

## **New earnings based NHS pension scheme**

Career Averaged Revalued Earnings from 1 April

This is a pensions briefing ahead of the introduction of a new Career Averaged Revalued Earnings based NHS pension scheme from 1 April 2015.

In this article I describe the proposed protection arrangements for scheme members in general and, in particular, for those who are later in their careers

### **Pensions information booklets**

Before getting into those topics however, I bring to the attention of all SoR members the publication in April 2104 of updated versions of the key NHS Pension Scheme information booklets. Pensions regulations are revised fairly regularly, driven by changes in taxation and, recently, through changes to the law on civil partnerships and same sex marriages.

### **Scheme Guide for members of the 1995/2008 NHS Pension Scheme, v12.1, April 2014**

This booklet describes in very clear, readable terms the main features of scheme membership, contributions and benefits of the two parts of the current scheme. It flags throughout the important issues that scheme members should be aware of, but probably would not think about themselves. The main booklet is supplemented by more detailed short booklets for specific topics such as pension assets on divorce.

### **Retirement Booklet for members of the 1995/2008 NHS Pension Scheme, v15, April 2014**

This booklet is commonly referred to as 'Booklet R'. It is essential reading for all scheme members as they approach or start thinking about their retirement date and retirement financial planning.

I would strongly advise not delaying reading this. It is again arranged for members of both parts of the scheme, is very clear and readable and has lots of 'Important' text boxes with information you may not have considered.

Looking at this well in advance should help prevent unwelcome surprises about your money once you have retired and it is too late to reverse decisions. Those members who have their retirement date in mind should set the formal process into action four months in advance by contacting your trust pensions officer. You will get a copy of Booklet R along with your AW8 form.

The booklet is also a useful read for those already in retirement as changes continue as you approach new milestones such as the State Pension Age.

The booklets, which apply to the pension scheme in England and Wales, (the Scotland and N Ireland schemes will have their own member's information material) **can be accessed here**. **LINK TO** <http://www.nhsbsa.nhs.uk/Pensions.aspx> Then follow the link to 'Members Hub'.

### **Pension Protection Provisions**

All new appointees joining the NHS Pension Scheme after 1 April 2015 will only have access to the new 2015 CARE scheme. Protection arrangements will not apply to them. However, everyone already in the pension scheme prior to that date will get some form of protection.

### **Implementation of 2015 Scheme – protection for existing members**

The basis of the new 2015 scheme is contained in the document rather confusingly titled "Proposed Final Agreement", commonly referred to as the PFA. **Click here** to view. <https://www.gov.uk/government/publications/reforming-the-nhs-pension-scheme-for-england-and-wales-proposed-final-agreement>

This recognised that pension arrangements are made long-term on an assumption that

provisions will endure. Reorganising your financial plans later in your employment history can be very difficult and in short time scales probably not financially effective. The PFA therefore includes several types of protection (Paragraph 3 of the PFA). Note that these are not yet enshrined in formal regulations but the stated policy for protection includes:

### **Preserved Rights (for all scheme members)**

For everyone transferred into the new scheme on 1 April 2015, all pension entitlement already established is preserved under the conditions of your part of the 1995/2008 scheme.

You will be able to take those pensions benefits based on your eventual final salary (at the time you take that portion of your pension) at the normal pension age (NPA) for that part of the scheme (60 for the 1995 part and 65 for the 2008). These are termed 'Preserved Rights'.

This will mean that you will have two parts to your eventual pension:

- Your Preserved Rights part based on your eventual final salary
- The CARE part earned as previously described on your earnings from 2015 until your eventual retirement age

What happens if you decide to take your preserved rights at the preserved NPA rather at your final full retirement depends on the preserved scheme? This is because the 2008 scheme has more flexibilities in its regulations than the 1995 scheme:

In both 1995 & 2008 parts you need to formally retire, which means taking an employment break of at least 24 hours. In the 1995 part you also must not undertake more than 16 hours NHS work per week for the following month.

**Important:** If you take your preserved rights in the 1995 scheme, then you cannot accrue further NHS pension entitlement in any scheme (ie in the 2015 scheme) even if you continue to work. You would not then be paying pension contributions.

If your preserved rights are in the 2008 part, then you can continue to accrue pension rights by working after taking your 2008 pension benefits.

If you decide to take both parts of your pension (preserved rights plus 2015 CARE accrued benefit at the NPA of your preserved rights) then the 2015 component will be actuarially reduced to account for collecting those early.

**These will be very personal issues and decisions cannot be reversed once you have taken your pension. Decisions should not be taken lightly and there may be options you had not thought of. Your personal independent financial advisor should be able to help and an explanation of the numbers in your particular case should be available from your trust employer pensions officer. SoR cannot provide individual personal financial advice.**

**Click here** for FAQs about preserved rights: <http://www.nhsbsa.nhs.uk/Pensions/4330.aspx>.

### **Protection for those approaching retirement age:**

All members of the 1995 scheme who, at 1 April 2012, were 10 years or less from NPA (ie for SoR members having a date of birth before 1 April 1962) have full protection. This means that they remain covered by the 1995 scheme arrangements until they retire and will not be transferred to the 2015 scheme. Pension will be calculated on the best of last three years salary. Those with a date of birth close to this date would be wise to get a definitive statement from their employer's pensions officer whether they are protected or not.

Similar protection will apply to members of the 2008 scheme except, with a NPA of 65, the date of birth is 1 April 1967.

Tapered protection: For those within an additional 3 years and 5 months (ie a total of 13y 5m

from their NPA) you will remain in the original 1995 or 2008 part until a date later than 1 April 2015, dependent on your age. For each month more than 10 years from NPA, you will lose two months of protection. The result is that the date at which you will be transferred to the new 2015 scheme will be later than 1 April 2015.

**Protection opt out**

Pensions calculations are, of course, very complex and personal. Whilst the protections above are provided to give assurance to members that they are not disadvantaged, modelling of the impact suggests that for the 2008 scheme (with NPA of 65 years) some members at least would be better off transferring in total to the new 2015 scheme.

These members will therefore be made a one-off offer of 'Pension Protection Opt-out' choice. This exercise is due to occur before the 2015 scheme starts on 1 April 2015.

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