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Scottish NHS Superannuation Scheme Consultees

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18 December 2013

Dear Colleague

Scottish NHS Superannuation Scheme Consultation on draft regulations for proposed employee contribution increases

Attached is a copy of the Scottish Government consultation on regulations to introduce proposed increases to employee contribution rates for the Scottish NHS Superannuation Scheme from April 2014, on which you are invited to comment.

On 5 November, the Cabinet Secretary for Finance, Employment and Sustainable Growth, John Swinney MSP, informed the Scottish Parliament of the Scottish Government's decision to implement the third annual increment of employee contribution increases for the Teachers', NHS, Police and Firefighters' schemes in Scotland. Responding to a Parliamentary Question on this matter, the Cabinet Secretary reaffirmed the Scottish Government's commitment to public service pensions that are affordable, sustainable, and fair and its continuing opposition to the UK Government's policy of increasing employee contributions in this way and at this time.

A full copy of the Cabinet Secretary's response can be viewed on the Scottish Parliament's website via the following link:

<http://www.scottish.parliament.uk/parliamentarybusiness/28877.aspx?SearchType=Advance&ReferenceNumbers=S4W-18081>

Consistent with previous policy, the proposals mirror the rates proposed for the NHS pension scheme in England and Wales and represent the Scottish Government's considered view of the most appropriate rates to apply in the circumstances.

This consultation will remain open until **26 January 2014**. If you wish to respond online please do so via the following link

http://www.sppa.gov.uk/index.php?option=com_wrapper&view=wrapper&Itemid=1500

Alternatively you can complete the consultation response form attached to this letter and either submit it electronically to nhspensionsreform@scotland.gsi.gov.uk or send it to the following address ensuring that it arrives no later than 26 January 2014.

Scottish NHS Pensions Reform
Policy Branch
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A copy of the consultation documentation is also available on the Agency's website at http://www.sppa.gov.uk/index.php?option=com_content&view=article&id=713&Itemid=484

Yours faithfully



Chad Dawtry
Director of Policy

Copies to:

Addressees

HR Directors and Payroll managers NHS Boards
Scottish NHS Pensions Group (SPG)
Scottish Terms and Conditions Negotiating Group (STAC)
SPPA Technical Working Group
NHS Trade Unions and Professional Organisations
Scottish General Practitioners Committee
Institute of Health Service Management
Scottish Practice Nurse Association
Women's National Committee
SGHD Directorate of Primary Care
SGHD Health Workforce Directorate
SG Finance
NHS Retirement Fellowship
Home Office, Police and Firemen's Pension Schemes
Department of Health and Social Services, Northern Ireland
NHS BSA Pensions Division
Department of Health, England and Wales
Department for Children, Schools and Family
Cabinet Office
Department for Communities and Local Government
DWP
GAD (for information only)
Standard Life and Equitable Life
HM Treasury
Savings, Pensions, Share Schemes HMRC
SGLD
SPPA Senior Managers

SCOTTISH NHS SUPERANNUATION SCHEME

CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES EFFECTIVE FROM APRIL 2014

1. Purpose

1.1 This consultation sets out the Scottish Government's proposals for the third annual increase in employee member contributions to the NHS Superannuation Scheme which are due to be applied from April 2014.

1.2 The Scottish Government invites views on the proposed employee contribution rates and on the draft regulations attached intended to bring these increases into effect. The Scottish Government has set out, at section 8, specific questions on which it would welcome responses, though consultees may respond on any aspect of the proposals.

1.3 This consultation is solely concerned with further increases in employee contribution rates proposed to apply to the NHS Superannuation Scheme (Scotland) with effect from 1 April 2014. A new pension scheme will be introduced in April 2015 and further consideration will need to be given to both the employer and employee contribution rates which should apply from then. Stakeholders will have an opportunity to input into that discussion.

2. Consultation timetable

2.1 This consultation runs from 18 December 2013 to 26 January 2014.

3. The Scottish Government's position on employee contribution rate increases

3.1 The Scottish Government has set out its position on employee contribution increases on a number of occasions, most recently during the Cabinet Secretary for Finance, Employment and Sustainable Growth's response to a Parliamentary Question on 5 November 2013.

