NHS Pension Scheme Scotland
Scheme Advisory Board

Minutes

Date:	21 September 2018
Meeting reference:	
Location:	Victoria Quay, Edinburgh
Chair:	Derek Lindsay (NHS Ayrshire & Arran)
Attendees:	Members Willie Duffy (Unison), Jane Christie-Flight (UNITE), Ros Shaw (RCN), Jackie Mitchell (RCM), Margo McGurk (NHS 24) Scottish Government Lorimer Mackenzie (SPPA),Jim Preston (SPPA) By invitation George Russell (GAD), Garry Swann (GAD) By telephone link Phil McEvoy (BDA) Alan Robertson (BMA) Lorraine Hunter (NHS Grampian)
Secretariat:	Greg Walker (SPPA)
Apologies:	Graham Pirie (SCP), Dorothy Wright (NES), Colin Cowie (SGHD)

1. Welcome and Apologies

1.1 The Chair welcomed everyone to the meeting including Greg Walker from SPPA and Margo McGurk from NHS 24 who have newly joined the group.

1.2 All confirmed that they had no conflicts of interest.

2. Minutes of the meeting held on 13 March 2018

2.1 The minutes were approved as a correct record of the meeting and updated action points noted.

3. GAD presentation on valuation provisional results and cap costs

Slide 7 – Cost cap results

3.1 Phil McEvoy made the point that because the valuation methodology assumes a contribution yield of 9.6% this trumps any discussions on employee contributions, where it had previously been assumed an additional 0.2% needed to be added to employee contributions to achieve a 9.8% yield.

3.2 Willie Duffy asked GAD colleagues how the 2012 valuation wasn't more accurate in terms of short-term assumptions on pay, when we knew at the time what public pay policy was and that wages rises in the public sector were restricted to 1%. Garry Swann clarified that HM Treasury Directions require that the valuation uses the OBR's assumptions on pay increases which include pay in the public and private sectors.

Slide 8 – Cost cap results

3.3 Phil McEvoy asked GAD colleagues if they were able to breakdown what proportion of the 3.1% reduction in the cost cap was due to the changes in short-term earnings assumptions and what proportion was as a result of changes in life expectancy. Garry Swann confirmed that approx 2% was as a result of the demographic changes and around 1% was result of changes in expected earnings growth, and a combination of other factors accounted for around 0.3%

3.4 There was a discussion about the ONS longevity figures used in the valuation and whether these same figures would feed into the State Pension Age (SPA) review. Willie Duffy asked is the planned future change of the SPA had been included in this valuation. Garry Swann confirmed that the Directions set out that the valuations are based on legislation as it stands and cannot include things that might change in the future.

Slide 9 – What happens after a cost cap breach?

3.5 There was a discussion around what is required of the SAB, by Regulation 10 of the The NHS Pension Scheme (Scotland) Regulations 2015, when there is a breach in the Employer Cost Cap. Lorimer MacKenzie explained the timescales, as set out in the commissioning letter, where the SAB is requested to provide advice to Ministers by 31 October 2018 and seek to reach an agreement with Scottish Ministers by 30 November 2018, in order to lay regulations in time for 1 April 2019. Lorimer advised that SPPA will be on hand to work through any issues to enable the SAB to reach agreement with Ministers.

3.6 It was confirmed that the solution to remedy the 3.1% cost cap breach could be a combination of solutions, made up of a number of benefit improvements for example. The default position, as set out in the regulations, is to rectify the cost cap by adjusting the accrual rate of the scheme.

3.7 Lorimer MacKenzie set out HM Treasury's position in relation to employee contribution reductions, which is that any reduction in employee contributions would have to be paid for by the Scottish Government out of NHS budgets.

3.8 Phil McEvoy and Alan Robertson made clear that they favour a reduction in employee contributions as a solution to the cost cap and asked if HMT's position, as described by Lorimer, had been formalised. Phil also added that the default solution of increasing the accrual rate is not desirable, from his point of view, as it has tax implications for high earners who are already affected by Annual Allowance restrictions.

3.9 Willie Duffy said the he felt that in order to make decisions the SAB would need further information on the impact of a change in the accrual rate on the number of members who breach the Annual Allowance threshold.

