

NHS Pension Scheme Review

Agreement between NHS Employers and the NHS trade unions

Introduction

1. This paper sets out the final terms of the agreement reached between NHS Employers and NHS staff side at the Pensions Review Steering Group. Within the overall NHS pension arrangements, the agreement sets out a two scheme structure for active members of the NHS Pension Scheme with new entrants joining the New NHS Pension Scheme and existing members staying in a revised version of the current Pension Scheme, the NHS Pension Scheme (1 April 2008 and after terms) and being given a choice as to whether to remain in this for both past and future service or to transfer to the New NHS Pension Scheme for both past and future service benefits.
2. A separate review is taking place covering ill health retirement. There are a number of clear overlaps between the two reviews. Ill health pensions are an important part of Scheme design and will need to feature in both new and existing Schemes. The cost of the arrangements set out here includes the release of 0.05% of pensionable pay through changes to the ill health retirement arrangements. This will enable more members to pay the 5% contribution compared with the proposals consulted on in 2006. The Ill Health Retirement arrangements when finally agreed will form part of the overall pension agreement and will be covered by the governance arrangements (paragraphs 65-67).
3. The design of the changes to pension arrangements has taken into account equality issues. As part of the governance arrangements, the impact of these changes on equality issues will be kept under review including benchmarking.
4. This agreement is based on analytical work carried out by the Government Actuary's Department (GAD), independently peer reviewed by the actuarial adviser engaged by the review, Hilary Salt, from First Actuarial. Fuller details of all the agreed changes are set out in separate papers listed in annex B. These and other associated review documents are available at www.nhsemployers.org/pensionagreement.

Membership and choice

Membership of the new NHS pension arrangements

5. Following the Public Services Forum (PSF) agreement on normal pension age and subsequent Scheme negotiations, the overarching NHS pension arrangements will include separate Schemes for existing members of the NHS Pension Scheme and for new entrants. All dates are target dates for implementation of the changes to these proposals:

- members who are active in the Scheme on 31 March and 1 April 2008 or deferred members who return to the NHS before 1 October 2008 will remain members of the NHS Pension Scheme (1 April 2008 and after terms).
- members with service in the NHS Pension Scheme (pre 1 April 2008 terms) who are at that date or later become deferred members, will be able to return to the NHS Pension Scheme (1 April 2008 and after terms), provided that the return is within five years of becoming a deferred member and that they had not previously opted to transfer to the New NHS Pension Scheme. The Business Services Authority Pensions Division (BSA PD) will write to deferred members at their last held address about the five year rule.
- Deferred members at 1 April 2008 who do not return to the NHS before taking their pension will remain members of the NHS Pension Scheme (pre 1 April 2008 terms).

6. New entrants to the Pension Scheme on and after 1 April 2008 will become members of the New NHS Pension Scheme. From 1 October 2008, deferred members with service in the NHS Pension Scheme (pre 1 April 2008 terms) who return to the NHS more than five years after leaving will join the New NHS Pension Scheme for future service.

Choice exercise

7. There will be a choice exercise in which members will be given a choice to move to the New NHS Pension Scheme. The target date for the choice exercise is 1 July 2009 and it will last until 30 June 2010, giving members a year to make their choice. This choice will be for past and future pensionable service only (including any prior service not yet aggregated). The basis of the transfer, including the treatment of those with added years contracts, is yet to be agreed but will be determined by the Secretary of State in the light of future negotiations under the governance framework. For those who return within five years of deferment but were in deferment at the time of the choice exercise, choice will be made on return. The BSA PD will take forward the choice exercise with input from the review partners. Those given choice are set out in the table opposite.

