

# **The NHS Pension Scheme in Scotland**

## **Review of Ill-health Retirement Benefits**

**Joint proposals from  
NHS Employers and the NHS Trade Unions**



# Review of Ill-health Retirement Benefits

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## 1. Background

You will be aware of the current reforms to the NHS Pension Scheme and to the recently announced changes which will take effect from 1 April 2008. The reforms to the NHS scheme, along with those to other public pension schemes were initiated by the UK Government's Green paper published in 2002 and the follow-up Green paper of June 2003 entitled "Action on Occupational Pension Schemes". Changes were required to reflect the current social climate and to ensure the financial sustainability of public pension schemes. It was recognised for instance that the NHS workforce includes people who have different working patterns which may also include career breaks. It was agreed that more flexibilities were required in the scheme such as a voluntary step down whilst preserving the level of pay for pension purposes and being able to work past the normal retirement age but with rewards for doing so. It is acknowledged that people are now living longer. This means that pensions are paid for longer and was a significant reason for the normal pension age being raised to age 65. However, protection of a normal pension age 60 was afforded to those currently in the scheme.

(For more information on the changes and improved benefits please see the reforms page of the Scottish Public Pensions Agency (SPPA) website at [www.sppa.gov.uk](http://www.sppa.gov.uk)). All these changes were agreed in partnership following a consultation process which ended in January 2007.

Ill-health retirement benefits are also an integral part of the NHS Pension Scheme; these are benefits which may be paid early to members and some former members who retire early because they are unable to carry out their duties due to permanent ill-health. The ill-health benefits were, however, excluded from the original conclusions of the scheme review as it was considered that they needed to be looked at by a broader group of stakeholders and in a more holistic way. The conclusions in this document are therefore the result of a separate review which has been held in parallel to the main scheme review and the results of this consultation will be included in the regulations for the main scheme.

The introduction of a normal retirement age of 65 for new members of the NHS Pension Scheme from 1 April 2008 recognises the need for the scheme to adapt in response to people living longer and healthier lives. As the likelihood of ill-health increases with age such an increase in the normal retirement age will undoubtedly create more ill-health retirement cost pressures in the scheme and these will need to be addressed to ensure a sustainable solution is created for the future. NHSScotland will, however, continue to recognise the important principle of compensating those who are unable to continue to work due to ill-health.

## 2. The Review Process

This NHS Pension Scheme review will bring about the first fundamental change since its inception in 1948 and the ill-health retirement benefits package is an integral part of these arrangements.

SPensiR<sup>1</sup> have considered the pension proposals arising from the review of ill-health and are happy to endorse the proposals which form the basis of this consultation.

The closing date for the consultation is 14 December 2007. Once responses have been received and considered by SPensiR they will make their final recommendations to the Scottish Ministers. The proposals will then form part of the recommendations for the Pension Reform Changes as a whole and will be introduced at the same time, i.e. 1 April 2008.

### 3. The Current Scheme Arrangements

Pension schemes normally provide some form of compensation for employees who suffer permanent incapacity or ill-health before their normal pension age. Most public and private sector schemes, will pay an immediate pension and a lump sum. The current NHS Pension Scheme, like most occupational pension schemes, provides earlier access to pension benefits to compensate individual members who because of ill-health are permanently incapable of carrying out their duties and have prematurely to end their occupation.

Ill-health retirement is quite different from the early payment of a pension on normal age grounds, in that an application must be accompanied by medical evidence before ill-health retirement can be considered. There is, however, no requirement for pension schemes to include rules, which allow members early access to a pension, at any age, on the grounds of ill-health or incapacity. That said, scheme provisions, which allow the early access of benefits on the grounds of ill-health is a matter of good practice in most schemes.

#### Current NHS Pension Scheme Provisions

The NHS Pension Scheme provisions relating to ill-health are set out in the Scheme's Regulations as follows:

"A member who retires from pensionable employment because of physical or mental infirmity that makes him permanently incapable of efficiently discharging the duties of that employment shall be entitled to a pension if he has at least 2 years' qualifying service....".

Benefits may be paid early to NHS Pension Scheme members and some former members who retire early because they are unable to carry out their duties due to permanent ill-health as set out above.

If an application is accepted by the scheme medical advisers, members will qualify for early payment of Scheme benefits if they have at least 2 years membership, or have chosen to leave the Scheme, and are still working in the NHS, and have at least 2 years' deferred membership.

The amount of extra membership an individual applicant receives will depend on how long they have been a member of the Scheme and their age at Retirement. A member must also have at

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<sup>1</sup> SPensiR, the Scottish Pension Review Group, is a partnership group with representatives from NHS employers, trade unions, professional organisations and the Scottish Government including SPPA.

least 5 years membership in order to receive any extra service on which their pension will be calculated. There are different arrangements in place for deferred members.

