A Costs/Benefits Analysis of the Government NHS Pension Scheme Reforms

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1.0 Introduction
In recent years providing reliable and secure pensions has become a challenging task. This has resulted from the increasing length of time that most NHS employees enjoy during retirement. This is particularly the case with regard to defined benefit pensions, where a pension is eventually based on final salary and pensionable service instead of employee contribution. The object of these pensions is to grant the retiree with sufficient income after their working life to enable the retiree to sustain a reasonable standard of living without relying on welfare from the state.

1.1 History of the NHS Pension Scheme
The National Health Service Pension Scheme (NHSPS) is run and paid for by the Government for the benefit of scheme members and is an important part of the salary. The package contains a number of different benefits including Annual Pensions, Life Assurance Lump Sum, Survivor Pensions and Child Allowance. For many NHSPS is seen as the pension system with the most generosity for its members.

In 2007-08 the annual report from NHS Employers stated that the NHS as being the third largest employer in the world and the NHSPS the largest single occupational pension scheme in Europe. (Table 1) shows the details during the last three years of active, deferred and retired members of the NHS in England and Wales. The average (mean) pension in payment in 2009/10 was £7,234 per annum (NHSPS, 2010/11 Annual Report).

Table 1: Summary of the principal membership data in past three years

<table>
<thead>
<tr>
<th>Years</th>
<th>Active members</th>
<th>Deferred members</th>
<th>Pensioners in payment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31/03/2012</td>
<td>1,257,269</td>
<td>595,953</td>
<td>701,280</td>
<td>2,554,502</td>
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<tr>
<td>31/03/2011</td>
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<td>31/03/2010</td>
<td>1,368,215</td>
<td>524,726</td>
<td>638,610</td>
<td>2,531,551</td>
</tr>
</tbody>
</table>

Source: NHSBSA

Consultations during 2005 between the government and trades unions started and both sides agreed with the protection of active scheme members from the higher pension age for the remainder of their employment; provided that new pension arrangements would result in at least the same long-term savings as predicted in the Green Paper. Then in September 2007, the Review Partnership made a final proposal to the health ministers for England and Wales on the potential of the scheme, which Ministers accepted.

1.2 Research Aims and Objectives
The government has implemented significant changes to the NHS Pension Scheme with effect from 1 April 2008 and proposes a further series of fundamental reforms to the Scheme. Steventon (2008) argued that changes to NHSPS were regarded as necessary because people are living longer compared to any previous periods in British history (Figure 1).
The greater the population’s life expectancy, the greater the cost involved. An increasing ageing population also means that these pensions need to pay for longer, increasing the overall costs and making the scheme unaffordable and unsustainable financially. However, the policymakers came to a conclusion that increasing the retirement age will not solve the issues alone and they decided to increase employee contributions linked to earnings. At the end of the day it is the Government’s duty to ensure the Scheme is reasonable, sustainable and provides a fair outcome for Employees, Scheme Members, Employers and the Taxpayer.

The introduction of these reforms has unleashed strong forces that will drive changes in Scheme holder’s 2008 behaviour therefore impacting upon future investment for future generations. Curtis (2011) said the reforms have been contentious with the Government on one side and staff side representatives and scheme members at opposite ends of the spectrum over the issue of reduction to the value of Retirement Benefits and further increases to Scheme Member contributions Jones (2011).

The key instruments of reform including the main thrust of the pension reforms include an increase in the normal pension age from Age 60 to Age 65 for new Scheme Members who joined the scheme for first time on or after 01 April 2008 and the Tax free lump sum being no longer payable for entrants to the pension scheme. Subsequently the NHS Pension Scheme contains two Sections. The first Section (1995) applies to members who joined before 31 March 2008 as their normal retirement age is 60. The second Section (2008) is for those members joining for the first time or re-joining the Scheme after a five year break in Scheme Membership introduced reforms that resulted in a normal retirement age of Age 65, 66 by 2020 and more in future.

