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Annex A

Current scheme benefits

Benefits	Options
1 Normal retirement age (NRA)	60, but members can continue in pensionable employment until age 70 Certain members employed prior to 6.4.95 retain a right to retire at 55.
2 Pensionable earnings	Basic pay plus allowances deemed to be pensionable up to full-time, overtime is not pensionable unless part-time
3 Pay for calculation	GPs and dentist: career average of pensionable earnings. All other members: best of the last 3 years' pensionable pay.
4 Relation to State Earnings Related Pension Scheme (SERPS)	Contracted out of SERPS – reduced NI contributions
5 Member's contributions	5% of pensionable pay for manual staff 6% of pensionable pay for non-manual staff Tax relief – contribution deducted prior to taxation real costs near 3.5% for a standard tax payer
6 Entitlement to benefits	Completion of at least 2 years' membership (or over age 60) $^{1}/_{80}$ of pensionable pay for each year of membership or for practitioners earnings uprated to current value times 1.4%
7 Pension	Membership: a. $^{Z}/_{80}$ x Pensionable pay = annual pension b. 3 x $^{Z}/_{80}$ Pensionable Pay = tax free lump sum where Z is years of service GPs and dentists: a. 1.4% of all career uprated earnings = annual pension b. 4.2% of all career uprated earnings = tax free lump sum
8 Benefits for early leavers	Ill-health – from any age with minimum of 2 years' membership Redundancy – from age 50 with minimum of 5 years' membership (excluding practitioners)

Current scheme benefits continued

Benefits	Options
9 Voluntary early retirement	• From age 50 • Accrued pension reduced to meet cost of early payment, or • Accrued pension unreduced (employer can choose to meet the cost) - option not available to GPs and Dentists
10 Ill-Health enhancement Accrued Membership a. 2 to 5 years b. 5 to 10 years c. More than 10 years	Increased to compensate for involuntary early retirement a. No enhancement b. Membership doubled [1] c. Greater of: • service enhanced to 20 years [1] • extra 6 ²⁄₃ years' membership [2]
11 Redundancy enhancement	Increased to compensate for early retirement • option not available to GPs and dentists • employer meets cost of enhancement and early payment
12 Accrued membership a. less than 10 years b. 10 years or more	a. Membership doubled [1] b. 10 years maximum
13 Death in Service a. lump sum b. spouse's pension c. child allowance	a. 2 x annual pensionable pay – tax free b. 50% of member's pension based on enhanced pension [4] c. 25% of members pension based on enhanced pension for each child up to a maximum of 50% [5]
14 Death in retirement a. lump sum b. spouse's pension c. child allowance	a. 5 years' pension less pension and lump sum already paid b. 50% of member's pension [4] c. 25% of member's pension based on enhanced pension for each child up to a maximum of 50% [5]
15 Allocation: giving up part of a pension	Members can choose to allocate up to ¹⁄₃ of their pension for a dependant, but is irrevocable [6]

[1] Subject to a maximum enhancement of the potential membership to 65

[2] Subject to a maximum enhancement of the potential membership to 60

[4] Only membership from April 1988 accrues for widower's benefits. Additional contributions may be paid to improve these contingent spouse's pensions. Certain short-term (up to 6 months) spouse's pensions may be paid in addition.

[5] Allowance may increase if there is no surviving parent or alter if there are children to more than one partner.

[6] Subject to a medical to prove good health. Cost depend on age difference between scheme members and recipient.

Current scheme benefits continued

Benefits	Options
16 Refund and preservation	Refund • Less than 2 years membership, member's contributions refunded. Deductions include 20% 'tax charge' and an amount to buy employee back into the state scheme. Overall refunds generally amount to the net contributions paid into the Scheme [7] Preservation • 2 years or more membership, benefits are preserved in the Scheme and increase in line with Retail Price Index (RPI), payable from age 60
17 Increasing benefits	Overall contributions cannot exceed • 15% of pensionable pay in any one year • pension benefits must not exceed ⅔ of gross pensionable pay at retirement Different methods available: a. purchase of additional membership b. money purchase added voluntary contributions (AVCs) c. Stakeholder pensions d. free standing added voluntary contributions (FSAVCs)
18 Purchasing added years	Purchase by: a. single lump sum payment [8] b. additional contributions [9]
19 Money Purchase AVC	The NHS Scheme offers a choice of providers • Additional Contributions are invested in a fund which is used to buy an annuity at retirement
20 Stakeholder pension	The NHS Scheme offers a choice of stakeholder providers a. no employer contribution b. charge of 1% or less on person's fund c. maximum annual contribution of £3,600 d. 25% of fund may be taken as a lump sum
21 Free Standing AVC	Independently arranged outside scheme

[7] Less than 2 year and over 60 entitlement to benefits
[8] Subject to purchase within the first year of scheme membership and an overall maximum of 40 years membership
[9] Subject to an overall maximum scheme membership of 40 years and a contract of 2 years minimum

Current scheme benefits continued

Benefits	Options
22 Transfering pension benefits into the NHS Pension Scheme	Application within 12 months of joining the NHS Scheme and before age 60 Acceptable from: a. occupational pension scheme b. personal pension [10] c. annuity contract [10]
23 Transfering pension benefits outside the NHS Pension Scheme	Application after leaving the Scheme and under age 60 Acceptable to: a. occupational pension scheme b. personal pension [10] c. annuity contract [10]
24 Non-NHS employments – application for 'direction' status	Non-NHS employers may be allowed to operate the NHS Pension Scheme in respect of ex-NHS employees Criteria • status is approved under Section 7(1) or 7(2) of the Superannuation (Miscellaneous) Act 1967 • charitable or voluntary bodies providing health care • employees who have contributed to the NHS pension scheme during the previous 12 months • application to retain membership should be made within the first 3 months Early retirements are not included in the provisions but employers have the option to make equivalent payments [11] Direction employees typically include: • hospices • Voluntary Service Overseas • Care in the Community

[10] Approval under Section 620 (formally 226) of the income and Corporation Taxes Act 1988 are not acceptable
[11] Funded employer retirement include Redundancy and employer agreed Voluntary Early Retirements

Annex B

The review process

Initial ideas were developed in a Reference Group with a wide range of staff and management representation, including representatives from other public service pension schemes to provide a wider perspective. Reference Group discussions covered: aims and values, survivor benefits, building a pension, taking a pension and transition issues. A special session was held to discuss issues around raising the normal pension age (NPA) to 65.

The ideas emerging from the Reference Group were turned into options for assessment and approved by the Steering Group. The options were scoped by a Technical Advisory Group (TAG). To carry out the analytical work for the Review, the project team engaged the services of the Government Actuary's Department (GAD). In addition, an independent actuarial adviser was appointed by competition from First Actuarial, who supported and advised the joint Technical Advisory Group on a range of issues, including best practice in the public and private sectors, detailed impact analysis of the options and the costs. As well as the options papers, the project team commissioned further work that explored the policy and administrative implications of the options for change.

In addition views were gathered from a wider group of stakeholders:

- nine NHS Confederation member seminars were held, which followed a similar theme to the joint Reference Group seminars. Attendees included staff-side representatives as well as managers from NHS trusts
- presentations were also provided for a number of local SHRINE (human resource) networks, national conferences and to other analogous pension schemes
- six NHS Confederation Briefings have been produced and widely distributed. In response to these and a briefing note distributed with pay statements, over 1,000 e-mails and letters have been received. The main issues raised in these responses were concerns about raising the normal pension age to 65 and the position of mental health officers (MHOs).
- a staff survey was conducted (details in section 5).

Decisions on the options thus developed were made by the Steering Group and are reflected in this document. The chart below sets out the process.

The process

Joint Reference Group
Provide advice/feedback

↓

Project Team
Support the review process
Develop proposals

↓

Joint Technical Advisory Group
Commission and appraise analytical work
Advise on technical issues and costs

↓

Joint Steering Group
Decision making body
On options for change

A summary of the feedback from the joint Reference Groups and NHS Confederation member seminars is available on the NHS Employers website, www.nhsemployers.org. The work produced by the Technical Advisory Group is also available on the website. This forms the analytical underpinning to the Review.

