



Department  
of Health

# NHS Pension Scheme

Introducing a scheme administration levy:  
Consultation response

March 2017

<b>DH ID box</b>
<b>Title: NHS Pension Scheme. Introducing a scheme administration levy: response to consultation</b>
<b>Author: Directorate/ Division/ Branch acronym / cost centre</b> NHS Pensions Policy Team, Acute Care & Workforce Directorate (cc: 13700)
<b>Document Purpose:</b> Consultation
<b>Publication date:</b> March 2017
<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 2016

Published to gov.uk, in PDF format only.

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

# Contents

Contents .....	3
Introduction .....	4
2. Consultation process.....	5
3. Cost and scope of levy .....	7
4. Levy methodology and collection.....	11
5. Employer engagement and service improvement.....	15
6. Scheme regulations.....	20
7. Conclusion and next steps.....	21

# Introduction

- 1.1. The Department consulted on the introduction from 1 April 2017 of a levy to cover the cost of administering the NHS Pension Scheme. The levy would be payable by all employers who participate in the scheme.
- 1.2. The NHS Business Services Authority (BSA) 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. The BSA handles around 35,000 pension event transactions a month and over 80,000 queries. Over 9,000 employers participate in the scheme.
- 1.3. The BSA is a Special Health Authority established to administer centrally a range of services on behalf of the Secretary of State and the NHS, including Prescription Services, Dental Services, Help with Health Costs and the European Health Insurance Card.
- 1.4. At present, the Department funds the cost of the BSA's pension scheme administration service through an annual grant. The contributions made by employers and employees to the scheme meet the cost of the pension rights for members building up under the scheme. Such contributions do not cover the cost of administering the scheme.
- 1.5. Administration of the pension scheme is a frontline operational activity, for the benefit of NHS employers and their staff. As such, the consultation proposed that it is reasonable that the NHS meets the cost of this.
- 1.6. A levy was proposed as a method for recouping pension scheme administration costs from participating employers. In doing so, it is anticipated that the relationship between employers and the scheme should become more client focussed, leading to an administration service that is more responsive to employer needs.

## 2. Consultation process

- 2.1. The proposals and draft regulations were subject to an eight-week public consultation which began on 10 November 2016, ending on 9 January 2017.
- 2.2. A document describing the levy proposal and draft regulations were published on the gov.uk website. Responses to the consultation were invited by email or post.
- 2.3. As part of existing governance arrangements underpinning the NHS Pension Scheme, the major NHS Trade Unions, NHS employers and other interested parties were formally notified of the consultation. The draft regulations and consultation documents were published on gov.uk and the scheme administrator's website.
- 2.4. 97 responses to the consultation were received, with representations from the following organisations:

2gether NHS Foundation Trust  
Association of UK University Hospitals  
Bedford Hospital NHS Trust  
Birmingham Children's Hospital NHS Foundation Trust  
Capita  
Central London Community Healthcare NHS Trust  
Central Manchester University Hospitals NHS Foundation Trust  
Chime Social Enterprise  
Devon County Council  
East and North Hertfordshire NHS Trust  
Guy's & St. Thomas' NHS Foundation Trust  
Hospiscare  
Hospital of St John & St Elizabeth  
Lancashire Teaching Hospitals NHS Foundation Trust  
Macmillan Cancer Support  
Ministry of Defence  
NHS Employers  
NHS Clinical Commissioners  
NHS Cumbria Clinical Commissioning Group  
NHS Durham Dales, Easington and Sedgefield Clinical Commissioning Group  
NHS Hardwick Clinical Commissioning Group  
NHS Harrogate and Rural District Clinical Commissioning Group  
NHS Hartlepool and Stockton-on-Tees Clinical Commissioning Group  
NHS Lancashire North Clinical Commissioning Group  
NHS Lincolnshire West Clinical Commissioning Group  
NHS Newcastle Gateshead Clinical Commissioning Group  
NHS North Durham Clinical Commissioning Group  
NHS South Tyneside Clinical Commissioning Group  
NHS Sunderland Clinical Commissioning Group  
NHS Windsor, Ascot and Maidenhead Clinical Commissioning Group  
Macmillan Cancer Support  
North East Ambulance Service NHS Foundation Trust

