FREQUENTLY ASKED QUESTIONS ON THE PROPOSED FINAL AGREEMENT

The Proposed Final Agreement is the Government's final offer to unions in health on the future of the NHS Pension Scheme – it is not an agreement or deal. Since coming to power, the coalition Government made it clear they want to make significant and drastic changes to public service pensions.

Briefly the main points in the Proposed Final Agreement are as follows:

- A new Career Average Revalued Earnings (CARE) pension scheme to be introduced in 2015 with pension building up at a rate of 1/54th of salary for each year of service and increased every year up to retirement by increases in the Consumer Prices Index (CPI) plus 1.5%.
- All benefits built up in existing schemes will be protected and will maintain the final salary link at retirement.
- All contributing NHSPS members (including members with Mental Health Officer and Special Class Status) within 10 years of their Normal Pension Age (NPA) as of 1 April 2012 will, in effect, remain in their current pension scheme, meaning they will see no change in when they can retire nor any decrease in the amount of pension they will receive at their NPA.
- There is additional tapered protection for members a **further** 3.5 years away from their NPA (ie, up to 13.5 years from their NPA as at 1 April 2012), permitting such members to remain in their current pension scheme for longer.
- For all service in the new scheme, the Normal Pension Age will increase in line with increases in the State Pension Age.
- Average member pension contributions to increase to 9.8% by 2014/2015, the detail on what the increases will be for 2013/14 and 2014/15 to be discussed further. The tiered contribution increases for April 2012/2013 have already been determined and there will be no contribution increase this year for members with whole-time equivalent pensionable pay less than £26,558.
- There will be further discussion on a range of issues, including the distribution of member contribution increases for 2013/14 and 2014/15.
- An actual improvement in existing Fair Deal provisions meaning NHS members outsourced or privatised will have the right to remain in the NHS Pension Scheme after transfer. This right would also continue on subsequent outsourcing contracts. Furthermore, there will be a Review on the issue of widening NHS Pension Scheme access to Any Qualified Providers (AQP's), including non-NHS AQPs delivering NHS services and social enterprises.
- A "guarantee" that there will be no further changes to scheme design, benefits or contribution rates for the next 25 years, unless employer contributions rise by more than 2% above the employer contribution needed for the new scheme in 2015.

What is the background to these proposals?

- In June 2010, the Emergency Budget announced that from, April 2011, the indexation method for uprating annual public sector pension payments would change from using the increase in the Retail Prices Index (RPI) to the generally lower Consumer Prices Index (CPI).

- Subsequent statements made clear the Government's intention to raise £2.8 billion a year for the Treasury from the unfunded schemes by increasing the amount public sector employees contribute to their pension schemes plus bringing forward planned increases in the State Pension Age.
- This was followed by a recommendation from the Independent Public Service Pensions Commission for public service pension schemes (also known as the Hutton Review) to change from final salary schemes to schemes that calculate pension benefits on average salary, ie, Career Average Scheme (CARE) as well as scheme retirement ages to increase in line with increases in the future State Pension Age.
- Over the course of 2011, the health unions have taken part in intensive negotiations over these proposals. However, when it became clear that there was no serious willingness to negotiate, SoR balloted its members on industrial action. Following the resulting resounding YES vote and strike on the 30 November, negotiations were resumed which resulted in the revised proposals above. The Proposed Final Agreement and a SoR summary on these are available on the SoR website.

Frequently Asked Questions

1. When will the new scheme come into effect?

2015 is the year the Government intends to bring into force a new pension scheme for NHS workers. In the meantime, both 1995 and 2008 Section members will continue to build up pensions as currently.

2. What will happen to the pension benefits I am currently building up after 2015?

The pension benefits you are currently building up will be fully protected, meaning you can still choose to draw these at your current Normal Pension Age. Furthermore, the pensionable service you accrue up to the date of implementation of the potential new scheme will still be linked to your final salary at retirement, as opposed to your salary at the date of moving to the new scheme/section.

