

NHS Pension Scheme Scotland Scheme Advisory Board

Draft Minutes

Date	13 June 2023
May	Virtual meeting via Microsoft Teams
Chair	Derek Lindsay (NHS Ayrshire & Arran)
Attendees	Alan Robertson (BMA) Anne-Marie Pettie (GAD) Andrew Carter (NHS Borders) Graham Pirie (RCPOD) Greg Donaldson (GAD) Jane Christie-Flight (Unite) Matt McLaughlin (Unison) Philip McEvoy (BDA) Robin McNaught (State Hospital) Ruth Kelly (NHS Lothian)
SG / SPPA Officials	Brenda Callow (SPPA) Greg Walker (SPPA) Iain Coltman (SPPA) Jack McAllister (SPPA)
Secretariat	Carole Bertram (SPPA)
Apologies	Jackie Mitchell (RCM) Lorraine Hunter (NHS Grampian) Ros Shaw (RCN) Daniel MacDonald (SG)

1. Welcome and Apologies

1.1 The Chair welcomed attendees and asked if there were any conflicts of interest.

2. Minutes of previous meeting and action log

Paper 2a – Draft SAB minutes of 7 March 2023

2.1 Derek Lindsay notified typographical corrections on page 3 and items 3.2 and 4.2. Amendments to be actioned and minutes recirculated.

Paper 2b – Action Log

2.2 **Action point 2021/02** - SPPA to investigate Pensionable Allowances – Passed to Technical Working Group for consideration. The meeting on 28 March 2023 was cancelled and rescheduled for 20 June 2023 with pensionable allowances noted on the workplan. A further update will be provided following this meeting. **Carried forward**

2.3 **Action Point 2021/25** - SPPA to confirm if electric cars could be an approved salary sacrifice scheme under the pension scheme. On agenda to be discussed under AOB.

2.4 **Action Point 2022/06** - SPPA to provide new contributions consultation document to SAB ahead of publication. Greg Walker has prepared Paper 4 to be discussed today. **Action closed.**

2.5 **Action 2022/10** - SPPA to explore with Practitioner Services if GP data can show all members in scheme during the relevant period, including start and end dates. **Carried forward**

2.6 **Action 2022/11** - SPPA to explore adding retirement figures to the participation report to be presented at the next meeting. **Carried forward**

2.7 **Action 2022/14** – Action for SPPA to ask the Technical Working Group (TWG) to consider administrative implications of flexible accrual proposal. Greg Walker noted that the position with flexible accrual had moved on since the pension tax changes announced at the Spring Budget on 15 March 2023. Greg recognised that the flexible accrual proposal put forward by the SAB was broader than just for high earners and proposed flexibility for all members, however, it is understood that HM Treasury are not receptive to the introduction of any such scheme flexibility at this time.

2.8 SAB agreed not to commission TWG to any work on this but agreed flexible accrual should remain on the SAB's agenda. **Action closed.**

2.9 **Action 2022/16** – for SPPA to look at adding the member's scheme pays debit the Annual Benefit Statement (ABS). Greg Walker noted that this won't be possible for this year's ABS given the changes that are being developed to accommodate remedy. It was noted that this is also an outstanding action for the Pension Board where it

would more naturally sit. Greg proposed closing the SAB action and allowing this request to be pursued through the Pension Board. Alan Robertson was happy for the Pension Board to take forward with a focus on next year's ABS. **Action closed.**

2.10 **Action 2023/01** – As previously discussed the final version of the SAB's flexible accrual business case was shared with SAB prior to this meeting. The business case was sent to HM Treasury officials on 10 February 2023 and while they have acknowledged receipt, they have not responded with any comments on the proposals. **Action closed.**

Matters Arising

2.12 Alan Robertson raised the issue of flexible retirement and highlighted that further guidance for members and employers was urgently required. Ruth Kelly emphasised the need for employer and employee guidance on partial retirement.

