Final offer on changes to the NHS Pension Scheme – FAQs

This document is intended to answer questions you may have about the government's offer on changes to the NHS Pension Scheme. It is based on all of the information that we have at present.

The government has made its "final offer" in negotiations on changes to the NHS pension. **The BMA has not accepted it**, but has agreed to seek the views of its members.

Under the offer:

- There would be a switch from a final salary scheme to a career average revalued earnings (CARE) scheme for hospital doctors (GPs already have CARE pensions)
- The accrual rate offered is $1/54^{th}$ of pay, so your pension would be based on $1/54^{th}$ of your pensionable earnings in every year of your career. This is an improvement on the previous offer of 1/60th
- Pension benefits that you have built up so far ("accrued rights") will be protected in full and paid from the Normal Pension Age at the time you joined the scheme
- The Normal Pension Age for the new scheme would increase in line with the State Pension Age, with doctors at the start of their careers having to work to the age of 68 to be able to draw a full pension
- Contributions would also increase from April 2012, with the highest earners contributing over 14% of salary by 2014
- Doctors within 10 years of retirement on 1 April 2012, would not have to work longer or receive worse pensions as a result of the changes, although they would still pay more in contributions
- A degree of protection for those within 13 and a half years of retirement would also apply.

These issues are explained below.

1. Why has the BMA accepted the offer?

It is important to note that the BMA has **not** accepted the government's offer. On 20 December 2011, the Government announced that talks had concluded and set out "heads of agreement" which noted what had been discussed and offered in the negotiations

The BMA and other health unions have reached a point where we agree that we have got as far as we can through negotiations and the government is unwilling to improve the offer further. A 'heads of agreement' document simply records the stage the negotiations reached and outlines areas for possible further discussion in the New Year.

The BMA is surveying members in January to help decide its next steps.

2. What is the background to these proposals?

Early in 2011, following Lord Hutton's review, the government proposed:

- linking the retirement age in most public sector pension schemes to the state pension age
- replacing final salary pension schemes with career average earnings schemes

Separately from the Hutton review, the government announced its intention to raise £3.2 billion a year for the Treasury by increasing the amount public sector employees contribute for their pensions. Additionally, in April 2011 it changed the indexation method for uprating annual pension payments from the Retail Prices Index (RPI) to the far less beneficial Consumer Prices Index (CPI).

Over the course of 2011, the health unions, including the BMA, took part in intensive negotiations over the way these changes would apply to the NHS pension.

the final offer represents an improvement in a number of respects from what was originally proposed, and unions do not believe it can be improved further through negotiation. It is important to recognise that this is the second major overhaul to the NHS pension scheme in recent years. In 2008 the unions agreed to major changes to the scheme to make it fair and affordable in the long term. These included an increase to the normal pension age for new NHS staff from 60 to 65, and a cap on employer contributions. In addition, tiered contributions were introduced, with higher paid NHS staff paying more. The scheme is currently in a strong funding position - in the seven years between 2009/10 and 2015/16 the scheme will actually provide a positive cashflow to the Treasury of £10.7 billion.

3. What is the intended date of implementation?

The government want to impose the proposed new scheme from 1 April 2015, but contributions will start to increase from April 2012.

4. What is happening to pension contributions?

The government wants to dramatically increase the amount NHS staff contribute towards their pensions. Currently doctors pay 6.5%, 7.5% or 8.5% depending on what they earn. Under the government's proposals those contributions will start to increase from April 2012. If you are currently paying 8.5%, you would have to pay 14.5% by 2014. This increase is quite separate from any scheme funding requirements and the revenue raised will go to the Treasury.

5. How would my existing benefits be affected?

Anyone who joins, or joined, the NHS pension scheme prior to 1 April 2015 has built up pension benefits – known as accrued rights. These will be protected in full and can be paid from the normal pension age on which the accrual was based. This would be age 65 for a member of the 2008 section of the scheme, 60 for a member of the 1995 section, and 55 for a member of the 1995 section who has Mental Health Officer (MHO) status.

For hospital doctors, the years of service accrued up to 1 April 2015 will be based on the current definitions of final pensionable pay at the relevant normal pension age. GPs will see their total career earnings continue to be increased by the current method of dynamising which is the Consumer Prices Index (CPI) + 1.5%.

