NHS Pension Scheme
Consultation on proposed increase to employee contribution rates effective from April 2012

Government response
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| Gateway Reference | 16889 |
| **Title** | NHS Pension Scheme: Government response to consultation on proposed increase to employee contribution rates effective from April 2012 |
| **Author** | Department of Health - Pay, Pensions & Employment Services Branch |
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| Description | The Department of Health (England) and Welsh Assembly Government consulted on a preferred approach to delivering savings announced in the 2010 Spending Review by increasing employee contributions to the NHS Pension Scheme in 2012/13. This document sets out the Department's response to that consultation. |

| Cross Ref | Independent Public Service Pensions Commission: Interim Report |

| Superseded Docs | N/A |
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| For Recipient's Use |
Introduction

1.1 The Government is committed to addressing the affordability and fairness of public service pensions. The Independent Public Service Pensions Commission, chaired by Lord Hutton, concluded in its report\(^1\) that reform is necessary and that there needs to be a fairer distribution of the cost of public service pensions between employees and other taxpayers.

1.2 Expenditure on public service pensions over the last decade has increased by a third to £32bn. The costs of pensions are increasing as people live 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. Pensions are therefore in payment for longer.

1.3 These additional costs have generally fallen to the taxpayer. The view of the Government is that this is unfair and unaffordable. 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 pensions, whilst employees contribute an average of 6.5%.

1.4 The Government asked the Independent Public Service Pensions Commission to consider the case for delivering savings on public service pensions within the spending review period. The Commission concluded that it would be more effective to increase member contributions rather than alter the level and range of benefits provided by pension schemes\(^2\).

1.5 The Government therefore announced in the 2010 Spending Review that public service workers would be asked to contribute more for their pensions. The Spending Review set out plans for savings of £2.8bn per year by 2014-15, which includes the £1bn of savings already announced by the previous Government. Each public service pension scheme is required to deliver savings equivalent to an average increase of 3.2 percentage points in employee contributions over the same period.

1.6 Within this context, the Department of Health and the Welsh Government consulted on a preferred approach to increasing the level of contributions made by members of the NHS Pension Scheme towards their pension in 2012-13.

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\(^1\) Independent Public Service Pensions Commission: Final Report (10 March 2011)

\(^2\) Independent Public Service Pensions Commission: Interim Report (7 October 2010), ch. 8
2. Consultation proposal

2.1 The Government laid out a series of preferred parameters within which individual public service pension schemes develop their approach to achieving the required savings:

- There should be no increase in employee contributions for those earning less that £15,000 on a Full Time Equivalent basis;
- There should be no more than a 0.6 percentage point increase in 2012-13 for those earning up to £21,000, and no more than a 1.5 percentage points increase in total by 2014-15;
- There should be no more than a 2.4 percentage points increase in 2012-13 for high earners, and no more than 6 percentage points increase in total by 2014-15.

2.2 Within these parameters, the Department developed a preferred approach that sought to protect the low paid, apply increases progressively and limit the level of opt out that higher contribution rates may generate. The preferred approach to the distribution of increases was presented in a table format. This is set out at Annex A.

2.3 The Department and the Welsh Government specifically invited views on:

(a) the preferred approach to delivering the required savings by increasing employee contributions to the NHS Pension scheme by the amounts set out in Table 1 at Annex A; and

(b) other ways of delivering those savings through increased employee contributions within the Government’s preferred scheme design parameters.

2.4 This consultation focused on the distribution of increases that would be applied from 2012-13. Further savings are required in 2013-14 & 2014-15 and the Department of Health and Welsh Government are holding separate discussions with Trade Unions to consider these in conjunction with proposals for longer-term reforms to public sector pension schemes.

\[3\] Written Ministerial Statement 19 July 2011: www.hm-treasury.gov.uk/d/wms_pensions_190711.pdf
3. Consultation process

3.1 The consultation was open from 28 July until 21 October 2011. It was conducted in accordance with the Government’s Code of Practice for consultations.\(^4\)

3.2 The consultation document was available on the Department of Health’s website and responses could be returned by email or by post. An online calculator and Q&A material was published to help NHS Pension Scheme members understand the impact of the proposals.