2.13 Greg Walker replied that employer guidance was being prepared in consultation with SG health workforce colleagues and would be shared with SAB before being issued. Greg also noted that SPPA website and retirement forms have been updated to allow for applications for partial retirement from October and more detailed guidance will be published in due course.

2.14 Derek Lindsay highlighted timing was crucial, and Matt McLaughlin noted the requirement for changes to terms and conditions in order to access partial retirement.

2.15 Derek Lindsay enquired as to whether or not entering into a salary sacrifice arrangement could be used to achieve 10% reduction in pensionable pay. Greg Walker noted that this would be covered in guidance for partial retirement.

2.16 Phil McEvoy highlighted that consideration was being given in England and Wales on how partial retirement option is affected by the McCloud Remedy.

Action Point 2023/02 – SPPA to share flexible retirement guidance for employers with SAB for comment prior to publication.

Paper 3a – Valuation Data Issues

3.1 Greg Walker provided a summary of the issues GAD encountered in collating scheme membership experience data as part of the 2020 valuation process and an update of SPPA's plans for improvements to the data extraction process ahead of the next valuation round.

3.2 Greg Walker also stated that SPPA recognise that it is imperative to achieve and maintain the highest possible data quality standards, to comply with its core functions and to meet the needs of The Pensions Regulator. Greg added that SPPA is committed to improving data quality and is in the process of instigating a Data Improvement Plan.

This work should ensure that SPPA is able to efficiently extract and provide GAD with good quality data for the next NHSPS (Scotland) valuation.

3.3 Alan Robertson enquired if the way data had been collated in previous years had made a difference to the results of previous valuations and the underlying assumptions adopted.

3.4 Greg Donaldson (GAD) replied that although there was limited useable NHSPS (Scotland)-specific data provided by SPPA to inform the assumptions recommendations for this valuation round, it is also normal to consider experience from other sources, including nationwide population data and experience pooled from other similar pension schemes (i.e., NHSPS (E&W) in this case).

3.5 Iain Coltman confirmed that SPPA has engaged with their administration software provider to implement improvements to the data extraction process, in time for the next valuation at 31 March 2024.

Paper 3b – NHS 2020 Valuation Assumptions

3.6 Anne-Marie Pettie & Greg Donaldson (GAD) provided a detailed walk through of a report setting out GAD's draft recommendations for the scheme set assumptions for the actuarial valuation at 31 March 2020. For most SAB members, this would be their first round on valuations. The document reported on by GAD officials included the process followed to reach the proposed recommendations for each scheme set assumption, and details of the underlying analysis undertaken. The minutes below reflect key discussion points at the meeting and are not intended to repeat all of the commentary covered in GAD's report.

3.7 GAD highlighted that the NHSPS (Scotland) movements data provided by SPPA was not sufficiently credible to inform a robust analysis of experience over 2016-2020 to support the draft assumptions recommendations. As a result, the draft assumptions recommendations were more heavily reliant on analysis of NHSPS (E&W) experience over the period 1 April 2016 to 31 March 2020, but with allowance made for likely differences between the expectations for future experience for members in NHSPS (Scotland) members, relative to members in NHSPS (E&W). Where possible, GAD referenced alternative data sources to consider alongside the recommendations, including trends seen in information disclosed in the annual Resource Accounts.

3.8 During the discussion around the mortality after retirement assumption, Phil McEvoy highlighted that the recommendation of a 12.5% loading being applied to the draft NHSPS (E&W) assumptions was lower than the difference in national mortality rates shown in a chart in GAD's report. Phil therefore posed the question whether the recommended loading was high enough.

3.9 Greg Donaldson explained that, when looking at aggregate population mortality only, the difference in mortality rates between Scotland and England & Wales

appeared to be around 20%. However, after making allowance for the memberships in NHSPS (E&W) and NHSPS (Scotland) being from broadly similar socio-economic groups, the expected difference in life expectancies between the workforces in these regions is likely to be lower than the national differences. The GAD analysis concluded that the difference in mortality rates between NHS staff in Scotland and England & Wales varied by age and sex, and was in the range of 5-20%. There therefore seemed to be little evidence to suggest that the loading used for the 2016 valuation of 12.5% was now inappropriate.

