

Gateway Reference: 17358

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To:

All Chairs of NHS Trusts in England
All Chairs of NHS Foundation Trusts in England
All Chairs of Primary Care Trusts in England
All Chairs of Strategic Health Authorities in England
All Chairs of Special Health Authorities in England
All Chairs of Department of Health Arms Length Bodies in England

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Cc:

All Chief Executives and Directors of Human Resources in NHS Trusts, NHS Foundation Trusts, Primary Care Trusts, Strategic Health Authorities, Special Health Authorities and Arms Length Bodies in England

9 March 2012

Dear Colleague

NHS PENSION SCHEME REFORM

I wrote to you in November 2011 with an update on progress and to ask that you ensure your staff are aware of the facts. Since then we have been engaged in further discussions with NHS trade unions and employer representatives concerning the detailed design of a new NHS Pension Scheme for England and Wales. These discussions have concluded and the outcome reflected in a Proposed Final Agreement, which trade unions agreed to put to their respective councils and members as the best that could be achieved through negotiation.

Whilst the BMA and Unite rejected the high-level offer made in November, they have continued to sit at the table and the majority of unions have worked constructively to refine the detail. This has helped us to ensure that NHS staff will continue to have access to a pension scheme that offers staff a guaranteed, defined benefit pension that is amongst the very best available.

Now that these discussions have concluded, I am writing to ask that you ensure your staff are made aware of the final details of the proposed pension scheme so that they can make an informed choice when they are asked for their views by their respective trade unions. Different unions are consulting at different times, and whilst BMA and RCN have already

consulted members and Unite are consulting 1st to 19th March, the process is very much on-going. It is therefore important that NHS employers inform staff of the changes directly.

I therefore attach a summary of the proposed new scheme, a list of frequently asked questions and answers and details of calculators on the DH website that each member of staff can use to check what the changes mean for them personally. A copy of the proposed final agreement is available at www.dh.gov.uk/health/2012/03/final-agreement. I hope that these materials will reassure your staff that the revised offer is fair. We believe that staff should be making an informed decision when asked by their unions to consider this issue. I particularly want to emphasise that under these proposals:

- staff within 10 years of retirement on 1 April 2012 will remain in their existing pension scheme;
- for other staff, the new pension scheme will not be introduced until April 2015;
- those within 13 years and 5 months of retirement as at 1 April 2012 will be given additional transitional protection and will transfer to the new scheme after April 2015;
- staff who have earned pension within the existing 1995 or 2008 schemes will continue to be able to take those rights at the time they were expected and they will also continue to be based on their final salary at that time;
- the new pension scheme from 2015 will continue to provide defined benefits rather than the more risky defined contribution schemes which are now common in the private sector;
- the defined benefits will be based on career average earnings rather than final salary. According to Lord Hutton, this approach is fairer to the overwhelming majority of staff who would otherwise have to subsidise the 'high fliers' who benefit from above average pay progression throughout their careers;
- the annual rate of pension accrual for the new scheme will be 1/54ths compared to the current rate of 1/60ths in the 2008 scheme
- past earnings in the new scheme will be re-valued annually in line with inflation at a rate of CPI plus 1.5% per annum for active members (e.g. while members remain in the NHS) and by CPI for deferred members;
- once in payment, pension benefits will be uplifted annually by CPI;
- employee pension contributions will be increased by an average of 3.2% over 3 years from April 2012, but we will protect the lower

paid from any increases in the first year (2012/13) and will consult on the proposals for later years;

- employee pension contributions will continue to benefit from tax relief such that higher rate tax payers will pay the net cost of only 60% of any increase:

NHS Employers are providing a range of materials to support the dissemination of these details including a presentation, case study examples, frequently asked questions, Heads of Agreement summary, glossary update, HR Director events and webinars. Dean Royles has also stressed the importance of staff having access to information.

Finally, I would ask that you remind staff that the current offer represents a significant improvement over the Government's original offer. The Government has made clear this sets out its final position on the scheme design, which unions agreed to take to their Executives as the outcome of negotiations on scheme design. This includes a commitment to seek Executives' agreement to the cessation of any industrial action on pension reform whilst consulting with members. If the proposals are not accepted by a sufficient number of Trade Unions, the Government reserves its position on all aspects of this proposed scheme design. I therefore strongly believe that this offer represents the best which will be available to staff and it is incumbent on Boards to emphasise this to their workforce.

A handwritten signature in black ink, appearing to read 'Andrew Lansley'. The signature is written in a cursive style with a large initial 'A' and a long horizontal stroke.

ANDREW LANSLEY CBE