death of a member, dependent's pensions are paid to children up to the age of 17 or until they finish full time education. Under the new pension tax regime, children's pensions can only be paid until the age of 23. We are proposing that in future, children's pensions will be paid until age 23 in all cases.

Abatement – reduction only applies to enhanced part of pension

4.9 Currently, if you take early retirement on ill-health grounds or on grounds of redundancy and then return to work, your pension may be abated. If your pension and salary combined exceed your salary before early retirement, your pension is reduced by the excess until you reach your normal pension age. In future, any reduction would only relate to the enhanced element of your pension.

Contributions – new tiered contribution rates linked to earnings

4.10 The measures agreed as part of the recommended agreement, taken alongside other pressures, will increase the costs of providing the pension scheme. We have therefore agreed a revised contribution rate structure for all members.

4.11 We are proposing this structure of tiered contribution rates because of evidence put to the review about differences in the level of benefits delivered to different groups of staff. Those staff, often lower paid, who have lower career pay progression, pay much more proportionately for their pension than those who have high career pay progression (often the highest paid). These tiered contribution rates would relate the contributions staff pay more closely to the pension they receive. It is also important to remember that all contributions attract tax relief and those in the highest bands currently receive tax relief at the highest rate.

4.12 From April 2008, a tiered contribution rate structure will be introduced for employees. This is set out in the table on page 10. Members who are not paid Agenda for Change (AfC) rates, will pay the rate relevant to their full-time pensionable salary. Members who currently pay 5% as manual staff will move to the contribution rate relevant to their salary level. Tiered contribution thresholds will be increased annually in line with AfC pay increases. The fourth tier threshold of £100,000 will be increased annually in the same way.

Contribution rate structure		
Annual Pay (Full-time equivalent)	**Current Contribution**	**New Contribution**
AfC spine point 9 and below (currently up to and including £15,107) Non AfC Up to and including £15,107	5% and 6%	5%
AfC spine point 10 up to point 48 (currently £15,446 -£60,880) Non AfC Above £15,107 - £60,880	6%	6.5%
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Note: Staff classified as manual staff currently pay 5% and all other staff pay 6%. In future all staff will have their contributions based on the new arrangements.

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

Earnings above the earnings cap are currently not pensionable for staff who joined the pension scheme after 1989[4]. Under the new arrangements the earnings cap will no longer apply (paras 5.17 to 5.19).

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

Additional Pension – more flexible arrangements for buying additional pension of up to £5,000 a year

4.13 To encourage members to have greater control over their retirement options, we are proposing to introduce more flexible arrangements for buying additional pension benefit compared to the existing added years arrangements. This will be achieved by enabling members, or their employers on their behalf, to buy additional annual pension of up to £5,000 a year. This represents a significant proportion of the current average NHS pension of around £6,000. The existing added years arrangements paid for by additional voluntary contribution (AVC) only allow individuals to cover earlier gaps in service so that they can achieve 40 years' service at the age of 60. They do not allow individuals to forward plan by enhancing their pension benefits in anticipation of, for example, taking a later break in service or moving to part time working. Their value also depends on future career progression and so may be poorer value for those with lower career progression.

4.14 Features of the arrangements envisaged include:

- the new arrangements for buying additional pension benefit will be introduced for both existing members and new entrants from the start date of the new scheme;
- existing added years contracts will be honoured;
- members will be able to buy up to £5,000 additional annual pension at any time whilst in pensionable employment;
- additional pension benefits can be bought in multiples of £250 units;
- the value of additional pension benefits would be index-linked by RPI before and after they come into payment;
- members will be able to buy additional pension benefits with a lump sum or by spreading the payments over a number of years (subject to this and other employee contributions in any year not exceeding annual earnings in that year). Whatever method is chosen, members should receive tax relief on their contributions;
- contribution limits for members are being discussed.

4.15 The costs of buying additional pension benefits by either a lump sum payment or by instalments are currently being assessed by the Government Actuary. It is hoped that these will be available during the consultation period. As soon as they are available, they will be posted on the SPPA Website (www.sppa.gov.uk).

