

## **2015 NHS Pension scheme changes**

The NHS pension scheme changed in April 2015. There are now 2 schemes

- 1995/2008 Scheme
- 2015 Scheme

Both are defined benefit schemes but there are significant differences between them as detailed below.

### **1995/2008 Scheme**

This scheme closed to new entrants from 1<sup>st</sup> April 2015. However many members either have or can continue to build up membership in this scheme due to protection arrangements. It is split into two sections

- 1995 section
- 2008 section

The 1995 section covered all members in the scheme before April 2008. This section has a normal pension age (NPA) of 60, or 55 for the 'special classes'. Pension builds up at a rate of 1/80th of pensionable pay per full year of membership and retirement pension is based on the highest pensionable pay in your final year of service (or best of the last three years). There is an automatic cash lump sum of three times the annual pension.

The 2008 section applied to members entering the scheme for the first time after March 31 2008 (or 1995 members who chose to move their benefit to this new section in the Your Pension Choice exercises of 2009 and 2015). It has a NPA of 65 and benefits build up at the rate of 1/60th of pensionable pay per full year of membership. The 'final salary' used to calculate pensioned is the best one of any three year period within ten years of retirement. There is no automatic lump sum paid but annual pension can be exchanged for a lump sum within certain limits.

Protection arrangements were agreed during negotiations over the 2015 Scheme – so that members in the 1995/2008 scheme closer to retirement would not be affected by the changes. Whether you are covered by protection depends on your age in April 2012 and your expected normal pension age at that time.

#### **“Full Protection” - For existing scheme members who were within ten years of their Normal Pension Age (NPA) in April 2012.**

This group of staff are 'fully protected'. This means that they will not join the 2015 scheme and will continue to accrue final salary pension benefit in the pension section they were in as of April 2012. Future pension will be calculated as per the rules of the pension section they are in (i.e. accrual rate, pension age, final salary etc...) They will however, be subject to any increase in employee contribution rate applicable to the scheme. Special Class

members will retain their NPA of 55 and MHOs will continue to 'double up' during this period. This 'full protection' covers about 400,000 NHS staff.

**“Tapered Protection” - For existing scheme members near the 10 year protection period in April 2012.**

In order to avoid a 'cliff edge effect' where people outside the ten year period received no protection, scheme members within three and a half years of the ten year protection i.e. those within 13.5 years of their NPA in April 2012 also receive some protection. This is called “tapered protection”.

Those covered by tapered protection will move to the 2015 scheme at a date set according to their date of birth. So, someone who was 13 years away from their normal pension age in April 2012 will move to the 2015 scheme on 1/4/16, whereas someone who was 10.5 years away from their normal pension age in April 2012 will move on 1/4/2021. At the end of the protected period they will move to the new pension scheme for future service. It is important to remember that accrued pension rights up to this switch over date are not lost and will remain preserved at their previous NPA and on a final salary basis until claimed.

MHO members in this group will continue to 'double up' on a year by year basis in this period provided they meet the requirements of the 1995 Regulations. The current NHS pension arrangements on 'Uniform Accrual' will continue to apply. Under Uniform Accrual eligible members who might lose MHO status or the ability to 'double up' can receive a proportionate benefit for the doubling they would achieve at retirement. The proportion is based on the number of years actually worked compared to the potential service the member would have at retirement. So although it may not be equivalent to the “doubled” years, it does provide some enhancement. Uniform Accrual ensures that where a scheme rule changes that affects future pension, the member still benefits from that provision to a certain, albeit lesser, extent. Those in the Taper, like all other scheme members' will pay any new contribution rate required from 2012.

This tapered protection will cover approximately 100,000 people.

Further information about protection arrangements can be found here - <http://www.nhsbsa.nhs.uk/Pensions/4019.aspx>

## **2015 Scheme**

A new NHS pension scheme came into effect in April 2015. It applies to all new scheme entrants after April 1 2015, those that chose to transfer their benefits from the 1995 section under 'Choice 2' and those that move to the 2015 scheme following the expiry of any pension 'protection' they may have. Benefits in this scheme apply

only for service in this scheme – there is no change to the benefits you have already built up in the 1995/2008 scheme.

These are the key features of the 2015 scheme -

- **Career Average Scheme** – (CARE) this is also a ‘defined benefit’ scheme - with an accrual rate of 1/54th (this is the rate at which your pension builds up for each year of service)
- **normal pension age (the age at which you can take an unreduced pension) is equal to the state pension age** for service from 2015
- future pension increases in retirement linked to the **Consumer Price Index**

All pension benefits built up to 2015 (in the 1995/2008 scheme) will be fully protected and those benefits will be linked to final salary when members leave the scheme.

All future benefits built up by members after 2015 that are not in the fully ‘protected group’ will be on a career average basis (CARE). For those who have ‘tapered protection’ CARE benefits will apply when they eventually move to the 2015 section.

### **What is a CARE scheme?**

The 2015 Scheme is a **Career Average Revalued Earnings (CARE) scheme**. This is a form of defined benefit pension scheme which means you get a guaranteed level of benefit at retirement payable according to a fixed formula.

In a CARE scheme your pension is based on your pensionable pay right across your career. The pension you earn each year is based on your pensionable pay in that year and is increased by a set rate linked to inflation (further details below).

The final pension is calculated by adding together the revalued pension earned in each year of membership.

A handy [diagram of how a CARE pension scheme works](#) is available on the NHSBSA Pensions website.

If you have any salary sacrifice arrangements (for example, childcare vouchers or some lease car arrangements) these will reduce your pensionable earnings in a CARE system.

