

NHS Scheme Changes from 1 April 2008

Q. What is changing in the NHS Pension Scheme?

A. We are updating the current scheme for existing staff and introducing a new scheme for new members. Existing members will keep many of the existing benefits including a normal pension age (NPA) of 60 (55 for those with special class status) as well as getting new benefits. The new pension scheme has an NPA of 65 which offers more flexibility for staff to step down in the run up to retirement. Both schemes will have identical new contribution rates which will depend on how much an individual earns.

Q. Why is it changing?

A. The Scheme had to change to:

- take account of new legislation on age discrimination, introduced in 2006
- meet the government's proposal to change the normal pension age to 65 for new members for some public service schemes, such as the teachers and civil service schemes
- incorporate changes to the tax regime which offered new pension flexibilities

More importantly, we wanted to ensure that the Scheme meets the needs of today's NHS and its staff, and is sustainable in the longer term.

Q. When will the changes come into effect?

A. The changes will come into effect from 1 April 2008.

Q. What are the new contribution rates?

We have introduced new contribution rates but how much individuals pay depends on how much they earn. Under the new arrangements, there are four tiers, starting with the first tier that covers those staff with annual pensionable pay (full time equivalent) of up to £19,165 whose contribution rate will be 5%, and going up to the fourth tier for those earning £100,000 or more, whose new contribution rate will be 8.5%. The new rates will come into effect on 1 April 2008. For full details of all the new rates see the main web page for pension reforms.

Q. Why are higher paid staff paying more?

In a final salary scheme, staff with bigger salary increases particularly in their final years of working, benefit more, when compared to other staff that have a steadier pay progression throughout their career. This is because their final salary pension is based on the best of their final years of working but over their career, their contributions have been lower when compared to the final benefits received. We believe that the tiered contribution rates, where those on higher salaries contribute more, are a fairer way to fund benefits and future costs.

Q. Who agreed the changes?

A. The changes were developed and agreed in partnership with NHS employers and the NHS trade unions through SPensiR (Scottish Pensions Review Group)

Q. How will the changes benefit staff?

A. The main changes offer more flexibility, particularly in the Scheme for new members that offers the ability to step down and draw part of their pension whilst still working. This will enable them to step down to a less demanding role in the run-up to retirement, until they can draw their normal pension at 65.

Q. Is there a summary of all the changes available?

A. Yes, full details are contained in the Agreement document however we have prepared a comparison document which compares the main benefits in each scheme Both these documents can be accessed from links on the main NHS reforms web page. .

Q. Why will there be a different final salary scheme for new entrants?

A. We are expecting people to work differently in the run up to retirement when the NPA (normal retirement age) for new entrants is 65. In the new scheme, final salary will be based on the best three consecutive years in the last 10 years of working, to give people more flexibility on how and when they retire, for example step down to a less demanding role before retirement.

Q. How much is the scheme likely to cost employers?

A. Employers' contribution will be around 14% and from 2016, employers' contribution will be capped at this rate, unless there are specifically higher costs in Scotland.

Q. I have left the pension scheme and my benefits are currently preserved. How will I be affected if I return to NHS employment?

A. We have prepared a leaflet for deferred members explaining the options and this can be accessed from the link on the main NHS pensions reform web site.

Q. I will be retiring soon how will the changes affect me?

A. We have prepared a leaflet entitled "Retiring soon?" explaining your options and this can be accessed from the link on the main NHS pensions reform web site.

Q. What is happening to the added years facility in the existing Scheme?

A. On 1 April 2008, the facility to buy added years in the existing Scheme will be replaced by a new option to buy extra amounts of pension. Any member, who wants to buy added years in the old Scheme before 1 April 2008, needs to apply by 31 March 2008.

Q. How will staff know about the changes?

Information for staff about the changes is available on this website and we have also produced a leaflet for staff which will be distributed to all NHS, GP practice and direction body employers for distribution with November payslips.

Choices

Q. Will existing members be able to switch to the new scheme for new entrants and when will this be?

A. Yes. We will be giving existing members the chance to transfer their existing pension fund to the new scheme, an option exercise will be run in 2009.

Q. If I am in the existing scheme why would I want to change to the new scheme?

A. Many people in the NHS already work past the current retirement age and if it is your intention to work to 65 you will accrue pension quicker in the new scheme. As the definition in the new scheme of final salary will be the average of the best three consecutive years in the last ten working years it will also offer more flexibility around retirement allowing you to draw your pension and to continue working or to take a lower paid, less responsible job without it affecting your pension. If you wish a partner pension base on all your service you will need to move to the new scheme.

Q. How will I know which is the best scheme for me?

A. Before the choice exercise takes place members will be given up to date information on their benefits in the current scheme and possible benefits if they change to the new scheme. **Please note however that neither Employers, Trade Unions nor SPPA are qualified to act as financial advisors.**

Q. What other help will be available to me at the time of the choice exercise?

A. It is proposed that there will be calculators and modellers on the SPPA website.

New Scheme

Q. How will the flexible option to take part of pension whilst still working operate in practice.

A. After reaching 55, staff will be able to draw down part of their pension with actuarial reduction before the normal pension age, whilst continuing to work and build up more pension. Staff will be able to draw down their pension up to three times but all remaining pension must be taken in the final drawdown. In addition the following conditions will apply:

- each drawdown taken will be subject to a minimum of 20% of years accrued in whole years or one year whichever is greater.
- the minimum amount of pre commutation pension that can be drawn down in value after any actuarial reduction will be £750.
- minimum pensionable service that can be left in the scheme after draw down is 20% of total pensionable service before draw down or one year, whichever is greater
- will have to be taken in conjunction with a reduction of at least 10% of pensionable pay.

