



Department  
of Health

# NHS Pension Scheme

Consultation on introducing a scheme  
administration levy

November 2016

<b>Title:</b> NHS Pension Scheme: Consultation on introducing a scheme administration levy
<b>Author:</b> NHS Pensions Policy Team, Acute Care & Workforce Directorate (cc: 13700)
<b>Document Purpose:</b> Consultation
<b>Publication date:</b> 10 November 2016
<b>Target audience:</b> All employers who participate in the NHS Pension Scheme
<b>Contact details:</b> NHS Pensions Policy Team Room 2W09 Quarry House Quarry Hill Leeds LS2 7UE

You may re-use the text of this document (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit [www.nationalarchives.gov.uk/doc/open-government-licence/](http://www.nationalarchives.gov.uk/doc/open-government-licence/)

© Crown copyright

Published to gov.uk, in PDF format only.

[www.gov.uk/dh](http://www.gov.uk/dh)

# Contents

Contents .....	3
Summary.....	4
How to respond .....	5
1. Scheme administration funding.....	6
2. The levy .....	9
3. Employer engagement.....	12
4. Proposed implementation.....	14

# Summary

The Department of Health intends to introduce an NHS Pension Scheme administration levy from 1 April 2017.

The NHS Pension Scheme ("the scheme") is administered by the NHS Business Services Authority (NHS BSA), a Special Health Authority, on behalf of the Secretary of State for Health. At present, the Department funds the cost of scheme administration services. In the future the cost of these services would be met by participating employers. This is normal practice in the wider pensions industry whereby the cost of the scheme administration is typically met by employers.

A new reformed scheme was introduced in 2015 together with a statutory NHS Pension Board ("the Board") as required by the Public Service Pensions Act 2013. The Board comprises employer and member representatives and is independent of the scheme administrator. The Board has an important role in ensuring continuous improvement in the efficiency of scheme administration and its responsiveness to the needs of employers and members. Through the Board, employers and members will be better placed to influence, and help select, the type and quality of services provided, and have a genuine role in deciding priorities for scheme development and improvement.

The levy will strengthen the employer voice in what and how services are delivered, as the relationship with the scheme becomes more client focussed. Better employer engagement and development of the pension administration service in ways that support workforce planning and retirement conversations has been a long held ambition of the Department. This should be helped by ensuring that scheme administration is funded by those whose staff benefit most from it, i.e. NHS employers. Another major public service pension scheme, the Teacher's Pension Scheme, has already introduced an employer charge to cover scheme administration costs.

The Department projects that the cost of scheme administration over the next two years is £35m a year. With 1.5 million active members, the sheer size of the scheme means this translates into a modest levy rate of 0.08% of a member's annual pensionable earnings. The rate will be fixed until 31 March 2019 and thereafter reviewed by the Department every four years. At next review, the levy is expected to reduce as cost savings and efficiencies from the NHS BSA's own service modernisation programme are realised.

This document describes the proposed levy and how it is expected to operate. Changes to scheme regulations are required to introduce the levy; accordingly draft legislation is also presented.

The Department invites views on the levy, in particular on ways that the scheme can increase employer engagement in shaping the services offered by the administrator.

# How to respond

Comments on the levy and draft legislation can be submitted via email to:

NHSPSconsultations@dh.gsi.gov.uk

or by post:

NHS Pensions Policy Team  
Department of Health  
Room 2W09 Quarry House  
Quarry Hill  
Leeds LS2 7UE

The consultation will close on 9 January 2017

## Confidentiality of information

The Department will manage the information you provide in response to this consultation in accordance with the Department of Health's Personal Information Charter<sup>1</sup>.

Information the Department receives, including personal information, may be published or disclosed in accordance with the access to information regimes (primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If the Department receives a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.

An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department will process your personal data in accordance with the DPA and in most circumstances this will mean that your personal data will not be disclosed to third parties.