Northern Devon Healthcare NHS Trust  
Nottingham University Hospitals NHS Trust  
Plymouth Hospitals NHS Trust  
Rotherham Doncaster & South Humber NHS Foundation Trust  
Sheffield Teaching Hospitals NHS Foundation Trust  
Sherwood Forest Hospitals NHS Foundation Trust  
South Central Ambulance Service NHS Foundation Trust  
South Western Ambulance Service NHS Foundation Trust  
St Nicholas Hospice Care  
Sue Ryder  
Tameside Hospital NHS Foundation Trust  
Teeside Hospice  
The Business Services Association  
The Countess of Chester Hospital NHS Foundation Trust  
The Healthcare Financial Management Association  
Universities & Colleges Employers Association  
Western Sussex Hospitals NHS Foundation Trust

- 2.5. 25 GP practice managers replied to the consultation, together with six General Practitioners, two Nurses, a Health Visitor and a Consultant. Responses were also received from 10 individuals.
- 2.6. The NHS Pension Scheme's two statutory Boards, the Scheme Advisory Board<sup>1</sup> and Pension Board<sup>2</sup>, both replied to the consultation. Feedback was also received from the scheme administrator, the NHS Business Services Authority.

---

<sup>1</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.

<sup>2</sup> The Pension Board assists the scheme manager in securing effective scheme administration and compliance with all relevant pension law and Pension Regulator codes of practice. The Board publishes an annual report.

## 3. Cost and scope of levy

- 3.1. The consultation explained that the levy would fund all aspects of scheme administration activity. Specifically:
- Provision and development of the scheme administration service - e.g. the calculation and payment of pension benefits, retirement estimates, total reward statements and new digital 'self-service' interfaces.
  - Statutory obligations that fall to a pension scheme administrator – e.g. Guaranteed Minimum Pension<sup>3</sup> reconciliation.
  - Scheme governance in the form of the statutory Pension Board and Scheme Advisory Board.
  - 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.
- 3.2. The projected cost for these activities over the initial two year levy period 2017-19 is £35m a year. The cost is balanced over the period to enable a fixed levy rate and financial planning certainty. As a comparison, the amount spent on administration activities in 2016-17 was £34.2m. The initial period is two years to bring the levy cycle into alignment with the four yearly scheme valuation process, with results from the next valuation implemented from April 2019. A new rate will be then set for four years from 2019-23. Further details on the review process are set out at paragraph 4.8 onwards.
- 3.3. One respondent suggested that the current cost of NHS pension administration, at around half the average UK pension scheme cost per member, is relatively expensive because it does not have a fund to manage. The Department disagrees with this observation. The absence of fund overheads is outweighed by the sheer volume of transactions, the variety of circumstances and complexity of administration (e.g. accounting for GP self-employed earnings) handled across a total scheme membership of around 3 million individuals and over 9,000 employers. The BSA is taking forward a transformation programme to modernise and streamline the administration service, which is expected to become cheaper as efficiencies are realised. The modernisation plans are described in more detail at paragraph 5.20 onwards.
- 3.4. A number of respondents highlighted that the scheme administrator already charges for certain activities. The BSA charges for the provision of information over and above that which members are entitled to by statute. Public service pension schemes are permitted to recover the costs of providing additional information, such as speculative estimates of benefits and in doing so, the BSA is able to maintain current customer service levels within their funding envelope. Were the BSA not to charge for additional workload, the extra costs incurred would need to be reflected in the administration levy.

---

<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.

