

NHS Pension Scheme Scotland

Scheme Advisory Board

Draft Minutes

Date: 29 April 2021

Meeting reference: NHS Pension Scheme Advisory Board

Location: Virtual via MS Teams

Chair: Willie Duffy (UNISON)
Derek Lindsay (NHS Ayrshire & Arran)

Attendees: **Members**

Andy Carter (NHS Borders)
Lorraine Hunter (NHS Grampian)
Robin McNaught (State Hospital)
Alan Robertson (BMA)
Ros Shaw (RCN)
Jackie Mitchell (RCM)
Graham Pirie (CoP)
Anne-Marie Pettie (GAD)
George Russell (GAD)
Daniel MacDonald (SG Health)

Scottish Government

Greg Walker (SPPA)
Clare Moffat (SPPA)

Secretariat

Victoria Antcliff (SPPA)
Carole Bertram (SPPA)

Apologies

Kay Sandilands (NHS Lanarkshire)
Stuart MacArthur (SPPA)
Karen Gilchrist (SPPA)
Jane Christie-Flight (Unite)
Phil McEvoy (BDA)

1. Welcome and Apologies

1.1 The Chair welcomed everyone to the meeting and led introductions. Clare Moffat (SPPA) introduced herself as a member of the Governance Team who would be taking over Secretariat for the NHS SAB.

1.2 All confirmed that they had no conflicts of interest.

2. Minutes of the meeting held on 23 March 2021 were approved.

Paper 2a – Draft SAB minutes of 23 March 2021

2.1 The Chair asked for any comments or amendments to the minutes.

2.2 Derek Lindsay suggested that (NHS Ayrshire & Arran) should be put after his name on Page 1 of the Attendees list, and also requested (NHS Borders) was put after Andrew Carter's name. No other amendments were noted and the minutes were agreed.

Paper 2b – Action Log

2.3 Action Point 2021/02 - Greg Walker said it was to be carried forward to next SAB as he needed to look these further.

2.4 Action Point 2021/05 - GAD has supplied paper this for the meeting today therefore this action is now closed.

2.5 Action Point 2021/07 - Greg Walker advised he had responded to this and the action is now closed.

2.6 Action Point 2021/08 - Greg Walker explained this was ongoing and had been drafted but the final version was not ready yet therefore this action to be carried forward to next SAB.

2.7 Action Point 2021/09 GAD - Greg Walker will circulate to the SAB shortly.

2.8 Action Point 2021/10 - Greg Walker has circulated the final version to the SAB already, and as there were no final comments, it was submitted to HMT on the due date and the action is now closed.

Matters Arising

2.9 Alan Robertson wanted to thank SPPA for the work on the initial draft of the NMPA consultation response.

3 – Member Contributions

Paper 3a – Member contributions from April 2022 (presentation from meeting of 18 February 2021)

3.1 Graham Pirie asked if SAB can share the GAD contribution structures papers with members.

3.2 George Russell said he would provide written confirmation of this after the meeting

AP2021/11 - George Russell to give written permission for SAB to share GAD contribution structures papers 3a and 3b

Paper 3b - Member contributions from April 2022: Modelling Potential Structures

3.3 Anne-Marie Pettie shared the presentation with the SAB, highlighting that the contributions structures were intended as a starting point and GAD would be happy to provide further illustrations with feedback from SAB. The modelling was using actual pay to determine a member's contribution tier.

3.4 Anne-Marie Pettie discussed the high level summary and comparisons of the structures modelled, starting with the existing structure then various amendments to ensure the 9.8% yield is achieved and using WTE earnings to determine the member's contribution tier. Some models included reducing the number of tiers and there was also a flat and a banded structure.

3.5 Anne-Marie highlighted that the member data used by GAD is from the 31 March 2016 Valuation, and some assumptions have been made for the current pay profile. The salary used is one actual per individual and may not be entirely accurate for members with multiple part time employments which have been added together to make one actual salary.

3.6 Alan Robertson highlighted page 9 of the presentation, where he thought the increases applied were a lot higher than actual earnings. The increases shown are Agenda for Change (AFC) and not medical staff which are different.

3.7 Anne-Marie Pettie agreed they had taken a broad average but they didn't envisage it making a huge difference due to how the yield is calculated. GAD committed to assessing what the impact would be of better reflecting salary increases that have applied to members on different earnings in recent years, and in particular those not on AfC pay bands.