NHS Pension Scheme review

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Annex C

Costings of current package and possible changes for new members

Basis for Costings

Benefit costings in this consultation document have been produced by the Government Actuary's Department based on the most recent valuation of the NHS Pension Scheme as at 31 March 1999, albeit with different assumptions being adopted where appropriate. The costings have been scrutinised by the Technical Advisory Group (TAG) to the review and by an independent actuary. Further detail on the figures and the assumptions adopted are available in a series of TAG papers which can be accessed from www.nhsemployers.org.

The Review undertook two sets of costings. The first is for new NHS staff from 2006 who under the Government's proposals will have a normal pension age (NPA) of 65. The second is for existing NHS staff, who under the Government's proposals will have protection under their current terms until 2013. Baseline costings were established for both groups. Then the costs of various benefit improvements for each group were assessed. The results are set out below. Table IA shows a package of improvements for new entrants which might fall within the cost envelope, and Table IB shows improvements for new entrants which might not fall wthin the envelope. The costings for existing members are set out in annex G.

Costings of potential benefit changes are expressed as a percentage of pensionable pay. They have been calculated separately for new staff and for existing staff and have been calculated on the basis of a normal pension age (NPA) of both 65 and 60. The baseline costs of the current scheme benefits for new and existing members are set out in the table below. The costs for both existing staff and new entrants have been based on the 1999 valuation assumptions, except that new entrants costs include allowance for some further projected improvements in longevity meaning that their pensions are expected to be be in payment for longer(and except where the benefit to be costed is such that new assumptions are required).

There is a general right to retire at 60 without reduction of benefits but also included are the costs of those NHS staff in special class groups with the right to retire at 55 without reduction of benefits and those with Mental Health Officer (MHO) status. This right was removed for new staff in 1995. The new entrant costs are shown with a normal pension age of both 60 and 65.

It can be seen that the difference in costs between a scheme for new entrants with an NPA of 65 and an NPA of 60 is calculated at 1.3% of pensionable pay. This represents the savings from moving to a NPA of 65. The costs at NPA60 are based on current scheme costs. These (and the new entrant NPA60 costings) are based on the actual average retirement age for those with the right to retire at 60 of slightly below 63.

Table: Costs of current benefit package

Benefit Category	New Members NPA 65	New Members NPA60	Existing Members
Member's normal retirement and withdrawal benefits	11.0%	13.6%	13.5%
Member's Benefits on ill health retirement	4.6%	3.4%	4.5%
Spouse's Benefits	1.0%	0.9%	1.3%
Lump Sum Death benefits	0.3%	0.3%	0.3%
Total	**16.9%**	**18.2%**	**19.6%**

Ill health costs are the total cost of pension benefits for those that retire on ill health pensions and not just the increased costs attributable to ill health retirement.

The actual contribution rate paid of 20% is 0.4% higher than the assessed baseline rate of 19.6%

The costs for existing NHS staff are a mix of those with the right to retire at 60 and 55.

Existing staff have a different demographic profile from new entrants, and the new entrant costings also reflect more projected future longevity mprovements than those for existing members.

IA. Table of package of proposed changes which might fall within the cost envelope for new entrants from 2006

Description	Cost	Comments
Baseline cost	16.90%	See TAG02 – NPA65, reflects no upper limits on service, no short-term pensions on death but covers same sex registered partners
Provide lifelong survivor pensions to eligible unmarried & unregistered partners and remove cessation on remarriage of widow(er)s	0.25%	See TAG01
Increase accrual rate to 1/60 with commutation at 12 for 1	0.80%	See TAG03. The maximum cash lump sum is that set out under the Inland Revenue simplification regime

Description	Cost	Comments
Provide end career flexibility of pensionable reemployment, partial draw down and actuarial enhancement after NPA	0.05%	This is principally the deadweight cost of those assumed to retire after age 65 in any event
Standardise end date for children's survivor pensions to 23	De minimis	Currently the end date varies according to time spent in higher education. NB this is affordable but not a joint recommendation
Provide an additional one times salary life cover for members without eligible partners	De minimis	See TAG06 (but based on partner assumptions set out in TAG01).
Increase the period for short term spouses pensions payable on death in service to six months in all cases	De minimis	Currently only spouses with dependent children receive six months pension at the level of pensionable pay. For technical reasons, this benefit was not included in the baseline. If it had been, the cost would have been de minimis as in the case of existing members.
Allow multiple nominees for death benefits	Nil	Administrative issues for Trusts/ NHS Pensions Agency
Protected Step Down.	Nil if paid for by either the employee alone or with the employer, de minimis if met from the scheme	This includes extension of the current protection arrangements so that staff can choose to step down and have their pension up to the point of stepping down calculated on pensionable pay at that point. If met by employers and/or employees, contributions would continue to be paid at the higher protected salary. The employer would have discretion to pay the additional employers contribution as a retention incentive. Otherwise the staff member would have to pick up the full employer and employee contributions. If met by the scheme, costs would arise to the extent that staff who would otherwise have left stay on in a lower paying post, so leading to an increase in the average age of the scheme. The extent of any such behavioural change is unknown, but the review team has indicated that they expect it to be low. If the proportion of payroll attributable to those over age 50 rose by 5% as a result, the cost would be de minimis.

Description	Cost	Comments
Changed Abatement Formula	To be De minimis	The review intends to devise an abatement formula based around only abating enhancements which leads to a minimal cost increase to the scheme.
Packaging costs, rounding effects and summation of de minimis items	De minimis	Few material interacting changes
Total cost	18.00%	

IB. Table of possible individual changes unlikely to fall within the cost envelope for new entrants from 2006

Description	Cost	Comments
Improve accrual rate for survivors' pensions to $^1/_{120}$	0.40%	Covers spouses, same sex registered partners and unmarried unregistered eligible partners – see TAG03
Provide an additional one times salary life cover for all members	0.15%	See TAG06
Extend reference period for final salary calculation to best of last ten years	0.10%-0.20%	See TAG08 - including some allowance for pay patterns not following those of sample analysed
End Abatement	0.1%	
5% contribution rate for all staff in Agenda for Change Bands 1&2	0.05%	Net of the saving achieved by ceasing to recruit into the manual category.
Provide a year's free accrual to those on approved career break (50% take up assumed)	1.00%	Assumes 50% take-up – see TAG07

Technical Advisory Group (TAG papers) are available on the NHS Employers website, www.nhsemployers.org.

Annex D

Staffside view on financial framework

The NHS Pension Scheme represents a key benefit for NHS career staff and embodies a promise of a level of pension benefits. The staffside partners believe it is a betrayal of trust for this promise to be reduced on account of an imposed cash limit on its cost and that employer contributions above the level of 14% of salary are justifiable relative to the cost of similar final salary pension schemes provided by private sector companies.

While it is accepted that the cost of the Scheme's benefits are rising due to employees living longer, they do not accept that this unfunded scheme faces the same degree of problems that funded private sector schemes do in respect of poor investment returns and financial deficits.

Staffside partners therefore do not accept the Government approach that any benefit improvements resulting from the Review can only be financed out of savings resulting from an increase in the normal pension age. They also do not accept the longer-standing policy, which this extends, of insisting that any benefit improvements should be paid for entirely by higher employee contributions.

The current Scheme incorporates elements of discrimination in its benefit provision which are morally objectionable, most notably the denial of dependants' pensions to unmarried partners and the limitation of dependants' pensions for widowers to pension rights earned after 1988. They believe the costs of remedying these injustices should be paid through higher employer contributions. They should not be paid by Scheme members, whether collectively out of pension age savings or individually by affected individuals having to sacrifice part of their own pension or pay extra contributions.

Staff-side partners believe that all savings arising out of any increase in normal pension age should be reinvested in improving other benefits of the Scheme. If this is not the case then the Review will amount to a pay cut for NHS staff and important opportunities will be lost to remedy deficiencies in the Scheme and to make changes that will provide real encouragement in the form of better pension to those who extend their careers in the NHS.