Subsequently, this paper will purely concentrate on the 2008 Section and compare it with the 1995 Section. In addition, the author will explain the impact and benefits of the 2008 reforms in further detail.

The purpose of the studies contained in this report is to examine three questions surrounding deliverable outcomes. The aim of the project is to evaluate the key objectives outlined as follows:

1. What were the objectives of the 2008 reforms? Why did the Government not consider an increase in Scheme Member contributions?
2. What are the objectives of the Coalition Government? Why does the Government think that the increase in Scheme Member contributions together with the increase in the retirement age beyond 65 is necessary?

3. What will the impact of the proposed reforms be:
   - How will the reforms impact upon the cost of Occupational Sick Pay?
   - Will the reforms lead to an increase in the number of Scheme Members choosing to “Opt-Out” of the Scheme?

In the following task this paper will investigate the above objectives and examine the benefit of the changes. Changes in government policy such as changing taxation, VAT or cutting public spending has an immediate impact on current standards of living, however reforms to NHSPS benefits takes many years to reflect the full consequences. For example the incomes of current pensioners are based on decisions made by previous decision makers and the Government. It is important to consider and take into account the risks and consequences of any pension reforms. For instance future generations’ pensions can’t be decided based on the incomes of today’s pensioners, it could well underestimate them and make the returns unattractive. It is clear the cost of living is increasing sharply beside slow economic growth and at the same time the unemployment rate is increasing Tuladhar, et al (2010).

2.0 Literature Review

The Government’s theoretical structure to reforms is sufficiency, affordability, sustainability, fairness, certainty, and robustness of NHSPS systems. Reform options will assess first the environment and the ability to improve and allow system sustainability for the long-term, then concentration on how to make the scheme achieve the objectives of the pension system. The major objectives of the pension scheme are protection and security against the risk of poverty in old age as well as reducing welfare state consumption from one’s work life into retirement (Holzmann et al., 2008).

The recent financial crisis and change in UK political power placed further pressures on Public Sector Pensions including the NHS Pension Scheme resulting in further reform. When the Coalition Government came into power in 2010 it identified that the NHSPS was in deep financial crisis. Options available were to sustain the Scheme or lead the Scheme to an inevitable closure. Then the Coalition Government appointed an independent commission to review Public Sector Pension Schemes including the NHS Pension Scheme.

The Commission’s interim report published on 7 October 2010, announced that the costs of Public Sector Pensions had increased by approximately one third over the last fifty years due to the increase in life expectancy. It concluded that the current funding arrangements had been commonly funded by the taxpayer (Department of Health 2012).

The author will examine the areas which they believe were not taken into account during the reform and consultation. The following chapter will discuss and analyse frameworks which will allow the author to generally measure the effects of these reforms on the NHSPS. The main objectives of this section of the paper are as follows:

2.1 What were the objectives of the 2008 reforms? Why did the Government not consider an increase in Scheme Member contributions?

The objectives of the 2008 reforms were to tackle the ageing population and make the scheme sustainable to avoid it going to bust. From figure 1 above it clearly shows that life expectancy has increased gradually in the past two decades. This is good news as it shows people are healthier than before on one hand, but on other hand it means retirees are living longer and making it difficult for HM Treasury to fund the scheme.

In addition the aims behind the 2008 section (new employees joining after 2008) and increasing employee contribution rates were to reduce liabilities which accrued between 1999 and 2008. Thurley
(2012) said the 2008 section introduced by the Labour Government during 2007-08 was to limit the future cost to the taxpayer. An agreement was made to limit the employer contributions at the same rate of 14% until 2016, then increase by 0.20%. Any further increase would have to be met by employees either through contribution increases or benefit change; bearing in mind the Labour Party Government did not aim to increase employee contribution in 2012. Consequently increasing employee contributions by the Coalition Government in 2012 was recommended by HM Treasury.