3.10 GAD continued with their presentation, introducing each individual scheme set assumption recommendation and the supporting analysis.

3.11 Derek Lindsay raised a question in relation to the proportion commuted assumptions recommendations and asked if the assumptions for the 1995 Section was the amount of pension commuted, and therefore assumes members receive, on average, a lump sum amount in addition to the 3/80th automatic lump sum. Anne-Marie Pettie confirmed this was the case.

3.12 Derek Lindsay followed up with querying what the commutation assumption for the 1995 Section represents as a percentage of the tax-free limit under HMRC rules. Anne-Marie agreed that GAD would follow up with this information separately.

3.13 Derek Lindsay also queried how the proportion commuted assumptions compare across different public service pension schemes. Anne-Marie Pettie confirmed that there has been a general trend seen that members are commuting more benefits for cash than previously assumed, when public service pension schemes are considered in aggregate.

3.14 Phil McEvoy commented that the recommendations for proportion commuted seemed sensible. Phil explained that for NHSPS (E&W), this was discussed before the Spring 2023 Budget and asked if the impact of the changes to the HMRC tax free limit has been considered for E&W (noting the same assumption was being adopted in Scotland). Anne-Marie Pettie agreed that GAD would consider this and follow up with a response to the SAB.

3.15 During the presentation of the rates of leaving service, Alan Robertson asked why assuming higher rates of withdrawal leads to lower pension costs, when the final salary benefits for members are linked to salary growth, which have been below inflation in recent years, and therefore result in lower benefits than if members left the scheme and received deferred increases. Greg Donaldson explained that assumptions for inflation and earnings growth are prescribed in HM Treasury's Directions. The earnings growth assumptions are based on projected public sector earnings growth, and therefore the assumptions prescribed do not capture variations in pay growth between the NHSPS (Scotland) workforce and the overall public sector workforce. The assumptions prescribed by HM Treasury reflect that expectations for public sector earnings growth will exceed inflation into the future.

3.16 Alan Robertson asked whether this results in the pension costs for NHSPS (Scotland) being overestimated. Greg Donaldson explained that any variance between the assumed pay progression prescribed by the Directions for the 2020 valuation and actual pay progression would come through as experience in the next valuation in 2024. For example, if general pay progression (relative to inflation) is lower than the assumptions prescribed by HM Treasury, this would act as a downward pressure on the employer contribution rate at the next valuation.

3.17 Phil McEvoy suggested that the SAB considers the sensitivity of the results to the rates of leaving service assumption when provisional results are available.

3.18 Greg Donaldson explained that GAD analysis to support an assumption recommendation for promotional pay increases is ongoing and will therefore be discussed with the SAB at a later date. However, the promotional pay assumption is typically unchanged from one valuation to the next, unless it can be supported by strong evidence to suggest that there has been a long-term change in the overall pay profile and promotion pathway in the workforce.

3.19 Greg Donaldson confirmed that a copy of the presentation would be circulated to the SAB following the meeting.

3.20 Derek Lindsay asked whether SAB views on the draft assumptions recommendations was being sought at the meeting. Anne-Marie Pettie replied that the assumptions for NHSPS (E&W) are still to be formally agreed, and the dependency of the assumptions for NHSPS (Scotland) on the assumptions for NHSPS (E&W) means that formal/final SAB input will be sought at a later stage. Greg Walker requested that initial feedback from SAB on the draft assumptions recommendations for NHSPS (Scotland) is provided by end of June 2023.

Action Point 2023/03 – SAB to provide initial feedback on the draft assumptions recommendations for NHSPS (Scotland) by end of June 2023

3.21 Derek Lindsay thanked Anne-Marie Pettie and Greg Donaldson for the presentation. Greg Walker requested that any comments from the SAB on the draft assumptions recommendations are shared through SPPA.