3.3 Awareness of the consultation was raised through:
- Articles in staff bulletins such as ‘the Week’ and GP bulletin
- NHS Pension Agency newsletter to employer organisations
- Staff payslip message
- Written Ministerial Statement\(^5\) and subsequent trade media coverage

3.4 As part of the formal governance arrangements underpinning the NHS Pension Scheme, the major Trade Union organisations were formally notified of the consultation through the governance arrangements that underpin the NHS Pension Scheme.

3.5 A total of 8,781 responses were received. A full list of the organisations who responded is at Annex B. The Annex also gives the number of individuals who responded, but these have not been identified separately.

3.6 Representations were received from a number of Trade Unions, NHS Trusts, NHS Foundation Trusts and other NHS organisations including NHS Employers. Twenty seven organisations responded in total.

3.7 The vast majority of respondents, some 8,754, were individuals working within the NHS as general practitioners, hospital doctors, consultants, nurses, administrators and other occupations. Many of these, 6,153 responded using a template from either the British Medical Association, PULSE, or the Federation of Clinical Scientists.

3.8 Responses were also received from individuals working within the Scottish and Northern Ireland health services.

\(^4\) Department for Business, Skills & Innovation: www.bis.gov.uk/policies/bre/consultation-guidance

4. Key findings

4.1 The consultation invited views as to suitability of the preferred approach to applying the contribution increases. Respondents were asked to propose alternative approaches within the parameters set by HM Treasury (see paragraph 2.1 above).

4.2 The vast majority of respondents chose not to comment on the preferred approach or put forward alternative ways of structuring the increases. Instead most respondents submitted their views on aspects of public service pension reforms that are outside the remit of this particular consultation. The main reason for this is a general rejection of the need to raise contributions.

“The RCM does not agree that increasing contributions is justified or necessary. We cannot provide an answer about a preferred approach to delivering the required savings by increasing contributions because we do not believe that the contributions should be increased. Nor do we believe that there is any need to make quick ‘required savings’ in the NHS Pensions Scheme given that it is currently £2 billion cash rich.”

Royal College of Midwives

4.3 A number of respondents considered that the scope of the consultation, in focusing on the distribution of the first year of three years of successive increases is too narrow and does not allow for proper consideration of the proposal in the context of all potential changes to public service pensions.

“A genuine consultation needs to present the whole picture, not just part of it. There is clearly an intention to make further changes in following years but it is unreasonable to ask for our views on the first part without explaining what the ultimate change will be.”

Managers in Partnership

4.4 Several Trade Unions commented on the timing and approach for discussions concerning increases to member contributions. Responses argued that these should have taken place at the same time, and in the context of, discussions relating to proposals for long-term reform of public service pension schemes.

“The contribution increases have also been brought forward whilst negotiations are taking place in respect of Government proposals to make major reductions in the level of benefits the scheme will provide in future.”

Unite

4.5 The Government announced in the 2010 Spending Review that public service workers would be asked to pay more into their pensions following the interim findings of the Independent Public Service Pension Commission. Accordingly the Spending Review included a target to produce savings of £2.8 billion (including the £1bn savings announced by the previous Government) across all public service pension schemes in the three years to 2014-15. The increase in member contributions would be phased over three years in order to allow reasonable time for members to adjust.

4.6 As noted earlier at paragraph 2.4 the Government has consulted on its proposals for the first year of increases effective from 2012-13 separately and in advance of scheme-specific discussions on increases for subsequent years and the proposals for longer-term reforms. Contribution increases in 2012-13 will generate £1.2bn savings and
subsume the £1bn savings already announced at the 2009 Pre-Budget Report from ‘cap and share’ reforms to public service pensions. It was necessary to consult now to ensure that sufficient time is available following the consultation process to take action in order to make any increases effective from 2012-13. The Government has since entered into scheme-specific discussions with Trade Unions regarding potential increases in 2013-14 and 2014-15 together with proposals for longer-term reform.

