UNIVERSITIES & COLLEGES EMPLOYERS ASSOCIATION

NHS Pension Scheme: Proposed changes to scheme regulations

The Universities and Colleges Employers Association (UCEA) represents approximately 170 universities and other Higher Education Institutions plus associated HE employers in the UK on employment, reward and HR related issues including pensions. The Higher Education (HE) sector employs almost 400,000 staff across the UK and the employees of individual institutions are provided with a range of DB pension schemes included associated and non-associated multi-employer pension schemes.

Scheme Name	Type of Scheme	Staff covered
Universities Superannuation Scheme (USS)	Multi-employer funded hybrid DB/DC scheme	Mainly academic & related professional staff in pre-92 universities, plus some such staff in post-92 universities
Teachers' Pension Scheme (TPS) and Teachers Pension Scheme (Scotland/Northern Ireland)	Multi-employer, unfunded DB scheme	Mainly academic staff in post-92 universities as scheduled employers
NHS Pension Scheme (NHSPS), NHS Pension Scheme (Scotland) and HSC Pension Scheme (Northern Ireland)	Multi-employer, unfunded DB scheme	An option for clinical academics in university hospitals or medical schools through Direction body status
Superannuation Arrangements for the University of London (SAUL)	Multi-employer funded DB scheme	Professional services staff in pre-92 London universities
Local Government Pension Schemes (LGPS) and Local Government Pension Scheme (Scotland/Northern Ireland)	Funded DB schemes. Universities participate in their local fund	Mainly professional services staff in post-92 universities as scheduled employers. Plus some pre-92 universities as admitted bodies
Self-Administered Trusts (SATs)	Single & multi-employer schemes, varied in type; many are funded DB schemes, some are DC schemes including GPP and Stakeholder, and some employers are also using specific auto enrolment schemes such as NEST and other master trusts.	Professional services staff in pre-92 universities. Each scheme is run by a single employer for the relevant staff.

Employer contribution rate / additional government funding

1. The proposed 6 percentage point rise in the NHS Pension Scheme (NHSPS) employer contribution rate represents a substantial and unprecedented increase in NHSPS employer pension costs. A financial hit of this magnitude with very little notice will be difficult for

universities with medical schools[1] and their partner NHS teaching hospitals to implement at a time of great uncertainty for Higher Education funding. This includes the five new medical schools which are being created with the specific purpose of encouraging doctors to train and stay in areas with particular medical staff shortages which will not have been aware of these increases in their cost base when initial bidding processes were undertaken.

2. Medical schools have expressed their dissatisfaction that information on the extent of the employer contribution increase and the accompanying consultation has been published so late in the process. We would request that the department considers how in future, employers can be kept better informed about potential reforms to the scheme, particularly in relation to increases in employer contributions.

3. Many medical schools have also questioned what value for money they are experiencing in relation to the 0.08% administration charge that was introduced in April 2017, particularly those that have no access to POL. While it is appreciated that the levy covers a range of activities including statutory obligations such as the GMP reconciliation and the costs of the Pension and Scheme Advisory Board, one of the key benefits of the administration levy is meant to be greater digitisation of pension administration services ultimately improving the quality, efficiency and experience of both employers and scheme members.

4. Many medical schools believe they are not seeing much of the benefits of the administration levy. We would request that the department conducts a review of the enhancements the administration levy has brought to the administration and governance of the scheme and how improvements can be made so that all the various participating employers can see the benefits of paying the administration levy.

5. As the announcement and implementation of the increase to the NHSPS employer contribution rate has fallen within the 2018/19 academic year this leaves a very short period of time for medical schools to adjust their budgets. This will inevitably lead to difficult decisions on how to fund this unexpected increase in their NHSPS employer costs through diverting funds budgeted for other purposes at a time when government has placed a high priority on increasing the number of medical school places in order to ensure the NHS has enough “home grown” doctors.

6. We are aware that the government has committed to providing additional funding to meet costs arising from the NHSPS valuation (alongside the long-term funding settlement for the NHS), however it is not clear when and how this funding will be made available to participating employers. Furthermore, it is unclear whether the non-NHS employers, such as university medical schools, that participate in the NHSPS will be eligible for additional funding. The mechanisms for funding clinical academic posts are varied, with some being paid for by the medical school and some by the local NHS Trust or other research organisations. We would welcome clarity on how the additional funding for NHS pension costs will be shared between the employers of clinical academics.

7. Given the challenging financial climate in which medical schools and their partner NHS teaching hospitals are currently operating in, and that they perform an important role in the provision of teaching and research functions within the NHS, we would stress the need for medical schools to be included in the distribution of additional government funding to meet the unexpected increase in employer contributions.

Cost cap mechanism

8. Medical schools have commented on the complexity of the valuation process, and the perverse outcome where the overall cost of the scheme has risen leading to an increase in

[1] The term “medical schools” covers various different university departments or faculties where medical research, medical teaching and their support functions are undertaken.

the employer contribution rate, yet the cost of member benefits in the post 2015 CARE scheme have fallen, meaning those benefits need to be uplifted which in turn is a contributing factor in the employer contribution rate needing to rise. While we understand that the cost cap rectification process has not yet concluded, we note that the default option to address the cost cap issue is a substantial improvement in the CARE accrual rate.

9. It is our view that the cost cap process does not meet with the original policy intention to protect against unforeseen changes in scheme costs and to provide backstop protection to the taxpayer. The unprecedented increase in employer costs had led many employers to question both the value and the sustainability of the scheme, while a substantial increase in member benefits will lead to significant future liabilities building up which will ultimately fall to the UK taxpayer to fund.

10. Furthermore, it is our belief that the cost cap mechanism as designed will lead to significant volatility in the short term in both the NHSPS employer contribution rate as well as the scheme's benefit structure leading to difficulties in budgeting for employers and presenting members with difficulties in understanding their benefits and planning their income in retirement.

Lifetime and annual allowance issues

11. A potential change in the CARE accrual rate in line with that set out in the consultation is likely to disproportionately impact negatively on clinical academics and the medical schools where they teach or undertake medical research. This is because clinical academics are more likely to be affected by the tapered annual allowance and/or the lifetime allowance. An improvement in the accrual rate will inevitably lead to clinical academics reducing their hours or leaving their role/ taking early retirement rather than have to deal with complexity of pension tax issues and additional tax charges. There is significant evidence of this happening across the NHS already as outlined in a recent British Medical Association pension survey. This is particularly concerning given the long standing difficulties in recruiting clinical academics, as noted by the Medical Schools Council.

12. In order to address pension tax issues which will only be exacerbated when the CARE accrual rate is increased, we ask that the government considers introducing a 50/50 option whereby scheme members can pay half the NHSPS employee contribution for half the CARE accrual – a similar option exists in the Local Government Pension Scheme. Such an option in the NHSPS would potentially allow many senior NHS employees the opportunity to continue some pension accrual without breaching their tapered and/or lifetime allowance and therefore reduce the number considering leaving the profession for pensions reasons. It does not seem right that medical schools (as well as the NHS as a whole) should lose valuable, experienced and skilled members of staff because they are faced with pension tax issues. A 50/50 option may also help to address affordability issues for younger and lower paid staff in the NHS.

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