Salary sacrifice arrangements also had a potential impact on pensions in the previous 1995/2008 Scheme final salary arrangements. However as people could cease the salary sacrifice arrangements in the period that their pension was calculated (for example, the last three years of pensionable employment) it rarely had an impact on their pension. In CARE, salary sacrifice arrangements will reduce your pensionable pay for the duration of the agreement and so will reduce the pension you build up in those years.

If you are in the 2015 scheme and have current salary sacrifice arrangement or are contemplating taking out a salary sacrifice arrangement you should take further advice

## **How do benefits build up in CARE?**

The rate at which your pension builds up in a CARE scheme depends on three factors.

### 1) Accrual Rate

The amount of pension you earn each year is determined by what is known as the 'accrual rate' which is usually shown as a fraction of your pensionable pay.

In the 2015 Scheme the accrual rate is 1/54, so you earn a pension each year of 1/54 of your pensionable pay. So if you earn £18,000 in a year you would earn a pension for that year of 1/54 of £18,000, which equals £333.

The lower the bottom number in the fraction, the more of your salary you earn as a pension for each year of membership – so 1/54 is better than either 1/60 or 1/80.

### 2) Annual Revaluation

Your pension earned each year will be increased each year by a set rate, known as 'revaluation', to account for inflation in the period before you retire or leave.

The revaluation rate is Consumer Price Index (CPI) inflation plus 1.5% each year. The pension earned in a scheme year (April to March) is revalued on 1 April of the following Scheme year and each subsequent Scheme year until you retire or leave. For example, if CPI inflation in a year was 2% then the pension would be revalued by 3.5% (2% + 1.5%) at the beginning of the following year.

If you leave before becoming entitled to claim your retirement benefits, your pension benefits earned would still continue to be revalued each year.

However this would be in line with CPI inflation only and would not include the additional 1.5%.

### 3) Length of Scheme Membership

You can continue to build up pension benefits in the Scheme until age 75 with no limit to the amount of years of membership you can have. The more years of membership you have the higher the amount of pension you will earn.

## **What are the contribution rates?**

You will pay contributions based on the amount of pensionable pay you earn. To see the current contribution rates of the NHS Pension Scheme go to:

[www.nhsbsa.nhs.uk/Pensions/4207.aspx](http://www.nhsbsa.nhs.uk/Pensions/4207.aspx)

## **When can benefits be claimed?**

Your Normal Pension Age (NPA) is the age at which you can retire without a reduction in your pension benefits for early payment. In the 2015 Scheme your NPA is the same as your State Pension Age (SPA) or age 65 if that is later. You cannot claim your benefits without reduction for early payment in the 2015 Scheme until you reach your NPA.

The earliest point you can access your benefits with a reduction for early payment in the 2015 Scheme is currently age 55.

## **What else does the 2015 scheme offer?**

The 2015 Scheme has many similar provisions to the previous arrangements including –

- Normal Age Retirement Pension,
- Voluntary Early Retirement Pension – with reduction for early payment
- Redundancy Pension,
- Ill Health Retirement Pension<sup>1</sup>,
- Partner / Survivor Pensions,
- Children's Pension
- Lump Sums payable on Death.

As with the 1995/2008 Scheme, in the 2015 scheme you also have the option to purchase Additional Pension to increase the amount of pension payable to you at retirement (with or without increases for dependents). This can be done either by a lump sum payment or regular extra contributions up to a set date.

Pension rights in another pension scheme can be transferred into the new 2015 Scheme. You can also transfer your NHS pension rights to another registered pension scheme if you leave the NHS or the Scheme before NPA or drawing any benefits in the Scheme.

As mentioned above, if you take your 2015 pension benefits before your SPA they are reduced to take into account their early payment. A new provision exists for you to pay extra contributions so you can take your 2015 Scheme benefits at an unreduced level before you reach SPA. To do this you and/or your employer would have to purchase an Early Retirement Reduction Buy-Out in advance of your retirement. Your retirement cannot be any earlier than age 65 and with a maximum buy out of three years available.

## **Option to Give up of protection**

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<sup>1</sup> The way Ill Health Retirement benefits are calculated in the 2015 Scheme is different to the 1995 and 2008 Sections of the existing Scheme.

In Spring/Summer 2015, following the introduction of the new arrangements, 2008 section members with full or tapered protection will be offered the opportunity to “forgo” this protection in order to move to the 2015 pension scheme (with it’s CARE arrangements, different accrual provision and NPA linked to SPA) immediately. This may be of benefit to those who know they will work until their state pension age but careful consideration of all the facts will be necessary. Further information will be provided nearer the time.

## **A reminder about Choice 2**

In 2009 scheme members were given the opportunity to move their pension benefits from the 1995 section to the 2008 section. Many chose not to make this move, possibly because they wanted to keep a pension age of 60 (or 55 for Special classes members).

In recognition of the fact that pension age has been raised by Government and members will be facing having to work longer to get their full pension benefits, 1995 scheme members in England and Wales without full protection were again offered the choice to move their pension benefits to the 2008 scheme. Pension administrators wrote to those affected providing relevant information on the two sections of the scheme and individualised retirement dates. They also provided on-line pension calculators to allow comparison between pension benefits in the two different sections. Choice 2 in England and Wales ran from late Autumn 2014 to March 2015.(with the exception of some organisations such as PHE) Scottish members will be offered the same “Choice 2” later in 2015. There are a number of key differences that members will need to take into account when considering their “choice 2” options. The most important ones relate to retirement and career intentions. Those planning to continue working in the NHS past the age of 64 are more likely to be better off moving their contributions to the 2008 section.

Full information on the NHS pension can be found as follows –

- England and Wales- see the [NHS Business Services Authority](#) (NHSBSA)
- Northern Ireland, see the [HSC Pension Service](#)
- Scotland, see the [Scottish Public Pensions Agency](#)