Part 1: Factsheets
A factsheet on the mutual basis of the NHS Pension Scheme

This factsheet provides background information on the mutual basis of the NHS Pension Scheme. It will help HR directors and their teams to outline the value of the scheme to existing members, newly appointed staff and those considering applying to work in the NHS.

The NHS Pension Scheme is a key component of the staff reward package and there is evidence from research that the scheme has been a positive factor in recruitment and retention.

What is the mutual basis of the NHS Pension Scheme?

Many employees in the private sector bear the burden of saving for their pension fund throughout their working lives. One of the ways in which NHS organisations demonstrate that they value their workforce is by providing a pension where employer and employee both contribute.

All scheme members pay contributions from their salary into the NHS Pensions Scheme. The contribution rate varies according to the person's salary level and ranges between 5 and 8.5 per cent. This scale of employee contributions has been introduced in return for benefits to avoid higher paid staff being subsidised by those on lower incomes.

All scheme members:

- get tax relief on their contributions
- pay a lower rate of National Insurance contributions because they are contracted out of the State Second Pension Scheme.

The employer contribution is 14 per cent of pensionable earnings. These contributions are capped at 14.2 per cent until 2016 and 14 per cent thereafter.

Why is the scheme a key component of the staff reward package?

It is critical that the NHS retains its skilled workforce as any loss of staff is expensive, disrupts patient care and damages morale. This, in turn, impacts on the quality of services. Improving productivity in the NHS will be brought about by employing the right staff who are highly motivated. Having a sustainable NHS Pension Scheme is vital to these aims.

Evidence from staff surveys, exit interviews, focus groups and specific studies tells us that there are many factors that attract people to work in the NHS. These are generally much wider than basic pay rates, leave allowances and working hours (although these are important too). Staff often value the opportunity to manage their own workloads and to decide how to carry out their work, as well as having opportunities for development and training.
The NHS Pension Scheme is also cited as a component of the reward package and a benefit that newcomers to the NHS have been pleasantly surprised about. The Mercer study\(^1\) showed that many staff did not give much thought to the scheme when they first joined the NHS, but have subsequently realised that it is a valuable part of their package that has influenced their decision to stay in the NHS.

To attract the right staff who are highly motivated, HR and line managers need to know what benefits and flexibilities are included in the NHS Pension Scheme, and understand how to capitalise on these in order to strengthen the employment offer.

How does the NHS Pension Scheme compare with private sector schemes?

It is difficult to compare public and private sector schemes as there are significant differences in the way that each scheme is set up: the contribution rates of employers; the way pensions are increased and the complete range of benefits payable both to the individual employee and to their dependants. However, we do know that the benefits of the NHS Pension Scheme are valuable. Actuaries have assessed them as being worth around 20 per cent of overall pay.

\(^1\) Study undertaken by Mercer HR Consulting, 2004
A factsheet summarising the key NHS Pension Scheme benefits

This factsheet summarises changes to the NHS Pension Scheme, introduced in April 2008, and outlines flexibilities and key pension benefits.

Background

There are now two sections of the NHS Pension Scheme: The updated 1995 section and a new 2008 section for entrants joining the scheme for the first time on or after 1 April 2008. Each section has separate benefits. To help determine which section a member is in, NHS Pensions has published a decision-making tree in their Member guide to the NHS Pension Scheme.

Members of both sections are entitled to:

- a pension linked to pay and length of membership. Benefits are fully guaranteed and pension increases are applied each year to keep pace with inflation
- immediate life assurance of twice annual pay from the first day of joining - this is usually a tax-free lump sum payable to a member’s spouse, civil partner, qualified unmarried partner, nominee or estate
- pensions and allowances for the member’s spouse, civil partner, qualifying unmarried partner¹, and dependent children upon death
- a tax free lump sum (optional in the case of members of the 2008 section)
- voluntary early retirement² from age 50³ (1995 section) or 55 (2008 section). Members will receive an actuarially reduced pension because the pension will be paid earlier and for longer.

