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## Superannuation (Health Service) Circular No 1/2007

NHS and other participating employers  
NHS Trades Unions and Staff Associations

<http://www.sppa.gsi.gov.uk>

Tel: 01896 893228

Fax: 01896 893230

Your ref:

Our ref:

12 January 2007

Dear Colleague

### Changes to Redundancy arrangements in the NHS

1. This Circular provides information about changes to be made to the scheme by the National Health Service (Superannuation Scheme and Compensation for Premature Retirement (Scotland) Amendment Regulations 2006 (Scottish Statutory Instrument 2006/561) which came into force on 22 December 2006.

2. These Regulations amend the National Health Service Superannuation Scheme (Scotland) Regulations 1995 and the National Health Service (Compensation for Premature Retirement) (Scotland) Regulations 2003. The main changes are summarised below but more detailed information is given in **Appendix A**, attached. **Appendix B**, also attached, constitutes a **Notice to Staff**, in accordance with the requirements of the Occupational Pensions Schemes (Disclosure of Information) Regulations 1996, and **should be brought to the attention of all employees**. (It should be noted however that members who work for Direction Employers and GP Practices do not normally qualify for Scheme redundancy benefits.)

3. Following a UK Partnership review and consultation exercise the NHS redundancy arrangements have been reformed. This was necessary in order to comply with the recent EU Directive on equality in employment and vocational training and particular aspects of age discrimination. Full details of the new arrangements and details of how to access comprehensive guidance are contained in the Health Department Letter PCS(RED)2006/1, issued to all employers on 21 December 2006.

The new arrangements – in summary

4. Under the new arrangements, staff over the minimum pension age will have a choice between taking an unreduced pension or lump sum payment of one month's pay per year of service, up to a maximum of 24 months. Where the capitalised employer's costs are lower than the cost of the lump sum payment, the balance will be paid to the member of staff. Where the costs of the unreduced pension is higher than the lump sum payment, the employer will pick up the balance of the costs.



## 5. Transitional Arrangements

The arrangements will phase out pension enhancement by 1 October 2011 and will be carried out over two phases.

### Phase 1

Covers redundancies between 1 December 2006 and 30 June 2007. Members made redundant during this phase will have the value of their benefits calculated as at 30 September 2006. The enhancement value will be frozen at this point and will reduce by any further membership from 1 October 2006 to the date of redundancy. The level of final pensionable pay for pension purposes and salary for redundancy will be calculated to the actual date of redundancy.

Any redundancy lump sum payable in addition to pension benefits will be calculated as per the arrangements as at 30 September 2006. A reduction of 30 % for every year of enhancement over 6 2/3 years as at 30 September will also apply.

### Phase 2

Covers redundancies between 1 July 2007 and 30 September 2011. Members made redundant during this phase will again have the value of their benefits calculated as at 30 September 2006. The enhancement value will be frozen at this point and will reduce by further membership from 1 October 2006 to date of retirement. In addition any excess enhancement over 5 years at 30 September 2006 will further reduce by 1/60<sup>th</sup> for each calendar month from 30 September 2006 to date of retirement... The level of final pensionable pay for pension purposes and salary for redundancy will be calculated to the actual date of redundancy.

Any redundancy lump sum payable in addition to pension benefits will be calculated as per the arrangements as at 30 September 2006. A reduction of 30 % for every year of enhancement over 6 2/3 years as at 30 September will also apply.

(N.B. redundancies which occurred between 1<sup>st</sup> October and 30<sup>th</sup> November are not affected by the new arrangements)

## 6. Qualification for payment

### Early retirement on grounds of redundancy for all scheme members from 1 December 2006

#### Qualifying criteria

- Members must have 2 years qualifying service
- The employer must certify that the member has had at least 2 years continuous employment
- The member has not reasonably refused to apply for alternative employment or accept an offer of suitable employment
- The member has attained minimum pension age (currently age 50)

The employer must certify that the employment is being terminated:

- By reason of redundancy



- In the interests of efficiency of the service

Applications for payment of benefits

- Must be made within 6 months of the termination of employment.

