UCEA response to NHS Pension Scheme: proposed changes to member contributions

Background
The Universities and Colleges Employers Association (UCEA) represents 175 Higher Education Institutions (universities and colleges) and associated organisations across the UK. As a membership organisation our mission is to represent, negotiate for, and promote the interests of UK Higher Education Institutions (HEIs) as employers. To do this effectively we aim to anticipate the challenges of changing times, working jointly with key sector groups, including trades unions. A key policy area on which we support our employers is pensions including the NHS Pension Scheme (NHSPS). In preparing this response, we have sought views from university medical schools that employ clinical and related staff and who currently participate in the NHSPS. Medical schools fall under the category of Direction Bodies in the NHSPS.

Summary
Overall, we have significant concerns about the proposals contained in the consultation. These concerns relate to the affordability of the NHSPS going forwards for low and middle-income earners who face increases in their contribution rates. The proposed contribution structure may also create additional tax issues for some higher earners who are impacted by the pensions annual allowance taper.

Medical schools are also concerned about the work involved in adjusting administration and payroll systems to implement the proposed changes which are complicated further by the very short timescales involved in implementing the required updates ready for April 2022 and the further changes 12 months later.

The short timescales are also problematic in terms of communicating changes in contribution rates to affected staff. While we note that the proposal is for increases in contributions to be phased in over two years, a significant proportion of the membership of the NHSPS will pay more from April 2022. It would be helpful if there was a contributions modeller so individual members can model the impact of higher contributions on their take home pay.

While, we do not have a particular view on this, we are aware that some pension managers believe that it might be more efficient to introduce the changes to the member contribution structure in one go instead of phased over two years. If the changes are implemented in one go, we would suggest that this is done with effect from April 2023 (or even October 2022) as this gives more time to make the necessary adjustments to payroll and administration systems, there are only one set of changes instead of two and there is more time to communicate the changes to staff. In addition, NHSPS members have more time to adjust their budgets to take into account the increased amounts that will have to pay into the NHSPS where applicable.

With the affordability of the NHSPS in mind it is the HE sector’s view that if these changes in contributions are introduced that member opt-outs need to be monitored and steps taken as soon as possible to address any increases in the numbers of staff opting-out of the scheme once the new contribution rates come into effect, for example a 50/50 option.

The affordability of the NHSPS
We have concerns about the proposed member contribution structure as low to middle income earners face significant increases in their NHSPS contributions. Even though it is

proposed that the increases are phased in over two years, the very lowest paid members of the scheme will eventually see their contributions increase by up to 30% (5% to 6.5%). While 6.5% does not seem to be a very high contribution rate, increases in the amounts NHS staff pay into the scheme need to be seen in the context of wider pressures on people's incomes and living standards including an inflation rate at its highest level for over a decade and increases in National Insurance from April 2022.

Even middle-income earners up to £48k will see their contributions increase by 15% and will be paying around 10% to 11% of their salary into the NHSPS. The HE sector is concerned that these reforms will lead to greater numbers of staff opting-out of the NHSPS, where they will lose out on a valuable element of their overall reward package and will also not be covered for death-in-service.

These are significant concerns due to the fact that NHS employment is skewed towards the lowest paid (NHS Staff Earnings Estimates from June 2021 show approx. 900,000 of the 1.4 million NHS staff listed as earning mean annual earnings of £21,044 or lower). Increases in opt-outs of lower paid staff could therefore have a significant impact on the overall contribution income to the NHSPS and also on the income generated to fund the administration. A fall in membership which leads to a drop in overall cash income would be expected to drive up the cost of the scheme and it would fall to the members and employers (most funded by the taxpayer) that remain in the scheme to make good this shortfall. Ultimately any shortfall in funds available to meet the cost of pensions in payment would need to be paid by HM Treasury.