3.8 Willie Duffy advised there was a current ballot on 4% pay-rise for AFC, and asked if this will affect the assumptions in the event the pay offer is accepted.

3.9 Anne-Marie Pettie confirmed they would intend to factor that in for future modelling examples.

3.10 Derek Lindsay said percentages pay increase will be much higher for lower earners than higher earners due to consolidation of points within the bands. This would make a minimum of 9% pay increase for these members of staff, perhaps counterbalancing the medical staff having lower pay increases.

3.11 Willie Duffy intimated that some members got up to 27% pay increase when the bands were removed and consolidated, and bands 5 6 and 7 had some of their pay points deleted and was this factored into the models.

3.12 Derek Lindsay suggested GAD could request further information from the Unions for more accurate figures for the models.

3.13 Anne-Marie Pettie advised GAD had initially used a very broad increase for all members, and there was no scope to look at individuals but there may be some benefit in using banding to reflect differences between high and low earners to make the examples more reflective.

AP2021/12 – GAD to consider the impact of better reflecting actual salary increases that have applied to members, in particular those not on AfC paybands.

3.14 Anne-Marie Pettie then provided an assessment of the 12 contribution structures GAD had modelled, including providing a comparison with the existing structure and a look at the impact on gross/take-home pay for members at different salary rates. The contribution structures were as follows and the general views of the SAB have been summarised for each structure below:

0 – Existing 2021/21 7-tier structure (5.2% - 14.7%)

- SAB view: This structure was discounted because it does not achieve the required yield of 9.8%, it is based on WTE and it is not justifiable as a contribution structure for a CARE Scheme

1 – Amended 7-tier structure (6.0% - 15.5%) – adjusted from existing structure to use actual pay and meet the required yield

- SAB view: Most SAB members were keen to discount this option. However, RCN were not minded to discount this option, as they were keen for a structure that applied minimal changes and for a lower contribution rate to continue to apply to all those on AfC Band 5, which this option would achieve.

2A – 5 tier structure (5.9% - 13.5%) - structure actively considered by NHS (E&W SAB)

- SAB view: This was discounted because on the basis that it would not achieve the required yield if replicated in NHS (Scotland) based on contribution data

2B & 2C – 5 tier structures (5.9% - 13.5%) – based on the structure in 2A and adjusted to meet the yield by increasing the tier 4 contribution rate (2B) and reducing the upper boundary for tier 4 (2C)

- SAB view: There was a view that there is perhaps less of a desire to align structure with NHS (E&W) than there had been previously. It was noted that these structures would only offer a lower rate (8.1%) to those on lower pay points of AfC Band 5, and those on higher pay points of this band would pay 9.8%/10%.

2D – 5 tier structure (5.9% - 13.5%) – set to align with NHS (Scotland) AfC pay points

- SAB view: It was noted that this would only offer a lower rate (8.1%) to those on lower pay points of AfC Band 5, and those on higher paypoints of this band would pay 9.8%.

2E – 5 tier structure (6.8% - 12.7%) – one third of the membership paying 9.8%, tiers 1 & 2 and 6 & 7 combined

- SAB view: This option was discounted by member representatives because of the contribution rate of 8.3% for all those on earnings below £20k was unacceptable. RCN also said all Band 5 paying 9.8% was unacceptable. Widely agreed increase of 2% in contribution rates at any level was unpalatable

3A – 6 tier structure (5.9% - 12.7%) – extension of the 5 tier structure shown in **2C** with additional tier added to reduce the increase in contribution rates between tiers

- SAB view: The BMA indicated they had no issue with this option but UNITE/UNISON would need to consider further. RCN viewed this as unacceptable as most of Band 5 would pay 9.8%

3B – 6 tier structure (5.9% - 12.7%) – extension of the 5 tier structure shown in **2E** with additional tier added to reduce the increase in contribution rates between tiers

- SAB view: This option was generally discounted as Option 3A was to be the only 6-tier option considered further.

4A & 4B – 3 tier structure (8.3% - 11.3%) – two-thirds of the membership paying 9.8%. 4A would see more lower-earners paying 9.8% than in 4B.

- SAB view: These options were generally discounted on the basis that these options represented too large a change to individual member contribution rates and were therefore unacceptable.

5 – 3 tier structure (9.8%) – all members would pay 9.8%

- SAB view: This option was again discounted on the basis that it was too large a change to individual member contribution rates and was therefore unacceptable.

