



Department
of Health

The NHS Pension Scheme for England & Wales 2015

Update on scheme reforms and contribution rates

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Contents

Introduction	4
1. NHS Pension Scheme for England & Wales 2015.....	6
2. NHS Pension Scheme 1995 & 2008 members entitled to Full or Tapered Protection	11
3. NHS Pension Scheme 1995 & 2008 members moving to the 2015 Scheme (Transitional Protection)	15
4. Member contributions from 1 April 2015	18
5. Working Longer - How the NHS Pension Scheme can support retirement planning.....	20
Annex A - Summary Table of 1995 & 2008 Sections and new 2015 Scheme.....	22
Annex B - Tapered Protection Age Tables.....	23

Introduction

The Government's programme of long-term reforms to public service pension schemes began in March 2011 following acceptance of the recommendations of the Independent Public Service Pensions Commission, chaired by Lord Hutton¹. The Commission's report concluded that "there will need to be comprehensive reform – reforms that can balance the legitimate concerns of taxpayers about the present and future cost of pension commitments in the public sector as well as the wider need to ensure decent levels of retirement income for millions of people who have devoted their working lives in the service of the public".

In March 2012 the Department published a Proposed Final Agreement (PFA) "Reforming the NHS Pension Scheme for England & Wales" which set out the high-level design for a reformed NHS Pension Scheme to be implemented from 1 April 2015. The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual (build up) rate of 1/54th; and a Normal Pension Age equal to the member's State Pension Age, but with options to enable retirement earlier or later than this age.

Since then the detailed scheme rules have been developed which underpin the new scheme design and transitional arrangements. This has been done through discussion with trade union and employer representatives. The legal framework for the reformed pension scheme takes the form of regulations. These are being prepared and will be the subject of a consultation in the autumn of 2014. However, ahead of this, the Department wishes to provide an update setting out the proposals for the detailed design of the 2015 scheme and transitional arrangements for existing members.

This document presents 5 chapters:

- the first chapter is intended to guide readers through the design of the new scheme and the key differences between it and the existing scheme;
- the second chapter sets out the arrangements for members of the existing pension scheme who are closest to retirement, some of whom will not move to the new scheme;
- the third chapter looks at proposals for those members of the existing scheme who will move to the 2015 scheme;
- the fourth chapter sets out member contribution rates from 1 April 2015, payable by all contributing members of both the existing and new schemes;
- finally, the fifth chapter looks at working longer; later state pension ages meaning a later normal pension age for the new scheme; and options for retirement planning contained within the existing and new schemes.

Transitional Arrangements

The Independent Public Service Pensions Commission report recommended that "existing members who are currently in their 50s should, by and large, experience fairly limited change".

¹ <https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton>

This principle, and the need to ensure fair transitional arrangements, has led to the designation of a group of existing scheme members, who on 1 April 2012 were within 10 years of their normal pension age (60 in the 1995 Section or 65 in the 2008 Section of the existing NHS Pension Scheme) to be fully protected from a move to the 2015 scheme. More about this group of members is contained in chapter 2.

The PFA also set out the terms of protection for a further group of members who will be entitled to tapered protection. This group of members includes those who, on 1 April 2012, were within 10 years and 13 years 5 months of their normal pension age. These members will move from the existing NHS Pension Scheme to the 2015 scheme at different times depending on their age. More information about this group of members is also contained in chapter 2.

For all scheme members who do not qualify for full protection, who will either move to the 2015 Scheme on 1 April 2015 or upon expiry of tapered protection, pension rights accrued in the existing NHS Pension Scheme (1995 and 2008 Sections) are preserved in full. Calculation of pensions based on these past benefits will be linked to the member's final salary in the years running up to the point of retirement, or when they have a break in membership of over five years. This is an important measure of protection for those already contributing to the existing NHS Pension Scheme. Further information for these members is contained in chapter 3.

Feedback

Feedback on any aspect of the contents can be sent via email to nhsregs15@dh.gsi.gov.uk or by post to:

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We ask that any responses are sent to the Department by Thursday 18 September 2014.

1. NHS Pension Scheme for England & Wales 2015

- 1.1 The new 2015 Scheme will open on 1 April 2015. Active membership of the 1995 or 2008 Sections of the current NHS Pension Scheme will cease for those not eligible for full or tapered protection. This chapter highlights the key features of the new scheme and compares these to the 1995/2008 scheme.

Aspects of the 2015 Scheme that differ from the existing 1995 & 2008 Sections

Calculation of pension benefits

- 1.2 A key difference between the 1995 and 2008 Sections of the existing Scheme and the new 2015 Scheme is the way benefits are calculated for officer members. The existing scheme calculates pension benefits by reference to the member's highest pensionable pay (i.e. final salary) in the years leading up to leaving pensionable service, and the length of pensionable service. The new Scheme will instead use a career average revalued earnings (CARE) method rather than final salary. It will still be a defined benefit pension scheme.
- 1.3 Benefits are built up, or 'accrued', at a rate of $1/54^{\text{th}}$ of pensionable earnings in each year of active membership. Benefits for officer members of the 1995 Section accrue at a rate of $1/80^{\text{th}}$ of final pensionable pay per year of service. The 2008 Section has a rate of $1/60^{\text{th}}$. Current practitioner members participate in a CARE version of the 1995 or 2008 Section, however the CARE method in use for the 2015 Scheme will be different.
- 1.4 The Public Service Pensions Act 2013 defines a CARE scheme as one in which a member pension is determined by reference to the earnings in each year of pensionable service under the scheme. It also stipulates that under such a CARE scheme those earnings or a proportion of earnings accrued as pension are re-valued each year until the member leaves pensionable service. In a CARE scheme, accrual of pension is an ongoing activity during pensionable service.
- 1.5 At the end of each scheme year (which runs from 1st April – 31st March) the amount in an active member's account or "pot" is revalued, or increased, using a percentage set each year by HM Treasury. This figure is based upon price inflation/the rate of change in prices, plus (for the NHS Pension Scheme) 1.5%. The purpose of revaluation is to ensure that the value of the active NHS Pension Scheme member's pension pot grows faster than price inflation.
- 1.6 This is slightly different for members in receipt of their pension. Pensions in payment are revalued annually by a percentage set by HM Treasury (via a pensions increase order), with reference to the consumer price index (CPI) of price inflation. This is the same measure used for all revaluation under the scheme. Members who have left the scheme with unclaimed pension benefits are known as deferred members, and will have their deferred pension pot(s) revalued by price inflation.