A full copy of the Cabinet Secretary's response can be viewed via the following link:

<http://www.scottish.parliament.uk/parliamentarybusiness/28877.aspx?SearchType=Advance&ReferenceNumbers=S4W-18081>

4. Principles

4.1 The proposed increases reflect the Scottish Government's commitment to protect the lowest paid and minimise the risk of opt outs from the NHS Superannuation Scheme (Scotland). The protection being proposed is that those earning up to the whole time equivalent of £15,431 will see no increases applied this year. We would welcome views on whether this protection should be extended further and, if so, why. It is intended that taking this approach will help those in the early part of their career to remain in the scheme and therefore reduce the number of potential opt outs. Above that level, increases are being spread progressively in order to ensure that those earning higher salaries pay proportionately more for their pensions. This builds on and provides consistency with the approach taken on implementing the second stage of these increases from April 2013.

4.2 In setting the tiers for the NHS Superannuation Scheme (Scotland) account has also been taken to ensure that for those earning up to £21,000, there is no more than a 1.5 percentage points increase in total by 2014-15 and for high earners no more than 6 percentage points.

5. Proposed increase in contributions in 2014-15

5.1 The Scottish Government's proposed rates to apply from April 2014 are set out in Table 1. Those earning up to £15,431 (whole time equivalent rate) will pay no increase on their current contributions.

5.2 The proposed rates link the top of the first contribution tier to Agenda for Change pay point 4 (£15,432). The principle of no increase for those earning up to £15,000 is preserved.

Table 1: Proposed 2014-15 employee contributions before tax relief (gross)

Full-time pay	2013-14 contribution rate (gross)	2014-15 contribution rate (gross)	Contribution rate increase (percentage points)
Up to £15,431	5%	5%	0%
£15,432 to £21,387	5.3%	5.6%	0.3%
£21,388 to £26,823	6.8%	7.1%	0.3%
£26,824 to £49,472	9%	9.3%	0.3%
£49,473 to £70,630	11.3%	12.5%	1.2%
£70,631 to £111,376	12.3%	13.5%	1.2%
Over £111,377	13.3%	14.5%	1.2%

Table 2: Proposed 2014-15 contributions after tax relief (net)

Full-time pay	2013-14 contribution rate net of tax relief	2014-15 contribution rate net of tax relief	Net contribution rate increase (percentage points)	Additional cost (£ per month)
£10,000	4%	4%	0%	0
£15,000	4%	4%	0%	0
£20,000	4.24%	4.48%	0.24%	4
£25,000	5.44%	5.68%	0.24%	5
£30,000	7.2%	7.44%	0.24%	6
£40,000	7.2%	7.44%	0.24%	8
£60,000	6.78%	7.5%	0.72%	36
£80,000	7.38%	8.1%	0.72%	48
£130,000	7.98%	8.7%	0.72%	78

5.3 The Scottish Government proposes that for 2014-15 there is no increase in contributions for those earning below £15,431 with a minimal 0.3% increase for those earning between £15,432 and £49,472. This approach is intended to avoid the risk of opt-out, particularly amongst lower earners.

5.4 The progressive structuring of contribution rate increases reflects the beneficial impact of tax relief for higher rate tax payers, and the fact that higher earners in final salary schemes generally get double the value in pension benefits per pound of contribution, than the lower paid.

5.5 A pensions contributions calculator is available on the SPPA website at:

http://www.sppa.gov.uk/Documents/NHS/NHS%20Useful%20Resources/NHS%20Calculators/NHS_calculator_2014.xlsx

This may be used to estimate the impact on individuals of the proposed increase in contributions from 1 April 2014.

6. Method for applying changes to contribution rates and pay/earnings bands

6.1 Member contribution rates are determined with reference to two tables – one for the previous financial year, and one for the current year. This is so that

uplifts to Agenda for Change (AfC) pay scales can be properly taken into account when determining a member's contribution rate. These uplifts mean that, when employers consider the contributions an officer needs to pay based on last year's pay, they need to look at last year's AfC bandings, not the current year, in order that the pay looked at for the assessment is tiered using the AfC bandings in force for that year.

