

NHS Pensions proposals: the facts

The Government set out the key terms of an improved pension offer for NHS staff on 20 December 2011. Since then, the Department of Health has held constructive talks with NHS Employers and the NHS Trades Unions to consider the details.

Here are some facts about what will be happening to pensions in the future.

Read the proposals for yourself and use the online calculator to see what they mean for you. The calculator has been developed by an independent pension specialist working with NHS Trades Unions, the Department of Health and NHS Employers. You can enter your details by visiting www.dh.gov.uk/health/2012/02/pension-calculators and following the link.

What are the key facts in the proposals for a new NHS pension scheme?

- The proposed pension scheme will not be introduced before April 2015.
- All pension rights earned in the NHS pension scheme up to that point will be unaffected and based on your final salary when you retire. No-one will lose any pension entitlements that they have already built up.
- If you are within ten years of your pension age you will not be moving to the new scheme and will get the same pension you would have done at your chosen retirement age.
- If you are within thirteen years and five months of normal pension age, your pension is partially protected – so you will remain on the current arrangements for a longer period.
- The new pension scheme from 2015 will continue to provide what is called 'defined scheme related benefits' – this is different to the defined contribution schemes which are now common in the private sector and often more risky.
- Those defined scheme related benefits will be based on your average earnings over the course of your NHS career rather than your final salary.
- The annual rate of pension accrual for the new scheme will be 1/54ths of pensionable earnings each year with no limit to your service – this is the rate at which you build up pension benefits. This is a better accrual rate for your pension than you get at the moment.
- Employee pension contributions – what you pay into your pension – is based on a full-time salary and will increase by an average of 3.2 percentage points over 3 years from April 2012. The 630,000 NHS staff who earn less than £26,557 on a full-time equivalent basis will not pay any extra into their pension in 2012/13 and there will be consultation on the proposals for subsequent years.
- Most NHS Trades Unions and NHS Employers have stated that they believe that this final proposal represents the best that can be achieved through discussions.

How can I work out what this means for me?

Take a look at the new NHS pensions calculator at:
www.dh.gov.uk/health/2012/02/pension-calculators

This will help you assess how the changes will affect you personally in terms of benefits. Most staff will be asked to pay more into their pensions – this is because people are living longer after they retire so they are very likely to receive pension payments for longer.

How a 40 Year Old Band 6 Nurse might be affected

Take a 40 year old band 6 nurse in the middle of the scale. She works full time until she is 60 and would have to work just under 2 years more to get the same pension that she would have had at 60 in the what is known as the ‘1995 scheme’.

If she carried on working full time to the State Pension Age of 67 in the new scheme, she would have a pension 13% higher than would be the case under the 1995 scheme. If she decided to reduce her hours to half time when she turned 60, then she might choose to work a little longer – around 2 years more – to get the same pension as that provided by the 1995 scheme.

At her State Pension Age of 67, she would still get a pension 12% bigger than the 1995 scheme would have delivered for the same working pattern. She will pay slightly higher contributions – initially 1.5% more from 2012/13 (1.2% once tax relief is taken into account).

Your details:

Please enter your date of birth: [dd/mm/yyyy]

Please enter the date you joined the scheme: [dd/mm/yyyy]

Please enter your pay band as at 1 April 2011: [Band 1 to Band 9]

Paypoint: [Point 1 to Point 54]

Your full-time equivalent pensionable pay (only this pay is modelled for pension purposes): [based on your pay band and paypoint]

How many hours do you currently work per week?:
[For example, if you work full time enter 37.5, or if you work 1 day a week enter 7.5]

What is your current scheme?: [1995 section or 2008 section] ?

Service prior to 1/4/2011:
[years and days, full-time equivalent if you are part-time, enter an approximate number if you are unsure]

years ?

days ?

Effect of proposed changes on benefits at retirement

If the proposed changes are made you will have a mixture of benefits from the existing and proposed new scheme at retirement. Your total benefits are shown below.

Normal pension age (NPA) in the proposed scheme: ?

Pension after proposed changes (at NPA): ?

Tax free cash after proposed changes (at NPA): ?

How long do I have to work to get the same pension?

Pension from current scheme (at 60): ?

Retirement age in proposed scheme to get the same pension: ?