**Scheme ‘surplus’**

4.7 Many respondents point to the current cash flow position of the NHS Pension Scheme as evidence that the scheme is in surplus and therefore no increases are necessary:

> “The NHS Pension scheme is currently receiving £2 billion more, each year, in contributions than it is paying out in benefits. This fact has not been denied by the Government.”

Guild of Healthcare Pharmacists

4.8 The NHS Pension Scheme has built up future pension promises (liabilities) of around £127bn as assessed at last actuarial valuation in 2004. As the scheme is unfunded (i.e. there is no ‘pot’ of money or assets set aside from which to pay pensions), the Government pays pensions from the public finances as they fall due.

4.9 It is true that at the moment annual scheme income from contributions exceeds annual expenditure on pension benefits in payment, creating a £2 billion positive cash flow which some respondents identify as being a ‘surplus’. However, this is not an indication of the scheme’s long-term sustainability as those paying contributions to create the ‘surplus’ are also building up pension promises that will need to be paid in the future.

4.10 This ‘surplus’ is expected to decrease as the NHS workforce that has been growing reaches a plateau and a generation of members reach retirement and start to draw their pension. The current gap between contributions made and benefits paid out is set to disappear by 2016.

**Increases are a tax to help pay off the fiscal deficit**

4.11 A frequently expressed view amongst respondents was the perception that the increase in member contributions constituted a tax on public service workers as part of the Government’s approach to deficit reduction.

> “This is simply a tax on hard working and loyal health service workers. The reality is that the proposed increased member contributions will not aid the funding position of the NHS Pension Scheme as the money will simply go straight to the Treasury to help pay of deficits that have nothing to do with our members.”

Unison

4.12 This is not the Government’s intention. Although the NHS Pension Scheme has no assets, the current level of contributions is based on an actuarial valuation using a method called SCAPE (Superannuation Contributions Adjusted for Past Experience). The valuation process is currently suspended following a review of the discount rate (the rate of return the Government provides on the contributions made), and also pending the implementation of changes arising from the Hutton report. However, the contributions made by employers and pension scheme members are paying for the new pension promises being made to scheme members by the Government.
4.13 The increase is therefore not a tax but a consequence of the fact that the pension benefits individuals receive on retirement are increasing in value, and have done so over the previous decades, and that the cost of this has been mostly met by taxpayers. The increase in member contributions is designed to create a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension.

"Because most of the increased costs to date, driven by longevity improvements in particular, have been financed by employers in the form of increased contributions, there is an argument that employees should pay a greater share of the extra cost, as they are the principal beneficiaries of this unexpected increase in the cost of their pension."

Independent Public Sector Pensions Commission: interim report

**Previous reforms to the NHS Pension Scheme introduced in 2008**

4.14 Many respondents commented that the NHS Pension Scheme has already undergone changes designed to make it more sustainable for the future. They argue that the impact of these reforms means that contribution increases are unnecessary.

"The Public Accounts Committee has said that the changes already made to the NHS scheme as part of the 07/08 reviews will keep public sector pensions stable. This proposed increase is therefore not needed to ensure the sustainability of the NHS pension scheme."

Managers in Partnership

4.15 A new section of the scheme was introduced in 2008 that offered new entrants a new benefits structure with a different accrual rate and higher retirement age. Existing members have the option of switching from the previous 1995 section to the new 2008 arrangements, transferring the pension benefits they have built up.

4.16 In addition to the Public Accounts Committee’s conclusions, respondents also highlighted projections made in Lord Hutton’s report which forecasts that the level of pensions benefits payable under current public service pension schemes would fall gradually to around 1.4% of Gross Domestic Product (GDP) by 2059-60, after peaking at 1.9% of GDP in 2010-11. This analysis was based on long-term economic growth forecasts.

4.17 Reforms of public service pension schemes to date have been insufficient to reverse the increase in costs from rising longevity. HM Treasury analysis of historic data from the Office for National Statistics shows that there have been huge increases in the cost of public service pensions over the past 30 years, from less than 1% of GDP in 1970 to nearly 2% now. Spending on public service pensions has begun to fall, as a result of all the reforms that have been implemented to date, including cap and share, higher pension ages for new entrants, and, more recently the change in indexation from RPI to CPI. However, even with all of these reforms, costs remain historically high. This is supported by the National Audit Office’s analysis.