6.2 For members who are 'new' to the scheme or who change employment terms during a year (e.g. promotion), it is either impossible or inappropriate to 'look back' to a previous year's settled earnings. In these circumstances, contributions should be based on the latest AfC bandings available and the member's current pay, suitably increased to reflect a full year earnings level. This therefore means that regulations need to set out two contribution rate tables – one based on the previous year's pay bands, and one based on pay bands effective in the current financial year.

6.3 As the increases to contribution rates are to be effective from 1 April 2014, this means applying the increases before the conclusions of the Pay Review Body can be formulated into regulations (PRB recommendations are typically available in March). The current 2014-15 scheme year tables would be updated when further regulations are laid in early summer containing pay bands that factor in confirmed uplifts for AfC.

6.4 The twin-table approach is also used for practitioner and non-GP provider scheme members, with contribution rates determined by reference to total pensionable earnings rather than salary. Remuneration for these occupations is not linked to AfC and so the situation described for officers does not arise. However, as for officer members, we are unable to determine the second table at this juncture and further regulations will be required to confirm the effect of PRB pay uplift recommendations which become known in March.

7. Detailed changes

New contribution rate table for officer members

7.1 Regulation D1 of the 2011 regulations (the 1995 section) establishes the requirement for members to pay a contribution to the scheme. Paragraph (2) provides that contributions from officer members are based on salary level and accordingly the level of contribution is determined by reference to a pay band into which the salary falls. This is set out in a table which gives the pay band and corresponding contribution rate that is to apply for a particular financial year.

7.2 Amendment regulation 3(2) replaces paragraph (2) with a new provision that inserts a table with the new pay bands and corresponding contribution rates that would apply to members in 2014-15.

7.3 Regulation 2.C.2 of the 2013 Regulations (2008 Section) is similar in effect to regulation D1 of the 2011 regulations in that it establishes the requirement for members to pay a contribution. Paragraph (2) has the same purpose as paragraph (2) of regulation D1 of the 2011 Regulations – i.e. requires that the level of contributions paid by officer members are determined by reference to a table of pay bands. Amendment regulation 6 replaces paragraph (2) with a new provision that inserts a table of new paybands and contribution rates that would apply to members in 2014-15

New contribution rate tables for practitioner & non-GP provider members

7.4 Paragraph 14 of Schedule 1 of the 2011 regulations provides that regulation D1 applies to practitioner and non-GP provider members but with certain modifications as required by sub-paragraph (2). Amendment regulation 4 replaces sub-paragraph (2) which contains the previous contribution rate tables for 2012-13 and 2013-14, with two tables – one reflecting the earnings bands for 2013-14, and one with the new earnings bands and contribution rates for 2014-15.

7.5 In the 2013 regulations, 3.C.2 provides that a practitioner member's contribution rate is based on their level of pensionable earnings. The contribution rate is determined by reference to a pensionable earnings band into which their earnings falls. This is set out in a table which gives the pensionable earnings band and corresponding contribution rate that is to apply for a particular financial year. Using the same approach as amendment regulation 4 above, new tables are introduced by amendment regulation 8 which replaces paragraph (13).

7.6 Regulation 2.C.4 provides that non-GP provider member's contribution rate is based on their level of pensionable earnings. As with practitioner members, the contribution rate is determined by reference to a pensionable earnings band into with their earnings fall. This is set out in a table which gives the pensionable earnings band and corresponding contribution rate that is to apply for a particular financial year.

7.7 Amendment regulation 7(1) replaces paragraph (15) which contains the previous contribution rate tables for 2012-13 and 2013-14, with two tables – one reflecting the earnings bands for 2013-14, and one with the new earnings bands and contribution rates for 2014-15.

8. Views sought on the proposals

8.1 This consultation sets out the proposal for increasing employee contributions from 1 April 2014. The Scottish Government would welcome views on the following questions:

Question 1: Do the proposed tiered contributions meet the Scottish Government's objectives of protecting the low paid and minimising opt outs from the scheme?

