

# Moving to the future: the NHS Pension Scheme Review

## At-a-glance changes for existing and new entrants

	Existing NHS Pension Scheme	Improvements to the existing scheme (closed to new entrants) from end of 2007	Proposed NHS Pension Scheme for new entrants
Who is eligible for membership	<ul style="list-style-type: none"> <li>Existing members and joiners until the new scheme is introduced</li> </ul>	<ul style="list-style-type: none"> <li>Active and deferred members<sup>1</sup> as at 2008</li> <li>Choice to move to the new scheme in respect of <u>all</u> service</li> </ul>	<ul style="list-style-type: none"> <li>From December 2007</li> </ul>
Normal pension age	<ul style="list-style-type: none"> <li>60 (or 55 for special classes)</li> </ul>	<ul style="list-style-type: none"> <li>60 (or 55 for special classes)</li> </ul>	<ul style="list-style-type: none"> <li>65</li> </ul>
Minimum pension age (minimum age when staff can take a pension)	<ul style="list-style-type: none"> <li>50<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>50 (see footnote 2)</li> </ul>	<ul style="list-style-type: none"> <li>55</li> </ul>

<sup>1</sup> Deferred members (those with pension benefits in the NHS Pension Scheme, but who are not active scheme members) who, at the date a new scheme is announced, return to the NHS within five years of their last day of service will have the choice of either joining the new scheme (if they have not had a choice already) or returning to the old scheme. Those who return to the NHS five years or more after their last day of service can choose to transfer all their membership to the new scheme, otherwise they will join the new scheme in respect of future service.

<sup>2</sup> The Finance Act 2004 allows schemes to provide protection of a minimum pension age of 50 for members who had a right to take reduced benefits at that age on 5 April 2006. If afforded, this protection may continue as long as members retiring early after 6 April 2010 take all their benefits payable under scheme rules. In the NHS scheme, for those without protection, members who first joined and some who returned to the scheme after 6 April 2006, minimum pension age will change from 50 to 55 from 6 April 2010.

	Existing NHS Pension Scheme	Improvements to the existing scheme (closed to new entrants) from end of 2007	Proposed NHS Pension Scheme for new entrants
Contribution rate on pay	<ul style="list-style-type: none"> <li>• 5% and 6%</li> </ul>	<ul style="list-style-type: none"> <li>• AfC pay point 9 and below (currently up to and including £15,107)</li> <li>Non AfC: up to and including £15,107<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>• AfC pay point 9 and below (currently up to and including £15,107)</li> <li>Non AfC: up to and including £15,107<sup>3</sup></li> </ul>
		<ul style="list-style-type: none"> <li>• AfC pay point 10 up to 48 (currently £15,446 - £60,880)</li> <li>Non AfC: above £15,107 - £60,880<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>• AfC pay point 10 up to 48 (currently £15,446 - £60,880)</li> <li>Non AfC: above £15,107 - £60,880<sup>3</sup></li> </ul>
		<ul style="list-style-type: none"> <li>• AfC pay point 49 and above (currently £63,417 up to £88,397)</li> <li>Non AfC: above £60,880 up to £100,000<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>• AfC pay point 49 and above (currently £63,417 up to £88,397)</li> <li>Non AfC: above £60,880 up to £100,000<sup>3</sup></li> </ul>
		<ul style="list-style-type: none"> <li>• Above £100,000<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Above £100,000<sup>3</sup></li> </ul>
Special Retirement Rights	<ul style="list-style-type: none"> <li>• Nurses, midwives, health visitors, physiotherapists and mental health officers – MHOs in post before 6 March 1995 (collectively described as Special Class Status – SCS)</li> </ul>	<ul style="list-style-type: none"> <li>• Retain SCS for those in post before 6 March 1995</li> </ul>	<ul style="list-style-type: none"> <li>• No SCS</li> </ul>
Membership limits	<ul style="list-style-type: none"> <li>• From age 16 to 70</li> <li>• 40 years at age 60 and 45 years overall<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>• From age 16 to 75</li> <li>• No membership limit for those who achieve 40 <i>worked</i> (excludes MHO 'doubled' years) years<sup>5</sup> membership</li> </ul>	<ul style="list-style-type: none"> <li>• From age 16 to 75</li> <li>• No membership limit for actual NHS service</li> </ul>

<sup>3</sup> Staff classified as manual staff currently pay 5% and all other staff pay 6%. In future, all staff will have their contributions based on the new arrangements. For AfC members, NHS pay rises will also apply to pay points. Movement between pay bands will therefore not depend on the level of any agreed NHS pay rise, but in most instances on promotion to a higher pay point. Further work is ongoing to determine how the tiered rates will operate in practice. Earnings above the earnings cap are currently not pensionable for staff who joined the pension scheme after 1989. See also Footnote 6.