- 3.5. The consultation described how the levy would cover the administration cost associated with pensioner and deferred members. Some respondents felt this to be inequitable for direction bodies recently entering the scheme under New Fair Deal<sup>4</sup> arrangements and independent providers. Scheme rules have only permitted employers to participate in the scheme on that basis since April 2014. The Business Services Association asked that direction bodies and Independent Providers joining from April 2014 are charged a lower levy rate that does not include the cost of administering pre-April 2014 pensioner and deferred member benefits.
- 3.6. The Department is unable to agree for three reasons. First the scheme is mutual in design, with the employer contribution set based on an assessment of the whole scheme active membership. With over 9,000 participating employers, it is not possible without disproportionate cost or complication to derive rates that are bespoke to particular groups of employers. The costs of administration should be approached in the same way. Second other employers newly entering the pension scheme may also seek similar dispensation from their date of joining. This would lead to the calculation and application of myriad different levy rates, increasing administration costs further. Third, only a very small proportion of administration costs relate to pensioner or deferred member benefits. This is because the level of contact with the scheme is far less and the stability of their circumstances far greater compared with the active membership. For example, pensions are simply paid via an automatic monthly payroll process with little variation or follow up required.
- 3.7. The Scheme Advisory Board concluded similarly, and endorsed the single rate approach:

*"Given the size and mutual nature of the scheme, SAB believes that variable charging arrangements would be too complex and time consuming to administer and collect. SAB's view is that charging all employers the same rate is simpler and more efficient."*

Scheme Advisory Board

- 3.8. The consultation confirmed that the £35m annual levy equates to 0.08% of pensionable pay per active member. Further details on the levy methodology are set out in the next chapter. As noted in paragraph 3.3, the future cost of the administration service is expected to reduce as efficiencies from modernisation and digitisation programmes come on stream. Such efficiencies and cost savings will feed through into the future levy rate upon review.

---

<sup>4</sup> New Fair Deal is a non-statutory policy governing pension scheme arrangements for staff that are compulsorily transferred from the public sector. Further details can be found at: [www.gov.uk/government/publications/fair-deal-policy-and-nhs-pension-scheme](http://www.gov.uk/government/publications/fair-deal-policy-and-nhs-pension-scheme)

### Funding

- 3.9. The majority of respondents described the potential financial impact of the levy. The strongly expressed view is that whilst acceptable in principle, the levy represents a shift of costs within the same financial system which must be accompanied by a corresponding transfer of the funding. Whilst some respondents rejected the levy proposal outright, several suggested that the impact could be mitigated if the levy was delayed by a year or introduced gradually. A few respondents argued that the levy should be waived or discounted for third sector organisations in view of their charitable funding basis.
- 3.10. The Department's view is that administration of the pension scheme is a frontline operational activity, for the benefit of NHS employers and their staff. As such it is reasonable that the NHS meets the cost of this.
- 3.11. NHS England have recognised the impact for GP practices and factored that in as part of the additional expenses uplift in the 2017/18 contract negotiations. The Department will raise the levy for inclusion in the next round of funding discussions concerning the tariff price paid to healthcare providers for delivering NHS services. In relation to discounts or waivers for charitable bodies, the effect of this would be to increase the cost burden for other participating employers. The mutual nature of the scheme means that the cost should be distributed fairly across all participating employers, with a single levy rate endorsed by the Scheme Advisory Board as the most appropriate method for achieving this.
- 3.12. A number of respondents argued for retention of the current centralised funding arrangement as an efficient mechanism. Reservations were expressed about the benefit of fragmenting this funding stream and the additional administration created to perform the same purpose. The Scheme Advisory Board observed that the levy is simply a transfer of government funding from one area to another, though one that is likely to increase demand for improvement in the quality of the administration service.
- 3.13. Whilst the levy might appear to create an unnecessary financial loop, it serves to more precisely lodge the cost with those to whom the benefit accrues. As detailed in the next chapter, the additional administration of collecting the levy is negligible as the standard employer contribution rate is straightforwardly adjusted to include the levy. That the levy is likely to increase demand for service improvement is welcome. Further details on employer engagement in service improvement are set out in chapter 5.
- 3.14. A number of NHS staff members wrote expressing concern in belief that the proposal intended for members to pay the administration levy directly. Others warned that employers will likely "find a way to filter down the costs to staff", with one employer asking whether passing on the levy cost was possible. The levy is designed to be payable by employers rather than their employees. The Department strongly discourages employers from seeking measures that pass the levy cost onto their staff.