- 1.7 Finally, there will be no limit on pensionable service, unlike the 1995 & 2008 Sections which limit this to 45 years. However, this is subject to the general upper age limit of 75 for active membership which is the same across existing and new schemes.

Normal Pension Age

- 1.8 Normal pension age (NPA) is the age at which a member can retire and draw their benefits in full. Benefits cannot be taken earlier than a member's minimum pension age. However if a member wishes to claim their pension earlier than their NPA but later than their minimum pension age, then those benefits are reduced to account for the additional time in payment. In the 1995 & 2008 Sections NPA is fixed at 60 or 65 respectively, except where a 1995 Section member becomes entitled to an earlier NPA based on reserved rights. In the 2015 Scheme, a member's NPA is the same as the member's state pension age (SPA).
- 1.9 We also intend, subject to legislation, that this would also apply to pension benefits that are divided following a divorce. The age at which a former partner or spouse (known as a pension credit member) can draw those apportioned benefits would be based on their SPA rather than that of the member who had accrued the original pension.

New reduction buy-out facility

- 1.10 The Proposed Final Agreement, at paragraph 5(n), set out a new facility to be introduced in the 2015 Scheme. This facility allows members of the 2015 Scheme with an NPA higher than 65 to pay additional contributions to reduce or, in some cases, remove any early retirement reduction that would apply to their 2015 Scheme benefits if they retire before their NPA. More detail on this can be found in chapter 5, paragraph 5.7, of this document.

Ill-health retirement

- 1.11 Ill-health retirement rules will largely follow the ill-health retirement arrangements in the existing 1995 & 2008 Sections. There remain two 'tiers' of ill-health pension; 'Tier 1' is met where the scheme is satisfied that the member suffers from physical or mental infirmity as a result of which the member is permanently incapable of performing the duties of their current employment. 'Tier 2' is met where, additionally, the scheme is also satisfied that the member suffers from physical or mental infirmity as a result of which the member is permanently incapable of regular employment of like duration to the member's last NHS employment.
- 1.12 A 1995 or 2008 Section member in receipt of a Tier 2 ill-health pension cannot pension further NHS employment. In addition, their pension may reduce to a Tier 1 ill-health pension if any new earnings are higher than the lower earnings limit for National Insurance purposes, or if they return to NHS employment for more than one year; this will remain the same in the 2015 Scheme. A member in receipt of a Tier 1 ill-health pension can pension further NHS employment in the 2008 Section of the NHS Pension Scheme and will also be able to do so in the new 2015 Scheme; however, their pension may be abated (as per paragraph 1.20 below).
- 1.13 The assessment of whether the effect of the member's ill-health on their ability to work is 'permanent' uses the NPA relevant to the scheme – 60 in the 1995 Section, 65 in the 2008 Section of the existing NHS Pension Scheme; and the member's state

pension age in the new 2015 Scheme. Where a member retires due to ill-health in the 2015 Scheme before their NPA, the age to be used for determining the extent of 'prospective' service for the Tier 2 pension enhancement and 'permanence' for eligibility for retirement on the grounds of ill-health (either a Tier 1 or 2 pension) is to be the member's prospective NPA. This is the state pension age that is assumed to be in force had the member been in service up to NPA, and is based on the latest announced policy on future state pension ages that is in effect on the member's last day of pensionable service.

- 1.14 Tier 2 pensions in the 2015 Scheme will include an enhancement equivalent to half of the 'prospective service to NPA', which reflects the service the member would have accrued had they been able to remain in pensionable employment to SPA. In the 1995 & 2008 Sections the enhancement is 2/3rds prospective service to NPA. The prospective service enhancement is based upon the average earnings during pensionable service in the 2015 Scheme; it is not based on the member's final salary.

Enhanced Governance

- 1.15 The legal framework for the introduction of the new 2015 Scheme, as well as other public service pension schemes, is the Public Service Pensions Act 2013² ('the Act'). The Act introduces common governance structures and requirements across all public service pension schemes.
- 1.16 To deliver this, the Department has established two new boards – the Scheme Advisory Board, to advise the Secretary of State on the desirability of any changes to the scheme and a new Pension Board. The Pension Board will be responsible for assuring that the way the Scheme is administered is compliant with relevant law and with the code of practice issued by the Pensions Regulator³. The Pension Board will have an independent (non-departmental) Chair and twelve other members (six members each from representatives of members and employers).
- 1.17 The cost of providing scheme benefits will continue to be tracked through regular scheme valuations every four years. Where costs rise or fall, a new employer cost cap mechanism will ensure that steps are taken to bring scheme costs back into balance. Costs might vary for example if there is a notable increase, or decrease, in the life expectancy of members. Remedial steps may result in a change in the future accrual rate or a change in member contributions.

Aspects of the 2015 Scheme that are the same as the open 2008 Section

- 1.18 Other than the preceding "headline" changes, the benefits of the new 2015 Scheme are largely unchanged from the 2008 Section (which is the part of the existing NHS Pension Scheme that is open to members who cannot otherwise join the 1995 Section). Such benefits include, but are not limited to:

² Available to view here <http://www.legislation.gov.uk/ukpga/2013/25/contents>

³ We await TPR's finalised code of practice for public service pension schemes; the consultation documents are available here <http://www.thepensionsregulator.gov.uk/doc-library/regulating-public-service-pension-schemes.aspx>

- Survivor benefits (spouse, partner & children's pensions) which will continue to be based on an accrual rate of 1/160th. For deaths in retirement these pensions will continue to be based upon pre-commuted pension;
- A lump sum will continue to be payable on the death of a member in pensionable employment on a similar basis to the 1995 and 2008 Sections;
- Flexibilities, including early/late retirement factors on an actuarially neutral basis, draw down of pension on partial retirement as well as being able to retire and later return to employment and re-join the pension scheme will be included in the 2015 Scheme (for more detail see paragraph 1.19 below);
- Commutation (conversion) of pension to a lump sum will be available to members who are entitled to payment of a pension. The rate of commutation is £12 of lump sum for £1 of pension (in accordance with HMRC limits and regulations);
- Commutation of pension to a single cash lump sum where a member is suffering from serious ill-health remains the same in the 2015 Scheme as in the existing NHS Pension Scheme (1995 & 2008 Sections). A member qualifies where life expectancy is less than 12 months; or where a member is under their NPA, meets the serious ill-health condition and is also entitled to payment of either a Tier 1 or 2 pension. The rate of commutation is £12 of lump sum for £1 of pension (in accordance with HMRC limits and regulations) and £5 of lump sum for each remaining £1 of pension above the HMRC limit;
- There will be the option to purchase additional pension in the new Scheme;
- The new 2015 scheme will continue to participate in the Public Sector Transfer Club (which allows members of certain pension schemes to receive broadly equivalent benefits on transferring their pension to another participating scheme).

