

The NHS Pension Scheme Scotland McCloud and Pensions Contributions 2022

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Background

- ❑ From the 1 April 2015 everyone moved into the 2015 Scheme unless they had “transitional protection” for people closer to retirement
- ❑ The Courts have ruled that this protection directly discriminated against some younger scheme members
- ❑ The Government’s proposals to remove this discrimination will apply to all pension scheme members who were in service on or **before 31 March 2012 and on or after 1 April 2015** (plus members returning from a qualifying break of less than 5 years)
- ❑ The Government is offering a **choice** on which scheme to be in for the Remedy Period
- ❑ The Remedy Period will cover service between 1 April 2015 and 31 March 2022

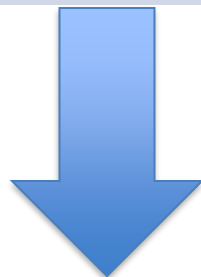
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Transitional Protections

- ❑ Members are currently in the 2015 scheme unless “protected”

FULL PROTECTION	TAPERED PROTECTION
Members within 10 years of NPA as at the 1 April 2012	Members between 10 and 13.5 years away from NPA as at the 1 April 2012



- **50 or over for 1995 Section members**
- **45 or over for 1995 Section members with MHO or SC Status**
- **55 or over for 2008 Section members**

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What scheme is which?

	1995 Section	2008 Section	2015 Scheme
Scheme Type	Final Salary	Final Salary	CARE
Build up Rate	1/80th	1/60th	1/54th
Tax-free cash	3 times pension	Have to "commute" pension	Have to "commute" pension
Pension Age	60	65	State Pension Age
Service Limit	45 years	45 years	None
Revaluation Rate	None	None	Inflation plus 1.5%



□ ???

Remedy Options

Immediate Choice

A one off choice to move back to 1995 or 2008 Section or give up protection

Deferred Choice Underpin (DCU)

You are offered a choice at retirement* as to which remedy option you prefer

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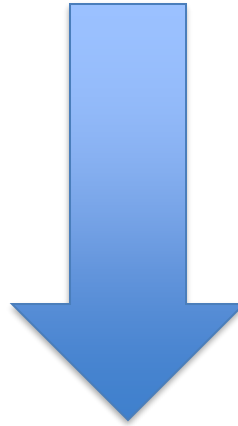
Deferred Choice Underpin

- ❑ Member makes irrevocable choice at the point that a pension award becomes payable (i.e. on retirement, ill-health, on death etc)
- ❑ Assumed to be in legacy scheme for the Remedy Period up to the point of making irrevocable choice
- ❑ NHS Pensions would provide comparisons of actual entitlements under both schemes at retirement etc
- ❑ **Less risk to member than under Immediate Choice as decision will be based on actual entitlements rather than assumed entitlements – less risk of members making the “wrong” decision**
- ❑ Would really cause uncertainty to members? Proposed that pension statements would show benefits under both schemes for Remedy period

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Post 1 April 2022 position



- ☐ No more benefits earned in 1995 or 2008 Sections
- ☐ Final Salary Link will still apply to legacy benefits however
- ☐ Members can still retain MHO or Special Class status on legacy benefits
- ☐ Can still retire and draw 1995 Section pension at 60 (or 55 with Special Class or MHO status). Possibly be able to re-join the 2015 scheme under the new reforms?

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2015 scheme example

❑ Based on Sheila who has full-time earnings of £18,000

	Year 1	Year 2	Year 3	Year 4
Year 1 Pension	£333	£345*	£357*	£369*
Year 2 Pension	N/A	£333	£345	£357*
Year 3 Pension	N/A	N/A	£333	£345*
Year 4 Pension	N/A	N/A	N/a	£333
Total Pension	£333	£678	£1,035	£1,404

* Re-valued at 3.5% assuming 2% CPI plus 1.5%

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Quick Recap of the 2015 Scheme

- ❑ It's a Career Average Revalued Earnings Scheme rather than Final salary
- ❑ Members get $1/54^{\text{th}}$ of their actual salary for each year of service (better build up rate than 1995 and 2008 Section)
- ❑ Each year's pension earned increases every year by cost of living increases plus 1.5% (likely to be better than typical salary growth?)
- ❑ NO MHO or Special Class rights
- ❑ Normal Pension Age equivalent to member's State Pension Age (not as good as 1995 and 2008 Section)
- ❑ Members have to Exchange pension (commute) to get tax-free cash



Current Contribution Rates for 2021/2022

Tier	FTE Earnings Band	Gross Contribution Rate
1	Up to and incl £20,605	5.2%
2	£20,606 to £24,972	5.8%
3	£24,973 to £31,648	7.3%
4	£31,649 to £64,094	9.5%
5	£64,095 to £89,731	12.7%
6	£89,732 to £119,560	13.7%
7	£119,561 and above	14.7%



