MiP COMMENTARY ON NHS PENSION SCHEME HEADS OF AGREEMENT

MiP has produced this briefing to address some of the questions raised by our members about the Heads of Agreement setting out the Government's final offer for the NHS Pension Scheme.

MiP's national committee will consider the heads of agreement in January and decide whether to reject it or continue to negotiate on the outstanding issues and consult members when there is a complete package. This offer has been made following the industrial action on 30 November and is the best structure of benefits within the Government's cost envelope that can be achieved through negotiation. We intend to produce some case studies to illustrate the effect of the changes.

Comment on the Heads of Agreement

Paragraph 1

The Heads of Agreement is the Government's final offer to unions in health. **It is not an agreement or deal.** Since coming to power, the coalition government made it clear they wanted to make significant and drastic changes to public sector pensions.

Paragraph 2

a) All benefits accrued in the existing scheme will be protected. So this means all benefits earned up to 2015 in your existing section of the scheme will be based on your final salary when you retire, not your salary at 2015. See below for further details.

b) There will be full protection of benefits and retirement age for members who, at 1 April 2012, are within 10 years of their normal retirement age within their existing section of the scheme including MHOs and those with special class status.

For those in the 2008 section, this means full protection for those aged 55 or over at 1 April 2012. For those in the 1995 section, this means full protection for those aged 50 or over, or if you have MHO or Special Class status, age 45 or over.

These members will be able to retire at their Normal Pension Age (NPA) of 65, 60 or 55 and accrue the same benefits as their section of the current scheme.

c) There is an additional 3.5 years tapering protection. Anyone within 13.5 years but more than 10 years from their NPA will remain on their existing pension scheme for a limited period of time before transferring to the new scheme.

For these members, for every month of age that they are beyond 10 years of their normal pension age, they lose 2 months of protection. At the end of the protected period, they will be transferred into the new pension arrangements.

So if they are 10 years and one month from their normal retirement age at April 2012 their protection would be reduced by 2 months so they would be put in the new scheme 2 months before their current normal retirement age. If they were 11 years and 6 months from their normal retirement age they would be put in the new scheme 3years and 6 months before their normal retirement age. If they were 13 and half years before their normal retirement age they would be put in the new scheme when it starts in 2015.

d) There is additional money for these protections outside of the cost ceiling set by the government for new scheme benefits.

Paragraph 3

a) The scheme would be career average so all the pensionable earnings in each year after 2015 would be used to calculate the pension not just earnings near retirement. Benefits earned up to 2015 in the existing schemes would be based on the current definition of 'final salary'. So at retirement the calculation would be in two parts: for service up to 2015 the benefits would be based on final salary as currently defined; benefits earned from 2015 based on average earnings from 2015.

b) An accrual rate of 1/54th for service after 2015. This is around 11% better than the 1/60th accrual rate in the reference scheme and the current 2008 section. Comparison with the 1995 section is more difficult because you have to take part of your benefit as a lump sum at retirement but a 1/54th is around 18% better than the value of an 1/80th pension with a 3/80th lump sum.

In further discussions the accrual rate could be reviewed if other parts of the package were changed.

c) The government actuaries valued average earnings as the Consumer Price Index (CPI) + 2.25% **only** for the purpose of costing the reference scheme in the government's original offer. This would not have been the calculation used in future revaluations. In future it would have been **actual** average earnings, and these can and do fluctuate. For example in the 3 years to the end of 2010 Average Weekly Earnings Index (AWE) was 1.7% per year below even CPI. The AWE index is not expected to rise above CPI for some considerable time in the future. The uprating in this offer of CPI + 1.5% will be fixed which means we can be sure of the amount by which pensions will be revalued.

   This formula is significantly better than CPI alone and will allow real earnings growth to be taken into account for many members.

d) MiP and the other unions have argued strongly against the direct and automatic linking of Normal Pension Age in the NHS scheme with State Pension Age which is due to go up to age 68 over time. We have looked at alternative models to try and mitigate the worst effects of this but the government has not agreed to any of these. (See paragraph i).

e) + f) UNISON and other unions are currently appealing the decision in the high Court to allow the government to use CPI instead of RPI. CPI is considered a lower value index.

g) The government is still intent on implementing contribution increases. In 2012 members will pay between 0 and 2.4% extra. Those with a pensionable salary of less than £26,557 will not pay any extra. This will apply to 48% of NHS workforce. There will be further discussions on contributions in years 2 and 3, but the government is not moving on its 3.2% average target figure, so there will be a higher percentage contribution rate for higher earners, which is offset to some extent by the higher tax relief, as set out below. MiP will continue to raise our concerns about the use of tiered contributions in a career average scheme.

