The NHS Pension Scheme Review Consultation

Moving to a 21st-century pension scheme

A part of the NHS Confederation working on behalf of the NHS

NHS Employers

Foreword

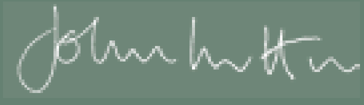
by John Hutton MP

This consultation is important for all NHS employees in England and Wales. As one of a series of reviews taking place across the public sector pension Schemes, it sets out proposals for changing the current NHS Pension Scheme in ways which will maintain its importance to staff, while making it more relevant to the health service of today. The Government needs your views on the ideas it contains, so that we can decide how best to change the Scheme.

At the outset I decided that this stage of the Review should be led by those most directly affected – NHS staff, represented by the Trade Unions on the National Staff Side, and employers represented through the NHS Confederation. I believe that the process has benefited from this approach, which has ensured that key issues of concern to both have been identified and discussed. I am grateful to the partners for producing a detailed and considered assessment, setting out wide areas of consensus, as well as identifying issues where differences remain.

The approach taken to the Review does mean that the recommendations are those of the partners, rather than Government, and they will need to be assessed against wider Government, as well as NHS, requirements. However, the Government remains as committed as ever to good pension provision for NHS staff. Pensions are a central part of the remuneration package, representing deferred pay and financial security in retirement. They are also an essential tool in the recruitment and retention of high quality and motivated staff, albeit one that has not always had the recognition it deserves. But, both working patterns and longevity have changed immeasurably since the NHS Pension Scheme was launched in 1948. The Scheme must change to reflect the needs of NHS staff and employers alike in the 21st century. The proposals in the consultation document set out ways of doing this, and of taking advantage of wider Government plans to improve such schemes.

Employers and staff representatives have worked hard to develop these ideas. Now we need your opinions on what is proposed before we take final decisions. I look forward to hearing your views.



John Hutton MP
Minister of State for Health

Foreword

by the Review partners

This document summarises the options for changing the NHS Pension Scheme considered by the Review and which are set out in more detail in the full consultation document, *Moving to a 21st-century pension scheme*, which can be obtained from www.nhsemployers.org

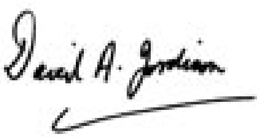
This document contains information on:

- the background to the Review and reasons for its necessity
- how recommendations and proposals for a new Scheme differ from the current Scheme
- how changes would affect Scheme members at different times and in different situations
- how you can obtain further information
- how to let us know what you think about the proposals for change.

The consultation document is a product of over 12 months of partnership working between management and staff representatives, employers, trade unions and other interested parties. We, the Review partners, have agreed on much but have not been able to agree on everything: in particular, the Government's proposal to increase the normal pension age to 65 and the financial scope for benefits changes. Where we are jointly recommending a proposal, this is clearly indicated. In areas where we have different views, these are set out.

Because your feedback is vital to the success of this consultation, we welcome your responses to the questions highlighted throughout this document. Please complete and return the attached response form. Or, alternatively, you can complete the form online at www.nhsemployers.org

Responses must be received by 11 April 2005. The Review will consider responses to this consultation before making final recommendations to the Minister of State for Health in spring 2005.

David Jordison
Review sponsor and chair


Eddie Saville
Staff side chair

Background to the Review

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.

The Review is a collective process in collaboration with key stakeholders, including the NHS trade unions. There are representatives from both staff and management in all Review Groups.

The Review started on the basis that it would be making recommendations for a new Scheme, although amending the current Scheme was not ruled out. At the start of the Review staff were given important assurances:

- The Review would be a partnership with all NHS trade unions.
- 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).
- 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.

Why is a review necessary?

The aim of the Review is to ensure the NHS Pension 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.

We want to ensure the Scheme helps the NHS recruit and retain staff and encourages staff to return, particularly staff among older age groups. The current Scheme could do more 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% female, around half of whom work part time.

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

- The NHS is currently in an unparalleled period of expansion. Since 1999, the workforce has been expanding at nearly 4% 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% while those in the 25–34 age group are set to decline by 19%.
- 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 this means that the annual loss from, for example, the nursing workforce is projected to increase from around 15,000 in 2004 to 25,000 in 2015.