Table 2: Statement of Financial Position £ Billion

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Liabilities</td>
<td>257.7</td>
<td>287.6</td>
<td>199.5</td>
<td>212.5</td>
<td>218.0</td>
</tr>
</tbody>
</table>

Sources: NHSPA-Account 2010/11

2.1.1 Liabilities

(Table 2) shows as at March 2011, the liabilities decreased by 10% and were valued at £257.7 billion. This is good news for the Government and the key saving came from increasing employee contributions; however the deficit will need to be reduced further in coming years because of switching indexation from RPI to CPI from April 2011. In addition these kind of high levels of deficits raised a question amongst members of the Independent Commission and they said the matter needs an urgent solution and to be handled very cautiously Selby (2011).

The Government Actuary’s Department (GAD) used the discount rate to calculate the Scheme liability based on the AA corporate bond rate. The GAD informed that the discount rate was increased from a real rate of 1.80% to 2.90% at 31 March 2011 and the gross discount rate included an inflation assumption which has been changed from 4.60% to 5.60% with effect from 31 March 2011.

The main reason for the movement of the discount rate between 2010 and 2011 was due to these assumptions and in fact the movement was not as a result of alterations or security. As an alternative, the changes correlated to AA corporate bond yields which were affected since the 2008 financial crisis. This type of movement in real rate discounts do not have a long term impact for the actual cost of providing NHSPS by the Government, and consequently over estimates of accrued liabilities helps the policymakers to be more cautious.

2.1.2 Objective of the 2008 section

The Office of Budget Responsibility’s (OBR) advised the Government that reforms will improve the financial sustainability of the Public Sector Pension Scheme very soon and push the scheme to growth very quickly in the next two decades. The OBR estimated that increasing employee contributions and increasing the retirement age will together help to reduce gross costs of unfunded scheme from 1.4% of GDP to 1.0% of GDP in 2027/8. The savings from the reforms are promising to be comparatively modest. Steventon (2008) said “Introducing the 2008 section for NHS Employees will save both the taxpayer and Coalition Government around £13 billion in the next 50 years.” Therefore producing long term sustainability whilst contributing to deficit reduction. Hutton (2011) argued urgent pension reform was needed because of slow economic growth which could push Public Sector Pensions towards deep deficit.

The Office of Budget Responsibility’s also calculated that the impact of the reforms on NHSPS have reduced the average value of NHSPS pension schemes by around 3% of salaries for new members, from 24% to 21%. The accurate effects of the reforms, however, vary between individual members of the schemes.

During the 2010 general election neither the Labour Party, Conservative Party nor Liberal Democrats announced further increases to employee public sector pension contributions including NHSPS. At the Conservatives Conference in 2010, David Cameron in his speech to his fellow party members set out his
agenda for healthcare as he launched the Conservative Party's draft health manifesto, but this did not include increases in pension contributions (Conservatives, 2010). The main three parties avoided drafting any mention of an increase into their manifestos, which could be interpreted as being for the sake of their own interest and to avoid losing votes. Certainly the Coalition Government may have had this idea during the 2010 election campaign. For example the Liberal Democrat were against increased university tuition fees during the election, however when they gained power they made a U-turn and supported an increase in tuition fees. Halligan (2010) said in 2009 Lord Oakeshott, a Liberal Democrat peer who is widely acknowledged for this financial sharpness, led attempts to set up "Turner II" – an official inquiry into public sector pension costs. This is something that Lord Turner had failed to do over a five-year "root and branch" commission and Oakeshott's proposal was rejected, not only by the Labour government, but the Conservative party as will.

2.2 What are the objectives of the Coalition Government? Why do the Government think that the increases in Scheme Member contributions together with the increase in the retirement age beyond 65 are necessary?

2.2.1 Objective of the increase to employee contribution

Since the recession hit the UK in 2008, the level of National borrowing increased sharply (Figure 2). When you have debt then you have to pay interest as well, however for the cost of National debt the interest the government has to pay is on the bonds and gilts it sells. In 2011, the debt interest payments on UK debt were expected to be £48.6 bn (3% of GDP), according to ONS 2011. The sharp increase of the cost of Government borrowing from 2008 to 2011 was mainly due to the increased cost of interest payments and importantly the percentage of the Government’s spending cuts Unison, (2011).

