

NHS Pension Scheme Scotland

Scheme Advisory Board

DRAFT Minutes

Date: 24 October 2018

Meeting reference:

Location: Victoria Quay, Edinburgh

Chair: Willie Duffy (Unison)

Attendees: Members

Alan Robertson (BMA)
Graham Pirie (SCP)
Ros Shaw (RCN)
Jackie Mitchell (RCM)

Scottish Government

Lorimer Mackenzie (SPPA)
Jim Preston (SPPA)

By invitation

George Russell (GAD)
Garry Swann (GAD)

By telephone link

Derek Lindsay (NHS A&A)
Jane Christie-Flight (UNITE)
Lorraine Hunter (NHS Grampian)

Secretariat

Greg Walker (SPPA)

Apologies:

Colin Cowie (SGHD)
Phil McEvoy (BDA)
Margo McGurk(NHS24)
Dorothy Wright (NES)

1. Welcome and Apologies

1.1 The Chair welcomed everyone to the meeting and led introductions

1.2 All confirmed that they had no conflicts of interest. The Chair informed the meeting was quorate because 50% of the membership was in attendance, including 1 representative from both the employer and member representative groups.

2. Minutes of the meeting held on 4 October 2018

2.1 The Chair asked for accuracy of these minutes.

2.2 The minutes were approved as a correct record of the meeting.

3. Matters arising

3.1 There has been no response to the SAB co-chairs letter to Treasury in response to valuation directions. The SCAPE discount rate is expected to be confirmed in The Budget on 29 October. Confirmation of funding for Departments to cover the change in the Discount rate is not expected until the Spring Statement.

3.2 Derek Lindsay will meet with the employer side Chair of the NHS England & Wales (E&W) Scheme Advisory Board (SAB).

3.3 Alan Robertson raised the issue of the relationship between the NHS SAB and the NHS Pension Board (PB) and how we ensure that issues, which arise at the SAB, which are business of the PB are communicated to them. It was previously agreed that all minutes of SAB and PB would be published on the SPPA website and members of both Boards would have opportunity to read each other's. The SAB minutes on the website are not currently up to date, SPPA to rectify.

AP2018/26: SPPA to publish minutes of all SAB meetings, up to and including meeting of 4 October on the SPPA website and ensure PB minutes are up to date.

3.4 Lorimer MacKenzie advised that SPPA will ensure that any issues the need to be communicated between the SAB and PB will be communicated and SPPA will start to share copies of minutes between both Boards.

3.5 Derek Lindsay asked about GAD's progress on AP2018/25, to model improved early retirement terms as a means of cost cap rectification.

3.6 George Russell advised that GAD have not yet fully concluded their consideration of the approach to be adopted 'across the piece' for such costings for a number of SABs who are exploring this option. So the costings were not be available for this meeting.

4. Action Log

4.1 Alan Robertson asked about the participation report requested by the group (AP2018/16) and whether or not it would capture those members who only join for one month then opt-out. Jim Preston advised that it wouldn't and it would only provide a snapshot.

4.2 The action log was updated.

5. Update from NHS England & Wales (E&W) SAB

5.1 Alan Robertson provided the following update from the NHS E&W SAB which took place on 18 October:

- Both the employer and staff sides agreed that, as part of the cost cap rectification, they want to fix 3 issues identified with the contribution structure in the scheme and also to equalise survivor benefits which collectively account for around 0.6% of pay:
 - Moving from whole-time equivalent to actuals – 0.4%
 - Indexation of contribution tiers – (included in 0.4% above)
 - Combine the top 3 contribution tiers to 12.5% - 0.2%
 - Equalising survivor benefits for pre-88 service for active members only – < 0.1%
- With the remaining 2.6% of 3.2% they are considering a combination of benefit improvements, by way of changing accrual rates, and member contribution reductions. The SAB are aiming to reach agreement by the next meeting on 6 November and have been given an extension on the timescales for providing advice until 9 November.

5.2 There was a discussion about how the agreements reached by the NHS E&W SAB around contribution structure would apply in Scotland. The move from using whole-time equivalent (WTE) pay to actual pay would cost 0.5% in the Scottish Scheme and combining the top 3 contribution tiers would cost 0.3%. There is no need to apply indexation of tiers in Scotland as this already happens. This would leave remaining 2.3% or 3.1% cost cap to be rectified.