The financial framework insisted upon by the Government has the effect of denying access for existing members to flexibilities in respect of drawing pension benefits that are crucial to encouraging employees to extend their NHS careers or to return to NHS employment after retirement. These flexibilities will only be accessible to staff who give up rights to maintain the current normal pension age. This is an unfortunate and perverse result, as clearly the Government's priority should be to extend encouragement and flexibility to older existing employees if it wishes to maximise the retention of the older workforce.

The staffside Review partners believe that the way in which the savings deriving from a higher pension age are calculated is unfair and that this results in the compensatory benefit changes suggested being inadequate. At the present time large numbers of staff opt voluntarily to continue working after their normal pension age and this reduces substantially the cost of providing the pension benefits they have earned. The Government approach insists on taking advantage of this saving by saying that the saving from a higher normal pension age is the difference between what the Scheme actually costs now and what it would cost at the higher pension age.

This approach denies all NHS staff the opportunity of fair recompense for the reduction in the value of their individual benefit rights, due to their option of retiring with a full pension at their current normal pension age being replaced by an option to retire at a higher pension age in future. If savings were calculated by reference to the reduction in the value of members' rights then the savings associated with an increase in normal pension age would be 50% higher than the figure on which the Review's consultation proposals are based.

A further problem with the way in which savings are calculated is that they are reduced substantially by additional costs which the Scheme incurs in providing ill-health pensions and death in service benefits that result directly from the imposition of a higher pension age. This has an even larger effect in terms of reducing the savings from an increase in a normal pension age, but the money here at least recycles into providing benefits to the minority of members of the Scheme affected by these contingencies. What it does bring into question is the wider case for raising the normal pension age as a means of reducing the cost of the Scheme and it suggests that for a significant proportion of NHS staff a higher pension age would be associated with adverse health problems.

Annex E

CARE comparisons

Brief commentary for NHS Pension Scheme Review on final salary versus career average benefit design

Benefits Structure

Final salary schemes promise a level of benefits based on salary at retirement or leaving.

Career Average Revalued Earnings (CARE) schemes promise a level of benefit based on average salary over a career. Earnings from years before retirement or leaving are revalued so they keep their real value. The suggested CARE scheme for the NHS will revalue prior year earnings in line with salary inflation as measured by National Average Earnings (NAE) increases.

Accrual Rates

CARE benefits, being based on an average salary over a career will tend to be based on a lower pensionable salary, so a CARE scheme can have a higher accrual rate than a final salary scheme and still cost the same amount of money to provide.

For comparison purposes, the figures below assume a final salary accrual rate of $^1/_{60}$ (or 1.67%).

The proposal is that a CARE scheme for the NHS, equivalent in cost (on the current costing basis) to a $^1/_{60}$ final salary accrual, would have an accrual rate of 1.8% which is midway between a $^1/_{55}$ and a $^1/_{56}$ accrual rate.

In both cases, there is no automatic accrual of lump sum although members may commute, or give up, pension in exchange for a lump sum at the rate of £12 cash for every £1 per annum of pension given up.

Pensionable earnings

In final salary schemes (including the NHSPS), elements of pay such as overtime tend to be excluded from pensionable pay. As such earnings tend to reduce as employees approach retirement, including them as pensionable would mean that employees would pay contributions on overtime earnings but not receive benefits on them. It is usual under a CARE scheme for all earnings to be pensionable including elements such as overtime. As benefits are based on average revalued earnings over a career, overtime earnings do contribute to the total pension benefit.

Example benefits

The tables below shows example benefits for two different careers. The careers are short to make the numbers manageable but the principles apply over longer periods. All the numbers are expressed in today's prices (in other words assuming price inflation is zero) but assume that National Average Earnings increases will be at 1.5% per annum. It is this general earnings growth which sets the revaluation factors and not the rate at which the employee's earnings grow.

Employee with flat earnings

Year	Earnings	Revaluation Factor	Revalued Earnings
1	£15,000	1.08	£16,200
2	£15,500	1.06	£16,430
3	£15,750	1.045	£16,459
4	£16,100	1.03	£16,583
5	£16,500	1.015	£16,747
6	£17,000	1	£17,000
Average Revalued Earnings			£16,570
Final Salary Pension	= $^1/_{60}$ x 6 x £17,000 **= £1,700**		
CARE Pension	= 1.8% x 6 x £16,570 **= £1,790**		

Employee with rising earnings

Year	Earnings	Revaluation Factor	Revalued Earnings
1	£15,000	1.08	£16,200
2	£15,500	1.06	£16,430
3	£17,000	1.045	£17,765
4	£18,000	1.03	£18,540
5	£20,000	1.015	£20,300
6	£25,000	1	£25,000
Average Revalued Earnings			£19,039
Final Salary Pension	= $^1/_{60}$ x 6 x £25,000 **= £2,500**		
CARE Pension	= 1.8% x 6 x £19,039 **= £2,056**		

In these particular examples, CARE benefits tend to be better then final salary for those with flat salaries. Conversely, final salary benefits are better for those who have more steeply rising salaries.

Within the Agenda for Change pay structure, CARE would tend to be better for:

1 Those who remain in the same pay band throughout their career (especially for those who join at a young age)

2 Those who stay to retirement, receiving one promotion to a higher pay band very early in their career but then are on the same earnings level for the rest of their career

Those who have significant overtime earnings if these were pensionable under CARE

Conversely, final salary tends to be better for:

1 Those with promotional pay increases over the course of their career – including those who move over three or more pay bands

2 Those who are promoted late in their career.

For members who do not fall within either of these groups, the comparison is less predictable with final salary being better sometimes and CARE other times depending on the timing of the career progression.

Risks

A CARE scheme can significantly reduce the risks in the scheme, meaning the risk of the cost of the scheme escalating. This is because the possibility of an employee's salary increasing near retirement and so substantially affecting past service liabilities is removed. Once an individual has earned salary in one year, those benefits are fixed in real terms – that is they may revalue each year but they will not be affected by that employee's particular career path.

Examples

The next sheets show some example careers and compares the pension they would receive under:

a) a final salary scheme where the pension accrues at 1.67% (or $^{1}/_{60}$) per annum, and

b) a CARE scheme where the pension accrues at 1.8% (or approx $^{1}/_{56}$) per annum.

The pensions shown are payable at age 65. Figures are expressed in today's earnings terms.

The examples show the benefits over an NHS career up to retirement. In practice, many scheme members leave before reaching retirement.

The examples assume no difference in the pensionable pay definitions under the final salary and CARE options. If pay which is currently non-pensionable under the final salary scheme were to become pensionable in a CARE arrangement, this could make the CARE option more attractive for those with high non-pensionable earnings early in their careers.

The examples show various career paths within the NHS based on Agenda for Change or current doctor pay scales. There are no examples for GPs or Dentists who are already pensioned by the CARE method as it is proposed that a CARE basis is retained for these groups.