---

<sup>1</sup> <https://www.gov.uk/government/organisations/department-of-health/about/personal-information-charter>

# 1. Scheme administration funding

## What is changing and why

- 1.1. At present the Department of Health funds the cost of administering the NHS Pension Scheme. The contributions made by employers and employees meet the cost of the pension rights building up under the scheme.
- 1.2. As part of the 2016 Spending Review, the Department reviewed what it funds centrally and concluded that paying for scheme administration is no longer appropriate. Instead the Department intends that the cost is met by participating employers, as the scheme is provided for the benefit of their workforces.
- 1.3. The Department aims to introduce a scheme administration levy from 1 April 2017, collected through the standard employer contribution.
- 1.4. This is consistent with common practice in the wider pension industry, where employers typically bear the cost of scheme administration. Other major public service pension schemes have similar charging practices, in particular the Teachers' Pension Scheme introduced a levy in 2015.
- 1.5. The administration service provided by the NHS Business Services Authority (NHS BSA) offers good value compared to industry benchmarks. A 2013 study commissioned by the BSA showed that at around £13, the administration cost per member (including pensioner and other member types<sup>2</sup>) was almost half the UK average of £25.
- 1.6. The size of the scheme means that the levy is modest when spread out across 1.5 million active members. The cost of administration is expected to reduce further over the next few years as the service becomes leaner and more digital.
- 1.7. In addition, the levy brings opportunities for:
  - increasing employer engagement in scheme administration, and improving the responsiveness of the scheme to employer requirements.
  - more innovation and longer term investment in service provision as the scheme is no longer constrained by central funding cycles.
  - the NHS Pension Board, and through it employers and scheme members, to influence the type, quality and cost of administration services.

---

<sup>2</sup> Includes all actively contributing members (1.5 million), pensioners (850,000), and those who have left the scheme but not yet claimed their pension (700,000).

### Overview of the scheme administration service

- 1.8. The NHS Business Services Authority administers the NHS Pension Scheme for the benefit of around 1.5 million actively contributing members, 700,000 people who have left the scheme but not yet claimed their pension and, via third party contractors, 850,000 pensioners.
- 1.9. The NHS BSA handles approximately 35,000 pension event transactions a month and over 80,000 queries covering a wide range of activities and pension scheme processes:
- Joining the scheme including impact of auto-enrolment and opting out.
  - Payment of awards on age, ill health retirement, early retirement and redundancy grounds and award revisions when a change is received.
  - Payment of survivor benefits to dependents of scheme members
  - Provision of Annual Benefit Statements or estimates on demand
  - Leaving the scheme including deferment
  - Transfers in and out of the scheme
  - Contribution refunds
  - Purchase of additional benefits
  - Death Benefit nominations
  - Pensions on Divorce
  - Provision of information relating to HMRC's Annual Allowance to members potentially affected and on receipt of a request
  - Holding and maintaining records for every scheme member - around 2.5 million data items are received and processed per year.
- 1.10. In addition, the NHS BSA also provides the following additional services to employers and members:
- Scheme communications and information (e.g. website, newsletters and bulletins)
  - Stakeholder engagement team, providing bespoke support to employers
  - Discussion groups and forums for pension managers
  - Provision of general and technical information about the NHS pension scheme covering the full range of scheme provisions and related subject matter

### The role of employers

- 1.11. In order to carry out their functions effectively, the NHS BSA requires the assistance of the 9,065 employers participating in the scheme. Employers range from large scale hospital trusts with many thousands of employees, to GP practices with far fewer staff.
- 1.12. However large or small the employer, the NHS BSA is reliant on them to provide accurate and timely data to carry out some administrative functions locally e.g. refund of contributions for short service, provision of pension scheme information as required under disclosure legislation, or payment of initial survivor benefits.

- 1.13. Data is sent to the NHS BSA through various routes including the Pensions Online (POL) system. In addition to this, with the exception of the service provided by Total Rewards/Annual Benefit Statements, members have to request services either directly from their employer or via the NHS BSA Customer Contact Centre. Employers use the POL system to administer these requests.
- 1.14. Employers can also use POL to view and update member specific information, including the submission of data. Many smaller employers provide data via spreadsheets due to restrictions on organisations who are able to use the NHS's secure N3 data network.

### **Plans to streamline and modernise the service**

- 1.15. The NHS BSA intend to maximise self-service for members and employers by implementing a digital service, which will improve data management, improve reliability of 'straight through' processes, reduce on-going data quality issues and therefore the need for manual intervention.
- 1.16. Self-service will improve the customer experience for members and employers. It is expected to ease the administrative burden by increasingly automating processes and tasks. Members can view their pension benefits online, allowing any inaccuracies to be addressed early and quickly, rather than at potentially more stressful points such as applying for benefits.
- 1.17. Currently there is no automated process for verifying and transferring contributions, meaning that employers have to conduct the process manually and face fines for non-compliance. A fairer system, which helps employers to perform their obligations to the scheme, is needed to alleviate the burden of responsibility and set up a more equal relationship.