3. What exactly is a Career Average Revalued Earnings (CARE) Scheme?

A CARE scheme like a final salary scheme is still a form of defined benefit scheme and offers a certain degree of pension predictability at retirement.

In contrast to a final salary scheme where the value of each year's pension built up is dependent on salary near to retirement, a CARE scheme calculates the value of each year's pension by increasing this up to retirement by a specified amount or in line with a specified Index (for example, increases in the Consumer Prices Index). This is known as the revaluation rate.

Perhaps this is better illustrated using an example. Say a CARE scheme provides 1/54th of pensionable earnings for each year of pensionable service with annual CPI revaluation and a member joins 5 years before retirement. The total pension is calculated as shown in the table below.

Year	Pensionable Earnings	Pension Earned (1/54th)	CPJindex at start of year	CPIIndex at retirement	Revalued Pension
1	£17000	£315	100	122	£384
2	£17500	£324	105	122	£379
3	£18000	£333	110	122	£373
4	£19000	£352	115	122	£377
5	£19400	£359	120	122	£366
Total Pension					**£1879**

Note:The pensionable earnings and CPIIndex figures quoted are purely fictional and used for explanatory purposes only

In this example, the member's pension after five years' service would be £1879 per annum.

You can see, therefore, that like in a final salary scheme, your earnings and the scheme accrual rate are still very important factors in determining your level of pension on retirement. The extra important factor is the revaluation rate.

4. How does a 1/54th accrual rate compare against current rates?

The current accrual rate for 2008 Section members is 1/60th and broadly 1/64th for 1995 Section members (if we convert the automatic lump-sum to pension it changes from 1/80th to 1/64th) so the proposed 1/54th accrual rate is clearly a significant improvement. Particularly given that we originally feared the potential imposition of anything between a 1/80th and 1/100th accrual rate.

The accrual rate is the rate at which your pension builds up and is usually written as a fraction of pensionable pay. For example, 2008 Section members currently earn 1/60th or 1.67% of their pensionable pay for each year they are a member of the pension scheme. This means if they have 30 years' pensionable service, they would have earned a pension of 30/60ths or half of their final pensionable pay.

5. What does uprating by CPI +1.5% mean and why has it changed from CPI +2.25%?

In their offer to the public sector unions, the Government set out a "reference scheme" which offered an accrual rate of 1/60th uprated by average earnings. The government actuaries then valued average earnings as the Consumer Price Index (CPI) + 2.25% **only** for the purpose of costing the reference scheme in the government's original offer. This would not have been the calculation used in future revaluations. In future it would have been **actual** average earnings, and these can and do fluctuate. For example, in the three years to the end of 2010 Average Weekly Earnings Index (AWE) was 1.7% per year below even CPI. The AWE index is not expected to rise above CPI for the foreseeable future. The uprating in this offer of CPI + 1.5% will be fixed which means we can be sure of the amount by which pensions will be revalued. This formula is significantly better than CPI alone and will allow for many members' real earnings growth to be taken into account.

6. Quite simply, will I be worse off or better off through the proposed CARE scheme?

This depends on a number of factors, such as your length of membership in the pension scheme, career progression and cost of living increases but modelling we have done on a number of "typical" career progressions would suggest that the proposed CARE scheme could provide pensions on retirement relatively close in value to currently and, indeed, in some cases higher particularly for those with shorter service, if we were to disregard retirement age changes. It is the fact that many members with a retirement age of 60 (or indeed 55 for MHO and Special Class members) not covered by the transitional "full protection" provisions could face a significant increase in their Normal Pension Age which is the significant contributor to reduced pensions if a member still wishes to retire at their current Normal Pension Age. The Treasury has refused to move from linking future Normal Pension Ages (NPA) to increases in the State Pension Age (SPA).

7. When exactly will I able to draw my current pension benefits?

You will still be able to draw your current pension benefits and all the pension benefits you build up to 2015 at your current Normal Pension Age – even if you do not fall within the protections outlined in the Heads of Agreement. This will be age 65 for members in the 2008 Section, 60 for current members of the 1995 Section and 55 for those members with Special Class and Mental Health Officer status. Please be aware, however, that you may have to cease pension accrual in the new scheme and retire in order to draw your 1995 Section pension before your State Pension Age.

