Script for slides on new NHS Pension Scheme from 1 April 2015

Slide 1 – Introduction

- This presentation has been prepared by the Scottish NHS Pension Group (SPG).

- SPG is a partnership group made up of Staff Side, NHS Employer, Scottish Public Pensions Agency and Scottish Government representatives.

- The intention of this presentation is to allow local pensions leads to inform NHS pension scheme members about forthcoming changes to the Scheme which will be effective from 1 April 2015.

- However, the person delivering this presentation is not a pensions expert or a representative of Scottish Pensions Group. Employers may be able to provide general information about the changes but any specific or technical questions about pensions should be directed at the Scottish Public Pensions Agency. How to contact them will be covered at the end of the presentation.

- It should also be made clear that the person delivering this presentation cannot give financial advice or anything which can be construed as financial advice. That includes expressing a view on what the best course of action would be for any individual scheme member.

- The changes set out in the following presentation are proposed changes. Technically, they are not confirmed until the regulations which are currently being drafted are agreed by the Scottish Parliament. However, it is unlikely that the key characteristics of the Scheme set out here will change. *(Click for next slide)*

Slide 2 – What is happening?

- As a result of UK Government reforms, members will need to be aware that from 1 April 2015 the current NHS superannuation scheme will be closed to new members and existing members will have to move to a new scheme. *(Click for next graphic)*

- That is, except members who were active (i.e. paying contributions) and within 10 years of their normal pension age as at 1 April 2012.

- The protection periods are usually expressed with reference to 1 April 2012, as the member needed to be active at that point to access protection. However, it may be more straightforward to say that a member will be fully protected if they are within 7 years of their normal retirement age when the new scheme is introduced on 1 April 2015.

- These members will be protected and will remain in their current scheme. *(Click for next graphic)*

- Members within a further 3 years 5 months of normal pension age as at 1 April 2012 (i.e. 10 years and 5 months as at 1 April 2015) will have some protection (known as "tapered protection") and will move to the 2015 Scheme at a later date.

- When such members will move is dictated by how close they were to their normal retirement age on 1 April 2012. The closer they were to retirement, the longer they can stay in their current scheme.

- There is a calculator on the SPPA website for members to check when they move to the 2015 section under "tapered protection". *(Click for next slide)*

Slide 3 - How is the new NHS scheme different?

- If you look at **Handout number 1** titled “NHS (Scotland) Pension Scheme Comparison Table”, this shows key features of the 1995/2008 sections of the current scheme and how this compares with the 2015 scheme.

- If you do not know what section of the current scheme you are in, you should look at the back of Handout 1 at the section titled “Which Section of the Current Scheme are You In?” This should help you answer that question. If you are still not sure, you can contact SPPA for confirmation.

- You will note from Handout 1 that there are a number of differences between the current scheme and the 2015 scheme. But there are two key differences worth noting immediately.

- The new scheme will be a Career Average Revalued Earnings (CARE) scheme and not a “Final Salary” scheme, as now. What this means will be explained more fully in the next few slides.

- Another major change in the 2015 scheme is that “normal pension age” (which you will often see abbreviated as NPA) will be linked to the member’s individual state pension age.

- This means that the age a member can take their full pension will depend on how old they are currently, since state pension age is due to increase incrementally between now and 2046, when it will reach 68.

- **Handout number 2** sets out the UK Government’s published timetable for the increase in state pension age. *(Click for next slide)*

Slide 4 - What is a "CARE" scheme?

- The current "Final Salary" approach bases pension on salary at, or close to, retirement. In a CARE scheme, pension is based on pensionable pay right across a member's career.

- Pension is built up according to the "accrual rate" and "revaluation rate".

- The 2015 scheme will have an "accrual rate" of $1/54^{th}$ of actual pensionable pay. This is the amount of pension which is built up each year. The lower the fraction, the higher the accrual rate. Thus, $1/54^{th}$ is a higher rate than $1/60^{th}$.

- The pension which a scheme member earns each year ($1/54^{th}$ of pensionable pay) is increased by a set "revaluation rate".

