

HSC Pension Scheme

*Proposed Changes to Member
Contributions from 1 November 2022*

Department of Health

Response Document

Introduction and Summary of Proposals

The HSC Pension Scheme is designed to offer significant value in retirement to people who have chosen to dedicate part, or all, of their careers to serving the public through the HSC. Backed by the Exchequer, the scheme offers the security of a guaranteed income in every year of retirement for all its members, on some of the most generous terms available from a pension scheme, in recognition of their service to the HSC and the country.

In 2008, tiered contribution rates were introduced to reflect that higher earners were likely to receive proportionally more benefits than lower earners over the course of their retirement, due in part to their final salary link.

To ensure the cost of the HSC Pension Scheme was fairly distributed and affordable for all members, these tiered contribution rates asked higher earners to pay proportionally more than lower earners to access the valuable benefits of the scheme.

The HSC Pension Scheme introduced a career average revalued earnings (CARE) model in 2015 and, since 1 April 2022, all members have been building up CARE benefits. This change ensures that the costs and benefits of the scheme are more evenly shared.

As such, a public consultation was published on 6 December 2021 and views were sought from all interested parties to inform changes to member contributions, with a view to preserving participation in the scheme while protecting its substantial value for members in retirement. The Department has sought to reach agreement on the proposals through public consultation and consultation with key stakeholders through the Scheme Advisory Board.

The proposed amendments in the consultation were to:

- change members' contribution rates so that they would be based on actual pensionable pay instead of members' notional whole-time equivalent pay

- amend the structure for member contributions and the amount of member contributions payable by different cohorts of members
- annually increase the member contribution tier thresholds in line with Agenda for Change (AfC) pay awards
- phase in the member contribution structure over 2 years

This document sets out the Department's response to comments received through public consultation.

Changes to the timing of the reforms

In line with other health schemes across the UK, and mindful of the pressures on take-home pay from 1 April 2022, the Department has decided that these changes will be postponed until 1 November 2022. This might mitigate the impact on take-home pay for some HSC staff in the short term. By postponing the reforms, the need to reform the member contribution structure is balanced against managing the impact on members' net income, particularly those who work full time on lower rates of annual pay.

The delay in implementation also allowed further consideration regarding the yield issue raised in the consultation before issue of this response.

Consultation process

The proposals and draft regulations were subject to a consultation which began on 6 December 2021 and ended on 31 January 2022. A document describing the proposals and draft regulations was published on the Department's website.

HSC Pension Scheme members, HSC Employers, Trade Unions and other interested parties were formally notified of the consultation.

Prior to publication of the consultation document, the Department worked with the Scheme Advisory Board to review the member contribution structure. The Scheme Advisory Board is a statutory board comprising trade union and employer representatives that advises the Department on the merits of making changes to the HSC Pension Scheme.

As part of governance arrangements for the HSC Pension Scheme, the consultation document was provided to members of the HSC Pension Scheme Advisory Board (SAB) and the HSC Pension Scheme Pension Board.

The Department welcomed any comments or views on the proposals and draft regulations.

A total of 18 responses were received, 9 from individuals and 9 from the following organisations:

British Dental Association

British Medical Association

Chartered Society of Physiotherapy

Managers in Partnership

NIPSA

Royal College of Midwives

Royal College of Nursing

Royal College of Podiatry

Society of Radiographers

The Department is also grateful for the suggestions that respondents made in relation to clarity of terminology and communication of the changes to members and these comments will be taken in to account in moving forward with this work.

Proposals

The consultation asked whether respondents agreed or disagreed that the maintenance of pension parity (in terms of contribution tiers and rates) with England and Wales was an important principle which should be maintained given that this may impact on the contribution levels.

The other proposals outlined in the initial consultation document were:

1. Members' contribution rates would change to be based on actual pensionable pay instead of members' notional whole-time equivalent pay.

As a reflection of the increasing number of scheme members with no active final salary link, this change would mean that many part-time members will see their contribution amounts reduce. Members who work part time would benefit from their contributions more accurately reflecting the amount of pension they are building.

2. The structure for member contributions would change.

Heavily informed by stakeholder collaboration, the proposed member contribution tiers were set out in the consultation document, including a reduction in the number of tiers to 'flatten' the contribution model. This is explained in more detail below.

3. The thresholds for the member contribution tiers would be increased in line with annual AfC pay awards.

This proposal would benefit members who, under the current structure, find that small salary increases due to centrally agreed annual pay awards can lead to moving up a contribution tier, and a net reduction in take-home pay.