In addition, members:

- do not pay administration costs
- may transfer pension benefits into and out of the scheme (if a member changes jobs in the NHS their membership will normally continue)
- can increase their contributions to get bigger benefits.

¹ Nominated qualifying partners in exclusive long-term committed relationships of at least two years and are either financially dependent or inter-dependent.
² Restrictions apply – see the Members Booklet - SD Guide (PDF 1521kb) Early Retirement section.
³ For members joining the 1995 section on or after 6 April 2010 the minimum retirement age is 55. This change came into effect on 6 April 2010 and may also apply to members who are returning to the scheme after this date.
Benefits at retirement

Pension and lump sum
In both sections of the scheme, members will receive an annual pension. In the 1995 section, members will also have an automatic lump sum. This will normally be three times their annual pension. There is no basic lump sum entitlement in the 2008 section but members have the option of receiving a retirement lump sum by giving up part of their pension. Members of both sections are able to give up some of their annual pension in exchange for a larger lump sum.

For details of how the benefits are calculated in each section of the scheme, please refer to the Member guide to the NHS Pension Scheme (pages 14-19).

Illness, injury, insurance and family benefits

Ill health retirement
If a member has at least two years’ membership and is too ill to work in their present job, they may be able to retire early and take their pension benefits. There are two tiers of ill health retirement and the benefits they get will depend on whether or not they are capable of undertaking employment elsewhere. The minimum pension age does not apply in the case of ill health retirement. Pension increases are applied to ill health pensions in April each year.

Deferred members who become too ill to undertake regular employment may apply to take their pension early without reduction but any benefits accessed will not be enhanced.

Life insurance and family benefits
The scheme provides lump sum and pension benefits to members’ dependants in the event of their death. The benefits payable will depend on their circumstances at the time of their death.

Payment of lump sum
The lump sum will be paid to the member’s spouse, registered civil partner or qualifying partner. A form to nominate who members want to receive this benefit can be downloaded from NHS Pensions website at www.nhsbsa.nhs.uk/pensions. If the member does not nominate a person to receive a lump sum and does not have a spouse, registered civil partner or qualifying partner, the lump sum will be paid to their estate.

Payment of dependants’ pensions
These are payable for life to the member’s legal spouse, registered civil partner, or qualifying partner from the date of their death. If the member is not in a legally recognised relationship, they and their partner are required to complete a form to register their relationship, available from www.nhsbsa.nhs.uk/pensions. Members can also choose to give up part of their own pension to provide a bigger pension for any dependant on their death. This can be to a spouse, civil partner, qualifying partner, or child.

Children’s pensions
Children’s pensions are paid until the age of 23. If the child remains unable to earn a living due to a condition which existed at the date of the member’s death, the children’s pension can be paid indefinitely.
Each section of the scheme provides slightly different benefits. The following tables show the benefits that are payable from each section.

### 1995 section of the NHS Pension Scheme

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Death in membership (with at least two years’ membership)</th>
<th>Death after retirement</th>
<th>Death with deferred pension</th>
<th>Death within 12 months of leaving membership if benefits remain in scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lump sum</strong></td>
<td>2 x annual pensionable pay or average uprated earnings for practitioners</td>
<td>The lesser of: 5 x pension less pension already paid or 2 x pay less any retirement lump sum</td>
<td>3 x pension payable if member had retired on date of death</td>
<td>3 x annual pension the member would have received had they retired on the date of death</td>
</tr>
<tr>
<td><strong>Widow’s pension</strong></td>
<td>½ of notional upper tier ill health retirement pension</td>
<td>½ of pension in payment</td>
<td>½ of pension at the date of death</td>
<td>½ of notional upper tier ill health retirement pension at date of leaving</td>
</tr>
<tr>
<td></td>
<td>Short-term pension payable at rate of pensionable pay for the first six months</td>
<td>Short-term pension payable at rate of member’s pension paid for first three months or six months if there is at least one dependent child</td>
<td>No short-term pension</td>
<td>No short-term pension</td>
</tr>
<tr>
<td><strong>Widower’s/Civil partner’s/Nominated partner’s pension</strong></td>
<td>½ of notional upper tier ill health retirement pension, based only on membership from 6 April 1988*</td>
<td>½ of pension in payment, based only on membership from 6 April 1988*</td>
<td>½ of pension at the date of death, based only on membership from 6 April 1988*</td>
<td>½ of notional upper tier ill health retirement pension at date of leaving, based only on membership from 6 April 1988*</td>
</tr>
<tr>
<td></td>
<td>Short-term pension payable at rate of pensionable pay for the first six months</td>
<td>Short-term pension payable at rate of member’s pension paid for first three months or six months if there is at least one dependant child</td>
<td>No short-term pension</td>
<td>No short-term pension</td>
</tr>
</tbody>
</table>