4.18 The Government’s view is that the 2008 reforms to the NHS Pension Scheme did not allow for the costs of increases in longevity to be managed fairly or sustainably. The

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6 HM Treasury (November 2011), *Public service pensions: good pensions that last*, p.6 http://www.hm-treasury.gov.uk/tax_pensions_index.htm

agreement allowed then active members to remain in their existing arrangements with a pension age of 55 or 60, despite the improvements in longevity which they had benefited from. Future generations of NHS workers and taxpayers would have to pay for this, with a limited contribution made by beneficiaries in the form of higher contributions before retirement. For those with a pension age of 65, there was no provision for adjusting this to meet further longevity improvements. This cannot be fair.

4.19 Lord Hutton concluded that linking the normal retirement age of public servants to the State Pension Age is a fair and sustainable mechanism for ensuring that the rising cost of longevity falls upon those members who are likely to live longer. The Government supports this. It is the Government’s view that the contributions made by members towards their pensions should generally reflect the benefits they receive and the costs incurred in providing them— including how long their pension is likely to be in payment.

Cost-sharing arrangements

4.20 Several Trade Union organisations commented that the proposed increase should have been addressed through the cost-sharing mechanism that was established as part of previous reforms to the NHS Pension Scheme.

“There was already an established cost-sharing arrangement whereby employees, through their trade unions, had agreed to bear the increased cost if the cost of pensions increased faster than expected, e.g. through employees living longer than expected. This arrangement, otherwise called ‘cap and share’ provides stability and a formula which addresses cost and longevity concerns for future years.”

Unite

4.21 This approach was intended to ensure that additional cost pressures such as those associated with people drawing their pensions for longer than expected would be shared between employees and employers up to a capped limit. Beyond this cap, the cost would be borne by employees by increasing their contributions and/or reducing the value of pensions received in the future.

4.22 Respondents highlighted reports from the Public Accounts Committee8 and the National Audit Office9 which observed that cap and share arrangements would save around £67 billion over the next fifty years.

4.23 Prior to the introduction of cap and share arrangements, the response of public service pension schemes to addressing future costs pressures associated with increasing life expectancy of members has been limited. Before 2008 schemes typically raised employer contributions, but employee contributions and benefits remained relatively unchanged.

4.24 Over recent decades, the unanticipated increases in longevity therefore produced unexpected gains for members and consequently extra costs for future generations of taxpayers. Lord Hutton noted that this is unfair – “pension schemes need to adjust to changing circumstances in a way that does not unfairly advantage, or disadvantage, one

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8 Public Accounts Committee 38th Report - The impact of the 2007-08 changes to public sector pensions (11 May 2011)
9 National Audit Office - The impact of the 2007-08 changes to public service pensions (6 December 2010)
generation\textsuperscript{10}. Cap and share reforms capped the taxpayer cost going forward, but did not address past cost increases which were paid by other taxpayers.

"However, these [cap and share] reforms have not fully addressed the underlying issues of sustainability and fairness. Although some existing members of some schemes have had increases in their pension ages, to reflect increasing longevity, most have not. Cap and share cannot take account of the increases in cost of pensions over recent decades because people have been living longer. Also, untested, complex cap and share arrangements cannot of themselves, address the underlying issue of structural reforms, nor significantly reduce current costs to taxpayers."

Independent Public Service Pensions Commission interim report

4.25 The Government is committed to creating a fairer distribution of costs between employees and other taxpayers. Lord Hutton concluded that “cap and share on its own will not deliver the type of wide-ranging structural reforms that are needed or significant reductions in current costs for taxpayers”\textsuperscript{11}. In particular ‘cap and share’ requires future longevity costs to be paid for by whoever is an active member at the time the longevity improvement is identified with no change to the age at which benefits already built up can be taken. This inevitably means future generations shoulder a greater proportion of the costs. The management of future costs pressures fairly and sustainably is a key element within the future design of reformed public service pension schemes and is subject to further discussions with Trade Unions.