The principle is that the enhancement should help to compensate for loss of further opportunity for pension accrual, which has been prematurely curtailed through ill-health. This is why the Scheme's Regulations insist on the measure of permanence, i.e. permanently incapable of efficiently discharging the duties of that employment. Once awarded, an ill-health pension cannot be withdrawn<sup>2</sup>, although members returning to NHS employment under age 60 will be subject to the Scheme's rules on abatement.

More information on the current ill-health arrangements are contained in Annex B.

### **Early Payment of Preserved Benefits**

In addition to the ill-health retirement provisions, the current NHS Pension Scheme Regulations provide for the early payment of benefits where a person becomes permanently incapable of regular employment<sup>3</sup>. SPPA will make this decision based on the advice of their Medical Advisors. Preserved benefits can also be paid early from age 50 on an actuarially reduced basis<sup>4</sup>.

### **Serious Ill-Health**

Existing rules allow for the exchange of an ill-health retirement pension and lump sum, including any enhancements, for a one-off lump-sum payment. This procedure is described as commutation and normally applies to members who become terminally ill. Dependants are still entitled to a pension in full.

### **Existing NHS Pension Scheme Flexibilities**

The NHS Pension Scheme provides for voluntary early retirement from age 50 with actuarially reduced benefits (rising to 55 for certain members from 2010 reflecting changes to tax legislation). It is also open to Employers to fund the payment so the employee receives a non-actuarially reduced pension. Those who do take an actuarially reduced pension are able to return to work within the NHS and retain, without reduction, their entire pension and re-employment earnings. Also, in order to retain experience and skills, employers can apply to SPPA for protection, which would allow an individual to 'step down' to a lower-paid job without significant detriment to their pension<sup>5</sup>. Staff in conjunction with their employer can also consider 'wind down' which is an alternative to retiring. This allows staff to reduce their hours in their current post in ways that do not reduce pension benefits.

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<sup>2</sup> The Scheme's 1980 regulations imposed certain restrictions and allowed for the review of ill-health pensions for those under age 60 and withdraw payment where the person had become capable of resuming employment. This provision was revoked in 1987 on the grounds that the provision was inoperable.

<sup>3</sup> This provision allows ex members with preserved benefits to access these benefits earlier than the normal pension age of 60 provided they are incapable of any employment.

<sup>4</sup> Members must be aged 50 but benefits are actuarially reduced to reflect the fact that they will be paid longer. From age 50 members will retain around 60% of the pension which would have been payable at age 60 and around 75% of the tax-free lump-sum payment.

<sup>5</sup> Protecting pension rights already earned at the higher salary and allowing staff to step down to a lower-paid job.

### **Medical Services**

The provision of medical services for the NHS Pension Scheme in Scotland is tendered for by the Scottish Public Pensions Agency (SPPA) and is currently provided by CAPITA Health Solutions who hold the contract until September 2008. The remit of the medical services is to provide the SPPA with medical advice on applications for the early payment of retirement benefits on the grounds of ill-health, based on the statutory requirements of The National Health Service Superannuation Scheme (Scotland) Regulations 1995. This will continue as part of the new scheme arrangements.

Their function is to review medical evidence (arranging for medical assessments in relation to appropriate applications) and to give a medical opinion on application to the SPPA with regard to the criterion for ill-health retirement as outlined in the scheme regulations. The regulations determine that the member must be retiring from pensionable employment because of physical or mental infirmity that makes them permanently incapable of efficiently discharging the duties of their employment.

Applications made may sometimes lack robust medical evidence and may not meet the requirement of permanency under the Scheme Regulations. Applicants can, however, re-apply under the review and appeal procedures with the support of further medical evidence.

### **NHS Injury Benefits Scheme**

The NHS Injury Benefits Scheme will also be reviewed in the near future, however, as the Scheme is governed by separate regulations to the main scheme there is no urgency for changes to be made at this stage. In brief the Injury Benefits Scheme makes payments to NHS staff who become ill or are injured as a result of their work in the NHS and is available to all NHS staff not just pension scheme members. A separate consultation on this Scheme will be held in 2008.

## **4. Proposals for Future Ill-health Retirement Provisions**

The terms of reference for the review require that consideration is given to:

- differential provision for those that are capable of undertaking employment elsewhere;
- adjustments so that pension accrual takes place more evenly.

Proposed changes to the current arrangements fall into the following categories:

### **The introduction of tiered arrangements**

SPensiR propose the creation of tiered arrangements for the determination of ill-health retirement benefits, recognising the different levels of benefits for members should be dependent on the severity of their condition and the likelihood of them being able to work again.

The underlying rationale of a two-tier ill-health retirement pension arrangement is that it is better focused and targeted compared to the present “one size fits all” arrangement. At present, enhanced retirement benefits are awarded for life, regardless of future health and employment prospects. Introducing a two-tier arrangement offers the NHS Scheme a better range of ill-health benefits that are more in tune with the needs of the individual at the time his/her employment has been terminated and recognises the vocational nature of NHS employment.