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Example career paths and benefits earned

Career – Grade and Earnings History	Part Time Hours	Final Pensionable Salary	Final Salary Benefits at 65	CARE Benefits at 65
Band 4 to 8b Member Full Time Age 21: Band 4, £15,504 Age 28: Band 5, £19,180 Age 31: Band 7, £26,106 Age 38: Band 8a, £33,298 Age 42: Band 8b, £38,786	Full Time Throughout	Top of Band 8b: £47,949	£35,200	£28,800
Band 5 to 8c Member Full Time Age 21: Band 5, £18,114 Age 30: Band 6, £24,401 Age 36: Band 7, £30,155 Age 40: Band 8b, £38,786 Age 42: Band 8c, £46,471	Full Time Throughout	Top of Band 8c: £57,539	£42,200	£33,100
Band 5 to 6 Member Full Time Age 21: Band 5, £18,114 Age 26: Band 6, £24,401	Full Time Throughout	Top of Band 6: £29,302	£21,500	£21,600
Band 5 to 6 Member Full Time Age 21: Band 5, £18,114 Age 30: Band 6, £24,401	Full Time Throughout	Top of Band 6: £29,302	£21,500	£21,500
Band 5 to 6 Member Full Time Age 21: Band 5, £18,114 Age 46: Band 6, £24,401	Full Time Throughout	Top of Band 6: £29,302	£21,500	£19,800
Band 5 to 6 Member Full Time Age 25: Band 5 £18,114 Age 55: Band 6 £24,401	Full Time Throughout	Top of Band 6: £29,302	£19,500	£17,200

Example career paths and benefits earned continued

Career – Grade and Earnings History	Part Time Hours	Final Pensionable Salary	Final Salary Benefits at 65	CARE Benefits at 65
Band 5 to 6 Member Full Time Age 30: Band 5 £18,114 Age 60: Band 6 £24,401	Full Time Throughout	Near to top of Band 6: £27,917	£16,300	£14,500
Band 5 to 6 Member Part Time with Breaks Age 18: Band 5, £18,114 Age 40: Band 6, £24,401	Age 18: Full Time Age 28: Career Break Age 33: 50% Hours Age 37: Full Time	Top of Band 6: £29,302	£19,500	£18,800
Band 5 to 6 Member Part Time with Breaks Age 23: Band 5, £18,114 Age 27: Band 6, £24,401	Age 23: Full Time Age 30: Career Break Age 32: 50% Hours Age 34: Career Break Age 36: 50% Hours Age 46: Full Time	Top of Band 6: £29,302	£15,600	£15,600
Band 5-7 Member, Part Time with Breaks Age 23: Band 5, £18,114 Age 27: Band 6, £21,630 Age 40: Band 7, £30,155	Age 23: Full Time Age 30: Career Break Age 32: 50% Hours Age 34: Career Break Age 36: 50% Hours Age 46: Full Time	Top of Band 7: £34,417	£18,400	£17,500
Band 5 Member Full Time Age 21: Band 5 £18,114	Full time throughout	Top of Band 5: £23,442	£17,200	£18,100
Band 2/3 Member, Part Time with Break Age 23: Band 2, £11,508 Age 36: Band 3, £14,598	Age 23: Full Time Age 30: Career Break Age 33: 50% Hours Age 43: Full Time	Top of Band 3: £15,877	£9,000	£9,200

Example career paths and benefits earned continued

Career – Grade and Earnings History	Part Time Hours	Final Pensionable Salary	Final Salary Benefits at 65	CARE Benefits at 65
Band 5-7 Member, Full Time Age 21: Band 5, £18,114 Age 27: Band 6, £21,630 Age 36: Band 7, £30,155	Full Time Throughout	Top of Band 7: £34,417	£25,200	£24,000
Band 3-4 Member Full Time Age 34: Band 3, £13,266 Age 41: Band 4, £16,463	Full Time Throughout	Top of Band 4: £18,647	£9,600	£9,800
Band 4 Member Full Time Age 45 Band 4 £15,504	Full time throughout	Top of Band 4: £18,647	£6,200	£6,500
Band 3 Member Full Time Age 55 Band 3 £13,266	Full time throughout	Top of Band 3: £15,877	£2,600	£2,700
Full time Consultant Age 24: PRHO: £19,703 Age 25: SHO: £24,587 Age 28: Specialist Registrar: £28,875 Age 33: Consultant; £69,243	Full time throughout	Point 8 with 12 CEAss: £126,441	£86,400	£63,000
Part time Consultant Age 24: PRHO: £19,703 Age 25: SHO: £24,587 Age 28: Specialist Registrar: £28,875 Age 40: Consultant (no on call): £67,133 Age 45: Consultant: £81,004	Age 24: Full time Age 30: Career break Age 33: 50% hours Age 40: 75% hours Age 45: Full time	Point 8 with 10 CEAs: £121,037	£67,100	£46,000
Associate Specialist Age 26: SHO: £24,587 Age 35: staff Grade: £34,734 Age 44: Associate Specialist: £47,510	Full time throughout	Associate Specialist: £66,180	£43,000	£34,700

Annex F

Inland Revenue Tax Simplification Proposals

The tax simplification proposals, which are due to come into operation in April 2006, introduce a greatly simplified tax regime for pension arrangements and more flexibility in the form that benefits can be taken. The Finance Act 2004 that introduces the changes represents the most thorough overhaul of the tax treatment of UK schemes since 1921. The changes introduce one set of rules covering occupational pension and personal pensions. Benefits and contribution limits generally are to be replaced with allowances, in particular the individual lifetime allowance and an annual allowance.

There is no restriction on what can be saved for retirement within registered pension schemes but tax charges will be levied where contributions or benefits exceed the permissible allowance. Members will be able to contribute to any number of registered pension arrangements at the same time. Annual tax relief on personal contributions will be given on the higher of £3,600 and 100% of UK earnings. Personal contributions in excess of that limit will not attract tax relief. There will be no limit on employers contributions.

Schemes will no longer need to seek formal approval from the Inland Revenue. A new registration process will require new schemes to submit a form with core registration information. Existing approved schemes will automatically be registered under the new regime.

Lifetime Allowance (LTA)

There will be a maximum amount for all forms of registered pension saving, known as the lifetime allowance. The limit is the total capital value of a member's pension and lump sum benefits from all registered pension schemes. The limit is £1.5 million for the tax year 2006/07. Funds will be tested against the LTA at each benefit vesting event.

The LTA will be increased in stages to £1.8 million in 2010/11. The basis for its indexation beyond that date will be reviewed, maybe on the basis of RPI or earnings.

The current earnings cap (£102,000) and existing limits on benefits will no longer apply.

At each vesting event, part of the individual's LTA is used up. Pension Benefits must be valued according to the rules outlines below in order to determine the amount of LTA available after each vesting.

- Where lifetime annuities are purchased, the value of the fund will be used. This covers money purchase arrangements including cash balance.
- For scheme pensions, a standard factor of 20 will be used to value the annual pension and any lump sum benefit (whether accrued separately or via a commutation). Therefore the capital value will be the starting annual amount of the pension times 20, plus the amount of any lump sum. This applies to accrued rights not yet in payment.
- For scheme pensions in payment at A Day (6 April 2006), the standard factor will be 25 to allow for lump sums assumed to have been taken at retirement. Therefore, the capital value for a pension in payment will be the annual rate of pension times 25.
- Each amount previously claimed must be adjusted in line with the increase in the standard lifetime allowance over the period between the previous and current benefit claims.

Example

For a member with a pensionable salary of £120,000 with 40 years membership in the current NHS scheme, the capital value is:

Pension	£60,000 x 20	=	£1,200,000
Lump Sum		=	£180,000
Pension Pot			£1,380,000

Transitional Protection

Transitional protection has been provided for those people who have accrued rights under the existing tax regimes that are greater or are likely to be greater, than those that will be tax exempt under the new regime.

There are two forms of transitional protection for pension rights which have been built up before A Day (6 April 2006):

Primary protection can only be used if the individual member's benefits from all registered schemes are greater than £1.5m at A Day. Benefits are also subject to a test against the current (pre-A Day) revenue limits. The value of those pre-A Day benefits becomes the individual's lifetime allowance which increases in line with increases in the standard lifetime allowances. Further benefits can be accrue under primary protection, but will be subject to the lifetime allowance charge.

Enhanced Protection is available to any individual with benefits accrued at A Day. It will allow the value of pre-A Day rights to be linked to movements in earnings (for defined benefit schemes), the greater of 5% or the RPI (for cash balance schemes) or investment growth (for money purchase schemes). Enhanced protection removes the lifetime allowance charge.

However, this is subject to several important conditions.

Benefits at A Day are also subject to a test against the current pre A day Revenue limits.

No further benefits can accrue, nor can contributions be paid into any registered pension scheme after 6 April 2006.

There are restrictions on final pensionable salary. For members who were subject to the post 1989 earnings cap regime, pensionable salary must not be more than either the best 12 months' earnings in the three years before first taking scheme benefits, or 7.5% of the LTA, if this is lower.

