



Scottish Public
Pensions Agency
Buidheann Peinnseanan
Poblach na h-Alba

***NHS Pension Scheme (Scotland):
proposed changes to member
contributions from 1 April 2022***

***Scottish Government consultation
2022***

Interim Consultation Response

1. Background

- 1.1. The NHS Pension Scheme (Scotland) (NHSPS(S)) continues to be an integral part of the NHS Scotland remuneration package and offers significant value in retirement to NHS staff.
- 1.2. Currently contribution rates are tiered to reflect that higher earners are likely to receive proportionally more pension benefits than lower earners from the pension scheme. To ensure the costs of the NHSPS(S) are fairly distributed and affordable for all members, these tiered contribution rates ask higher earners to pay proportionally more than lower earners to access the valuable benefits of the scheme.
- 1.3. As part of the [McCloud remedy](#), from 1 April 2022 all members will move from the NHS final salary schemes to the NHS Pension Scheme 2015 which is a career average revalued earnings (CARE) scheme. In a CARE scheme members earn a percentage of their salary for each year they work. While a high percentage of members will retain a final salary link for their final salary scheme benefits, the move to a CARE scheme means that the costs and benefits of the scheme should be more evenly shared.
- 1.4. As such, the SPPA published a public consultation which sought views on changes to member contributions, which aimed to preserve participation in the scheme while protecting its substantial value for members in retirement. The SPPA has sought to reach agreement on the proposals through public consultation and consultation with key stakeholders through the Scheme Advisory Board.

2. Contribution yield

- 2.1. The consultation document set out, that as a result of recommendations made by the Independent Public Service Pensions Commission in 2010 the UK government announced a 3.2% increase in employee contributions across the public service pension schemes. This increase meant that members in the NHSPS(S) are required collectively to contribute 9.8% across the whole scheme membership. This is known as the member contribution 'yield'.
- 2.2. The tiered contribution structure implemented in the NHSPS(S) from 1 April 2015 was designed so that the 9.8% yield was achieved. However, as a result of changes in workforce distribution, the NHSPS(S) has begun to underperform against the target yield and over the last three years has achieved a yield of around 9.6%.
- 2.3. HM Treasury require that the revised member contribution structure for the year 2022-23 must achieve the original target yield of 9.8%. As a result, before any structural changes to member contributions can be considered, the contribution

rates for all members need to increase by 0.2%, as compared to the current rates, to ensure the target 9.8% contribution yield is met.

2.4. Given the extremely challenging circumstances for our valued health workforce, with high inflation and National Insurance contribution increases from April 2022 set to impact on pay; the Scottish Government is reluctant to increase contribution rates for NHS staff further from 1 April 2022 and would prefer to continue with a structure which delivers the current yield of 9.6% for 2022-23.

2.5. However, if the Scottish Government continued with the yield position of 9.6% for 2022-23 this would result in a shortfall in the yield of around £12m per annum. HM Treasury have confirmed they would require this shortfall is met from within the Scottish Government budgets.

2.6. Throughout the consultation period the Scottish Government have continued to seek flexibility from HM Treasury for contribution rates to be set to continue to yield 9.6% of pensionable pay from 1 April 2022, on the basis that 9.8% would be achieved in subsequent years.

3. Summary of proposals

3.1. The consultation on the proposals and draft regulations, which began on 24 January 2022 and ended on 27 February 2022, sought views on the following proposed changes to the contribution structure:

- Change members' contribution rates so that they would be based on actual pensionable pay instead of members' notional whole-time equivalent pay
- Rebalancing the contribution structure by narrowing the range of contribution rates.
- Change to the approach of increasing tier boundaries in line with annual AfC pay awards
- Phasing in the member contribution structure over 2 years

3.2. In line the changes detailed above and the overriding principle of ensuring that the scheme remains a sustainable and valuable part of the reward package for NHS staff, the consultation document proposed the following new contribution structure (shown in table 1 below). The structure sought to phase in the required changes over two years.

3.3. The table included two proposed structures for year one (2022-23), one which did not meet the target yield, achieving only 9.6%, as shown in column C, and an option which achieved the 9.8% target yield, shown in column D.

Table 1 - Proposed contribution structure

A	B	C	D	E
Current tiers	Pensionable earnings (rounded down to nearest pound)	Rate from 1 Apr 2022 (9.6% yield)	Rate from 1 Apr 2022 (9.8% yield)	Rate from 1 April 2023 (9.8% yield)
		(Actual pay)	(Actual pay)	(Actual pay)
Tier 1	Up to £13,330	5.5%	5.7%	5.9%
Tier 2	£13,331 to £21,614	5.9%	6.2%	6.5%
Tier 3	£21,615 to £25,981	6.5%	6.7%	6.9%
Tier 4	£25,982 to £32,915	7.9%	8.4%	8.8%
Tier 5	£32,916 to £48,784	10.3%	10.5%	10.8%
Tier 6	£48,785 to £65,376	10.9%	11.0%	11.4%
Tier 7	£65,377 and above	13.7%	13.7%	12.7%

4. Interim Consultation Response

4.1. As highlighted in the consultation document, the Scottish Government have continued to make a strong case to HM Treasury that an increase in the contribution yield from 9.6% to 9.8% for 2022-23 is not required because the current employer contribution rate was set to account for the shortfall in member contributions.

4.2. During the consultation period we have continued to engage with HM Treasury around the yield requirements and the Scottish Ministers wrote to the Chief Secretary to the Treasury (CST) seeking flexibility for contribution rates to be set to continue to yield 9.6% of pensionable pay for 2022-23. This was on the basis that flexibility is required to allow the Scottish Government to implement a contribution structure from 1 April 2022 which would recognise the current strains on the health workforce.

4.3. In response to the letter from the Scottish Ministers, the CST has agreed that reform of the pension contribution structure can be delayed until October 2022, which avoids increasing pension contributions at the same time as increases to National Insurance contributions. The Scottish Ministers have decided that this delay would be appropriate and would avoid immediate pressures on the take-home pay of NHS staff. This is consistent with the approach being taken for the scheme in England & Wales.

4.4. **The current member contribution rates will therefore continue until 1 October 2022.** The contribution tier thresholds, however, will be increased from 1 April 2022 in line with AfC pay increases, as has been the policy since 2015. The amending regulations which will increase the tier thresholds will be subject to a short consultation and will be effective from 1 April 2022.

4.5. As a result of the delay in the implementation of the contribution reforms until October 2022, we intend to have further consultation during the summer which will be based on responses received to this consultation and will allow for a full 12-week consultation period which was not previously possible.

4.6. A full response to the initial consultation will be published in due course.