- For the 2015 scheme the currently agreed revaluation rate will be Consumer Price Index (CPI) inflation, plus 1.5%.

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Slide 5 - CARE example (1)

- You should refer at this point to **Handout number 3**, which is a graphic example of how CARE works.

- You will see in the example that “Tom” earns £18,000 in his first year in the scheme.
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- 1/54th of that gets allocated as a pension “pot”.
  (Click for next graphic)

- Which in this case is £333, as 1/54th of £18,000 is £333.

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Slide 6 - CARE example (2)

- This sum is then “revalued” on 1 April of the following scheme year, using the agreed methodology (i.e. that year’s Consumer Price Index rate plus 1.5%).

- If we say for the sake of this example that CPI is 2%, then the revaluation rate would be 3.5%.
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- 3.5% of £333 is £12.
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- Added to £333 makes £345.
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- So “Tom’s” pension “pot” in year 2 is worth £345.

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Slide 7 - CARE example (3)

- That year 1 pension pot is then revalued in the same way each year until retirement.
  (Click for next graphic 4 times until 20 year value is reached)

- In this case, it is worth £640 after 20 years.
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Slide 8 - CARE example (4)

- Each year of participation in the scheme, a pension pot of 1/54th of the member's actual pensionable pay is created.

- And this is revalued in the way described in the previous slides until retirement.
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Slide 9 - CARE example (5)

- When the member comes to retire, their pension is made up of all the individual pension pots added together.
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Slide 10 - CARE example (6)

- So "Tom" in our example gets an annual pension of £13,422.

- This is based on a 20 year scheme membership and assumes 4% earnings growth a year.

- It should be emphasised that these figures are for illustrative purposes only and must not be taken as an indication of the pension any member can expect on retirement.
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Slide 11 – Other features of the 2015 scheme

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- There will be a facility for members to reduce their pension age by buying out up to 3 years between 65 and their state pension age. Members can apply to take out a contract within 3 months of joining, when it will be backdated to their joining date. A contract can be taken later, but members will need to apply 3 months before the next scheme year. **[Note – an FAQ sheet on this feature is being produced and will be available soon on the SPPA website]**
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- Those currently paying for Added Years contracts will be able to carry these over to the 2015 scheme. When members reach their contract end date the amount of pension/lump sum built up by paying added years can be paid separately from the rest of their 1995 section benefits.

- Additional Pension contracts taken out in the 1995 section will also be able to be taken at the end of the contract, if this is earlier than the member's retirement.
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- The criteria for assessing ill health benefits will remain the same but the enhancement given to those qualifying for upper tier (assessed as not only not being able to do own job but unable to do any other job of similar duration) will be 50% of prospective service to normal retirement age.

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Slide 12 - Other features of the 2015 Scheme continued

- As you will note from Handout number 1, many features of the 2015 Scheme will be the same as those of the 2008 section of the current scheme. Such as:
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  - There will be the same early and late retirement factors i.e. pensions will be reduced according to a set formula if taken early and increased by the same methodology if taken late.
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  - Members will be able to take part of their pension by reducing their pensionable pay and continuing to work.
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  - There will be an "Additional Pension" facility i.e. the facility to buy extra pension by taking out a contract and paying extra contributions.
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  - There will be an optional lump sum on retirement. Any member wishing to take advantage of this will have to give up £1 in annual pension for every £12 they get in lump sum payment, although they can only convert a maximum of 25% of their pension in this way.
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  - The lump sum on death in service will be 2 times actual pensionable pay.
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  - Survivor benefits will be the same as they are now.
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- More detailed information on this, and other specific features of the scheme, can be found on the SPPA website.

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Slide 13 - Contributions

- Initially, employee contributions will be on a tiered basis, as they are presently.

- **Handout number 4** sets out the tiers and contributions which will be put in place from 1 April 2015.

- The UK Treasury has determined that total yield from employee contributions must be 9.8% of payroll.

- This means that, on average, 9.8% of the pensionable pay of all members will go towards the pension scheme, although some members will pay more and some will pay less, according to what tier they are in.