For members who were not subject to the post 1989 earnings cap regime , pensionable salary must not be more than:

- The best 12 months' earnings in the three years before first taking benefits, if this is less than 7.5% of the LTA

  or

- Their average salary over the three years prior to first taking benefits, if this is more than 7.5% of the LTA

Slightly different arrangements will apply to Public Service Schemes like the NHS; in particular the 7.5% limit will not apply. However, the precise details have yet to be confirmed.

Individuals will normally have until 5 April 2009 to make their decisions and register their pre 6 April 2006 accrued benefits. However, if they wish to register for enhanced protection then benefits accrual must stop by 6 April 2006.

There will be an option to go back to primary protection provided the individual has registered for it but this must be exercised by 6 April 2009.

Individuals can register for both forms of protection, if appropriate.

Annual Allowance (AA)

In addition to the lifetime allowance, there will also be an annual limit on the increase in the value of registered pension saving, known as the annual allowance. The annual allowance will not apply in the tax year during which the member becomes entitled to all their benefits, or in the year of their death.

The annual allowance will at first be set at £215,000 and will rise to £255,000 by 2010/11. The basis for indexation beyond that date will be reviewed, maybe on the basis of RPI or earnings.

The annual allowance will apply to:

- Contributions made by the member to money purchase arrangements (including money AVCs) and by the employer.
- Increases in the capital value of defined benefit pensions (including added year AVCs) and lump sum for active members, whether due to pensionable pay increases, normal accrual or augmentation
- For cash balance schemes, increases in the capital value of cash balance benefits above the greater of 5% or the RPI.

The following will not count towards the AA:

- Contributions for death in service benefits (unless part of the "ordinary" contribution to a money purchase arrangement)
- Any member contributions not qualifying for tax relief

The total pension amount in each year is tested against the AA.

For money purchase arrangements, (other than cash balance arrangements), the pension input amount is the value of contributions paid during the year (subject to the exemptions)

For other arrangements, the pension input amount is the difference between the benefit accrued at the end of the year and the benefit accrued at the start. To determine the value of the difference, pension benefits must be valued according to the following rules.

- The annual increase in defined benefit arrangements, including any "added years" AVCs, is valued using a standard factor of 10.
- Cash balance arrangements are valued as the difference between the value at the beginning of the year, uprated by the greater of 5% or RPI, and the value at the end of the year.

Example of an Annual Allowance test for a Defined Benefit Scheme ($^1/_{60}$ accrual)

Service and Pensionable salary at 5/4/06	35 years	£90,000
Service and Pensionable salary at 5/4/07	36 years	£120,000
Accrued Pension at 5/4/06		£52,500
Accrued Pension at 5/4/07		£72,000
Increase in Pension		£19,500
Deemed value of Increase = £19,500 x 10 =		£195,000

This is below the annual allowance of £215,000 for 2006/07 so no tax liability arises in this relatively extreme example.

Pension Age

The minimum Pension Age at which benefits can be taken, other than in the event of ill health is currently 50 but this will rise to age 55 from 6 April 2010.

Those in registered pension schemes who at 5 April 2006 have an actual or prospective right under the pension scheme to draw a pension before 55, which was documented before 10 December 2003, may keep that right. However, they must draw their pension fully and leave employment.

Drawdown (Flexible Retirement)

It will be possible to claim benefits (whether wholly or partially) while remaining in the same employment and continuing to accrue future benefits in the same scheme, before or beyond normal pension age.

Lump Sum

Lump sums of up to 25% of the Revenue's definition of the capital value of the pension up to the lifetime allowance can be paid tax free from registered schemes. This means (ignoring transitional protection) the maximum tax free lump sum available will be £375,000 at 6 April 2006. Entitlement to lump sums in excess of £375,000 at 5 April 2006 can be protected but no further lump sum entitlement can accrue in respect of service after that date.

Trivial Commutation

If the member's total funds from all registered schemes are less than 1% of the lifetime allowance, all benefits may be commuted. The member may choose to commute only between age 60 and 75, all benefits must be removed from all schemes and commutations must be completed within a 12 month period.

25% of the trivial commutation sum will be tax-free and remainder will be taxed as income.

Divorce

For pension sharing orders that are implemented after A Day, pension credits will count towards the recipients lifetime allowance. Both debits and credits are ignored for the purposes of the annual allowance.

For pension sharing orders that were implemented before A Day, the value of any pension shared will be ignored for the purposes of both parties' lifetime allowances.

Taxation

Recovery Charge - Excess over the Lifetime allowance if taken as a pension, will be subject to a lifetime allowance charge of 25% at the time benefits are vested. The individual will then pay income tax on their pension, giving an effective tax rate, for a higher rate taxpayer, of 55%. If the benefit is taken entirely as a lump sum, the lifetime allowance charge is 55%.

Excess over the annual allowance is charged to the individual at a rate of 40% and dealt with via self assessment. There is no charge if the member dies before the end of the tax year or becomes entitled to all their scheme benefits.

Lump sums paid on death before benefits are taken are free of up to the lifetime allowance. Any part of the non vested pension pot paid as dependant's pension escapes being tested against the lifetime allowance.

Lump sum death benefits after pension payments begin are taxed at 35%.

Lump sum payments of up to the lower of 25% of the pension pot or the lifetime allowance are tax free. Higher sums accrued to A Day may be protected.

Refund to scheme members known as short service refunds will be taxed at 20% up to £10,800 and 40% of the excess.

Annex G

Costing of possible changes for existing members

IIA Table of package of proposed changes which might fall within the cost envelope for existing members in 2006 who decide to remain in a closed scheme

Description	**Cost (saving)**	**Comments**
First: changes with effect from April 2006		
Increase lump sum available to the 25% maximum permitted under IR rules: commutation rate £12 for every £1 of pension forgone to obtain additional lump sum	(0.40%) past service plus (0.10%) in respect of period from 2006 to 2013	On the assumption that the average lump sum taken is as under the central commutation assumption in TAG04, this would generate a saving. Includes both closed and open groups. The saving relates to past service and the 7 years of future service from 2006 to 2013.
Late retirement factors for staff who work beyond current average retirement age (or at an equivalent cost) on an increasing sliding scale from age 60.	0.35%	One option would be to offer nearly actuarially neutral late retirement factors around the current actual average retirement age of nearly 63 for the open groups. Another would be to offer lower factors to those working beyond the current normal retirement age. Any factor would have to balance the deadweight costs of the current experience of those working beyond average retirement age with the gain from the expected number who would work longer to increase their pension. Costed for open groups only (but costs expressed in terms of total pay). Costs include past service to 2006 and future service from 2006 to 2013. Actual factors to be determined give nil net cost of 2006 changes shown below.

Description	Cost (saving)	Comments
Protected step down.	Nil if paid for by either the employee alone or with the employer, de minimis if met from the scheme	This includes extension of the current protection arrangements so that staff can choose to step down and have their pension up to the point of stepping down calculated on pensionable pay at that point. If met by employers and/or employees, contributions would continue to be paid at the higher protected salary. The employer would have discretion to pay the additional employers contribution as a retention incentive. Otherwise the staff member would have to pick up the full employer and employee contributions.
Removing limits to years in the scheme for all except MHOs	De minimis	Currently around very few members reach the limits of 40 years at 60 or 45 years at 65 (55 and 57.5/60 for MHOs and those with the right to retire at 55).This proposal would allow this group of staff to continue to increase their service for pension purposes.
5% manual contribution extended to all staff in Agenda for Change bands 1 and 2.	0.05% of total pay (future service only)	This would be a way of addressing the anomaly between manual and non-manual staff highlighted by Agenda for Change.
Allow multiple nominees for death benefits	Nil	Administrative issues for trusts/NHSPA
Standardise end date for children's survivor pensions to 23	De minimis	Currently the end date varies according to time spent in higher education – see TAG06
Standardise period of full salary paid on death in service at 6 months	Nil on valuation assumptions	There is an issue about whether this will be permissible – see TAG06.
Civil partners pensions including retrospection to 1988	De minimis	This will have to be included as a result of legislation.

