

# 60 not 65



Gail Cartmail

Dear Amicus NHS member

Our public sector pensions are under attack and Amicus is at the forefront of the campaign to defend our member's wages in retirement.

As well as proposals to raise the NHS normal retirement age from 60 to 65 the government's public service pension consultation also includes a suggested move away from the final salary scheme to an arguably less beneficial career average earnings scheme.

We believe that the changes will not only be financially detrimental to our members in the NHS but will also, we believe, have a devastating impact on the delivery and recruitment and retention needs of key public services.

The proposed changes will also negatively impact on our more than Amicus' 25,000 members who work in local authorities, higher education and government departments some of whom already experience very low pay.

Included in Amicus' Summary Guide to the NHS Pension Scheme Review is an outline of the proposals designed to show how these changes might affect you. We have also included a draft summary response to the government's review document. If you have any comments on what more might be included in the Amicus response to the Review, please contact Amicus pensions officer, Bryan Freake on [bryan.freake@amicustheunion.org](mailto:bryan.freake@amicustheunion.org) or at Amicus, 40 Bermondsey Street, London SE1 3UD.

Members wishing to make their own responses to the consultation can do so directly. The NHS website [www.nhsemployers.org](http://www.nhsemployers.org) has a response form and more detailed information on the Review.

Formal responses to the consultation are due by the 10th April 2005. In the meantime Amicus will be holding a Public Services Pension Summit in London on Monday 7th February 2005. At the Summit Amicus Public Services Committees will discuss the impact of the government's proposals and finalise plans for the TUC's Day of Action on Friday 18th February, which will involve as many of our public sector members as possible forming delegations locally to lobby their constituency MPs.

If all our campaigning efforts fail and the government move to implement these pension changes, we will not fail to support you and all our public sector members in whatever action you decide to take to defend your final salary pensions and retirement ages.

Gail Cartmail

Amicus' National Officer for the Health Sector

# Amicus Summary Guide to the NHS Pension Scheme Review

## What is happening when and to whom?

<b><u>When</u></b>	<b><u>Existing Members</u></b>	<b><u>New Employees</u></b>
<b>Now</b>	Existing Members in Existing Scheme	Can join Existing Scheme
<b>Until April 2005</b>	Consultation on Pension Review proposals	
<b>April 2006</b>	Scheme closes to New Employees	New Scheme for New Employees
	Scheme continues for Existing Members	
	No change in Pension Age	Higher pension age of 65
	Benefit changes Package (1)	Benefit changes Package (2)
<b>2007/8</b>	Option offered to switch to New Scheme for the future and with conversion of past service rights to new scheme basis	(New Scheme continues)
<b>2013</b>	Higher pension age of 65 for all benefits earned after 2013	(New Scheme continues)
	Further benefit changes Package (3) or a switch to the New Scheme for future service	
	Proposal for 'Special Class' members to retain current pension age and not receive benefit changes Package (3)	

# Key elements in the benefit changes packages referenced in the above table

## Package (1) Existing members from April 2006

Described on pages 13-14 of the short Review Document and Chapter 9 and Annex G of the main Review Document – including :-

- the option of a higher lump sum (with lower pension) at retirement
- a boost to pensions first drawn after the normal or average pension age at the time they were earned
- new pension protection if you step-down to a lesser job
- pension rights for same sex partners (back to 1988) if a civil partnership is registered

## Package 2 – New members after April 2006

Described on pages 3-10 of the short Review Document and Chapter 8 and Annex C of the main Review Document – including:-

- higher accrual (pension build up) either on a 1/60 final salary or an equivalent Career Revalued Earnings (CARE) basis
- pension benefits after a member's death for dependant unmarried partners
- choice to take all benefits as pension or to take a much higher lump sum (but with reduced pension) than the current scheme allows
- new flexibilities to combine work and pension

## Package 3 – Additional benefits for Existing members after 2013

Described in (column 2 of) page 14 of the short Review Document and in paras 9.20-5 and Annex G of the main Review document – including :-

- higher accrual (pension build-up) as per Package (20 above)
- pension benefits after a member's death for dependant unmarried partners

# Amicus Briefing on the significance of a higher normal pension age and on Career Revalued Earnings – Two key issues in the NHS Pension Review

## How Does a higher Normal Pension Age affect your pension ?

Your normal pension age is the earliest age you can draw the pension you have earned without it being reduced on account of 'early retirement.'