6. What will happen to my added years contract?

No recommendations have been made by the Government as yet and Lord Hutton's original report made no mention of added years. The legal advice that we have received is that the Government should not cancel added years contracts and provide members with a different benefit as members have entered into a contract to purchase additional service.

7. What is the 'transitional protection' that will apply if I am within ten years of my current normal pension age?

Anyone within 10 years of their **current** normal pension age at 1 April 2012 would have their current method of benefit accrual and their current normal pension age fully protected. This would apply to those aged:

- 50 or over who are members of the 1995 section
- 55 or over who are members of the 2008 section
- 45 or over who are members of the 1995 section and have Mental Health Officer (MHO) status.

MHOs would continue to 'double' years of pension accrual where applicable. The increased contributions would still apply to protected members.

8. What is the 'tapering protection' that will apply if I am within 13.5 years of retirement?

Members who are close to the period of total protection will be offered "tapering protection". For every month of age that they are beyond 10 years of their normal pension age, they lose two months of protection. This effectively means that there will be some protection for everyone within 13.5 years of their normal retirement age.

9. What is the difference between CARE and final salary?

The proposed scheme is a Career Average Revalued Earnings or 'CARE' scheme. GPs will be familiar with this method of accrual because they already accrue their pensions on this basis. Hospital doctors currently accrue pensions on a final salary basis, which means that for each year of service they accrue a fraction of their final salary (see below). GPs will see little change to the way in which their basic pension is calculated and a CARE scheme suits them better than hospital doctors because they reach a higher rate of earnings earlier in their careers. Hospital doctors are better served by a final salary scheme which ignores lower earnings in the early part of your career and bases entire pensionable service on highest salary at retirement.

10. What is the accrual rate in the proposed CARE scheme?

The government's proposal is for the new scheme to have an accrual rate of $1/54^{th}$. This means that you would accrue $1/54^{th}$ of your pensionable earnings for every year of your career. $1/54^{th}$ equates to approximately 1.85% of your salary being put aside each year. The pension that you accrue each year is revalued (see below) and at retirement the total amount of revalued pension that you have accrued over your career will be payable to you. The current accrual rates for GPs are 1.4% in the 1995 section and 1.87% in the 2008 section. Hospital doctors currently accrue benefits at the rate of $1/80^{th}$ of final salary in the 1995 section and $1/60^{th}$ of final salary in the 2008 section. Whilst it might sound like the proposed scheme has a preferential accrual rate it is important to remember that a CARE scheme will generally provide a pension which is around 30% lower than a final salary scheme for hospital doctors (assuming the same length of service and salary) because it takes into account earlier years of lower earnings, rather than just the highest earnings which tend to be received at the end of the career.

11. How would my pensionable earnings be revalued in a CARE scheme?

Because a CARE scheme takes into account total career earnings it is necessary for those earnings to be revalued so that previous years do not lose value in comparison to current levels of earnings. GPs will be familiar with the term 'dynamising' as this is the method of revaluation that currently applies to their pensionable earnings. Under the proposed scheme, the government wants the revaluation factor to be the rate of the Consumer Prices Index (CPI) + 1.5%, which is also the current method by which GP earnings are 'dynamised'.

12. Will my Normal Pension Age increase?

The government wants to dramatically increase the Normal Pension Age, linking it to the State Pension Age. This would mean that, depending on your date of birth, the age at which you can first draw your benefits at an unreduced rate will be 65, 66, 67 or 68.

13. How does my pension increase when it comes in to payment?

Pensions in payment will continue to increase in line with the Consumer Prices Index (CPI). Remember that the government can change this index – in April 2011 they changed the indexation method from Retail Prices Index (RPI) to the far less beneficial CPI. This means that a doctor retiring today with a pension of £36,000 would lose approximately £128,000 over 20 years of retirement.

14. How does deferred my pension increase if I leave the scheme before taking my pension?

If you leave the scheme and do not draw your pension immediately it becomes 'deferred'. Deferred pensions would continue to be increased by CPI under the government's proposals.

15. Will there be an automatic tax free lump sum payable?

There would be no automatic lump sum payable to members in the proposed new scheme. Instead, members can opt to give up part of their pension for an optional lump sum at the rate of £12 of lump sum for every £1 of pension foregone. This is the same arrangement that applies in the 2008 section of the NHS pension scheme, but not the 1995 section, where a lump sum is automatically paid.