The agreed structure to this tiered arrangement is set out in the table below:

|                   | <b>Definition</b>   |
|-------------------|---|
| <b>Lower-tier</b> | Applicant assessed as being unable to do own job. Entitlement to benefits where –<br>The Scottish Ministers are satisfied that the member is suffering from physical or mental infirmity that makes him permanently incapable of efficiently discharging the duties of that employment. |
| <b>Upper-tier</b> | Applicant assessed as being unable to do any regular employment. Entitlement to benefits where –<br>The Scottish Ministers are satisfied that the member is suffering from physical or mental infirmity that makes the member permanently incapable of engaging in regular employment.  |

The definition of ‘regular employment’ will include:

- That the applicant could not undertake any substantial employment to the same extent as the applicant was undertaking as a scheme member, either whole time or part time. They could not reasonably be expected to do work across a general field of employment, bearing in mind their physical and mental capacity, and their training and experience to date.
- A recognition that the ability to undertake some therapeutic work can assist scheme members in managing their condition. This will allow members to earn up to the lower earnings limit for national insurance contributions (currently £4,524).

#### **Questions:**

Do you support the creation of a tiered approach for the determination of ill-health benefits?

Do you agree with the proposed definitions? (see questions 2-3 of response form at Annex E)

### Calculation of Benefits for Ill-health Retirements

It is proposed that the accrual rate of benefits within each of the tiers will be as follows:

|                   | Entitlement  |
|-------------------|--|
| <b>Lower-tier</b> | Accrued service without any actuarial reduction; no enhancement provided.  |
| <b>Upper-tier</b> | <p>In addition to the lower-tier award, members will receive an enhancement of two-thirds prospective service*.</p> <p>The enhancement for a part time member will be in the proportion that their service at whole time equivalent length bears to their service at calendar length.</p> <p>For members that remain in the existing scheme (amended), a minimum enhancement of four years will apply. This arrangement will remain in place until 2016 when it shall be reviewed.</p> |

\*The service enhancement is capped at full prospective service to age 60 for existing scheme members and age 65 for new entrants.

### Rationale for Minimum Enhancement

SPensiR are proposing this transitional arrangement for existing members for the upper-tier as it recognises that the largest group accessing ill-health retirement benefits are in the 56-60 age group and that these individuals are moving away from the current option of a 6<sup>2</sup>/<sub>3</sub> years enhancement to their pension entitlement. Annex C shows examples of when the minimum enhancement would and would not apply.

#### Questions:

Do you support the proposed level of benefits?

Do you support the minimum enhancement of 4 years for staff in the current scheme?

(Questions 4-6 of response form at Annex E)

### Case studies

See Annex D for a range of illustrative case studies which explore the impact of the above proposals.

### Movement between tiers

#### Movement from the lower-tier to the upper-tier

SPensiR propose that the Scheme's medical advisors will have the option of deferring a decision on entitlement to an upper-tier pension through a review process. In these instances the medical advisor will be satisfied that the member meets the lower-tier criteria, but that the nature of the condition makes it difficult to assess the longer-term outcome in terms of ability to permanently undertake any regular employment. Such a review would consider the condition(s) upon which the original decision was made and would be informed by further medical evidence. Neither subsequent conditions, nor deterioration related to ageing would be taken into account.

The review would take place within a limited time period of no more than three years after approval of a lower-tier pension. This is a decision that would be made at the time of initial application.

Any decision to award an upper-tier pension would take effect from the date of review. Pensioners will also have the opportunity to bring forward the date of review if they feel that they have sufficient medical evidence.

#### Movement from upper-tier to lower-tier

SPensiR propose that those in receipt of upper-tier pensions will be able to undertake some employment to support rehabilitation. However, earnings from employment may impact upon pension entitlement. The pensioner will be subject to an annual earnings declaration. This process would continue until age 60 for those who remain members of the current scheme and 65 for new entrants and members who transfer to the new scheme. Members affected would also be subject to abatement.

Two separate approaches are necessary in this arrangement, depending upon the nature of the employer.

Members in receipt of upper-tier benefits who return to substantive employment **outside of the NHS**. In these circumstances:

- A pensioner has the ability to earn up to the equivalent of the National Insurance Lower Earnings Limit (£4,524 in tax year 2007/8) each tax year without losing access to an upper-tier pension;
- If pensioners exceed the Lower Earnings Limit they will move down to lower-tier entitlements at the point the limit is exceeded;
- Pensioners will be afforded one opportunity before NPA to re-access upper-tier benefits if it subsequently proves that they are unable to continue in that employment. This would be restricted to a period of 12 months from the first date of re-employment;
- The pensioner would have to apply to the SPPA within this 12 month period to re-access upper-tier entitlements;
- To support a reinstatement of upper-tier benefits an individual must have supplied medical evidence. The purpose of the medical evidence is to confirm that the individual is unable to continue in that employment.

