



NHS Pension Scheme

Consultation on proposed increases to employee contribution rates effective from April 2012

July 2011

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| Description | This documents sets out for consultation the preferred approach of the Department of Health (England) and the Welsh Government to delivering savings announced in the 2010 Spending Review by increasing employee contributions to the NHS Pension scheme in 2012-13. It seeks the views of NHS pension Scheme members in respect of this approach. |
| Cross Ref | Independent Public Service Pensions Commission: Interim Report |
| Superseded Docs | N/A |
| Action Required | Respond to: nhspensioncontributions@dh.gsi.gov.uk |
| Timing | Consulation ends on 21 October 2011 |
| Contact Details | NHS Pensions Policy Team Room 2W12 Quarry House Quarry Hill, Leeds LS2 7UE http://www.dh.gov.uk/en/Consultations/Liveconsultations/DH_128710 |
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Introduction

1. The Government has given a commitment to review the long-term affordability and sustainability of public service pensions. The Independent Public Service Pensions Commission, chaired by Lord Hutton, concluded in its report that reform is needed. The Government accepted Lord Hutton's recommendations as a basis for consultation in due course with public sector workers and trade unions on long-term reform of pension arrangements. These discussions are continuing. The Government has signalled a clear intention to introduce changes to public sector pension arrangements based on Lord Hutton's recommendations. These changes would be introduced in 2015. The Government has made a clear commitment that all pension benefits earned up to that point will be protected.
2. Ahead of this longer-term reform, the Commission made clear that there is a rationale for increasing pension scheme member contributions to ensure a fairer distribution of costs between taxpayers and members. The Government announced plans in the 2010 Spending Review to produce £2.8bn savings per year by 2014-15 through increasing public service employee pension contributions.
3. This document sets out an approach to achieve savings from this increase in 2012-2013 by implementing increased employee contributions to the NHS Pension Scheme. It invites comments both on that approach and other ways of achieving equivalent savings by increasing employee pension contributions within the Government's preferred scheme design parameters.
4. The Government remains committed to securing the full Spending Review savings of £2.3bn in 2013-14 and £2.8bn in 2014-15, requiring each scheme (except the one covering the Armed Forces) to find savings equivalent to a 3.2 percentage point increase. The Department of Health and Welsh Government will hold separate discussions with Trade Unions relating to increasing contribution rates in 2013-14 and 2014-15 and longer-term reforms to public sector pension schemes.

This consultation concerns proposed increases relating to 2012-13 only

The Case for Increasing Contributions

5. Expenditure on public service pensions over the last decade has increased by a third to £32bn.
6. Lord Hutton outlined in his report the strong case for changing public sector pensions. In particular, people are living much longer than previous generations – the average 60 year old is living ten years longer now than they did in the 1970s. More of people's lives are now being spent in retirement – between 40 to 45% of adult life compared with around 30% for pensioners in the 1950s.

7. This means pensions are costing more and as Lord Hutton said in his report, “these costs have generally fallen to the taxpayer”. But taxpayers can’t be expected to bear all the cost of increased longevity. It is unfair to expect the private sector to work longer and pay higher taxes so that the public sector can retire earlier and receive disproportionately better pensions.
8. There needs to be a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension. As an employer, the NHS currently contributes 14% towards pension, whilst employees contribute an average of 6.5%.
9. The Independent Public Service Pensions Commission was invited to consider the case for delivering savings on public service pensions within the spending review period.
10. In Chapter 8 of the interim report, the Lord Hutton considered different options for delivering savings, including reducing the level of benefits being paid out and/or increasing the contributions being paid by active scheme members. The Commission reached the conclusion that, “If the Government wishes to make savings in the short-term it will be more effective to increase member contributions rather than alter the benefit structure”.
11. The Government’s proposal to increase contributions is based on this analysis and the clear rationale set out by Lord Hutton in his interim report published in October 2010. A copy is available via the HM Treasury website:
http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm
12. The Government therefore announced in the 2010 Spending Review that public sector workers would be asked to contribute more for their pensions. In particular, the Spending Review set out plans for savings of £2.8bn per year to be realised by 2014-15. To deliver these savings the NHS pension scheme, like other public service schemes, should deliver savings equivalent to an average increase of 3.2 percentage points in employee contributions.