16. What happens if I take voluntary early retirement?

If you retire before your normal pension age, your pension is usually reduced. The reduction factors for early retirement in the new scheme have not been set but can reasonably be expected to represent a 5% reduction for each year early the pension is taken.

17. What happens if I take Ill health retirement?

At present doctors retiring on ill health grounds receive two thirds of the value of the pension they would have accrued if their service had continued. The government wants to reduce this to half.

18. Is there any change to pensions for spouses and partners?

Pensions for spouses and partners would continue to be based on $1/160^{th}$ of pensionable earnings for each year of service that the member had.

19. What is happening to 'Fair Deal'

Fair Deal legislation protects members whose job is moved from the public to the private sector. Previously it required the private provider to offer a 'broadly comparable' pension to the NHS Pension Scheme to staff who transfer under TUPE. The government proposes that, in future, members in this situation would be allowed to remain in the NHS Pension Scheme.

20. What are the further areas for discussion in 2012?

The government also proposes to discuss other ancillary benefits in the scheme following individual trade unions' consultation with members. These include:

- Added years - The BMA has sought legal advice that confirmed that added years represent a legally binding contract. We are yet to hear from government whether or not they intend to honour them
- Abatement – limitation of pension for members who return to work after retirement and drawing their pension
- Partial retirement and re-employment
- The lump sum payable in the event of death in service
- Members who leave active service and subsequently rejoin
- The possible option for members to pay higher contribution rates to reduce the impact of early retirement factors
- Transfers of pension between public sector pension schemes
- The distribution of the government's proposed further increases to employee contribution rates in April 2013 and April 2014.

21. What is the situation across the UK?

As at December 2011, the proposals had been announced for England and Wales. However, the Scottish Government has confirmed that it will run a separate process and it is very likely that this will result in the same proposals being made for the NHS pension in Scotland. Similarly, it is highly probable that the same proposals will be made for Northern Ireland.

22. How will I be affected?

The following examples are intended to give you an idea how the changes might affect you. Please note that they are purely illustrative and do not constitute financial advice. You can find out more about the potential impact on you by using our online modeller at: www.bma.org.uk/nhspensionreform

Junior doctor - A 25 year-old junior doctor who goes on to follow a consultant career path could have to pay an additional £240,000 in additional lifetime contributions over the current scheme and work eight years more, until the age of 68 to receive a full pension. Their annual pension (assuming they do not take an optional lump sum) is likely to be slightly higher, at around £70,000, but it will be based on career average earnings rather than final salary and received for fewer years, giving them less over the course of an average retirement. Overall, a 25 year-old junior could be paying 2.25 times more in to the scheme to get around 16.5 per cent less out of it

Consultant - A 40-year-old consultant could have to pay an additional £140,000 in lifetime contributions and work an additional seven years, until the age of 67, to receive a full pension. While their annual pension (assuming they do not take an optional lump sum) could be slightly higher, at around £70,000, it will be based on career average earnings rather than final salary and will be received for fewer years, giving them less over the course of an average retirement. Overall, a 40-year-old consultant could be paying twice as much in to the scheme to get around four per cent less over the course of their retirement.

GP – A 40-year-old GP could have to pay an additional £161,000 in contributions and work an additional seven years, until the age of 67, to receive a full pension. While their annual pension (assuming they do not take an optional lump sum) could be slightly higher, at around £80,000, it will be based on a new career average earnings scheme and they will be claiming it for fewer years, giving them less over the course of an average retirement. Overall, a 40-year-old GP could be paying twice as much more in to the scheme to get around 10 per cent less out of it.

SAS doctor – A 40-year-old associate specialist doctor could have to pay an additional £122,000 in lifetime contributions over the current scheme and work an additional seven years, until the age of 67, to receive a full pension. While their annual pension (assuming they do not take an optional lump sum) could be slightly higher, at around £60,000, it will be based on career average earnings rather than final salary and they will be receiving it for fewer years, giving them less over the course of an average retirement. Overall, a 40-year-old associate specialist could be paying one and a half times more in to the scheme to get around 10 per cent less out of it.