4.26 Ahead of this longer-term reform, and as set out earlier, Lord Hutton’s report established that there is a clear rationale for increasing member contributions to begin creating a fairer balance now.

\textit{Impact of increasing member contributions}

4.27 A significant number of respondents commented on the likely impact that increasing member contributions could have. Many observed that the timing of the increase could disadvantage the ability of members to adjust their finances to meet the additional costs. The increases would take effect against a backdrop of NHS pay restraint and inflation within the wider economy eroding household income.

"RCN members find themselves in the middle of a two year pay freeze and with NHS employers seeking to further cut their earnings by making changes to the nationally agreed pay system, Agenda for Change. In September CPI was 5.2% and RPI 5.6% while public sector (excluding financial services) average earnings growth (total pay) in 3 months to August 2011 was 1.7% and 3% in the Private sector."

Royal College of Nursing

4.28 Respondents warned that the increasing contributions is likely to result in higher incidences of opt-out from the scheme. Individuals may find the increases unaffordable and choose to leave the scheme altogether. It may also prompt some members to take early retirement - especially amongst the higher paid who would be asked to pay greater proportional contributions.

\textsuperscript{10} Independent Public Service Pensions Commission: Interim Report (7 October 2010), p.96
\textsuperscript{11} Independent Public Service Pensions Commission: Interim Report (7 October 2010), p.48
“GMB Members in the NHS have indicated that pension contribution increases are likely to be accompanied by mass opt outs from pension saving, which hugely exceed Treasury’s assumption that the pensionable paybill will decrease by 1% through opt outs. Our own research suggests up to one-third of members will be likely to opt out through the combined increases that are being phased in from 2012 – 2014.”

GMB

4.29 Concerns were raised that mass opt-outs would threaten the financial health of the NHS Pension Scheme as contributions are lost, and early retirements would see a significant outflow of skills and experience from the NHS that would be hard to replace.

“I am certainly looking to retire early from the NHS (and work elsewhere) before the changes come in to try and keep my hard earned pensions.”

GP

“I, like many other doctors, am now thinking of retiring at the earliest possible opportunity to avoid the worst of the proposed huge contribution hike. This means I will be claiming my pension for longer, and the NHS loses the experience of long serving consultants far earlier than would have been the case.”

Consultant Psychiatrist

4.30 Many respondents observed that the reduced number of contributions received would serve to quickly erode the current net surplus position of the NHS Pension Scheme, outweighing the higher but fewer contributions. As an unfunded scheme, HM Treasury would be responsible for financing any shortfall between contributions and pension payments. For those on low incomes, leaving the NHS Pension scheme would represent a worsening of their pension arrangements.

4.31 The Government understands the pressure being experienced on household incomes. This is why, in bringing forward these proposals, we have sought to ensure that the increase is spread fairly both in relation to income and the value of the benefits staff receive. Those on the lowest incomes are protected and would pay nothing extra, whilst the impact for middle earners is cushioned.

4.32 Despite higher contributions the NHS Pension Scheme remains an excellent investment for retirement. The Government Actuary’s Department calculate that under these proposals, members can generally expect to receive between £3 and £6 in pension benefits in return for every £1 they contribute.

4.33 Additionally, if members leave the scheme they will lose the current NHS employer contribution to their pension – currently 14%. Their pension will be based on their salary when they leave the scheme rather than the salary at retirement, and they will also give up the death-in-service benefits - which may mean needing to review their life insurance arrangements.

4.34 A number of respondents highlighted the potential for part-time workers to be disproportionately affected by these proposals. Employees who work part-time have their contributions based on their “full-time equivalent” salary rather than their actual earnings. This creates a difference in contribution rates between full and part time workers with the same level of income.
"My main concern on reading the information in the document is that the proposed increases are calculated based on the full-time equivalent pensionable pay. This would seem to unfairly discriminate against part-time workers many of whom are working single parents, who stand to lose a significant proportion of their wage under the current proposals. Surely it would be fairer to calculate the contribution rate based on the pro-rata pay for part-time workers?" 