Member contributions from April 2022: Models to be considered further NHS Pension Scheme (Scotland) Scheme Advisory Board



Results

0. EXISTING STRUCTURE FOR 21/22

WTE Earnings	Rate	Prop'n
1 Up to and incl £20,605	5.2%	18%
2 £20,606 to £24,972	5.8%	15%
3 £24,973 to £31,648	7.3%	22%
4 £31,649 to £34,094	9.5%	41%
5 £34,095 to £39,731	12.7%	3%
6 £39,732 to £119,500	13.7%	3%
7 £119,501 and above	14.7%	2%
YIELD	9.8%	-

Existing structure does not achieve the required yield

1. AMENDED EXISTING STRUCTURE

Change from WTE to Actual Earnings to determine a member's tax and increase rates to ensure required yield is achieved

Actual Earnings	Rate	Prop'n
1 Up to and incl £20,605	6.0%	38%
2 £20,606 to £24,972	6.6%	12%
3 £24,973 to £31,648	8.1%	15%
4 £31,649 to £34,094	10.3%	28%
5 £34,095 to £39,731	13.5%	3%
6 £39,732 to £119,500	14.5%	3%
7 £119,501 and above	15.5%	2%
YIELD	9.8%	-

Prop'n: Proportion of members in each tax

ALTERNATIVE STRUCTURES MODELLED

Option 2C

Actual Earnings	Rate	Prop'n
1 Up to and incl £15,431	5.9%	24%
2 £15,432 to £21,891	6.6%	17%
3 £21,892 to £26,969	8.1%	15%
4 £26,970 to £52,999	9.8%	35%
5 £53,000 and above	13.5%	9%
YIELD	9.8%	-

Option 2II

Actual Earnings	Rate	Prop'n
1 Up to and incl £18,477	5.9%	31%
2 £18,478 to £22,699	6.6%	13%
3 £22,700 to £26,969	8.1%	12%
4 £26,970 to £50,000	9.8%	34%
5 £50,001 and above	13.5%	10%
YIELD	9.8%	-

Option 3A

Actual Earnings	Rate	Prop'n
1 Up to and incl £15,431	5.9%	24%
2 £15,432 to £21,891	6.6%	17%
3 £21,892 to £26,969	8.1%	16%
4 £26,970 to £34,390	9.8%	16%
5 £34,391 to £52,999	10.8%	20%
6 £53,000 and above	12.7%	9%
YIELD	9.8%	-

Option 8D

Actual Earnings	Rate
1 Up to and incl £14,666	6.00%
2 £14,667 to £25,295	9.00%
3 £25,296 to £43,662	15.25%
4 £43,663 to £99,999	16.75%
5 £100,000 and above	17.25%
YIELD	9.8%

subject to maximum interest rate of 14.15%

Option 8E

Actual Earnings	Rate
1 Up to and incl £20,500	6.00%
2 £21,000 to £24,500	14.00%
3 £25,000 to £31,500	15.50%
4 £32,000 to £44,500	16.00%
5 £45,000 and above	17.00%
6 £50,000 and above	18.00%
YIELD	9.8%

subject to maximum interest rate of 14.15%

Option 8F

Actual Earnings	Rate
1 Up to and incl £14,666	6.00%
2 £14,667 to £25,295	11.00%
3 £25,296 to £43,662	15.00%
4 £43,663 and above	17.00%
YIELD	9.8%

subject to maximum interest rate of 14.15%

This is a summary of the structures to be considered further.



1. AMENDING EXISTING STRUCTURE

Change from WTE to Actual Earnings to determine a member's tier and increase rates to ensure required yield is achieved

	Actual Earnings	Rate	Prop'n
1.	Up to and incl £20,605	6.0%	38%
2.	£20,606 to £24,972	6.6%	12%
3.	£24,973 to £31,648	8.1%	15%
4.	£31,649 to £64,094	10.3%	28%
5.	£64,095 to £89,731	13.5%	3%
6.	£89,732 to £119,560	14.5%	3%
7.	£119,561 and above	15.5%	2%
	YIELD	9.8%	-



AMENDING EXISTING STRUCTURE

Change from WTE to Actual Earnings to determine a member's tier and increase rates to ensure required yield is achieved

OPTION 6D

BANDED

	Actual Earnings	Rate
1.	Up to and incl £14,666	6.00%
2.	£14,667 to £25,295	9.00%
3.	£25,296 to £43,662	15.25%
4.	£43,663 to £99,999	16.75%
5.	£100,000 and above	17.25% (subject to maximum overall rate of 14.7%)
	YIELD	9.8%