Figure 2: UK National Debt

The main reason for the increase in National debt borrowing was due to the following factors:

- Slow economic growth, mainly because many businesses went into administration since the economic recession in 2008, e.g. Woolworths Group plc, which had a direct impact on lower tax receipts by HM Revenue and Customs.
- Higher government spending on social benefits and unemployment benefits.
- Falling house prices and lower corporation tax generated.
Large numbers of banks rescued by the Government such as Northern Rock, RBS and HBOS. Due to the sharp increase in public sector costs including healthcare, education and public pension deficit, managing the pension fund in the past few years has become extremely difficult for the financial institutions. Therefore the Government is no longer able to increase employer contributions to stabilise the scheme and the only option the Government had to make the system sustainable and affordable was by reducing the benefits, such as increasing the retirement age, abolishing the tax free lump sum and increasing employee contributions.

Figure 3: Main Areas of Government Spending

According to HM Treasury the largest Government spending in 2012 was Pension estimated around £129.3bn (Figure 3), (HM Treasury 2012). Following the formation of the Coalition Government in 2010, they outlined a number of policies such as cutting deficits through cutting public sectors jobs, freezing pay rises, increasing public sector employees’ contributions and linked pension payment to CPI. The Chief Secretary to the Treasury, Danny Alexander MP, proposed to increase NHSPS contributions with effect from 01 April 2012. The purpose of increasing scheme contributions is so that the scheme is affordable, sustainable, high quality and fair in the face of huge demographic changes and to ensure that the costs of providing pensions to the public service workforce are affordable, not just now, but in the decades to come (HM Treasury 2011).

Lord Hutton consequently suggested that if the Coalition Government sought to achieve short term savings, subsequent increases to Pension Scheme Contribution rates would be the most efficient way to attain that objective. This would also create a fairer balance between Employee Contributions and taxpayer contributions (Department of Health 2012). Halligan (2010) said the NHSPS is not fully funded through contributions that have been invested to generate safe returns and compound interest. This means that in coming years the benefits for retirees’ are likely to be unaffordable due to insecure funding. Halligan (2010) also adds that the NHSPS system is so disorganised that most of the scheme holders receive occupational pensions which are funded directly by
taxpayers. That is why increasing employee contributions is necessary and the NHSPS is so defenceless to changing historically; and the level of retirees rising and the low tax receipts makes the system an "unstable Ponzi scheme", (Institute of Economic Affairs, 2010).

Emery (2011) said after the consultation regarding increasing employee contributions by 3 per cent with effect from 01 April 2012, the government adopted a discount rate for calculating unfunded pensions contributions and linked to GDP growth. OBR long-term GDP growth is comparable to a discount rate of 3 per cent which is above CPI, so it is necessary to link pension income to CPI and increase employee contributions to growth GDP. OBR is blaming the previous government for the pension deficit because they linked the pension to RPI which is far above the growth GDP.

2.2.2 Objective of increasing of the retirement age to 65
Since life expectancy has been improved with people living longer, this has resulted in a gradual increase in the cost of the NHSPS due to the considerable enhancement in retirement benefit schemes for employees in the 1995 section, as well as the increased numbers of employees retired. For example certain groups of staff from the NHS scheme can claim their pension benefits at 55 years (Appendix A). According to the HM Treasury, increasing the retirement age for NHSPS holders will have an important consequence on the economy, public finances, savings and the Social Insurance Fund, as well as on employees and the labour market.

The Organisation for Economic Co-operation and Development (OECD) (2009) believes the current reforms will remove a number of barriers such as age discrimination, reduce disability allowance, and decrease social welfare benefits whilst keeping the older workforce active and fit therefore reducing social care costs. According to OECD UK, the UK has a lower level of older people aged between Age 50 to Age 60 when compared to other OECD countries.