Taking 1995 deferred pension at age 60

8. Deferred members with service in the NHS Pension Scheme (pre 1 April 2008

Active on 31 March and 1 April 2008 and who are still active at the date of the choice exercise	Active on 31 March and 1 April 2008 who become deferred members before the choice exercise and who then return within five years of deferment	Active on 31 March and 1 April 2008 who retire before the choice exercise and then return to NHS employment	Deferred on 1 April 2008 before the choice exercise who rejoin the NHS Pension Scheme (1 April 2008 and after terms) within five years of deferment or by 1 October 2008.	Deferred on 1 April 2008 but do not return to NHS	Deferred NHS Pension Scheme (pre 1 April 2008 terms) scheme members on 1 October 2008 who return after a break of more than five years	Members who chose to remain in the NHS Pension Scheme (1 April 2008 and after terms) scheme but subsequently incur a break of more than five years	Members who take their benefits before 1 April 2008 and return to NHS employment
Choice to stay in NHS Pension Scheme (1 April 2008 and after terms) or transfer all service to the New NHS Pension Scheme (para 7)	Choice to stay in NHS Pension Scheme (1 April 2008 and after terms) or transfer all service to the New NHS Pension Scheme (para 7)	Will be able to join the New NHS Pension Scheme but only after two years have elapsed after taking their pension (para 10)	Choice to stay in NHS Pension Scheme (1 April 2008 and after terms) or transfer all service to the New NHS Pension Scheme (para 7)	No change: remain in the NHS Pension Scheme (pre 1 April 2008 terms)	Choice to leave deferred benefits in the NHS Pension Scheme (pre 1 April 2008 terms) or transfer all service to the New NHS Pension Scheme (para 8)	Choice to leave deferred benefits in the NHS Pension Scheme (1 April 2008 and after terms) or transfer all service to the New NHS Pension Scheme (para 8)	No change: they will not be able to access pensionable re-employment

terms) who return after 1 October 2008 after a break of more than five years will, on return, be given the option to transfer their deferred service into the New NHS Pension Scheme in exchange for a service credit in the latter scheme. This will be calculated allowing for expected future earnings linkage in that Scheme and will be broadly equal to that of the NHS Pension Scheme (pre 1 April 2008 terms)

benefits being transferred; similar to a cash equivalent calculation. If they choose to keep deferred service in the NHS Pension Scheme (pre 1 April 2008 terms), then it will be payable in full as a deferred pension at 60, but there will not be an option to recalculate their deferred pension by linking it to their final salary when they take that pension. Their deferred pension will be on the terms of

the NHS Pension Scheme (pre 1 April 2008 terms). They will not have to take benefits from the New NHS Pension Scheme at the same time they take their NHS Pension Scheme (pre 1 April 2008 terms) benefits and can remain active members in the New NHS Pension Scheme.

9. Deferred members and pensioners on 1 April 2008 who do not return to the Scheme and those in receipt of survivor benefits and their dependents at 1 April 2008, will not be affected by any of the changes set out in this document.

NHS pensioners

10. NHS pensioners who retired before 1 April 2008 will be unaffected by any of the changes. They will not be able to return

to pensionable reemployment. However, those who are active members on 1 April 2008, but retire before being given a choice to move to the New NHS Pension Scheme, are in a different position as they have participated in the new arrangements which include a later opportunity to move to the new Scheme. They will be able to join the New NHS Pension Scheme if they return to NHS employment. However, there will be a requirement for a two year break in pensionable employment between taking retirement benefits and joining the New NHS Pension Scheme. It is currently expected that the choice exercise will take place from July 2009 so this arrangement will apply to people who retire between 1 April 2008 and 30 June 2009.

Structure for existing staff who remain in the NHS Pension Scheme (1 April 2008 and after terms)

Building the pension – salaried members

11. Existing salaried members will retain the current final salary scheme structure with an accrual rate of eightieths for pension, a half rate survivor's pension and a separate lump sum of three times the initial pension, with a Normal Pension age of 60 (NPA60). Following consideration of the issues by the partners, a normal pension age of 55 will be retained for the closed groups, including Mental Health Officers, who will retain their current rights to doubling of service.

Building the pension – practitioner members

12. Practitioner members will retain their Career Average Revalued Earnings (CARE) Scheme with a pension accrual rate of 1.4% and a lump sum of 4.2%. The method of dynamising practitioner (general medical and dental practitioners) pensionable earnings up to retirement will be changed. All future dynamisation of practitioner pensionable earnings applied after April 2008, will be applied at the rate of Retail Prices Index (RPI) plus 1.5% per annum.

Minimum pension age

13. In line with legislation, active members of the NHS Pension Scheme at 5 April 2006, and deferred members at 5 April 2006 with active service after 30 March 2000, will retain a Minimum Pension Age of 50. Other members of the NHS Pension Scheme will move to an MPA of 55 from 6 April 2010.

Service limits

14. The current service limits of 40 years at 60 and 45 years at 65 will be replaced with a new service limit of 45 years. The lifting of the service limits will take effect for future service from 1 April 2008. The limit of 45 years will include the years credited for any transferred in service.