1.19 The 2015 Scheme, like the 2008 Section, will also contain features allowing for flexible retirement. For example, 'wind down', where members can opt to work fewer days or hours in their current post rather than retiring completely; 'step down' which allows members to move into a less demanding and lower graded post (which in some circumstances will not affect the final salary that is used to calculate their pension benefits); and 'draw down' which allows members to take part of their pension benefits whilst continuing in NHS employment.

1.20 Abatement (reduction) of pension will be a feature of the 2015 Scheme. As with the 2008 Section, it will apply to pensioners who have retired early and are in receipt of a pension either as a result of ill health, or retirement in the interest of the efficiency of the service, who then return to NHS employment. The key difference being the use of the member's NPA (equating to their state pension age) to calculate the pension that the member would have been entitled to had the member not retired early. It should be noted that in relation to the 2015 Scheme, a member's state pension age may be subject to change depending upon wider government policy in relation to state pension ages.⁴

1.21 For members who have a break in pensionable service that exceeds five years in the 2015 Scheme, the pre- and post-break pensions will be kept separate. This will allow the earlier part of the pension to maintain its value with prices after the last day of associated pensionable service. When such members are considered for ill-health

⁴ Further information on this can be found here <https://www.gov.uk/government/policies/reviewing-the-state-pension-age>

retirement, the entitlement is to individual unreduced member pensions, each with its own beginning date. In determining a Tier 2 enhancement, the intention is to take into account all of the member's pensionable service. It is therefore necessary to determine the enhancement by reference to the aggregate of the individual member pensions, including any revaluation.

2. NHS Pension Scheme 1995 & 2008 members entitled to Full or Tapered Protection

- 2.1 A key principle in developing reformed public service pension schemes is to ensure fair transitional arrangements. In line with wider government policy those members who, as at 1 April 2012, were within ten years of their normal pension age (NPA) will continue to participate in their existing section until retirement – this is known as full protection.
- 2.2 Provision has also been made so that members between 10 years and 13 years 5 months of NPA, as at 1 April 2012, can continue in their existing section for a period of time dependent upon their age before moving to the 2015 Scheme – this is known as tapered protection.

1995 Section members

- 2.3 The current rules requiring staff in the 1995 Section to retire, take all benefits and be prohibited from further NHS Pension Scheme membership will continue to apply to all 1995 Section members. This means that any 1995 Section member who wishes to continue in NHS employment after taking their 1995 pension will not be eligible to join the 2015 Scheme.
- 2.4 All active members of the 1995 Section (including Mental Health Officers (MHOs) and members of the special classes – more detail below in paragraph 2.9) with a current NPA of 60 or 55, who as of 1 April 2012 have 10 years or less to their current NPA, or are over their current NPA, will have full protection (i.e. members born on or before 1 April 1962). These members will remain in the 1995 Section on their current benefit terms until they retire; they will not move into the 2015 Scheme.
- 2.5 Any protection will be lost if the member takes a break in pensionable employment longer than 5 years ending before their 60th birthday. Such members would join the 2015 Scheme upon return to pensionable employment and their 1995 Section benefits would become deferred for payment at 60 or earlier with a reduction.
- 2.6 Members in the 1995 Section who are within 13 years and 5 months but not 10 years from their NPA at 1 April 2012 will have more limited, tapered protection so that for every month of age that they are beyond 10 years of their current NPA, they lose 2 months of protection. At the end of the protected period they will move from the 1995 Section of the NHSPS to the 2015 Scheme. Tables are available at Annex B for reference.
- 2.7 Alternatively, the following formula can be used to calculate the end date of a 1995 Section member's tapered protection:
- 31 March 2022 minus 2 x T months (where T = number of months (rounded up to the nearest whole month) by which the member's age on 1 April 2012 is less than 50).

- 2.8 This means that members of the 1995 Section who were aged under 46 years and 7 months on 1 April 2012 (those with a date of birth on or after 1 September 1965) will not be eligible for full or tapered protection, and will move to the new 2015 Scheme from 1 April 2015, unless they are a member of the special classes.

Special Classes

- 2.9 Members of the 1995 Section who are in pensionable employment in a qualifying “special class” post are entitled to access their pension benefits between the ages of 55 and 60, without a reduction, i.e. they effectively have an NPA of 55, which means that their entitlement to protection is slightly different to non-special class members of the 1995 Section⁵, as it is based upon this earlier NPA. Those members aged 45 or over, but under 50, on 1 April 2012 (born between 2 April 1962 and 1 April 1967) will be entitled to full protection as long as they continue to qualify for “special class” status. Members aged 50 and over on 1 April 2012 are entitled to full protection, so their special class status does not affect their protected status.
- 2.10 Those members aged over 41 years and 7 months but not yet 45 years old on 1 April 2012 (born between 2 April 1967 and 31 August 1970) will be entitled to tapered protection as long as they continue to qualify for “special class” status. Tables are available in Annex B for reference. Alternatively, a member’s “eligibility expiry date” for special class tapered protection can be calculated using the following formula:
- 31 March 2022 minus 2 x T months (where T = number of months (rounded up to the nearest whole month) by which the member’s age on 1 April 2012 is less than 45).
- 2.11 Members not in special class pensionable employment on 1 April 2012, but who retain the right to membership of the 1995 Section and to pensionable employment in a qualifying special class post will retain full or tapered protection rights (whichever is relevant to their date of birth) if they are in special class pensionable employment on 31 March 2015. For example, this could include a member on a career break of less than 5 years during which 1 April 2012 fell, but who returns to a qualifying special class post before 31 March 2015 and is in such a post on 31 March 2015. Members who are eligible for tapered protection based on NPA of 60 have until their tapered protection ends to return to qualifying special class employment, as long as any break in pensionable employment is less than five years.

