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Payroll Managers and Pensions Officers,
Directors of Finance and Human Resources
Direction Bodies, all GP Practices and
Out of Hours Providers

Date 21 February 2008

Dear Colleague

NHS Pensions newsletter

This newsletter contains important information regarding proposed changes to ill health retirement benefits.

Background

During 2005, the Minister for Health asked NHS Employers to lead a joint review of the existing arrangements in the NHS for the prevention and management of sickness absence and the provision of ill health retirement benefits. NHS Employers took the review forward in partnership with the NHS trade unions.

Ill-health review

A three-month consultation period on proposals made by review partners to manage staff sickness and ill health retirement in the NHS closed on 21 January 2008.

What happens next under the Ill-Health Review?

The review partners will now develop recommendations for ministerial approval, which will take into account responses to the consultation. A final agreement will then be announced, allowing any changes to be implemented from 1 April 2008 in line with other changes to the main NHS Pension Scheme.

Proposed changes

Ill health retirement benefits will continue as an integral part of the NHS Pension Scheme, but the review partners' proposal is to replace the current arrangements for the determination of ill-health retirement benefits. If the proposal is approved this will mean the creation of a two-tier arrangement providing different levels of benefits for members, dependent on the severity of their

condition and the likelihood of them being able to work again. The proposed tiers and anticipated benefits are:

Tier 1 - Member assessed as being unable to do their own job

- Early payment of actual benefits without a reduction but with no enhancement where a member is permanently incapable of efficiently discharging the duties of their present job in the NHS

Tier 2 - Member assessed as being unable to do regular work

where “regular employment” will include a recognition that:

- the applicant could not undertake any substantial employment to the same extent as they were undertaking as a Scheme member, either whole time or part time. They could not reasonably be expected to do work across a general field of employment, bearing in mind their physical and mental capacity, and their training and experience to date; and
- the ability to undertake some therapeutic work could assist the Scheme member to manage their condition
- In addition to the Tier 1 award members will receive an enhancement of $\frac{2}{3}$ of their prospective membership to Normal Benefit Pension Age, where they are permanently incapable of engaging in regular employment.

Who will be affected by the proposed changes?

The new two tier ill health retirement provisions will apply to members who retire on or after 1 April 2008.

Members who retire on or before 31 March 2008 will remain subject to the existing ill health benefit provisions contained in regulation E2 of the NHS Pension Scheme Regulations 1995.

Transitional arrangements

Where form AW33e [Application for Ill Health Retirement] is received by NHS Pensions on or before 31 March 2008, the new two tier arrangements will not apply, even though the intended date of retirement may be on or after 1 April 2008.

This means that members who:

- have already submitted form AW33e that has been received by NHS Pensions, or
- intend to submit an application for ill health retirement benefits on form AW33e and the form is received by NHS Pensions on or before 31 March 2008,

will remain subject to the existing ill health retirement provisions, which give enhanced ill health benefits where a member is assessed as permanently incapable of carrying out the duties of their employment.

When will the changes be confirmed?

The proposed changes to the Scheme are subject to consultation required by statute and to Parliamentary approval.

If approved by Parliament, the proposed changes, which following consultation are intended to take effect from 1 April 2008, may vary from those set out here and on our website.

Action for employers

Employers may wish to give all staff, including those who are currently on sick leave, advance notice of the proposed changes as they might affect the individual's eligibility and entitlement to ill health retirement benefits.

Pensions Online

When producing ill-health retirement benefit estimates locally on Pensions Online, employers will need to provide the attached annex with any quotations. NHS Pensions will be issuing the same information with any estimates they produce prior to 1 April 2008.

Further information

Full details of the Ill Health Review, including a copy of the consultation document are available on the NHS Employers website <http://www.nhsemployers.org/pay-conditions/pay-conditions-502.cfm>

Yours sincerely



Chris Sandwell
Head of Member Services
NHS Pensions

Important - Changes to the Scheme

Subject to Parliamentary approval, it is anticipated that the NHS Pension Scheme will change from 1 April 2008. We do not know the precise details of the changes, so cannot apply them to the enclosed estimate. However, if they are approved, the new rules will apply to you if you remain in the scheme on or after 1 April 2008.

As you are making plans for your retirement we recommend that you think carefully about the changes and how they might affect you.