8. When will I be able to draw my "new scheme" pension benefits?

You should potentially be able to draw these from as early as age 55, although a significant early retirement reduction factor would reduce your pension value if you want to draw your pension earlier than your Normal Pension Age.

Your NPA in the new scheme would be at least 65 and would increase in line with increases in the State Pension Age. This would mean that NPAs would increase to 66 by October 2020, 67 by 2028 and 68 by 2046 for members still actively building up pensions at these dates and for new entrants.

9. Exactly how much more will I have to pay in pension contributions?

The Government wants to increase member pension contributions to 9.8% of pensionable pay **on average** by 2014/2015, with actual increases tiered so that higher earners pay more and lower earners less. The current contribution tiers range from between 5% and 8.5% of pensionable pay.

Pensionable pay is the amount of salary that is used to calculate the amount of contributions you pay. This does not generally include overtime but does generally include unsocial hour pay plus payments for being available for on-call work. Pay received whilst performing on-call work is generally not pensionable as it's deemed to be overtime.

Contribution increases are to be phased in over a three year period and increases for the years 2013-14 and 2014-15 are still up for discussion, although it still seems very clear that the Government wishes to implement further increases in these years.

There is still a commitment from the Government to protect the lowest paid but it is not clear yet where the cut off point for this will be.

The contribution increases to take effect from April 2012 to April 2013 have been confirmed and members can check their position by using the Department of Health's employee pensions contribution calculator by going to http://www.dh.qov.uk/prod consum dh/groups/dh diqitalassets/@dh/@en/document s/ digitalasset/dh 132288.xls.

For April 2012-13, at least, members with whole-time equivalent pensionable pay of less than £26,558 will not face a contribution increase which means that around 48% of NHSPS members and a substantial number of SoR NHS members will not face a contribution increase for the year 2012-13. Members with whole-time earnings in excess of £26,557 will be asked to pay between 1.5% and 2.4% more in pension contributions from April 2012, depending on how much they earn.

The confirmed member contribution increases for April 2012-13 are based on the proposals advanced by NHS Employers. If the NHS Employers proposals for the distribution of contribution increases for 2013/14 and 2014/15 are also accepted, then member contribution rates would be as below, however, this has not been formally proposed by the Government and there will be further discussions on this:

FT Equivalent Pensionable Pay	Current% Contribution (before tax relief)	2012/2013% Contribution (before tax relief)	2013/2014% Contribution (before tax relief)	2014/2015% Contribution (before tax relief)	Total Increase (before tax relief)
Up to £15,000	5%	5%	5%	5%	0%
£15,001 to £21,175	5%	5%	5.3%	5.6%	0.6%
£21,176 to ££26,557	6.5%	6.5%	6.8%	7.1%	0.6%
£26,558 to £48,982	6.5%	8%	9%	9.3%	2.8%
£48,983 to £69,931	6.5%	8.9%	11.3%	12.5%	6%
£69,932 to £110,273	7.5%	9.9%	12.3%	13.5%	6%
Over £110,273	8.5%	10.9%	13.3%	14.5%	6%

10. **What is the "transitional protection" that will apply if I am within 10 years of my current scheme's Normal Pension Age as at 1 April 2012?**

Any NHSPS member within 10 years of their **current** Normal Pension Age at 1 April 2012 will have their current method of benefit accrual and current NPA fully protected by remaining in their current scheme. This would apply to those aged:

As at 1 April 2012
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) or Special Class status.

MHOs would continue to earn "doubled years" of pension accrual where relevant. It's estimated that around 400,000 NHSPS members would benefit from this protection- around a third of the current active membership.

11. **What is the "tapering protection" that will apply if I am between 10 and 13.5 years of my Normal Pension Age as at 1 April 2012?**

This essentially means that if you do not qualify for full protection but are within 13.5 years of your Normal Pension Age (NPA) at 1 April 2012 (ie, between 46% and 50 for many of our members) you can still continue to accrue pensions in your current scheme after 2015 for a limited period.