The proposal to raise the normal pension age to 65 means that if you decided to retire at 60 then the pension you could draw for each of the years when your normal pension age had been 65 would be reduced by about 25%.

It is proposed that the pension you earn in years when your normal pension age is 65 will be greater than when your normal pension age is 60. However, while this means that if you retired at 65 your pension is 6-7% higher for those years, if you retire at 60 the benefit will be 20% less.

It is important to stress that the higher normal pension age will only affect pension earned after the date at which it applies and that it does not stop you from retiring at a lower age as long as you accept the reduced level of pension.

### Existing members

The Government has proposed that the normal pension age remains at 60 until 2013 and then increases to 65 in 2013, but only in respect of pension earned after that date.

There is a modeller on the [www.nhsemployer.org](http://www.nhsemployer.org) website which allows members to quantify how the higher normal pension age will affect their pension (the 'Transition' modeller).

A less sophisticated ready-reckoner, for a person who intended to retire at 60 would work as follows :-

- 1. calculate your total year service to age 60**
  - 2. calculate the number of those years for which your normal pension age was 60**
  - 3. calculate the number of those years for which your normal pension age will be 65**
  - 4. reduce 3. by 20% and add it to 2.**
  - 5. Express 4. as a percentage of 1.**
5. is the percentage your pension will be compared to what it would have been had your normal pension age not changed

# How does a Career Revalued Earnings (CARE) pension compare to a Final Salary pension?

There are two alternative ways of calculating pension and it is proposed that the New NHS Scheme uses one of them.

So CARE could be applied to :-

- New employees joining the Scheme after April 2006
- existing members who choose to transfer into the New Scheme in 2007-8
- existing members after 2013 if it is decided to switch members then into the New Scheme

Final salary is the current basis of the scheme and your pension is calculated using your best salary in the final three years of your employment.

CARE is a system which calculates pension as an average of the salaries earned in all the years of a person's membership. Past years salaries are revalued in line (it is proposed) with average earnings rises in each year up to the date of leaving before being included in the average.

Final salary gives a relatively better benefit to those whose earnings rise fastest during their careers, as the final salary increases the pension earned for all years of service.

In a CARE system the pension reflects the earnings in all years of employment.

The Review proposal for CARE is based on a higher accrual rate (rate the pension builds up) than would apply for Final Salary. This is intended to put back in the saving that would otherwise result, as for most members final salary is likely to be higher than revalued average salary. The net effect should be that those whose earnings rise little during their career gain at the expense of those whose earnings rise a lot.

This is the theoretical position but in practice the relative outcome depends on whether the higher accrual rate established by the scheme design of a CARE scheme is sufficient to put back in the savings the Scheme makes from moving away from final salary.

Once a CARE scheme is established, for any member, whether they would have done better with Final Salary or CARE depends on how much their salary rises during their career.

At the scheme design and individual level it is difficult to make these judgements due to the coincidence with Agenda for Change, which is expected to increase the extent by which careers and associated salaries rise.

There is a modeller illustrating possible outcomes from CARE and Final Salary on the [www.nhsemployers.org](http://www.nhsemployers.org) website (the future service modeller). This is primarily designed to evaluate the position of new employees and it has limited application to existing employees.

# Amicus Response to the NHS Pension Review Consultation

All members and Groups are invited to submit comments on what should be included in that response.

However, as a result of our participation in the Review process, we have already had some time to give initial consideration as to what the outline of the Amicus response might be.

Below is our initial thinking in summary form on the questions posed in the consultation.

This is intended to facilitate your comments rather than to stifle them.

## Questions posed by the Review

### **Q1 What do we think of a higher normal pension age of 65?**

A Amicus opposes an increase in the pension age because of the demanding and stressful nature of many NHS jobs. We think longer working lives could be achieved by introducing more flexibilities into the pension scheme and by developing a range of policies to support older workers in extending their careers and to achieve a better work/life balance. Raising the pension age may deter people from continuing with careers in the public service. It is a breach of faith in the pension promise made to employees when they commenced their careers in the NHS.

