2nd November 2011

Proposed changes to your pension scheme

This letter updates you about the proposed changes to the NHS Pension Scheme - both the 1995 and 2008 sections.

- In June 2010 the Government commissioned an independent review to look into all public service pensions. This was known as the Hutton Review, and it concluded that current pension arrangements for all public sector schemes, including those for the NHS, need to be reformed.
- This change is quite separate to the Choice Exercise currently concluding across the NHS in March 2012.
- These proposed reforms will not change the fact that the NHS Scheme will remain a very good value pension and therefore an effective way to save for your retirement.
- The Trade Unions are currently in constructive discussions with the Department of Health in relation to the NHS Pension Scheme and with the Treasury and Cabinet Office on central discussions.
- On 2nd November the Government issued a defined benefit pension offer to the Public Sector workforce including the NHS.

WHY CHANGE?

- Reform of pensions is necessary. We are all living longer, will be drawing our pension for longer, and therefore we all need to work for longer, in order to ensure sustainability of our pensions in the long term.

- Whilst the changes in the 2008 scheme go some way to addressing the issue of sustainability they do not go far enough. The Treasury is therefore looking across all public sector pension schemes to ascertain how this can be best achieved.

- Rising life expectancy will also see the state pension age increase gradually – from 65 to 68 by 2046 - in order to maintain the future affordability of state pension provision. It is fair and reasonable that the sustainability of all public service pensions is addressed in the same way.

- The Government has guaranteed that public service pension schemes will remain amongst the best available in the pensions market.

- The current final salary system, retained in the 2008 scheme, does not provide fairness between low and high flyer earners, between public and private sectors or between generations.

WHAT IS NOT CHANGING?

Whenever the final pension reforms are agreed and whatever they are, you will keep the pension and lump sum you have already earned. This is often referred to as "accrued rights" and these will be protected.

- This means that if you are close to retirement, you will see little change to your pension as the bulk of it will be calculated on your current scheme arrangements, rather than any new scheme.

- It also means that whatever your age, if the proposed changes were to come into effect, any pension you have earned until that point will remain the same, including the age at which you can claim it in full. When you retire or leave the scheme, this will be calculated separately from any further pension you build up under the new reformed scheme.

- Those with less than ten years to their pension age will receive additional protection. The Government has set out an intention that this group will see no change in when they can retire, nor any decrease in the amount of pension they receive at Normal Pension Age. Schemes and Trades Unions have been asked to discuss the fairest way of achieving this objective, taking full account of equalities impacts and legislation, while ensuring that costs to the taxpayer in each and every year do not exceed existing forecasts.

WHAT IS PROPOSED TO CHANGE FROM 2012?

The proposal is to increase employee contributions from April 2012. This has been part of a consultation process already and is due for further consultation shortly.

- Employee contributions are the amount of money you pay towards your pension.

- Current NHS employee contribution rates vary between 5.0% and 8.5% (before tax relief) depending on your full time equivalent earnings.

- These proposals mean that those earning up to £15,000 full time equivalent earnings will pay no further increase. This represents 100,000 employees (7.5% of membership) who will pay nothing extra.

- Those earning over £15,000 full time equivalent will pay an increase varying from 0.6% for lower earners, 1.2% for middle earners up to a maximum of 2.4% (before tax relief) for the highest earners.

WHAT IS PROPOSED ONCE THE NEW SCHEME IS INTRODUCED?

- The proposal is that new pension scheme arrangements could be introduced from 2015. Within the discussions between Government and Trade Unions a clear commitment has been made that all pension rights earned in the NHS Pension scheme up to that point will be protected.

- The new scheme will mean your pension entitlement will be separated into two parts. “Part 1” based on your pensions earnings in the current scheme – be that 1995 or 2008 or potentially both for some individuals. “Part 2” based on what you earn in the new pension scheme, under its new rules.

- Where NHS staff have built up “Part 1” entitlements under current arrangements, these will be calculated based on their final salary at retirement, not their earnings at the time the existing scheme is closed and the new pension scheme is introduced.

- The Government has proposed that the accrual rate in the new Career Average Pension scheme will be 1/60th with its value increased in line with earnings whilst staff continue contributing to the scheme. This should mean that most lower and middle income earners will receive broadly the same level of pension upon retirement at their new pension age linked to the State Pension Age as they would get under existing arrangements at their current normal pension age.

- The Government has also announced its intention to provide additional protection for those within ten years of their normal pension age.

- The NHS Pension Scheme will remain a very good value scheme and among the very best available.

HOW WILL THIS COMPARE WITH THE PRIVATE SECTOR?

- The level of pension received by members for the amount contributed will continue to be superior to that available to private sector workers who would look to purchase their pension on the open market via an annuity. An annuity is a contract under which an insurance company agrees to pay a pension to an individual in exchange for a defined sum of money.

- To illustrate, if an individual invested £100,000 in an annuity it would deliver a pension of around £3,300 per year at age 65, or £3,700 per year at age 68. These figures are based on market rates available as of 30 September and allow for a 50% spouse's pension, a five-year guarantee and increases in line with Retail Price Index.

- So taking the example of a nurse, having joined the NHS at 23, with a pension of around £20,000 at age 68 - this would require an individual to invest around £540,000 to achieve a similar return. 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 £85,000 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.

- The NHS Pension scheme therefore still represents an excellent retirement investment for NHS staff. The value is enhanced by the significant contribution made by NHS employers towards an individual's pension – and this will continue. The scheme also provides additional enhancements including death-in-service and ill health benefits.

WHERE CAN YOU FIND OUT MORE?

There is additional information on the following websites including the Government's offer Q&A and further facts. The Department of Health is also developing an online calculator so individual staff can explore how they may be affected by the changes personally:

- DH website at www.dh.gov.uk – all the latest information on pensions will be made available
- HMT Website at www.hm-treasury.gov.uk/tax_pensions_index.htm
- NHS Employers website at www.nhsemployers.org/PayAndContracts/NHSPensionSchemeReview/Pages/NHSPensionScheme.aspx
- Helpline for queries on the current scheme are at: www.nhsbsa.nhs.uk/pensions