

POLICY NOTE

THE NATIONAL HEALTH SERVICE SUPERANNUATION AND PENSION SCHEME (MISCELLANEOUS AMENDMENTS) (SCOTLAND) REGULATIONS 2019

SSI 2019/46

The above instrument was made in exercise of the powers conferred by section 10 and 12, and Schedule 3 to the Superannuation Act 1972, and by section 1(1) and (2) (e) and paragraph 5(b) of schedule 2 of the Public Service Pensions Act 2013 (“the Act”). The instrument is subject to negative procedure.

Employer contributions are set by regular valuations of the scheme. The latest valuation, applying HM Treasury Directions, provides for an increase in the current employer contribution rate of 14.9% to 20.9% applicable from 1 April 2019. This instrument also makes changes to the employee contribution table for 2019-20 which updates the salary/earnings bands on which the employee contribution percentages are set. The instrument makes minor corrections to The Amendment of the National Health Service Pension Scheme (Scotland) (Additional Voluntary Contributions) Regulations 2018

Policy Objectives

The purpose of this instrument is to update and amend The National Health Service Superannuation Scheme (Scotland) Regulations 2011, The National Health Service Superannuation Scheme (2008 Section) (Scotland) Regulations 2013, The National Health Service Pension Scheme (Scotland) Regulations 2015 and The National Health Service Pension Scheme (Scotland) (Additional Voluntary Contributions) Regulations 2018 .

One of the aims of this instrument is to introduce the revised employer contribution rate from 1 April 2019. Reserved Primary legislation and HM Treasury Directions set out the process to assess the employer contribution rate for the NHS Pension Schemes in Scotland and the date it should be applied from.

The other main aim is to make changes to the salary/earnings bands of the employee contribution tables in respect of the scheme year 2019/20. This will ensure that the tiering of pay bands remains in line with annual increases in members’ pay. It was agreed during scheme reform discussions with both scheme employer and scheme member representatives that, although member contribution rates would not change, the pay/earnings bands in each tier would increase each year in line with national NHS pay awards in Scotland.

The amendments to the AVC regulations are minor corrections for administrative purposes

Consultation

Discussions on the scheme valuation were undertaken with the Scheme Advisory Board (SAB). The SAB provides advice to Scottish Ministers on the desirability of changes to the design of the scheme and the implementation of other policy issues. It is made up of employer and member representatives from across the service. The Scottish Public Pensions

Agency (SPPA) also conducted a consultation from 18 December 2018 to 18 January 2019 on draft regulations implementing these changes.

Those consulted were NHS employee representatives and all NHS employers. Other Scottish Government interests and UK Government departments were also consulted. The consultation received 1,770 responses of which all had comments. The majority of responses came from General Practitioners (GP) and those representing GP interests.

The key messages are that employers' contributions will rise significantly at a time when GPs and GP Practices under significant pressure. With there being no capacity to absorb any of the substantial increases, if the contribution increase cost is not covered on a recurring basis then this will result in GP practice staff redundancies, practices folding or being taken under Health Board control. These increasing costs will have a negative impact on the recruitment and retention of GPs. Similar concerns were raised by respondents covering non-NHS employers, e.g., charities and Universities, who have employees who are members of the scheme.

The increase in employer contributions is due principally to a change in the discount rate used in unfunded public service pension scheme valuations. The UK Government announced in September 2018 it intended to reduce the current discount rate of 2.8% +CPI to 2.4% +CPI for the 2016 valuations. This change was confirmed in the Budget statement 29 October 2018. The valuation assesses what each scheme needs now in order to meet future liabilities. The higher the discount rate, the quicker the notional assets grow, so the less is needed now. The lower the rate, the higher the level of funding needed now to meet those future liabilities and that feeds through to employer costs. Hence, a reduction in the discount rate feeds through to higher employer contributions.

There is concern across the sector regarding how this increase will be funded. In announcing the change to the discount rate in October 2018 HM Treasury confirmed it would provide funding to cover the additional costs for 2019/20. The extent of that funding remains under discussion with the Scottish Government pressing the UK Government for full funding of the increase.

Impact Assessments

The impact of this change will not be known until final details are confirmed regarding the level of HM Treasury funding. At that point SPPA plan to complete a Business and Regulatory Impact Assessment.

Financial Effects

This instrument implements an increase in scheme employer contributions from the current rate of 14.9% to 20.9% which will apply from 1 April 2019. The estimated cost of that increase is £320m for 2019/20 and discussions remain ongoing with HM Treasury regarding the additional funding it will provide to cover those costs