Money Purchase Additional Voluntary Contributions (MPAVCs)

4.16 Currently members have the opportunity to contribute through payroll to a MP AVC provided by Standard Life and Equitable Life. At present, relatively few use the facility. Since April 2006, members have been able to pay up to 100% of their taxable pay into this option. We support giving members the opportunity to make additional pension savings and recognise that the new pension tax regime will enable members to increase their pension savings should they wish. We consider that continuing to provide a MPAVC facility would give members a worthwhile choice. Scottish Ministers will need to make a decision about whether to continue to offer an MPAVC facility.

Limits on Years' Service – will remove all current service limits

4.17 We are also proposing 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 and staff with transferred in benefits, this would only apply when they reached 40 years of *actual* NHS service.

The Earnings Cap – will lift earnings cap for high earners, with increased contribution rate

4.18 Under the old pension tax regime before April 2006, all scheme members who joined the pension scheme after 1 June1989 have their maximum pensionable pay capped. Members who joined before that date are uncapped. However, the NHS pension scheme rules maintain an earnings cap. This is currently £108,600.

4.19 We have agreed that the earnings cap should be lifted for existing members for future service so that pay above the earnings cap becomes pensionable. Members who are currently capped and who retire with a final salary above the earnings cap, would have their pension on retirement based on two final salaries; the earnings cap for service up to April 2008 and full final salary for service after April 2008.

4.20 The earnings cap will not be lifted for service before the change is implemented, although it may be possible to offer individual members the opportunity to fund this benefit themselves.

Practitioners – pensions dynamised annually by the RPI plus 1.5%

4.21 Practitioner members of the scheme (GPs and dentists) currently have their pensionable earnings dynamised (increased in value) by the overall annual increase in pensionable profits. This has led to significant unpredictable year on year variations in the increase in the value of their career average pensions. We are proposing that from 2008, practitioner pensions for active members will be dynamised annually by the retail price index plus 1.5%. This equates broadly to the increase in national average earnings and precisely to the funding currently provided for dynamisation in the scheme costings and will provide a more consistent and transparent basis for the revaluation of pensionable pay.

Choice – offer existing members a one-off choice to move to the scheme for new entrants

4.22 Under these proposals, the pension arrangements for new entrants will differ in a number of ways from those for existing members and some members may find the new package attractive. In particular the new arrangements include:

- a higher accrual rate to compensate for the higher normal pension age. This means that existing scheme members who work to 65, may achieve a bigger pension in the new arrangements;
- partner pensions for all service;
- total flexibility as to the balance between pension and lump sum up to the HMRC limits;
- the opportunity to take pension whilst continuing working and building up more pension or to return to pensionable employment after taking pension.

4.23 We hope to offer members a one-off choice to move to the new pension arrangements. This choice would be offered to active scheme members after the new arrangements begin. If you chose to move to the new arrangements your past service would be converted to service in the new scheme and your pension will be payable without reduction only at 65.

Returners – staff returning within 5 years will return to the existing scheme

4.24 It is recognised that many NHS pension scheme members leave the scheme for periods of time and then return. Currently, if scheme members return after more than one year, they are treated as new entrants. However, members of the special classes have their rights protected if they return within five years. Furthermore, NHS staff are able to take career breaks for up to 5 years. If staff were only allowed a one year window to return to the existing scheme, there would be a clear risk that this would adversely affect female members who are more likely to take career breaks.

4.25 We are therefore proposing that staff with deferred pension rights in the existing scheme who return to NHS employment within 5 years will be able to return to the existing arrangements retaining their current normal pension age. We envisage that they will have a choice on returning as to whether they wish to move into the new scheme, similar to the choice offered to active members.

4.26 Those staff who return to the pension scheme after more than 5 years will have to join the new NPA 65 arrangements for future service. We envisage that they will be offered the choice of moving their deferred pension rights into the new scheme although details of the terms of conversion have yet to be finalised. This will take effect from 1 April 2008.

Staff who have previously worked for the NHS but have no deferred rights in the pension scheme, will be treated as new joiners to the pension scheme and will join the new arrangements.