Clinical Psychologist

4.35 For example, a member who works full-time earning £15,000 would pay a contribution of 5% (gross) whereas a part-time worker earning £15,000 in a role that has a full-time equivalent salary of £30,000 would contribute 8% (gross) under the revised proposal described in section 5.

4.36 The percentage contribution rate is set according to the full-time equivalent pay of part-time staff. However a part-time worker would then pay contributions equal to that percentage contribution rate of their actual part-time pay. The part-time worker’s length of service would also be scaled down to its full-time equivalent length.

4.37 This approach was agreed with the NHS Trade Unions as the best way forward when tiered contribution rates were introduced.

4.38 To illustrate, if we compare the pensions of two nurses who are doing the same role – one working full-time earning £30,000, and one whose full-time equivalent pay is £30,000 but who is working part-time at half of full-time hours and earning £15,000 –

- The full-time nurse pays 8% contributions (£2,400) on £30,000 and earns 1/80th of this as pension - worth £375 per annum
- The part-time nurse pays 8% contribution (1,200) on £15,000 which is half of £30,000 and earns half of 1/80th of this as pension - worth £187.50 per annum

4.39 £187.50 is half of £375. Therefore this is fair and equitable as the part-timer is working half the hours of the full timer, is earning half the pay of the full timer, is paying pension contributions that are half those of the full timer and is getting a pension that is half that of the full timer.
5.1 The consultation invited respondents to propose alternative ways of delivering the required savings through increased employee contributions within the Government’s preferred scheme design parameters. These are set out at paragraph 2.1 above.

5.2 Only one organisation, NHS Employers, submitted a comprehensive alternative approach that took account of these parameters.

5.3 A number of respondents including NHS Employers drew our attention to the impact of tax relief on the level of contributions that members actually paid. On a gross basis, the original proposal distributed progressively higher increases linked to a member’s full-time equivalent (FTE) salary.

5.4 Looking at the 2011-12 contribution rates, when the effect of tax relief is taken into account (i.e. net of tax) this meant that higher rate taxpayers earning an FTE salary of £60,000 actually paid the lowest contribution rate at 3.9%. Those earning FTE salaries of £80,000 and £130,000 paid a lower net contribution than members earning FTE salaries of £25,000, £30,000 or £40,000. Several respondents made a similar observation:

“As most Midwives will be Band 6 and 7 their contribution rates net of tax relief will be 6.2% which means they will be paying a higher rate of contribution for their pension than some NHS employees that earn more”

Royal College of Midwives

“If the current proposal is implemented as it currently is, a person earning £25000 will be paying 5.7% and a person earning £60000 will be paying 5.1% in contributions. I think this needs to be addressed so that lower earners pay proportionally less than the higher earners.”

Scheme member

5.5 NHS Employers and several other respondents argue that there is a strong case for reconsidering the distribution of increases for 2012-13 (and for future increases in 2013-14 and 2014-15) on a net rather than a gross basis. This would facilitate, over the three year period to 2014-15, the Government objective to apply increases progressively - basing these on the actual burden that falls on members. We therefore agree with this conclusion.

5.6 Further, NHS Employers propose a small increase in the contribution paid by members within the £26,558 to £48,982 and the £48,983 to £69,931 bands. The savings yielded would be redistributed so as to remove the need for a contribution increase in 2012/13 for all members earning up to £26,557.

5.7 In developing the proposal, NHS Employers sought views from a range of NHS staff employing organisations and their representatives. In addition, both the Welsh NHS Employers Unit and Association of UK University Hospitals (AUKUH) signalled their support for this revised approach in their respective responses to this consultation.
“AUKUH supports a redistribution of employee contributions for 2012/13 designed to improve progressivity through the tiers and endorses the alternative rates being submitted in the NHS Employers response to the DH consultation.”