Earnings limits

15. Currently all members who joined the Pension Scheme after 1 June 1989 or who joined before but have had a break in service of more than 12 months, have their benefits capped. The current earnings cap is £108,600. From 1 April 2008, this cap will be removed for future service. Service before 1 April 2008 that was subject to the cap will continue to be subject to the cap. The cap will continue to rise in line with RPI rounded up to the nearest £600 multiple for now. However, the position will be considered at the next valuation as part of the governance arrangements.
16. General dental practitioners are also subject to a separate dental cap, Maximum Allowable Remuneration (MAR). The Department of Health has agreed that

dental MAR will also be removed for future service from 1 April 2008.

Current additional years facility

17. The current facility to purchase added years will be removed when the new arrangements take effect. The transition will take account of the fact that added years contracts can only be taken out from a member's birth date and the intention will be to give members as much notice of the withdrawal of the added years facility as is feasible before the date when the revised Scheme takes effect. Existing added years contracts taken out before the facility is removed will be honoured to buy service in accordance with the current terms. Members will be given notice of these changes in the payslip insert which will be sent by the BSA PD to all active members.

Pension purchase

18. Members will be able to access an additional pension purchase facility of up to £5,000 of additional pension. Additional pension will be purchased in units of £250. Members in the NHS Pension Scheme (1 April 2008 and after terms) will be able to buy additional pension to be taken without reduction at age 60. Additional pension benefits will be revalued by RPI before and after they come into payment. Members will be able to buy additional pension by lump sum or spread over any period up to 20 years, or their 60th birthday if earlier. Members will be able to choose between buying additional pension for single life

only or with survivor benefits. This is in addition to any Added Years contracts that they may have.

19. Total annual pension contributions will be limited to 100% of pensionable pay. The purchase price of additional pension will be reviewed periodically to take account of changes such as longevity and may change during the period of the purchase.

Money Purchase Additional Voluntary Contributions (MPAVC)

20. Money Purchase Additional Voluntary Contributions (MPAVC) arrangements will be retained to give members an alternative to the in-scheme additional pension purchase facility and to enable members to use the new pension tax regime to increase their pension savings via pay roll, should they wish. In view of the changes to the pension tax regime and the introduction of new arrangements for the NHS, we recommend that the Department of Health re-tenders the AVC contract, including testing whether a single provider would improve the benefits for members of the MPAVC arrangements.

Taking the pension – salaried and self-employed members

21. At retirement, members of the NHS Pension Scheme (1 April 2008 and after terms) will be able to choose to commute part of their pension to increase the size of their retirement lump sum. Subject to the overriding HM Revenue and Customs (HMRC) limits, pension may be commuted for additional lump at a rate

of £12 of lump sum for each £1 per annum of pension given up. This facility will not be available for deferred members on 1 April 2008 who do not subsequently rejoin the Scheme.

Pensionable pay

22. Final pensionable pay for existing members will continue to be based on the best of the last three year's annual pensionable pay.

Pensionable re-employment

23. Members who choose to remain in the NHS Pension Scheme (post 1 April 2008 terms) will not be able to rejoin either of the Pension Schemes once they have taken their pension benefits. However, deferred members of the NHS Pension Scheme (pre 1 April 2008 terms) who return to the NHS after more than five years will be able to have pensionable re-employment in the New NHS Pension Scheme. For those members of the NHS Pension Scheme (1 April 2008 and after terms), who return to NHS employment within five years and remain in the NHS Pension Scheme (1 April 2008 and after terms) up to retirement, or NHS Pension Scheme (pre 1 April 2008 terms) members who join the new Scheme for future service only, there will continue to be no abatement of those pension benefits after age 60. Those members who take voluntary early retirement with an actuarial reduction will not be subject to abatement as at present. The application of abatement to ill health retirement will be addressed as part of the separate review but will need to be consistent with this.

Early retirement

24. In addition, Agenda for Change (AfC) section 16 (and the parallel agreements for doctors) provide for new arrangements for retirement “in the interests of the service.” This provides for early payment of an unenhanced pension as with the new redundancy arrangements but without the possibility of a redundancy payment. This will replace employer agreed voluntary early retirement (which has the same terms).
25. The new NHS redundancy arrangements provide for the alternative of:
 - a redundancy payment under the collective agreement, or
 - early payment of an unenhanced retirement pension.
26. The revised AfC agreement also provides for transitional enhanced early retirement arrangements for those over 50 between 2006 and 2011.
27. From 1 April 2008, a new abatement formula will be introduced for retirements after that date that reduces significantly the impact of abatement. In future, if pensioners return to work for the NHS before the age of 60 for members of the NHS Pension Scheme (1 April 2008 and after terms) and 65 for members of the New NHS Pension Scheme, abatement will take place only on the unearned portion of the pension: that paid for by the employer or the Scheme on top of normal benefits. This is the difference between the pension the member would have received had they taken voluntary early

retirement and what they actually received. This will apply to transitional redundancy and interests of the service retirement, employer agreed voluntary early retirement and new style interests of the service retirement. Ill health retirement arrangements are part of the Ill Health Review but will be consistent.

