



## **NHS Pension Scheme Review -**

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### **Inception**

In April 2003 John Hutton, the Health minister invited the Confederation to lead a Review of the NHS Pension Scheme with key themes

- Modernisation of benefits to meet the needs of the changing workforce
- To consider the Government wish to raise retirement age
- To consider the Inland Revenue's changes in rules for pension schemes

These are considered in more detail later in this briefing

An assurance was given that a defined benefit scheme would be retained for all staff. The present scheme is a defined benefit scheme with pensions defined in relation to final salary

The NHS Unions agreed to participate with a view to seeking improvements in the Scheme but at the same time making clear their opposition to a raising of the retirement age

The Review timescale, initially, was set with a view to implementing changes in April 2005 - but it is questionable whether this timescale can be achieved

### **Process**

The Review involves a numbers of bodies, which are: -

Reference Group – a sounding board for ideas on which all Unions are represented along with employer representatives and various people with expertise of public sector pension schemes

Steering Group - a smaller body taking strategic decisions to guide the process of the Review and shape its final conclusions

Technical Advisory Group – a committee of pension experts and Pensions Agency staff to provide and verify data on which decisions can be taken

Project Team – Confederation Staff essentially serving the Review and carrying out or commissioning work for the Groups

Project Manager – Mike Evershed (later replaced by Tim Sands)

Staff Side lead Jon Richards.

Amicus is represented on all the three Groups

The Review is expected to lead up to formal proposals being tabled by the Department of Health which will then be subject to formal consultation before Regulations to change the scheme are laid before Parliament

### **Perspectives**

The perspectives of the main parties interested in the Review essentially are: -

Government – A higher retirement age will reduce costs but allow improvements in other benefits in what overall may be a cost-neutral exercise

Unions – Resist higher retirement age but seek improvements based on increased government/employer contributions

Employers – positive about improving scheme but don't want to pay more

Two other key issues are whether a New Scheme approach (as per Civil Service) will be adopted alongside an amended Old Scheme or whether we will just end up with an amended Old Scheme and a related question of whether changes in benefits will be retrospective or whether changes will only be applied to future service.

### **The main themes of the review**

#### **Modernisation**

This is about ending discrimination and adapting the scheme to the current workforce

For the unions it means all the improvements we would like to see

Key areas of discussion

- Tackling discrimination issues such as pensions for unmarried partners and equal rights for widowers
- a general improvement in dependants pensions
- a switch to a 1/60 scheme with a choice on lump sum
- a switch to a CARE (career revalued earnings ) basis instead of a final salary basis with a single rate of member contribution, rather than the present 6% and 5% rates
- Changes to improve pensions in the event of stepping down to lower responsibilities, of career breaks and of people returning to work after drawing a pension
- Possible switch to a two-tier ill health provision offering differing benefits according to the degree of incapacity

These are all possibilities, which may or may not be proposed as a result of the Review

## **Retirement Age**

In this context this is the earliest age at which a member can draw their benefits without their being reduced on account of 'early' retirement

This is currently 60, but almost half the members (nurses +) are designated as being in special classes who have a retirement age of 55

Government policy across the public service is to phase in an increase to 65 – such that pensions drawn before that age are reduced

A minimum age of 55 for early retirement is also proposed but with existing staff's contractual rights protected

Introduction of this policy is up for discussion in all public sector schemes

Assurances have been given: -

- past service not affected (i.e. all benefits earned before the change)
- no one within ten years of retirement in 2003 affected

NHS staff have been given a letter saying that any change is 'unlikely to affect existing staff before 2013'

No indication has yet been given as to how special class and MHO status might be affected

Discussion on this aspect of the Review will start in the Spring

Amicus recognises that this is a key member concern. It is also being addressed at a national level through the TUC and may require us to mobilise members to resist it at some stage

## **Tax changes – New flexibility**

The Inland Revenue is making big changes in the tax rules affecting pensions in 2006, which will lead to: -

- the abolition of limits on maximum contributions and benefits for almost all employees
- more freedom to take lump sums rather than pensions
- new provisions to allow people to draw pension and carrying on working for the same employer

The general effect is to make new options possible when considering change

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