- 3.15. One respondent asked why administration costs could not be covered by 'dipping into the pot'. Another suggested that the levy was unnecessary because investment returns should generate an income to cover pension & administration costs. The way the scheme is financed means this is not an option. In common with other public service pension schemes, the NHS Pension Scheme operates on a 'pay as you go' basis. There is no pool of assets from which to pay pensions, instead the cost of pensions are met by HM Treasury as they fall due. Contribution income from current scheme members and their employers is used to defray the amount of cash required to meet the cost of pensions in payment.
- 3.16. Contributions payable by members and their employers are calculated so that the contributions received address the future cost of the pensions being built up by current active members. A scheme valuation every four years reviews the cost of future pension rights building up under the scheme and the level of contributions necessary to meet the cost of those rights when they become payable.

## 4. Levy methodology and collection

- 4.1. The consultation considered possible ways in which the levy amount could be apportioned across employers, concluding that calculating the levy as a percentage of each active member's pensionable earnings was the most appropriate method. Respondents agreed with this conclusion.

*"Employers are generally comfortable with the approach to design the levy as a percentage of pensionable pay, collected in addition to the standard employer contribution. This design fairly reflects the size of an employer's workforce."*

NHS Employers

- 4.2. To collect the levy efficiently, the consultation proposed increasing the monthly standard employer contribution rather than require separate payment. Concern was expressed by a practice manager who questioned the efficiency of "creating 9,000 payments" to replace a single payment by the largest organisation. However the proposed approach does not mean that employers make a separate payment in respect of the levy. The collection method was otherwise endorsed by respondents.

*"SAB agrees that the best way to collect the levy is to add it to the standard employer contribution rate, rather than to collect the two payments separately."*

Scheme Advisory Board

*"From an administrative and technical point of view for deducting employer contributions a further percentage increase would be a trivial change"*

Devon County Council

- 4.3. The Scheme Advisory Board commented that for reasons of transparency, the levy and standard employer contribution should appear in all relevant scheme communications as two separately identifiable amounts. The Department welcomes this observation and will ask the scheme administrator to make this distinction in scheme literature and annual total reward statements for staff.
- 4.4. The consultation proposed to apply existing scheme contribution record and reporting requirements to the levy. This would mean employers recording and reporting the amount of scheme administration levy payable in respect of each member. The purpose was to allow BSA to ensure that the correct amount of levy is collected and forecast future levy income based on employer workforce expectations.
- 4.5. Respondents expressed concerns that this represents a further administration burden on employers. Both the Scheme Advisory Board and NHS Employers concluded that if

## NHS Pension Scheme

done manually this requirement will create significant work for employers. The importance of carrying out this process electronically was emphasised, as the basis on which the requirement is discharged for standard employer contributions. Devon County Council queried whether the scheme administrator could simply identify the levy amount within the standard employer contribution payment received, rather than require employers to itemise it separately.

- 4.6. The Department recognises these concerns and in discussion with the scheme administrator, withdraws this requirement. As the levy is collected as a component of the standard employer contribution, the scheme administrator should be able to make an assessment of the levy amount received. The process already in place for recording and reporting the standard employer contribution should be sufficient for the purposes of tracking levy payments too.
- 4.7. The consultation also proposed to include the levy within scope of the scheme's late payment rules. Where contributions are late or unpaid, scheme rules permit interest and an administration fee to be charged in respect of the outstanding amount. No comments were received on this aspect.

## Setting and reviewing the levy rate

- 4.8. The consultation described the process for setting the levy rate. As the responsible authority for the scheme, the rate would be set and controlled by the Secretary of State for Health. The rate would be set every four years, with timings aligned to the scheme's valuation cycle which reviews the level of employer contributions required.
- 4.9. The Department is clear that the nature of the NHS pension scheme administration service and as a consequence the cost, should reflect the needs of employers. This is a principle echoed by respondents.

*"Employers should be involved and engaged during the review process and fully informed of the outcome of each review."*

Scheme Advisory Board

- 4.10. The consultation envisaged that when setting the rate, the Department would be assisted by advice from the NHS Pension Board. The Board would act as a conduit for the employer 'voice' in evaluating service provision, advising on scheme investment priorities and the minimum level of expenditure necessary to deliver a continuously improving service.
- 4.11. The Board has reflected on this potential role in the levy setting process and concluded that other sources of employer input are more appropriate. The Board is concerned that the notion of advocating directly or indirectly the interests of one party (e.g. employers or

members), is at odds with their core role of ensuring effective and efficient scheme administration on behalf of all parties.