Description	Cost (saving)	Comments
Removal of cessation on re-marriage	0.1% of total pay	Past and future service, open and closed groups – see TAG04
Subtotal for 2006 package	**0.0% of total pay**	
Second: changes with effect from April 2013		
Implementation of NPA65 for future service of open groups	(1.00%)	This figure represents the difference between the current cost of benefits for the open groups and the cost at NPA 65, expressed as a projected percentage of total scheme pay in 2013. Future service only
Implementation of NPA 65 for future service of closed groups	(0.30%)	This figure represents the total savings forgone compared with moving this group to NPA65 expressed as a projected percentage of total scheme pay in 2013. Future service only.
Partner pensions for future service from 2013 (including lifetime pensions for partners)	0.15%	Open groups only, expressed as a percentage of total scheme pay in 2013.
Improvement in accrual rate to $^1/_{60}$ with commutation rate of 12 for 1	0.85%	Open groups only, future service from 2013 only expressed as projected percentage of total pay in 2013.
Indefinite protection for staff in closed groups	0.30%	See above
Subtotal for 2013 package	**0.00% of total pay**	

Packaging costs, rounding effects and summation of de minimis items	De minimis	
Combined cost of 2006 and 2013 changes*	**0.00%***	**Grand Total ***

* Note: This total represents the sum of figures arising over different time periods, and as such is based on a rather unusual conceptual framework. Care should therefore be taken in interpreting the Grand Total.

IIB Table of possible individual changes unlikely to fall within the cost envelope for existing members in 2006 who decide to remain in a closed scheme

Description	Cost (saving)	Comments
Giving existing members in open groups actuarially neutral late retirement factors based around NPA60 Giving existing members in open groups the right to partially draw down pension and have pensionable reemployment	0.65% of total pay in 2006 for future service and about 0.8% for past service	The expected costs for giving existing members the flexibilities permitted by the new IR rules are broadly equal to the costs of offering actuarially neutral late retirement factors. Providing these flexibilities would in effect bring the retirement age for costing purposes to NPA60 compared with an average retirement age of nearly 63 from the 1999 valuation experience.
Giving existing members in closed groups late retirement factors based around NPA55 Giving existing members in closed groups the right to partially draw down pension and have pensionable reemployment	0.55% of total pay in 2006 for future service and about 1% for past service	As for open groups, but based on an NPA55 compared with an average retirement age of nearly 61 from the 1999 valuation experience.
Increasing reference period for calculating final salary benefits to either best of the last ten years or alternative of best of last three or best three-year average of last 13. RPI indexation.	0.45% with an illustrative allowance for scheme differences and behaviour change	The purpose of this would be to encourage step down. Based on sample data, 0.1% past service plus 0.1% future service, ie 0.2% total, representing the estimated cost without any behavioural change arising from increased step down. These costs are likely to be at the low end as they are based on data from another scheme with more stable earnings patterns and do not allow for behaviour change. The likely extent of behaviour change is speculative but a possible total service cost of 0.45% has been modelled (on a slightly different basis from TAG08 figures). Open & closed groups included.

Description	Cost (saving)	Comments
Retrospection for Partner Pensions and pre 1988 widowers	0.30%*	See TAG04. Government policy is that retrospection should be funded by the membership collectively or individually rather than by the scheme. An alternative approach would be to offer staff the opportunity to buy retrospection (cost TBA). Open groups only, expressed as a percentage of total scheme pay in 2013
End Abatement	0.1%	The abatement formula to be developed for the new scheme may be appropriate and affordable for existing staff
Removing limits to years in the scheme for MHOs	0.2% of total pay (future service only)	The current limits for MHOs are 40 years by age 55 or 45 years by 60.This proposal would allow this group of staff to continue to increase their service for pension purposes. In the case of MHOs, this would mean that once the doubling limits have been reached, accrual would be at the normal rate.

* With a very approximate allowance for run-off of staff with pre-88 service up to 2013.

Annex H

NHS Pension Scheme

Pensions review - overview of papers prepared by GAD at the request of Review’s technical advisory group

The Technical Advisory Group (TAG) of the NHSPS Review Team has commissioned the Government Actuary’s Department to undertake a number of costings and other analyses of possible changes to the NHSPS that it has decided to investigate. The results of GAD’s costings, together with some observations and comments on the potential changes are set out in GAD papers (in addition to this one), a list and brief description of which are set out in Table 1. These are available on the NHS Employers website, www.nhsemployers.org.

The development of the attached TAG papers was born out of the desire of the TAG to have written advice on important aspects of the review in order to help facilitate their discussions. At the outset it was not envisaged that the written advice would ultimately form a comprehensive and unified package for wider disclosure. Consequently, the information contained within the papers has not necessarily been set out in the manner of a formal structured report, and there may, for example, be inconsistencies in the style of presentation between different papers.

The set of papers do however form a single group to the extent that many of the actuarial assumptions used for the costings are not restated in every paper. The content and presentation of each paper has been subject to considerable discussion at TAG meetings and the final form of the papers reflects TAGs requirements in these areas. At the request of the TAG, the methodology and assumptions underlying each paper has been reviewed by Hilary Salt FIA at First Actuarial plc.

The papers were prepared with a view to their being subsequently made available to the Steering Group (SG) of the NHSPS Review, and to the members of that group and their advisors. The information and costings contained in the papers have been supplied to meet the specific requirements of the TAG and is not intended to be put to any other use. In particular, third parties should not rely on the advice contained therein.

Table 1: summary of papers prepared by GAD for the TAG

Title: TAG01\new\survival\final **Date: 26 August 2004** **Date signed-off: 21 September 2004** **Groups covered: new entrants** **Options covered:** (1) Pensions for life to widows and widowers (2) Civil registrations (3) Pensions for co-habiting partners (4) Pensions for co-habiting partners and nominees
Title: TAG02\new\baseline\final **Date: 26 August 2004** **Date signed-off: 21 September 2004** **Groups covered: new entrants** **Subject:** baseline for costing of options for new entrants
Title: TAG03\new\accrual\final **Date: 26 August 2004** **Date signed-off: 21 September 2004** **Groups covered: new entrants** **Options covered:** (1) $^{1}/_{60}$ accrual rate for members with commutation at 9, 12 or 15 for 1 (2) $^{1}/_{80}$ + $^{3}/_{80}$ accrual rates with option to convert more pension to lump sum (3) $^{1}/_{120}$ accrual rate for contingent spouses

Table 1: summary of papers prepared by GAD for the TAG (continued)

Title: TAG04\existing\survivors&accrual\final **Date: 26 August 2004** **Date signed-off: 21 September 2004** **Groups covered: existing members** **Options covered:** (1) broadly as TAG01, but including past and future service (2) broadly as TAG03, but including past and future service
Title: TAG05\existing\baseline\final **Date: 26 August 2004** **Date signed-off: 21 September 2004** **Groups covered: existing members** **Subject:** baseline for costing of options for existing members
Title: TAG06\existing&new\misc death benefits\final **Date: 16 December 2004** **Date signed-off: 5 January 2005** **Groups covered: existing members and new entrants** **Options covered:** (1) increasing the death-in-service lump sum to 3x pay for all categories (2) increasing the death-in-service lump sum to 3x pay for those with no surviving partner (3) re-defining the upper age limit on the payment of children's pensions (4) changing the definition of the periods during which higher initial pensions are payable to surviving spouses on death (5) illustrative service reduction factors for members who remain in a closed scheme from 2006 and then opt to buy back service for unmarried partner benefits in 2013 (6) illustrative service reduction factors for members who remain in a closed scheme from 2006 and then opt to buy back service for pre-1988 widowers' benefits in 2013

Table 1: summary of papers prepared by GAD for the TAG (continued)