Legislative and policy changes

The Government has proposed increasing the normal pension age (NPA) to 65 across UK public service pension Schemes.

The Review partners have different views on the proposal to increase the NPA. Management side partners believe that this is a reasonable response to the demographic pressures facing the Scheme today. Although this proposal is contentious, an increase in 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.

Staff side partners strongly oppose a compulsory increase in the NPA. They believe that the 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 Pension 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 and to ensure there are not unjustified differences of treatment simply because of age.

We would like to know what you think of the Government's intention to increase the normal pension age to 65 for public sector 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?

Financial considerations

The NHS Pension 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%, made up of a 14% contribution by employers and 6% by employees (5% for manual workers). After tax relief and National Insurance rebate, this equates to about 3.5% for employees. For a summary of the basis for costings, see Annex C of the full consultation document.

The Government explained in the December 2002 pensions green paper (*Simplicity, security and choice: working and saving for retirement*, CM 5677) 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 was advised that improvements could only be financed by this or other structural changes to the Scheme.

The staff side review partners have proposed that all savings be made available for improvements (see Annex D of the full consultation document). Subject to the outcome of the consultation, we will put this view to the Minister.

We would welcome views on these funding issues, recognising the firmly held view on the staff side that all savings from the proposed changes to the Scheme should be made available for improvements, and the Government position that savings should be made.

A new Pension Scheme

It is envisaged that if the 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 benefits in the new Scheme. Staff side partners 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:

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

A single accrual rate

The accrual rate is the rate at which you build your pension. The current Scheme has an accrual rate of $^1/_{80}$ (1.25%) of pensionable pay for each year and $^3/_{80}$ (3.75%) of pensionable pay for the lump sum.

We recommend 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%) 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.)

In our discussions there was strong support for improving the accrual rate.

We also recommend 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% 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 Pension Scheme she would be entitled to:

- an annual pension of 30 x 1.25% ($^1/_{80}$) of her final salary (£11,250)
- plus a lump sum of 30 x 3.75% ($^3/_{80}$) of her final salary (£33,750).

Under a $^1/_{60}$ Scheme her pension would be:

- an annual pension of 30 x 1.67% ($^1/_{60}$) of her final salary (£15,000) but with no separate lump sum.

If under the new Pension Scheme she chose to take a lump sum equal to what she would have received under the present Scheme (£33,750), then her pension would be £12,187.

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

We would like your views on the strong recommendation that the proposed new Scheme should improve the accrual rate.

Final salary or career average?

The Review looked at two approaches to improving 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% higher.

An alternative approach which was considered is 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% 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% 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, $^1/_{56}$ (1.8% 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% 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 well valued by staff
- will ensure that any greater career progression provided by Agenda for Change is carried through to a better pension
- produces variations of up to 30% (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 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 pension 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.

We would like your views 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.

Pensionable pay definition

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 by staff and by employers, of such a Scheme.

We seek views on the pensionable pay definition to be used should CARE be adopted.

New limits to Scheme benefits

Members of the current NHS Pension Scheme are limited to a maximum of 40 years' membership at the age of 60 and 45 years' membership at the age of 65. Moreover, for members joining after 1989, maximum annual pensionable pay is set at £102,000. We recommend replacing these limits in a new Scheme with the Inland Revenue's rule of a single lifetime allowance of £1.5 million in 2006 (rising to £1.8 million in 2010).

We welcome your views 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, the Review does not recommend this measure. Instead, we recommend that employers should be able to contribute to an employee's additional pension purchase arrangements on a voluntary basis.

What do you think about 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%) for each year of 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.

The NHS Pension Scheme must reflect current social patterns of behaviour and treat all members and their partners fairly. We strongly recommend 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
- an end to the practice of cessation of a survivor pension on remarriage.

We welcome views on the recommendation that the new Scheme should provide partner pensions including ending cessation of survivor pension on remarriage.

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

We would like views 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 of this.

We considered increasing the value of partner pensions from 0.625 to 0.833% ($^1/_{160}$ to $^1/_{120}$) of pensionable pay for each year of service. However, this change is not achievable within the financial limits imposed.

What is your view on whether survivor pensions should be improved in the new Scheme?

