



# Talking Point

March 2011

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## Lord Hutton's Report and the NHS Pension Scheme

On the 10 March 2011 Lord Hutton issued his report on public sector pension schemes which makes detailed recommendations on how, in Lord Hutton's view, such schemes can be made sustainable and affordable in future, while providing an adequate level of retirement income.

This summary aims to explain the report's key recommendations and how they may affect members of the NHS Pension Scheme.

## Key Recommendations

### 1. How NHS Pension Benefits are calculated

In the Hutton report, it is proposed that public sector pensions including the NHS Pension Scheme should be changed, so that in future pension benefits would be based on a career average scheme which reflects each member's career average earnings.

In a 'career average' scheme you build up a 'slice' of pension each year of your service, based on your salary in *that* year. That 'slice' of pension – and future 'slices' in later years – would be increased in value every year by rises in average UK earnings. On your retirement, the total accumulated 'slices' make up your pension. However, the report makes no recommendations as to the size of the annual pension 'slices' under the proposed new scheme – this would ultimately be up to the Government to decide after consulting with interested parties.

#### What does this mean for NHS members?

Retirement benefits are calculated differently in the NHS Pension Scheme, depending on your profession.

- Hospital doctors's benefits are based on final salary – the pension is calculated on a formula linked to the length of your pensionable service and your pay close to your retirement age. If the proposal goes ahead, future retirement benefits for Hospital Doctors will be based on career average earnings.
- GPs and Dentists retirement benefits are already based on a 'career average scheme'. With Hutton's recommendations, it remains to be seen how their future benefits will be changed.

### 2. Increase to normal pension age

The report recommends that in the new career average scheme your normal pension age should be the State Pension Age which, depending on your age and sex, *could* be as high as age 68.

#### What does this mean for NHS members?

Your normal pension age will depend on your profession and what NHS Pension Scheme you are part of.

- **Hospital Doctors and GPs:** Hospital doctors and GPs in the 2008 Section of the NHS Pension Scheme will have a normal pension age of 65 and in the 1995 Section this will be 60 (or 55 for special classes).
- **Dentists:** Dentists in the 2008 section will have a normal pension age of 65 and in the 1995 section this will be 60.

It will still be possible to take your total benefits at your current retirement age. However, any pension due under the new career average scheme would be reduced accordingly to take account of its early payment.

### 3. Increase of pension contributions

You will have to pay more, simply to remain as a member of the NHS Pension Scheme. The Government has already announced that contributions by members of public sector schemes should increase on average by approximately 3% of their pensionable pay. You should therefore expect your contributions to rise significantly. Full details of the extent of contribution increases will be announced by the Government this summer and are likely to be phased in from April 2012.

### What will happen to the benefits I have already built up?

The report recommends that the pension promises (your “accrued rights”) already earned by members under the present NHS Pension Scheme should be honoured in full, including the right to take those benefits at your normal retirement age. In practice, this means maintaining the final salary link for past service for those members e.g. hospital doctors, who are currently building up ‘final salary’ benefits, effectively ring-fencing the benefits built up to the date of change.

The report also recommends the ringfencing, in a similar way, of accrued benefits for members (e.g. GPs and dentists) who are already building up ‘career average’ benefits .

To illustrate this point, a member who had been building up benefits that would currently be paid at age 60 without any reductions in the existing scheme, would still be able to take those unreduced pension rights at 60. Only your future service will be based on the new career average basis, including the later normal retirement ages. Ancillary benefits in the present scheme, such as death and ill-health benefits, should also be maintained broadly in their present form.

### Will I be adversely affected?

The report stresses that career average schemes *may* provide a similar level of retirement benefits to those offered under final salary schemes, especially for those members whose salaries only increase at a modest rate throughout their career. However, it is fair to assume that many current members will be adversely affected; particularly younger members whose normal retirement ages will be extended to age 68 and may spend most of their career on the new scheme. Much will depend, of course, on the exact terms of any proposed new scheme.

Those close to retirement will be far less affected as they will have already enjoyed the lion’s share of their pensionable service under the current arrangements. However, no proper analysis can be carried out until further details of the new scheme are known.

### When are all these changes supposed to take place?

Once the Government and those parties representing the NHS Pension Scheme come to an initial view on the details, they will need to consult with interested groups, including employees and their representatives. So any changes to the benefits structure are still some way off, with the report claiming that it should be possible to introduce the new career average scheme before the end of this Parliament in 2015.

However, increases to your contributions will start to be implemented much earlier.

### Do I need to take any action now?

No. The proposals are still at an early stage and will require public consultation over the details. As such, it would be unwise to make any hasty decisions until more information is made available.

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