NHS Pension Scheme Heads of Agreement

1. This document sets out the Heads of Agreement on the scheme design for the NHS Pension Scheme to be introduced in 2015, on which talks have concluded. The government have made clear this sets out their final position on the main elements of scheme design, which unions have agreed to take to their Executives as the best that can be achieved through negotiations. Further work on the remaining details will take place in the new year, and Executives will consult members as appropriate. This includes a commitment to suspend any further industrial action while the final details are resolved and Unions are consulting their members.

2. There will be transitional protection:

    a. All accrued rights are protected and those past benefits will be linked to final salary when members leave the scheme.
    b. All active NHS Pension Scheme members who as of 1 April 2012, have 10 years or less to their current pension age, including MHOs and members of the special classes will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This will be achieved by allowing such members to remain in their current arrangements until they retire (for 2008 members until they have taken all their 2008 pension benefits).
    c. Members who are within a further 3.5 years of their normal pension age,(ie up to 13.5 years from their NPA) will have limited protection with linear tapering so that for every month of age that they are beyond 10 years of their normal pension age, they lose 2 months of protection. At the end of the protected period, they will be transferred into the new pension arrangements
    d. The costs associated with the protection outlined above in paras a,b and c sit outside the costs of the reference scheme.

3. The main parameters of the new scheme are set out below. Scheme level discussions will continue in early 2012 on a number of issues not covered by the Agreement. These are outlined in Annex A.

   a. A pension scheme design based on career average ;
   b. A provisional accrual rate of 1/54th of pensionable earnings each year, subject to further agreement on outstanding issues not covered by this agreement (see Annex A).
   c. Revaluation of active members' benefits in line with CPI plus 1.5% per annum;
   d. a Normal Pension Age equal to the State Pension Age, which applies both to active members and deferred members (new scheme service only). If a member's SPA rises, then NPA will do so too for all post 2015 service. Those within ten years of NPA are excluded and accrued rights will also be related to existing NPA;
   e. pensions in payment to increase in line with Prices Index (currently CPI);
   f. benefits to increase in any period of deferment in line with Prices Index (currently CPI);
   g. Average member contributions of 9.8%, with tiered contributions.. Member contributions in year 1 to increase between 0% and 2.4% in year 1. There will be no increase in year 1 for staff with WTE pensionable pay less than £26,557. There will be further discussions on contribution rates and increases in years 2 and 3.
   h. Optional lump sum commutation at a rate of £12 of lump sum for every £1 per annum of pension foregone in accordance with HMRC limits and regulations;
   i. early/late retirement factors on an actuarially neutral basis;
   j. Ill-health retirement pensions to be based on the current ill-health retirement arrangements but with enhancement for higher tier awards to be at the rate of 50% of prospective service to normal pension age.
   k. Spouse and partner pensions to continue to be based on an accrual rate of $1/160^{th}$. For deaths in retirement spouse and partner pensions will remain based on pre-commuted pension.

l. an employer contribution cap as detailed paragraph 6 below and Annex B.

4. For the purposes of the reform process, the Government set out the gross cost ceiling of 21.9% and the net cost ceiling of 12.1% in *Public Service Pensions: good pensions that last*, Cm8214. Attached at Annex C is a report by the scheme actuary verifying that the expected cost of the proposed scheme design above is within the cost ceiling. This report has been prepared in accordance with the advice in the Government Actuary's Department's report of 7 October 2011: Cost ceilings for scheme level discussions: Advice on data, methodology and assumptions.

5. The scheme design has been reviewed by HM Treasury who have agreed the approach taken to risk management.

6. This agreement also covers arrangements for an employers cost cap, the treatment of NPA following further changes to SPA, and a 25 year guarantee. These are set out in more detail at Annex B.

7. The policy will be further developed in partnership to ensure that total cash expenditure in each and every year is no higher for the protected group than it would have been were no reform to take place and will be subject to equality impact assessment.

8. On the basis that the scheme design in this heads of agreement is agreed, the Government agrees to retain Fair Deal provision and extend access to public service pension schemes for transferring staff. This means that all staff whose employment is compulsorily transferred from the NHS under TUPE, including subsequent TUPE transfers, will still be able to retain membership of the NHS Pension Scheme when transferred. These arrangements will replace the current provisions for bulk transfers under Fair Deal, which will no longer apply. In addition a partnership review of the implementation of the provisions set out in this paragraph for staff working in 'Any Qualified Providers' (AQP) will be carried out.