*"It is the view of the Pension Board that any addition to its responsibilities which required it to focus on cost control potentially at the expense of service quality to members would create a significant risk of conflicts materialising."*

NHS Pension Board

- 4.12. The Board acknowledges and embraces its role in reviewing suggestions for service improvement. The Department is grateful for the Board's observations. As health and care system steward and the statutory Responsible Authority<sup>5</sup> for the pension scheme, the Department has a clear role in holding the BSA to account for the quality of the NHS pension scheme administration service and the cost of it. The Department will therefore lead the review process for the levy and determine the rate, with advice from the Pension Board. Recognising the Board's concerns, the role of the Board in relation to reviewing the levy, will focus on advising as to service improvement and effectiveness.
- 4.13. In reviewing the NHS pension administration service costs and proposals submitted by the scheme administrator, the Department will expect to see clear evidence that these have been properly informed by employers. As the service provider, it will be for the BSA to determine precisely how they engage employers on their service plans. The BSA has in place a programme of employer surveys and intends to use these to gather feedback on service quality and identify improvements. The findings of these will be reported in the scheme's Annual Report. The National Pension Group<sup>6</sup> is an appropriate forum for BSA to work with in shaping their service plans. BSA may wish to consider broadening membership of the Group to include employer HR directors and their deputies in addition to pension specialists.
- 4.14. The results of the review will be published and BSA will formally notify employers of the levy rate for the next period. The Department will work with the BSA to set an appropriate timetable for conducting levy reviews so that the outcome is concluded at the same time as the NHS pension scheme valuation. The intention is that both the levy rate and standard employer contribution rate are confirmed to employers at same time.
- 4.15. The consultation also contemplated a scenario in which unexpected and substantial administration costs materialise outside the review cycle and cannot be contained within the current levy rate. This might be new pension scheme obligations arising outside the scheme's control - for example changes to wider legislation governing pension schemes. Understandably concerns were raised about the impact on employer funding plans.

---

<sup>5</sup> Section 2 and Schedule 2 to the Public Service Pensions Act 2013 names the Secretary of State for Health as the Responsible Authority for the NHS Pension Scheme in England & Wales. The Responsible Authority is assigned certain functions, duties and powers, in particular the making of scheme regulations.

<sup>6</sup> A group of regional Pension Group chairpersons and BSA representatives.

- 4.16. The Department acknowledges the importance of certainty for financial planning. Early reviews are expected to be exceptional and concern cost impacts of a magnitude that cannot be contained within the projected levy income for the remainder of the fixed period. Should such an early review be necessary, any change to the levy would take effect from the start of the financial year in which the cost impact is expected to occur - there will be no within year adjustment.
- 4.17. The Scheme Advisory Board suggested that a cost cap mechanism might be applied, similar to that operating in relation to standard employer contributions. This acts to limit the exposure of employers to rises in the cost of pension rights. The Department is grateful for this observation. However the circumstances of the levy and the employer contribution rate are not the same. For the latter, where the cost of pension rights rise higher than the cost cap, the cost pressure falls to active scheme members to resolve by increasing member contribution rates or reducing the rate at which pension rights build up (the accrual rate). The levy though is intended to be payable by employers alone; a cost cap of similar design would require employees to contribute to scheme administration costs.

### Controlling and reporting administration expenditure

- 4.18. The consultation described how the levy rate will be fixed for the same period as the standard employer contribution rate, to give certainty for employers and the scheme administrator. Both the Scheme Advisory Board and NHS Employers commented that if a surplus or deficit occurs in scheme administration funding then employers should be notified of the reason for variance and consulted on plans to spend or recover the difference.
- 4.19. To allow a fixed rate, scheme administration costs and levy income will be balanced over a four year period. The fixed nature of the levy rate means that the income for the scheme administrator is also fixed across the same period. Within year variation and re-prioritisation of spending by BSA against their business plan will be governed in accordance with their standing financial instructions.
- 4.20. As an Arm's Length Body, the Department will monitor BSA's expenditure against its plans. The actual amount spent annually will be reported in the NHS Pension Scheme annual report and accounts. This allows appropriate public scrutiny of pension scheme administration costs.