*These benefits may be higher if Additional Survivor Pension cover for dependants has been purchased.

| Children’s pension | ¼ of notional upper tier ill health retirement pension for 1 child ½ shared equally if 2 or more | ¼ of pension for 1 child ½ shared equally if 2 or more | ¼ of pension for 1 child ½ shared equally if 2 or more | ¼ of notional upper tier ill health retirement pension for 1 child ½ shared equally if 2 or more |

4 A death gratuity lump sum is payable for members with less than two years’ membership.
5 Higher rates may be payable if there is no survivors pension payable.
## 2008 section of the NHS Pension Scheme

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Death in membership (with at least two years’ membership)</th>
<th>Death after retirement</th>
<th>Death with deferred pension</th>
<th>Death within 12 months of leaving membership if benefits remain in scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lump sum</strong></td>
<td>2 x reckonable pay or average uprated earnings for practitioners&lt;sup&gt;6&lt;/sup&gt;</td>
<td>The lesser of: 5 x pension less pension already paid; or 2 x reckonable pay less any retirement lump sum taken</td>
<td>2.25 x annual pension the member would have received had they retired on the date of death assuming they did not take a lump sum</td>
<td>2.25 x annual pension the member would have received had they retired on the date of death assuming they did not take a lump sum</td>
</tr>
<tr>
<td><strong>Adult dependant’s pension</strong></td>
<td>37.5% of notional upper tier ill health retirement pension</td>
<td>37.5% of pension in payment* Short-term pension payable at rate of member’s pension paid for first three months or six months if there is at least one dependant child</td>
<td>37.5% of pension at the date of death* No short-term pension</td>
<td>37.5% of notional upper tier ill health retirement pension at date of leaving. No short-term pension</td>
</tr>
<tr>
<td>*May not include any additional pension being paid.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Children’s pension</strong>&lt;sup&gt;7&lt;/sup&gt;</td>
<td>18.75% of notional upper tier ill health retirement pension for 1 child 37.5% shared equally if 2 or more</td>
<td>18.75% of pension for 1 child 37.5% shared equally if 2 or more</td>
<td>18.75% of pension for 1 child 37.5% shared equally if 2 or more</td>
<td>18.75% of notional upper tier ill health retirement pension for 1 child 37.5% shared equally if 2 or more</td>
</tr>
</tbody>
</table>

### Members with short service

If a member has less than two years’ membership and dies before they leave or retire, their spouse, civil partner, or nominated qualifying partner would receive a lump sum payment and a short-term pension payable for six months.

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<sup>6</sup> A death gratuity lump sum is payable for members with less than two years’ membership

<sup>7</sup> Higher rates may be payable if there is no survivors pension payable
A factsheet summarising the NHS Pension Scheme retirement flexibilities

This factsheet summarises changes to the NHS Pension Scheme, introduced in April 2008, and outlines flexibilities and key pension benefits.

Background

There are now two sections of the NHS Pension Scheme:

- The updated 1995 section, which continues to link benefits to final salary and has a normal pension age of 60 years and 55 for special classes with an accrual rate of 1/80th. It includes new benefits such as the option to take more pension as a tax-free lump sum.

- A new 2008 section for new entrants joining the NHS on or after 1 April 2008. This section also links benefits to final salary but has a normal pension age of 65 and more flexibilities, particularly in the run up to retirement, and an accrual rate of 1/60th with the option to commute pension to lump sum.