Members in receipt of the upper-tier benefits who return to substantive employment **within the NHS**. Different arrangements would apply in these circumstances:

- Where a pensioner earns below the Lower Earnings Limit in any tax year from any NHS employment, entitlement to upper-tier benefits will only remain for 12 months from the start of that employment. After that time any NHS earnings will lead to a reduction to a lower-tier pension;

- If pensioners exceed the Lower Earnings Limit during this 12 month period they will move to a lower-tier pension at the point the limit is exceeded;
- Pensioners will be afforded one opportunity before Normal Pension Age to re-access or maintain an upper-tier pension if it subsequently proves that they are unable to continue in that employment. This would be restricted to a period of 12 months from the first date of re-employment;
- The pensioner would have to apply to the SPPA within this 12 month period to re-access or maintain an upper-tier pension;
- To support a reinstatement or continuation of an upper-tier pension an individual must have supplied medical evidence. The purpose of the medical evidence is to confirm that the individual is unable to continue in that employment.

### **Rules Governing Abatement**

SPensiR propose to follow the same rules as contained in the main NHS Pension Scheme with regard to abatement. This allows for the abatement of the unearned proportion of any benefits accessed by members, i.e. any benefit above what could be accessed via voluntary early retirement arrangements (where the member's pension and lump sum are reduced by actuarial factors) on return to work within the NHS. Such abatement will apply up to age 60 for those who remain members of the current scheme and 65 for new entrants and existing members who transfer to the new scheme.

### **Criteria for Reviewing Entitlements**

SPensiR propose that those in receipt of upper-tier awards will be subject to an annual earnings declaration to ensure that they have not earned any more than the Lower Earnings Limit for national insurance contributions (currently £4,524) in order to retain their current entitlement. This process would continue until age 60 for those who remain members of the current scheme and 65 for new entrants and existing members who transfer to the new scheme. If members exceed this they move to the lower-tier pension whilst earning above the NI threshold.

For those in receipt of benefits SPensiR are proposing a requirement to notify the SPPA of annual earnings. A failure to do so may result in the reduction of benefit entitlements until such time as the situation is clarified.

SPensiR considered the appropriateness of introducing a medical review once an individual is in receipt of any ill-health retirement benefits, to ensure their condition warrants an ongoing entitlement to benefits. This approach was not supported because of the complexity involved in making a decision and the administrative overheads required to undertake such a process. It is likely that the costs of undertaking such reviews would be greater than the sum of any savings made.

**Questions:**

Do you support a review of entitlements based on the Lower Earnings Limit for members receiving upper-tier awards ?

Do you agree that the medical advisor should be able to defer a decision on awarding the upper-tier in appropriate cases?

Do you agree that if a member requests that the review be brought forward they should forego the opportunity for a further review, other than through the appeals process?

Do you agree that there should be a "one off" opportunity for members to return to employment knowing that they could regain their upper-tier benefit if subsequently they were unable to work during the first 12 months of starting work?

(Questions 7- 10 of the response form at Annex E)

**Terminal Illness**

SPensiR propose that where a member becomes terminally ill and medical evidence is available to support this they will continue to have access to a lump sum calculated on upper-tier benefits. Under new pension scheme arrangements members will be able to commute their entire pension for a one off lump sum calculated using their maximum retirement lump sum and 5 times their post commutation retirement pension.

**Death in Service**

SPensiR propose that death in service survivor pension entitlements will use the upper-tier arrangements for calculating benefits. Benefits will be similarly calculated where death occurs within 12 months of deferment.

**Questions:**

Do you support the proposed method of calculating benefits for terminal illness?

Do you support the proposed method of calculating benefits for death in service?

(Questions 11-12 of the response form at Annex E)

**Treatment of Deferred Members**

SPensiR propose that deferred NHS Pension Scheme members will be able to apply for early payment of preserved benefits as they are able to under the current scheme arrangements. The upper-tier definition that the member cannot undertake any regular employment will apply, but they will only be able to access the lower-tier benefits of accrued service only, with no actuarial reduction.

**Questions:**

Do you support the proposed method of calculating benefits for deferred benefit members?

Do you agree that lower-tier benefits should be paid to deferred members?

(Questions 13-14 of the response form at Annex E)

### **Special Classes Status**

SPensiR propose that current arrangements for those members with special classes status in the current scheme (1995 scheme regulations) will continue to apply to members who have not had a break in scheme membership of 5 years or more. Permanently incapable for these members will continue to mean up to age 60 and enhancements will continue to be calculated up to age 60. Special Classes status is restricted to current scheme members only and has been removed from the new NHS Pension Scheme arrangements. Those with special classes status who transfer into the new scheme will therefore lose their right to retire at age 55.

### **Transition to New Ill-health Arrangements**

SPensiR propose that applications for ill-health retirement received by SPPA on or after 1 April 2008 will be treated under the new arrangements.