Action Point 2018/19: GAD to provide an illustration of what impact the improved accrual rate of 1/47.8 would have on number of members breaching the Annual Allowance threshold

3.10 The Chair commented on the increase in employer's contributions as a result of the valuation and highlighted that a 6% increase in would cost the NHS in Scotland c. £300m and that currently using a Barnett formula approach that would provide £125m to in funding to cover increased pension costs for the NHS. Details of the extent of HMT funding is still to be confirmed but it is expected that HMT will meet the full cost for the NHS scheme.

Slide 10 – Employer contribution rate

3.11 The Chair noted that there had been no change in the notional asset value as a result of the reduction in the SCAPE discount rate and highlighted that this was point was made by the England and Wales NHS SAB in their written response to HMT on the Directions

Action Point 2018/20 GAD to provide a response to the group, on the point raised the E&W SAB about the notional asset value.

Slide 12 – Options for rectification

3.12 There was a discussion about options for rectifying the cost cap. It was noted that only changes to the 2015 Scheme from 2019 affect the cost cap accrual cost directly, with changes to other active benefits impacting through the past service cost.

3.13 Jim Preston advised that changes to 2015 scheme accrual rate could be implemented retrospectively; however, this would be difficult administratively.

3.14 Garry Swann reiterated that the calculations around the improved accrual rate were based on that level of accrual being in place from 1 April 2019 as the valuation covers the period 1 April 2019 – to 31 March 2023

3.15 Jim Preston highlighted that changing the accrual rate to 1/47.8 means that it would apply from 1 April 2019 going forward but would be subject to future changes arising from the cost cap or its replacement if it was agreed to adjust the accrual rate to rectify a future breach. Administratively changing the accrual rate is the simplest solution.

3.16 Phil McEvoy also noted the benefits of changing the accrual rate in terms of communicating the impact to members and ease of administration. As compared to changing normal pension age, for example, which can be administratively difficult.

Slide 13 – Next Steps for the SAB

3.17 There was a discussion about timing of advice to Ministers and setting employee contribution rates and whether the group will need to conclude discussions on member contributions from April 2019 in order to ensure that the scheme is generating the right yield and the right level of funding is being provided by HMT.

3.18 Phil McEvoy noted that the England and Wales SAB do not intend to agree the employee contribution rates before April 2019.

3.19 Garry Swann suggested that it might be possible, with HMT agreement, not to change the employee contributions from April 2019 and continue with a 9.6% yield in 2019; if the SAB provided written assurance that they will change employee contributions to increase the yield in the following years, to generate 9.8% yield across the period from 2019-2023.

3.20 Phil McEvoy suggested that the funding from HMT, to deal with the cost cap, could be used to fund the move from employee contributions being based on WTE to actual pay which would account for 0.5% and then rectify the remaining 2.6% by giving employee contribution reductions to all members.

3.21 Lorimer suggested that using some of the funding from HMT to move to actual pay might be something HMT would agree to as it isn't simply a contribution reduction however, the remaining 2.6% would have to made up through benefit improvements in line with HMT's position on funding.

Action Point 2018/21: SPPA to approach HMT to find out how much flexibility there is around the employee contribution yield and if they are comfortable allowing the yield to remain at 9.6% for 1 year if there is an agreement to recover the yield in the subsequent 3 years.

4. Valuation – HMT draft Directions and provisional valuation results

4.1 The Chair highlighted the letter drafted by the E&W NHS SAB to HMT in response to the valuation Directions and got agreement from the group to send a similar letter to HMT from the Scottish NHS SAB

Action Point 2018/22: SAB members will draft a letter to HMT in response to the publication of the valuation directions, the content will be broadly similar to the England and Wales SAB letter. The group agreed to share a draft of the letter with SPPA prior to issue.

4.2 GAD agreed to provide detailed options for rectifying the cost cap breach through improving pension benefits.

Action Point 2018/23: GAD to provide paper detailing a number of options for rectifying the cost cap breach.

5. Employee Contribution Structures from 1 April 2019

5.1 The chair suggested that discussions on employee contributions should be carried over to a future meeting when the cost cap work has been concluded.

AOB

<u>Agenda for next meeting</u>

6.0 It was agreed that the Agenda for the next meeting on 4 October 2018 should centre around the paper that GAD are pulling together around costs of various options for rectifying the cost cap.

7. Date of next meeting

7.1 The next meeting will be held on 4 October 2018 at Victoria Quay, Edinburgh. A room has been booked from 14.00 – 16.00.