

14th January 2010

Tel: 0113 254 457

Mr Eddie Saville
Ms Angela Huxham
Joint Chairs
NHS Pension Scheme Governance Group

Dear Eddie/Angela

NHS PENSION SCHEME – MEMBER CONTRIBUTION INCREASES

Following the meeting on Wednesday of this week of the Technical Advisory Group I am writing to you to confirm formally the current position on increased contributions from members of the public sector pension schemes.

As you are aware the Chancellor announced in the Comprehensive Spending Review a £1.8bn savings figure to be raised from increased member contributions. This was in addition to the £1bn of savings arising from existing “cap and share” arrangements that had already been announced in the 2009 Pre-budget report.

The total savings across public sector schemes of £2.8bn are to be delivered in full by 2014-15, with 40% of the savings to be delivered in 2012-13 and 80% in 2013-14.

We have now been advised by HMT of the proportion of the £2.8bn savings attributable to NHSPS. This takes into account the Chancellor’s decision to accept Lord Hutton’s recommendation that the armed forces be exempt from any increase in contributions. We have been asked, by amending NHSPS employee contributions, to achieve by 2014-15 savings falling in the range of £1.262bn- £1.312bn.

The Chief Secretary to the Treasury has made a commitment across all the public sector schemes -:

- protect low earners;
- make contribution increase progressive so that those on higher salaries pay higher contributions;
- minimise any increase in opt-out from schemes.

We would therefore like to discuss with unions and employers a design for the contribution increases, which will best meet these three objectives. You will understand from discussion at TAG on the 12th January that this will inevitably lead to some modification of the current tiered contribution rates which have previously been agreed as part of the previous partnership review process and which serve to deliver an equitable distribution of member contributions.

We appreciate that it will not be easy to make modifications which meet all these goals but which will also be transparent to members and capable of effective administrative delivery.

To this end we will, under separate cover, send to you some early illustrative modelling provided by GAD which was shared with TAG members on Wednesday. We would want to discuss this, if possible, under TAG arrangements in which ideally we could reach a consensual view of the most appropriate model of differential contributions.

As indicated at TAG we are currently working to an HMT pan-scheme timetable, which we recognise is very challenging. The Chancellor proposes announcing the design of the contribution increases for each scheme in the Budget on 23rd March. This means in practice we will need to have finalised our proposals to go to the Secretary of State by mid-February.

We understand that from a trade union perspective the broad position needs to be discussed at a pan union meeting on the 20th January before any commitment can be made on subsequent detailed scheme design meetings.

We sincerely hope that both trade unions and employers will be able to join with us to provide the best designed scheme possible that recognises both the member and employer perspective.

Yours sincerely

A handwritten signature in black ink, appearing to read 'T. Sands', written in a cursive style.

Tim Sands
Deputy Director
NHS Pensions and Employment Services