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, butrestrict children's pensions after the age of 17 so as not to be providing NHS pensions to those in full-time employment.

Do you think the new Scheme should pay all children's pensions to the age of 23, or have restrictions after the age of 17 until 23?

We considered the possibility of increasing the death in service lump sum from two times to three times pensionable pay but concluded the costs were outside the financial constraints. However, we recommend that

members are allowed to nominate multiple recipients for the death in service lump sum.

We would like views on:
- **increasing the death in service lump sum to members**
- **allowing multiple nominees for the death in service lump sum**
- **paying an additional year's lump sum payment where no dependent'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 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

We recommend that a new Scheme should support 'step-down', whereby members can move to a lower paid job but have their pension right 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 stepping 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.

We welcome views 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 re-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.

We seek views on how abatement should be addressed.

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 national average earnings (NAE) or by RPI. For expanded contribution limits, see the main consultation document.

To encourage members to save more for their retirement within the Scheme we recommend offering a pension purchase arrangement. This could replace the added-years option or be in addition to more flexible added years arrangements.

We would like your views on the proposed additional pension purchase arrangement, including the issue of contribution limits and limits on the overall amount of pension purchased. We also seek your views on the issue of removing added years arrangements in the Scheme.

Money purchase additional voluntary contributions (MPAVCs)

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

- an MPAVC Scheme with a choice of providers
- an MPAVC Scheme with a single provider
- not offering a linked MPAVC Scheme.

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

We welcome views on which approach should be taken to MPAVCs.

Practitioner pensions

The pensions of GPs and dentists are calculated using the CARE method because their typical earnings patterns 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 year of service rather than 1.25% ($^1/_{80}$) in the current NHS final salary Scheme.

We recommend 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 onto 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 lump sum. The comparable accrual rate for practitioners to maintain parity with the improvement in the main Scheme accrual rate would be 1.87%.

We welcome your views on the recommendation that practitioner pensions 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%, except manual employees, who pay 5%. 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% contribution for all existing staff in Agenda for Change pay bands 1 and 2.

Regarding new staff, we considered three options:

1. Moving all staff to a 6% rate.
2. Giving staff in pay bands 1 and 2 a 5% 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 thereafter 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.

We welcome your views on the options 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 $6^2/_3$ years, between ten and 20 years the maximum is ten years and below ten 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. The Public Sector Review of Ill-health Retirement in 2000 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 other Schemes are implementing such an approach.

We do not believe the NHS Pension Scheme can 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. We recommend that a partnership review of sickness and ill health arrangements should be carried out by NHS Employers, the employers' organisation for the NHS in England, which will help the Pension Review determine this aspect of Pension Scheme design.

We welcome your views on 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. It is noteworthy that there is a strong consensus across NHS and private sector employers and staff representatives that Scheme access should be broadened. The Review partners understand that issues of the coverage of public sector Schemes overall may be subject to wider debate.

We would welcome your views on the consensus across NHS and private sector employers and staff representatives that Scheme coverage should be extended for both the new and existing Schemes. Views may also inform the wider debate on public service Scheme coverage.

We cannot afford all the improvements or changes outlined above, and any recommendations will be subject to Government agreement, but we recommend that the highest priorities are:

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

We welcome your views on this.

Existing members

Pension benefits earned after 2013 will only be payable in full at 65. However, the Government has 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. 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.

However, we believe that extending the protection period beyond 2013 would make the raising of the NPA to 65 more palatable to existing NHS staff. We are seeking views on the possible extension of the protection period for NHS staff by a further three to five years (to between 2016 and 2018). However, because the protection period arrangements are an issue that spans all public sector Schemes the Review recognised that any decisions will be made in the light of issues across the public sector.

We seek views on the possible extension of protection by three to five years.

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%, using the published early retirement factors to reflect the fact that they have been taken before the new normal pension age (NPA) 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 continued 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 at 60, she will be able to take the benefits she built up to 2013 in full but the 15 years' service after 2013 will be reduced by around 27%. 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.

Members with special retirement rights

There is a group of NHS staff who have special retirement rights and a normal pension age (NPA) 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 in 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, ten years, rather than five). We recommend that staff with special retirement rights are given indefinite protection and allowed to keep their rights as they currently stand. Management side representatives recognise that what is decided for these groups will need to be set in the context of other special status groups outside the NHS and establish a position that is defensible for other staff doing the same or similar jobs.