## 5. Employer engagement and service improvement

- 5.1. The levy is expected to change the nature of the relationship between the scheme administrator and employers. In paying for the NHS pension administration service this should rightly raise employer expectations of the quality and responsiveness of the service provided. The amount of levy required will be aligned to meet these expectations.
- 5.2. NHS Employers commented that "employers are supportive of a move to a more client focused relationship with the scheme administrators". The consultation asked for views on ways in which the scheme can increase employer engagement in shaping the services that are offered by the administrator.

### Improving employer engagement

- 5.3. The Scheme Advisory Board considered "the size and scale of the NHS Pension Scheme as a potential barrier to extensive engagement". With over 9,000 participating employers, the scheme will inevitably need to rely on representative forums such as the National Pension Group as a proportionate way of gathering employer views and suggestions on service improvement and investment priorities.
- 5.4. A number of respondents expressed their experiences of current service performance levels and expectations of improvement. Several observed that employers have little leverage over service performance. Financial penalties were highlighted as a lever to improve quality and responsiveness.
- 5.5. Standards and targets are set by the Department which holds the service level agreement with the BSA. Compliance with key performance indicators is monitored by the Department, with breaches escalated to the scheme's statutory Pension Board and reported to the Pensions Regulator (TPR) in accordance with TPR's codes of practice. The Pension Board and the BSA publish annual reports for public scrutiny which include key performance indicator performance. At present, financial penalties are not specified however the Department would consider introducing them if the Pension Board considered it necessary to secure effective scheme administration.
- 5.6. Both NHS Employers and the Scheme Advisory Board asked if service performance could be reported at employer level rather than across the scheme as a whole. This was felt to be more meaningful for employers. At present the performance of the scheme and BSA as an organisation are measured through a series of published KPIs. This will continue to be the case for the immediate future.

- 5.7. Responses from Direction bodies pointed out that unlike other employers they do not benefit from the Pensions Online (POL) system or receive any bespoke support in getting to grips with scheme obligations. Direction bodies are employers who have staff that have been admitted to the scheme by a Direction or Determination<sup>7</sup> issued by the Secretary of State. Typically such employees are a small portion of the organisation's workforce.
- 5.8. The scheme administrator recognises these concerns and is looking at ways to support Direction bodies further. Direction bodies, particularly those outside the NHS, cannot access NHS.net or the NHS VPN. This means that they are unable to use the Pensions Online system. The Universities & Colleges Employers Association argue that employers should be "given equivalence in administration experience to match the equivalence in administration cost that they would be paying".
- 5.9. The BSA agrees that all employers should be able to access the Pensions Online system. The self-service nature of the system and the wide range of functions provided means it is considered a benefit to all employers who use it and also the NHS Pension Scheme when used to its full potential.
- 5.10. Unfortunately the current reliance on employers having access to the NHS N3 secure data network is a barrier to this being achieved. The Scheme carried out a pilot with two non-NHS organisations to use the Virtual Private Network option during 2016, but the outcome proved impossible to implement. This was due to the system requirements that would have been required for the different organisations, and the constraints to organisations system configuration particularly if such systems were part of a network. BSA has this key requirement clearly in mind as they start to develop digital services that all employers can use moving forward.
- 5.11. In addition, several respondents highlighted the growing burden placed on employers by the scheme, increasing the administrative costs of employers. The BSA anticipate that introduction of a digital self-service capability for members will remove a degree of administrative burden on employers. The digitisation programme is expected to provide a service that is intuitive and supportive of members' needs, offering products such as estimates and retirement modelling via digital means.
- 5.12. The BSA recognises the need to build stronger relationships with employers and have established a dedicated Stakeholder Engagement Team. The team performs a similar role to that of employer relationship managers within the Teachers' Pension Scheme, providing advice and support to employers on fulfilling their obligations to the scheme. The support takes the form of visits, a dedicated contact for queries and providing

---

<sup>7</sup> A Direction or Determination are legal documents granting individuals entry to the scheme (subject to certain restrictions) further to powers conferred on the Secretary of State by section 7 of the Superannuation (Miscellaneous Provisions) Act 1967 and section 25 of the Public Service Pensions Act 2013.

