SPPA

SCOTTISH PUBLIC PENSIONS AGENCY

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Your ref:
Our ref: NHS 01/01/07

24 February 2004

Superannuation (Health Service) Circular No. 2/2004

NHS and other participating employers
NHS Trade Unions and Staff Associations

Dear Sir/Madam

National Health Service Superannuation Scheme (Scotland)

1. This circular provides the following-

- Important information about changes to be made to the National Health Service Superannuation Scheme (Scotland) (Additional Voluntary Contributions) Regulations 1998;
- Expanded details of the pension flexibilities introduced on 29 November 2003 (circular 10/2003), for members of the NHS Scheme who have both practitioner and officer service and leave the service or retire on or after 1 April 2003;
- Clarification of changes introduced on 29 November 2003 (Circular 10/2003) in relation to the payment of the lump sum on death benefit;
- The level of employers contributions from 1 April 2004;
- Some background information on pensions increase; and
- Important information about Standard Life, one of the providers of the NHS Additional Voluntary Contributions facility.

1.1 All staff should be made aware of the contents of this circular. Please circulate as normal through your local communications system.

2. Changes to the National Health Superannuation Scheme (Scotland) (Additional Voluntary Contributions) Regulations 1998

2.1 Since 1990, the NHS Superannuation Scheme (Scotland) has provided a facility which gives members the choice to increase their retirement benefits through the payment of additional voluntary contributions (AVC). There are currently two in-house AVC providers for members of the NHS Scheme in Scotland, Equitable Life and Standard Life. The AVC provision is regulated and governed by the NHS Superannuation Scheme (Scotland) (Additional Voluntary Contributions) Regulations 1998. Changes to these Regulations will come into force on 26 March 2004. The main changes are as follows.

2.2 Increased flexibility for transfer of AVC funds.

2.2.1 The changes will increase the flexibility to transfer AVC funds, by removing the link between the main (final salary) NHS Scheme and NHS (in-house) AVCs, which prevented the transfer of AVCs from Equitable Life to freestanding AVCs, when Equitable Life closed to new business in 2001.

2.2.2 Currently, members can switch funds between NHS AVC providers. The change will allow the separate transfers of main (final salary) NHS Scheme benefits and NHS (in-house) AVC benefits. Members will now be able to-

- transfer NHS AVCs to a freestanding AVC, if they remain in NHS employment; and
- transfer NHS AVCs to either a freestanding AVC or another pension arrangement (e.g. personal or stakeholder pension or an in-house AVC with a non-NHS main pension provider) if they cease NHS employment.

2.2.3 The changes will also increase flexibility for members who have ceased NHS employment and are in receipt of, or have preserved, NHS main Scheme benefits. They can transfer their NHS AVC to a different NHS AVC.

2.3 Deferring the taking of AVC funds.

2.3.1 Previous Inland Revenue restrictions have meant that a member with an AVC had to take the value of those funds when they received their main (final salary) NHS Scheme benefits. These restrictions have been relaxed and the member can now receive their main (final salary) NHS Scheme benefits, while leaving their AVC funds to be taken at any time up to age 75. This provision has retrospective effect from 1 November 1999.

2.4 Time limit for employers remitting contributions.

2.4.1 Employers have traditionally had 10 days after their deduction to remit employees AVC contributions to the AVC provider. In 1999, in the case involving Merrill Lynch (UK) Final Salary Plan and their AVC provider, the Pension Ombudsman looked at, among other things, the matter of late payment of contributions. His remedy was to make the employers meet in full the losses from not having remitted contributions within 7 days of deduction. He rejected an attempt by the Scheme and employer to use the limit of 19 days, set by the Pensions Act 1995, which he defined as the final date set to avoid legal penalties.

2.4.2 In order to ensure NHS employers do not fall similarly foul of the Pensions Ombudsman, these changes place a statutory obligation upon them to remit employees contributions to the relevant AVC provider within 7 days of their deduction. Employers should treat 7 days as the upper limit.

2.5 Reviewing NHS AVC arrangements

2.5.1 We would strongly recommend that any member who decides to review their AVC arrangements seek advice from an Independent Financial Adviser (IFA). If you do not currently have an IFA, you can contact “IFA Promotions” who will give you details of an IFA in your area. Their address is:

IFA Promotions

17-19 Amery Road
Brislington
Bristol
BS4 5PF

2.5.2 Alternatively, you can call them on 0117 971 1177, fax them on 0117 972 4509 or e-mail them at ifamail@inchbrookmail.co.uk. You can also obtain information from their website at www.unbiased.co.uk.

2.6 Copies of the amendment regulations

2.6.1 Copies of the amendment regulations can be purchased from The Stationery Office. You should also be able to access them shortly on the HMSO website – www.hmso.gov.uk.

3. Increased flexibilities for members with practitioner and officer service

3.1 Circular 10/2003 announced the introduction of increased flexibilities for members of the NHS Superannuation Scheme (Scotland) who have a mixture of practitioner and officer service. This circular provides further detail of those flexibilities.

3.2 As a result of the new GMS GP contract, the NHS Superannuation Scheme (Scotland) Regulations 1995 have been amended to improve the flexibility of retirement benefits for those in membership on or after 1 April 2003 who have both officer and practitioner – medical, dental and ophthalmic – service at retirement.