Revised 2012/13 employee contributions before tax relief (gross)

Full-time 2010/11 pay	**2010/11 contribution rate (gross)**	**2012/13 contribution rate (gross)**	**Contribution rate increase (% points)**
Up to £15,000	5%	5%	0
£15,001 to £21,175	5%	5%	0

£21,176 to £26,557	6.5%	6.5%	0
£26,558 to £48,982	6.5%	8%	1.5
£48,983 to £69,931	6.5%	8.9%	2.4
£69,932 to £110,273	7.5%	9.9%	2.4
Over £110,273	8.5%	10.9%	2.4

Revised 2012/13 contributions after tax relief (net)

Full-time 2010/11 pay	2010/11 contribution rate net of tax relief	2012/13 contribution rate net of tax relief	Net contribution rate increase (% points)	Additional cost per month (£)
£10,000	4%	4%	0	**0**
£15,000	4%	4%	0	**0**
£20,000	4%	4%	0	**0**
£25,000	5.2%	5.2%	0	**0**
£30,000	5.2%	6.4%	1.2	**30**
£40,000	5.2%	6.4%	1.2	**40**
£60,000	3.9%	5.34%	1.44	**72**
£80,000	4.5%	5.94%	1.44	**96**
£130,000	5.1%	6.54%	1.44	**156**

h) As they can now, members would be able to exchange more of their pension for additional cash sum at retirement on the current basis of £12 extra cash for every £1of pension given up. The staff side insisted that any decision to commute pension for cash should not affect survivor benefits including spouses and partners pensions in the new scheme.

i) In the negotiations we considered having Early Retirement Factors (ERFs) in the new scheme (which is being considered in the teacher’s scheme). Normally those who retire before their NPA have their pension actuarially reduced, usually by around 5% per year. We looked at having a better ERF of less than this but it had a large detrimental impact on the accrual rate for everybody. However we will be able to revisit this in the New Year if we continue with the negotiations on the outstanding issues.

j) Ill health retirement from 2015 would be based on two levels as is the case now. The member would qualify for the higher level if they were unable to do regular employment. The staff side insisted that the definitions were not made tighter.

   The higher level would be based on enhanced service. The enhancement would be half of prospective service to normal retirement age instead of the current two thirds. This is a lower fraction but for members who retire on ill health near to retirement the difference will not be great because prospective service will be to a higher retirement age in most cases.

   For example someone in the 1995 section that retires on ill health at the age of 50 on the higher level would get 6.66years enhancement. Under the new scheme someone who retires on ill health at 50 who had a retirement age of 67 would get 8 and a half years.

k) Partners and Spouses pensions will continue to accrue at 1/160th a year of service. This is the same as now in both the 1995 and 2008 sections.

l) Under the heads of agreement there would be an employer contribution cap of 2% above the employer contribution needed for the new scheme in 2015. Only increases in costs caused by changes in the demography of the scheme such as gender split or staff turnover could fall on the members. If this was the case there would be discussions on how the costs could be contained and as a last resort the accrual rate from a future date could be changed. This cap is expected to be sufficient to ensure there is no additional cost to members.

   Conversely if the costs went down more than 2% below the employer contribution, scheme benefits could be improved.

Additional key issues in the Heads of Agreement

<u>Paragraph 8 Fair Deal</u>

There is a guarantee that Fair Deal will apply in health and anyone being TUPE transferred will be able to keep their NHS pension. These arrangements will replace the current provisions for bulk transfers. There is a commitment to review extending access to the NHS scheme for staff working in Any Qualified Provider Organisations (AQPs) and Social Enterprises. This is an issue we have pushed hard for over many years.

ANNEX A

These are outstanding issues still to be resolved. However several of these, particularly those relating to current scheme design such as lump sum, and abatement, etc are already included in the cost ceiling and there are no plans to change these, others such as contribution rates and total reward will be the subject of further discussions.

MiP will continue to raise our members' concerns about the use of tiered contributions in a career average scheme. We remain critically concerned about the eventual levels of contribution for the higher bands.

ANNEX B

Paragraph 4

MiP and the other unions have continued to push on the issue of retirement age and in particular how this will impact on particular categories of staff in the NHS and on patient safety. The Government has agreed to review this and terms of reference and timetable will be part of any future discussions. We will be pushing the argument against increasing the retirement age in the NHS and producing evidence to support this.

MiP

23 December 2011