- The NHS Pension Choice exercise began in January 2010 and will run for three years, giving members of the 1995 section of the NHS Pension Scheme the opportunity to move to the new 2008 section.

NHS Pension Scheme arrangements introduced in April 2008 have responded to the reality that people often value the opportunity to work for longer, but with increased flexibility in the transition period between work and retirement. With employer agreement, staff can now take advantage of pension flexibilities intended to help them better adjust their work-life balance in the run up to full retirement. This might include stepping down into a less demanding role and taking part of their pension. For employers this is an opportunity to retain skills in the healthcare service for longer.

What is flexible retirement?

Flexible retirement is defined as flexibility regarding the age at which an employee retires, the length of time an employee takes to retire or the nature and intensity of work in the lead up to final retirement. Flexible retirement arrangements will deliver one or more of the following benefits:

- retention of experienced staff with valuable skills
- greater choice for employees
- the creation of a wider pool of expertise for recruitment (by including those aged over 55)
- a strategic and effective response to demographic change
- equality of opportunity and fairness for all employees.
The key flexible working options can be described as follows:

- **Wind down**: as an alternative to retiring, staff can opt to wind down by working fewer days or hours in their current post.

- **Step down**: staff who would like to give up the pressure and responsibilities of their current role can opt to step down into a less demanding and lower graded (paid) post, which still makes use of their skills and experience.

- **Retire and return to the NHS**: staff who have reached the normal retirement age can opt to retire, take all their pension benefits and return to NHS employment. Options available include registering for the staff bank by taking retirement, then opting to work on an ‘as and when’ basis, giving an opportunity to pick and choose the hours worked.

- **Draw down**: this is only open to members of the 2008 section of the NHS Pension Scheme. Draw down allows members to take part of their pension benefits while continuing in NHS employment.

- **Late retirement enhancement in 2008 section**: if the member chooses to retire later than their 65th birthday, the pension benefits earned up to their 65th birthday will be increased by the application of late retirement factors.

More detail about each of these options is outlined below with a summary of how each option applies in both sections of the NHS Pension Scheme.

1. **Wind down**

As an alternative to retiring, staff can opt to wind down by working fewer days or hours in their current post.

**Impact on benefits**
Pensions for part-time staff are calculated on the whole time equivalent salary, so moving from full-time to part-time work, rather than retiring, should not reduce the level of pensionable pay for the calculation of pension benefits. However, it will reduce the rate at which members build up future membership.

**1995 section**
Benefits are calculated on the basis of 1/80th of the best of the last three years’ pensionable pay for each year of pensionable membership.

**2008 section**
Benefits are calculated on the basis of 1/60th of annual average of best three consecutive years’ pensionable pay, in last ten years.
2. Step down

Staff who would like to give up the pressure and responsibilities of their current role can opt to step down into a less demanding and lower graded (paid) post, which still makes use of their skills and experiences.

**Impact on benefits**
The level of pensionable pay is protected for the calculation of pension benefits for staff who are over the minimum retirement age.

1995 section
If a member has reached the minimum retirement age of 50 (or 55 for some members) and their pay is reduced by a minimum of 10 per cent they can apply for their benefits up to the date of the change to be protected. The member must apply within 15 months of reduction.

Benefits are calculated on the basis of 1/80th of the best of the last three years’ pensionable pay for each year of pensionable membership.

2008 section
If a member has reached the minimum retirement age of 55, they can consider moving towards retirement by switching to a less demanding role. The member’s reckonable pay will still consider any higher earnings they may have had in the ten years prior to their retirement date.

Benefits are calculated on the basis of 1/60th of annual average of the best three consecutive years’ pensionable pay, in last ten years.

3. Retire and return to NHS

Members who have reached the normal retirement age can also opt to retire, take all their pension benefits and return to NHS employment. Options available include registering for the staff bank by taking retirement, then opting to work on an ‘as and when’ basis, giving an opportunity to pick and choose the hours worked.

