

WRITTEN MINISTERIAL STATEMENT

DEPARTMENT OF HEALTH

NHS pension scheme

Tuesday 20 December 2011

The Secretary of State for Health (Mr Andrew Lansley): On 2 November the Chief Secretary to the Treasury made a Statement to the House setting out an improved offer on public service pensions to public sector workers (Cm 8214). This offer provided a more generous cost ceiling for scheme-specific discussions to work within, and protected all those within ten years of their pension age from any further change. This generous offer was conditional on the Government and trades unions reaching agreement by the end of the year, including in NHS Pension Scheme, bringing to a conclusion talks that have lasted since February 2011.

Since 2 November I have been engaged in detailed and intensive talks with the health trades unions and employer representatives. I can now report to the House on the heads of agreement on the scheme design for the NHS Pension Scheme to be reached in 2015, on which talks have concluded. The government have made clear this sets out their final position on the main elements of scheme design, which unions have agreed to take to their Executives as the best that can be achieved through negotiations. Further work on the remaining details will take place in the new year, and Executives will consult members as appropriate. This includes a commitment to suspend any further industrial action while the final details are resolved and unions are consulting their members.

The main parameters of the new scheme are set out below:

- a. a pension scheme design based on career average ;
- b. a provisional accrual rate of 1/54th of pensionable earnings each year, subject to further agreement on outstanding issues not covered by this agreement (see Annex A);
- c. revaluation of active members' benefits in line with CPI plus 1.5% per annum;
- d. a Normal Pension Age equal to the State Pension Age, which applies both to active members and deferred members (new scheme service only). If a member's SPA rises, then NPA will do so too for all post 2015 service. Those within ten years of NPA are excluded and accrued rights will also be related to existing NPA;
- e. pensions in payment to increase in line with Prices Index (currently CPI);
- f. benefits to increase in any period of deferment in line with Prices Index (currently CPI);
- g. average member contributions of 9.8%, with tiered contributions. Member contributions in year 1 to increase between 0% and 2.4% in year 1. There will be no increase in year 1 for staff with WTE pensionable pay less than £26,557. There will be further discussions on contribution rates and increases in years 2 and 3;
- h. optional lump sum commutation at a rate of £12 of lump sum for every £1 per annum of pension foregone in accordance with HMRC limits and regulations;
- i. early/late retirement factors on an actuarially neutral basis;

- j. ill-health retirement pensions to be based on the current ill-health retirement arrangements but with enhancement for higher tier awards to be at the rate of 50% of prospective service to normal pension age;
- k. spouse and partner pensions to continue to be based on an accrual rate of 1/160th. For deaths in retirement spouse and partner pensions will remain based on pre-commuted pension;
- l. an employer contribution cap as detailed in the Heads of Agreement.

There will be transitional protection:

- all accrued rights are protected and those past benefits will be linked to final salary when members leave the scheme;
- all active NHS Pension Scheme members who as of 1 April 2012, have 10 years or less to their current pension age, including MHOs and members of the special classes will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This will be achieved by allowing such members to remain in their current arrangements until they retire (for 2008 members until they have taken all their 2008 pension benefits);
- members who are within a further 3.5 years of their normal pension age,(ie up to 13.5 years from their NPA) will have limited protection with linear tapering so that 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; and
- the costs associated with the protection outlined above sit outside the costs of the reference scheme.

On the basis that the scheme design within the heads of agreement is agreed, the Government agrees to retain Fair Deal provision and extend access to public service pension schemes for transferring staff. This means that all staff whose employment is compulsorily transferred from the NHS under TUPE, including subsequent TUPE transfers, will still be able to retain membership of the NHS Pension Scheme when transferred. These arrangements will replace the current provisions for bulk transfers under Fair Deal, which will no longer apply. In addition, a partnership review of the implementation of the provisions set out in this paragraph for staff working in 'Any Qualified Providers' (AQP) will be carried out.

The Government Actuary's Department has confirmed that this scheme design does not exceed the cost ceiling set by the Government on 2 November. Copies of the heads of agreement and GAD verification have been placed in the Library.