We welcome views on the recommendation that protection for special class groups be maintained.

Moving to the new Pension Scheme

We are committed to offering choice to existing members and propose that staff are given the opportunity to transfer their existing membership in the current Scheme into the new Scheme. Based on an expected year-for-year transfer value, 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 Pension Scheme would remain in the current Scheme, building their pension until the protection period ends. The existing Scheme would need to be amended slightly due to forthcoming legislation, such as same-sex civil registration partners and age discrimination legislation.

The Review partners have discussed a potential package of improvements for existing staff that is broadly cost-neutral using the costing assumptions adopted for the Review and that 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 Review is proposing the following:

- the option to give up part of your pension for increased tax-free lump sums
- the provision of late retirement factors to improve retention

- the removal of current service limits that restrict members to 40 years service at age 60. This will remove a disincentive for long serving staff to work longer. For MHOs, this would only apply when they reached 40 years of actual service
- the 5% rate currently paid by manual staff should be extended to all staff with pay equal or below the top of 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 remarriage
- standardising payment of survivor pensions after death in service at salary rate for six months
- changing childrens' pension 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 also apply to existing staff as well as to staff in a new Scheme. The proposed pension purchase 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 a revised 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.

Staff side partners 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.

We want to know your views on the options for existing members who choose to transfer to the new Scheme. We would also welcome views on the package of improvements. These are set out in Secion 9 in the full consultation document.

We welcome views on transition, including the options set out for moving to a new Scheme.

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.

We welcome your view on the options for rejoiners.

Retrospection

The Review accepted that it would not be possible to give existing members with unmarried partners (that is, those who are not married or with a civil partnership) entitlement to survivor pensions in respect of service before they move to the new Scheme. We recognise the strength of feeling on this issue. However, this would be a costly move and opposes the long-standing 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. We recommend 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 will, however, be costly for the individuals.

We welcome views on the retrospection issue.

Understanding your pension

Feedback throughout the Review process constantly highlighted the lack of understanding about the 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 NHS Pensions Agency (NHSPA) website will provide a ready reckoner to provide basic information on the impact of protection, value of a $^{1}/_{60}$ Scheme and CARE arrangements.

We welcome your views on how changes might be better communicated both locally and centrally.

We also welcome suggestions on a number of administrative and employer issues:

- **the approach to training and development and the drawing up of literature in support of the Scheme**
- **given the number of employers (11,500), of which the majority are GP practices, ways to improve the data accuracy and updating of records**
- **the role of the NHSPA in implementing the changes in pension arrangements**
- **the implications of the changes in the Pension Scheme for NHS employers**
- **the recommendation that the Pension Scheme should change the description of the employment groups to reflect widely used NHS staff categories.**

Next steps

We want to hear views, from both individuals and organisations, on the proposals contained in this document. You can feed your opinions into the Review process by:

- completing the response form in the centre pages of this document and returning the form to NHS Pension Scheme Project Team, NHS Employers, 29 Bressenden Place, London SW1E 5DD
- completing the response form online at www.nhsemployers.org
- participating in the series of events in England and Wales being held by the Review partners in January 2005.

We need to receive all responses by 11 April 2005.

Further information

A full technical consultation document, including a detailed breakdown of options and costs, is available from the NHS Employers website at **www.nhsemployers.org** or by request from the NHS Pension Scheme Project Team, NHS Employers, 29 Bressenden Place, London SW1E 5DD or nhspensionreview@nhsemployers.org

Tools such as questions and answers, case studies and a glossary to help employers answer questions that colleagues and staff may have are available on the NHS Employers website.

Ready reckoners, which provide basic information about the current $^{1}/_{80}$ Scheme and the effect of protection after 2013, $^{1}/_{60}$ and CARE will also be available on the NHS Employers website at **www.nhsemployers.org**

If you have any queries on current pension entitlements or questions about the current Pension Scheme, please contact the NHS Pensions Agency at Hesketh House, 200–220 Broadway, Fleetwood, FY7 8LG.

Contact us

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E-mail enquiries@nhsemployers.org
NHS Employers
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