ANNEX A – AREAS FOR CONTINUING DISCUSSION IN EARLY 2012

1. The following areas will be discussed in early 2012. The requirement to fit the new scheme within the revised cost ceiling for the Reference Scheme published on 2 November will remain, and agreement on these issues will also be subject to review by HM Treasury to agree the approach taken to risk management, impact on cash flow and adjustments to the accrual rate as necessary. The ancillary benefits in the Reference Scheme are based on those in the 2008 section and any changes will be subject to agreement.

   i) Abatement (for service accrued prior to and post 2015)
   ii) Partial Retirement and re-employment including the issue of the impact on active pension scheme membership of taking 1995 Scheme benefits
   iii) Lump-sum on death in service;
   iv) Treatment of members who leave active service but rejoin within 5 years.
   v) Options for giving members greater choice over their contribution rates including paying higher contribution rates to reduce the impact of early retirement factors, subject to HMT agreement over the cash profile of scheme contributions, minimising the likelihood of scheme opt-outs and delivering the required contribution rate increases.
   vi) Treatment of members who transfer between Public Sector Transfer Club schemes
   vii) Contribution rates and structure, including the distribution of years 2 and 3 of planned increases.
   viii) The implications of the pension reforms for Total Reward

ANNEX B:

Future increases to SPA

1. The Government's view is that in the new scheme, for pension accruals post-2015, Normal Pension Age should be set equal to State Pension Age. This will mean that each member will have an individual Normal Pension Age dependent on their date of birth.

2. As set out in the 2011 Autumn Statement, future increase in the State Pension Age will be based on demographic evidence. The Government will discuss further the process that could be put in place to allow the views of interested parties to be considered when these decisions are made.

3. The Government's view is that, if there are further changes to State Pension Age, there will be an automatic link to change the Normal Pension Age of members of the scheme by an equivalent amount. This also follows the recommendations of the Independent Public Service Pension Commission, to adequately manage risks to the taxpayer from further improvements to longevity. As set out in the heads of agreement, normal pension age in the main public service pension schemes will be linked to State Pension Age. The Government believes that the SPA should continue to keep pace with increases in longevity to ensure fairness between generations, and is considering the process that will be used to determine future changes to the SPA. This will be based on demographic evidence and allow for the views of interested parties to be considered. DWP consulted on this over the summer.

4. These changes may impact more on certain categories of staff within the NHS. As a result, it is agreed to set up a tripartite review between DH, NHS Employers and the NHS Trade Unions on addressing the impact of working longer in the NHS with particular reference to staff in frontline and physically demanding roles including emergency services.

5. As recommended by Lord Hutton, the Government will keep under review the link between Normal Pension Age in the public service

schemes and State Pension Age to determine whether the link between the two continues to be appropriate.

Employer Cost Cap

6. An employer cost cap will be introduced to cover unforeseen events and trends that significantly increase scheme costs. The employer cost cap is intended to provide backstop protection to the taxpayer and will be based on already agreed cap and share principles. This means that changes to contribution rates due to 'member costs' will be controlled by the cap. Financial cost pressures, including changes to the discount rate, will be met by employers. The employer cost cap will be symmetrical so that, if reductions in member cost fall below a 'floor', members' benefits will be improved.
7. The cost cap will include the impact of changes in costs such as actual or assumed longevity, of careers or the age and gender mix of the workforce. These costs cover all schemes (old and new) and all types of service (past and future) of active, deferred and pensioner members. Changes in actual and assumed price inflation and the discount rate will be excluded from the cost cap.
8. Scheme valuations will take place periodically to assess how the cost of the scheme has increased or reduced. In the event that member costs drive the cost of the scheme above the cap or below the floor, there will be a period of consultation with relevant groups, before changes are made to bring costs within the cap and floor. If agreement cannot be reached through consultation, the accrual rate will be adjusted as an automatic default.
9. The employer cost cap will be set at 2% above and the floor set 2% below the employer contribution rates calculated following a full actuarial valuation ahead of the introduction of the new scheme in 2015. Caps will not be based on cost ceilings.

Reviewing contribution levels and opt-out rates

10. The Government remains committed to securing in full the Spending Review savings of £2.3bn in 2013-14 and £2.8bn in 2014-15 from increased member contributions, and will consult formally on implementation in due course. The Government will review the impact of the 2012-13 contribution increases, including on opt-out, before taking final decisions on how future increases will be delivered.

Interested parties will have the opportunity to provide evidence and views to the Government.

25 year Guarantee

11. The Chief Secretary to the Treasury set out to Parliament on 2 November an offer on public service pensions that is fair and sustainable, and one that can endure for 25 years. This means that no changes to scheme design, benefits or contribution rates should be necessary for 25 years outside of the processes agreed for the cost cap. To give substance to this, the Government intends to include provisions on the face of the forthcoming Public Service Pensions Bill to ensure a high bar is set for future Governments to change the design of the schemes. The Chief Secretary to the Treasury will also give a commitment to Parliament of no more reform for 25 years.

Annex C

To follow