Second Choice (1995) / Choice 2

- 2.12 1995 Section members were given the option to move to the 2008 Section when it was introduced. This exercise was known as “choice”. Some members may have opted not to move to the 2008 Section on the basis that they wished their NPA to remain at 60 rather than change it to 65 but with a more generous accrual rate. However, at the point the original choice exercise was run, it was not known that there would be a new scheme in 2015 where NPA would be equal to the member’s state pension age and that this could be raised at a future date.

⁵ For more information on special class status please see

http://www.nhsbsa.nhs.uk/Pensions/Documents/Pensions/Special_Class_Factsheet_V2.0_07.2013.pdf

- 2.13 1995 Section members who are not fully protected will now be given the opportunity again to move their 1995 Section service to the 2008 Section retrospectively. They would then have service in the 2008 scheme up to 31 March 2015 and would move into the 2015 Scheme on 1 April 2015.
- 2.14 Choice 2 will be run on the same basis as the original choice exercise – meaning that there will be day-for-day⁶ service conversion plus any added years purchased.
- 2.15 The Choice 2 exercise will run from October 2014 to March 2015, but any decision will only take effect if the member has not left the scheme before 1 April 2015 due to retirement or death.

2008 Section members

- 2.16 The same “protection” rules will apply to members of the 2008 Section. Those members who as of 1 April 2012 have 10 years or less to their current NPA of 65, or are over their current NPA of 65, will be entitled to full protection. Therefore 2008 Section members born on or before 1 April 1957 will be allowed to remain in the 2008 Section until they retire or otherwise lose that protection.
- 2.17 A tapered arrangement (on the same basis as 2.6 above) will apply to those within 13 years and 5 months, but not 10 years of age 65 as of 1 April 2012. This includes members born between 2 April 1957 and 31 August 1960 (those aged 51 years 7 months or over, but under 55 years on 1 April 2012). For every month of age that they are beyond 10 years of their current NPA, they lose 2 months of protection. At the end of the protected period they will move from the 2008 Section of the NHSPS to the 2015 Scheme.
- 2.18 As with 1995 Section members, any protection will be lost if the member takes a break in pensionable employment longer than 5 years. Such members would join the 2015 Scheme upon return to pensionable employment, and their 2008 Section benefits would become deferred for payment at age 65, or earlier with a reduction.
- 2.19 In order to calculate the end date of a member’s tapered protection, either refer to the tables in Annex B or alternatively use the following calculation:
- 31 March 2022 minus 2 x T months (where T = number of months (rounded up to the nearest whole month) by which the member’s age on 1 April 2012 is less than 55).

Option to Forgo Protection

- 2.20 Financial modelling undertaken to inform scheme-specific discussions demonstrated that the majority of members of the 2008 Section could benefit from moving to the 2015 scheme from 1 April 2015, rather than remaining in the 2008 Section under the protection provision. Therefore, all 2008 Section members entitled to full or tapered

⁶ Under the original choice exercise, members who were 60 or over on 1 October 2009 had less than a day-for-day conversion of their 1995 Section service. As all members eligible for choice 2 would have been under 60 on 1 October 2009, all service conversion under choice 2 is day-for-day.

protection will be given an opportunity, for a limited time⁷, to voluntarily move from the 2008 Section of the existing NHS Pension Scheme to the new 2015 Scheme (the “option to forgo protection”).

- 2.21 Any decision taken to forgo protection after 1 April 2015, but within the limited three month period, will be back-dated to 1 April 2015. Any service or contributions in the 2008 Section since 1 April 2015 will be converted and treated as if the member had been in the new 2015 Scheme since 1 April 2015.
- 2.22 Eligible members will be contacted by the NHS Business Services Authority (NHS Pensions), the administrator of the NHS Pension Scheme, in due course. The three month period will begin once a member is notified that the option to forgo protection is available to them.

⁷ Three months if in pensionable service on 1 April 2015, or three months from the member’s first day of pensionable service after then.

3. NHS Pension Scheme 1995 & 2008 members moving to the 2015 Scheme (Transitional Protection)

All Members

- 3.1 Members who are not eligible for full protection will move across to the 2015 Scheme on 1 April 2015 or join upon first returning to NHS employment after that date. Members who qualify for tapered protection will move across when tapered protection ends (see chapter 2 for more information).

Officer Members

- 3.2 All pension rights earned in the 1995 and 2008 Sections, up to the date a member moves across to the 2015 Scheme, are protected and those past pension benefits will usually be calculated using the member's final pensionable salary when they retire or leave the 2015 Scheme. This is known as "final salary linking".
- 3.3 Final salary linking applies until a member retires or, if sooner, until a member has a break in pensionable service in the 2015 Scheme of over five years⁸.
- 3.4 Members who have a break in pensionable service of over five years that starts and ends after 1 April 2015 will retain the final salary link to their salary as at the last day of pensionable service before the break begins. These members will have two separate sets of pension benefits for past (deferred 1995/2008 Section) and future (2015 Scheme) service.
- 3.5 Members returning from a break (that began before 1 April 2015) of over five years on or after 1 April 2015 will not qualify for the final salary link. They will have two separate sets of pension benefits for past (deferred 1995/2008 Section) and future (2015 Scheme) service.
- 3.6 All members who either lose their entitlement to the final salary link or who did not qualify for it will have a one-off opportunity to transfer their deferred 1995/2008 benefits to the new 2015 Scheme on a cash equivalent transfer basis.
- 3.7 In determining the amount of final salary linked pension, the final salary to be used will be established by applying the rules of the relevant existing 1995 or 2008 Section (including those which establish the date when earnings stop being pensionable) to pensionable earnings in the 2015 Scheme. In doing so, and for this purpose only, the member's last day of pensionable service in the 2015 Scheme will generally be treated as if it were the last day in the 1995 or 2008 Section and pensionable earnings in the 2015 Scheme to this date as if they were pensionable earnings earned in the 1995 or 2008 Section.