### **Members over minimum pension age (currently age 50) with 2 years qualifying service**

Members who fulfil the above criteria can apply to SPPA for payment of an unreduced pension and lump sum based on their membership to the date of the termination of employment, with no actuarial reduction applied to the benefits. If the member elects to receive payment of an unreduced pension, the costs of paying the pension benefits will be capitalised by the employer and will be offset against any possible redundancy payment. If the payment of the capitalised cost of the member's benefit by lump sum is less than the value of the redundancy payment, the employer must pay the difference to the member.

### **Members over minimum pension age (currently age 50) with 5 years qualifying service**

Applies to existing members who fulfil the above criteria. Members will have a choice between payment under the new arrangements for all members or payment under transitional arrangements

## **7. Procedural arrangements**

It is important that employers must provide members with all relevant information to allow them to consider options and make an informed decision on the type of benefit that they wish to receive

The Agency will provide employers with an estimate of the member's accrued benefits to the proposed date of termination of employment and also, in cases where members are covered by the transitional arrangements, an estimate of benefits with possible enhancement. This information will also provide employers with relevant estimated pension component details to enable employers to calculate any redundancy/capitalisation costs involved and provide the member with an outline of possible benefits under each option.

Employers must bear in mind that under the transitional arrangements, any enhancement of service will decrease on a daily basis from 1 October 2006 and should take this into account when providing information to members and for the calculation of any employer costs.

## **8. Application form for payment of benefits**

Members will now have to confirm on the application form AW4 which option they wish to take. Once an application form has been accepted by the Agency the member will not be able to change their mind. Applications cannot be processed if this section is not completed

## **9. NHS Employees Scheme Guide**

The Scheme guide is being updated to reflect the new arrangements and the revised version will initially be available via our website at [www.sppa.gov.uk](http://www.sppa.gov.uk)



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The regulations may be viewed on the Office of Public Sector Information Website at <http://www.opsi.gov.uk/legislation/scotland/ssi2006/20060561.htm> and enquiries about this circular should be addressed as below:

Changes to the Regulations, telephone 01896 893231

Pension Enquiries, telephone 01896 893100

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Arnott', with a long horizontal flourish underneath.

Richard Arnott  
Director of Policy

A handwritten signature in black ink, appearing to read 'I. Clapperton', with a long horizontal flourish underneath.

Ian Clapperton  
Director of Operations

## **Appendix A**

### **Superannuation (Health Service) Circular No. 1/2007**

#### **NATIONAL HEALTH SERVICE SUPERANNUATION (SCOTLAND) AND COMPENSATION REGULATIONS - CHANGES TO THE SCHEME**

This appendix describes in more detail the amendments made to The National Health Service Superannuation Scheme (Scotland) Regulations 1995 and the National Health Service (Compensation for Premature Retirement) (Scotland) Regulations 2003 by the National Health Service Superannuation Scheme (Scotland) Amendment Regulations 2006 (Scottish Statutory Instrument No. 2006/561)

The amendments are as follows:

Regulation 2 amends the Superannuation Scheme Regulations by—

- substituting regulation E3 (early retirement pension) with regulations E3, E3A, E3B and E3C which deal with members who are made redundant before 1st October 2011 (Regulation E3); members whose pensionable employment is terminated by their employing authority (whether before or after that date) (Regulation E3A); member's notification as to whether he wishes E3 or E3A to apply to him (Regulation E3B); special provisions for special classes (Regulation E3C) and the right of the member who is entitled to a pension under E3A to claim a pension under E1 or E5 (regulation E3D).
- inserting references to new regulation E3A in regulations C3 (meaning of "qualifying service"); C4 (pensionable service in respect of part-time employment); D2 (contributions and other payments by employing authorities); M1 (members right to transfer or buy-out); R2 (nurses, physiotherapists, midwives and health visitors), R3 (mental health officers) and R4 (members doing more than one job).
- removing in regulation B3 (restrictions on further participation in the scheme), reference to old regulation E3(3)
- amending previous incorrect references with regulation T2A (deduction of tax; Further provisions).

Regulation 3 amends the Compensation Regulations by—

- substituting regulation 3 (persons to whom the regulations apply) so that it refers to both regulation E3 and E3B of the Superannuation Scheme Regulations,
- amending regulation 5 (crediting of additional period of service) in respect of the calculation of additional periods of service for those who are made redundant on, or after, 1st December 2006 but before 1st July 2007 (new paragraph (1A) to (1C) and (1I)) and those who are made redundant on, or after, 1st July 2007 but before 1st October 2011 (new paragraphs (1D) to 1(H)).