## 2. The levy

2.1. This section describes the levy design: what it covers and how it is set, collected and reviewed.

### Scope of levy

- 2.2. The levy would fund all aspects of scheme administration activity, specifically:
- Provision of the scheme administration service - e.g. the calculation and payment of pension benefits, retirement estimates and total reward statements.
  - A new website that will offer self-service for employers and members, retirement modelling tools and transactional services.
  - Statutory obligations that fall to a pension scheme administrator – e.g. Guaranteed Minimum Pension<sup>3</sup> reconciliation.
  - The Pension Board and Scheme Advisory Board<sup>4</sup>
  - Actuarial and legal advice - e.g. for scheme valuations, rules interpretation and policy development.
  - New development projects that respond to changes in legislation or employer requirements – e.g. tax changes.

### Application and collection

2.3. Scheme regulations would be amended to require each participating employer to pay the levy as a requirement of participating in the scheme. As of June 2016 there are 9,065 participating employers, 1.5 million active members, 850,000 pensioners and 700,000 people who have left the scheme but not yet claimed their pension. The following table shows the number and range of employers that participate in the scheme.

Employer type (June 2016)	
Clinical Commissioning Groups & Commissioning Support Units	237
Direction bodies, including New Fair Deal	696
GP practices including providers of 'Out Of Hours' services	7,630
Independent Providers	65
Arms Length Bodies (ALBs)	14
Local Authorities	142
Trusts, Foundation Trusts & Local Health Boards	281

---

<sup>3</sup> Guaranteed Minimum Pension is the amount of pension that an occupational pension scheme must provide as a condition of 'contracting out' from the second state pension for service between 6 April 1978 and 5 April 1997.

<sup>4</sup> The Scheme Advisory Board is a statutory board that advises the Secretary of State on the merits of making changes to the scheme. It comprises representatives from NHS trade unions and employers.

- 2.4. There are several possible approaches to apportioning the levy amount across employers. It could take the form of a flat fee for each employer or per member. Or a variable amount expressed as a percentage of pensionable earnings, in the same way as the standard employer contribution.
- 2.5. The majority of participating employers are general practices and other smaller organisations. A flat fee disadvantages these smaller employers who would pay the same as much larger trusts. For fairness, the levy should reflect workforce size. A flat fee per member achieves this, however it does not take account of the fact that some members are more expensive to administer than others. High earners are more likely to require additional activity, for instance relating to tax (e.g. preparing personal savings statements). Practitioner members have more resource intensive requirements relating to accounting for self-employed income and certificates.
- 2.6. It will be important to ensure that the administration costs associated with pensioner members are also addressed. It would be difficult to require that employers continue to contribute towards the cost of administering the pension benefits of former employees, and this would not be possible where the employer has ceased to exist. The scheme is mutual in design, with the cost of benefits are spread across the whole membership. The Department believes mutualising the cost of pensioner administration across all employers is an appropriate way forward.
- 2.7. Instead of a flat fee per member, the levy can be specified as a percentage of each active member's pensionable earnings, e.g. 0.08%. The earnings will vary but the percentage rate does not, meaning that as a proportion more is paid in respect of higher earners. This approach ensures that the cost to employers better reflects both the size and structure of their workforces, and therefore the relative benefit gained from the scheme and its administration. It also achieves a better correlation between administration effort and consumption.
- 2.8. In practical terms, the most administratively simple way to collect the levy is to add it to the monthly standard employer contribution rather than require separate payment. For instance the current rate of 14.3% would be increased marginally to 14.38% to collect a levy of 0.08%. The Teachers' Pension Scheme took this approach when introducing their scheme administration levy in 2015.
- 2.9. The Department considers that specifying and collecting the levy as a percentage of pensionable earnings is therefore the most appropriate method.
- 2.10. Scheme rules already require employers to keep records of the amount of contributions paid or unpaid in respect of their members, and provide annual statements to allow the BSA to accurately reconcile and forecast scheme income. The Department proposes to extend this requirement so that employers record and report the amount of scheme administration levy payable in respect of each member. This will allow BSA to ensure that the correct amount of levy is collected and forecast future levy income based on employer workforce expectations.

## The levy

- 2.11. Similarly where contributions are late or unpaid, scheme rules permit interest and an administration fee to be charged in respect of the outstanding amount. The Department proposes to include the levy within scope of these late payment provisions, given that the BSA will be reliant on the levy income to fund the administration service and it will form an employer obligation.