28. In relation to retirements on redundancy with an unenhanced pension under the new AfC section 16, there will be no abatement of pension for retirements after 1 April 2008. This is the option where the member chooses to use the redundancy payment they are due, to fund early payment of the pension so it is not reduced. Similarly, the redundancy payment only alternative, would not be abated if the member returned to work. It is not therefore appropriate to abate the unenhanced pension in these circumstances.

Voluntary protection in the NHS Pension Scheme (1 April 2008 and after terms)

29. Members of the NHS Pension Scheme (1 April 2008 and after terms) will have access to new, RPI linked, voluntary pay protection arrangements on step down, based on the current pension protection provisions after compulsory step down. This builds on the current protection that exists when members reduce their hours (because final pensionable pay is based on full time equivalent pay). Voluntary protection of final pensionable pay can take effect at any age after the member’s MPA. Voluntary

protected pay is intended primarily to operate when a member takes on a less demanding post in the run up to retirement and will be on the following basis:

- the reduction in basic pensionable pay will have to be at least 10%
- the higher pay level must have lasted for at least one year
- the step down pay level will need to be sustained for at least a year after step down
- final pensionable pay will be protected for service up to the point of step down
- members will only be able to make one step down, although this will be kept under review as part of the governance arrangements in the light of experience
- the employer will be asked to certify that a qualifying step down has taken place but not to approve the application by the member for voluntary protection.

Death benefits

Survivor benefits

30. In addition to the existing survivor benefits for legally married and civil partners, eligible non legal partners of all members of the NHS Pension Scheme (1 April 2008 and after terms) or deferred members at 1 April 2008 who return within five years of deferment, will be able to receive survivor pensions for life in respect of service since 1988.

31. An eligible non legal partner must have been nominated to receive the pension before the member's death and to have been in a financially interdependent, and cohabiting relationship, for at least two years before the member's death. The member and the nominee must have been free to enter into a marriage or civil partnership at the time of making the nomination and also at the death of the member. The validity of the nomination would be tested at death. The Department of Health may consider cases for ex gratia payment where there is a valid nomination but due to exceptional circumstances, are unable to demonstrate two-year interdependence.

Ending cessation of spouse/civil partner pensions on re-marriage

32. Survivor pensions will be payable for life regardless of the changes in their circumstances.

Short term death in service pensions

33. Short term death-in-service pensions will be standardised at six months.

Child allowance

34. Children's survivor pensions will be provided until the age of 23 in all cases and will be payable indefinitely as long as the child, through physical or mental impairment, remains unable to earn a living and the condition existed at the member's date of death. Existing protections provided in compliance with the Finance Act 2004 will continue.

Multiple nominations

35. In future, scheme members will be able to make multiple nominations for the death in service benefit rather than a single nomination as at present. Either:
- evenly to one or more individual parties
 - or in specific proportions to more than one individual parties.

Survivor and death benefits

36. Death in service benefit will continue to be twice annual pensionable pay. Survivor pensions will continue to be half the member pension as now. The ill health retirement arrangements to be consulted upon as part of the Ill Health Review, will be used for the calculation of survivor pensions on death in service.

The New NHS Pension Scheme for new entrants from 1 April 2008

Building the pension

37. The New NHS Pension Scheme will have a NPA of 65 and MPA of 55. For salaried members, there will be a final salary structure with an accrual rate of 1/60th. For self employed members, the CARE accrual rate will be 1.87% for pension. CARE pension accruals up to the point of taking pension will be dynamised by RPI plus 1.5% per annum.

Service limits

38. There will be a maximum service limit of 45 years. This will include the years credited for any transferred in service.

Earnings limits

39. There will not be any earnings limit for service in the New NHS Pension Scheme, except for those who transfer in capped service either from other schemes or via the choice exercise. Capped, transferred service will remain capped on the current basis (see para 15).

Pension purchase

40. Members in the New NHS Pension Scheme will also have the opportunity to purchase additional pension on the same terms as existing members except that it will be structured around a payable age of 65 (and the purchase rates adjusted accordingly).