4. The proposed member contribution structure would be phased over 2 years.

As the proposals mean that some members will see an increase in their pension contributions, the changes were proposed to be communicated clearly and phased in over 2 years. In the consultation

document this was starting 1 April 2022, with the final changes made from 1 April 2023. These dates would now be revised to 1 November 2022 and 1 November 2023. This approach was designed to minimise the impact on take-home pay while giving members time to adjust to the changes.

Departmental response

Parity with England and Wales

Since 2015 the member contribution tiers for the HSC Pension Scheme have been in parity with those in the NHS in England and Wales. This parity has value in terms of equality, fairness and staff mobility.

The Department for Health and Social Care (DHSC) in England has also taken forward a review of contributions and their objectives and their proposals in terms of: a move to the use of actual annual pensionable pay rather than WTE; a reduction in the number of tiers; indexation of the tiers to the annual AfC pay award; a move to minimise the number of opt-outs across the full scheme membership were very similar to those for the HSC Scheme.

Given this agreement in terms of aims and objectives, and given the value of parity as stated above, it was proposed that contributions tiers in Northern Ireland are adjusted in line with the proposals currently under consultation in England and Wales.

The workforce breakdown in Northern Ireland is of course slightly different from England and, as a result, it is predicted that using exactly the same contribution tiers would result in a yield position of approximately 9.6% i.e. 0.2% below the expected yield of 9.8%.

The consequence of maintaining parity and proceeding on the basis of the proposed contribution tiering, mirroring those in operation in England & Wales, would be an expected annual shortfall in the required yield of the scheme of some £5m per annum. The alternative would be to move away from parity with the equivalent scheme in England & Wales and amend member contributions to ensure the necessary yield is delivered.

This could be achieved in a number of ways, either by increasing all contribution bands by 0.2% or selectively increasing the rate for certain bands for instance higher earners. Adjustments could also be made to the salary banding however this would reintroduce the issue of cliff edges for some members.

Respondents to the consultation were supportive of maintaining parity with some commenting that to ask members in the HSC Scheme to pay more than their colleagues in England and Wales would effectively reduce their take home pay in comparison to their counterparts. The majority of respondents also argued that any shortfall should be picked up by the Department.

The Department believes that parity with England and Wales on contribution tiers should be maintained and will move forward on this basis.

Contribution rate to be based on actual annual rates of pensionable pay

The HSC Pension Scheme currently calculates contribution rates for employed members based on their notional whole-time equivalent (WTE) pensionable earnings, and self-employed members based on their actual annual rates of pensionable earnings.

Notional WTE is currently applied to members who work less than full time, where the member is assigned a contribution rate based on the full-time earnings for the role but pays a percentage of their actual earnings. The consultation document proposed that members' contribution rates would be based on their actual annual rates of pensionable pay, instead of their notional WTE. Calculating rates based on actual annual rates of pensionable pay is common in other public sector pension schemes.

Respondents to the consultation were supportive of the proposal to use actual annual rates of pensionable pay to determine a member's contribution tier and stated a belief that this would be fairer to part-time staff who have historically paid contributions based on

their WTE and that it would be appropriate moving forwards when all members are accruing benefits in the CARE scheme.

Respondents also recognised the need to put in place robust administration systems in order to allow for aggregation of pensionable pay to be applied consistently.

There were some concerns about how bank staff posts would be treated for the purpose of determining members' contribution rates. Members who routinely do work on this basis will have their contribution rate based on their previous year's annual rate of pensionable pay. Guidance will be provided to employers to help them determine the appropriate rate for bank staff in their first year doing bank work, based on an estimate of the likely earnings over the course of the pension scheme year.

Following consultation, the Department believes that using actual annual rates of pensionable pay is the right mechanism to determine a member's contribution rate and therefore this proposal will be implemented from 1 November 2022.

Proposed contribution structure with fewer tiers

The HSC Pension Scheme is one of the best available, providing generous retirement benefits for HSC staff after a lifetime of service.

The Government Actuary's Department (GAD) calculates that members can generally expect to receive around £3 to £6 in pension benefits for every £1 contributed. The Scheme increases pension in line with price inflation, providing a guaranteed income in retirement. A band 5 or 6 nurse retiring at 68 with 35 years' service wholly in the 2015 Scheme can expect an annual pension of around £19,000. A junior doctor with membership wholly in the 2015 Scheme (retiring at 68) can expect a pension of around £62,800 per year if they progress to be a full-time consultant. A similar junior doctor progressing to be a part-time consultant can expect a pension of around £53,700 per year. Junior doctors progressing to be GPs can expect a pension of around £53,700 per year.

