

No 540 – 3rd August 2006

Future of NHS Pension scheme secured by new deal

A deal negotiated between the trades unions and the Employers has secured the future of final salary pensions for NHS Staff. The Amicus Health Sector National Committee voted to endorse the new proposals which are now being consulted upon and commended our negotiators on securing a good deal in difficult circumstances.

Please read the attached document for further details.

Future of NHS Pension scheme secured by new deal

A deal negotiated between the trades unions and the Employers has secured the future of final salary pensions for NHS Staff. The Amicus Health Sector National Committee voted to endorse the new proposals which are now being consulted upon and commended our negotiators on securing a good deal in difficult circumstances.

The Review Process

The future of the NHS Scheme has been under Review for the past three years in a partnership process initiated by the Department of Health, who have maintained a close interest in the proceedings. It was recognised by all that the Scheme needed to adjust to meet the needs of a changing workforce and to take advantage of new flexibilities opened up by changes in pension tax legislation.

The first stage of the Review was blighted by the attempt by the Government to force through an increase in the normal pension age to 65 for all staff apart from those close to retirement. A cross public sector deal orchestrated by the TUC secured a historic compromise which secured the maintenance of the current normal pension age for all existing staff whilst providing for new staff after a future date to have a normal retirement age of 65. Importantly that deal also established that a half of the net savings from raising the pension age could be re-cycled into the Scheme and that future changes should be negotiated. This has set the scene for negotiations over the last nine months which have resulted in the new deal.

The negotiations have been played out against a difficult background. There are strong upward pressures on the cost of the Scheme stemming from its members living longer and from pay reform. The Government has been under strong pressure to demonstrate that it is

If you have any question arising from this edition of Reps Direct please contact your Regional Officer.

controlling the rising cost of public sector pensions in the face of an evidently widening gap in the quality of public sector and private sector provision. In the private sector, regrettably many final salary schemes have been substantially downgraded and closed to new employees. In the negotiations the employers made a strong push to move away from final salary provision and to substitute a Career Average Earnings Scheme explicitly intended to reduce the overall quality and cost of future pensions.

The agreement ensures that Final salary pensions continue for all staff

A key aspect of the new deal is that it secures final salary pensions for both existing and new staff. Existing members retain the current structure of a 1/80 pension and an additional 3/80 of salary lump sum for each year of service. New members will simply get a 1/60 pension (one third bigger than 1/80) but no additional lump sum. The overall value to new members is about 6% higher and this reflects partial compensation for their higher pension age.

The existing 1/80 pension and 3/80 lump sum is termed the Existing Scheme and the 1/60 pension arrangement for new starters is termed the New Scheme. Staff who have a career break of over five years will be required to return to the New Scheme. There is a big question mark over whether this particular requirement is discriminatory and it has been agreed that its impact will be monitored going forwards with a view to addressing any discrimination issue which is demonstrated.

Option to take more benefit as tax-free cash

All members will be able to choose to take higher amounts of tax free cash at retirement at the expense of reducing their pension, taking advantage of new pension tax flexibility. Each pound of pension surrendered will give a member £12 of tax free cash. For existing members they will be able to increase their current standard 3/80 lump sum by about 75%.

Pensions for unmarried partners

The new deal also achieves our long-standing objective of opening the door to allow all unmarried partners the chance of getting a dependants pension. At present only married partners and, of late, registered civil (same sex) partners can qualify. In future provided members make a nomination and the nominated partner is financially inter-dependent then they will be able to receive a dependants pension. For existing members these pensions will be back-dated so that they are based on all service after 1988.

New Flexibilities around retirement

The New Scheme will incorporate some important new flexibilities for staff to ease transition from work into retirement. For example, it will provide a basis to protect pension value for all staff who step down their responsibilities in the run-up to retirement and it will allow staff to draw their pension whilst carrying on working and accruing further pension. Unfortunately it has not been possible to extend these flexibilities directly to members of the Existing Scheme as the cost would be much higher due to their lower normal pension age. However, all Existing staff will be given an opportunity to transfer to the New Scheme and for those who are planning to work on beyond age 60 this could be a beneficial option.