6 – 5 band structure (6% - 15.75%) – all members would pay 9.8%

- SAB view: It was widely agreed that a banded structure would avoid the potential for significant increases in member contributions as a result of a small increase in earnings (as applies under a tiered structure). The structure should continue to protect lower earners and contribution of 6% was the maximum acceptable for lower earners.

However, there is still some hesitancy about such an option; it has been discounted by E&W and RCN were also inclined to avoid a banded structure. SAB requested 3 or 4 further illustrations of banded structures, with at least one of these mirroring income tax bands.

SAB also requested information on what resulting contribution rate would be under range of salaries so there was a better understanding of potential increase in contribution rate as a result of incremental increases in earnings.

3.15 Willie Duffy raised the issue of the 0.2% additional contribution which is currently included in the Scottish structure, to allow or annual increases in the tiers in line with AfC pay awards. Willie queried if that might be a saving in the new Scottish structure if England and Wales were now implementing indexation of tiers. The scheme in England and Wales has been able to achieve the yield without an additional 0.2% contribution being made.

3.17 Greg Walker commented that there had been 0.2% built in to allow the increase in tiers along with the AFC pay increases, and to offset any reduction in the yield as a result of adjusting tiers. However this is not been enough to allow 9.8% yield to be achieved in the Scottish scheme. The result of having no indexation in the England and Wales scheme means that as members pay increases each year, some members move into higher tiers and it increases the income for the scheme, which explains why they are more able to achieve the target yield.

3.18 Anne-Marie Pettie advised this was factored in so they would achieve the yield on average over a 4 year period but not annually. The approach in Scotland was to achieve the yield annually based on indexation of tiers.

3.19 Alan Robertson highlighted that as there was now no cost cap floor breach, the 0.7% can't be used to essentially pay for a move to actuals and any other proposed changes to the structure. The costs of these changes would have to be reflected in increases to the contribution rates.

3.20 Alan also highlighted that the modelled structures did not show the net impact with potential Annual Allowance and Lifetime Allowance charges, which makes a difference particularly for high earners. 8 out of 9 models that were presented were based on tiered approach but banded might be better as other taxes were not included which would affect the high earners. It looks from the graphs that higher earners are paying lower levels than they actually are if you factor in pensions tax.

3.21 Greg Walker stated E & W had discounted a banded approach due to admin challenges and concern over communication to members.

3.22 Derek Lindsay said Local Government schemes were banded, and it would be good to have illustrated examples to negate the difficulties in employer communications. Then after discussing his views of the contribution structure paper and options, he had agreed with colleagues that a banded structure would be preferable.

3.23 Lorraine Hunter spoke about banded approach, and how to convey communications for better employee understanding. This could be supported by online modellers available to members to see how they would be affected by the options.

3.24 Alan Robertson asked if SAB can share the paper internally and GAD were in agreement with this.

3.25 Derek Lindsay noted that banded structure needed more modelling options from GAD.

AP2021/13 - GAD to provide further options for banded structure

3.26 Willie Duffy advised Unison could not support some options due to negative impact on lower paid members and surmised that BMA may not be able to support some of the options due to the impact on higher earning members.

3.27 Alan Robertson said Option 1 existing and amended tier structure was not acceptable for CARE and may encourage some members may leave the scheme because of increased contributions.

3.28 Graham Pirie asked how we could sell contribution rate increase for option 1 as it was not palatable for members due to the increased contribution rate.

3.29 Ros Shaw commented that Option 1 was the most straightforward and easier to convey to members and employers but would need reduction in number of tiers. RCN wanted minimal change but they were not completely against it.

3.30 Alan Robertson stated we need to achieve a yield of 9.8% but there is no extra money. He said it would be useful to know at what stage E & W were, because this could make a difference to the Scottish structure as HMT may want them aligned.

3.31 Greg Walker explained E & W had already provided formal written advice to Secretary of State and DHSC officials were to come back with a proposal for SAB. HMT's main interest is Scotland achieve 9.8% yield, but doesn't have to be exactly the same structure as E & W. Greg confirmed timescales and that SAB were required to submit written formal advice to SPPA by end of June, SPPA will then provide advice to Ministers and come back to SAB with a proposal at the July meeting and SAB will then feedback on this proposal by end July. The draft structure will then go out for consultation in September.

3.32 Derek Lindsay said there were different demographics in Scotland so we may not be able to align with E & W and should make a case based on Scottish demographics.

3.33 Ros Shaw proposed there needed to be some adjustment for the low paid, and as a large proportion of their members are in band 5 there needed to be an incentive for newly qualified Band 5's to encourage new members to join the scheme.