The impact of increasing member contribution rates is presently an issue for the other schemes in the HE sector, particularly the Universities Superannuation Scheme where the opt-out rate is around 15% and there are significant issues with lower paid staff and members under age 35 leaving the scheme because a contribution rate of 9.8% is too expensive.

Given we are still in the throes of the Covid-19 pandemic it seems like the worse possible time to be considering increases in NHSPS contributions for frontline staff who put their lives at risk on a daily basis. With other industry sectors such as retail, logistics & hospitality paying significant sign-on bonuses & higher comparative wages there is a risk that NHS staff who have had a particularly difficult two years will leave the NHS for jobs in the private sector. These may offer less generous pension arrangements than the NHSPS but this is compensated for by higher pay. The risk of staff leaving the NHS for alternative employment will be exacerbated further if NHSPS scheme members are hit by unaffordable increases in their pension contributions with very little notice.

If these changes to the member contribution rates are to be introduced as proposed we would strongly urge the government to consider implementing a 50/50 scheme if opt-out rates do increase. This would allow NHS staff who are concerned about the affordability of the scheme to continue to accrue an affordable career average pension while also being covered for death in service.

Separately, while we understand the rationale for reducing contributions for the highest earners and this might be a welcome change for many, decreasing tax relievable pension contributions for those on the highest levels of income can mean they are at risk of hitting the annual allowance taper.

Pension tax issues have been a problem for Clinical Academics in the past, including facing significant tax bills resulting from breaching a tapered annual allowance. This has led to significant numbers of senior, experienced clinicians leaving academia altogether. While changes to the threshold income levels used to calculate the annual allowance taper have addressed some of the pension tax issues, we are concerned that this could become a problem again where higher paid members see their contributions reducing. As such we would request that this is monitored and that where staff opt-out of the NHSPS for pension tax reasons that they are offered a cost neutral cash supplement in lieu of the employer contribution

Implementing and communicating the proposed changes
We do not have any significant concerns about member contribution rates being based on actual annual rates of pay instead of members' notional whole-time equivalent pay, other than the work involved to update payroll systems at short notice.

We note that the salary tiers will increase in line with Agenda for Change (AfC) pay increases from April 2022. Doctors and dentists employed in the HE sector are not covered by AfC but other non-medical staff groups are e.g. nurses and midwives. Pay increases for Doctors and Dentists are covered by the Doctors and Dentists Pay Review Body. It should therefore be recognised that any pay awards for certain NHSPS members working in HE could still be offset by moving into the next salary tier and paying higher contributions where their pay award is higher than awards under AfC.

Medical schools have stated that the timing of the consultation and likely government response – expected February - will leave little time to adjust administration and payroll systems to implement the required changes which do not simply include new contribution rates but also a move to actual annual rates of earnings (from the current process based on whole time equivalent) as well as the aggregation of multiple part-time employments held with a single employer. A fully specified and tested payroll solution is generally anticipated to take several months to implement, particularly if this is undertaken at the same time as other employers using the same suppliers.

While we understand the rationale for phasing the member contribution increases over the next two years, it is our view that the timescales involved in making the necessary changes are too short and that it would be more efficient to implement the changes in one go from April 2023 or even October 2022.

There is also very little time for individual employers to communicate proposed changes to scheme members. In terms of communications this should include a simple member contribution calculator which individuals can use to model the impact of changes in their contributions on take home pay. This is important given the significant pressures on people's finances as we enter 2022 with inflation at a 10-year high, recent and further anticipated increases in interest rates, and higher National Insurance costs from April 2022. Even small increases in monetary terms to member contributions may mean staff consider opting-out of the NHSPS.

Communications also need to explain the benefits of paying into the NHSPS, including the generous employer contribution which forms part of a scheme member's overall remuneration, as well as the ancillary benefits the member receives including a spouses/partners pension and death in service cover. This may discourage members from choosing to opt-out by demonstrating the value for money they get from the scheme.

Richard Paul
Universities & Colleges Employers Association
7 January 2022