SPPA SCOTTISH PUBLIC PENSIONS AGENCY

Superannuation (Health Service) Circular No 1/2003

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NHS and other participating employers
NHS Trades Unions and Staff Associations

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Dear Sir or Madam

NATIONAL HEALTH SERVICE SUPERANNUATION SCHEME (SCOTLAND) – EMPLOYERS' CONTRIBUTION RATES AND THE COST OF PENSIONS INCREASES

Purpose

1. This Circular advises NHS and other employers whose staff participate in the NHS Superannuation Scheme (Scotland) about a forthcoming increase in the rate of employers' contributions to the Scheme, primarily to meet the cost of pensions increases, which will become a Scheme liability from 1 April 2003. Employers' contributions will not, however, increase with effect from that date: paragraph 3 below provides further information about how the costs will be met, and when the liability will be transferred to employers. There will be no change to the rates of employees' contributions to the Scheme.

Background

2. Historically, the Scheme has operated on the basis that it is responsible only for the cost of the basic benefits payable to members and their dependants, with the cost of pensions increases being met directly by the Exchequer. For some years, however, the agreed policy has been that the full cost of benefits, including pensions increases, should be reflected in public service pension scheme financial arrangements, and agreement has now been reached on how this will be achieved for the NHS Superannuation Scheme (Scotland).

Financial Arrangements and Implications

3. From 1 April 2003, responsibility for meeting the cost of pensions increases will transfer from the Exchequer to the Scheme. At the same time, the Scottish Executive's financial allocation will be increased by the Exchequer in order to meet this transferred liability. Initially, the Scheme will receive the funds required to meet the cost of pensions increases directly from the Scottish Executive. However, the next actuarial valuation report on the Scheme, expected in summer 2003, will determine the rate of employers' contributions which, together with employees' contributions,

will need to be paid to meet the Scheme's liabilities, including pensions increases. The employers' contribution rate emerging from that valuation is likely to rise to be around 14% of payroll as a result of the addition of pensions increases and is expected to have effect from 1 April 2004. At that point, NHS budgets would be increased in order to meet the total costs of the higher employers' contribution liability, to the extent that that is attributable to pensions increase costs, so that the overall effect on NHS employers in this respect would be broadly cost neutral. Any further increase in the cost of pension provision brought out in the valuation, for example to take account of improved longevity, would be expected to be borne by employers in the usual way from within their general spending allocations.

4. Changes are also being made to the funding methodology. The main one is that, for the future, the Scheme will be credited with a real rate of interest of 3.5% rather than receive the proceeds of notional investments. This rate will also be anticipated in the valuation and means that there will, in future, be no impact on the funding of the Scheme, whether positive or negative, from investment returns. As a result, the financial consequences for the Scheme arising, for example, from pay awards or early retirements different from the levels anticipated in actuarial valuations, will have a direct effect, positive or negative, upon future employers' contribution rates.

5. Reflecting the full cost of NHS pension scheme provision means that decisions on the allocation of resources are made in the light of correct relative prices; that meaningful comparisons can be drawn with related pension schemes or other means of pension provision; and that the amount of the total resources allocated to the provision of health care is more visible.

6. Non-NHS bodies whose staff have access to the NHS Superannuation Scheme (Scotland) have, for many years, not met the full cost of pension provision and have, through the Exchequer, been subsidised to the extent that the cost of inflation proofing retirement benefits has been met for them. These bodies will also be required to pay the new, higher employers' contribution rate from the date on which it will come into effect.

Yours faithfully

G. Mowat

GAVIN MOWAT
Director of Policy