### Setting and reviewing the levy rate

- 2.12. The level of funding and levy rate should not be self-selected by the administrator. Challenge is required to ensure that cost assumptions are robust and employers have confidence that the levy represents the minimum necessary to deliver a continuously improving administration service. The NHS Pension Board is ideally placed to undertake this scrutiny and provide a conduit for views from employers and members on service development and improvement priorities.
- 2.13. The levy rate will be set by the Secretary of State for Health, as the responsible authority for the scheme, assisted by advice from the NHS Pension Board.
- 2.14. The rate should be predictable to support both administrator and employer business planning. The standard employer contribution rate is set every four years through the formal scheme valuation process. The Department intends to align the levy with this cycle, so that it is reviewed and set on the same frequency and duration.
- 2.15. It is possible for unexpected and substantial administration costs materialise outside this cycle, arising for instance out of new legal obligations that cannot be contained within the current levy rate. When that occurs, then exceptionally the rate may be reviewed earlier.

### Levy amount

- 2.16. The Department and NHS Business Services Authority (NHS BSA) forecast that the levy would need to raise £35 million per year for the two year period 2017-18 to 2018-19. This translates into a levy rate of 0.08% of active member pensionable pay. Spread across the scheme's 1.5 million active members, the administration cost is an average of around £23<sup>5</sup> a year per active member.
- 2.17. The rate will be reviewed during 2018, together with the standard employer contribution as part of the scheme valuation process. A new levy rate would then be set for the four year period 2019-20 to 2022-23. The levy rate is expected to reduce as one off costs such as Guaranteed Minimum Pension reconciliation pass through and the benefits from NHS BSA's efficiency and digital projects come on stream.

---

<sup>5</sup> This is the average cost per active member. It is higher than the £13 per member cost mentioned in paragraph 1.5, because the study referred to looked at the cost per head across all types of scheme member - active, pensioner and those who have left the scheme but not yet claimed their benefits (deferred). The levy is only payable in respect of active members.

## 3. Employer engagement

- 3.1. The levy is expected to change the nature of the relationship between the scheme administrator and employers. In paying for the administration service this should rightly raise employer expectations of the quality and responsiveness of the service provided, with those expectations aligned with the amount of levy collected.
- 3.2. The NHS Pension Board will have a key role in bringing the employer 'voice' when evaluating service provision, helping decide priorities for development and improvement, and advising on how much should be spent on scheme administration.

### **The NHS Pension Board**

- 3.3. The Public Service Pensions Act 2013 requires each public service pension scheme to appoint a Pension Board. The NHS Pension Board has a statutory responsibility to assist the scheme manager in securing compliance with all relevant pensions law, regulations and directions in respect of the NHS Pension Scheme for England and Wales, as well as with the Pension Regulator's Code of Practice no.14 - governance and administration of public service pension schemes.
- 3.4. The NHS Pension Board publishes an annual report detailing the effectiveness of the scheme administration service and the activities it has undertaken with the scheme administrator to identify and make improvements.

### **Scheme administrator's plans to improve employer engagement**

- 3.5. NHS Business Services Authority (NHS BSA) as the scheme administrator will step up their engagement with employers. In particular by highlighting to employers the benefits of having a central repository of information and providing access to subject matter experts who are continually exploring ways of improving the service nationally, either by changes to business processes or introducing technology.
- 3.6. NHS BSA intend to build on its digital services, giving greater access to pension information to employers and members. Some technology already exists with the employer portal Pensions Online (POL), and Total Reward Statements are now in its third year. Enhancements to the employer portal and the introduction of a member portal are planned.
- 3.7. Digitising more of NHS BSA's pension administration services will enable members and employers to self-serve, making pension records and transactions more accessible and easier. This will provide a better customer experience and a quicker, cheaper service overall, with savings following investment reflected in the levy review cycle.
- 3.8. NHS BSA anticipate that both the levy and easier digital methods will encourage employers to take more interest in the administration service, and potentially greater

## Employer engagement

ownership of the quality of their own employee data held by the scheme. Most employers already provide accurate and timely updates. If fewer data issues are encountered by the scheme then less resource is required, leading to a leaner administration service. In this way, engaged employers can help the scheme reduce costs further.

- 3.9. NHS BSA will promote how employers can have a greater say in how the service can be improved and evolved. Requests for change can be put forward and a panel using the National Pension Group (a group of regional Pension Group chairpersons and NHS BSA representatives) will discuss and agree proposals.
- 3.10. Early engagement with the National Pension Group will inform NHS BSA how best to communicate the introduction of the administration levy to all employers across England and Wales.