⁸ For the purposes of this break any period of pensionable service in another public service pension scheme covered by the Act is ignored. See Schedule 7 to the Public Service Pensions Act 2013.

- 3.8 As a result of treating 2015 Scheme pensionable earnings as if they were existing scheme pensionable earnings, the facility to use an earlier final salary where it results in higher benefits, i.e. where there has been a break of service for 12 months or more, protected pay as a result of organisational change or voluntary protected pay, will continue to apply through the period of final salary linking.

Practitioner Members

- 3.9 As for officer members, all pension rights accrued in the existing 1995 and 2008 Sections up to 31 March 2015, are protected and will be calculated when put into payment based upon the rules of the relevant section. Those benefits will be available at the NPA for the relevant section that the member belongs to – 60 in the 1995 Section or 65 in the 2008 Section.
- 3.10 Practitioner pensions are calculated in the existing scheme on a career average revalued earnings (CARE) basis, with accrual percentages equivalent to the 1/80th 1995 Section and 1/60th 2008 Section of 1.4% and 1.87% respectively. In the 2015 Scheme practitioners will move to the new CARE arrangement common to all members and share the same 1/54th of each years' pensionable earnings accrual rate.
- 3.11 "Practitioner flexibilities" are used in the existing scheme to calculate practitioner pensions when a member has mixed officer (final salary) and practitioner (CARE) service. This will not be necessary in the 2015 Scheme as all members will accrue pension using the same method. However, the intention is to recognise the value of flexibilities on officer service accrued in the existing scheme before the move to the 2015 Scheme.
- 3.12 This will be achieved by creating a 'flexibility value earnings credit' for all benefits accrued by practitioners from officer membership in the 1995 or 2008 Sections. This credit will reflect the value of those officer benefits after the application of flexibilities on officer pensionable service as at the member's last day of service in the existing scheme (for most, this will be 31 March 2015).
- 3.13 If the member has yet to become a practitioner for the first time at the date they move into the 2015 Scheme, the credit will only be determined when the member first becomes a practitioner, but the credit will still be calculated in respect of pensionable service as an officer before the member moved to the 2015 Scheme and applied as at the same date. The 'flexibility value earnings credit' will attract an uprating factor which is higher than the standard rate (price inflation + 1.5%) for practitioner earnings in the existing scheme. The higher uprating factor reflects the increase in value of the officer service from flexibilities during the remaining practitioner career of the member. This increase will be applied until the member's last day of service in the 2015 Scheme or, if sooner, the latest day of service in the 2015 Scheme that precedes a break of five years or more.
- 3.14 At a pension event, e.g. retirement, the member's benefits in respect of their 1995 or 2008 Section officer service will be the higher of a separate officer pension (calculated using the linked final salary up to the date when the member ceases to be an officer) or a practitioner pension based on the uprated 'flexibility value earnings credit'.

Benefits – All members

- 3.15 As now, members will still be able to claim in full their accrued pension benefits from the 1995 and/or 2008 Sections on retirement at the NPA for that section – 60 in the 1995 Section (55 for special classes) or 65 in the 2008 Section. Members who leave NHS employment and cease 2015 Scheme membership after reaching minimum pension age⁹ may be able to claim their accrued 1995 or 2008 benefits early with a reduction.
- 3.16 If a member becomes entitled to a pension on the grounds of ill health in the 2015 Scheme, final salary linked benefits for service in the 1995 and the 2008 Sections will be paid at the same time.
- 3.17 If a member dies whilst an active member of the 2015 Scheme, a lump sum death benefit will be paid from that Scheme. Pensions for any qualifying dependants, spouses or partners will include pension rights accrued in the existing Scheme.

Special Classes

- 3.18 Qualifying special class members will be able to claim their existing 1995 Section benefits as now from age 55 subject to meeting the same qualifying criteria at retirement as would apply if they were retiring from the 1995 Section. Existing arrangements with respect to the Uniform Accrual Formula for Mental Health Officers (MHOs) will apply to service in the 1995 Section.

Re-employment of 1995 Section members after retirement

- 3.19 Members must leave NHS employment to take their 1995 Section benefits. Further, members who claim 1995 Section final salary linked benefits will not be eligible to pension any further NHS work in the 2015 Scheme – the only exception is where the member has lost final salary linking due to a break in service exceeding five years.
- 3.20 Benefits for most 1995 Section members are payable (with a reduction) from age 50 (for some members this is age 55). If 1995 Section final salary linked benefits are taken at age 50, the member will have to defer claiming their 2015 Scheme benefits until at least age 55.
- 3.21 If taking 1995 Section final salary linked benefits on or after reaching age 55 a member can choose to take their 2015 Scheme benefits then (with a reduction) or to defer them until a later age (but no later than their state pension age).

Additional Pension in the existing NHS Pension Scheme

- 3.22 Existing additional pension arrangements (including added years and additional pension) taken out by 1995 or 2008 Section members will continue after 31 March 2015 on their current terms so that members with such arrangements can make their intended purchase. The 2015 Scheme will also make provision for the purchase of additional pension – see chapter 5 for more information.
- 3.23 1995 Section members moving to the 2015 Scheme may, on reaching 60 (NPA for the 1995 Section), access their “added years” or additional pension benefits without having to leave NHS employment or cease pensionable service in the 2015 Scheme.

