The Government has announced its final position on new NHS pension arrangements from 2015. This was confirmed in a statement from the Secretary of State to Parliament on 20 December 2011.

The statement says; ‘The Government have made clear this sets out their final position on the main elements of scheme design, which unions have agreed to take back to their Executives as the best that can be achieved through negotiations’.

The Government has said that if these proposals are not accepted then we have to be prepared for a potentially worse set of proposals to be imposed.

At present these proposals will apply to the NHS scheme in England and Wales although the UK Government expects that NHS scheme arrangements in Scotland and Northern Ireland will mirror them.

RCN Council, at its meeting on 10 January, agreed to give members a vote on the new proposals. Voting papers will go out from January 30th with a closing date for votes to be returned of 27 February at 4pm. Votes can be cast by post, telephone or online.

RCN Council believes that these proposals are the most that can be achieved by negotiation.

Normal Pension Age (NPA)

Normal Pension Age (NPA) is the age at which you can take an unreduced pension. This is not the same as a retirement age. Someone can retire before or after their NPA. If they retire before their NPA they will receive a reduction in their pension (and lump sum) as they are taking benefits early and will be in receipt of them for longer. Likewise, they can decide to retire after their NPA in order to build up a bigger pension and lump sum.

Current pension arrangements

There are two sections of the NHS pension scheme: the 1995 section and the 2008 section. Both deliver pensions on a defined benefit final salary basis.

The 1995 section covers all members who entered the scheme before April 2008. The section has a normal pension age (NPA) of 60 (or 55 if someone is one of the special classes). Pension builds up at a rate of 1/80th of pensionable pay and pension is based on either: 1) Your pensionable pay in the final year of service or, 2) The best of your last three years of service. There is an automatic cash lump sum of three times pension.

The 2008 section applies to members who entered the scheme for the first time after 31 March 2008, as well as those who have chosen to move from the 1995 section to the 2008 section through the NHS Pension Choice exercise. It has a NPA of 65 and benefits build up at an accrual rate of 1/60th of pensionable pay. Final salary pensions are calculated by taking your final ten years of employment, dividing that period up into combinations of three consecutive years (1,2,3 or 2,3,4 or 3,4,5 etc), then choosing the combination which yields the highest final salary. There is no automatic lump sum paid.
What the Government is offering

The main elements of the proposals are:

- a confirmation that pension benefits earned up to April 2015, or the date of moving to the new section (known as accrued rights), will be fully protected
- that scheme members who are less than 10 years from their NPA in April 2012 are protected from the changes, excepting the Government-imposed contribution increases. This protection also applies to members with special class status and mental health officers in this group
- further limited protection for members who are between 10 and 13.5 years of NPA
- that from 2015 there will be a new NHS pension scheme based on career average principles with an accrual rate of 1/54th. This is the rate at which your pension builds up for each year of service
- that for service in the 2015 section, there will be a normal pension age which is linked to the state pension age. At present it’s 65 and rising to 68 by the mid-2040s
- that future pension increases in retirement will be linked to prices. At present it’s the Consumer Price Index (CPI)
- there will be an extension of the fair deal agreement so that members transferred from the NHS under TUPE (transfer of undertakings protection of employment) arrangements can retain membership of the NHS Pension Scheme. There is a commitment to a review if this could apply to AQP (Any Qualified Practitioner) situations
- there will be average employee contributions of 9.8 per cent by April 2014. Some scheme members will pay less than this figure and some more.

All pension benefits built up at 2015 (or at the date of you moving to the new section) will be fully protected and those benefits will be linked to the your final salary at retirement.

All future benefits built up once you enter the 2015 section of the NHS scheme will be on a career average basis (CARE) and based on an NPA of 65. Career average pensions are also defined benefit schemes. This means that you will continue to be able to receive a guaranteed pension in retirement. The difference between CARE and final salary is that instead of only looking at your final salary (or the best in the last three years of pensionable employment) to calculate your pension, each year of pensionable service is considered and the pension paid is therefore based on the average of all your service, not just the last year. In order to maintain the long-term benefits of these pensionable earnings will be uplifted annually by CPI plus 1.5 per cent.

Contribution increases

All pension scheme members will be expected to pay any increase in employee contributions due from 1 April 2012. This includes all those that receive some form of protection and those that move to the new section immediately in April 2012.

Currently, the average NHS employee pays 6.5 per cent of their pensionable pay into their pension. From April 2012 employee contributions will increase by an average of 3.2 per cent so that by 2014 the average NHS employee contribution will be 9.8 per cent of pensionable pay. The increase will mean that some higher paid staff will pay more than the 3.2 per cent average increase while some lower paid staff will pay less.

If the full 3.2 per cent was to be applied to someone earning a pensionable pay of £30,000pa, they would see their contributions increase from £1,950 (gross) to £2,940 (gross) an increase of £990pa before tax relief.