5. What Our Proposals Mean for New Entrants to the Scheme

Normal Pension Age – 65 for new entrants

5.1 As part of the PSF agreement, the UK Government and public service trade unions agreed that new entrants would move to a normal pension age of 65. In addition, new entrants will have a minimum pension age (the earliest a pension can be taken) of 55. For the NHS scheme, this will take effect from a date still to be agreed.

5.2 In jointly agreeing that new entrants will have the higher normal pension age we recognised that:

- many NHS staff join the pension scheme at an older age than before and have not saved enough for their retirement by the current normal pension age. The current average retirement age for staff is 62 even though they can draw a pension unreduced at either 60 or 55;
- staff who retire today are expected to receive their pension for 25 years from 62. New entrants are expected to receive their pension for 24 years from 65;
- staff told us in the pensions survey we commissioned that many wanted to work beyond the age that they are eligible to retire. Under the current arrangements often that service is not pensionable as members are not able to rejoin the pension scheme;
- the changes in the pension tax regime make it possible to introduce a much more flexible pension that enables staff to balance work and leisure without having to leave the pension scheme. These changes were only affordable in the context of an NPA 65 scheme and will not be available to staff who choose to remain in the existing scheme;
- staff who are unable to work to 65 will still have the protection of the ill-health retirement arrangements;
- employers will need to develop new employment policies and practice to retain older workers including using the flexibilities available in the new pension arrangements.

Final Salary Pension – more flexibility and choice on how and when staff retire

5.3 New entrants to the NHS pension scheme will continue to have a final salary pension, but with a normal pension age of 65. However, it will differ from the current final salary scheme in a number of ways designed to make the pension more flexible and to increase choice for members.

5.4 The pension will be based on an accrual rate of 1/60th for each year of service. This represents an improvement of over 6% in the value of each year of service compared with the current arrangements but will be payable without reduction only at 65. How this will work is set out in the examples in the text box on page 15. Members will be able to choose how much lump sum to take up to the HMRC limits. Members will receive a tax-free lump sum payment of £12 for every £1 of pension they gave up; this is known as commutation. The maximum total lump sum which HMRC will allow a member to take is 25% of the overall pension value (including lump sum) after allowing for converting pension to lump sum. The value of the pension is taken as 20 times its annual amount. This means in practice that the maximum lump sum that may be taken can be worked out by multiplying the pre-commutation pension by 30/7 (or 4.28).

How the new flexibilities could work for a new entrant

Senga is 65 and has worked in the NHS for 40 years. In her last 10 years, the average of her best three consecutive years' pay is £15,000. She has earned a 40/60th pension – 40/60ths of £15,000 – which is worth £10,000 a year.

Under the new scheme her options range from:

- taking all her money in her pension, with no lump sum, giving her a pension of £10,000
- to taking a maximum lump sum of £42,857, leaving her a pension of £6,429. She gives up £3,571 of her pension to get 12 times that as a lump sum
- or, she can take any size of lump sum between those two figures – the bigger the lump sum, the smaller her pension. For example she can take a lump sum of £36,000, leaving her a pension of £7,000, or take a lump sum of £24,000, leaving her a pension of £8,000.

5.5 Giving staff the opportunity to wind down towards retirement by gradually reducing the number of hours worked or to step down to a less demanding job is a key aim of this proposal. The traditional approach to retirement, where an individual goes from being in full-time employment to being in full-time retirement no longer meets the needs and expectations of scheme members and their employers. This message came through clearly from the pensions survey we carried out for the review.

Stepping down before retirement

Thembi has worked for the NHS for 20 years and when she retires at 65 she has a salary of £20,000. However, 5 years earlier, she worked in a higher paid post before deciding to step down to a less demanding role in the run up to retirement.

After adjusting for inflation, the average of her best three consecutive years in her last 10 years is £30,000, Her pension is based on these higher earning years, giving her a 20/60ths (20 years multiplied by 1/60th x £30,000) pension of £10,000. This is compared to £6,667 if it had been based on her salary in her last three years of £20,000.