⁹ Currently 50 or 55

4. Member Contributions from 1 April 2015

- 4.1 Discussions with Trade Unions and employer representatives on long-term contribution rates that will apply to all members once the new scheme is implemented from 1 April 2015 have been ongoing since publication of the Proposed Final Agreement in March 2012. Those discussions centred on the Government and Trade Unions' shared priorities for the contribution structure going forward, these being to:
- include protections for the low paid,
 - minimise the risk of opt-outs from the existing and new Scheme across the whole membership; and
 - ensure that the Scheme remains sustainable, a valuable part of the remuneration and reward package.
- 4.2 Following these discussions, the Department has finalised a set of proposed long term member contribution rates, which would remain the same for four years from 1 April 2015 to 31 March 2019. The table at paragraph 4.4 below sets out the rates and tiers.
- 4.3 The main features of the proposed contribution rates structure are as follows:
- the headline contribution rates as set out in the Proposed Final Agreement published in March 2012 are retained,
 - rates will remain tiered according to whole time equivalent (WTE) pay or earnings,
 - the rates are the same as the current 2014-15 scheme year contribution rates except for a small adjustment to the tier 4/5 boundary; and
 - both rates and tier boundaries will be fixed for four years from 1 April 2015 to 31 March 2019.
- 4.4 The table below sets out the member contribution rates that will apply in both the 1995 and 2008 Sections, as well as the new 2015 Scheme from 1 April 2015 until 31 March 2019:

WTE Pensionable Earnings/Pay	Contribution Rate
≤ £15,431	5.0%
£15,432 - £21,477	5.6%
£21,478 - £26,823	7.1%
£26,824 - £47,845	9.3%
£47,846 - £70,630	12.5%
£70,631 - £111,376	13.5%
≥ £111,377	14.5%

- 4.5 Employers will contribute 14.3% towards each member's pension (employer contribution rate) from 1 April 2015, which is an increase from the current 14%.
- 4.6 Section 22 of the Public Service Pension Act 2013 ensures that any proposed changes to certain aspects (known as "protected elements") of the new 2015 scheme design after it is established in law on 1 April 2015, until 31 March 2040 (25 years), will be subject to additional consultation requirements and parliamentary scrutiny. One of those "protected elements" is member contribution rates. This means that any further

proposal to change the contribution rates set out above will be subject to a consultation with a view to reaching agreement, and be looked at by Parliament. The only exception to this is where the change to member contribution rates is proposed as a result of a breach of the employer cost cap.

5. Working Longer – How the NHS Pension Scheme can support retirement planning

- 5.1 Annex C of the NHS Pension Scheme Proposed Final Agreement (PFA) set out the requirement to establish a Working Longer Review (WLR). The purpose of the WLR, carried out in partnership including representatives from the Department of Health, NHS Employers and the NHS Staff Council, is to focus on the implications of NHS staff working longer. The group's objectives included gathering and examining evidence relating to the impact of the whole workforce working to SPA, and any consequential impact on the delivery of healthcare to patients and clients.
- 5.2 Another objective for the WLR was to determine the scope of pension scheme design flexibilities to support staff working to SPA and in particular to support flexible retirement.
- 5.3 The WLR group submitted its report¹⁰ to the Department at the beginning of March 2014. One of the four main themes of the report was "Pension options, retirement decision making and their impact on working longer", with the finding that "helping staff to enable them to make informed pension choices is a major challenge. It is clear that further work needs to be done to help members understand the pension scheme and the flexibilities available to them".
- 5.4 The report acknowledged in one of its key findings that the existing NHSPS has "different flexibilities within it to enable staff to leave or change their retirement provision at different stages"¹¹. However, knowledge and understanding of those provisions amongst members and employers is low. Of the NHSPS members retiring between 2008 and 2012, only around one third had accessed the available flexibilities¹².
- 5.5 According to the WLR report, a survey conducted by the joint NHS trade unions of nearly 13000 NHS staff members (approximately 1% of the NHS workforce) found that 60.8% of respondents did not feel very confident, or did not feel confident at all, about their understanding of their pension arrangements¹³. This is an area that we will invite the WLR group to explore further in the second phase of its work programme. The scheme provides a number of options to members and employers that can assist in retirement planning. The Department is keen to hear about ways in which these options can be more effectively played into employer and member thinking about later career phases.

¹⁰ Report available here <http://www.nhsemployers.org/your-workforce/pay-and-reward/pensions/impact-of-working-longer-review/preliminary-findings-and-recommendations-report-for-the-health-departments>

¹¹ Paragraph 6.3.5 on page 26 of the report

¹² Paragraph 6.3.11 on page 27 of the report

¹³ Paragraph 6.3.15 on page 28 of the report

Options for retirement planning

- 5.6 Some of the options available in the existing NHSPS that allow flexibility in the approach to retirement include:
- 'wind down', where members can opt to work fewer days or hours in their current post rather than retiring completely;
 - 'step down' which allows members to move into a less demanding and lower graded post (which in some circumstances will not affect the final salary that is used to calculate their pension benefits); and
 - 'draw down' – only available to 2008 Section members at present but will also be available in the 2015 Scheme – which allows members to take part of their pension benefits whilst continuing in NHS employment.
- 5.7 The 2015 Scheme will provide further flexibility intended to support members who wish to make long-term retirement plans. One such addition already referred to at paragraph 1.10 of Chapter 1, is the option which will allow members who have an NPA higher than 65 the choice to pay additional contributions to remove any early retirement reduction which would apply if they retire from the 2015 Scheme before their NPA. This would allow members with deferred benefits in the 2008 Section to take all of their pension benefits (2008 Section and 2015 Scheme) at age 65, which is the NPA for the 2008 Section. Only reductions that would apply in respect of years after age 65 can be bought out and the maximum reduction that can be bought out is for 3 years (that would apply to a member with an NPA of 68 or higher). It will be possible for the member's employer to either pay the full cost of the additional contributions required, or to share the cost with the member. It will be possible to suspend an agreement to pay such additional contributions on the grounds of hardship for up to 1 year. If the member wishes to end the agreement then any part-year contributions will be refunded, but any full year will remain in place.

Additional Pension

- 5.8 The facility for members to purchase additional pension (AP) will be available in the 2015 Scheme as it is in the existing NHSPS. Purchasing AP allows members to increase the amount of pension available to them. This could enable a member to retire from the 2015 Scheme earlier than their SPA, balancing the effect of actuarial reduction of the pension benefit to account for early retirement by building up a larger pension. HMRC rules limit the maximum amount of AP that can be purchased per annum to £6500; the minimum is £250.
- 5.9 Members will be able to purchase AP in either a lump sum payment or, more usually, in periodical contributions (i.e. monthly). The cost of the AP will be based upon the member's SPA; the member can choose to add survivor benefits at the outset of the AP agreement.
- 5.10 Employers can also, with the member's consent, purchase AP for their employee in lump sum amounts; this can be done more than once, subject to HMRC rules.

