NHS Pension Scheme

Scheme Advisory Board

NHS Pension Scheme (England & Wales) – Scheme Advisory Board

Meeting date: Wednesday 2 September 2015

Purpose:
The purpose of this paper is to provide an update on the activities of the Scheme Advisory Board following the meeting held on 2 September 2015. If you have any questions please email: penisons@nhsemployers.org.

Members
- Jan Armstrong (JA)
- Andy Blake (AB)
- Alan Fox (AF)
- Andrea Hester (AH)
- David Levy (DL)
- Ann Molyneux (AM)
- Ray Thomas (RT)
- Rehana Azam (RA)
- Michael Burden (MB)
- Bryan Freake (BF)
- Neil Lark (NL)
- Wallace Mair (WM)
- Gerry O’Dwyer (GO)

Secretariat
- Farhan Aziz (FA)

Observers
- Simon Arden-Davis (SA)
- Julie Murphy (JM)
- Ian Owen (IO)

Advisors
- Steve Simkins
- Catherine Snape
- Sue Vivian

Apologies
- Theresa Britton
- Sharon Liptrott
- Richard Tompkins
- Paul Bromley
- Eddie Saville

Agenda items:

1. Summer Budget 2015

Annual allowance – the annual allowance is the limited amount of tax free savings a member can make in any tax year. It is a fixed amount and when introduced in 2006, it affected very few people. It has previously been as high as £250K a year and is currently £40K which can be an issue for high earners. The changes introduced in the summer 2015 budget take away rights for high earners and introduce a minimum annual allowance of £10K – £40K. There are two concepts introduced; tapering of the annual allowance and an alignment of the pension input period. It was noted that both the tapering of Annual Allowance and alignment of the Pension Input Period create considerable communication and administrative challenges.

Strengthening the incentive to save – a consultation on pensions tax relief – The government is consulting on proposed changes to the pension tax system due to the number of demographic market changes over recent years and changes in government policy. Life expectancy has increased and there has been a shift away from defined benefit pensions to defined contribution pensions in the private sector. It was noted that if a new model is adopted, this will need to be communicated to all relevant parties and any transitional arrangements are likely to be complex. It would also lead to the need for changes in the systems and processes of employers and pension providers, which is likely to be costly.
SAB will submit a joint response to the consultation following further discussion between members. SAB will also hold a workshop in November 2015 to further explore the pension tax arrangements.

2. **End of contracting out**

   It is proposed from April 2016 employers and members will pay the standard rate of NI contributions instead of the contracted-out rate. Employers will no longer receive the current 3.4 per cent NI rebate and will pay the standard rate of 13.8 per cent on all earnings above the secondary threshold for all employees. The 1.4 per cent NI rebate for employees will also end (most people who are currently contracted out will be able to receive a higher state pension than under the current system).

   Employers will need to be aware of the implications and be prepared for the potential financial implications and communication challenges. NHS Employers will be providing updates and information to employers during autumn 2015. NHSBSA will be undertaking a disclosure exercise to advise that the scheme is no longer contracted-out. Scheme guides etc. will be updated accordingly.

3. **Automatic re-enrolment**

   It was noted that in addition to the original requirement to assess workers on a staging date, employers are required to repeat the process every three years, this is known as automatic re-enrolment. The requirement to re-enrol comes from the underlying principle that an employer is responsible for putting jobholders back into pension saving. It is the employer’s responsibility to complete an assessment for re-enrolment and make arrangements to establish active membership of the pension scheme again where appropriate. Some NHS organisations will begin the re-enrolment process from October 2015. SAB noted this ongoing requirement.

4. **Technical Advisory Group**

   The NHS Pension Scheme Technical Advisory Group met on 11 June 2015, discussion at that meeting centred on:
   - Review of additional voluntary contributions – TAG were undertaking a review into the current AVC provisions. DH advised SAB that they would like to delay the AVC review to allow time for the impact of Freedom and Choice in pensions to be understood and assessed.
   - Member funded options comparison paper – TAG considered a paper which compared the options a member has to either increase pension benefits or reduce any reduction applicable for early retirement. These included money purchase additional voluntary contributions (MPAVC), added pension (AP) and early retirement reduction buy out (ERRBO). TAG recommended that NHS BSA use the paper to inform member facing communications around the options available. This has been added to the NHS BSA website.

5. **Salary sacrifice**

   SAB members attended a Salary Sacrifice workshop on 29 April 2015. The workshop focussed on the implications of a CARE pension on the provision of salary sacrifice arrangements. It also explored how the implications can be communicated to employers and staff to support them in making informed decisions about existing salary sacrifice arrangements or if they are considering entering a salary sacrifice arrangement in the future. SAB wish to have further discussion relating to salary sacrifice following individual discussions between members of the group. This will inform a future SAB agenda item.