III Health Review

A three-month consultation period, on proposals made by Review Partners to manage staff sickness and ill health retirement in the NHS, closed on 21 January 2008. No formal announcement of the results of the consultation has yet been made, so the enclosed estimate is based on the **current** ill-health arrangements. It is important to understand that these benefits are not guaranteed and could change if the proposed changes are approved.

Ill health retirement benefits will continue as an integral part of the NHS Pension Scheme, but the Partners' proposal is to replace the current arrangements for the determination of ill health retirement benefits. If their proposal is approved we anticipate the creation of a two-tier arrangement providing different levels of benefits for members, dependent on the severity of their condition and the likelihood of them being able to work again. The proposed tiers and anticipated benefits are:

Tier 1 – Member assessed as being unable to do their own job.

Early payment of actual benefits without a reduction but with no enhancement, if we assess the member as permanently incapable of efficiently discharging the duties of their present job in the NHS.

Tier 2 - Member assessed as being unable to do regular work

where "regular employment" will include a recognition that:

- the applicant could not undertake any substantial employment to the same extent as they were undertaking as a Scheme member, either whole time or part time. They could not reasonably be expected to do work across a general field of employment, bearing in mind their physical and mental capacity, and their training and experience to date; and
- the ability to undertake some therapeutic work could assist the Scheme member to manage their condition

In addition to the Tier 1 award, members will receive an enhancement of $\frac{2}{3}$ of their prospective membership to Normal Pension Age, if we assess the member as permanently incapable of engaging in regular employment.

Full details of the review, including a copy of the consultation document are available on the NHS Employers website <http://www.nhsemployers.org/pay-conditions/pay-conditions-502.cfm>

To help with your retirement planning we have also enclosed a separate estimate showing the benefits you have accrued to date. They are similar to those we would anticipate if the rules are changed and entitlement to Tier 1 benefits is confirmed.

Applying for ill-health retirement

The payment of ill-health retirement benefits is subject to approval by our medical advisors, who will need time to consider your application. If you consider that your benefits would be better assessed under the current arrangements your completed form AW33E (Application for Ill Health Retirement) **must** be received at this office on or before 31 March 2008, even if you expect to retire later. You must ask your employer for the form.

It is anticipated that the special rules enabling those who are very seriously ill to ask for all of their pension to be paid as a lump sum will also change, but the change will only apply if you remain in the Scheme on or after 1 April 2008

What happens next under the ill-health review?

The review partners will now develop recommendations for ministers, which will take into account responses to the consultation. A final agreement will then be announced, allowing any changes to be implemented from 1 April 2008 in line with other changes to the main NHS Pension Scheme.

What other changes are there?

Some of the other changes we anticipate being made are:

- Option to give up part of your pension to increase your retirement lump sum
- Relaxation of current membership limits at age 60
- Introduction of survivor benefits for qualifying partners
- Removal of the Scheme earnings cap for membership from 1 April 2008 onwards (currently £112,800)

The enclosed notes - *About Your Annual Pension*, include a brief description of these changes as we anticipate them. There is more detailed information about the changes on our website www.pensions.nhsbsa.nhs.uk.

Planning for your retirement

To help with your retirement planning, a calculator has been added to our website.

The enclosed estimate includes an illustration of your benefits if you choose to give up some pension to increase your lump sum to the maximum allowed. You do not have to give up any pension at all, but the calculator will help you look at lump sum options if you give up a smaller part of your pension.

It is important to understand that any figures you obtain from the calculator will be provided for the purposes of illustration only. They will give an indication of what you might get, but final benefits may vary depending on changes in your personal circumstances and to the rules of the pension scheme.

You should consider seeking professional independent financial advice before making any decisions.

If you have a spouse or registered civil partner, it is not necessary to nominate them to receive a pension after you die, because they are automatically covered by the Scheme's life assurance benefits. If you have a long-term partner however, whom you think may qualify for a survivor pension if the new rules are confirmed, you can nominate them by completing form PN1 available on our website shortly. If you do not have access to the website please ask your Pensions Officer to download the form for you.

You should be aware that your nomination could only take effect if you are a member of the Scheme on or after 1 April 2008 and that entitlement to a pension cannot be confirmed until after your death.

When will the changes be confirmed?

The anticipated changes to the Scheme are subject to consultation required by statute and to Parliamentary approval.

If approved by Parliament, the anticipated changes (which, following consultation, may vary from those set out here and on our website) are intended to take effect from 1 April 2008.