There will be protection for current scheme members who will be within ten years of their NPA in April 2012.
For example;

- a special class nurse or Mental Health Officer (MHO) currently in the 1995 section who will be 45 or older in April 2012
- a nurse currently in the 1995 section without special class or MHO status who will be 50 or older in April 2012
- a nurse currently in the 2008 section who will be 55 or older in April 2012

This group of staff will be fully protected save for the fact that, from 2012, they will have to pay any increase in employee contributions applicable to scheme members. They will be able to retire at their current NPA without loss. They will effectively remain in their current scheme and continue to build up pensions on a final salary basis. Special class members will retain their NPA of 55 and MHOs will continue to ‘double up’ during this period. This protection covers about 400,000 scheme members.

There will be protection for current scheme members who, in April 2012, will be between 10 and 13.5 years from their NPA.

In order to avoid a cliff edge-effect, where people outside the 10 year period might receive no protection, scheme members between 10 and 13.5 years from their NPA will also receive some protection. This is called the taper. Those in the taper will receive some protection so that for every month of age that they are beyond ten years of their NPA, they will lose two months of the 10 years protection. At the end of the protected period they will move to the new pension scheme for future service.

Essentially, the nearer you are to the 10 year mark, the later you will move to the new NHS pension arrangements (and the longer you will remain in your current arrangements).

An example of this limited protection is shown below (detailed tables are on the RCN website):

### 3.5 year tapering

<table>
<thead>
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<th>Years to current NPA less ten years</th>
<th>Date of switch to the new pension scheme</th>
</tr>
</thead>
<tbody>
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</tr>
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<td>01/04/2021</td>
</tr>
<tr>
<td>0 years</td>
<td>Protected</td>
</tr>
</tbody>
</table>

### MHO Members

MHO members in the taper will not ‘double up’ on a year by year basis in this period. However, the longstanding NHS pension arrangements on uniform accrual will continue to apply. Under uniform accrual, members receive a proportionate benefit for the doubling they would have achieved at retirement. The proportion is based on the number of years actually worked, compared to the potential service the member would have had at retirement. This approach ensures that where a benefit is no longer retained, the member will still get some benefit from it although not to the full degree.

One way that uniform accrual might work is as follows:

**Example: MHO member information**

Date of birth: 1 April 1968
Date joined scheme: 1 April 1993 (age 25)
Normal pension age: 55
Normal retirement date: 1 April 2023
Age at 1 April 2012: 44
Date of switch to new scheme: 1 April 2020 (age 52)

### Service calculations

Basic membership until date of switch: 27 years
Potential membership to retirement (NPA 55): 30 years
Potential membership to retirement including doubling:
20 years + 2 x 10 years = 40 years
Uniformly accrued service = 27 / 30 x 40 = 36 years

The taper protection will cover approximately 100,000 scheme members.

**Scheme members outside the protected groups**

Scheme members who do not fall within the full or taper protection arrangements will move to the new pension arrangements on 1 April 2015. You will have a normal pension age equal to the state pension age (currently 65) for future pensionable service. Any previously accrued pension benefits (to 2015) will be fully protected and your salary on retirement will be used to set your pension for this period of service. Pensionable service from 2015 will be built up on a career average basis with pension building up at 1/54th accrual and uplifted annually by CPI plus 1.5 per cent per year.

**For new entrants to the NHS after April 2015**

New entrants to the NHS after 1 April 2015 will enter the new 2015 section of the scheme.

A pension scheme based on career average pensionable pay uplifted in service by CPI plus 1.5 per cent per annum and built up on an accrual rate of 1/54th. Members will have a normal pension age (NPA) that is equal to and rises with any increase in the state pension age (SPA). Employee contributions will be, on average, 9.8 per cent of pensionable pay.

**What happens if I move to the 2015 section and then retire?**

If you move to the 2015 section and retire at some point after that, your pension will be built up as follows:

- pension built up from date of change on a career average basis and with a NPA of 65. This element of your pension will be reduced if it is taken before age 65.

To take a pension you will have to retire from both sections of the NHS scheme.

**Staff being TUPE’d (Transfer of Undertakings Protection of Employment) out of the NHS**

The proposal is that where services are contracted out of the NHS under TUPE members will be able to remain in the NHS pension scheme. This would replace the current fair deal arrangements where new receiving employers are asked only to provide a ‘broadly comparable pension scheme’. Where NHS services are transferred to another employer, members will still be able to retain membership of the NHS pension scheme.

**Government’s 25 year protection**

The Government has said that if these proposals are accepted it will give a guarantee of 25 years protection against any further fundamental changes to the scheme.

**The impact of increasing normal pension age beyond 65 in the NHS**

In recognising the physically demanding jobs some staff have, there will be a review between unions, NHS Employers, and the Department of Health to address the implications of working longer in the NHS.

**Information available from the RCN website**

This information is subject to continual updating:

- the outline of the final proposals.
- a pension modeller outlining what pension a scheme member may expect to receive if all the proposals are implemented
• a contribution modeller outlining what contributions a scheme member might be obliged to pay if the contribution increase is implemented as planned

• a powerpoint presentation of the proposals

• a spreadsheet of dates for those affected by the taper protection outlining when they might expect to move to the new 2015 section

• a set of Q&As on the proposals and RCN Council’s decision to give all members a vote

• communication from RCN Chair of Council, Professor Kath McCourt and RCN Chief Executive and General Secretary, Dr Peter Carter.

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February 2012