

NHS Pensions Briefing

Key elements of the Government's final offer

Introduction

On 19 December 2011, all but one of the 17 NHS unions agreed to take the Government's final offer on a future pension scheme back to their members. This was on the basis that they believed that it was the best that could be achieved through negotiation. While the offer is certainly not everything we would have wanted, the determination of members to stand up for their pensions has delivered real improvements to the proposals. The main elements of the offer are summarised below.

Protection arrangements

All pension benefits built up before April 2015 will be protected. In addition, as a result of the Government's improved November offer, everyone in the 1995 section who is within 10 years of their "normal pension age" (NPA) as of April 2012 (i.e. 50 or over) will have their benefits fully protected. Following explicit confirmation in December, full protection will also cover those with "special class status" (i.e. who are 45 or over in April 2012). Also in December, some "tapered protection" was secured for people between 10 and 13.5 years below NPA in April 2012, meaning that they will enter the new scheme at a later date than others.

Accrual rate and uprating

The new pension scheme would be based on career average earnings, rather than final salary. The accrual rate in the scheme would be 1/54ths – meaning that in any given year the pension you accrue would be 1/54ths of your pensionable earnings in that year. This accrual rate has improved by 20% since the Government's original offer of an accrual rate of 1/65ths. In addition, to ensure that pensions pots keep pace with rising prices and earnings over the course of a career, pensions will be uprated by CPI (Consumer Prices Index, the Government's preferred measure of inflation) plus 1.5% each year. Please note that the Government has already imposed a change in the uprating of pensions in payment from RPI to the lower CPI.

Key Messages

- The majority of health unions believe the "offer" in the draft 'heads of agreement' is the best achievable via negotiation given the stance of the Coalition Government
- Significant and tangible improvements to the original offer resulted from unions balloting for, and taking strike action on November 30
- Pending the member consultation, the BOS TU, has neither accepted nor rejected the offer
- The BOS TU will continue to use every opportunity to highlight the difficulties of some orthoptic staff working into their late 60s

Contribution rates

The Government intends that employee contribution rates will rise by an average of 3.2% in three stages – this April, next April and April 2014. Those whose pensionable whole-time equivalent pay is

under £26,557 will be protected from any contribution increase this year (this includes Bands 2/3/4, most of Band 5 and the first two increments of Band 6). Those earning above this up to the 2nd increment of Band 8b will see their contributions rise by 1.5% and those above 8b by 2.4%. Under the current NHS schemes, contribution rises would have risen this April, probably by around 1.2%. We do not yet have any detail as to how increases in 2013 and 2014 might be distributed, for example whether the Government will offer further protection from rises to lower earners.

Normal pension age

The Coalition's intention to link the pension age in the NHS scheme (NPA) directly to the rising state pension age (SPA) has remained unchanged throughout the negotiations; SPA is currently due to rise to 66 in 2020, 67 in 2026 and finally to 68 in around 2046. We are concerned about the implications for members being expected to continue to fulfil physically demanding roles into their late 60s. While the Government's position on pension age remains unchanged, the final offer does include an agreement for the NHS unions, NHS Employers and Dept of Health to take part in a review of the impact of working longer on healthcare staff.

Other Issues in the offer

- Retaining and extending the "Fair Deal on pensions", meaning that those whose employment is transferred out of the NHS (eg. into a social enterprise company) can retain their membership of the NHS pension scheme
- Applicability of the 'Fair Deal' to AQP situations will also be considered
- Legislation will be introduced to protect the scheme from any further detrimental changes for the next 25 years
- Employers' contributions to the scheme will be set prior to introduction of the new scheme in April 2015, following a full actuarial valuation

NHS pensions - it's up to you to decide

The ballot timetable has not been finalised or finally decided upon because of the resources involved - but is likely to take place between the middle of March and early April. The timing is dependent on the conclusion of discussions on the issues set out in "annex A" of the draft Heads of Agreement. The ballot will again be conducted by the Electoral Reform Society.

Before members vote, the BOS TU will place the final version of the Government offer on the web site; in addition we are planning two further member leaflets, a member briefing to enable members to have the information necessary to make an informed decision in the ballot.

Coincidentally, members ought to be aware that the Office for Budget Responsibility (OBR) announced in December that the NHS Pension Scheme would be in deficit by 2013-14 and that costs in the current financial year have increased by £600m over previous forecasts while payments into the scheme are £400m less than forecast, in part due to this year's NHS pay freeze! Previously, the House of Commons Public Accounts Committee and National Audit Office found the scheme to have a substantial surplus.

Finally, the Government has threatened to impose a worse deal if the offer is rejected, and although we cannot be certain if it is a threat they would carry out we cannot discount them doing so.

Timeline

October 2010 Government announces a £2.8bn cut in the cost of public sector pension schemes by 2014 – 15 through an average 3% point increase in employee contributions to be phased in from April 2012.

February 2011 Talks start on basis of costings for a career average scheme with 1/90, 1/85 & 1/65 accrual* rates

March 2011 Asked by the Government to identify how to make public sector pension cuts, Hutton recommends replacement of final salary with career average scheme and pegging retirement age to (rising) state pension age. Government immediately accepts this.

July 2011 Government makes offer of an accrual rate of 1/65 & protection of benefits up to 1/4/15 and scheme specific talks begin

October 2011 Unions start balloting for industrial action

November 2 2011 Government offers 1/60 accrual rate + protection of those within 10 years of normal pension age (NPA)

November 30 2011 Industrial action day

December 19 2011 Final offer to health unions including the following new elements: 1/54 accrual rate; extension of protection of those within 10 years of normal pension age (NPA) to include special classes; 3.5 years additional taper protection; retention and extension of Fair Deal** and commitment to review scope for applying to any qualified provider (AQP); tripartite review of implications of working longer for certain NHS groups in physically demanding roles.

* rate at which you build up your pension - 1/65 is better than 1/90

**arrangement that protects pension rights if job transferred out of NHS a private sector or non-profit sector employer

January 2012 A SurveyMonkey is done - with 436 members responding. Seven in ten want a strike ballot and one in four a once-only strike in 2012. However, 43.5% state that they would not take strike action and nearly one in five (18%) not knowing whether they would or not.