## **5. How to Respond to this Consultation**

The consultation period on these proposals runs until 14 December 2007. If you would like to respond to this consultation as an organisation or an individual you can do so by completing and returning the response form at annex E to the address below. In addition, you can e-mail your opinions to [nhspensionsreform@scotland.gsi.gov.uk](mailto:nhspensionsreform@scotland.gsi.gov.uk)

Mrs S Liptrott  
Policy Branch  
Scottish Public Pensions Agency  
7 Tweedside Park  
Tweedbank  
Galashiels  
TD1 3TE

## **6. Next Steps**

Following the consultation SPensiR will consider carefully the responses before making recommendations to the Scottish Ministers who will make the final decision. Once a decision is made regulations will be drawn up and incorporated with the regulations for the rest of the scheme reforms. These will then be laid before the Scottish Parliament which will then enable the implementation of the new arrangements.

## Annex A

### Glossary of Terms

#### Abatement

Within the NHS Pension Scheme, the method of restricting the amount of pension NHS pensioners can secure if they return to NHS employment. NHS Pension Scheme abatement rules set a maximum threshold of pension and re-employment earnings for re-employed NHS pensioners. This uses the pensionable pay figure at retirement which is compared with the pension and re-employment earnings. If pension and re-employment earnings exceed pensionable pay at retirement, then the pension is reduced pound for pound.

#### Accrual

The method of building pension benefits. In the current NHS Pension Scheme the current accrual rate is 1/80th of pensionable pay for each year of membership. In the new scheme the accrual rate will be 1/60th of pensionable pay for each year of membership.

For practitioners in the current scheme the accrual rate is 1.4% of dynamised remuneration and 1.87% in the new scheme.

#### Actuarial

A calculation or method agreed by a qualified actuary.

#### Actuarial Adjustment

The adjustment made to a pension where it is expected to be paid for a longer or shorter time than normal. The most common actuarial adjustment is a reduction when a member retires before a pension scheme's NPA to allow for the fact that the pension will be paid for longer than expected.

#### Actuarial Reduction

A reduction to retirement benefits which are paid before the NPA. In the NHS Pension Scheme, from the age of 50 (the current minimum pension age) members can apply for the early payment of retirement benefits; this is described as voluntary early retirement (VER). Where benefits are paid before the age of 60 (the current NPA), they are actuarially reduced to reflect the fact that they will be paid longer than planned for. The factors used in working out the reduction are produced by the Scheme Actuary and mean that currently benefits paid from age 50 will reduce by around 5% a year. For example, VER at 50 means a member will retain around 60% of the pension and 75% of the lump sum that would have been paid at 60.

### **Career Average Scheme**

A defined benefit scheme which pays a pension based on the average of a member's pensionable earnings throughout their whole career. For example, the NHS Scheme does this for self-employed members of the scheme such as GPs.

### **Commutation**

Giving up part of the pension in exchange for a lump sum, i.e. scheme members 'commute' part of their pension. Many occupational schemes have a single accrual rate with rules which specify how much lump sum can be given up. For example, if the commutation factor was 12:1, members would get £12 cash in the lump sum payment for every £1 per year of pension given up in exchange.

### **Deferred Member**

A member who has left the NHS scheme and whose benefits are preserved in that scheme until normal pension age.

### **Draw Down**

Draw down allows members to apply for part of their retirement benefits without stopping work. Drawn down will be available from the minimum pension age in the new scheme. Draw down will not be available in the current NHS Pension Scheme.

### **Enhance**

The method of increasing pension benefits. For example, in the NHS Pension Scheme retirement benefits paid on the grounds of ill-health may be 'enhanced' to increase membership to the amount the member would have secured had they been able to work to the NPA. Retirement benefits may also be enhanced where they are taken later than at the NPA.

### **Final Salary**

The level of earnings in a period close to retirement, used to calculate retirement benefits. For example, the NHS Pension Scheme uses the best of the last three years' pensionable pay for members, other than self-employed contractors such as GPs.

### **Life Expectancy**

The estimated likely length of life at a particular age. May be based on the general population or take account of individual factors such as lifestyle and illness.

### **Lump Sum**

A tax-free one-off payment. For example, in the current NHS Pension Scheme a tax-free lump sum is paid at retirement equal to three times the annual pension.

### **Member**

An employee who is a member of a pension scheme.

### **Mental Health Officer (MHO)**

A person who qualified for the special retirement rights granted to specified NHS staff who worked in the mental health field. MHO status includes accelerated accrual of benefits after 20 years in this type of employment, i.e. two years' membership for every year actually worked, and a NPA of 55. These special retirement rights were withdrawn for new entrants after 31 March 1995.

### **Normal Pension Age (NPA)**

The age at which a pension scheme assumes its members will normally apply for a retirement pension. Most schemes allow members to retire earlier or later if they wish.

### **Partner**

Someone who you are married to, have entered into a Civil Partnership with, or with whom you have an exclusive and long-term committed relationship, in which you are financially dependent or interdependent.

### **Pension**

The regular payment made by a pension scheme to its retired members. For example, the current NHS Pension Scheme provides regular monthly payments to retired members which provide an annual income based currently on 1/80th of their final salary (best of the last three years) or, for self-employed members such as GPs, their career average salary.