Pay-related contribution rates

There is a price to be paid to secure this deal on benefits and that comes in the form of a proposal to raise the overall level of employee contributions. For the majority of members, with salaries in the range of £15,000 - £61,000 (AfC 9-48), the increase is of 0.5% of pay taking the contribution rate to 6.5%. All those earning less than £15,000 will only pay 5%, the rate previously reserved for staff graded pre AfC as Manual staff. New higher rates are introduced for higher paid staff – 7.5% for AfC staff paid above the maximum of Grade 8c and 8.5% for all other NHS staff paid over £100,000 a year.

This new tiered contribution structure is intended to align members' contributions more fairly to the value they get out of a final salary scheme. By its nature this delivers the best benefits to those whose salaries rise most during their careers. It is also about trying to keep the Scheme affordable for all staff while raising some extra income.

Sharing the cost of the scheme going forwards

The proposals also involve a cap being placed on the employer contribution going forward, basically keeping it at the current level of 14% of pay. This is apart of a new framework involving a sharing of the future risks and costs of the scheme.

The Government has agreed to bear the financial risks of the scheme in the sense of underwriting the cost of the current level of benefits. The staff will bear the cost if the benefits of the scheme increase in value e.g because members live longer or because pensions are increased due to pay rising faster than expected (4% a year).

The risk of the benefits increasing in value is limited, however, by the changing membership of the scheme going forward. In future years there will be fewer and fewer members in the Special Classes and fewer and fewer on the slightly more costly Existing Scheme terms. This will offset against cost pressures from members living longer.

No one can know exactly what the Scheme will cost going forward but all the estimates we have suggest that the newly established contribution rates will cover the cost for the next ten years at least. Our confidence in this is demonstrated by the proposals also involving arrangements to share any savings if costs prove to be significantly lower than expected.

Future valuations of the Scheme will be overseen by a joint governance arrangement. If in the longer term costs do rise, that pertain to the Staff share of the costs, then consideration will be given to whether to increase member contributions or reduce benefits. It was felt that this was a risk worth taking to secure the future of the final salary Scheme.

The outcome of the consultation will be considered by the Review Group at the end of the year and a report made to the Health Service Ministers. A final decision will then be made on the exact proposals to be implemented.

More information

This article has only described the main changes involved in the Review. There are many smaller changes. A copy of the full proposals can be accessed via www.nhsemployers.org

Timescale for implementation

The targets are for the New Scheme to commence at some time in later 2007, and for the changes to the Existing Scheme to be implemented in April 2008, with Existing Scheme members being given an option to switch to New Scheme terms at some time after that.

This proposal maintains a final salary scheme for the future for both existing and new NHS employees. It maintains the current benefits structure for existing staff, with some small but significant improvements. While new staff will have a higher normal pension age they will, if they work to 65, achieve significantly higher benefits than would members of the Existing Scheme. There is a price to be paid for this in terms of a slight overall increase in member contributions but that increase has been distributed in line with employees incomes which makes the Scheme overall much fairer.

Employer Consultation on the Proposals

The NHS employers have laid out the following timetable for consultation

- * September – consultation begins - each employees payslip will contain a 4 page explanatory letter of the pensions review
- * Employees may visit the employers website at www.nhsemployers.org to access the proposal in detail.
- * Comments are to be invited.
- * End of November consultation finishes
- * Implementation – sometime 2007

Amicus Consultation on the Proposals

Following endorsement of the proposals at the Health Sector National Committee, it is essential that every member has an opportunity to be briefed on and understand the proposals

- All Amicus full time health service officials are to be fully briefed on the proposals.
- This will be cascaded to all Amicus Health Service Representatives by the Officials.
- Representatives are to hold consultation meetings for their constituencies.
- Amicus is inviting a response from members who have a specific point or view via e-mail to colin.adkins@amicustheunion.org. We would ask that these are kept specific and brief and of a non polemical nature.
- Pertinent points will be fed back into the consultation process formally.

Recruitment Opportunity

In view of the importance of this proposal, it is anticipated that there will be considerable interest from non members. I would be grateful if you would advertise your constituency consultation meeting as widely as possible and indicate these meetings will be open to all members and those non members who wish to join Amicus prior to the commencement of your meeting.