NHS Pensions will still represent an Excellent Investment

13. Although this will mean that most staff will pay more into their NHS pension, most can also expect to live longer in retirement than previous generations.
14. The Government Actuary’s Department have calculated that on average, in the current NHS pension scheme, members will draw their NHS pension for between 24 and 27 years. Under these changes, for every £1 each member contributes to their pension, s/he will generally expect to get at least £3 in pension payments once they retire. This is still an excellent return on their investment.

15. The NHS Pension Scheme therefore remains very attractive and amongst the best schemes available.

Delivery of Savings by 2014-15

16. Following the commitments made in the Spending Review, individual pension schemes will now design and consult on proposals for delivering their portion of the £2.8bn savings required by 2014-15.
17. Separate discussions will be held with Trade Unions relating to increasing contribution rates in 2013-14 and 2014-15. This consultation concerns proposed increases relating to 2012-13 only.
18. In the Written Ministerial Statement published on the 19th July, the Government set out its preferred parameters for scheme design to achieve these savings as:
 - Those earning less than £15,000 on a Full Time Equivalent basis will pay nothing extra;
 - Those earning up to £21,000 will pay no more than 0.6% extra in 2012-13 and no more than 1.5% extra in total by 2014-15;
 - Higher earners will pay no more than 2.4% extra in 2012-13 and no more than 6% extra in total by 2014-15.
19. These principles reflect the Government's wish to protect the lower paid; apply the increases progressively; and, limit opt out from the pensions scheme.
20. A copy of the Written Ministerial Statement can be downloaded from:
http://www.hm-treasury.gov.uk/d/wms_pensions_190711.pdf

Department of Health and the Welsh Government's preferred approach

21. The Department of Health and the Welsh Government's preferred approach to achieving savings through increasing employee contribution rates for 2012-2013 is set out in Table 1 below.
22. We will hold further, separate discussions with Trade Unions relating to increasing contribution rates in 2013-14 and 2014-15 and longer-term reforms to public sector pension schemes. This consultation concerns proposed increases relating to 2012-13 only.

Table 1: Proposed increases to contribution rates

| Full Time Equivalent pensionable pay | Contribution rate (before tax relief) 2011/12 | Contribution rate (before tax relief) 2012/13 | Contribution rate increase in 2012/13 (before tax relief) |
|--------------------------------------|---|---|---|
| Up to £15,000 | 5.0% | 5.0% | 0% |
| £15,001 to £21,175 | 5.0% | 5.6% | 0.6% |
| £21,176 to £26,557 | 6.5% | 7.1% | 0.6% |
| £26,558 to £48,982 | 6.5% | 7.7% | 1.2% |
| £48,983 to £69,931 | 6.5% | 8.5% | 2.0% |
| £69,932 to £110,273 | 7.5% | 9.8% | 2.3% |
| Over £110,273 | 8.5% | 10.9% | 2.4% |

23. However, NHS Pensions Scheme employee contributions are deducted from gross pay before income tax. They normally benefit from significant tax relief.
24. The following table (Table 2) illustrates the effect of tax relief on the level of contributions individuals would actually pay if this preferred approach were adopted.

Table 2: Contribution rates net of tax relief

| Full-time 2010/11 pay | 2011/12 | 2012/13 | | |
|-----------------------|--|-------------------------------------|---|-------------------------------|
| | Contribution rate net of tax relief ¹ | Contribution rate net of tax relief | Increase in contribution rate net of tax relief | Additional cost (£ per month) |
| £10,000 | 4.00% | 4.0% | 0.0% | 0 |
| £15,000 | 4.00% | 4.0% | 0.0% | 0 |
| £20,000 | 4.00% | 4.5% | 0.5% | 8 |
| £25,000 | 5.20% | 5.7% | 0.5% | 10 |
| £30,000 | 5.20% | 6.2% | 1.0% | 25 |
| £40,000 | 5.20% | 6.2% | 1.0% | 33 |
| £60,000 | 3.90% | 5.1% | 1.2% | 60 |
| £80,000 | 4.50% | 5.9% | 1.4% | 93 |
| £130,000 | 5.10% | 6.5% | 1.4% | 152 |

25. In applying the increases in this way, we have sought to ensure that almost all newly qualified healthcare professionals will only pay 0.6% more (before tax relief) in 2012/13.

