HOW THE GOVERNMENT PLANS TO CHANGE NHS PENSIONS

Your Pension | Your Future | Your Say
Government changes to NHS pensions – what they mean for you

Summary
The UK government has published its ‘proposed final agreement’ on changes to the NHS pension scheme:

- 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 would be 1/54th of pay, so your pension would be based on 1/54th 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
- added years contracts would be protected and the benefits can be paid at the contract end date rather than upon retirement
- the Normal Pension Age for the new scheme would increase in line with the State Pension Age, with many doctors 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
- there would be a degree of protection for those members of the 1995 section of the scheme within 13 and a half years of retirement.

How you could 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: http://bmajfirstactuarial.co.uk

Junior doctor – A 25-year-old junior doctor who goes on to follow a consultant career path could have to pay an additional £137,000 in lifetime contributions and work an additional seven years, until the age of 68, to receive a full pension. Their annual pension at 60 will be considerably less under the proposed scheme and will be based on career average earnings rather than final salary and received for fewer years. Overall, a 25-year-old junior could be paying over 1.5 times more into the scheme to get around 30% less out of it.

Consultant – A 40-year-old consultant could have to pay an additional £100,000 in lifetime contributions and work an additional seven years, until the age of 67, to receive a full pension. While their annual pension at 67 (assuming they do not take an optional lump sum) could be slightly higher, 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 up to 50% more into the scheme to get around 7% less over the course of their retirement.

GP – A 40-year-old GP could have to pay an additional £125,000 in lifetime contributions and work an additional seven years, until the age of 67, to receive a full pension. While their annual pension at 67 (assuming they do not take an optional lump sum) could be slightly higher, 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 up to 50% more into the scheme to get around 13% less out of it.

SAS doctor – A 40-year-old associate specialist doctor could have to pay an additional £89,000 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 at 67 (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 into the scheme to get around 6% less out of it.

Background
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).
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 it will actually provide a positive cashflow to the Treasury of £10.7 billion.

Date of implementation
The government wants to impose the proposed new scheme from 1 April 2015, but contributions will increase from April 2012.

Your 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.

How your existing benefits would 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 would be based on the current definitions of final pensionable pay at the relevant normal pension age. GPs would see their total career earnings continue to be increased by the current method of dynamising which is the Consumer Prices Index (CPI) +1.5%.

CARE vs 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 pension 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 would 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.

Accrual rate
The government’s proposal is for the new scheme to have an accrual rate of 1/54th. This means that you would accrue 1/54th of your pensionable earnings for every year of your career. 1/54th 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 1/80th of final salary in the 1995 section and 1/60th of final salary in the 2008 section. While 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.

Revaluation of pensionable earnings
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’.

Your normal pension age
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.

How your annual pension payment would be updated
Pensions in payment will continue to increase in line with the Consumer Prices Index (CPI). The government can change this index – in April 2011 they changed it from the 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.
Deferred pensions
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.

Tax free lump sum
There would be no automatic lump sum payable to members in the proposed new scheme. Instead, members could 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.

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.

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.

Spouse and partner pensions
Pensions for spouses and partners would continue to be based on 1/160th of pensionable earnings for each year of service that the member had.

If you’re within 10 years of retirement
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 members 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.

If you’re within 13.5 years of retirement
Members of the 1995 section 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. Members of the 2008 section will be offered the opportunity to opt out of the protection as they may not automatically benefit from it.

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.

Other scheme rules and benefits
The government’s final offer also covers other ancillary benefits in the scheme following further discussions with trade unions’ consultation during the early part of 2012. These include:
- abatement – the limitation of pension for members who return to work after retirement and drawing their pension will be largely unchanged
- partial retirement and re-employment will continue to be possible
- the lump sum payable in the event of death in service will remain at the existing rate
- members who leave active service and subsequently rejoin will be able to rejoin the previous section of the scheme if they rejoin within five years of leaving
- 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.

Situation across the UK
Doctors in England and Wales, where the UK government has responsibility for the NHS pension scheme, would definitely be affected by these changes. It is also likely that the Scottish Government and the Northern Ireland Assembly will go ahead with the same plans, but as of March 2012 this had not been definitely confirmed.