1995 section
The normal retirement age is 60. Pensionable re-employment is not generally available, but if the member retired between 1 April 2008 and 30 September 2009 (the day before the NHS Pension Choice exercise started) they will be eligible for pensionable re-employment in the 2008 section, but they must wait at least two years after retirement before they can join.

The member must take a 24-hour break before returning back to employment and work less than 16 hours per week in the first calendar month to avoid their pension being suspended.

Abatement does not apply to members who are over age 60.

1 For members joining the 1995 section on or after 6 April 2010 the minimum retirement age is 55. This change came into effect on 6 April 2010 and may also apply to members who are returning to the scheme after this date.

2 Practice of reducing a pension if the combined amount of the pension and salary in the NHS re-employment exceeds the pre retirement level of pensionable pay.
2008 section
The normal retirement age in the 2008 section is 65. Pensionable re-employment is generally available.

The member must take a 24-hour break before returning back to employment.

Abatement does not apply to members who are over age 65.

4. Draw down
This is only open to members of the 2008 section of the NHS Pension Scheme. This option allows members to take part of their pension benefits while continuing in NHS employment.

If members are over the minimum retirement age of 55 and their pay is reduced by a minimum of 10 per cent, they can partially retire and take some pension benefits. Members can take 20 to 80 per cent of their pension entitlement and continue to build up future membership.

The member’s benefits would be reduced if they are paid before their 65th birthday. Pensionable pay must remain reduced for at least a year, otherwise they will cease to be eligible for the pension they have taken.

Members can draw down benefits twice before retiring completely.

5. Late retirement enhancement in 2008 section
If the member chooses to retire later than their 65th birthday, their pension benefits up to their 65th birthday will be increased by the application of late retirement factors.

Further information can be found at the NHS Pension website.
This factsheet for HR directors focuses on independent financial advisers. It outlines the risks and opportunities for NHS organisations in providing information for staff, but not advice, relating to the NHS Pension Scheme.

Why is it important that employers do not provide advice?

HR directors and their teams need to be aware of their role and responsibilities in relation to the NHS Pension Scheme. All members of the scheme will need to be well informed in order to make sound decisions, as those decisions could affect their income for the future.

By law, NHS pensions officers may not provide financial advice to scheme members. This caveat also applies to HR staff, NHS trade unions and NHS pensions staff. So, while they have a duty to provide information about the scheme and options, they may not advise.

Can employees seek independent financial advice?

Yes. If employees are in any doubt about their pension arrangements, they are able to seek independent financial advice. Before they ask for independent advice, employees should be certain they know what type of adviser they are dealing with.

Under the Financial Services and Markets Act 2000, all financial advisers have to decide whether to be independent, tied or multi-tied. A financial adviser who is independent can offer a range of financial services and products, whereas a financial adviser who is tied or multi-tied can only offer the products from one, or a selection of, companies.

Most financial advisers will also charge a fee. The charge may be in the form of a fee payable by the employee, or commission payable by any company that they decide to invest in. If the adviser they choose charges on a commission basis, they should ask how any investments made will be affected by the charges.

Risks of pension mis-selling during the NHS Pension Choice exercise

On occasion, some NHS organisations provide staff with access to independent financial advisers within the workplace. NHS Pensions is advising employers that this practice should not take place during the NHS Pension Choice exercise due to the risk of pension mis-selling.

The Choice exercise began in January 2010, giving members of the 1995 section of the NHS Pension Scheme the opportunity to move to the new 2008 section.
NHS Pensions will provide comprehensive information to support scheme members to make informed decisions, and staff can also seek independent financial advice if they wish to arrange this for themselves. Employers can assist by signposting staff to the following websites:

- IFA Promotion
- The Personal Finance Society
- Moneymadeclear

It is important to note that, during the NHS Pension Choice exercise, scheme members are not being asked to make an investment decision. When choosing whether to remain in the 1995 section or move to the new 2008 section, members are likely to think not only about the overall benefits of each section, but also about their own personal circumstances, lifestyle and career aspirations. Members may find it useful to refer to the pension calculators, available from the NHS Pensions website.