6. **Option to give up protection**

   The option to give up protection exercise gave 43,000 eligible 2008 section members a one-time only, irreversible decision to forgo all protection (whether full or tapered) and move to the 2015 NHS Pension
Scheme on 1 April 2015. Letters were circulated to eligible members via their home address by the end of June 2015. Each member had three months to make their decision and the exercise will conclude by the end of September 2015.

A webinar took place on 26 May 2015 which informed employers about the exercise but it was intended to be light touch for employers.

7. **Choice 2**

The Choice 2 exercise offered eligible members of the 1995 section a second opportunity to move their pre-2015 Scheme membership into the 2008 section, following changes to the State Pension Age that arose after the initial Choice exercise concluded (2009). Approximately 550,000 eligible members of the 1995 section, without full protection, were offered the opportunity to transfer their service into the 2008 section under Choice 2. The Board were informed that approximately 550,000 letters were posted out to members via employers. The exercise closed on 16 March 2015. At the end of the exercise 1.85 per cent of eligible members decided to move their benefits out of the 1995 section and into the 2008 section and 0.68 per cent of members with special class status decided to move their benefits.

NHS BSA are undertaking a Choice 2 ‘sweep up’ exercise in order to capture anybody who returned to NHS employment during the exercise who is eligible to make a decision under Choice 2. This affects approximately 13,000 members. Letters will be sent to the member’s home address and decisions are required no later than 1 December 2015.

8. **Engagement and Communications Sub Group (ECSG)**

The ECSG replaced the original communications sub group from May 2015. The original communications sub group had a remit to oversee the communications products for the implementation of the 2015 NHS Pension Scheme, this work is now complete. Whilst NHS BSA remain responsible for all scheme communications to employers, members and trade unions, they wish to work in partnership. The group will oversee communications regarding business as usual items and any new initiatives. The composition of the group will be of a similar format to the communications sub group with NHS BSA as the Chair and representatives from DH, trade unions, NHS Employers and employers. Organisations have nominated their own representatives to NHS BSA and the group will meet quarterly with additional meetings arranged as required. SAB provided feedback on the proposed terms of reference.

Arrangements are underway to convene the first meeting of the ECSG and the initial agenda will centre on the draft Engagement and Communications Strategy prepared by NHS BSA with a view to developing detailed communications plans. The first meeting is expected to be in September 2015.

9. **Total Reward Statements (TRS)**

This is not a Scheme Advisory Board work area, however the board receive regular updates. The roll out of TRS for 2015 will be similar to 2014, however, there will be two geographical tranches as opposed to three. The data cut has already been taken for the statements which will show pension benefits to 31 March 2015. The full evaluation of 2014 TRS has been made available for SAB members. The report states that 55 per cent of employees reported awareness of TRS and two thirds of members who accessed their statement rated TRS as good or fairly good.

A full review of the TRS website is taking place to remove jargon following feedback received during the evaluation of the 2014 TRS rollout. A payslip leaflet will be used along with other communication channels. NHS BSA will try to increase levels of engagement with clinical staff as the evaluation showed
that the majority of staff who accessed their TRS in 2014 were managerial or administration staff. It has been noted that it is easier to access TRS via ESR as opposed to the Government Gateway access route.

NHS BSA are exploring the options for providing estimates of what a member may receive at retirement, however this will not be available for the 2015 roll out. Consideration is also being given to how estimates can be provided to members with benefits in more than one scheme/section.

10. NHS Pension Scheme accounts 2014/15
The total current pensions in payment totalled £6.98 billion for 2014-15. The assessed value as at 31 March 2015 of benefits accrued under the scheme prior to 31 March 2015 was £390.6 billion. The cost of benefits accrued in the year ending 31 March 2015 (the Current Service Cost) is based on a standard contribution rate of 32.7 per cent. Members contributed between 5.0 per cent and 14.5 per cent of pensionable pay, depending on the level of their pay, an average of 9.5 per cent per member. £10.025 billion contributions are expected to be payable to the scheme in 2015-16. Individual transfers in from other schemes for 2014-15 is £70.235 million and group transfers in from other schemes for 2014-15 is £1.693 million. Furthermore, other pension income for 2014-15 was £81.87 million for 2014-15. The accounts were noted by SAB.

11. 2015 NHS Pension Scheme implementation
A new compliance team has been established in NHS Pensions to oversee compliance of the new scheme. The team includes five full time experienced members who have a plan of work for the next 12 months.

In relation to communications, it was reported to SAB that 82 per cent of employers who attended the series of webinars on the new 2015 Scheme indicated that their objectives for attending the webinar had been met and 76 per cent felt the webinars would enable them to do their job differently in the future.

12. Opt out data
There were no exceptions to report to SAB.

13. 2015/16 SAB work plan
Work is being progressed in line with the agreed work plan and the following items will be added for 2015/16; a joint response to the consultation on pension’s tax relief and a workshop to be held in November 2015 relating to pensions tax.

14. Date of next meeting

9 December 2015.

September 2015
Gerry O’Dwyer, Scheme Advisory Board Co-Chair
Edward Colgan, Scheme Advisory Board Co-Chair.