In order to build up benefits in the HSC Pension Scheme, members must pay member contributions and their employer must also contribute to the scheme. Employers contribute more towards the cost of the scheme than members, with a current contribution rate of 22.5%.

On average, members are required to pay 9.8% of their salaries in member contributions. However, this is an average across the whole membership and provided the member contribution structure returns the required 9.8% yield, the member contribution rate can be tiered across different earnings thresholds. Currently, employee contributions are tiered according to income, with the rate paid by the lowest earners being 5% and the highest 14.5%, for those earning £111,377 and above.

The cost of membership of the HSC Pension Scheme is therefore borne by both employers and members, although employer contributions are at a higher rate than those of their employees.

The consultation document recognised that the argument for tiers is strongest in relation to final salary schemes because higher earners tend to derive more value from their ultimate pension benefits relative to the amount contributed over their career. As more members join, or move into, the 2015 CARE scheme, it is appropriate to keep the member contribution tiering under review.

Members who have transferred to the 2015 CARE scheme from the old scheme will still have their final salary scheme benefits calculated using their pay at retirement (or upon leaving the new scheme) rather than the date that they leave the old scheme. This is a valuable benefit to those members who were in the old scheme and will increase the value of a member's final salary benefits even though no further rights are accrued under the old scheme.

The consultation document sought views on the following proposed member contribution structure, which would be based on actual annual rates of pensionable pay, updated annually based on relevant AfC pay awards, and phased in over 2 years:

Table 1: proposed changes to the current member contribution structure

Current Tiers	Pensionable Earnings (Rounded down to nearest pound)	Current Rate (WTE pay)	Rate from 1 Nov 2022 (actual pay)	Rate from 1 Nov 2023 (actual pay)	Proposed Tiers
Tier 1	Up to £13 231	5.0%	5.1%	5.2%	Tier 1
Tier 1	£13 232 to £15 431	5.0%	5.7%	6.5%	Tier 2
Tier 2	£15 432 to £21 478	5.6%	6.1%	6.5%	Tier 2
Tier 3	£21 479 to £22 548	7.1%	6.8%	6.5%	Tier 2
Tier 3	£22 549 to £26 823	7.1%	7.7%	8.3%	Tier 3
Tier 4	£26 824 to £27 779	9.3%	8.8%	8.3%	Tier 3
Tier 4	£27 780 to £42 120	9.3%	9.8%	9.8%	Tier 4

Tier 4	£42 121 to £47 845	9.3%	10.0%	10.7%	Tier 5
Tier 5	£47 846 to £54 763	12.5%	11.6%	10.7%	Tier 5
Tier 5	£54 764 to £70 630	12.5%	12.5%	12.5%	Tier 6
Tier 6	£70 631 to £111 376	13.5%	13.5%	12.5%	Tier 6
Tier 7	£111 377 and above	14.5%	13.5%	12.5%	Tier 6

The majority of the salary thresholds in the proposed structure are linked to the AfC pay bands. Staff working under AfC are the largest single group of HSC staff eligible to join the HSC Pension Scheme. Consequently, it was proposed that the new contribution structure should be linked to those pay bands.

The feedback from respondents on the proposed contribution structure was mixed.

Reasons for disagreeing with the proposal were varied, with many members saying that the increase in contributions for some members raised affordability concerns and that it was felt that higher earners were the main beneficiaries of reforming the member contribution structure. On the other hand, some respondents put forward that the decrease in contributions for higher earners did not go far enough, that the cross-subsidy between higher and lower earners remained too high or that everyone should pay the same amount.

Many respondents raised issues of affordability for members who would see an increase in their contributions, as well as concerns about the risk of opt-outs from the HSC Pension Scheme.

Affordability has been considered when developing the proposed member contribution structure. Members' employers also contribute to their pension leading to a generous pension benefit.

For example, a healthcare assistant at the top of AfC band 2 with pensionable earnings of £19,918 would have a new contribution rate of 6.5% from Nov 2023. After allowing for income tax relief, this contribution would cost the member £1,036 over the year, which is over £900 less than it would cost if they paid the 12.5% new top tier. The employer will also contribute £4,482 over the year to the HSC Pension Scheme for the member. In the 2015 CARE scheme, the member will earn a pension of £369 per year over the year, which could be worth over £7,000 if the pension was paid for 20 years (ignoring discounting and indexation and before income tax).