## 4. Proposed implementation

- 4.1. The Department proposes that the levy would be payable by participating employers from 1 April 2017.
- 4.2. The rules of the NHS Pension Scheme are set out in legislation. The Superannuation Act 1972 and the Public Service Pensions Act 2013 give the Department legal powers to create pension scheme regulations requiring employers to meet any administration costs arising from the scheme. Accordingly changes to scheme regulations are required to implement the levy.
- 4.3. A set of draft regulations has been produced to make those changes. These are presented as an annex to this consultation document. The table below explains the purpose and effect of each paragraph in the draft regulations. The Department welcomes any comments or views on the draft regulations.
- 4.4. The Department proposes to lay these regulations before Parliament early in the new year with the intention that they have legal effect from 1 April 2017, subject to Parliamentary process.

### The National Health Service Pension Scheme (Amendment) Regulations 2017

Part 1	
1	Describes how the regulations should be referred to and when they have legal effect. In this case the regulations are named as the National Health Service Pension Scheme (Amendment) Regulations 2017 and apply from 1st April 2017.
Part 2	
2	Explains that the regulations in this Part amend the regulations governing the 1995 section of the NHS Pension Scheme
3	Inserts a definition of 'scheme administration charge'. The charge is a percentage of the member's monthly pensionable pay. The Secretary of State must notify the percentage rate to the employing authority.
4	Inserts a new regulation establishing the obligation for each employing authority to pay the charge to the Secretary of State. The charge is to be paid at the same time as the employing authority remits the member and employer contributions.
5	Brings the scheme administration charge within scope of the existing late payment provisions. If an employing authority does not pay the charge in full and on time then the scheme may charge interest and a supplementary administration charge in respect of the unpaid amount. Textual changes are also made to rename the administration charge (for late payment) to supplementary charge, and so distinguish it from the scheme administration charge.
6	Employing authorities are required to keep a record and provide statements to the scheme administrator about certain information relating to a member, e.g. contributions paid. This paragraph adds to this list the amount of scheme administration charge paid and unpaid.
7 & 8	Make textual amendments to rename the administration charge (for late payment) to supplementary charge, and so distinguish it from the scheme administration charge.

## Proposed implementation

Part 3	
9	Explains that the regulations in this Part amend the regulations governing the 2008 section of the NHS Pension Scheme
10	Has the same purpose as paragraph 3, except applying to the 2008 section. Specifically it inserts a definition of 'scheme administration charge'. The charge is a percentage of the member's monthly pensionable pay. The Secretary of State must notify the percentage rate to the employing authority.
11	Has the same purpose as paragraph 4, but applying to the 2008 section. Inserts a new regulation establishing the obligation for each employing authority to pay the charge to the Secretary of State. The charge is to be paid at the same time as the employing authority remits the member and employer contributions.
12	Has the same purpose as paragraph 5, but in relation to the 2008 section. Brings the scheme administration charge within scope of the existing late payment provisions. If an employing authority does not pay the charge in full and on time then the scheme may charge interest and a supplementary administration charge in respect of the unpaid amount. Textual changes are also made to rename the administration charge (for late payment) to supplementary charge, and so distinguish it from the scheme administration charge.
13	Has the same purpose as paragraph 6, except applying to the 2008 section. Employing authorities are required to keep a record and provide statements to the scheme administrator about certain information relating to a member, e.g. contributions paid. This paragraph adds to this list the amount of scheme administration charge paid and unpaid.
Part 4	
14	Explains that the regulations in this Part amend the regulations governing the NHS Pension Scheme 2015
15	Has the same purpose as paragraph 5 & 12, but in relation to the 2015 scheme. Brings the scheme administration charge within scope of the existing late payment provisions. If an employing authority does not pay the charge in full and on time then the scheme may charge interest and a supplementary administration charge in respect of the unpaid amount. Textual changes are also made to rename the administration charge (for late payment) to supplementary charge, and so distinguish it from the scheme administration charge.
16	Has the same purpose as paragraph 4 & 10, but applying to the 2015 scheme. Inserts a new regulation establishing the obligation for each employing authority to pay the charge to the Secretary of State. The charge is to be paid at the same time as the employing authority remits the member and employer contributions.
17	Has the same purpose as paragraphs 6 & 13, except applying to the 2015 scheme. Employing authorities are required to keep a record and provide statements to the scheme administrator about certain information relating to a member, e.g. contributions paid. This paragraph adds to this list the amount of scheme administration charge paid and unpaid.
18	Has the same purpose as paragraphs 3 & 10, except applying to the 2015 scheme. Specifically it inserts a definition of 'scheme administration charge'. The charge is a percentage of the member's monthly pensionable pay. The Secretary of State must notify the percentage rate to the employing authority.