In addition to the calculator, there are many more resources to help you assess what the proposals mean for you, including much more detail on all elements of the NHS pension scheme. These are available on the Department of Health (www.dh.gsi.gov.uk/pensions), and NHS Business

Services Authority (www.nhsbsa.nhs.uk/Pensions) websites. Employers can also find information on what the proposals mean for them on the NHS Employers website (www.nhsemployers.org/pensions)

Nurses – some examples

...a 45 year old Band 6 Nurse

Because you are a 45 year old band 6 nurse with special class status and the right to retire at 55, you are fully protected. You will be able to retire at your chosen retirement date on the same pension you would have received before the changes. You will pay slightly higher contributions – initially 1.5% from 2012/13 (1.2% after tax relief).

...a 27 year old Band 5 Nurse under the 2008 Scheme

You currently have a retirement age of 65. If you finish your career on band 6 you may choose to work until you are about 68 to get the same pension that you would have at 65 in the current scheme. You will pay slightly higher contributions - initially 1.5% from 2012/13 (1.2% after tax relief).

...a newly promoted 34 year old Band 7 Nurse

If you work full time until you are 60 you could choose to work around two and a half years more to get the same pension that you would have had at 60 in the 1995 scheme.

If you carried on working full time to your State Pension Age of 68 then you would have a pension 15% higher than you would have in the 1995 scheme. If you chose to reduce your hours to half time at 60, then you would have to work a little longer to get the same pension as in the 1995 scheme at 60 - about 3 years.

At your State Pension Age of 68, you would still get a pension 13% bigger than the 1995 Scheme would have delivered for the same working pattern. You will pay higher contributions – initially 1.5% from 2012/13 (1.2% after tax relief).

Questions and Answers

Will I have to work longer?

- You can make a choice to retire earlier or remain working longer and benefit from both a salary and an improved pension when you retire. You could also reduce your working hours to mix work and retirement. It is flexible – it depends on your individual lifestyle choices and retirement plans. This scheme offers no limit to pensionable service. Currently you can only be in the pension scheme for 45 years.
- If you have more than 13 years and 5 months to go before your Normal Pension Age (NPA), you probably will have to work slightly longer to get the same pension that you would have received at 60. How much

longer depends on how far from your pension age you are. As an approximate guide, a newly promoted full time Band 7 34 year old nurse would have to work around 2 and a half years more.

- No-one will be forced to work longer than they want to – you can still take your NHS pension before your State Pension Age (SPA).
- Your 1995 Scheme benefits will be paid in full at your current Normal Pension Age of 60, but you will have to retire to leave the pension scheme and either take or defer your 2015 scheme benefits. You will not be allowed to rejoin the scheme if you return to work.
- 300,000 staff are in the 2008 scheme and therefore already have a pension age of 65. In 2015, their Normal Pension Age will not increase by more than just 3 years.
- The proposed scheme offers most lower and middle income earners broadly the same level, or in many cases higher, pension upon retirement at their new pension age as they would get under existing arrangements at their current normal pension age.

What is a career average pension and how does it compare with a final salary pension?

In a career average scheme everyone earns the same proportion of their total salary in their pension scheme.

In a final salary scheme, people who have had a number of promotions tend to do better than those who have had a more steady career

In an independent review of all public sector pensions published in March 2011, Lord Hutton said that career average pensions are fairer. Your pension under the new scheme will be based on your salary throughout the rest of your career in public service and not just the *final salary* that you happen to be earning at the time you leave or retire.

Both final salary and career average pensions are defined by the **benefits** they provide. That means you get a guaranteed pension based on the rules of the scheme. Defined **contribution** pensions, common in the private sector, are not guaranteed and depend on the performance of stock markets.

How does Career Average actually work?

For each year of employment you will earn a pension based on your income for that year. When you retire these yearly 'pots' are added together, plus any previous scheme pension, to calculate your retirement pension. In 'final salary' schemes, those who earn less contribute proportionately more, in relation to the pension they go on to receive, than high earners do. That is why 'career average' pensions are fairer.

What are the terms of protection?

All members who have a pension age of 55 or 60 and are within ten years of that age on 1 April 2012 will remain in their current pension arrangements and there will be no need for them to alter their retirement plans as a result of these proposals.