¹ Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower as a result of the pension contributions. This shows the beneficial effect of tax relief on your contributions.

26. Within the context of the Government's preferred scheme design parameters and time table, the Department of Health and the Welsh Government invite views on:
- (a) their preferred approach to delivering the required savings by increasing employee contributions to the NHS Pension scheme by the amounts set out in Table 1; and
 - (b) other ways of delivering those savings through increased employee contributions within the Government's preferred scheme design parameters.
27. A full Impact Assessment evaluating the approach proposed for the NHS Pensions Scheme in the above tables will be published in due course.

Examples of what this could mean for individuals

The following are examples of how the proposed increases for 2012-13 set out above could affect individual members. As an NHS employee:

- (A) Working full-time and with pensionable² pay of £15,000 a year,
- You would pay no extra for your pension.
 - In 2012-13 you will continue to contribute 5% compared to the current employer contribution of 14%.
 - This means that for every £1 you contribute, the employer contributes £2.80. For your overall yearly contribution of £750, your employer pays £2,100.
 - Moreover, because your contributions are tax free your effective contribution rate is 4% which is equivalent to £600 per annum
 - If you are in the 1995 section of the pension scheme then for this, after you retire, you will receive a pension, for this you will earn pension of £188 per year and a tax free lump sum of £563 payable at age 60
 - If you are in the 2008 section of the pension scheme then for this, after you retire, you will receive a pension of £251 per year, with the option to exchange some of this for a tax free lump sum, payable at age 65.
- (B) Working part-time 3 days per week, and with pensionable pay of £24,000 (full time equivalent pay of £40,000),
- In 2012-13 you will contribute 7.7%, compared to the current employer contribution of 14%
 - This means that for every £1 you contribute, the employer contributes £1.82. For your overall yearly contribution of £1,848, your employer will pay £3,360.
 - But because contributions are tax free your effective contribution rate will be 6.2%, equivalent to £1,488 per annum. This represents an

² Pensionable pay includes your basic salary and where Agenda for Change paybands apply it also includes high cost area supplements, unsociable hours supplements and long term recruitment & retention premia where applicable.

increased personal contribution in 2012/13 of £20 per month after tax relief.

- If you are in the 1995 section of the pension scheme then for this, after you retire, you will receive a pension, for this you will earn pension of £300 per year and a tax free lump sum of £900 payable at age 60
- If you are in the 2008 section of the pension scheme then for this, after you retire, you will receive a pension, for this you will earn pension of £400 per year, with the option to exchange some of this for a tax free lump sum, payable at age 65.

(C) Working full-time and with pensionable pay of £25,000 a year,

- In 2012-13 you will contribute 7.1%, compared to the current employer contribution of 14%.
- This means that for every £1 you contribute, the employer contributes £1.97. For your overall yearly contribution of £1,775, your employer will pay £3,500.
- But because contributions are tax free your effective contribution rate will be 5.7%, equivalent to £1,425 per annum. This represents an increased personal contribution in 2012/13 of £10 per month after tax relief.
- If you are in the 1995 section of the pension scheme then for this, after you retire, you will receive a pension, for this you will earn pension of £313 per year and a tax free lump sum of £938 payable at age 60
- If you are in the 2008 section of the pension scheme then for this, after you retire, you will receive a pension, for this you will earn pension of £417 per year, with the option to exchange some of this for a tax free lump sum, payable at age 65.

(D) Working full-time and with pensionable pay of £30,000,

- In 2012-13 you will contribute 7.7%, compared to the current employer contribution of 14%.
- This means that for every £1 you contribute, the employer contributes £1.82. For your overall yearly contribution of £2,310, your employer will pay £4,200.
- But because your contributions are tax free your effective contribution rate will be 6.2%, equivalent to £1,860 per annum. This represents an increased contribution in 2012/13 of £25 per month after tax relief.
- If you are in the 1995 section of the pension scheme then for this, after you retire, you will receive a pension, for this you will earn pension of £375 per year and a tax free lump sum of £1,125 payable at age 60
- If you are in the 2008 section of the pension scheme then for this, after you retire, you will receive a pension, for this you will earn pension of £500 per year, with the option to exchange some of this for a tax free lump sum, payable at age 65.