*(see paras 4.15-24 of the Main Review document for a Staff-side view on this)*

### **Q.2 What do we think of the financial background to the Review?**

A. The rise in pension age is a blunt instrument to cut pension costs and we reject the notion that the only basis for making improvements in the pension scheme is on the back of savings derived from a higher pension age. The Government should certainly pay the costs involved in removing discrimination, e.g against members with unmarried partners, and if pension age does rise we would expect affected members to receive compensating benefit improvements to match the value of the benefits they have lost on account of that change.

*(see Annex D to the main Review Document for a staff-side view on this)*

*(Note : Questions 3 –15 and Q.'s 18, 19 & 22 relate to the benefits basis of the proposed New Scheme)*

### **Q.3 Should the accrual rate be improved?**

A. We welcome the improvement proposed in accrual and the new flexibility for members to decide for themselves the division of their benefits between a pension and a lump sum at retirement which is associated with this.

### **Q.4 Should the new Scheme be final salary or CARE ?**

A. While we can understand the theoretical argument in support of a CARE pension in terms of producing pensions which reflect earnings throughout a career, the Review proposals and the examples given do not appear to deliver in practice any advantage to the majority of our members. We are also concerned about moving away from a tried and tested final salary scheme, which members value, to a new scheme whose results are uncertain and which may serve to undermine the benefits to pension from greater career progression resulting from Agenda for Change.

### **Q.5 A wider pensionable pay definition in a CARE scheme ?**

If a CARE scheme were adopted we would strongly support the pensioning of all pay provided that additional employer contributions were made on the additions to present pensionable pay.

### **Q.6 No limits on membership**

A. We would welcome the lifting of the maximum 40-year limit on service which can count for pension.

### **Q.7 Pension compensation for career breaks**

A. Whilst we are sympathetic to the notion of assisting members to make up pension after approved career breaks, we recognise that any generally applicable scheme would have a very high cost. We would support employers being allowed to pay for this on a discretionary basis but only subject to well-defined guidelines and on a transparent basis.

### **Q.8 Provision of partner's pensions and ending cessation of spouse/partners pensions on remarriage?**

A The end of discrimination against members who are not married to their partners is long overdue and we welcome this change – likewise the ending of the practice of stopping spouses pensions where the spouse remarries.

**Q.9 Payment of pension at 100% of salary level for six months after a member's death in service?**

A. Levelling up to give all members this benefit is a welcome move which will assist dependants considerably to get through a difficult time.

**Q.10 Should the spouses pension/widows pension be increased?**

A. We would like to see these pensions increased so that they remained at 50% of the increased level of members' pension proposed in the New Scheme. However, we would give this a lower priority than increasing the members' own pension.

**Q.11 Should children's pensions, once started, be continued to age 23 in all cases?**

A. We would support this proposal as for many young people the distinction between education and work is blurring and present rules are difficult to administer

**Q.12 Should lump sums on death in service be increased?**

A. The present lump sum is low by reference to private sector practice and we would like to see it increased to at least 3 times salary for all members. We would support a premium rate being paid to the estates of members where no spouses/partners pension is payable and also a new flexibility for members to nominate that their lump sum be divide between two or more recipients.

**Q.13 New flexibilities for step-down and draw-down etc?**

A. Members should have the freedom to draw their pension whilst continuing working (and earning further pension in the NHS) and members who reduce their grading in the run-up to retirement should be protected in the same way as those who reduce their hours. The definition of what constitutes final salary should be widened to give greater protection to those whose earnings are reduced in the run-up to retirement.

**Q14. How best should step-down be dealt with?**

A. If people elect to move to a lower graded job in the ten years before normal pension age they should get the same protection as those who presently are moved in that way at their employer's initiative. If members and employers want to maintain pension contribution so that pension is carried on at the previous salary rate, then they should be allowed to do so.

**Q.15. Should abatement continue?**

A. The reduction or stoppage of people's pensions if they return to work in the NHS is a disincentive to recruitment of staff who could continue making a contribution to the NHS – and it should be stopped

**Q.16 A new pension purchase arrangement and/or continuation of added-years**

A. The proposed pension purchase arrangement is a good idea but we would like to see it running alongside a more flexible added years arrangement rather than replacing it.