Members who are between ten years and thirteen years and five months away from their current pension age will have tapered protection. This will mean that they will move to the new scheme with a pension age equal to their state pension age at some point between 2015 and 2022. The closer they are to their pension age, the later that date will be. A table is available setting out the change date by age on the Department of Health's website.

If I am not protected, what happens to the pension I have earned until 2015? Will I have to wait until my state pension age to access it?

No. The pension you have earned until 2015 is unaffected and you can access it in full at your current normal pension age, linked to your final salary at the time you retire. If you have a pension age of 55 or 60 depending on which scheme you are in, you will be required, as now, to retire and leave the pension scheme when you take your benefits. This means that you will either have to take your 2015 benefits with a reduction as they are taken early or you will have to leave them in the Scheme until your State Pension Age.

You will be able to come back and work for the NHS without it affecting your pension with your employer's agreement although, for the first month, you can only work two days a week. Members of the special classes will be subject to 'abatment' between the ages of 55 and 60. This means your new salary and pension cannot be worth more than your salary before retirement.

For those who have a pension age of 65 you will be able to take benefits and continue working and building up more pension as this is in the current rules of your scheme.

How is this proposal different from what the Government originally proposed last year?

The original offer from the Government was for a career average scheme with an accrual rate of 1/65th increased in line with average earnings. In earlier discussions, there was consideration of accrual rates between 1/100th and 1/80th. The accrual rate in a defined benefit scheme is the rate at which pension benefits build up for the member. Members get a certain amount for each year of pensionable service.

Following more talks, the Government made a new and better offer. The new scheme now has a higher accrual rate of 1/54th increased in line with the consumer prices index plus 1.5 per cent. In addition, staff within ten years of their pension age will remain in their current pension scheme and others will receive partial protection. The Government has agreed to maintain the Fair Deal for Staff Pensions policy – this means that staff who have transferred out of the NHS can stay in the NHS Scheme. It has also agreed to consider whether NHS Pension Scheme access can be given to staff working for non NHS providers of NHS services, such as social enterprises and independent sector providers.

When will the new arrangements be implemented?

It is our expectation that these changes will come into effect from April 2015. Until then you will continue in your current pension scheme. However, as part

of the proposal, some protection is offered for staff. This will mean some will not have to move to the new pension scheme at all and others will move at a later date.

Additionally, you will receive a note in your February payslip about how your pay might be affected in 2012-13. This follows a consultation last year about increased employee pensions contributions. The specific increases for 2013/14 and 2014/15 have yet to be consulted on, but by 2014/15 there will have been an average increase of 3.2 percentage points before tax relief. However, to protect those on lower wages, in 2012/13 anyone earning up to £26,557 will have no increase to their contributions. Anyone earning between £26,558 and £48,982 will pay an extra 1.5 per cent (1.2 per cent after tax relief) and those earning over £48,983 will pay an increase of 2.4 per cent (1.44 per cent after tax relief).

What would it cost to get a similar defined contribution pension?

If an individual invested £100,000 in an annuity it would deliver a pension of around £2,700 per year at age 65, or £3,000 per year at age 68. These figures are based on market rates available as of 30 January and allow for a 50% spouse's pension, a five-year guarantee and increases in line with Retail Price Index.

Take the example of a nurse who joined the NHS at 23, with a pension of around £20,000 at age 68 - she would have needed to have built up a pension fund of around £660,000 to achieve a similar pension at retirement. This is far beyond the means of most lower and middle income earners. However, as a member of the NHS Pension Scheme, the nurse would have personally contributed around £100,000 over her career in order to receive an annual pension of £20,000. This is significantly below the amount required to secure this level of pension on the open market.

What if I choose to opt out of the NHS Pension Scheme?

You would lose:

- your employer's monthly contribution - currently 14 per cent of your salary
- your death in service benefit (twice your salary) and survivor benefits
- your ill health retirement pension
- future growth to your pension - other than inflation on your current pension

For more information on all aspects of NHS Pensions go to:

- The Department of Health pensions pages at www.dh.gov.uk/pensions
- NHS Employers website www.nhsemployers.org/pensions
- NHSBSA website www.nhsbsa.nhs.uk/Pensions