Annex A – Summary of 1995 & 2008 Sections and new 2015 Scheme

Feature or Benefit	1995		2008		2015
Staff group	Officers	Practitioners	Officers	Practitioners	All staff
Method	Final Salary	CARE	Final Salary	CARE	CARE
Accrual rate	1/80 th	1.4% of uprated earnings per year	1/60 th	1.87% of uprated earnings per year	1/54 th
Retirement Lump Sum	3 x pension plus optional further commutation up to HMRC limit	3 x pension plus optional further commutation up to HMRC limit	Optional 12:1 commutation up to HMRC limit	Optional 12:1 commutation up to HMRC limit	Optional 12:1 commutation up to HMRC limit
Normal Pension Age	60 (or 55 for special classes)	60	65	65	SPA
In-service earnings revaluation	N/A	Pensions Increase + 1.5%	N/A	Pensions Increase + 1.5%	CPI + 1.5%
Deferred benefits revaluation	Pensions Increase	Pensions Increase	Pensions Increase	Pensions Increase	CPI
Death in service	2 x pensionable pay or average annual earnings		2 x reckonable pay or average annual earnings		Same as 2008 Section
Survivor benefits	Spouse & partner pension based on accrual of 1/160 th		Spouse & partner pension based on accrual of 1/160 th		Same as 2008 Section
Retirement flexibilities	None. Full retirement from NHS service required before pension can be paid. Unable to re-join the scheme once benefits have been taken.		Early/late retirement factors on an actuarially neutral basis, draw down of pension on partial retirement and ability to retire and return to the scheme		Same as 2008 Section
Ill-health retirement	<p>Basic ill-health retirement = no actuarial reduction for early pension payment.</p> <p>Higher tier ill-health retirement award = enhance pension by 2/3rds of prospective service to NPA.</p>		<p>Basic ill-health retirement award = no actuarial reduction for early pension payment.</p> <p>Higher tier ill-health retirement award = enhance pension by 2/3rds of prospective service to NPA.</p>		<p>Basic ill-health retirement award same as 2008 Section</p> <p>Higher tier ill-health retirement award = enhance pension by 50% of prospective service to NPA.</p>

Annex B – Tapered protection age tables

Table 1 - Tapered protection for the 1995 Section (NPA60)

Date of Birth	Age @ 01/04/2012	Age @ 01/04/2015	Date of switch to new pension	Age at switch to new pension
2/4/62 - 30/4/62	49y 11m	52y 11m	01/02/2022	59y 9m
May-62	49y 10m	52y 10m	01/12/2021	59y 6m
Jun-62	49y 9m	52y 9m	01/10/2021	59y 3m
Jul-62	49y 8m	52y 8m	01/08/2021	59y
Aug-62	49y 7m	52y 7m	01/06/2021	58y 9m
Sep-62	49y 6m	52y 6m	01/04/2021	58y 6m
Oct-62	49y 5m	52y 5m	01/02/2021	58y 3m
Nov-62	49y 4m	52y 4m	01/12/2020	58y
Dec-62	49y 3m	52y 3m	01/10/2020	57y 9m
Jan-63	49y 2m	5y 2m	01/08/2020	57y 6m
Feb-63	49y 1m	52y 1m	01/06/2020	57y 3m
Mar-63	49y	52y	01/04/2020	57y
Apr-63	48y 11m	51y 11m	01/02/2020	56y 9m
May-63	48y 10m	51y 10m	01/12/2019	56y 6m
Jun-63	48y 9m	51y 9m	01/10/2019	56y 3m
Jul-63	48y 8m	51y 8m	01/08/2019	56y
Aug-63	48y 7m	51y 7m	01/06/2019	55y 9m
Sep-63	48y 6m	51y 6m	01/04/2019	55y 6m
Oct-63	48y 5m	51y 5m	01/02/2019	55y 3m
Nov-63	48y 4m	51y 4m	01/12/2018	55y
Dec-63	48y 3m	51y 3m	01/10/2018	54y 9m
Jan-64	48y 2m	51y 2m	01/08/2018	54y 6m
Feb-64	48y 1m	51y 1m	01/06/2018	54y 3m
Mar-64	48y	51y	01/04/2018	54y
Apr-64	47y 11m	50y 11m	01/02/2018	53y 9m
May-64	47y 10m	50y 10m	01/12/2017	53y 6m
Jun-64	47y 9m	50y 9m	01/10/2017	53y 3m
Jul-64	47y 8m	50y 8m	01/08/2017	53y
Aug-64	47y 7m	50y 7m	01/06/2017	52y 9m
Sep-64	47y 6m	50y 6m	01/04/2017	52y 6m
Oct-64	47y 5m	50y 5m	01/02/2017	52y 3m

Date of Birth	Age @ 01/04/2012	Age @ 01/04/2015	Date of switch to new pension	Age at switch to new pension
Nov-64	47y 4m	50y 4m	01/12/2016	52y
Dec-64	47y 3m	50y 3m	01/10/2016	51y 9m
Jan-65	47y 2m	50y 2m	01/08/2016	51y 6m
Feb-65	47y 1m	50y 1m	01/06/2016	51y 3m
Mar-65	47y	50y	01/04/2016	51y
Apr-65	46y 11m	49y 11m	01/02/2016	50y 9m
May-65	46y 10m	49y 10m	01/12/2015	50y 6m
Jun-65	46y 9m	49y 9m	01/10/2015	50y 3m
Jul-65	46y 8m	49y 8m	01/08/2015	50y
Aug-65	46y 7m	49y 7m	01/06/2015	49y 9m

Table 2 - Tapered protection for the 1995 Section (NPA55)