New Flexibilities – such as taking all or part of pension but continuing to work, or returning to pensionable employment

5.6 We are proposing a range of new and improved flexibilities around taking your pension that are not available in the current scheme. The new HMRC rules in force from April 2006 do not require that staff have to retire from work in order to access their pension. We are proposing that the pension arrangements for new entrants will take advantage of these new rules. We are proposing the following changes:

- in the run up to retirement members will be able to take all or part of their pension whilst continuing to work. It is envisaged that this would be available to those who wanted to step down to a less well paid post or reduce their hours but want to supplement their income with pension and would be part of a phased retirement plan agreed with their employer. Pension and lump sum paid before normal pension age of 65 will be subject to an actuarial reduction;
- members who have taken their pension and retired will be able to return to pensionable employment;
- members who choose not to take all or some of their pension benefits until after the age of 65 will have the value of their pension increased using late retirement factors (that the scheme will publish from time to time) to compensate for the pension that they have foregone by choosing to delay retirement.

5.7 In order to increase flexibility in the run up to retirement, we are proposing that the method of calculating the member's final salary pension will also change. Currently, the pension is calculated on the basis of the best annual pensionable pay in the last three years of a member's career. This is based on the expectation that the last three years will generally contain the highest earnings. However, with the increase in the pension age, we expect that members will want to work differently in the run up to retirement. For instance, members may want to step down and work in a less demanding job.

5.8 We are proposing that in future new entrants will have their pension calculated on the basis of the average of the best consecutive three years' pensionable pay in the 10 years before retirement. Each year's pay will be revalued in line with the RPI so that the value of earlier year's pay is not eroded by inflation. This method of calculation will enable staff to work more flexibly in the run up to retirement.

Employee Contribution Rates – same tiered rates, linked to earnings, as existing scheme

5.9 We are proposing that new entrants will have the same contribution structure as existing members (para 4.12).

Other benefits

5.10 We are proposing that the new scheme will also provide pensions for eligible partners in respect of all service with all partners keeping their survivor pension for life (para 4.5).

How the new flexibilities could work for a new entrant

Ruth joins the NHS pension scheme when she is 22 years old. During her career, she works part time and takes career breaks.

At 58 she has accumulated 25 years of full-time equivalent pensionable service.

Ruth then decides, seven years before the normal pension age of 65, to step down to a less demanding role and her salary reduces by 25%.

She continues to work full time until she is 63, by which time she has accumulated 30 years' service.

At 63 she reduces her hours to half time and at the same time, chooses to draw down half of her pension.

Her final pay for the purpose of calculating her pension is the average of her best three consecutive years (as adjusted for inflation) in the last 10. In her case it is based on her pay for the three years prior to when she stepped down. She takes 15 years of her pension, calculated at 15/60ths of this final pay figure. Because she takes it two years' early, Ruth's pension is reduced by 12%.

At the same time, she also decides to give up a part of her pension for a lump sum (giving up £1 of annual pension for £12 extra of lump sum).

Ruth continues working until she is 65, earning a further 1 year of pensionable service to reflect her part-time hours.

This leaves her with pension rights based on 16 years of pensionable service still to take.

When she retires, at 65, she takes the rest of her pension. Her pension is 16/60ths of her best three consecutive years pay (as adjusted for inflation) in the last ten years.

In this case the final pay is still the average of the three years pay before she stepped-down.

She chooses to take the full lump sum available in respect of this second part of her pension, which reduces her pension.

The reduced level of pension is added to the pension she took at 63, which has now increased by RPI revaluation during payment.

During her retirement the combined pension continues to be increased in line with inflation.

Note: This example is illustrative of the new possibilities, and the exact details of how draw-down will work in practice have still to be finalised.

5.11 There will be no limits on the number of years service that can be built up in the scheme through actual service (para 4.17).

5.12 Initial death in service pensions will be standardised at 6 months (para 4.7).

5.13 Children's survivor pensions will be payable until the age of 23 (para 4.8).

5.14 The earnings cap will not apply and contributions will be paid on the whole of pensionable pay (para 4.19).

5.15 The arrangements for purchasing additional pension will also apply to new entrants (para 4.13).

Practitioner Pensions – retain CARE but with NPA 65

5.16 It is proposed that a career average scheme will be maintained for new entrant practitioners. It will have an accrual rate of 1.87%. Practitioners will also be able to choose to take lump sum by commutation. Annual dynamisation will be by RPI plus 1.5% for active members.