## Employer engagement and service improvement

bespoke training. The Scheme Advisory Board report that the team is having a positive effect and that it should be built up further, using learning from the Teachers' scheme.

*"Employers have observed a significant improvement in employer engagement since the introduction of the stakeholder engagement team. SAB recommends continuing to build and improve the effectiveness of the team. In particular, to focus on proactively communicating about upcoming changes in regulations or practice in advance."*

Scheme Advisory Board

- 5.13. The BSA confirm that the Stakeholder Engagement Team will continue to be developed. It is an essential part of their employer engagement approach, providing direct support and also a route for feedback on service performance. Established in February 2016, the vision of the team is to 'Engage', 'Educate' and 'Escalate'. To engage in a manner to enable greater understanding that meets the needs of all employers, to educate by providing support and materials to improve knowledge and confidence in the local administration of the scheme and to ensure employers carry out pension activity accurately and in a timely manner, escalating instances of non-compliance by following a clearly defined escalation strategy.
- 5.14. The team have spent the first year, making initial contact to create new relationships and improve existing relationships by providing each employer with a named stakeholder engagement manager contact. They have also sought feedback of the areas of administration causing the most frustration in order to focus education packages. A recent customer satisfaction survey showed a positive improvement attributable to the work of the team.
- 5.15. A few employers responded to the consultation raising specific examples of service issues encountered. The team have contacted these employers directly to discuss solutions. During 2017 there will be more focus on how the BSA can best support employers with differing needs and direction employers are a key group that the team will be working with to provide better, bespoke support for them.
- 5.16. The consultation stated that 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 will discuss and agree proposals. The BSA will work with the Group to update their terms of reference accordingly.
- 5.17. The levy provides a fixed budget within which the scheme administrator is able to adjust service provision. Larger changes or developments that cannot be accommodated within budget will need to be assessed at the next levy review. As noted at paragraph 4.12, when setting the levy rate the Department will require evidence that future service plans have been informed and shaped by employers.

## NHS Pension Scheme

- 5.18. Some respondents were sceptical about the scope of employer-led change that will be possible. NHS Employers noted that 'many employers feel that changes in legislation will remain the key driver behind service developments in future'. There have been substantial changes to the wider pension scheme legislation and regulatory framework within which the scheme operates. These are outside of the scheme's control and the scheme has no option but to prioritise addressing new legal obligations.
- 5.19. Both NHS Employers and the Scheme Advisory Board observed that the NHS Pension Scheme Employer's Charter and the NHS Pensions Service Charter<sup>8</sup> should be reviewed and updated to set out the new obligations and expectations arising from the levy introduction. Department is grateful for this suggestion. A review of both the NHS Pension Scheme Employer's Charter and the NHS Pensions Service Charter are planned before the end of this financial year. The comments of the Scheme Advisory Board will be taken into account during this review.

## Plans to streamline and modernise the service

- 5.20. The consultation outlined the scheme administrator's plans for service modernisation, in particular the digitisation programme to enable 'self-service' by employers. This will see the introduction of a digital platform as the preferred route of input and access to NHS pension information digitally. Driven by 'life events' and easy to navigate, it should offer an enhanced user experience for members and employers.
- 5.21. For employers, it will provide a digital route for input of financial information as well as an enhanced set of services not directly available to members. Members will be able to self-serve for a defined set of services such as changing personal data (address, beneficiary etc.). The expectation is that the digital platform will reduce the volume of mail and telephone calls, thereby reducing the cost of the administration service whilst improving user experience.
- 5.22. NHS Employers report that employers are largely supportive of the plans to streamline and modernise the service.

