

Making sense of the Hutton report

Last year, Health Secretary Andrew Lansley outlined the government's latest proposals for the NHS Pension Scheme following on from the Hutton report. Over the coming weeks and months negotiations will continue between the government and unions and while we can not yet be sure what the final outcome will be, it is certain there will be changes to your NHS pension. This article explains how some of the proposed changes will affect you.

Changes to how benefits are calculated

At present, hospital doctors' retirement benefits are based on final salary, meaning the pension is calculated on a formula linked to the length of your pensionable service and your pay close to your retirement age.

In his report, Lord Hutton recommended that this change to a career average scheme. This means you would build up a 'slice' of pension each year of your service, based on your salary in that year. That slice – and future slices – would be increased in value every year by rises in average UK earnings. On retirement, the total accumulated 'slices' make up your pension pot.

While the size of these annual pension slices has yet to be confirmed, the Department of Health has proposed they be 1/54th of annual pensionable earnings.

Increase in retirement age

It is proposed that in the new career average scheme, the normal pension age should be the state pension age, which depending on your gender and date of birth could be as high as 68 years old.

A hospital doctor's normal pension age will depend on what section of the NHS Pension Scheme he/she is in. If you are in the 2008 section, then you will have a normal pension age of 65 years. For those in the 1995 section, it will be 60 years. This means you could be working for an extra 3–8 years.

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What happens to the benefits already built up?

The Hutton report recommends that the pension promises already built up by you under the present NHS Pension Scheme should be honoured in full, including the right to take those benefits at your normal retirement age. In practice, this means maintaining the final salary link for past service for hospital doctors and ring-fencing the benefits built up to the date of change.

How this would work is that a member who had been building up benefits that would currently be paid at 60 years without any reductions in the existing scheme would still be able to take those unreduced pension rights at that age. Only their future service will be based on the new career average basis, including the later normal retirement ages.

Other benefits, such as death and ill-health benefits, should also be maintained broadly in their present form.

Rise in pension contributions

Put simply, you will have to pay more to remain as a member of the NHS Pension Scheme.

In a response to a consultation on the proposed increases in employee contribution rates that will come into effect from April 2012, the government indicated the increase in contributions for members' earnings over £50 000 will be 2.4%, meaning a total of 10.9% for top earners in 2012–13. Further rises are expected after this but the government has indicated that it does not expect contributions to rise by more than 6% in total by 2014–15.

When will the changes come into effect?

Discussions between the government and those parties representing the NHS Pension Scheme are still ongoing. Assuming an agreement is reached, the government anticipates it will be able to introduce a new career average scheme before the end of this parliament in 2015. However, as already stated, the increases in pension contributions will start before then.

Will you be worse off?

The report is clear to stress that career average schemes may provide a similar level of retirement benefits to those offered under final salary schemes, although realistically this would only be for those whose salaries increase at a modest rate throughout their careers.

It is fair to assume that many current members will be adversely affected, particularly the younger members whose normal retirement age will be extended to 68 years and who will spend most of their career on the new scheme.

Those close to retirement will be less affected as they will have built up the lion's share of their pensionable service under the current arrangements. Those who are within 10 years of retirement will have their benefits protected. This would mean all active NHS Pension Scheme members who, as of 1 April 2012, have 10 years or less to their current retirement age will see no change in when they can retire, nor any decrease in the amount of pension they will receive.

What happens next?

This is undoubtedly one of the biggest shake ups to public sector pensions ever seen. For hospital doctors in particular, there could be fundamental changes to the way their pensions are calculated.

At the time of writing, what is outlined here is based on the proposals and initial heads of agreement reached with unions only. Negotiations are still ongoing and nothing has been confirmed.

However, it is likely that you will be asked to pay more to earn less pension and retire later. Nevertheless, the NHS Pension Scheme will still be generous and it would be unwise to make any hasty decisions about whether or not to withdraw from the scheme until final details are known.

Those who are relying on the NHS Pension Scheme and have concerns about the future may want to put plans in place to minimize the effects of the changes. As such, it is worth seeking guidance from a financial adviser who has a good understanding of the NHS Pension Scheme. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.