<sup>4</sup> MHOs 40 years at 55 and 45 years overall.

<sup>5</sup> MHOs who achieve 20 years' service, thereafter are able to count one year as two years and take an unreduced pension from age 55. MHOs transferring in benefits can continue to contribute to the scheme but will receive benefits based on service over 40 years only after they had achieved 40 years of actual NHS service, i.e. no doubled service.

	Current NHS Pension Scheme	Improvements to the existing scheme (closed to new entrants) from end of 2007	Proposed NHS Pension Scheme for new entrants
Earnings, contribution and service limits	<ul style="list-style-type: none"> <li>Members in service after 1 June 1989 current limit – £108,600<sup>6</sup></li> <li>15% max. employee contributions</li> <li>40 years at age 60</li> </ul>	<ul style="list-style-type: none"> <li>No earnings/employee contribution limits<sup>7</sup></li> <li>No service limits<sup>8</sup></li> </ul>	<ul style="list-style-type: none"> <li>No earnings/employee contribution limits</li> <li>No service limits</li> </ul>
Accrual rate (the way you earn your pension)	<ul style="list-style-type: none"> <li>1/80th final salary scheme</li> <li>Career Average Re-valued Earnings Scheme for practitioners (CARE) accrual rate of 1.4%</li> </ul>	<ul style="list-style-type: none"> <li>1/80th final salary scheme</li> <li>CARE for practitioners accrual rate of 1.4%</li> </ul>	<ul style="list-style-type: none"> <li>1/60th final salary scheme</li> <li>CARE for practitioners, accrual rate of 1.87%</li> </ul>
Retirement lump sum (note: 'x' means multiplied by)	<ul style="list-style-type: none"> <li>Fixed tax-free lump sum of 3/80ths x service x pensionable pay</li> <li>Fixed tax-free lump sum of 3 x pension for practitioners</li> </ul>	<ul style="list-style-type: none"> <li>Automatic tax-free lump sum of 3/80ths x service x pensionable pay (or 4.2%) plus the ability to give up part of pension<sup>9</sup> for an increased tax-free lump sum up to 25% of pension value<sup>10</sup></li> </ul>	<ul style="list-style-type: none"> <li>Total flexibility to give up part of pension for a tax-free lump of up to 25% of pension value or keep all as pension</li> </ul>
Final Salary Pension based on	<ul style="list-style-type: none"> <li>Best of the last three years' pensionable pay</li> </ul>	<ul style="list-style-type: none"> <li>Best of the last three years' pensionable pay</li> </ul>	<ul style="list-style-type: none"> <li>Annual average of best three consecutive years' pensionable pay, in last ten years, revalued by Retail Prices Index increases</li> </ul>

<sup>6</sup> For dental practitioners have a separate additional Maximum Allowable Remuneration – MAR, which can affect high earners not subject to the normal earnings cap. Dental earning cap from 1 April 2005 £112,400.

<sup>7</sup> No limits to pensionable pay or service. However, in line with the Finance Act 2004 upper limits will apply for tax privileged pension savings of £215,000 (annual increase in pension value) and overall limit of £1.5m pension accrual as at April 2006.

<sup>8</sup> For mental health officers (MHOs) and those with transferred in benefits, service limits would only be removed after they had reached 40 years *actual* NHS service.

<sup>9</sup> Giving up part of pension for a lump sum is described as 'commutation', you exchange at a rate of £12 of lump sum for each £1 p.a. of pension given up.

<sup>10</sup> Pension value is determined by a formula and is approximately 20 times the annual pension plus any lump sum taken.