### **Pensionable Pay**

This is the pay which is used by a pension scheme to determine contributions to the scheme and pay-related benefits from the scheme. In the current NHS Pension Scheme pensionable pay can be less than actual pay because over-time payments and some allowances are not normally pensionable.

### **Pension Value**

The value of an NHS pension is the total of pension and any lump sum payable. In the new scheme up to 25% of the pension payable can be optionally commuted (i.e. taken) as a lump sum. In the existing scheme a 3x pension lump sum is routinely payable but it will be possible to increase this to up to 25% of the total pension value.

### **Serious Ill-health Commutation**

The facility for members with severely reduced life expectancy to withdraw the full value of their pension benefits as a lump sum.

### **Special Class Status**

NHS Pension Scheme members who have special retirement rights. These members include nurses, midwives, health visitors and physiotherapists in post before 1 April 1995, who have a normal pension age of 55, and mental health officers (MHOs) after achieving 20 years.

### **SPensiR**

The Scottish Pensions Review Group whose members are taken from NHS managers, Trade Unions, NHS Professional organisations, the Scottish Government and SPPA.

### **SPPA**

The Scottish Public Pensions Agency who are the administrators for the NHS Pension Scheme in Scotland.

### **Step Down**

To move to a job that is less onerous or with less responsibility. Normally means a reduction in pensionable pay.

### **Survivor Pension**

A pension payable to a partner as defined in this glossary.

### **Voluntary Early Retirement (VER)**

The application for retirement benefits before the NPA. In the NHS Pension Scheme the current minimum pension age is 50 and members can apply for retirement benefits with an actuarial reduction or with no reduction if the employer agrees to meet the cost.

### **Wind Down**

To wind down to final retirement normally means that a member may reduce his or her hours for a period before final retirement. In the NHS Pension Scheme this would typically involve members moving from full-time to part-time employment.

## Annex B

### Current Ill-health Arrangements

If you become too ill to continue working in your present job until you reach normal retirement age, you may be able to retire early. An application to retire early because of ill-health should be made to your employer. The application must be supported by medical evidence and you may have to have a medical examination by SPPA's medical advisers. They will decide if the criteria for ill-health retirement are satisfied. If your application is successful, a pension and a tax-free lump sum will be payable.

### Member Currently Contributing

Benefits may be paid early to scheme members who retire early because they cannot carry out their duties due to permanent ill-health.

You may qualify for early payment of benefits if you are permanently incapable of efficiently discharging the duties of your employment and you have at least 2 years service in the scheme.

If you are a scheme member and have at least 5 years service when you have to retire, your service may be increased to improve the benefit you get.

The amount of extra service you get will depend on how long you have been a member of the scheme and your age at retirement.

If you have between 5 and 10 years service your service will be doubled, subject to the maximum you could have had by age 65.

If you have more than 10 years service, then either:

- your service will be increased to 20 years, subject to the maximum you could have had by age 65; or

- your service will be increased by 6 years 243 days, subject to the maximum you could have had by age 60.

We will use the method which gives you the bigger pension. Total length of service cannot be increased to more than 40 years.

### Member with Preserved Benefits

Your benefits may be paid early with no enhancement if you no longer work in the NHS if:

- you have at least 2 years preserved service; and

- you are permanently incapable of doing regular work.

### **Member Who Opted Out With Preserved Benefits**

Your benefits may also be paid early with no enhancement if you currently work in the NHS but opted out from the pension scheme if:

- you have at least 2 years' service; and
- you are permanently incapable of carrying out the duties of your employment.

### **Part-time Enhancement**

If a member with pensionable service in part-time employment becomes entitled to an ill-health pension.

- (a) the member's pensionable service in part-time employment will count at its full length for the purpose of calculating enhancement.
- (b) the enhancement will be based on the whole-time equivalent of the member's pensionable service in respect of part-time employment and the enhancement will be calculated as a proportion of the whole-time equivalent for the part-time hours worked.

If you are seriously ill, you may be able to have a bigger lump sum instead of a pension. You can apply for a bigger lump sum if:

- you are currently a member of the scheme; or
- you are so ill that you are not expected to live longer than one year.

Your dependants will still get any pension they are entitled to in full.

## Annex C

### Illustrative Example of 4 Year Underpin

| Retires at age  | 35           | 40           | 45           | 50           | 55  |
|---|--------------|--------------|--------------|--------------|---|
| Actual service  | 10           | 15           | 20           | 25           | 30  |
| Years to NPA (60)<br>(prospective service)                    | 25           | 20           | 15           | 10           | 5   |
| 2/3 prospective service                                       | 16.6         | 13.3         | 10           | 6.6          | 3.3   |
| 4 year underpin   | Not required | Not required | Not required | Not required | Yes<br>guaranteed<br>minimum<br>4 years<br>enhancement<br>applied |
| Total service upon<br>which the pension<br>will be calculated | 26.6         | 28.3         | 30           | 31.6         | 34  |

Normal pension age (NPA), for the purposes of this illustration, is set at age 60 as per current scheme arrangements. New joiners to the scheme (plus existing scheme members who transfer to the new arrangements) post April 2008 will have a NPA of age 65 and lose their rights to access this 4 year underpin.

