



NHS Pension Scheme Review

Final agreement on changes to the NHS Pension Scheme

The changes to the NHS Pension Scheme have now been agreed for England and Wales. The agreement concludes four years of partnership working between NHS Employers and the NHS trade unions. It delivers a Scheme that meets the needs of a modern NHS and its staff, and is sustainable in the longer term.

This fact sheet tells you about the main changes for both existing and new members, when the changes are likely to happen, and what employers will be required to do to support implementation.

What is changing in the NHS Pension Scheme?

An updated Scheme is being introduced for existing members that keeps most of the current benefits, as well as introducing new ones, alongside a new Scheme for new members. Existing members will have a one-off choice of moving to the new members' Scheme.

When will the changes be introduced?

Changes to the Scheme for existing members and the New NHS Pension Scheme for new

members, will both be introduced on 1 April 2008. Existing members will have a one-off choice to move to the new Scheme, which is planned to run from 1 July 2009 to 30 June 2010.

What do employers need to do?

Employers need to communicate the Scheme changes to staff and there is a range of materials at www.nhsemployers.org/pensionagreement to help you do this. In addition, the Business Services Authority (BSA) Pensions Division will be sending all employers a printed leaflet about the changes for staff, which will be with employers for

distribution with November payslips. Employers will need to ensure that staff who join the NHS between now and 31 March 2008, are given a copy of the insert. They will also need to support some staff that have options to think about now (see the **More details** section on page 6).

New data requirements for employers

Employers will also need to provide new data to support the Scheme changes, including the new contribution rates. The Electronic Staff Records

(ESR) project team and the Department of Health are currently identifying the information required and how best to support all employers, including those who do not have ESR.

Will employer contributions change?

No. We expect that the employer's contribution will continue to be around 14% which is still 2/3rds of the overall pension cost. As part of the negotiations, NHS Employers has ensured that in the longer term, employer costs will stay at 14%.

The updated NHS Pension Scheme for existing members – introduced on 1 April 2008

The updated NHS Pension Scheme will continue to offer most of the current benefits that staff and employers said were important to them such as final salary, as well as a range of new benefits like the option to take more pension as a tax free lump sum. However, there will also be new contribution rates to give a fairer way to fund new benefits and future costs.

- **Keep final salary pension** – this will still be calculated on the *highest* pensionable pay in the last three years of paying into the pension and still accrued at 1/80th of pensionable pay, for every year of paying into the Scheme. Existing members will also continue to get a lump sum of 3/80ths of their pension.

- **New option to take more pension as a tax-free lump sum** – staff will be able to take up to 25% of the value of their pension fund in return for a smaller pension, giving up £1 of pension for every £12 of lump sum. This will give staff more flexibility on retirement.
- **Keep the current Normal Pension Age (NPA)** – for most staff this is 60 years, or 55 years for those with special class status. Most staff will still have a minimum pension age of 50.
- **New option to continue paying into the pension for longer** – staff who have not yet retired, can carry on paying into, and building up, their pension for a total of 45 years regardless of their age.



New option to take more pension as a tax-free lump sum

- **More flexibility in the run-up to retirement** – after age 50, staff can step down to a less demanding role on a lower salary, with protection for the pension that they have already built up. However, this only applies if there is a permanent reduction of at least 10% in pensionable pay that is certified (not approved) by the employer.
- **No earnings cap** – for service after 1 April 2008, the current earnings cap of £112,800 for 2007/2008 will be removed. However, service before 1 April 2008 will still be subject to the cap of £112,800. This will also apply to the earnings cap for dental practitioners called the maximum allowable remuneration (MAR).
- **A new option for staff to top up pension, to replace added years** – staff will be able to purchase up to a total of £5,000 of additional pension, either as one lump sum or in smaller amounts of £250, any time up to and including age 60, over a total period of 20 years. Total annual pension contributions will be limited to the total of pensionable pay. Staff will be able to choose between buying additional pension for single life or with survivor benefits. This replaces the facility to buy added years but existing contracts will be honoured.
- **Current money purchase Added Voluntary Contributions (AVCs) continues** – this gives current members an alternative to the additional purchase facility outlined above.
- **In future, those who get survivor pensions following the death of an active member, will keep them for life** – this will apply even if they re-marry, enter a new civil partnership or co-habit.
- **Eligible unmarried partners will now get survivor pensions** – an eligible partner is anyone who is not married or in a civil partnership, but is nominated to receive a pension and is someone who the member has an exclusive long-term committed relationship with, in which they are financially dependent or inter-dependent.
- **New contribution rates** – individual contributions will be directly linked to earnings. The review partners believe this is a fairer way to fund new benefits and future costs. Individual contribution rates will depend on individuals' pensionable pay or the full time equivalent if they work part time.



The new rates are outlined below and will be introduced on 1 April 2008.

Annual pensionable pay (full time equivalent)	Current contribution	New contribution
Up to £19,165	5% (manuals) or 6%	5%
£19,166 – £63,416 (linked to AfC pay point 17)	5% (manuals) or 6%	6.5%
£63,417 – £99,999 (linked to AfC paypoint 49)	6%	7.5%
£100,000 plus	6%	8.5%

Notes:

- (1) Staff classified as manual staff currently pay 5% and will continue to do so until 1 April 2009.
- (2) Earnings above the earnings cap are currently not pensionable for staff who joined the Pension Scheme after 1989.
- (3) These thresholds are based on 2006/07 pay rates and revaluation of all thresholds is linked to AfC pay point revaluation.

Work is on-going to confirm detailed next steps for employers, for implementing the new rates.