**Q.17 Should a money purchase AVC continue to be offered?**

A. We see no reason not to continue this option and would have no objection to a single provider, provided they offered a choice of investments which included access to external fund managers.

**Q.18 Practitioner (GPs) pensions?**

A. The special arrangements for GPs should continue.

**Q.19 Employee contribution rates?**

A. We would support the continuation of the 5% /6% differential but with the lower rate paid by all staff with salaries up to a salary level equal to the top of Agenda for Change pay band 2.

**Q.20 Sickness and ill health arrangements?**

We support the proposal for a separate review as management of ill health extends far wider than the question of ill health pensions. We are opposed to a two-tier ill health pension benefit as we believe it would reduce the average amounts of pension being paid without increasing the numbers of people who will qualify for benefits.

**Q.21 Should scheme coverage be extended ?**

Eligibility should be extended to people who are doing NHS work rather than being limited to those employed by NHS employers.

**Q.22 Should the priorities for benefit improvements in the New Scheme be improving the accrual rate, partner's pensions and end-career flexibilities?**

- A. We accept that these are the priority area for benefit improvements, though a higher priority would be to maintain a normal pension age of 60.

*(Note ; Questions 23-9 relate to the position of existing members)*

**Q.23 Should 'protection' (deferral of the increase in normal pension age to 2013) be extended by 3-5years?**

- A. We believe that protection should be extended indefinitely i.e that all existing members should retain their current pension age. Any extension beyond 2013 would in this light be a welcome development.

**Q.24 Should the protection for Special Class groups be maintained indefinitely?**

- A. When special class status was ended for new entrants in 1995 we believe undertakings were given that the rights of these closed groups would be maintained for their lifetime. This position should now be honoured.

**Q.25 Option to transfer to the New Scheme?**

- A. If a New Scheme/Old Scheme approach is adopted, then members must be given the right to choose to transfer to the New Scheme. The one year for one year basis of transfer does not give members full value for the rights they are giving up and so it should be increased. An option to join the New Scheme for future service only should also be available.

**Q.26 Improvements offered in April 2006 to Existing Members**

- A. We would support all the improvements proposed but believe that further changes should be made notably to give partners pensions for all service to all members with dependant unmarried partners, to calculate the pensions of widowers by reference to all of a female members service and to extend all the flexibilities in terms of draw-down (etc) as are to be offered to members of the New Scheme.

In particular members who reach age 60 and who have protected rights based on a normal pension age of 60 should be allowed to draw those pensions without reduction whether or not they continue to work after age 60 in the NHS.

**Q.27 What should happen in 2013 ?**

- A. Neither of the two options proposed in the Review is satisfactory. Either members would be left with two different pensions in the New and Existing Schemes, which are subject to different terms, or they would remain in a modified Existing Scheme, so requiring different schemes for Existing and New Members to be administered permanently. A better position would result from dropping the New Scheme concept and; if normal pension age increased to have that as a special term in the Scheme associated with a higher accrual rate. All other benefit changes should be common to all members, whenever they joined.

On the option of modifying the Existing Scheme in 2013, we would support the identified priorities for benefit improvements i.e improved accrual rate and partners pensions but would argue that flexibilities to draw pre-2013 benefits should be given on the same basis as the flexibilities accorded to members of the New Scheme.

*(Note – see Staff-side view in paras 9.9 and 9.25 of the main Review Document).*

**Q.28 Options for rejoiners after New Scheme commences?**

- A. Anyone who has been a member of the existing scheme and who re-joins before 2013 should be given an option as to whether they resume membership on existing scheme terms or switch to New Scheme terms.

**Q.29 Retrospection for partners and widowers pensions**

- A. We believe that these benefits should be provided at no additional cost to the member. The option to back-purchase these rights is giving members the option to pay for unfair discrimination against them to be ended. It does not end discrimination it just converts it into a different form.

**Q.30 How can communication about the scheme be improved?**

- A. Efforts made by the Agency are to be welcomed and accelerated progress towards automatic provision of annual benefit statements would make a huge difference to members' understanding. Employers at local level must put more resources into ensuring that the information resources and expertise they provide are brought up to best practice standards.

**Q.31 - 36 Administrative and employer issues**