Taking the pension

Commutation

41. There is not a requirement for members to take any lump sum in the New NHS Pension Scheme. Members will be able to choose how much lump sum they wish to take up to the limits permitted by the Inland Revenue for tax free lump sums. This will be by commutation of pension at the rate of £12 of tax free cash for every £1 per annum of pension foregone.

Pensionable pay

42. Final pensionable pay will be calculated using the definition of the average of the best three consecutive annual pensionable pay years, in the last ten years. Before the three best consecutive years' pensionable pay are confirmed, each year's pay (other than the year immediately prior to a pension benefit event) will be revalued in line with RPI. This will support step down in the run up to retirement. For those in the NHS Pension Scheme (1 April 2008 and after terms) who choose to transfer to the New NHS Pension Scheme in the choice exercise, the final pensionable pay calculation period will start from 1 April 2008.

Early retirement

43. Pension taken before the NPA of 65 will be subject to actuarial reduction.

Late retirement

44. Pension accrued before NPA that is taken after NPA will be enhanced by actuarial late retirement factors.

Draw down

45. There will be a range of other flexibilities. After reaching 55, staff will be able to draw down part of their pension, with actuarial reduction before the NPA, whilst continuing to work and build up more pension. Staff will be able to draw down their pension:

- in up to three tranches
- all remaining pension must be taken in the final tranche
- each tranche taken will be subject to a minimum of 20% of years accrued in whole years or one year whichever is greater
- the minimum amount of pre-commutation pension that can be drawn down in value after any actuarial reduction will be £750
- minimum pensionable service that can be left in the Scheme after draw down is 20% of total pensionable service before draw down or one year, whichever is greater
- will have to be taken in conjunction with a reduction of at least 10% of pensionable pay, for example, as a result from a switch to part-time or a reduction in grade
- the employer will be asked to certify that a qualifying reduction in pensionable pay has taken place but not to approve the application by the member for draw down.

Pensionable re-employment

46. Members who have taken their pension in full and left the Scheme will be able to return to pensionable reemployment.

Abatement before NPA65

47. Abatement will apply on the same basis as the new arrangements for existing Scheme members but up to the NPA of 65. Abatement in respect of ill health retirement is being considered in the Ill Health Review.

Survivor benefits

48. Survivor benefits will be based on the 1/160th accrual rate. This will deliver broadly the same level of benefits as for the NHS Pension Scheme. As well as survivor pensions for spouses and civil partners, survivor pensions will be payable to eligible non legal partners. Eligibility criteria are set out in paras 30 and 31.

Death in service (short term pensions)

49. Short term death in service pensions will be standardised at six months.

Death in draw down

50. If a member dies after drawing down pension but before retiring fully, their survivors will receive a combination of death in service and death in retirement benefits. Survivor pensions will be calculated according to the amount of benefits that the member has chosen to

put into payment compared with the amount that they have yet to put into payment (calculated at the last point that drawdown occurred). Lump sum benefits on death after drawdown will consist of two separate lump sums. The first, in respect of benefits not yet put into payment will be twice a member's final pensionable pay but reduced in line with the proportion of benefits already taken. The death after retirement element will be calculated on the current basis (with a cap of twice final pensionable pay less any lump sum already taken) but the member's final pensionable pay used to calculate the cap will be reduced in line with the percentage of benefits already taken.

Ending cessation of spouse/civil partner pensions on re-marriage

51. Members' survivors will receive spouse/partners pensions for life.

Child allowance

52. Children's survivor pensions will be provided until the age of 23 in all cases and will be payable indefinitely as long as the child, through physical or mental impairment, remains unable to earn a living and the condition existed at the member's date of death.

Multiple nominations

53. In future, Scheme members will be able to make multiple nominations for the death in service benefit (para 35).

Funding and governance

Contribution rate structure for all staff

54. A new contribution rate structure will be implemented at the same time as benefit changes for existing staff, which will apply to both Schemes. This is set out in the table below. Contributions will be paid on whole pensionable pay and the relevant contribution band will be determined on the same basis. For part timers, allocation to tiers is according to full time equivalent whole pensionable pay. Those currently paying 5% as manual staff will move onto the contribution rate appropriate to their pensionable pay. The first two thresholds are linked to AfC pay points. All thresholds will be annually revalued in line with revaluation of the AfC pay

scales. It is estimated that the initial average member contribution rate under the new structure will be about 6 1/2% of pensionable pay.