Ill-health Retirement

5.17 A separate partnership review of ill-health retirement is being carried out. It is currently anticipated that consultation on proposals will take place by the end of the year and any changes will be implemented to the same timescale as the pension changes covered in this document.

6. Funding Issues

6.1 One of the critical issues in the negotiations was how to ensure the overall affordability of the NHS pension scheme. The new pay systems that have been introduced to the NHS have increased the cost of pension arrangements as salaries have risen. In addition, "Agenda for Change" is intended to increase the opportunities for staff to improve career progression. If this occurs, the cost of providing final salary pensions is likely to increase further. Employers expressed a strong view that sustainability of the pension scheme required stability in employer contribution rates.

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

6.3 HM Treasury have proposed that employee contribution rates across the UK are kept equal whilst benefits are broadly equal. As it is the largest scheme it is proposed that the England and Wales NHS pension scheme will be used as the benchmark for this. In Scotland, it is proposed that the employee rate will be set to be equal to the employee contribution rates set at the equivalent England and Wales scheme valuation, as long as the cost pressures do not vary by greater than 1% of pensionable pay with the balance of costs met by the employers.

6.4 There are implications and further details of the HM Treasury proposal that have still to be resolved but SPensiR recognises the need for a pragmatic approach to employee and employer contribution rates that does not create incentive or disincentive to work in any particular location. We will continue to discuss this matter during the consultation and would welcome your views.

6.5 A new process will be established for discussing how the outcome of actuarial valuations will be dealt with. The detailed arrangements have still to be agreed but it is envisaged that a partnership group involving management and staff side representatives will consider the emerging valuation work. If, for example, the Scheme Actuary recommended an increase in contribution rates then, subject to the overall employer cap, the group would consider how best to implement the valuation results. This might include either an increase to employee contributions, changes to the benefit structure or a combination of both. The output of this work would form recommendations to the Scottish Ministers who would decide on any draft regulations the Scottish Public Pensions Agency might need to issue for further consultation before the regulations are approved by Parliament.

6.6 When identifying the costs in the scheme that would be subject to the employer contribution rate cap, the basic principle would be that changes that increase the value of members' pensions should be taken into account but changes in factors such as financial assumptions that do not directly affect the value of members' benefits should not be. Risk factors relating to the way scheme benefits are calculated under scheme rules and the life histories of scheme members and their dependents (described as "demographic" factors such as longevity, retention, pay progression, average retirement age, incidence of ill-health retirement) all affect the value of the scheme to the membership and would be subject to the employer cap. In some cases, the changes in value may be due to other factors such as legislative changes that might be imposed from outside the scheme, and the treatment of these would be agreed if and when they arose. Also, the NHS scheme is an unfunded scheme and contributions are calculated using a notional rate of return set by the Treasury. If that notional rate were to change leading to changes in contributions, the cap on the employer contribution rate would not apply.

6.7 It is possible that in the future, the costs of the pension scheme might reduce. If this was to happen any reductions in the costs of the scheme would go to reducing the employee contribution rate until the overall contribution rate returned to 20.4%. If the contribution rate fell below 20.4%, further savings would be shared between employers and employees on a 50/50 basis. Future cost increases back to 20.4% would be shared on a 50/50 basis with cost increases above 20.4% falling to the employee.

7. Summary and Next Steps

7.1 The proposals contained within this document are viewed as a package. We are therefore seeking your views on the package as a whole.

7.2 The consultation period on these proposals runs until 5th January 2007. NHS employers and trade unions will make this information available to all NHS staff. Please let us have your opinions which can be fed back to us either via your trade union, staff associations or individually. Responses can be e-mailed to nhspensionsreform@scotland.gsi.gov.uk or sent in writing to:

NHS Pensions Review Team
Policy Branch
Scottish Public Pensions Agency
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

7.3 SPensiR will consider carefully the responses before making recommendations on a new Scottish NHS pension scheme to the Scottish Ministers who will then make the final decision.

7.4 Once agreed by Ministers, regulations will be drawn up and laid in the Scottish Parliament which will enable the implementation of the new arrangements.