*"We recognise that the implementation of a digital service to allow employers and members to self serve is a very positive step, particularly for scheme members and direction employers."*

NHS Employers

- 5.23. A number of respondents asked for further details on the timescales for introducing the digital service, and assurance that the resulting efficiencies will cycle through to a lower

---

<sup>8</sup> Both documents are available via the BSA website: [www.nhsbsa.nhs.uk/Pensions/4078.aspx](http://www.nhsbsa.nhs.uk/Pensions/4078.aspx)

## Employer engagement and service improvement

levy rate in future. The Department is clear that where efficiencies reduce administration costs this will be reflected in the levy rate.

- 5.24. The digitisation programme is already underway. The BSA programme delivery team has already engaged with numerous employers and members in the introduction of some early services. For example, a planned early service to be available to ALL employers will enable online submission of contribution details, thereby removing manual/clerical processes and featuring an ability to schedule monthly payments. The programme currently extends into 2018. During the next 12-18 months the BSA will deliver a series of digital services for both employers and members.
- 5.25. The BSA will work collaboratively with employers to ensure that implementation of system changes or enhancements are seamless and efficient. Employers have been invited to contribute to the digitisation project and are encouraged to contact the BSA Stakeholder Engagement Team if they wish to participate in the development and implementation activity.
- 5.26. Some employers expressed concerns that previous implementation of new processes and self-service functions have increased the workload of employers, particularly in the short term. With the introduction of any new system there is inevitably an increase in queries during the initial roll-out stages which tend to settle down shortly thereafter. The Department encourages employers who have concerns or suggestions to take up BSA's invitation to get involved in the digitisation programme.

## 6. Scheme regulations

- 6.1. 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. The consultation presented a set of draft regulations to make those changes. These were presented as an annex to the consultation document.
- 6.2. A single comment was received on the draft regulations. The Scheme Advisory Board observed that scheme regulations should actually specify the percentage levy rate, rather than require employers to be notified of the rate. This is to provide consistency with regulations governing other payments to the scheme such as employer and member contributions. The Department welcomes this observation. The regulations adopt the approach taken by the Teachers' Pension Scheme which provide for the levy rate to be that as notified to employers by the scheme manager from time to time. This is preferred because it means future changes in the rate would not require amendment to legislation.
- 6.3. The provisions at draft regulations 6, 13 and 17 will be withdrawn further to paragraph 4.6. The existing scheme contribution record and reporting requirements will not be extended to the levy.
- 6.4. The draft regulations will be finalised and laid before Parliament in time to take legal effect from 1 April 2017.

## 7. Conclusion and next steps

- 7.1. The Department is grateful for the responses received. In summary, the majority of respondents described the potential financial impact of the levy. The strongly expressed view was that whilst acceptable in principle, the levy represents a shift of costs within the same financial system which should be accompanied by a corresponding transfer of the funding into NHS budgets.
- 7.2. The Department considers that the rationale for the levy remains valid. Administration of the pension scheme is a frontline operational activity, for the benefit of NHS employers and their staff. As such it is reasonable that the NHS meets the cost of this.
- 7.3. NHS England have recognised the impact for GP practices and factored that in as part of the additional expenses uplift in the 2017/18 contract negotiations. The Department will raise the levy for inclusion in the next round of funding discussions concerning the tariff price paid to healthcare providers for delivering NHS services.
- 7.4. The methodology to apportion and collect the levy was generally viewed as fair and proportionate. There was scepticism that employers would have genuine influence over how the administration service is delivered. The plans to modernise and digitise the administration service were in the main received positively. This will improve service quality and reduce costs, resulting in a lower future levy rate.
- 7.5. This document sets out further details on the process for reviewing and setting the levy rate, in particular clarifying the role of the NHS Pension Board. It describes how the scheme administrators will improve employer engagement to ensure that service plans are properly informed by employer views and feedback. The document also discusses the plans to modernise and streamline the service, and how employers can get involved.
- 7.6. In conclusion, the Department will proceed to introduce a levy of 0.08% of pensionable pay from 1 April 2017. Scheme regulations will be finalised and laid before Parliament in March. The levy will be collected at the same time as the standard employer contribution. In practical terms this means the employer contribution rate will increase from 14.3% to 14.38% from 1 April 2017. BSA will contact employers about the necessary administration arrangements.