Any member entitled to tapered protection would switch to the new scheme by no later than April 2022.

Your actual switch date to the new scheme is 2 months earlier than April 2022 for every month at April 2012 you are more than 10 years away from your scheme's NPA.

For example, if you are a member of the 1995 Section (without MHO and Special Class status) and are 49 at April 2012 with a NPA of 60, you are 12 months in excess of 10 years away from your NPA and your tapered protection reduces by 24 months working back from April 2022, meaning you would switch schemes on the 1 April 2020. The table below demonstrates this better:

Years in excess of 10 years from current NPA	Date of Switch to the new pension scheme
3.5 and over	01/04/2015
3 years	01/04/2016
2.5 years	01/04/2017
2 years	01/04/2018
1.5 years	01/04/2019
1.0 years	01/04/2020
0.5 years	01/04/2021
0 years	Fully Protected

12. **Even if I give reluctant acceptance to these proposals, what's to stop further changes happening?**

The Government intends to legislate on the basis that if agreement over public service pension reform is obtained there will be no further changes to scheme design, benefits or contribution rates, unless an employer cost cap is exceeded, for at least the next 25 years.

Under the Proposed Final Agreement there would be an employer contribution cap of 2% above the employer contribution needed for the new scheme in 2015. Only increases in costs caused by changes in the demography of the scheme, such as gender split or staff turnover could fall on the members. If this was the case, there would be discussions on how the costs could be contained and as a last resort the accrual rate (ie, the rate at which your pension builds up) from a future date could be changed.

This 2% cap is expected to be sufficient to ensure there is no additional cost to members.

Conversely, if the costs reduced by more than 2% below the employer contribution, scheme benefits could be improved.

13. **If I am privatised, will I be able to contribute to the NHS Pension Scheme anymore?**

If the scheme design in the Proposed Final Agreement is approved the Government will commit to requiring privatised NHS staff to be provided with continued access to the NHS Pension Scheme, even in the event of further privatisations.

This would mean that new employers would need to pay at least the same pension contribution rate as NHS employers, which is currently 14% of salary.

In addition there is a commitment in the Agreement for a Partnership Review to consider widening NHS Pension Scheme access to Any Qualified Providers (AQPs), including non-NHS AQPs delivering NHS services and social enterprises.

This is a very welcome commitment and an improvement on current requirements.

14. **When I start to receive my pension, will it still be linked to increases in CPI?**

Unfortunately, yes. Increases in the Consumer Prices Index measure of cost of living increases are historically significantly lower than the Retail Prices Index. NHS Unions, along with other leading unions, challenged this change through Judicial Review, the appeal has been heard and a decision awaited.

15. **What will happen to my pension if I simply leave the scheme?**

If you stop contributing to the NHS Pension Scheme you are no longer an "active" member and become a "deferred" member and the pension you have earned to that date will increase by increases in the Consumer Prices Index up to retirement.

16. What are the additional issues in the proposed final agreement?

- Potential pension reduction or suspension on NHS re-employment when pension claimed prior to re-employment (known as "abatement");
- Partial retirement and re-employment;
- Death in Service lump sum;
- Treatment of members who leave active service but rejoin within five years;
- Options for giving members greater choice over contribution rates, including paying higher rates to reduce the impact of early retirement factors;
- Treatment of members who transfer between Public Sector Transfer Club schemes;
- Contribution rates and structure, including the distribution of years 2 and 3 of planned increases;
- The implications of the pension reforms for Total Reward.

17. Will there be a re-opening of the CHOICE exercise given I may have made a different decision had I known what I know now?

This was discussed within the NHSPS talks and there will be a second CHOICE. For example, 1995 Section members who feel they will now need to work longer because of increases in their future pension age may have opted to transfer to the 2008 Section had they know what is now apparent.

This may be an important issue given that members of the new scheme will not be able to access 1995 Section pension entitlements before their State Pension Age until they cease pension accrual in the new scheme and retire.