3.34 Derek Lindsay thought this would make it more attractive to new recruits but would it may mean a cliff edge detrimental affect between tiers.

3.35 Ros Shaw suggested there needed to be some protection to encourage both higher and lower bands to stay in the scheme.

3.36 Graham Pirie commented that band 5 will hit cliff edge at some point and this would be discouraging for members.

3.37 Alan Robertson commented that the tiers were not aligned to pay structure and banded structure is a fairer way forward.

3.38 Willie Duffy asked GAD to model something not using incremental progression through a tier for AFC bands as he doesn't want members leaving scheme just because they move up the increments in their pay-band.

3.39 Derek Lindsay said Option 2A shows anomaly with tax and take home pay and he would expect it to be progressive in tax and rate.

3.40 Alan Robertson commented that the 2D model was not looking at the other taxes such as AA and LTA to try and make the scheme more attractive to members. Some of the structures are trying deal with issue of low pay which should be a pay issue rather than a pension scheme issue.

3.41 Willie Duffy agreed Option 2E was unacceptable to Unison as the contribution rate increase was unpalatable for low earners and the other SAB members agreed 2E should be discounted.

3.42 Derek Lindsay questioned what starting rate of contributions could achieve 9.8% yield and suggested it should be 6% for new structure to avoid a yield shortfall.

3.43 Graham Pirie said 6% might not be acceptable as it would still not make the yield.

3.44 Willie Duffy gave his apologies and left the meeting at this point, and the chair was given over to Derek Lindsay.

3.45 Derek Lindsay suggested that structure 2E might be unacceptable due to starting contribution rate of 6.8% and perhaps moving to 3A – 6 tiered structure with starting point 5.9% would be more acceptable.

3.46 A number of member representatives commented that they could not commit to whether or not individual structures were acceptable for their organisations without consulting with them first. Greg Walker asked for feedback by email following the meeting on the proposed structures from SAB members who were unable to express a view at the meeting.

AP2021/14 – Member representatives to feedback on proposed structures by email following the meeting.

3.47 Jackie Mitchell suggested discussing options further between member reps before coming back to SAB for discussion.

3.48 Derek Lindsay asked if the member side had a preference for a banded or tiered system

3.49 Ros Shaw intimated that RCN preferred maintaining a tiered structure.

3.50 Alan Robertson commented that revised banded structures are needed for comparisons to show take home pay and tax relief.

3.51 Ros Shaw commented that Options 3A and 3B not as palatable as it puts Band 8's and above in a contribution rate of 12.7%.

3.52 Derek Lindsay suggested that keeping rates low for lower earners means challenges for high earners and needs compromise. Derek suggested the 3-tier structures (4A & 4B) with starting rate at 8.3% would not be acceptable.

3.53 Alan Robertson also suggested this starting rate was too high, that membership for lower earners needs to be encouraged and this was a big jump for them in cost of contributions.

3.54 Derek Lindsay agreed the flat rate of 9.8% contributions for all members was not acceptable for anyone. Derek suggested that it would be helpful to have more examples of banded structures starting at 6% for lowest paid, but that 15.75% was too high for members earning £40k or more and they would be looking to narrow the range of contributions.

3.55 Anne-Marie Pettie offered to look at comparisons between 3 of each of the tiered and banded structures and add more bands.

3.56 Alan Robertson suggested GAD should illustrate various pay points to show members the impact of contribution rate changes on their take home pay.

3.57 Anne-Marie Pettie asked to what extent they should factor in pensions tax for high earners in any of the examples.

3.58 Derek Lindsay suggested it may be too complicated to take into consideration pension tax in modelling.

3.59 Greg Walker explained the BMA had provided their own examples to the SAB for E & W. The SAB in E&W had also recommended the introduction of flexible accrual as a way to allow high earners to control their pension growth and to minimise opt outs.

3.60 George Russell commented that Treasury officials had been negative about flexible accrual during a recent session with the public accounts committee.

3.61 Alan Robertson agreed that more members were opting out and not taking on certain roles because contribution rate increases and other taxes had a negative effect on pay.

AP2021/15 - Greg Walker said he would ask E&W SAB if they can share willing to share their initial advice to DHSC on their preferred member contribution structures.

AOB

4.1 No other business except plans for date of next meeting which would be sent by Greg Walker shortly.

4.2 The Chair thanked everyone for attendance and closed meeting.