Funding issues

55. The Government Actuary is currently undertaking a valuation of the NHS Pension Scheme as at 31 March 2004 and the recommendations are expected to be implemented in 2008. The Government Actuary makes the funding valuation report independently and it is too early to say what the recommendations will be. However, our analysis (using the information and the partial and provisional data available at the time) suggests that the employer contribution rate in 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.

should not, assuming that the underlying assumptions remain appropriate, vary markedly from 14%.

Employer cap

56. An agreed aim is to maintain employer contributions at or just above the 14% level and employee contributions at the levels tabulated on page 12 until 2016. Reductions in the employer contribution rate would therefore not take place. Any surplus as a result of this will be used to reduce any upward pressure on the member contribution rate over a 15 year period after 2016.
57. An overall cap on employer contributions of 14.2% will apply in 2008 and 2012 (when the 2008 valuation is expected to be implemented). This means employers would pick up the first part of any contribution rate increase up to a maximum 14.2% employer contribution. If costs had increased so as to require any further increase, this would fall to employees in the form of contribution increases, benefit changes or some mixture of the two.
58. Employer contributions will be capped at 14% from 2016 (when it is expected that the results of the 2012 valuation will be implemented).
59. The basic principle behind the design and application of cost sharing and capping is that factors that change the expected value of members' benefits, as assessed by the scheme actuary, should be taken into account.
60. Costs in the Scheme, as determined at successive actuarial valuations, are a function of factors falling into five main categories:
 1. Valuation membership data (reflecting various elements of actual past experience such as pay increases).
 2. Demographic assumptions (set having regard to available data on past experience, including members' past behaviour, and projected where appropriate).
 3. Financial assumptions such as gross and net discount rate.
 4. The benefit structure (and how benefits are calculated in practice).
 5. The actuarial methodology.
61. Examples of the factors in category (2) (which are generally scheme-specific) include pensioner longevity, staff turnover, retirement age, incidence of ill health retirement and pay progression (relative to price inflation).
62. The financial experience of the Scheme is tracked using a system known as the Superannuation Contributions Adjusted for Past Experience (SCAPE) system under which a notional fund of assets is maintained to which income is credited, benefit outgo is debited and to which investment return is credited at a rate equal to actual price inflation plus the assumed net rate of return. The rate of return net of assumed price inflation is set by HM Treasury in consultation with the Government Actuary.
63. The cost sharing and capping arrangements will apply in relation to those factors that change the expected value of members' benefits as assessed by the Scheme actuary, but will generally

not apply in relation to the effects of changes within categories (3) and (5). The cost implications of any changes under (4) that were made to meet external requirements such as over-riding pensions legislation, would need be addressed separately when they arose, but changes under (4) which were made within the governance framework of the Scheme, would be included within the cost sharing and capping arrangements.

64. In the valuation report, the Government Actuary will be required to identify those elements materially contributing to a change in costs, grouped according to the category into which they are assumed to fall.

Governance arrangements

65. A partnership group, involving staff side representatives reporting to the Staff Council, and management representatives, with access to independent actuarial expert advice agreed in partnership, will be set up to advise the health departments. The partnership group will:
- initially support implementation of the agreement; for instance advising on the terms and conduct of the choice exercise, other provisions in this agreement and on information that might be desirable for future valuations
 - also keep under review equality issues including 'red circling' (transitional retention of some provisions for some members) and whether, and to what extent, current arrangements might need to change

- at future valuations, consider emerging valuation work in the light of the agreed basis for cost sharing.

66. Subject to the overall employer cap, the group will make recommendations to government (health departments and HM Treasury) on how to implement the valuation results, in terms of any increase (or decrease) to employee contributions or alternatively changes to the benefit structure to reduce (or increase) costs. Initially this will include consideration in the light of increases in final salary in the run up to retirement under the NHS Pension Scheme (1 April 2008 and after terms), whether any additional protective arrangements might avoid increases in costs that would ultimately be met by the rest of the membership.

67. The output of this work would form recommendations to the government who would decide on, and consult on, any regulations needed to implement changes. In some cases, the changes in value may be due to other factors such as legislative changes that might be imposed from outside the Scheme, and the treatment of these would be agreed as and when they arose. Changes in financial assumptions and actuarial methodology generally fall outside the cost sharing and capping arrangements (paras 60-63).

Reduction in pension costs

68. It is possible that in the future, the costs of the Pension Scheme might reduce. If this was to happen any reductions in the costs of the Scheme would go to the member until the overall contribution

rate returned to 20.4%. Any subsequent reductions below 20.4% would be shared on a 50% employee and 50% employer basis, as would any subsequent cost increases back to 20.4% and the employer 14% cap.