3.3 Members who move between practitioner work and service in a hospital or community health care, accrue benefits under both the practitioner and officer assessment regimes. Although the NHS Scheme has legislated specifically for these circumstances, the results may not always be optimal. To support practitioners who pursue portfolio careers, four new pension flexibilities have been introduced. These complement existing rights by broadening the range of methods used to calculate final benefits where there is a mixture of practitioner and non-practitioner accrual. All options will be tested at retirement and the most favourable will be applied. Such members who are in NHS pensionable employment on or after the 1 April 2003, will benefit automatically from the new flexibilities, and the impact will extend to their full NHS Scheme membership, not just that from the 1 April 2003. All pension benefits will be automatically safeguarded when practitioners move between practitioner and non-practitioner work.

3.4 The new flexibilities are –

- members who work in hospital or community health care (known as officer service) or as a GP registrar for less than 10 years before becoming a Principal Practitioner will receive the most favourable of the following:-

    - a separate pension for officer service using the non-practitioner formula plus a separate practitioner pension,
    - an addition to the practitioner pension pro rata to officer service,
    - a practitioner pension for all work.

- members who work in hospital or community health care (known as officer service) for more than 10 years before becoming a Principal Practitioner will receive the most favourable of the following:-

- a separate pension for officer service using the non-practitioner formula plus a separate practitioner pension,
- a practitioner pension for all work.

- members who have practitioner service before moving to hospital or community health care service will receive a separate non-practitioner pension and the more favourable of the following:-

  - a practitioner pension plus pensions increases (linked to prices),
  - a practitioner pension increased by uprating factors linked to pay up to retirement.

- members who have practitioner service and hospital or community health care service (known as officer service) for more than one year at the same time will receive the more favourable of the following:-

  - a separate pension for officer service using the non-practitioner formula plus a separate practitioner pension,
  - a practitioner pension for all work.

4 Payment of lump sum on death benefit

4.1 Circular 10/2003 announced an amendment to the NHS Scheme in relation to the payment of the lump sum on death payment. This circular clarifies that the amendment allows members with preserved benefits, or members whose benefits are already in payment, to exclude their spouse from entitlement to any lump sum death benefit payable under the NHS Scheme. Members can also revoke a notice at any time.

5. Employers' contribution rate from 1 April 2004

5.1 Circular 1/2003 advised NHS and other employers whose staff participate in the NHS Scheme about an increase in the rate of employers' contributions 1 April 2004. The increase is primarily to meet the cost of pensions increase, which became an NHS Scheme liability from 1 April 2003.

5.2 Historically, the NHS 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 increase being met directly by the Exchequer. However, for some years the agreed policy has been that the full cost of benefits, including pensions increase, should be reflected in public service pension scheme financial arrangements. From 1 April 2003, responsibility for pensions increase transferred from the Exchequer to the NHS Scheme and at the same time, the Scottish Executive's financial allocation was increased by the Exchequer in order to meet this liability. The NHS Scheme has already received the funds required to meet the cost of pensions increase applied in April 2003 directly from the Scottish Executive. From the 1 April 2004, the cost of pensions increase will be met by an increase in employer's contributions to the NHS Scheme.

5.3 A full valuation of the NHS Scheme is currently being undertaken by the Government Actuary's Department (GAD) to, among other things, determine what the employers contribution rate should be. The new rate will include the cost of meeting pensions increase. Unfortunately, it is unlikely that the full valuation will be completed by April 2004. In view of this, SPPA have taken advice from GAD. Based on their initial findings in Scotland, and by comparison with the results for the NHS Scheme in England and Wales, an employer's contribution rate of 14% will be applicable from 1 April 2004.

5.4 It is our understanding that NHS budgets – including practices - will be increased to take account of the rise in employer's contributions to 14% and this means that the overall effect on NHS employers should be broadly cost neutral.

6. More information on pensions increase

6.1 Employers may be interested to know that Section 59 of the Social Security Pensions Act 1975 (as amended) provides for public service pensions to be increased at the same time and by the same percentage as the increase in the additional component of the State Earnings Related Pension.

6.2 Public sector pensions will be increased from 12 April 2004 in line with the Retail Prices Index in the 12 months to September 2003. The increase is likely to be 2.8%. We will confirm the final figure as soon as it is available.

7. Standard Life – Strategic Business Review

7.1 Standard Life has written to the SPPA – as managers of the NHS Scheme – confirming their intention to conduct a full strategic review of their business. A copy of the letter, which is similar to letters sent to individual with-profits policy holders, is attached to this circular. You can find out more about the strategic review on the Standard Life website at www.standardlife.co.uk.

8. Do you have any questions?

8.1 If you have any questions about the subjects covered by this circular, please feel free to contact the Agency helpline on 01896-893100

8. 2 Additional copies of this circular can be obtained from Mrs Paula Thomson on 01896-893226.

Yours faithfully

Ian Clapperton
Director of Policy
SPPA

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21 January 2004

Dear Sir or Madam,

Strategic Review

In the light of fundamental changes that are occurring in the life and pensions industry, the Board of Standard Life has decided to conduct a full strategic review of the business.

As a strong and growing international financial services company, we need to ensure that our structure remains appropriate to meet the needs and expectations of all of our customers in the future. Although the review may not be completed by then, we would expect to provide a report on progress at our Annual General Meeting on 6 April.

We will write to you again within the next few weeks with a special edition of our Update magazine. This will provide a more detailed explanation of the objectives of the review. In the meantime you can find further detail on the dedicated members' section of our website, www.standardlife.com/members

I would like to assure you that our financial position remains secure and that our commitment to provide all of our customers with excellent products, competitive returns and an unrivalled quality of service is undiminished.

Yours sincerely

Sandy Crombie.

Sandy Crombie
Group Chief Executive