The changes to the NHS Pension Scheme have now been agreed for England and Wales. Developed jointly by NHS Employers and the NHS trade unions, the final agreement aims to deliver a scheme that meets the needs of a modern NHS and its staff, and is sustainable in the longer term.

You should have already have received an electronic summary of the key changes that was issued jointly by the review partners to all employers on the day of the announcement (21 September). This NHS Employers Briefing is intended as a reference document. It includes the same information as the electronic briefing on the Scheme changes and key dates, as well as additional details on the costing assumptions for employers, and the broader context for the final agreement. There is additional information on our website at www.nhsemployers.org/pensionagreement

**Key facts**

- Two Schemes: updated NHS Pension Scheme for existing members and New NHS Pension Scheme for new members – both implemented on 1 April 2008
- Existing members keep final salary pension and Normal Pension Age (NPA) of 60, with new benefits
- New members get final salary scheme with NPA of 65 and more flexibility in the run-up to retirement
- Both Schemes have the same, new tiered contribution rates for a fairer way to fund benefits and costs
- One-off choice for existing members to move to the new members’ Scheme
- The Scheme changes reflect employer and staff views on key benefits
- They also manage costs and risks for employers – employer contributions remain at current rate of around 14 per cent.

**What is changing and when?**

An updated NHS Pension Scheme is being introduced for existing members that keeps most of the current benefits and introduces new ones, alongside a New NHS Pension Scheme for new members. Both Schemes will have identical, new contribution rates and will come into effect on 1 April 2008.

Existing members will have a one-off choice of moving to the new members’ Scheme that is currently planned to run from 1 July 2009 to 30 June 2010.
Why are contribution rates changing?
Employers and staff were clear that they wanted to keep final salary for both existing staff and new entrants, rather than introduce a Career Average Revalued Scheme. The new tiered rates where contributions are linked to individuals’ pay, to better reflect the pension benefits they receive, means that the Scheme can continue as final salary and is sustainable in the longer term.

Will employer contributions change?
No. We expect that the employer’s contribution will continue to be around 14 per cent which is still 2/3rds of the overall pension cost. As part of the negotiations, NHS Employers has ensured that in the long term, employer costs will not change and will be capped at 14 per cent (see Managing employer costs on page 5).

What do employers need to do?
Employers need to communicate the Scheme changes to staff and there is a range of materials at www.nhsemployers.org/pensionagreement to help you do this. In addition, the Business Services Authority (BSA) Pensions Division that is leading on implementation, is sending all employers copies of a printed staff leaflet about the changes for November payslips. You will need to ensure that staff who join the NHS between now and 31 March 2008, are given a copy of the leaflet. In the short term, you will also need to support some staff that have options to think about now (see More information on page 6).

New data requirements for employers
All employers will need to provide new data to support the Scheme changes, including the new contribution rates. The Electronic Staff Records (ESR) project team and the Department of Health are currently identifying the information required and how best to support employers, including those who do not have ESR.

The updated NHS Pension Scheme for existing members – to be introduced on 1 April 2008
The updated NHS Pension Scheme will continue to offer most of the current benefits that staff and employers said were important to them such as final salary pension, as well as a range of new benefits like the option to take more pension as a tax free lump sum. However, there will also be new contribution rates to give a fairer way to fund new benefits and future costs.

- Keep final salary pension – this will still be calculated on the highest pensionable pay in the last three years of paying into the pension and still accrued at 1/80th of pensionable pay, for every year of paying into the Scheme. Existing members will also continue to get a lump sum of 3/80ths of their pensionable pay.

- Keep the current normal pension age – for most staff this is 60 years or 55 years for those with special class status. Most staff will still have a minimum pension age of 50.

- New option to take more pension as a tax-free lump sum – staff will be able to
take up to 25 per cent of the value of their pension fund in return for a smaller pension, giving up £1 of pension for every £12 of lump sum. This will give staff more flexibility on retirement.

- **New option to continue paying into the pension for longer** – staff who have not yet retired can carry on paying into, and building up, their pension for a total of 45 years regardless of their age.

- **More flexibility in the run-up to retirement** – after age 50, staff can step down to a less demanding role on a lower salary, with protection for the pension that they have already built up. However, this only applies if there is a permanent reduction of at least 10 per cent in pensionable pay that is certified (not approved) by the employer.

- **No earnings cap** – for service after 1 April 2008, the current earnings cap of £112,800 for 2007/2008 will be removed. However, service before 1 April 2008 will still be subject to the cap of £112,800. This will also apply to the earnings cap for dental practitioners called the maximum allowable remuneration (MAR).

- **A new option for staff to top up pension, to replace added years** – staff will be able to purchase up to a total of £5,000 of additional pension either as one lump sum or in smaller amounts of £250, any time up to and including age 60, over a total period of up to 20 years. Total annual pension contributions will be limited to the total of pensionable pay. Staff will be able to choose between buying additional pension for single life or with survivor benefits. This replaces the facility to buy added years but existing contracts will be honoured.