- **A range of further improvements** – other improvements to the existing Scheme include survivor pensions for children up to age 23; the ability to nominate a number of beneficiaries for the death in service benefit; and going forward, the short term death in service benefit will be standardised at six months.
- **Employers continue to contribute around 14%** – this is around 2/3rds of the overall cost of an individual's pension.

The revised scheme for existing practitioner members (GPs and dentists)

- **Keep a CARE pension** – their Career Average Revalued Earnings (CARE) pension will continue to have an accrual rate of 1.4% and a lump sum of 4.2%.
- **More stability in annual revaluations** – from 1 April 2008, active members' pension will be dynamised annually by the Retail Prices Index (RPI) plus 1.5%, which is broadly in line with the movement in national average earnings.

The New NHS Pension Scheme for new members – introduced on 1 April 2008, with a one-off choice for existing members, planned from 1 July 2009

The New NHS Pension Scheme for new members offers a range of flexibilities to suit different working patterns, particularly in the run-up to retirement. For employers, it gives staff more options such as stepping down to a less demanding role and taking part of their pension, or being able to return to work after they have retired and rejoin the Scheme. Existing members will have a one-off choice to move to this Scheme, which is currently planned for 1 July 2009 to 30 June 2010.

- **A final salary pension** – this will be based on the *average* of the best three consecutive years in pensionable pay, in the last ten years' of working, and calculated on a higher accrual rate of 1/60th of pensionable pay and revalued by RPI. This gives staff more options in the run-up to retirement like taking on a lower paid role but knowing that their pension will still be based on their earlier, higher earning years.
- **An NPA of 65 years** – this will be on an unreduced pension at 65 years but with more flexibilities for those who want to retire earlier or later. New members will be able to retire after 55 years on a reduced pension, or they can continue working to age 75 to get an enhanced pension, or start taking part of their pension whilst still working. Whatever they decide to do, they can only take their pension in three portions (no more), so if they have drawn down part of their pension twice before, they must take all their remaining pension when they finally retire.
- **No age limits on service** – they can continue to pay into their pension for as long as they are working, up to a total of 45 years, regardless of their age.
- **More options on lump sum** – they can take up to 25% of their pension as a lump sum or take all their income as a pension, or flex anywhere between the two. They will give up £1 of pension for every £12 of lump sum.
- **Choice of options to top up their pension** – the options are the same as those for existing members (see new option for staff to top up pension on page 3) but payable at 65 years of age.
- **Contribution rates linked to individual earnings** – exactly the same as those for existing members (see the contribution rate table on page 4).
- **Further benefits** – survivor pensions for life; survivor pensions for children aged up to 23 years; the ability to nominate



The Scheme offers a range of flexibilities to suit different working patterns

more than one beneficiary for death in service benefit and getting the short-term death in service benefit for six months.

New Scheme for new practitioner members (GPs and dentists)

- **A CARE pension** – with an accrual rate of 1.87% and the option to take up to 25% of their pension as a lump sum with a reduced pension.
- **Annual revaluations** – for active members, annual dynamisation will be by RPI plus 1.5%.

More details

Who will be supporting employers through implementation?

The BSA Pensions Division is the Scheme administrators and is responsible for implementing the changes. They will be supporting employers throughout the period leading up to and including the implementation, and will be contacting you to ensure that processes to administer the changes are in place in time. You can visit their website at www.pensions.nhsbsa.nhs.uk to register for email alerts to notify you of any new information as it becomes available.

Are there staff who need to make a decision now?

Most staff don't need to do anything in the short term. However, the following staff will need to think about their options now: those who are thinking about retiring in the next three years, those who are leaving the NHS

and deferring their pension, or any staff who want to buy added years before it is replaced by the new option to buy added pension (applications for added years need to be in by 31 March 2008). The Pensions Division has produced a range of factsheets on the changes including ones for specific groups such as those who are planning to retire. This information is available on the Pensions Division's website at www.nhspensions.nhsbsa.nhs.uk

What about those people who have left the NHS and deferred their benefits in the Scheme?

Deferred members, who return within five years of leaving or before 1 April 2008, will return to the updated NHS Pension Scheme and will be given a choice to transfer to the New NHS Pension Scheme for new members. Those who return after five years will join the New Scheme for future service but will be given a

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choice on whether to transfer their deferred service to the New Scheme.

New staff who join the Scheme on or after 1 April 2008, will also join the New Scheme for new members.

The Pensions Division will be contacting deferred members at their last known address to advise them of the changes.

Where can I find out more?

This fact sheet only outlines the key changes to the Scheme for existing and new members. For details on:

- all the changes visit www.nhsemployers.org/pensionagreement to see copies of this summary, Q&As, case studies illustrating the changes and a template presentation and editorial to support staff cascades

- how the changes will affect staff and when, and how, they will be introduced see www.pensions.nhsbsa.nhs.uk including fact sheets for specific staff groups such as deferred members and a ready reckoner to help staff calculate their new contribution rate and options on lump sum.

If you have any queries

- about the changes to the Pension Scheme, please email NHS Employers at nhspensionreview@nhsemployers.org and they will aim to respond quickly
- about implementation of the Schemes for existing and new members, and support for employers and staff through implementation, please see the Pensions Division website at www.pensions.nhsbsa.nhs.uk
- register for email alerts on new information via the Pensions Division website, where you can also access an email facility for any outstanding queries on implementation.

Contact us

www.nhsemployers.org

enquiries@nhsemployers.org

NHS Employers
29 Bressenden Place
London
SW1E 5DD

2 Brewery Wharf
Kendell Street
Leeds LS10 1JR

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