Title: TAG07\existing&new\misc accrual & contributions\final **Date: 16 December 2004** **Date signed-off: 6 January 2005** **Groups covered: existing members and new entrants** **Options covered:** (1) introducing an optional lower accrual rate with a lower member contribution rate (2) introducing a "free year" of benefit accrual, so permitting pensionable career breaks (3) increasing the member contribution rate for manual staff from 5% to 6% of pensionable pay (4) introducing a lower 5% member contribution rate for staff in Agenda for Change Pay Bands 1 and 2
Title: TAG08\existing&new\misc scheme flexibilities\final **Date: 16 December 2004** **Date signed-off: 24 December 2004** **Groups covered: existing members and new entrants** **Options covered:** (1) adopting a longer reference period and different averaging period for the final pay definition on which benefits are calculated (2) allowing actuarial enhancement of benefits taken after the Normal Pension Age (NPA) (3) allowing draw-down of pension whilst continuing in employment, either before or after NPA (4) improving protections for staff whose pay reduces in the run-up to retirement (5) changing the provisions for abatement of pension (6) late retirement factors from age 60 or 63 for members remaining in a closed scheme from 2006 to 2013

Table 1: summary of papers prepared by GAD for the TAG (continued)

Title: TAG09\existing\NPA 55 groups\final **Date: 26 October 2004** **Date signed-off: 16 November 2004** **Groups covered: existing members in closed NPA55 groups** **Options covered:** (0) NPA increased by 10 years to 65, no benefit improvements, no change to limits on service or doubling threshold (1) NPA increased by 5 years, no benefit improvements, no change to limits on service or doubling threshold (2) As (1), but incorporating improvement (a) above (3) As (2), but also incorporating improvement (b) (4) As (3), but maximum of 40 years service before age 60 (5) As (4), but doubling threshold for MHOs increased to 25 years
Title: TAG10\existing\practitioners\final **Date: 4 November 2004** **Date signed-off: 23 December 2004** **Groups covered: existing members in "Practitioner" groups** **Subjects covered:** Approaches to achieving parity with other groups of members in the effects of benefit changes
Title: TAG 11\Age60\final **Date: Not applicable** **Date signed off: 27 November 2004** **Groups covered: existing members** **Subjects covered:** A critique by First Acturial of the approach taken by the Goverment Acturary in costing current benefits at age 60

Table 1: summary of papers prepared by GAD for the TAG (continued)

Title: TAG12\existing&new\assumed retirement patterns **Date: 8 December 2004** **Date signed-off: Not applicable** **Groups covered: existing members and new entrants** **Subjects covered:** An explanation of the rationale behind the approach taken to valuing age retirement liabilities
Title: TAG13\existing&new\CARE **Date: 16 December 2004** **Date signed-off: 6 January 2005** **Groups covered: existing members and new entrants** **Subjects covered:** The possibility of introducing a career average instead of final salary pension arrangement

Annex I

Glossary of terms

This glossary is provided to help employers and members comment on the issues arising in the NHS Pension Scheme Review and should not be taken as a guide to entitlements under the current pension scheme. References in italic indicate a separate entry.

A Day	The appointed day for implementation of a specific set of changes to be made to a scheme.
ABS	Annual benefit statements. Produced every year, these provide an estimate of the likely level of retirement benefits at normal pension age.
Abatement	Within the NHS Pension Scheme, the method of restricting the amount of pension NHS pensioners can secure if they return to NHS employment. NHS Pension Scheme abatement rules set a maximum threshold of pension and re-employment earnings for re-employed NHS pensioners. This uses the pensionable pay figure at retirement which is compared with the pension and re-employment earnings. If pension and re-employment earnings exceed pensionable pay at retirement, then the pension is reduced pound for pound
Accrual	The method of building pension benefits. In the NHS Pension Scheme the current accrual rate is $^{1}/_{80}$ of pensionable pay for each year of membership.
Actuarial adjustment	The adjustment made to a pension where it is expected to be paid for a longer or shorter time than normal. The most common actuarial adjustment is a reduction when a member retires before a pension scheme's *normal pension age (NPA)*, to allow for the fact that the pension will be paid for longer than expected.
Actuarial enhancement	See *Actuarial adjustment*

Actuarial reduction	A reduction to retirement benefits which are paid before the normal pension age. In the NHS Pension Scheme, from the age of 50 (the current minimum pension age) members can apply for the early payment of retirement benefits; this is described as *voluntary early retirement (VER)*. Where benefits are paid before the age of 60 (the current normal pension age) they are 'actuarially reduced' to reflect the that that they will be paid longer than planned for. The factors used in working out the reduction are produced by the Government Actuary's Department (GAD) and mean that benefits paid from age 50 will reduce by around 5% a year. For example, VER at 50 means a member will retain around 60% of the pension and 75% of the lump sum that would have been paid at 60.
Additional voluntary contributions (AVCs)	Extra payments of scheme contributions, to buy years and days of membership or to invest in pension arrangements outside the main occupational pension scheme in order to top up retirement benefits.
Added years	Additional years of scheme membership for pension purposes bought by paying extra contributions. Members of the NHS Scheme who will not complete 40 years' membership by their normal pension age may be eligible to purchase membership in this way.
Annuity	Insurance contract that guarantees to pay annual amounts for a fixed period. For example, some *defined contribution* pension schemes provide a pension for members by buying an annuity for them when they retire.
Buy-out policy	The policy of buying scheme members a deferred *annuity* to secure pension rights that have been built up in a scheme.
CARE	Career average revalued earnings. Retirement benefits are built up on an annual basis and revalued typically in line with either national average earnings (NAE) or the retail price index (RPI)
Career average scheme	A *defined benefit scheme* which pays a pension based on the average of a member's pensionable earnings throughout their whole career. For example, the NHS Scheme does this for self-employed members of the Scheme such as GPs.
Calendar service	This is the actual length of scheme membership.

Commutation
Giving up part of the pension in exchange for a lump sum, i.e. scheme members 'commute' part of their pension. Many occupational schemes have a single accrual rate with rules which specify how much lump sum can be given up. For example, if the commutation factor was 12:1, members would get £12 cash in the lump sum payment for every £1 per year of pension given up in exchange.

Concurrency
Simultaneous active membership of both a *personal pension scheme* and an *occupational pension scheme*.

Closed groups
The group of NHS Scheme members who have special retirement rights. These were withdrawn from 6 March 1995 for new entrants. Those with special retirement rights are described as a 'closed group' because no new members were included after the closure date.

Deferred benefits
Pension scheme benefits which have been earned in a scheme, but which have not yet been paid. For example, people who have been members of the NHS Scheme but leave the service before retirement, will normally have deferred benefits which are paid when the person reaches normal pension age.

Defined benefit (DB) scheme
A pension scheme where the scheme rules define the level of benefits payable rather than the level of contributions and the scheme's investment returns.

Defined contribution pension scheme (DC)
A pension scheme where the benefits are determined by the level of contributions to the scheme and their subsequent investment growth. Defined contribution schemes also usually provide a pension by buying an *annuity* for members when they retire.

Direction employers
Non-NHS employers who the Secretary of State has directed can operate the NHS Scheme for eligible employees. For example, charities that indirectly support the wider NHS by providing palliative care or Care in the Community may be direction employers.

Draw down
'Draw down' allows members to apply for part of their retirement benefits without stopping work – not currently available in the NHS Pension Scheme. Currently members must retire in order to apply for retirement benefits. Draw down would normally be available from the minimum pension age, which is currently age 50 but which will increase to 55.