Paper 4 – NHS Pension Scheme (Scotland): proposed changes to member contributions from 1 October 2023 & miscellaneous amendments.

4.1 Greg Walker provided an overview of the proposed changes to member contributions from 1 October 2023 consultation document and confirmed that the consultation will run for a period of 12 weeks until 15 August 2023. Greg Walker also stated that SAB had been notified and presented with the document prior to publication.

4.2 Derek Lindsay queried regarding the phased implementation approach if England and Wales still have a phase to go which Greg confirmed.

4.3 Greg Walker also provided an overview of the miscellaneous scheme amendments included within this consultation document such as Final Pay Controls and proposals to align these controls with that of the England and Wales Scheme.

4.4 Greg Walker also reported on the proposed amendments to scheme opt out rules for Practitioners and also outlined that the proposals seek to amend the NHS 2015 Scheme regulations to include a definition of 'Assistant Practitioner'.

4.5 Greg also discussed salary sacrifice and the potential for change in the regulations which would formally give power to the scheme manager to determine which salary sacrifice schemes are pensionable.

4.6 Derek Lindsay stated that in relation to salary sacrifice, he wished to discuss this and in particular electric car leasing as a salary sacrifice under other business at today's meeting.

4.7 Greg Walker stated that the consultation response will be shared with SAB prior to publication once the consultation process has closed and responses have been analysed.

5 McCloud 2015 Remedy Update (Paper 5)

5.1 Brenda Callow provided an update on the 2015 Remedy progress and findings of the Remedy Sub-Group.

5.2 Alan Robertson commented the HMRC webinars on tax implications of remedy were helpful.

5.3 Brenda Callow highlighted remedy regulations have to be in place from 1 October 2023 she confirmed SPPA were on track to meet this deadline.

5.4 Phil McEvoy sought confirmation that there would be no ABS or Pension Savings Statements in 2023 for members who are affected by remedy. Iain Coltman confirmed this to be the case.

5.5 Phil McEvoy expressed concern that members are expected to put something on their tax return for 2023. Iain Coltman replied SPPA are looking at this and will provide information for members.

5.6 Derek Lindsay thanked Brenda and the Sub Group for the update.

6. Any Other Business

Salary Sacrifice – Electric Vehicles

6.1 Derek Lindsay tabled a paper for discussion on salary sacrifice for electric vehicles which sought to address outstanding action point 2021/25 - *SPPA to confirm if electric cars could be an approved salary sacrifice scheme under the pension scheme and employer representatives to consider agreeing a collective position on the pensionability of this salary sacrifice scheme.*

6.2 Derek noted that the Management Steering Group has considered the issue on 5 October 2022 and had suggested their preferred position was that employees should have a choice whether pension should be deducted before or after salary sacrifice for electric vehicles.

6.3 Derek summarised the recommendation put forward in the paper which asked SAB to support a continuation of current practice for the HMRC approved cycle to work and childcare vouchers salary sacrifices but the default position for salary sacrifice for electric vehicles should be that it is not pensionable unless the employee opts otherwise.

6.4 Ruth Kelly highlighted that there is an inconsistent approach taken to the pension treatment of salary sacrifice schemes across employers and that salary sacrifice for child care and white goods is pensionable in NHS Lothian. Ruth expressed concern that a different arrangement specifically for electric cars would cause confusion.

6.5 Alan Robertson highlighted availability and consistency is important for members and a consensus needs to be reached.

6.6 Phil McEvoy noted that he felt flexibility for individual members would be his preference.

6.7 Derek Lindsay confirmed there was a number of employers who would like to offer this to members and asked for a decision from SAB.

6.8 Derek asked if SPPA had enough feedback from SAB to develop an instruction on salary sacrifice for electric vehicles. Greg Walker confirmed he would take this away based on SAB feedback and develop an employer circular.

Action Point 2023/04 – SPPA to draft an employer circular on salary sacrifice and share with SAB.

Date of next meeting

Next Meeting 6 September 2023

Meeting closed 16.32.