

NHS Pension Scheme Scotland (2015)

Jargon Buster

We work hard to avoid using jargon in all our communications with you but some terms are unavoidable. These are explained here. We've also included some terms which we try not to use but you will often see in communications about pensions in general. If there are any terms you don't understand but which aren't explained here, please let us know using the Contact us tab.

Accrual rate – This is the proportion of earnings which count for pension each year. In other words how much pension you earn in any one year. For example the accrual rate in the NHS 2015 scheme is 1/54th of pensionable earnings each year.

Active member – You are an active member if you are paying into the scheme.

Actuarially reduced – This is a reduction in your pension if you take it before normal pension age to take account of the fact that it is paid for longer.

Additional contributions – This is a facility for members to pay extra contributions to buy additional annual pension, or in order to buy out some of the actuarial reduction (described above) if you retire at age 65 in the NHS 2015 scheme.

CARE – Career Average Revalued Earnings is a type of defined benefit pension scheme. A defined benefit scheme guarantees a certain level of benefit at retirement, according to a fixed formula. In this respect it is similar to the current final salary sections of the NHS Pension Scheme.

In a CARE scheme your pension is based on your pensionable pay right across your career. The pension you earn each year is based on pensionable pay in that year and is increased by a set revaluation rate, linked to inflation, for each year up to retirement or leaving. The final pension is calculated by adding together the pension earned in each year of membership.

95 Section Choice Exercise – This will be a second opportunity to choose to transfer your service in the 1995 section, earned up to 31 March 2008, to the 2008 section. This exercise will be run in Scotland sometime after April 2015 and will only affect a small number of people. Members affected will be written to directly with more information in due course. To qualify, members will have to have been eligible for the previous Choice Exercise and not have full protection.

2008 Section Choice Exercise – Some members of the 2008 section within the protection period may be better off switching to the NHS 2015 scheme on 1st April 2015, depending on their career and retirement plans. For this reason, protected members of the 2008 section will be given a choice to opt out of protection.

Members who qualify for this choice will be contacted by SPPA directly with more information in due course.

Commutation – This is an option to exchange some of your pension for a lump sum (which is currently tax free). You currently receive £12 of lump sum for every £1 of annual pension you give up. There is a maximum amount of tax free lump sum HMRC will allow you to take.

Consumer Prices Index (CPI) – CPI is a measure of inflation. Like the Retail Prices Index (RPI) it tracks the changing cost of a fixed basket of goods and services over time. However unlike the RPI it disregards some items, such as housing costs. The rate of CPI is currently used as a measure by which we increase pension for inflation.

Deferred member – You are a deferred member if you leave the scheme before retiring. Your benefits will be referred to as a deferred pension and revalued each year in line with increases in CPI until you retire.

If you return to the scheme within 5 years of leaving, we will revisit the pension we have revalued during your absence and re-calculate it using CPI plus 1.5%. We will also continue to link any service you earned in either then 1995 or 2008 section to your final pensionable salary.

If you return after more than 5 years, any service in these sections will be based on your pensionable pay at leaving. Your benefits in the NHS 2015 scheme will continue to be revalued in line with increases in CPI.

HMRC – HM Revenue & Customs

MHO – A member with Mental Health Officer status

Normal pension age (NPA) – The age at which you can choose to retire from the scheme and have the full value of your pension paid.

Pensioner re-employment – If you return to work after accessing your pension you must inform SPPA, as this may have an effect on the benefits payable to you.

Protection – Protection is the arrangement whereby certain members will remain in their current section of the NHS Pension Scheme beyond 31st March 2015.

Full protection

All active members of the 1995 and 2008 sections, who, as at 1st April 2012, were either already over their normal pension age or 10 years or less from their normal pension age, are entitled to full protection. Full protection means that you will not join the NHS 2015 scheme and continue to earn benefits as before in your current section.

Tapered protection

Active members of both sections who, as at 1st April 2012, were more than 10 years, but less than 13 years and 6 months from their normal pension age are eligible for tapered protection. If you have tapered protection you will not join the NHS 2015 scheme on 1 April 2015 but will continue to earn benefits in your current section before joining the NHS 2015 at a date depending on your age.

Pensionable pay – This is the pay we use to work out your contributions to the scheme and how much benefit you will earn. It is your normal pay plus certain regular allowances.

Retirement factors – These factors are applied to your pension if you take it at a date other than your normal pension age. They will reduce your pension if you take it early and increase it if you take it late.

Revaluation rate – The pension you earn each year will be indexed each year to account for inflation in the period before you retire or leave. We use the Consumer Prices Index plus 1.5% to revalue your pension.

Uniform accrual – This is a calculation applied if you have some Mental Health Officer (MHO) service but do not have full MHO service at the time of leaving the 95 section. This allows you a proportional benefit for the MHO period worked.

Yield – The overall level of your contributions as a percentage of payroll required by HM Treasury which when added to the employers contribution will meet the liabilities of the scheme. This is currently 9.8% of payroll.