Dynamisation	The method of building pension benefits for NHS Pension Scheme contractors (general medical and dental practitioners). Benefits are based on pensionable earnings throughout their whole career which is brought up to a current value. The factors used are based on the average estimated increase in GP contractor pay. Currently the pension is based on 1.4% of all the revalued earnings. Three times the pension is also paid as a tax-free lump sum.
Earnings cap	The maximum annual level of pensionable earnings that may count towards calculation of retirement benefits. The cap was set at £102,000 for 2004/05. It does not apply to people who joined a pension scheme before 1989.
Enhance	The method of increasing pension benefits. For example, in the NHS Pension Scheme, retirement benefits paid on the ground of ill-health may be 'enhanced' to increase membership to the amount the member would have secured had they been able to work to the normal pension age. Retirement benefits may also be enhanced where they are taken later than at the normal pension age.
Employing authority (EA)	Employers who operate the NHS Scheme, i.e. NHS trusts/PCTs/strategic or special health authorities, GPs and *direction employers*.
Final salary	The level of earnings in a period close to retirement, used to calculate retirement benefits. For example, the NHS Scheme uses the best of the last three years' *pensionable pay* for members other than self-employed contractors such as GPs.
Financial Services Authority (FSA)	The independent regulator for financial services business.
Flexible retirement	The facility for people to phase in the transition from work to retirement, for example the ability to *draw down* pension or to *step down* to a job that carries less responsibility
Group personal pension	An arrangement for employees of a particular employer to participate in a *personal pension scheme*, usually on common terms and conditions with an employer's contribution.
Guaranteed annuity	An *annuity* where payments are guaranteed to continue for an agreed period of up to 10 years even if the person dies before the end of the period.
Life expectancy	The estimated likely length of life at a particular age. May be based on the general population or take account of individual factors such as lifestyle and illness.

Lifetime allowance (LTA)	The amount on which the Inland Revenue will allow tax relief on a scheme member's contributions. Current proposals will allow a lifetime allowance of up to £1.5 million rising to £1.8 million in 2010.
Lump sum	A tax-free one-off payment. For example in the current NHS Scheme a tax-free lump sum is paid at retirement equal to three times the annual pension.
Marginal rate	The rate of income tax that would apply to an additional pound of income; normally the same as an individual's highest rate of income tax.
Member	An employee who is a member of a pension scheme.
Mental Health Officer (MHO)	A person who qualified for the *special retirement rights* granted to specified NHS staff who worked in the mental health field. MHO status includes accelerated accrual of benefits after 20 years in this type of employment, i.e. two years' membership for every year actually worked, and a normal pension age of 55. These special retirement rights were withdrawn for new entrants after 6 March 1995.
Minimum pension age	The youngest age at which pension benefits may be taken. This is currently at the age of 50 in the NHS Scheme, except for retirement on the grounds of ill-health which can apply at any age.
Money purchase (MP)	Contributions made by a member to secure pension benefits in a *defined contribution scheme*. Contributions are invested and the returns from the investments used to buy an *annuity* at retirement. Some *defined benefit schemes* also provide a money purchase facility to allow members to buy additional pension rights in this way. In the NHS Scheme, in-house money purchase facilities are available from Halifax/Equitable Life Assurance Society, Standard Life and the Prudential.
Mutuality	Within the NHS Pension Scheme, the principal whereby all scheme members and employers join together to fund a package of pension benefits for a *defined contribution rate*. This acts like an insurance scheme where benefits such as ill-health retirement are available but may not be needed by all members.
National average earnings (NAE)	The average growth in national earnings across the UK.
Net pay arrangement	The arrangement by which employers deduct pension contributions from employees' pay before applying income tax so that employees receive tax relief on pension contributions at their *marginal rate*.

Normal pension age (NPA) The age at which a pension scheme assumes its members will normally apply for a retirement pension. Most schemes allow members to retire earlier or later if they wish.

Notional whole time pay (NWT Pay) The equivalent *pensionable pay* that a part-time worker would receive if they were working full-time.

Occupational pension scheme A pension scheme for staff working for a particular employer or related employers.

Open groups The group of active NHS Scheme members which excludes those who have left the scheme with a deferred pension and NHS pensioners.

Part-time membership Years of membership of a pension scheme built up by a part-time worker. In the NHS Scheme, the amount of part-time membership is converted to the equivalent amount of full-time membership in order to calculate retirement benefits. For example, members working half the normal number of full-time hours would be credited with six months' membership for each full year worked.

Pension The regular payment made by a pension scheme to its retired members. For example, the current NHS Scheme provides regular monthly payments to retired members which provide an annual income based on $^{1}/_{80}$ of their *final salary* (best of the last three years) or, for self-employed members such as GPs, their *career average salary*.

Pensionable pay This is the pay which is used by a pension scheme to determine contributions to the scheme and pay-related benefits from the scheme. In the NHS pensionable pay can be less than actual pay because overtime payments and some allowances are not normally pensionable.

Pension-sharing on divorce An arrangement whereby pension rights are shared between both parties to the divorce under a pension-sharing order, an agreement or equivalent provision in accordance with the Welfare Reform and Pensions Act 1999.

Personal pension scheme A pension scheme, membership of which is not dependent upon a contract of employment. For example, several insurance companies run personal pension schemes. Some members of *occupational pension schemes* also take out a personal pension to top up their retirement pension.

Preservation	The preservation of benefits for members who leave a pension scheme before retiring can also be referred to as *deferment*. Benefits are index linked so they keep pace with inflation. Some schemes set a minimum period of membership before pension rights are preserved. For example, the NHS Scheme requires members to have two years' membership before their pension rights are preserved and benefits can be held in the Scheme until their *normal pension age*.
Protected rights	Rights to continue to receive benefits from a pension scheme irrespective of future changes to the scheme. For example, part of a person's pension which is funded by a rebate of National Insurance contributions in return for forgoing part of the state earnings related pension (SERPS) or the second state pension (S2P), is protected
Refund of contributions	Most occupational pension schemes offer a refund of contributions for membership of less than two years. In the NHS Scheme, a tax payment and a deduction to buy the member back into the state pension scheme is payable from the refund. For membership of over two years, pension rights may be transferred to other pension arrangement or left in the Scheme until normal pension age.
Retained benefits	Retirement benefits deriving from an earlier period of employment or self-employment, which have not been transferred.
Retail Price Index (RPI)	An indicator which provides an economic tool to monitor inflation. The RPI figures focus on the rate of change in prices. NHS pensions are increased each year in line with the RPI.
SD Number	Each member of the NHS Pension Scheme is allocated a Superannuation Department number. This number is prefixed SD followed by the year of the member's birth. This SD Number or the National Insurance number can be used to trace individual membership records.
Serious ill-health commutation	The facility for members with severely reduced *life expectancy* to withdraw the full value of their pension benefits as a *lump sum*.
Special classes	NHS Pension Scheme members who have special retirement rights. These members include nurses, midwives, health visitors and physiotherapists who have a normal pension age of 55 and *Mental Health Officers (MHOs)*.

Special retirement rights	See *Special classes*.
Stakeholder pension	A type of *personal pension scheme* which meets set criteria, including a ceiling on charges and flexibility.
Step down	To move to a job that is less onerous or with less responsibility. Normally means a reduction in pensionable pay.
Tax-free lump sum	Scheme benefits which can be taken as a cash payment, which is not subject to income tax. See also *lump sum*.
Transfer	The transfer of membership from one pension scheme to another. There are strict conditions that determine when and how this can be done. In the case of the NHS Scheme, transfers into the Scheme must be made within 12 months of joining or rejoining the Scheme.
Trivial commutation	The facility for people to convert small amounts of pension into a lump sum payment by *commutation*.
Unfunded unapproved retirement benefit scheme (UURBS)	A retirement benefits scheme that is not approved by the Inland Revenue and does not attract tax relief. Such a scheme may be useful alongside a normal pension scheme where members exceed the *earnings cap*, but still wish to save for their retirement. The NHS Scheme does not currently operate an UURBS.
Vesting	The creation of rights to draw benefits from a pension scheme. In the NHS Scheme vesting occurs after two years' membership. Before this point, no benefits are paid but there may be a *refund of contributions*. After this point members have rights in the Scheme which may be transferred to another scheme or taken as benefits when they retire.
Voluntary early retirement (VER)	The application for retirement benefits before the normal pension age. In the NHS Pension Scheme the current minimum pension age is 50 and members can apply for retirement benefits with an *actuarial reduction* or with no reduction if the employer agrees to meet the cost.
Wind down	To wind down to final retirement normally means that a member may reduce his or her hours for a period before final retirement. In the NHS Pension Scheme this would typically involve members moving from full-time to part-time employment.