Similarly, a nurse at the top of AfC band 5 with pensionable earnings of £31,534 would have a new contribution rate of 9.8% from April 2023, which would cost £2,472 allowing for income tax relief. The employer will also contribute £7,095 and the member will earn a pension of £584 per year over the year, which could be worth over £11,000.

On the other hand, some consultation responses were received that argued that all members should pay the same contribution rate. Given that the yield is 9.8% this means that all members would pay 9.8%, regardless of their income.

The rationale for tiering is strongest in final salary schemes but there remains justifications to keep tiering as a design feature of the member contribution structure, notably to maintain the mutuality of the scheme and to protect affordability for lower earning members of the scheme. Additionally, members who have transferred to the 2015 CARE scheme from the old scheme will still have final salary scheme benefits that are calculated using pensionable pay at retirement (that is, a final salary link). This is a valuable benefit to those members who were in the old scheme and will increase the value of a member's final salary benefits even though no further rights are accrued under the old scheme.

Having reviewed all the consultation responses, the Department is clear that this is an area of tension between respondents who wish to see swifter progress to 9.8% and those who wish to see slower progress, or retain the current tiers. Given the opposite views expressed in consultation responses, it is clear that there isn't a proposal where all respondents would be able to agree.

The Department has listened to the responses which raise concerns around affordability and takes these very seriously. It remains the case that the HSC Pension Scheme is an incredibly generous scheme which provides value for money and is a worthwhile investment for many members.

The Department feels that the proposed member contribution structure strikes the appropriate balance between maintaining the affordability of the scheme and ensuring that the member contribution structure better reflects the nature of accrual in a CARE scheme. While the current member contribution structure will be kept in place for a short period, the new member contribution structure will come into force on 1 November 2022. Once in place, the member contribution structure will continue to be kept under review and the impacts of the changes will be monitored through reviewing levels of opt-outs and other pension data.

Increasing tier boundaries in line with annual AfC pay awards

The current contribution tiers have been frozen since 2015 and have not risen in line with inflation or general pay awards. This has occasionally led to small increases in pay causing a net reduction in take-home pay as the increase in contributions from moving into a higher tier outweighs the pay increase. Increasing the contribution tier boundaries in line with annual AfC pay awards would maintain the yield and reduces the possibility for a small number of members to have a take-home pay reduction as a result of crossing tiers due solely to nationally awarded AfC pay increase.

As discussed in the consultation document, it is important that the tiers are kept consistent for all members of the workforce and therefore, if the tier boundaries are updated, one consistent mechanism should be chosen. It was proposed that the tier boundaries should be updated by the same amount as the AfC pay award as that is the pay award that applies to the largest cohort of staff.

AfC increases have been chosen because staff working under AfC are the largest single group of HSC staff eligible to join the HSC Pension Scheme. This proposed design feature would mean that the largest cohort of staff (those paid on AfC pay scales) would not see an increase to their contribution tier in future scheme years due solely to an increase to their salary which reflects any nationally agreed AfC pay award. However, if there are other movements to their salary, for example, promotion, progression or changes to their working pattern then they may see their rate increase or decrease accordingly.

Additionally, any members who receive an annual pay award that is less than the AfC pay award are unlikely to see an increase in their contribution rate, provided that is the sole change to their pensionable pay. Members whose salaries are already towards the top of their contribution tier and receive a pensionable pay increase of more than the annual AfC pay award, might receive an increase in their contribution tier and subsequent member contributions. It is expected that members will pay more contributions as their pensionable pay increases and is a deliberate design feature of the scheme, in order to provide a discount to lower earning members of the scheme.

The consultation responses drew out that there are obvious benefits for members in uplifting the tier thresholds every year and the majority of respondents agreed that linking the thresholds to the AfC pay bands was the correct approach. Consequently, the Department will implement this proposal from 1 November 2022.

Phasing in the new contribution rates

The consultation document outlined that the proposal would be phased in over 2 years, with the first increase in member contributions to be implemented on 1 November 2022 and the final structure to be implemented on 1 November 2023 as set out in Table 1 above.

Responses to this section of the consultation document were understandably mixed, with some respondents agreeing with the proposal to phase over 2 years, some members wanting to see quicker change (and, consequently, no phasing) and others disagreeing with the phasing proposal because they believed that no changes should be made to the current contribution structure.

Some of the respondents who wished to see the new member contribution structure brought in straight away wanted to see a faster pace of change in order to reduce the rates paid by higher earners, as quickly as possible. There were also issues raised about retaining these high earners, both in the workforce and in the pension scheme, and that reducing their rates immediately would assist with such retention.