5.3 Jim Preston commented that the viability of these options for fixing the contribution structure hinge on Treasury's response to SPPA's questions around whether they would accept a reduction in the contribution yield, which is an outstanding action (AP2018/21)

5.4 Lorimer MacKenzie confirmed that SPPA are content to extend the deadline, for providing advice to Scottish Ministers, from 31 October to late November 2018.

5.5 It was agreed that the SAB would meet again following the next NHS E&W SAB on 6 November when it should be clear what the E&W SAB recommendations are.

5.6 Garry Swann noted that prior to the valuations, England & Wales agreed with Treasury that there scheme would produce a yield of 9.7% for 2 years and then to be rectified when rates are restructured.

5.7 Jim Preston highlighted the potential scenario where Treasury agree to underwrite the change from WTE to actuals through the cost cap change but after 2 years when we look to change the contribution structure they might insist of a yield of 9.8%.

5.8 Garry Swann commented that the valuation and cost cap were based on a yield of 9.6% so Treasury should be content with that.

5.9 Lorraine Hunter confirmed that under normal circumstances it would take around 6 months for payroll systems to be changed to accommodate the move from WTE to actuals, so changing from October 2019 is likely to be achievable. The cost of moving to actuals, in terms of the cost cap, if it was done in October would be marginally less than 0.5%.

6. Cost cap rectification

6.1 Garry Swann highlighted the plans of the NHS E&W SAB to provide a hierarchy of options to Treasury made up of different combinations of member contribution reductions and increased accrual totalling 3.2%.

6.2 Alan Robertson commented that improved early retirement terms was attractive because it doesn't have the annual allowance tax implications. Improved death benefits has limited appeal as it doesn't affect members directly.

6.3 Garry Swann made the point that increased accrual is easier to administer and communicate and will create tranches of pension benefits based on 4 year periods.

6.4 Lorimer MacKenzie highlighted potential difficulties associated with changes to the scheme not being mirrored in 2023. For example, if the SAB choose to recommend changes to early retirement terms and then the cost cap goes the other way in 2023, there is no guarantee that those changes to early retirement terms would be reversed as it might default to a change in accrual. This would create a position where the pension scheme is less beneficial but the early retirement terms remain enhanced.

6.5 Jim Preston commented that improved early retirement terms are not applicable to all members and those members with a high amount of final salary benefits, nearing retirement, will benefit most.

6.6 The Chair asked what would be more beneficial - increased accrual rate or increased revaluation factor, because his members will want to know why one was supported over the other. Garry Swann commented that revaluation and accrual were designed to be the same, however, improved revaluation is difficult to demonstrate and would impact on future cost cap.

6.7 Jane Christie-Flight highlighted that the benefits of improved revaluation, e.g. CPI + 2%, is dependent on member's longevity in the scheme, whereas improved accrual applies equally to all members.

6.8 Derek Lindsay clarified that when talking about increased accrual and an additional cash lump sum, that these two things are different and asked if the group could consider a combination of the two to rectify the cost cap.

6.9 Garry Swann highlighted that providing an additional cash lump sum has a greater impact on Annual Allowance.

6.10 The Chair asserted that any changes the group agree on would have to through an Equality Impact Assessment.

6.11 The Chair brought to the attention of the Board the set of principles for cost cap rectification as set out by GAD and asked the Board if they were willing to formally adopt these principles to guide the SAB's recommendations. The Board agreed to adopt the principles with the following amendment. Point C was changed from '*Simplicity: can be administered and understood by members.*' to Simplicity: can be administered and understood by members, employers and SPPA.

6.12 Jim Preston set out the legislative timetable SPPA would have to follow in order to draft, consult on and lay the required Regulations by 1 April 2019. Jim advised that SPPA would maintain dialogue with Treasury throughout the process to ensure they were content.

7 A.O.B.

7.1 Derek Lindsay has been invited to provide an update on the scheme valuation to the Scottish Terms and Conditions Committee (STACC) meeting on 3 December. SPPA will provide bullet points summarising the issues.

AP2018/27: SPPA to provide bullet points for Derek for STACC meeting

8. Date of next meeting

8.1 The next meeting will be on 16 November 2018, 10:00 – 12:00 in St Andrew's House