## **Annex D**

### **Illustrative Case Studies on Tiered Ill-health Retirement**

#### **Lower-tier**

For those in the lower-tier the calculation is very straightforward. The pension will be based on the number of years service at the point at which the member retires on the grounds of ill-health. Members will not be penalised for taking these pension benefits before normal pension age.

#### **Upper-tier**

For those in the upper-tier the calculation is a bit more complex. The pension will be calculated on the number of years service a member has accrued plus two-thirds of the number of years left before normal pension age, which is known as prospective service.

Access to benefits in either tier is only authorised if a member meets the minimum 2 years' pension scheme membership requirement.

#### **Case Studies**

To help compare the impact of the proposals upon existing scheme members a selection of illustrative examples are outlined below,

Each of the scenarios set out the benefits a member could access if granted a pension under the current arrangements and are compared against the benefits available under the new proposals. (Details of the enhancements available in the current scheme are listed in Annex B.) A range of scenarios based on age, length of service and salary are illustrated.

**Case Study 1:**

**Hamish is a senior manager and an existing scheme member on AfC band 8b paid £45,000. He is aged 55 and has 18 years service in the NHS Pension Scheme.**

|                                     |  |
|-------------------------------------|--|
| <b>Current arrangements</b>         | If Hamish was to receive enhanced early retirement under the current arrangements he would get an additional service entitlement of 5 years as the service enhancement is capped at full prospective service to age 60. This provides Hamish with a total service entitlement of 23 years (18 + 5). This would provide a pension of 23/80th of £45,000 = <b>£12,937.50</b> and a lump sum of <b>£38,812.50</b> (3 x annual pension). |
| <b>New arrangements: upper-tier</b> | If Hamish met the upper-tier criteria he would receive a service enhancement of 2/3rd prospective service to age 60 (5 years to 60: 2/3rd = 3.3 years so the minimum 4 year enhancement applies). This would provide a pension of 22/80th of £45,000 = <b>£12,375</b> and a lump sum of <b>£37,125</b> (3 x annual pension).   |
| <b>New arrangements: lower-tier</b> | If Hamish was to receive the lower-tier of ill-health retirement then he would receive an unenhanced pension of 18/80th of £45,000 = <b>£10,125</b> and a lump sum of <b>£30,375</b> (3 x annual pension).<br><br>There would be no actuarial reduction of the pension based on age. This represents an enhancement of the pension and is an extra cost to the scheme.   |

**Case Study 2:**

**Yvonne is a nurse and an existing scheme member on AfC band 7 paid £31,000. She is aged 45 and has 15 years service in the NHS Pension Scheme.**

|                                     |  |
|-------------------------------------|--|
| <b>Current arrangements</b>         | If Yvonne was to receive enhanced early retirement under the current arrangements she would get an additional service entitlement of $6\frac{2}{3}$ years. This provides Yvonne with a total service entitlement of 21.67 years (15 + $6\frac{2}{3}$ ). This would provide a pension of 21.67/80th of £31,000 = <b>£8,397</b> and a lump sum of <b>£25,191</b> (3 x annual pension). |
| <b>New arrangements: upper-tier</b> | If Yvonne met the upper-tier criteria she would receive a service enhancement of 2/3rd prospective service to age 60 (15 years to 60: 2/3rd = 10 years). This would provide a pension of 25/80th of £31,000 = <b>£9,687</b> and a lump sum of <b>£29,062</b> (3 x annual pension).   |
| <b>New arrangements: lower-tier</b> | If Yvonne was to receive the lower-tier of ill-health retirement then she would receive an unenhanced pension of 15/80th of £31,000 = <b>£5,812</b> and a lump sum of <b>£17,437</b> (3 x annual pension).<br><br>There would be no actuarial reduction of the pension based on age. This represents an enhancement of the pension and is an extra cost to the scheme.               |

**Case Study 3:**

Steve is a community paramedic on AfC band 6 paid £26,700, is aged 50 and has 11 years service in the NHS Pension Scheme.

|                                     |  |
|-------------------------------------|--|
| <b>Current arrangements</b>         | If Steve was to receive enhanced early retirement under the current arrangements – Additional service entitlements of 9 years. This provides Steve with a total service entitlement of 20 years (11 + 9). This would provide a pension of 20/80th of £26,700 = <b>£6675</b> and a lump sum of <b>£20025</b> (3 x annual pension).                                      |
| <b>New arrangements: upper-tier</b> | If Steve met the upper-tier criteria he would receive an enhanced early retirement of 2/3rd prospective service to age 60 (10 years to 60: 2/3rd = 6.67 years). This would provide a pension of 17.67/80th of £26,700 = <b>£5897.36</b> and a lump sum of <b>£17692.08</b> (3 x annual pension).   |
| <b>New arrangements: lower-tier</b> | If Steve was to receive the lower-tier of ill-health retirement, he would receive an unenhanced pension of 11/80th of £26,700 = <b>£3,671.25</b> and a lump sum of <b>£11,013.75</b> (3 x annual pension).<br><br>There would be no actuarial reduction of the pension based on age. This represents an enhancement of the pension and is an extra cost to the scheme. |