However, as highlighted in some of the consultation responses, the new member contribution structure might negatively impact some members' take-home pay as they see their member contributions increase. While the HSC Pension Scheme is seeking to move to a flatter contribution structure, it is important to be cognisant of the practical impact that these changes will have on members, including when there are other factors affecting take-home pay, even if they are not unique to the HSC, such as increased National Insurance contributions. Consideration should be given to the cumulative effect of these changes, particularly if they were to all happen at the same time.

There is clearly a need to balance clarity for members and a timely move to the new structure with minimising the impact of the new member contribution structure on take-home pay on 1 April 2022. The feedback from the consultation has been helpful and the different options have been carefully considered. Consequently, the Department has decided to delay the implementation of the new member contribution structure until 1 November 2022. This means

that any increases to members contribution rates will be better timed and dampen the impact on take-home pay. Additionally, given that phasing the new member contribution in slowly would protect scheme affordability for some scheme members and minimise the risks to take-home pay of large increases to member contribution rates, it has been decided that the new member contribution structure will be phased in 2 steps, as set out in the consultation document.

Proposed draft amending regulations

To apply the proposed changes, the Department will need to amend scheme rules. The rules of the HSC Pension Schemes are set out in regulations, which is a form of secondary legislation. Those rules can be amended or replaced by new regulations drawn up in accordance with the powers and requirements of the Public Service Pensions Act (Northern Ireland) 2014 and the Superannuation (Northern Ireland) Order 1972 as relevant.

The consultation document requested feedback on the draft amending regulations and whether the draft amending regulations met the policy objectives set out in the consultation document. The draft amending regulations were proposed in order to implement:

- the new tiered contribution rates from 1 April 2022 that correspond to the first year of the proposed phased introduction
- the assessment of a tiered contribution rate for part-time employed members based on their actual annual rate of pay rather than the notional whole-time equivalent
- a mechanism in regulations that uses 2 contribution rate tables to allow:
 - members who have their contribution rate based on their previous year's pensionable earnings to use the contribution rates before any increase to tier boundaries is applied
 - members who have their contribution rate based on current pensionable earnings to use contribution rates that have increased in line with the AfC pay award for that scheme year (which will be updated by amendment regulations following the AfC award announcement)

The consultation document asked whether respondents agreed or disagreed that the proposed draft amending regulations deliver the policy objectives of implementing the first phase of changes to the tiered contribution rate structure and the assessment of a tiered rate using actual annual rate of pensionable pay for part-time members rather than notional whole-time equivalent.

The majority of respondents stated that the draft regulations do seem to deliver the desired policy objectives.

Finally, the draft regulations will be amended to reflect the changes in policy described in this consultation response, in particular that the new member contribution structure will be postponed until 1 November 2022. These amendments will be included in the final regulations.

Conclusion

The Department is grateful for the responses received at consultation stage, which have helped test the proposals and provided valuable insight from a wide cross-section of the HSC Pension Scheme membership and interested stakeholders.

The Department has consulted those who appear to be likely affected by the proposed changes to regulations with a view of reaching agreement. Overall, the vast majority of respondents agreed with the proposals, and that where there was disagreement, this was largely due to competing interests of different parts of the diverse workforce, and the Department has sought to adopt an approach which is proportionate to all of these views.

Following consultation, the Department intends to proceed with the proposals to:

- use actual annual rates of pensionable pay to determine members' contribution rates, instead of members' notional whole-time equivalent pay

- change the member contribution structure to the structure that was proposed by the consultation document
- Maintain parity on contribution tiers and rates with the NHS Pension Scheme in England and Wales
- increase the thresholds within the member contribution structure in line with annual AfC pay awards
- phase in the new member contribution structure, with the first phase to be implemented on 1 November 2022

Following consultation, the Department has determined that 2 changes are required to the proposals:

- that the position in relation to new bank posts needed to be clarified and that employers will determine the rate of contributions that bank staff will pay in their first year, based on an estimate of their earnings
- secondly, that the changes are postponed and the regulations, including amendments to give effect to the changes to the proposals, will come into force on 1 November 2022

The HSC Pension Service, as the administrator for the NHS Pension Scheme, will write to all members informing them of the changes in advance of the changes coming into force.

The reforms set out in this consultation document will apply from 1 November 2022.

Impact Assessments

The Department's Equality Screening Exercise initial conclusion has determined that the proposed changes do not differentially impact on any of the Section 75 groups. This has been published on the Department's website.

There has been no change to this following consultation.