Association of UK University Hospitals

5.8 We consider that the NHS Employers proposal has merit and the effects are striking. The Government Actuary’s Department estimate that around 630,000 NHS staff, which is approx 48% of the total NHS Pension Scheme membership, would have no increase in 2012-13. This contrasts sharply with our original consultation proposal, which afforded full protection to staff earning up to £15,000, which equates to around 100,000 employees (7.5% of membership).

5.9 The following tables set out the original gross and net contribution rates, with the revised figures based on the NHS Employers proposal in brackets.

### 2012/13 Proposed increase in contributions (before tax relief)

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### 2012/13 Proposed increase in contributions (after tax relief)

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<td>£130,000</td>
<td>5.1%</td>
<td>6.5% (6.54%)</td>
<td>1.4 (1.44)</td>
</tr>
</tbody>
</table>
5.10 The revised proposal spreads the burden more fairly by narrowing the beneficial effect of tax relief. Lower and some middle earners are protected from increases thereby mitigating the risk of opt-out amongst those staff groups. We believe that this approach provides for a more truly progressive distribution of increases and if this approach was extrapolated for future increases in the period up to 2014-15, it would mean that the net contribution paid by those earning between £48,983 and £69,931 would be greater than that paid by members earning between £26,558 to £48,982.

5.11 This approach would be consistent with the Government’s three design principles which were - protect the low paid, apply increases progressively, and limit the level of opt-out that higher contribution rates may generate.

5.12 The Government Actuary’s Department has costed this new proposal and confirmed that it would deliver the required level of savings. The Department has published an Equality Analysis evaluating the proposal and is satisfied that this presents an appropriate way forward. This is available from www.dh.gov.uk.

5.13 We therefore intend to adopt this revised proposal as our preferred approach.
Conclusion & next steps

6.1 The substantial number of responses received demonstrates how important their pension arrangements are to NHS staff. We thank every individual and organisation for submitting their views.

6.2 The case for change still stands. The costs of pensions are increasing as people live much longer than previous generations. These additional costs have generally been funded by other taxpayers. This is unsustainable. There needs to be a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension. All members of public sector pension schemes, with the exception of the Armed Forces, are therefore being asked to contribute more for their pension.

6.3 However, in thinking through how to apply increases to member contributions, the Government has genuinely listened to constructive alternative proposals. We have modified the original consultation proposal in the light of recommendations made by NHS Employers and supported by the Association of UK University Hospitals and others. The following table sets out the final set of increases to member contribution rates. The intention is for these to be implemented with effect from 1 April 2012.

<table>
<thead>
<tr>
<th>Full-time 2010/11 pay</th>
<th>2010/11 contribution</th>
<th>2012/13 contribution</th>
<th>Contribution increase (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £15,000</td>
<td>5%</td>
<td>5%</td>
<td>0</td>
</tr>
<tr>
<td>£15,001 to £21,175</td>
<td>5%</td>
<td>5%</td>
<td>0</td>
</tr>
<tr>
<td>£21,176 to £26,557</td>
<td>6.5%</td>
<td>6.5%</td>
<td>0</td>
</tr>
<tr>
<td>£26,558 to £48,982</td>
<td>6.5%</td>
<td>8%</td>
<td>1.5</td>
</tr>
<tr>
<td>£48,983 to £69,931</td>
<td>6.5%</td>
<td>8.9%</td>
<td>2.4</td>
</tr>
<tr>
<td>£69,932 to £110,273</td>
<td>7.5%</td>
<td>9.9%</td>
<td>2.4</td>
</tr>
<tr>
<td>Over £110,273</td>
<td>8.5%</td>
<td>10.9%</td>
<td>2.4</td>
</tr>
</tbody>
</table>

6.4 Implementing increases to member contribution rates requires amendment of the legal framework that underpins the NHS Pension Scheme. In order to make changes to NHS Pension Scheme legislation, the Department has to prepare and submit a set of Regulations to Parliament for scrutiny and approval. The Regulations would set out the new rules and procedures that are to apply to the NHS Pension Scheme. Once approved by Parliament, the Regulations become law.