8. Glossary of terms

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

ABS
Annual Benefit Statements. Annual 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 they 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
A calculation or method agreed by a qualified actuary.

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
Extra pension where retirement happens after the NPA.

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) members 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 fact 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 currently benefits paid from age 50 will reduce by around 5% a year. For example,VER at 50 means a member will retain around 60% of the pension and 75% 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 current pension purposes bought by paying extra contributions. Members of the current NHS pension scheme who will not complete 40 years' membership by their normal pension age may be eligible to purchase membership in this way.

Age discrimination
Treating someone differently because of their age.

Age discrimination legislation
New age discrimination law, due out in October 2006. The age discrimination legislation makes it illegal to treat people differently on the basis of age.

Agreed voluntary early retirements (AVERs)
The employer pays for the pension to be taken early but without enhancement.

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 Prices 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 Pension Scheme does this for self-employed members of the scheme, such as GPs.

Calendar service
This is the actual length of scheme membership.

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.

Closed groups
The group of NHS scheme members who have special retirement rights. These were withdrawn from 1 April 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.

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 pension scheme but leave the NHS 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 (DC) Pension Scheme
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 pension 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 are 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% 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 current cap is £108,600 for 2006/07. It does not apply to people who joined a pension scheme before 1989.

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.

Employing authority (EA)
Employers who operate the NHS pension scheme, i.e. NHS boards,special health boards, GPs and direction employers.

Final salary
The level of earnings in a period close to retirement, used to calculate retirement benefits. For example, the NHS pension 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 current NHS pension 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 pension 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 Scottish NHS Pension Scheme in-house money purchase facilities can be obtained from 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 pension scheme members which excludes those who have left the scheme with a deferred pension and NHS pensioners.

Partner
Someone who you are married to, have entered into a Civil Partnership with, or with whom you have an exclusive and long-term committed relationship in which you are financially dependent or interdependent.

Part-time membership
Years of membership of a pension scheme built up by a part-time worker. In the NHS pension 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 pension scheme provides regular monthly payments to retired members which provide an annual income based currently on 1/80 of their final salary (best of the last three years) or, for self-employed members such as GPs, their career average salary.

Pension value
The value of an NHS pension is the total of pension and any lump sum payable. In the new scheme up to 25% of the pension payable can be optionally commuted (i.e. taken) as a lump sum. In the existing scheme a 3x pension lump sum is routinely payable but it will be possible to increase this to up to 25% of the total pension value.

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 current NHS pension scheme pensionable pay can be less than actual pay because over-time 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 pension 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

The NHS pension scheme offers the option of a refund of contributions for membership of less than two years. The contributions that the member has paid to the scheme are returned less a tax payment and a deduction to buy the member back into the state pension scheme. Tax is deducted at the rate of 20% on the first £10,800 of the payment and at the rate of 40% of the remainder of the payment over £10,800. As an alternative to a refund of contributions, the NHS scheme may be able to transfer pension rights to another pension provider for membership of less than two years, as long as time limits are met.

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 currently increased each year in line with the RPI.

SB number

Each member of the NHS pension scheme is allocated a Superannuation number by the Scottish Public Pensions Agency. 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 lump sum.

Special class status

NHS Pension Scheme members who have special retirement rights. These members include nurses, midwives, health visitors and physiotherapists in post before 1 April 1995, who have a normal pension age of 55, and mental health officers (MHOs) after achieving 20 years.

Special retirement rights

See 'special classes'.

Stakeholder pension

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

Step down

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

Survivor pension

A pension payable to a partner as defined in this glossary.

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 pension scheme, transfers into the scheme must be made within 12 months of joining or rejoining the scheme.

Transition (related to pension scheme review and ill-health review)
Arrangements for moving from the old to the new system of benefit calculation.

Transition (related to the redundancy review)
Arrangements for moving from the old to the new system of redundancy compensation.

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

Underpinning guarantee
A guaranteed level of benefits for staff during transition.

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 pension scheme does not currently operate a UURBS.

Vesting
The creation of rights to draw benefits from a pension scheme. In the NHS pension 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.

This document is also available on the Scottish Public Pensions Agency website:
www.sppa.gov.uk

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