A. Q. What benefit will it be to me if I want to work past NPA 65?

In the new scheme if you continue working after NPA 65 any additional service will be actuarially enhanced to take account of you receiving your pension later.

Q. How is this scheme better for today's typical member of staff - e. g. women taking career breaks?

A. The existing scheme will continue to protect women who take career breaks of up to five years, enabling them to return to the existing pension scheme. In the scheme for new entrants, women who take a career break, can now opt to work longer and build up more pension benefits later in their career.

Current Scheme

Q. Will there be any flexibilities around retirement for current scheme members?

A. Yes, Members of the current scheme will have access to new, RPI linked, voluntary pay protection arrangements on step down, based on the current pension protection provisions after compulsory step down. Voluntary protection of final pensionable pay can take effect at any age after MPA. Voluntary protected pay is intended primarily to operate when a member takes on a less demanding post in the run up to retirement and will be on the following basis:

- the reduction in basic pensionable pay will have to be at least 10%
- the higher pay level must have lasted for at least one year ;
- the step down pay level will need to be sustained for at least a year after step down.
- final pensionable pay will be protected for service up to the point of step down
- members will only be able to make one step down, although this will be kept under review as part of the governance arrangements in the light of experience.
- the step down will be certified by the employer;

Q. If I take my pension from the current scheme will I be able to rejoin the new scheme if I return to work in the NHS?

A. Members who choose to remain in the current scheme will not be able to rejoin either of the pension arrangements once they have taken their pension benefits.

Q. If I return to NHS employment after taking my benefits will I be penalised?

A. For those members, who return to NHS employment there will continue to be no abatement of pension benefits after 60 if they return to (non pensionable) employment. Those members who take voluntary early retirement with an actuarial reduction will not be subject to abatement as at present. The application of abatement to ill health retirement will be addressed as part of the separate review but will need to be consistent with this.

Contribution Rates for both schemes

Q. What are the changes to contribution rates?

A. How much you contribute will depend on how much you earn (your pensionable pay) or the equivalent amount if you work part time. We believe that this is the fairest way to fund costs. The proposed new rates are outlined in the table below.

Your contribution rate will depend on your pensionable pay, or the equivalent amount if you work part time. In 2008/2009 your contribution rate will be based on your pensionable earnings for 2007/2008.

Contribution rates structure

Annual Pensionable Pay (Full time equivalent)	Current Contribution	New Contribution
Up to £19,682	5% (manuals) or 6%	5%
£19,683 - £65,002 (Linked to AfC pay point 17)	5% (manuals) 6%	6.5%
£65,003 - £102,499 (Linked to AfC pay point 49)	6%	7.5%
£102,500 plus	6%	8.5%

Notes:

(1) Staff classified as manual staff currently pay 5%.

(2) Earnings above the earnings cap are currently not pensionable for staff who joined the pension scheme after 1 June 1989 or rejoined after that date with a break of more than 12 months.

(3) revaluation of all thresholds is linked to AfC pay point revaluation. Threshold for tier 2 is linked to AfC pay point 17. Threshold for tier 3 is linked to AfC pay point 49

(4). The rates which will be used for practitioners from 1 April 2008 will be based on the latest available data.

Q. I work part-time how do I know what my contribution rate will be?

A. You will need to know the whole time equivalent of your current pensionable pay and match this against the pensionable pay on the above table. The proposed new contribution rates are exactly the same for both existing members of the NHS Pension Scheme and new entrants

Q. If I get a pay rise which takes me into a higher contribution rate, will that not offset any gain from the raise?

A. The pay rates which determine contributions rates will be uplifted at the same time as pay itself. The contribution bands have been set up as such that, even where someone is promoted or receives an incremental raise, their additional pay will be more than they pay in extra contributions.

Service and earnings limits

Q. Will the limit on service be abolished in the future?

A. No, From 1 April 2008 HM Treasury have set a limit on a total of 45 years service in all public pension schemes.

Q I am 59 and although currently paying contributions, as I already have 40 years service I am not building any further pension at this time. When the restriction is lifted will this year count towards my pension?

A. There will be no retrospection for this rule and only service in excess of the current limits built up after 1 April 2008 will count towards pension.

Q I understand that the scheme earnings limit will be abolished from 1 April 2008 will this apply in retrospect?

A. Currently all members who joined the pension scheme after 1 June 1989 or who joined before but have had a break in service of more than 12 months have their benefits capped. The current earnings cap is £108,600. From 1 April 2008, this cap will be removed for future service. Service before 1 April 2008 that was subject to the cap will continue to be subject to the cap. The cap will continue to rise in line with RPI rounded up to the nearest £600 multiple for now; however, the position will be reviewed on a regular basis.

Employers

What action will employers need to take?

Employers will need to ensure that their payroll systems can operate tiered contribution arrangements from 1 April 2008. Pay roll directors are participating in a sub group of SPensiR to discuss the practicalities around this.

What are employers required to do to support staff?

Employers are legally required to advise staff about any changes to their terms and conditions, including their pension, and there are support materials available on the SPPA website. The SPPA is producing a printed leaflet about the changes that will be sent to employers for distribution with November payslips and they will be contacting pay roll directors and employers about this.

Most staff don't need to do anything in the short term. However, employers will need to support the following staff groups who will need to think about their options now:

- those who are thinking about retiring in the next three years
- those who are leaving the NHS and deferring their pension
- any staff who want to buy added years before it is replaced by the new option to buy added pension - applications for added years need to be in by 31 March 2008 and the contract start date, which is the members' birthday, must be before 31 October 2008