6.5 We have therefore produced a draft set of Regulations that will amend the NHS Pension Scheme legislation so as to apply the increased contributions. As is normal practice when preparing Regulations, a draft has been made available in order to allow interested parties to review their contents. A copy of the draft Regulations together with details of how to submit comments, can be downloaded from the NHS Business Services Authority website (NHS Pensions): www.nhsba.nhs.uk/pensions
Annex A
Original consultation proposal

Table 1: Proposed increases to contribution rates

<table>
<thead>
<tr>
<th>Full Time Equivalent pensionable pay</th>
<th>Contribution rate (before tax relief) 2011/12</th>
<th>Contribution rate (before tax relief) 2012/13</th>
<th>Contribution rate increase in 2012/13 (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £15,000</td>
<td>5%</td>
<td>5%</td>
<td>0</td>
</tr>
<tr>
<td>£15,001 to £21,175</td>
<td>5%</td>
<td>5.6%</td>
<td>0.6</td>
</tr>
<tr>
<td>£21,176 to £26,557</td>
<td>6.5%</td>
<td>7.1%</td>
<td>0.6</td>
</tr>
<tr>
<td>£26,558 to £48,982</td>
<td>6.5%</td>
<td>7.7%</td>
<td>1.2</td>
</tr>
<tr>
<td>£48,983 to £69,931</td>
<td>6.5%</td>
<td>8.5%</td>
<td>2</td>
</tr>
<tr>
<td>£69,932 to £110,273</td>
<td>7.5%</td>
<td>9.8%</td>
<td>2.3</td>
</tr>
<tr>
<td>Over £110,273</td>
<td>8.5%</td>
<td>10.9%</td>
<td>2.4</td>
</tr>
</tbody>
</table>

A further table was presented (table 2 below) illustrating 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

<table>
<thead>
<tr>
<th>Full-time 2010/11 pay</th>
<th>2011/12</th>
<th>2012/13</th>
<th>Additional cost (£ per month)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contribution rate net of tax relief</td>
<td>Contribution rate net of tax relief</td>
<td>Increase in contribution rate (percentage points)</td>
</tr>
<tr>
<td>£10,000</td>
<td>4%</td>
<td>4%</td>
<td>0</td>
</tr>
<tr>
<td>£15,000</td>
<td>4%</td>
<td>4%</td>
<td>0</td>
</tr>
<tr>
<td>£20,000</td>
<td>4%</td>
<td>4.5%</td>
<td>0</td>
</tr>
<tr>
<td>£25,000</td>
<td>5.2%</td>
<td>5.7%</td>
<td>0</td>
</tr>
<tr>
<td>£30,000</td>
<td>5.2%</td>
<td>6.2%</td>
<td>1</td>
</tr>
<tr>
<td>£40,000</td>
<td>5.2%</td>
<td>6.2%</td>
<td>1</td>
</tr>
<tr>
<td>£60,000</td>
<td>3.9%</td>
<td>5.1%</td>
<td>1.2</td>
</tr>
<tr>
<td>£80,000</td>
<td>4.5%</td>
<td>5.9%</td>
<td>1.4</td>
</tr>
<tr>
<td>£130,000</td>
<td>5.1%</td>
<td>6.5%</td>
<td>1.4</td>
</tr>
</tbody>
</table>
Annex B
List of organisational respondents

Ashford and St Peter’s Hospitals NHS Foundation Trust
Association of Anaesthetists of Great Britain & Ireland
Association of UK University Hospitals
British Dental Association
British Medical Association
Chartered Society of Physiotherapy
Federation of Clinical Scientists
Guild of Healthcare Pharmacists
GMB
Institute of Healthcare Management
Kingston Hospital NHS Trust
Managers in Partnership
NHS Employers
NHS Lincolnshire
NHS North West
North East Ambulance Service
Northern Ireland Public Service Alliance
Queen Victoria Hospital NHS Foundation Trust
Royal College of General Practitioners
Royal College of Midwives
Royal College of Nursing
Tees, Esk & Wear Valley NHS Foundation Trust
Union of Construction, Allied Trades and Technicians
UNISON
Unite
Universities & Colleges Employers Association
Welsh NHS Employers’ Unit

A further 8,754 responses were received from individuals