

# NHS Pension Review - AMICUS analysis of CARE

As part of the Review we are required to give a view on CARE.

Comments on CARE by members have largely been negative, though not in all cases based on a correct understanding of its full implications. In a changing NHS it is particularly difficult for members to relate CARE to their own future pension situation even apart from being able to predict how their careers will develop.

This analysis has been based on drawing together a small group with knowledge of our members occupations in the NHS, of Agenda for change and of the pension technicalities.

## **Assessment of the possible impact of CARE pensions on Amicus occupations in the NHS.**

The Review seeks our view on CARE as an alternative to final salary pension for new employees as from 2006.

If CARE were to be adopted for new employees then existing members would be offered the option to transfer to a CARE basis in 2008.

We are also being consulted on whether, if CARE is adopted for new employees, it should be extended to existing employees in 2013, when their pension age for future service increases to age 65. This option would mean that CARE was applied only for future service after 2013, based on pay in that and subsequent years, with benefits earned prior to 2013 remaining on the current final salary basis

The assessment is based on the relative attractions of a CARE pension based on 1.8% accrual with revaluation using average earnings and a Final Salary pension based on 1/60 (= 1.67%) accrual.

The higher accrual rate in CARE ought in theory to offset the fact that the aggregate of salaries used to calculate pensions based on average career earnings, even if revalued by average earnings, would be less than the aggregate of final salaries.

The key issue affecting the relative attractions of CARE and Final Salary is the extent and timing of salary progression during an individuals career. The attractions of CARE are inversely related to the amount of career progression.

Modelling by the Review Group suggested that :-

- CARE is likely to be best for people whose career is contained within one AfC grade
- Final salary is likely to be best for those whose career spans three or more grades
- Where careers span two grades the picture is mixed and the outcome is influenced by how early the grade change is achieved (CARE is more likely to be better the earlier it is)

In this analysis short periods spent in training grades at the start of a career need to be discounted.

The attractions of CARE may very well differ for new and existing employees. This is because the older an employee is the more likely it is that their future salary progression will be limited. For example, a member aged 50 in 2013 may already have experienced most of the career progression that they are likely to achieve. For them CARE could generate an improved pension whilst a new starter in the same occupation might very well be better favoured by Final Salary.

## **This paper focuses on the application of CARE to new starters.**

### **Nursing based occupations**

This is taken to include Health Visitors, other Community Practitioner groups and theatre nurses.

Career progression : it is assumed that for 70-80% of this group (discounting initial nursing training) their careers will span AfC grades 5 and 6 and that perhaps 20-30% may progress to grade 7.

Annex E of the Review Report contains nine examples which fit this career progression. What they show is that only a person who is promoted very early to Band 6 in their career is likely to benefit from CARE, and then only by a very small amount (as little as 2%). Even that small advantage is reduced or eliminated if their pensionable service is reduced in length by career breaks or part-time working, as in most cases it will be after the promotion is achieved. For those for whom grade 6 is only achieved after age 30, and for those whose career progresses to grade 7, final salary is likely to be better often by quite significant amounts (say 3-10%).

### **Graduate level healthcare scientists**

It is anticipated that new members to these jobs will predominantly be graduate recruits.

Career progression : it is assumed that graduates will be recruited into grade 5 and progress to grade 6 typically after 3 years. Grade 6 will be the career grade and only about 20% of scientists will progress to grade 7 or above.

The assessment for this group is therefore likely to be very similar for that for the nursing group except that a higher proportion are likely to achieve grade 6 at an earlier stage in their careers.

### **Maintenance craftworkers**

Career progression : the great majority will be recruited in their 30's or 40's into AfC grade 4 and will remain in that grade for their whole career. Perhaps 5-10% will achieve promotion to grade 5. There may be some apprentice recruitment in grade 3 but they will progress to grade 4 very early in their career.

For the great majority of craftworkers CARE pensions are likely to be higher by amounts in the region of 4-6%.

#### **Other occupations**

A range of other occupations were looked at which fell into three distinct groups.

'3 grades or more' (for example clinical scientists, clinical psychologists, pharmacists).

- Final salary is always likely to offer significantly higher pensions '2 grades' (for example the majority of Estates Staff)
- Assessment shows mixed results as for nursing and healthcare scientist groups '1 grade' (for example chaplains and cytology screeners)
- CARE offers some small improvements as shown for Craftsmen

#### **Conclusion**

In respect of new employees the conclusion is that CARE could be beneficial for the majority of Craftsman and of other '1 grade' career employees such as chaplains and cytology screeners.

It might also be of marginal benefit to a minority of members in Amicus nursing groups and healthcare scientist groups and to estates members, whose have '2 grade' careers. The minority are largely those whose move to a second grade occurs at a young age soon after their appointment.

For the majority of those with '2 grade' careers in the nursing and healthcare scientist groups, and of estates members and for the minority of craftsmen who have '2 grade' careers, CARE will produce marginal-significantly worse pensions than a Final salary pension.

For all Amicus members who are expected to have a '3 grade' career, generally extending into grade 7 or above, CARE would result in pensions which are significant- substantially less than a Final Salary pension.

The impact on the outcome of members taking career breaks and/or working part-time appear to be two-fold. Firstly, such reduced working may affect the degree of career progression throughout a career. Secondly, by altering the weight of the affected years in the calculation they have a generally small impact on the outcome. However, neither if these effects is so significant as to alter the general conclusions drawn above.

It is clear from this analysis that a substantial majority of new employees recruited into or later coming in to Amicus-organised NHS occupations will do better if the Final Salary basis of pension is maintained in the future.

The only thing that might alter this conclusion would be if CARE were offered with a significantly higher accrual rate relative to Final Salary than is on offer in the options proposed for consultation in the Review.