- (E) Working full-time and with pensionable pay of £60,000,
- In 2012-13 you will contribute 8.5%, compared to the current employer contribution of 14%
 - This means that for every £1 you contribute, the employer contributes £1.65. For your overall yearly contribution of £5,100, your employer will pay £8,400.
 - But because contributions are tax free your effective contribution rate will be 5.1%, equivalent to £3,060 per annum. This represents an increased personal contribution in 2012/13 of £60 per month after tax relief.
 - If you are in the 1995 section of the pension scheme then for this, after you retire, you will receive a pension, for this you will earn pension of £750 per year and a tax free lump sum of £2,250 payable at age 60
 - If you are in the 2008 section of the pension scheme then for this, after you retire, you will receive a pension for this you will earn pension of £1,000 per year, with the option to exchange some of this for a tax free lump sum, payable at age 65.
- (F) Working full time and with pensionable pay of £130,000,
- In 2012-13 you will contribute 10.9%, compared to the current employer contribution of 14%
 - This means that for every £1 you contribute, the employer contributes £1.28. For your overall yearly contribution of £14,170, your employer will pay £18,200.
 - But because contributions are tax free, your effective contribution rate will be 6.5%, equivalent to £8,450 per annum. This represents an increased personal contribution in 2012/13 of £152 per month after tax relief.
 - If you are in the 1995 section of the pension scheme then for this, after you retire, you will receive a pension for this you will earn pension of £1,625 per year and a tax free lump sum of £4,875 payable at age 60
 - If you are in the 2008 section of the pension scheme then for this, after you retire, you will receive a pension, for this you will earn pension of £2,167 per year, with the option to exchange some of this for a tax free lump sum, payable at age 65.

Consultation Questions and How to Respond

28. The Department of Health and the Welsh Government invite views on –
- (a) their preferred approach to delivering the required savings by increasing employee contributions to the NHS Pension scheme by the amounts set out in Table 1; and
 - (b) other ways of delivering those savings through increased employee contributions within the Government's preferred scheme design parameters.
29. This consultation does not invite comments on the contribution rates in 2013-14 and 2014-15 as these will be the subject of further discussion with Trade Unions. This consultation concerns proposed increases relating to 2012-13 only.
30. **The consultation is open until 21st October** and responses can be submitted to nhspensioncontributions@dh.gsi.gov.uk or in hard copy to NHS Pensions policy team, Room 2W12, Quarry House, Quarry Hill, Leeds LS2 7UE.

Next steps after the consultation ends

31. Whilst it may not be possible to reply individually to responses, a summary of the responses to this consultation will be made available before or alongside any further action, such as laying legislation before Parliament, and will be placed on the Consultations website at <http://www.dh.gov.uk/en/Consultations/Responsestoconsultations/index.htm>
32. There will be further consultation forthcoming on the design of a future, long-term pension scheme for the NHS, in line with the Government's intention to reform public service pension arrangements.

Summary of the Government Code to Consultation

33. This consultation follows the 'Government Code of Practice', in particular we aim to:
- formally consult at a stage where there is scope to influence the policy outcome;
 - consult for at least 12 weeks with consideration given to longer timescales where feasible and sensible;
 - be clear about the consultations process in the consultation documents, what is being proposed, the scope to influence and the expected costs and benefits of the proposals;
 - ensure the consultation exercise is designed to be accessible to, and clearly targeted at, those people it is intended to reach;

- keep the burden of consultation to a minimum to ensure consultations are effective and to obtain consultees' 'buy-in' to the process;
 - analyse responses carefully and give clear feedback to participants following the consultation;
 - ensure officials running consultations are guided in how to run an effective consultation exercise and share what they learn from the experience.
34. The full text of the code of practice is on the Better Regulation website at: <http://www.bis.gov.uk/policies/better-regulation/consultation-guidance>

Confidentiality of information

35. We manage the information you provide in response to this consultation in accordance with the Department of Health's Information Charter.
36. Information we receive, including personal information, may be published or disclosed in accordance with the access to information regimes (primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).
37. If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.
38. The Department will process your personal data in accordance with the DPA and in most circumstances this will mean that your personal data will not be disclosed to third parties.

Comments on the consultation process itself

39. If you have concerns or comments which you would like to make relating specifically to the consultation process itself please

contact: Consultations Coordinator
Department of Health
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e-mail: consultations.co-ordinator@dh.gsi.gov.uk

Please do not send consultation responses to this address