	Current NHS Pension Scheme	Improvements to the existing scheme (closed to new entrants) from end of 2007	Proposed NHS Pension Scheme for new entrants
Practitioner Pension based on	<ul style="list-style-type: none"> <li>All pensionable earnings revalued by dynamising factors determined by changes in the earnings of each practitioner profession</li> </ul>	<ul style="list-style-type: none"> <li>All pensionable earnings revalued by dynamising factors determined by changes in the Retail Prices Index plus 1.5%</li> </ul>	<ul style="list-style-type: none"> <li>All pensionable earnings revalued by dynamising factors determined by changes in the Retail Prices Index plus 1.5%</li> </ul>
Flexible retirement	<ul style="list-style-type: none"> <li>No pensionable re-employment except ill-health and return to the NHS under age 50</li> <li>Pension payable on retirement only</li> </ul>	<ul style="list-style-type: none"> <li>No pensionable re-employment except ill-health and return to the NHS under age 50</li> <li>Pension payable on retirement only</li> </ul>	<ul style="list-style-type: none"> <li><b>Step down</b> – pension protection where pay is reduced on taking a less demanding job</li> <li><b>Draw down</b> – taking part of pension whilst continuing in employment</li> <li><b>Pensionable re-employment</b> – return to work after retirement and re-join the scheme</li> </ul>
Late Retirement Factors (LRFs)	<ul style="list-style-type: none"> <li>No enhancement where pension taken later than NPA60</li> </ul>	<ul style="list-style-type: none"> <li>No enhancement where pension taken later than NPA60</li> </ul>	<ul style="list-style-type: none"> <li>Enhancement to pension if taken later than NPA 65</li> </ul>
Abatement – practice of reducing a pension if the combined amount of pension and salary in re-employment exceeds the pre-retirement level of pensionable pay	<ul style="list-style-type: none"> <li>No abatement after age 60 or after 50 where pension is actuarially reduced on Voluntary Early Retirement (VER)</li> </ul>	<ul style="list-style-type: none"> <li>Abatement to apply on the enhanced part of pension only</li> </ul>	<ul style="list-style-type: none"> <li>Abatement to apply on the enhanced part of pension only</li> </ul>
Voluntary Early Retirement with actuarial reduction	<ul style="list-style-type: none"> <li>From age 50 (see footnote 2)</li> </ul>	<ul style="list-style-type: none"> <li>From age 50 (see footnote 2)</li> </ul>	<ul style="list-style-type: none"> <li>From age 55</li> </ul>
Ill-health retirement	<ul style="list-style-type: none"> <li>Ill-health retirement benefits up to ten years' extra service</li> </ul>	<ul style="list-style-type: none"> <li>Separate review by NHS Employers and NHS health unions; proposals expected end 2007</li> </ul>	<ul style="list-style-type: none"> <li>Separate review by NHS Employers and NHS health unions; proposals expected end 2007</li> </ul>

	Current NHS Pension Scheme	Improvements to the existing scheme (closed to new entrants) from end of 2007	Proposed NHS Pension Scheme for new entrants
Increased pension saving opportunities	<ul style="list-style-type: none"> <li>• Purchase of Added Years</li> <li>• Three Money Purchase Added Voluntary Contributions (MPAVCs) / stakeholder partners (Standard Life, The Prudential and Equitable Life Assurance Society)</li> </ul>	<ul style="list-style-type: none"> <li>• Members (or employers on their behalf) can buy additional annual pension of up to £5,000 a year</li> <li>• Existing added years contracts honoured but no new contracts</li> <li>• Decision still to be made on future MPAVCs</li> </ul>	<ul style="list-style-type: none"> <li>• Members (or employers on their behalf) can buy additional annual pension of up to £5,000 a year</li> <li>• Decision still to be made on future MPAVCs</li> </ul>
Survivor benefits	<ul style="list-style-type: none"> <li>• Partners lose pension on re-marriage</li> <li>• For legal spouse only and for same-sex registered civil partnerships from 2006 (backdated until 1988)</li> </ul>	<ul style="list-style-type: none"> <li>• All qualifying partners eligible for pension backdated to 1988<sup>11</sup></li> <li>• All qualifying partners keep survivor pension even when re-marry or co-habit</li> </ul>	<ul style="list-style-type: none"> <li>• All partners eligible for pension backdated to 1988</li> <li>• All partners keep survivor pension even when re-marry or co-habit</li> </ul>
Death in service	<ul style="list-style-type: none"> <li>• Death in service lump sum twice annual pensionable pay</li> </ul>	<ul style="list-style-type: none"> <li>• Death in service lump sum twice annual pensionable pay</li> </ul>	<ul style="list-style-type: none"> <li>• Death in service lump sum twice annual pensionable pay</li> </ul>
Child allowances	<ul style="list-style-type: none"> <li>• Payable under the age of 17 and from 17 if still in full-time education (beyond 23 if physically or mentally dependent)</li> </ul>	<ul style="list-style-type: none"> <li>• Payable to 23 in all cases<sup>12</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Payable to 23 in all cases (see footnote)</li> </ul>
Initial payment of pension at salary level on death in service	<ul style="list-style-type: none"> <li>• Initial widow/widower/civil partners(s) pension paid for three months or six months subject to dependent children</li> </ul>	<ul style="list-style-type: none"> <li>• Initial partner pension to be paid for six months in all cases</li> </ul>	<ul style="list-style-type: none"> <li>• Initial partner pension to be paid for six months in all cases</li> </ul>

<sup>11</sup> All service from 1972 for legal female spouses. Partners defined as someone who you are married to, have entered into a Civil Partnership with, or with whom you have an exclusive and long-term committed relationship in which you are financially dependent or inter-dependent.

<sup>12</sup> and then ceases regardless of educational status. Can continue if physically or mentally dependent.

For more details, see the full recommendations at [www.nhsemployers.org](http://www.nhsemployers.org) under NHS Pension Scheme Review.