**Case Study 4:**

Eileen is a technician on AfC band 5 paid £24,800, is aged 41 and has 11 years service in the NHS Pension Scheme.

|                                     |   |
|-------------------------------------|---|
| <b>Current arrangements</b>         | If Eileen was to receive enhanced early retirement under the current arrangements – Additional service entitlements of 9 years. This provides Eileen with a total service entitlement of 20 years (11 + 9). This would provide a pension of 20/80th of £24,800 = <b>£6200</b> and a lump sum of <b>£18600</b> (3 x annual pension).                                     |
| <b>New arrangements: upper-tier</b> | If Eileen met the upper-tier criteria she would receive an enhanced early retirement of 2/3rd prospective service to age 60 (19 years to 60: 2/3rd = 12.67 years). This would provide a pension of 23.67/80th of £24,800 = <b>£7,337</b> and a lump sum of <b>£22,013</b> (3 x annual pension).   |
| <b>New arrangements: lower-tier</b> | If Eileen was to receive the lower-tier of ill-health retirement, then she would receive an unenhanced pension of 11/80th of £24,800 = <b>£3,410</b> and a lump sum of <b>£10,230</b> (3 x annual pension).<br><br>There would be no actuarial reduction of the pension based on age. This represents an enhancement of the pension and is an extra cost to the scheme. |

## Annex E

### Ill-health Consultation Response Form

Name and address of organisation or individual

.....

.....

Job title .....

Please tick this box if you wish this information to remain confidential

|   |               |
|---|---------------|
| <b>Question 1.</b> (Page 5)<br>Do you support the creation of a tiered approach for the determination of ill-health benefits?   | <b>yes/no</b> |
| <b>Question 2.</b> (Page 5)<br>Do you agree with the proposed definition for the lower-tier?  | <b>yes/no</b> |
| <b>Question 3.</b> (Page 5)<br>Do you agree with the proposed definition for the upper-tier?  | <b>yes/no</b> |
| <b>Question 4.</b> (Page 6)<br>Do you support the proposed level of benefits in the lower-tier?   | <b>yes/no</b> |
| <b>Question 5.</b> (Page 6)<br>Do you support the proposed level of benefits in the upper-tier?   | <b>yes/no</b> |
| <b>Question 6.</b> (Page 6)<br>Do you support the minimum enhancement of 4 years in the upper-tier?   | <b>yes/no</b> |
| <b>Question 7.</b> (Page 9)<br>Do you support a review of entitlements based on the Lower Earnings Limit for members receiving upper-tier awards?   | <b>yes/no</b> |
| <b>Question 8.</b> (Page 9)<br>Do you agree that the medical advisor should be able to defer a decision on awarding the upper-tier in appropriate cases?  | <b>yes/no</b> |
| <b>Question 9.</b> (Page 9)<br>Do you agree that if a member requests that the review be brought forward they should forego the opportunity for a further review, other than through the appeals process? | <b>yes/no</b> |

|   |                      |
|---|----------------------|
| <p><b>Question 10.</b> (Page 9)<br/>Do you agree that there should be a “one-off” opportunity for members to return to employment knowing that they could regain their upper-tier benefit if subsequently they were unable to work during the first 12 months of starting work?</p> | <p><b>yes/no</b></p> |
| <p><b>Question 11.</b> (Page 9)<br/>Do you support the proposed method of calculating benefits for terminal illness?</p>  | <p><b>yes/no</b></p> |
| <p><b>Question 12.</b> (Page 9)<br/>Do you support the proposed method of calculating benefits for death in service?</p>  | <p><b>yes/no</b></p> |
| <p><b>Question 13.</b> (Page 9)<br/>Do you support the proposed method of calculating benefits for Deferred Benefit members?</p>  | <p><b>yes/no</b></p> |
| <p><b>Question 14.</b> (Page 9)<br/>Do you agree that lower-tier benefits should be paid to deferred members?</p>   | <p><b>yes/no</b></p> |
| <p><b>Question 15.</b><br/>Any other comments?</p>  |                      |

Please return this form by 14 December 2007 to:

Mrs S Liptrott  
Policy Branch  
Scottish Public Pensions Agency  
7 Tweedside Park  
Tweedbank  
Galashiels  
TD1 3TE

Or alternatively e-mail your response to  
[nhsensionsreform@scotland.gsi.gov.uk](mailto:nhsensionsreform@scotland.gsi.gov.uk)