The full regulations may be viewed on the Office of Public Sector Information Website at <http://www.opsi.gov.uk/legislation/scotland/ssi2006/20060561.htm>

#### **Life time allowance (LTA)**

Members of the scheme who elect to receive their benefits under the transitional arrangements should be made aware that the basic value of their benefits before any enhancement of membership will be counted against the HMRC lifetime allowance (LTA) limit.



In addition there is also a threshold limit of £30,000 on some lump sum payments after which tax will be deducted.

E.G. Where the enhanced value of a lump sum when added together to any redundancy lump sum payment received from the employer is more than £30,000 the excess will become taxable.

Scottish Public Pensions Agency  
January 2007

## **Appendix B**

### **Superannuation (Health Service) Circular No 1/2007**

#### **THIS NOTICE INFORMS STAFF ABOUT IMPORTANT INFORMATION WITH REGARD TO CHANGES TO THE NHS SUPERANNUATION SCHEME AND THE NHS (COMPENSATION FOR PREMATURE RETIREMENT) (SCOTLAND) REGULATIONS 2003**

### **Changes to redundancy arrangements in the NHS**

1. The Regulations that set out the NHS Superannuation Scheme and the compensation for premature retirement scheme in Scotland have been amended by the National Health Service Superannuation Scheme (Scotland) Amendment Regulations (Scottish Statutory Instrument No. 2006/561) which came into force on 22 December 2006. This notice is designed to inform NHS staff about these changes.
2. Following a UK partnership review and consultation exercise, the NHS redundancy arrangements have been reformed. This was necessary in order to comply with the recent EU Directive on equality in employment and vocational training and particular aspects of age discrimination. Full details of the new arrangements and details of how to access comprehensive guidance are contained in the Health Department Letter PCS(RED)2006/1, issued to all employers on 21 December.
3. The redundancy arrangements for NHS staff are set out in the Agenda for Change: NHS Terms and Conditions of Service Handbook. Certain arrangements (relating to entitlement to lump sum compensation depending on the length of service) apply to all staff, but staff who are members of the NHS pension scheme and over the minimum pension age (normally 50) may also receive pension benefits early, often enhanced. Together, these arrangements can lead to significant differences between redundancy payments available to staff of different ages. In light of the EU Directive on age discrimination, therefore, revised arrangements are to be introduced.
4. The new arrangements include a flat rate lump sum of one month's pay for each year of service for all staff, to a maximum of 24 month's pay. Eligible pension scheme members may instead choose to receive an unreduced pension on redundancy, with the value of the lump sum compensation being reduced to balance the cost of not reducing their pension. These changes will mean that the level of compensation available to staff under 50 is increased, but it is reduced for many over 50s. Transitional periods have also therefore been introduced.

#### **Phase 1**

Covers redundancies between 1 December 2006 and 30 June 2007. Members made redundant during this phase will have the value of their benefits calculated as at 30 September 2006. The enhancement value will be frozen at this point and will reduce by any further membership from 1 October 2006 to the date of redundancy.

#### **Phase 2**

Covers redundancies between 1 July 2007 and 30 September 2011. Members made redundant during this phase will again have the value of their benefits calculated as at 30 September 2006. The enhancement value will be frozen at this point and will reduce by further membership from 1 October 2006 to date of retirement. In addition any excess enhancement over 5 years at 30



September 2006 will further reduce by  $1/60^{\text{th}}$  for each calendar month from 30 September 2006 to date of retirement.

This means that enhancement will cease completely by 30 September 2011.

Any redundancy lump sum payable in addition to pension benefits will be calculated as per the arrangements as at 30 September 2006. A reduction of 30 % for every year of enhancement over 6  $2/3$  years as at 30 September will also apply.

5. Members of the scheme who elect to receive their benefits under the transitional arrangements should be made aware that the basic value of their benefits before any enhancement of membership will be count against the HMRC lifetime allowance (LTA) limit.

In addition there is also a threshold limit of £30,000 on some lump sum payments after which tax will be deducted.

E.G. Where the enhanced value of a lump sum when added together to any redundancy lump sum payment received from the employer is more than £30,000 the excess will become taxable.

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