NHS Pension Scheme

Unite analysis of the proposals for a revised pension scheme in 2015

This paper reviews the key elements of the Government's NHS Pension Scheme Heads of Agreement
The paper also identifies what progress has been made in modifying the original proposals.

Contributions

The Government has refused to re-consider its proposal to raise the average contribution paid by members from 6.6% to 9.8% over the three years 2012/13 to 2014/5.

Their intended contributions are as follows:

Future Contributions

	Current	2012/3	2013/4	2014/5	Total Increase
Up to £15,000	5%	5%	5%	5%	0%
£15,001 - £21,175	5%	5%	5.3%	5.6%	0.6%
£21,176 - £26,557	6.5%	6.5%	6.8%	7.1%	0.6%
£26,558 - £48,982	6.5%	8%	9%	9.3%	2.8%
£48,983 - £69,931	6.5%	8.9%	11.3%	12.5%	6%
£69,932 - £110,273	7.5%	9.9%	12.3%	13.5%	6%
Over £110,273	8.5%	10.9%	13.3%	14.5%	6%

Formally, the distribution of increases for the second two years remain subject to further consultation and the distribution but not the overall level of contributions could be modified when the new scheme takes effect.

The lowest paid have been shielded but only at the expense of those on higher pay. If the extremely high top rates were moderated the required rate for middle earners would have to increase further

Normal Pension Age

The Government is now insisting that Normal Pension Age must be equal to a members State Pension Age. Benefits earned after 2015 will be reduced by a factor determined by how much earlier they are drawn before the member's State Pension Age at that point.

Years Early	1	2	3	4	5	6	7	8	9	10
Reduction	94.9%	89.9%	85.3%	81%	76.9%	73.2%	69.7%	66.4%	63.3%	60.4%

State Pension Age moves to 66 in 2020 and is proposed to move to 67 in 2026 with further increases based on increasing life expectancy.

The impact on members' pension is limited by current pension age applying to pre-2015 benefits (but many members may not be able to afford to draw pre-2015 benefits as early as if current arrangements had continued.

The Government did suggest that alternatives to a State Pension Age link could be considered if arrangements included provision for an increase to offset rising costs from longer life expectancy. This flexibility was removed in November

Discussion also explored protection on the basis of a 'State Pension Age minus 3 years' formula before the Government made an about-face and ruled out the idea. Lower early retirement factors were also looked at but The Government insisted on such a high price in terms of lower accrual for all scheme members that they were not pursued

The only chink of light is a commitment to a tri-partite review of the impact of working longer in the NHS with particular reference to staff in frontline and physically demanding roles, including emergency services.

Accrual rate and CARE

The Government proposed a Career Average (CARE) scheme to replace Final Salary.

In Scheme discussions it first said that a Final Salary Scheme could be retained provided it did not cost more. A final salary alternative was costed as requiring an accrual rate 12% lower than a CARE scheme. Analysis suggested that on this basis final salary would only be advantageous to members whose career spanned more than three Bands.

In November the Government decreed that the new scheme had to be CARE (this is linked to their position on Fair Deal and wider access to the Scheme –see below)

The Government gave an undertaking that it would provide a pension to low and middle earners which was not less than the current scheme provided. The catch was that this pension would only be available at the higher Normal Pension Age (and require higher contributions - and get only CPI increases in payment).

Having floated the idea of accrual rates as low as 1/80, it made an initial offer of a 1/65 accrual rate in a CARE scheme with revaluation in line with 'average earnings'

(Note: the accrual rate and the revaluation rate, which replaces the final salary link, are both key quality aspects in a CARE scheme. Varying the balance between them affects how the scheme impacts on different members e.g a high accrual rate and lower revaluation rate is better for members with short careers and vice versa)

After discussion at TUC level this offer was improved to 1/60 accrual with revaluation in line with average earnings.

Scheme discussions considered how the balance between accrual and revaluation might be changed with a fixed cost ceiling. It was felt a fixed revaluation linked to inflation was better than a revaluation based on average earnings. This was because of concern about future pay prospects given the economic outlook and because earnings revaluation was costed at CPI +2.25% but not guaranteed to deliver that in practice.

Discussions determined that, within the cost ceiling, a combination of 1/54 accrual and revaluation at CPI +1.5% p.a delivered the best outcome

Pension Increases

All increases in respect of the new Scheme and pension increases for the present schemes are now based on CPI inflation. The Government has indicated this is not subject to any re-consideration.

This is expected to represent a loss of value of at least 1% p.a, as compared to RPI based increases.

The trades union backed judicial review case was rejected by the High Court, which gave leave to appeal which is being actively considered.

Cost Sharing and future guarantees

In discussions there has been concern to establish whether and on what basis there might be further changes in the scheme

The Government is proposing to calculate an employer cost and then set a margin of plus or minus 2% of pay around that. Only if costs moved outside that band would further change be considered. The rise in State Pension Age would be expected to deal with the biggest potential cost pressure which is from members living longer.
They are also saying that they would cover any costs associated with a change in financial assumptions (e.g the discount rate).

This framework means that further change is much less likely to be triggered in cost – sharing than was the case under the previous 'cap and share' arrangements.

They are also promising not to revisit the pension settlement for at least 25 years and to make it more difficult for a future Government to do so (though their ability to do that is limited).

Fair Deal and Access

Alongside proposals to change the pension scheme the Government had also been minded to scrap 'Fair Deal' provisions and to limit further access to the Scheme, for those transferred out.

It is now saying that on the basis of the proposed changes going ahead it is prepared to reconsider this. Staff whose employment is transferred out under TUPE would be able to retain membership of the Scheme. In addition it would consider sympathetically the case for staff in AQP's to be allowed in the Scheme and consider this further in a partnership review.

Protection for existing members

The Government has committed that all benefits earned prior to 2015 will be maintained and linked to final pay at the time members retires or leaves the scheme. This includes the right to access them at current pension ages (though members have to retire/cease employment and draw all pre- and post- 2015 benefits if they are in the 1995 Scheme). This means the impact of the changes for the future, on a member's overall pension, are mitigated the more pre-2015 benefits a member has.

The trades union starting point on protection was to secure the maximum degree of protection of all existing terms for current members. We explored how this might be achieved in scheme discussions, most particularly in relation to pension age, and pressed the Government for additional funds to make this possible without detriment to benefits in other areas and worse terms for new members.

The Government response was to propose that all members within ten years of their normal pension age in April 2012 be given protection by allowing them to remain in their current scheme until they retired. This would mean that they would only suffer increased contributions and lower CPI increases.

On legal advice they also proposed some tapered protection for those in the range of 10-13.5 years before their normal pension age in April 2012. These members would be allowed to remain in their current schemes for periods tapering down in a linear progression from 7 years to those just over 10 years to (an insignificant) two months for those 13.5 years before. Basically for each month of age above 10years 2 months of delay is lost.

This protection is to be funded with additional Government money but its form and coverage was declared as being non-negotiable.

It is estimated that around 400,000 members will benefit from this protection. Of the other scheme members outside this protection about 400,000 (in 2015) are expected to be in the 2008 scheme and 500,000 in the 1995 scheme.

The door was open to extended protection but only at the expense of reduced benefits for all other members of the scheme