Overall scheme costs

69. The effect of this agreement has been modelled by the Government Actuary's Department and the results of its projections are set out in the attached tables (Annex A).

Pension data

70. The current review was hampered by difficulties in accessing information and

the difficulty in comparing pension information with that held by recognised staff groups. The review partners recommend that pension information is in future made available using the same definition for staff groups used by the census. This needs to cover issues such as pensionable service, average retirement rates, average pensions and incidence of ill health retirement. It is also recommended that information be available by ethnicity, sexual orientation, gender, disability and religion, along with any other statutory data that should be collected. This will be important in informing this process of review and allowing benchmarking (establishing baseline data for the key equality areas).

Annex A

NHS Pension Scheme Review: projections of future costs and contribution rates (GAD cost projections)

During the negotiations, the review partners took account of projections of future costs and contribution rates and these tables reflect projected outcomes when the changes in this agreement are implemented. In the light of NHS pay modernisation and AfC, it was recognised that there could be a long term impact on key factors that affect the cost of the Scheme and the review partners considered a range of different scenarios. In particular, scenarios focused on the explicit aims of pay reform to improve retention of staff and to enable staff to progress their careers through the skills escalator. It was also recognised that both AfC and the consultant contract had increased the potential for incremental progression. The four scenarios considered include the potential impact of a gradual reduction in withdrawal rates so that after about 25 years, they had reduced by 25%. They also cover the potential impact of an increase in career pay progression, as a result of improved incremental progression and the skill escalator considering a phased increase to an improvement of 0.32% or 0.75% per annum salary progression relative to recent experience.

In addition, in each scenario, mortality assumptions (which are derived from standard tables adjusted to reflect recent scheme experience) include projected future improvements to mid-century, in accordance with the standard approach adopted for work underlying the PSF agreement.

In each scenario, the general medical practitioner final dynamisation factors over the five financial years 2003/08 are assumed to compound to 48%. No allowance has been made for any potential loss of member contribution yield arising because practitioners may be allocated to a contribution tier on the basis of actual pay rather than notional full time equivalent (FTE) pay.

The tables show the projected costs for both existing members who remain in the current NHS Pension Scheme and new entrants who will join the New NHS Pension Scheme. Given the difference in costs between the two Schemes, as the balance of membership in the two Schemes changes over time, it affects the overall costs of the NHS pension arrangements.

Scenario 1: 25% phased reduction in withdrawal rates & 0.75% pa phased increase in salary progression steepness

Year	Total existing member cont rate	Total new entrant cont rate	Total combined rate paid	Employers' cont rate paid	Members' average cont rate
2008	20.5%	18.9%	20.5%	14.0%	6.5%
2012	21.1%	19.7%	20.6%	14.1%	6.5%
2016	21.4%	20.2%	20.8%	14.0%	6.8%
2020	21.9%	20.8%	21.2%	14.0%	7.2%
2024	22.7%	21.3%	21.6%	14.0%	7.6%
2028	22.7%	21.7%	21.9%	14.0%	7.9%
2052	22.8%	22.6%	22.6%	14.0%	8.6%

Scenario 2: 25% phased reduction in withdrawal rates & 0.32% pa phased increase in salary progression steepness

Year	Total existing member cont rate	Total new entrant cont rate	Total combined rate paid	Employers' cont rate paid	Members' average cont rate
2008	20.5%	18.9%	20.5%	14.0%	6.5%
2012	20.7%	19.4%	20.5%	14.0%	6.5%
2016	20.8%	19.8%	20.2%	13.8%	6.4%
2020	21.0%	20.1%	20.4%	13.9%	6.4%
2024	21.5%	20.4%	20.6%	14.0%	6.6%
2028	21.5%	20.7%	20.7%	14.0%	6.7%
2052	21.6%	21.3%	21.3%	14.0%	7.3%

Scenario 3: no reduction in withdrawal rates but 0.32% pa phased increase in salary progression steepness

Year	Total existing member cont rate	Total new entrant cont rate	Total combined rate paid	Employers' cont rate paid	Members' average cont rate
2008	20.5%	18.9%	20.5%	14.0%	6.5%
2012	20.3%	19.1%	20.5%	14.0%	6.5%
2016	20.2%	19.2%	19.5%	13.5%	6.0%
2020	20.2%	19.5%	19.5%	13.5%	6.0%
2024	20.6%	19.7%	19.7%	13.6%	6.1%
2028	20.7%	19.9%	19.8%	13.7%	6.1%
2052	21.0%	20.6%	20.6%	14.0%	6.6%