- **Current money purchase Added Voluntary Contributions (AVC) continues** – this gives current members an alternative to the additional purchase facility outlined above.

- **In future, those who get survivor pensions following the death of an active member, will keep them for life** – this will apply even if they re-marry, enter a new civil partnership or co-habit.

- **Eligible unmarried partners will now get survivor pensions** – an eligible partner is anyone who is not married or in a civil partnership, but is nominated to receive a pension and is someone who the member has an exclusive long-term committed relationship with, in which they are financially dependent or inter-dependent.

- **New contribution rates** – individual contributions will be directly linked to earnings. The review partners believe this is a fairer way to fund new benefits and future costs. Individual contribution rates will depend on individuals’ pensionable pay or the full time equivalent if they work part time.

The new rates are outlined on page 4 and will be introduced on 1 April 2008.

Work is on-going to confirm detailed next steps for employers, for implementing the new rates.

- **A range of further improvements** – other improvements to the existing Scheme include survivor pensions for children up to age 23; the ability to nominate a number of beneficiaries for the ‘death in service’ benefit; and going forward, the short term death in service benefit will be standardised at six months.

- **Employers continue to contribute around 14 per cent** – this is around two thirds of the overall cost of an individual’s pension.
The revised Scheme for existing practitioner members (GPs and dentists)

- **Keep a CARE pension** – their Career Average Revalued Earnings (CARE) pension will continue to have an accrual rate of 1.4 per cent and a lump sum of 4.2 per cent.

- **More stability in annual revaluations** – from 1 April 2008, active members’ pension will be dynamised annually by the Retail Prices Index (RPI) plus 1.5 per cent, which is broadly in line with the movement in national average earnings.

The New NHS Pension Scheme for new members – to be introduced on 1 April 2008, with a one-off choice for existing members, planned from 1 July 2009

The New NHS Pension Scheme for new members offers a range of flexibilities to suit different working patterns, particularly in the run-up to retirement. For employers, it gives staff more options such as stepping down to a less demanding role and taking part of their pension, or being able to return to work after they have retired and rejoin the Scheme. Existing members will have a one-off choice to move to this Scheme, which is currently planned for 1 July 2009 to 30 June 2010.

- **A final salary pension** – this will be based on the average of the best three consecutive years in pensionable pay in the last ten years’ of working, calculated on a higher accrual rate of 1/60th of pensionable pay and revalued by RPI. This gives staff more options in the run-up to retirement like taking on a lower paid role but knowing that their pension will still be based on their earlier, higher earning years.

- **An NPA of 65 years** – this will be on an unreduced

### Annual pensionable pay (full time equivalent) | Current contribution | New contribution
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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.
pension at 65 years but with more flexibilities for those who want to retire earlier or later. New members will be able to retire after 55 years on a reduced pension, or they can continue working to age 75 to get an enhanced pension, or start taking part of their pension whilst still working. Whatever they decide to do, they can only take their pension in three portions (no more), so if they have drawn down part of their pension twice before, they must take all their remaining pension when they finally retire.

- **No age limits on service** – they can continue to pay into their pension for as long as they are working, up to a total of 45 years, regardless of their age.

- **More options on lump sum** – they can take up to 25 per cent of their pension as a lump sum or take all their income as a pension, or flex anywhere between the two. They will give up £1 of pension for every £12 of lump sum.

- **Choice of options to top up their pension** – the options are the same as those for existing members (see New option for staff to top up pension on page 3) but payable at 65 years of age.

- **Contribution rates linked to individual earnings** – exactly the same as those for existing members (see the contribution rate table on page 4).

- **Further benefits** – survivor pensions for life; survivor pensions for children aged up to 23 years; the ability to nominate more than one beneficiary for death in service benefit and getting the short-term death in service benefit for six months.

**New Scheme for new practitioner members (GPs and dentists)**

- **A CARE pension** – with an accrual rate of 1.87 per cent and the option to take up to 25 per cent of their pension as a lump sum with a reduced pension.

- **Annual revaluations** – for active members, annual dynamisation will be by RPI plus 1.5 per cent.

**Managing employer costs**

The government actuary carries out a valuation of the NHS Pension Scheme every four years which in turn, determines the future cost of the Scheme. The review partners have agreed that employer contributions will be capped at a maximum of 14.2 per cent until 2016 and from 2016, 14 per cent, which is broadly in line with employers’ current contribution rate of 14 per cent. This still equates to two thirds of the overall cost of an individual’s pension.

The agreed cap on employer contributions relates to those risk factors that increase the value of the Scheme to members, such as staff retention and pay progression. Going forward, a partnership group involving management and staff side will consider the four-yearly valuations and if required, make recommendations to the government on changes to employee contribution rates or benefits, or both. It will not affect employer contributions. This moves much of the risk of such changes from the employer (where they are currently) to the Scheme members.