Date of Birth	Age @ 01/04/2012	Age @ 01/04/2015	Date of switch to new pension	Age at switch to new pension
2/4/67 - 30/4/67	44y 11m	47y 11m	01/02/2022	54y 9m
May-67	44y 10m	47y 10m	01/12/2021	54y 6m
Jun-67	44y 9m	47y 9m	01/10/2021	54y 3m
Jul-67	44y 8m	47y 8m	01/08/2021	54y
Aug-67	44y 7m	47y 7m	01/06/2021	53y 9m
Sep-67	44y 6m	47y 6m	01/04/2021	53y 6m
Oct-67	44y 5m	47y 5m	01/02/2021	53y 3m
Nov-67	44y 4m	47y 4m	01/12/2020	53y
Dec-67	44y 3m	47y 3m	01/10/2020	52y 9m
Jan-68	44y 2m	47y 2m	01/08/2020	52y 6m
Feb-68	44y 1m	47y 1m	01/06/2020	52y 3m
Mar-68	44y	47y	01/04/2020	52y
Apr-68	43y 11m	46y 11m	01/02/2020	51y 9m
May-68	43y 10m	46y 10m	01/12/2019	51y 6m
Jun-68	43y 9m	46y 9m	01/10/2019	51y 3m
Jul-68	43y 8m	46y 8m	01/08/2019	51y
Aug-68	43y 7m	46y 7m	01/06/2019	50y 9m
Sep-68	43y 6m	46y 6m	01/04/2019	50y 6m

Date of Birth	Age @ 01/04/2012	Age @ 01/04/2015	Date of switch to new pension	Age at switch to new pension
Oct-68	43y 5m	46y 5m	01/02/2019	50y 3m
Nov-68	43y 4m	46y 4m	01/12/2018	50y
Dec-68	43y 3m	46y 3m	01/10/2018	49y 9m
Jan-69	43y 2m	46y 2m	01/08/2018	49y 6m
Feb-69	43y 1m	46y 1m	01/06/2018	49y 3m
Mar-69	43y	46y	01/04/2018	49y
Apr-69	42y 11m	45y 11m	01/02/2018	48y 9m
May-69	42y 10m	45y 10m	01/12/2017	48y 6m
Jun-69	42y 9m	45y 9m	01/10/2017	48y 3m
Jul-69	42y 8m	45y 8m	01/08/2017	48y
Aug-69	42y 7m	45y 7m	01/06/2017	47y 9m
Sep-69	42y 6m	45y 6m	01/04/2017	47y 6m
Oct-69	42y 5m	45y 5m	01/02/2017	47y 3m
Nov-69	42y 4m	45y 4m	01/12/2016	47y
Dec-69	42y 3m	45y 3m	01/10/2016	46y 9m
Jan-70	42y 2m	45y 2m	01/08/2016	46y 6m
Feb-70	42y 1m	45y 1m	01/06/2016	46y 3m
Mar-70	42y	45y	01/04/2016	46y
Apr-70	41y 11m	44y 11m	01/02/2016	45y 9m
May-70	41y 10m	44y 10m	01/12/2015	45y 6m
Jun-70	41y 9m	44y 9m	01/10/2015	45y 3m
Jul-70	41y 8m	44y 8m	01/08/2015	45y
Aug-70	41y 7m	44y 7m	01/06/2015	44y 9m

Table 3 - Tapered protection for the 2008 Section (NPA65)

Date of Birth	Age @ 01/04/2012	Age @ 01/04/2015	Date of switch to new pension	Age at switch to new pension
2/4/57 - 30/4/57	54y 11m	57y 11m	01/02/2022	64y 9m
May-57	54y 10m	57y 10m	01/12/2021	64y 6m
Jun-57	54y 9m	57y 9m	01/10/2021	64y 3m
Jul-57	54y 8m	57y 8m	01/08/2021	64y

Date of Birth	Age @ 01/04/2012	Age @ 01/04/2015	Date of switch to new pension	Age at switch to new pension
Aug-57	54y 7m	57y 7m	01/06/2021	63y 9m
Sep-57	54y 6m	57y 6m	01/04/2021	63y 6m
Oct-57	54y 5m	57y 5m	01/02/2021	63y 3m
Nov-57	54y 4m	57y 4m	01/12/2020	63y
Dec-57	54y 3m	57y 3m	01/10/2020	62y 9m
Jan-58	54y 2m	57y 2m	01/08/2020	62y 6m
Feb-58	54y 1m	57y 1m	01/06/2020	62y 3m
Mar-58	54y	57y	01/04/2020	62y
Apr-58	53y 11m	56y 11m	01/02/2020	61y 9m
May-58	53y 10m	56y 10m	01/12/2019	61y 6m
Jun-58	53y 9m	56y 9m	01/10/2019	61y 3m
Jul-58	53y 8m	56y 8m	01/08/2019	61y
Aug-58	53y 7m	56y 7m	01/06/2019	60y 9m
Sep-58	53y 6m	56y 6m	01/04/2019	60y 6m
Oct-58	53y 5m	56y 5m	01/02/2019	60y 3m
Nov-58	53y 4m	56y 4m	01/12/2018	60y
Dec-58	53y 3m	56y 3m	01/10/2018	59y 9m
Jan-59	53y 2m	56y 2m	01/08/2018	59y 6m
Feb-59	53y 1m	56y 1m	01/06/2018	59y 3m
Mar-59	53y	56y	01/04/2018	59y
Apr-59	52y 11m	55y 11m	01/02/2018	58y 9m
May-59	52y 10m	55y 10m	01/12/2017	58y 6m
Jun-59	52y 9m	55y 9m	01/10/2017	58y 3m
Jul-59	52y 8m	55y 8m	01/08/2017	58y
Aug-59	52y 7m	55y 7m	01/06/2017	57y 9m
Sep-59	52y 6m	55y 6m	01/04/2017	57y 6m
Oct-59	52y 5m	55y 5m	01/02/2017	57y 3m
Nov-59	52y 4m	55y 4m	01/12/2016	57y
Dec-59	52y 3m	55y 3m	01/10/2016	56y 9m
Jan-60	52y 2m	55y 2m	01/08/2016	56y 6m
Feb-60	52y 1m	55y 1m	01/06/2016	56y 3m
Mar-60	52y	55y	01/04/2016	56y

Date of Birth	Age @ 01/04/2012	Age @ 01/04/2015	Date of switch to new pension	Age at switch to new pension
Apr-60	51y 11m	54y 11m	01/02/2016	55y 9m
May-60	51y 10m	54y 10m	01/12/2015	55y 6m
Jun-60	51y 9m	54y 9m	01/10/2015	55y 3m
Jul-60	51y 8m	54y 8m	01/08/2015	55y
Aug-60	51y 7m	54y 7m	01/06/2015	54y 9m