Scenario 4: no reduction in withdrawal rates & no increase in salary progression steepness – i.e. longevity improvement only

Year	Total existing member cont rate	Total new entrant cont rate	Total combined rate paid	Employers' cont rate paid	Members' average cont rate
2008	20.5%	18.9%	20.5%	14.0%	6.5%
2012	20.1%	18.9%	20.5%	14.0%	6.5%
2016	19.8%	19.0%	19.1%	13.4%	5.7%
2020	19.7%	19.0%	19.0%	13.3%	5.7%
2024	19.9%	19.1%	19.1%	13.3%	5.7%
2028	19.9%	19.2%	19.1%	13.3%	5.7%
2052	20.0%	19.8%	19.8%	13.5%	6.3%

Annex B

Index of Technical Advisory Group (TAG) papers

These papers are the analytical papers for the Pensions Review produced by the Government Actuary's Department, setting out the costings and implications of the options that we considered. Each one has been peer reviewed by First Actuarial, the independent actuary engaged for the review.

TAG2006 – 01 –	NHSPS COST PROJECTIONS
TAG2006 – 02 –	SUPPLEMENTARY NOTE ON DEMOGRAPHICS
TAG2006 – 03 –	CARE DISTRIBUTION OF OUTCOMES
TAG2006 – 04 –	TIERED MEMBER CONTRIBUTION STRUCTURE
TAG2006 – 05 –	RANGE OF POSSIBLE COST SHARING FORMULAE
TAG2006 – 06 –	OPTIONS ON ABATEMENT IN NEW SCHEME
TAG2006 – 07 –	RE-EMPLOYED FORMER MEMBERS OF EXISTING SCHEME
TAG2006 – 08 –	EARLY AND LATE RETIREMENT FACTORS
TAG2006 – 08A –	EARLY AND LATE RETIREMENT FACTORS APPLICATION
TAG2006 – 09 –	COSTINGS FOR 1 JUNE STEERING GROUP
TAG2006 – 10 –	EXISTING MEMBERS' OPTION TO SWITCH TO THE NEW SCHEME
TAG2006 – 11 –	HIGH EARNERS ISSUES
TAG2006 – 12 –	EXTRA DEATH IN SERVICE LUMP SUM FOR UNPARTNERED MEMBERS
TAG2006 – 13 –	SHORT TERM PENSIONS FOR DEPENDANTS
TAG2006 – 14 –	MINOR CHANGES FOLLOWING ISSUE OF CONDOC
TAG2006 – 15 –	PENSIONABLE RE-EMPLOYMENT
TAG2006 – 16 –	DEATH DURING DRAWDOWN AND PENSIONABLE RE-EMPLOYMENT

Index of Scheme review provision papers

These papers set out the rationale and the intention of the changes being made to the NHS Pension Scheme. They set out the rules to be implemented in each area.

These papers are available at www.nhsemployers.org/pensionagreement

SRP1 –	Funding
SRP1.1 –	Tiered contributions
SRP1.2 –	Normal Pension Age
SRP1.3 –	Minimum Pension Age
SRP1.4 –	Service limits
SRP1.5 –	Earnings limits
SRP2 –	Death benefits
SRP2.1 –	Survivor pensions
SRP2.2 –	Initial survivor pensions
SRP2.3 –	Child allowance
SRP2.4 –	Lump sum on death
SRP3 –	Building the pension
SRP3.1 –	Accrual rates, dynamising and late retirement factors
SRP3.2 –	Additional pension
SRP3.3 –	Final pensionable pay
SRP3.4 –	Voluntary protected pay
SRP4 –	Taking the pension
SRP4.1 –	Draw down
SRP4.2 –	Abatement and suspension
SRP4.3 –	Lump sum commutation
SRP5 –	Scheme membership
SRP5.1 –	Scheme membership eligibility
SRP5.2 –	Choice exercise
SRP6 –	Governance
SRP6.1 –	Valuation
SRP6.2 –	Cost sharing

Contact us

www.nhsemployers.org

enquiries@nhsemployers.org

NHS Employers

29 Bressenden Place

London

SW1E 5DD

2 Brewery Wharf

Kendell Street

Leeds LS10 1JR

This document is available in pdf format at www.nhsemployers.org/publications

Published September 2007

© NHS Employers 2007. This document may not be reproduced in whole or in part without permission.

The NHS Confederation (Employers) Company Ltd

Registered in England. Company limited by guarantee: number 5252407