If costs increase for other reasons such as major legislative change or the Scheme’s funding assumptions, this will be addressed separately and both employee and employer rates will be considered.

Up until 2016, any surpluses would be used to off-set any...
upward pressure on member contributions after 2016. If in the longer term the costs of the Pension Scheme reduce, any reductions in costs would go to members until the overall contribution rate returns to 20.4 per cent (the combined total of the employer and employee contribution). Any subsequent reductions would be shared equally across employee and employer contributions as would any subsequent cost increases back to a total of 20.4 per cent. For employers, this would not exceed their cap of 14 per cent.

More details on costs are outlined in the Final Agreement document in the Funding and Governance section, which is available at www.nhsemployers.org/pensionagreement

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More information

Did you look at other options?
Yes. The review partners discussed introducing a Career Revalued Earnings Scheme (CARE) where an individual’s pension is directly related to how much they pay in. Employers, staff side and staff were all clear that they wanted to keep final salary which is why we have introduced tiered contribution rates. The review partners believe this is the fairest way to fund benefits and future costs.

Why are the higher paid staff paying more?
In a final salary scheme, staff with bigger salary increases particularly in their final years of working, tend to benefit more, when compared to other staff that have a steadier pay progression throughout their career. This is because in a final salary scheme, their pension is based on the best of their final years of working but over their career, their contributions have been lower when compared to the final benefits received. The review partners believe that tiered rates, where contributions are linked to earnings, are a fairer way to fund new benefits and future costs.

Who will be supporting employers through implementation?
The BSA Pensions Division is the Scheme administrators and is responsible for implementing the changes. They will be supporting employers throughout the period leading up to and including the implementation, and will be contacting you to ensure that processes to administer the changes are in place in time. You can visit their website at www.pensions.nhsbsa.nhs.uk to register for email alerts to notify you of any new information as it becomes available.

Are there staff who need to make a decision now?
Most staff do not need to do anything in the short term. However, the following staff will need to think about their options now: those who are thinking about retiring in the next three years, those who are leaving the NHS and deferring their pension, or any staff who want to buy added years before it is replaced by the new option to buy added pension (applications for added years need to be in by 31 March 2008). The Pensions Division has produced a range of factsheets on the changes including ones for these groups. This information is available on the Pension Divisions website.

What about those people who have left the NHS and deferred their benefits in the Scheme?
Deferred members, who return within five years of leaving or before 1 April 2008, will return
to the updated NHS Pension Scheme and will be given a choice to transfer to the New NHS Pension Scheme for new members. Those who return after five years will join the New Scheme for future service but will be given a choice on whether to transfer their deferred service to the New Scheme. New staff who join the Scheme on or after 1 April 2008, will also join the New Scheme for new members.

The Pensions Division will be contacting deferred members at their last known address to advise them of the changes.

How did employers help shape the final agreement?
All employers (and staff) were asked to respond to two consultations on the proposed changes, most recently in 2006. Throughout the last consultation we also gathered employers’ views on the proposals through a series of briefing events and existing network meetings, attended by around 200 organisations. NHS representatives have played a key role throughout the review as part of our negotiating team. The final agreement has also been endorsed by NHS Employers policy board.

How does it link to the ill health review?
Any changes agreed in the ill health retirement review will become part of the NHS Pension Scheme. Injury benefits are not part of the Pension Scheme and are not part of this review. The review partners will be consulting with both employers and staff on proposed changes to the current ill health retirement arrangements.

Where can I find out more?
This briefing only outlines the key changes to the Scheme for existing and new members. For details on:
- all the changes visit www.nhsemployers.org/pensionagreement to see copies of this summary, detailed Qs&As, case studies illustrating the changes and a template presentation and editorial for staff newsletters to support staff cascades
- how the changes will affect staff, and when and how they will be introduced see www.pensions.nhsbsa.nhs.uk including factsheets for specific staff groups such as deferred members and a ready reckoner to help staff calculate their new contribution rate and options on lump sum.

If you have any queries
- about the changes to the Pension Scheme, please email nhspensionreview@nhsemployers.org and we will aim to respond quickly
- about implementation of the Schemes for existing and new members, and support for employers and staff through implementation, please see the Pensions Division website at www.pensions.nhsbsa.nhs.uk. Employers can register for email alerts on new information via the website, and can access an email facility for any outstanding queries on implementation.
NHS Employers
supporting, promoting, representing

NHS Employers represents trusts in England on workforce issues and helps employers to ensure the NHS is a place where people want to work.

The NHS workforce is at the heart of quality patient care and we believe that employers must drive the workforce agenda. We work with employers to reflect their views and act on their behalf in four priority areas:

- pay and negotiations
- recruitment and planning the workforce
- healthy and productive workplaces
- employment policy and practice.

NHS Employers is part of the NHS Confederation.