Question 2: Are there alternative rates which you think should be used that will deliver the necessary increased contribution yield for 2014/15? If so, it would be very helpful if you would set out the rationale for your proposed rates and comment on the impact on those who would pay a higher rate.

Question 3: Are there any consequences of the proposed contribution tiers that you consider have not been addressed?

The closing date for receipt of comments is Sunday 26 January 2014

To simplify the process you can respond to this consultation online via the following link

http://www.sppa.gov.uk/index.php?option=com_wrapper&view=wrapper&Itemid=1490

Alternatively responses may be made by completing the consultation response form attached to this letter which can either be submitted electronically to nhs_pensionsreform@scotland.gsi.gov.uk or via mail to the following address no later than the above closing date.

NHS Pension Reform
Consultation on year 3 contributions
Policy Branch (NHS) SPPA
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

9. Next steps after the consultation ends

9.1 A summary of the responses to this consultation will be made available on the SPPA website.

9.2 An Equality Impact Assessment evaluating the approach proposed for the NHS scheme in respect of the proposed increase in contributions will be published in due course.

10. Confidentiality of Information

10.1 We need to know how you wish your response to be handled and, in particular, whether you are happy for your response to be made public. It would be helpful if you would complete and return the Consultation Response Form which forms part of the consultation questionnaire as this will ensure that we treat your response appropriately. If you ask for your response not to be published we will regard it as confidential, and we will treat it accordingly.

10.2 All respondents should be aware that the Scottish Government are subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

CONSULTATION RESPONSE FORM: NHS SUPERANNUATION SCHEME (SCOTLAND). CONSULTATION ON EMPLOYEE CONTRIBUTION INCREASES EFFECTIVE FROM 1 APRIL 2014 (please complete and return to the address at the end of the form to ensure that we handle your response appropriately).

1. Name/Organisation

Organisation Name

Title

Surname

Forename

2. Postal Address

Postcode

Phone

Email

3. Permissions - I am responding as... (please complete either sections (a), (b) and (d) or sections (c) and (d):

Individual or **Group/Organisation**

(a) Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish Government web site)?

Please state yes or no: _____

(b) Where confidentiality is not requested, we will make your responses available to the public on the following basis

Please state yes to one of the following:

Yes, make my response, name and address all available *or*

Yes, make my response available, but not my name and address *or*

Yes, make my response and name available, but not my address

(c) The name and address of your organisation **will be** made available to the public (in the Scottish Government library and/or on the Scottish Government web site).

Are you content for your **response** to be made available?

Please state yes or no:

(d) We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Please state yes or no:

ABOUT YOU

I am responding ...

- as a scheme member
 - on behalf of an Employer Organisation
 - on behalf of a Trade Union/Staff Association
 - other (please specify)
-

What is your gender?

- I am female
- I am male

I am employed as...

- an administrator
 - a dentist
 - a doctor
 - a general Practitioner
 - a junior doctor
 - a manager
 - a nurse
 - I'm retired
 - other (please specify)
-

What is your working pattern?

- I work part-time
- I work full- time
- Not applicable

CONSULTATION QUESTIONS

Question 1: Do the proposed tiered contributions meet the Scottish Government's objectives of protecting the low paid and minimizing opt outs from the scheme?

Yes

No

Comments:

Question 2: Are there alternative rates which you think should be used that will deliver the necessary increased contribution yield for 2014/15? If so, it would be very helpful if you would set out the rationale for your proposed rates and comment on the impact on those who would pay a higher rate

Yes

No

Comments:

Question 3: Are there any consequences of the proposed contribution tiers that you consider have not been addressed?

Yes

No

Comments:

Other comments: please use this space to provide any further comments.

Comments:

Please e-mail your response to nhspensionsreform@scotland.gsi.gov.uk

or

Please post your response to:

NHS Pensions Reform
Policy Branch
SPPA
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

The closing date for this consultation is 26 January 2014.