- As you will see, the tiers will remain the same as they are currently but all contributions will raise by 0.2%.

- This is required according to the most recent valuation of the scheme in order to achieve the 9.8% yield.

- These rates will not change for 4 years between 1 April 2015 and 31 March 2019, although the boundaries between the tiers will move in tandem with increases in pay rates over that period.

- Further partnership discussions will take place in due course to determine the approach to contributions which will be put in place from 1 April 2019.

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Slide 14 – What about the pension benefits members have already accrued in the 1995/2008 scheme?

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- Benefits that members have already built up in the 1995/2008 scheme will be “preserved” on compulsory transfer to the 2015 scheme.
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- When the member leaves the 2015 scheme the benefits taken from the 1995/2008 scheme will be based on the final salary at the time of leaving the 2015 scheme.

- If the member leaves before retirement age and does not return within 5 years, however, the final salary link is broken and their 1995/2008 scheme benefits will be based on their salary when they left the scheme.
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- A member can take benefits from the 1995/2008 scheme at that section of the scheme’s normal pension age, if the member retires from NHS employment.
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- Those members who take their 1995 benefits at that section’s NPA will not be allowed to accrue further pension in the 2015 scheme. That is unless they did not have a final salary link i.e. they have been out of the scheme for 5 years or more meaning they have lost their final salary link.
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- Those with 2008 benefits can rejoin the 2015 section and accrue further benefits. The rules around returning to work which apply to the 2008 section will also apply to the 2015 scheme.
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- 2015 benefits can also be taken at that time, but at a reduced rate, to reflect the fact that they are taken early. Alternatively the member can wait and take their 2015 benefits at their 2015 NPA.

- These provisions are obviously very important when members come to consider their retirement plans and every member will want to think carefully about their particular circumstances, what their retirement plans are and what income they can expect in retirement.

- More detailed information to help members consider their options can be found on the SPPA website. And the SPPA can also help by confirming what a member's particular circumstances are.

- However, as touched on earlier, it is important to note that neither SPPA nor a member's employer or trade union or any other representative group can give financial advice or advise a member what to do.

- Those choices have to be made by members themselves.

- Members are of course free to seek independent financial advice.

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Slide 15 – Choice

- When the 2008 section of the current scheme was introduced, members of the 1995 section were offered the opportunity to switch.

- However, members may have made a different decision had they known that the changes represented by the 2015 scheme were coming. This obviously relates back to what we said on the previous slide about when a member is able to retire with full benefits.

- Eligible members of the 1995 section will therefore be offered a second chance to switch their service to the 2008 section.

- This will be referred to as the “95 Section Choice Exercise” in Scotland and will take place later in 2015.

- It should be noted that this is later than the equivalent exercise is being run in England. This is purely for logistical reasons and Scottish members will not be disadvantaged by the different timescale.

- To qualify, members will have to have been eligible for the previous Choice Exercise and not have full protection.

- Members in this category will be contacted by SPPA directly at the appropriate time.

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Slide 16 - Opting out of "protection"

- Some members of the 2008 section within the protection period may actually be better off switching to the 2015 scheme on 1st April 2105, 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.

- This will be referred to as the "2008 Section Choice Exercise" in Scotland and will take place in 2015.

- Members who qualify for this choice will be contacted by SPPA directly at the appropriate time.

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Slide 15 – Where can I find further information?

- The SPPA have a dedicated page on their website for the 2015 Scheme.

- On the website, you will find the “Scottish Framework Document” which sets out the scheme provisions. There are Frequently Asked Questions pages and a number of other products which aim to explain the upcoming changes.

- This website will continue to be developed as new communication products become available.

- Scheme Guides will be published early in 2015

- Any questions can be e-mailed to the SPPA at nhspensionsreform@scotland.gsi.gov.uk.

- If you contact the SPPA, you should include the following information as part of your query:

    - Name
    - Date of Birth
    - National Insurance Number
    - Superannuation Number

- Alternatively you can contact SPPA via “My Pension - Online Member Services”, which you will find on their site.

- Trade Unions and Employers should also be able to help with straightforward enquires.