2.2.3 Impact of the increase retirement age to 65?
Alternatively, a number of scholars examined the impact of the reforms including Disney and Emmerson (2004) who explained pensioners enjoyed the generosity of the NHS Pension Scheme and indeed suggested the current reforms will affect future retirement plans. For example, by increasing the normal retirement age from Age 60 to Age 65 will affect some organisations’ staff such as Mental Health Services and Accident and Emergency Services. The researcher will aim to identify the main areas which have been affected by current reforms and the primary concerns of Scheme Members.

It is true health has improved at older ages; jobs are less physically demanding than 20 years ago, and older adults are more educated than earlier generations. Nevertheless what about those staff who may not be able to do their jobs when they are 62? It is clear an administration job is less physically demanding, but A&E jobs require more physical demand.

Staubli and Zweimüller (2011) carried out research based on “Does Raising the Retirement Age Increase Employment of Older Workers” and they found a negative relationship between the labour market and older aged workers. They also found a positive relationship between Voluntary Early Retirement (VER) and older workers. Other studies based on similar variables by (Coile and Gruber, 2007; Liebman et al., 2009; Manoli and Weber, 2010) found increasing the retirement age did not have a positive impact on the labour market.

As well as this, they also found that reforms in retirement benefits have a significant impact on the timing of retirement, such as that they create negative behaviours and make retirees panic and increase the number of VER applications.

Santry (2011), said expecting nurses to work until 65 is impossible as the job is physically exhausting. Many of them believe they are not able to deliver the same quality of services and no longer able to carry out certain, more physically demanding tasks, such as performing cardiopulmonary resuscitation.
Ferreiro and Serrano (2011) said the reforms of pension systems have caused a rise in uncertainty amongst pensioners due to replacements of current benefits by the 2008 section as well as have had an impact upon economic growth rates for the long term. Investment returns could decline because of an ageing working population, reinforcing lower economic growth rates. In short, the reform would result in more future pensioners having lower incomes than the ones initially estimated.

Peacock (2011) examined the fact whether discrimination is faced older workers. She carried out a survey of 2 2,000 workers and found there is a strong relationship between older workers and discrimination in terms of training, appraisal and promotion.

2.2.4 The Economic Framework

Karam et al (2010) said the macroeconomic outcome of three areas of NHS Pension Scheme reforms, such as increasing retirement age, a reduction in benefits and an increase in Employee contribution rates; will have a positive result in short-term growth rising consumption and in the long-term, reduce government expenditure whilst producing an increase in demand for a skilled labour market and increase household investment (Hakola, 2005).

(DWP, 2011) urged it is the Government’s duty to defend fiscal stability in the long term. Increasing the retirement age will not only stabilise the pension fund, but also help the economy to recover from the 2008 and current financial crisis. If the Government did not increase the NHS retirement age and fails to act now, then the pension debt will increase sharply and become unsolvable. In addition an increase in retirement age not only helps the government but also helps businesses to survive during the current financial and economic crisis plus it helps to reduce the costs of loans and mortgages.

The following calculation illustrates that the 1995 section is very expensive for the government for an individual retiring at 60 years with a final pensionable pay of £ 25,000.00 and 20 years of pensionable service; at 65 years the total payment is £50,000.00:

<table>
<thead>
<tr>
<th>Section</th>
<th>Annual Pensions</th>
<th>Lump sum</th>
<th>Total payable after 5 years of retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>6250 (25000<em>20</em>1/80)</td>
<td>18750 (6250*3)</td>
<td>£50,000.00 (6250*5+18750)</td>
</tr>
</tbody>
</table>

However if you are member of the 2008 section, the normal retirement age is 65 years of age, so it means you have to work for another 5 years, consequently on the 65th birth day there is no payable receipts by the scheme holder, instead you have to make contribution to the scheme form 60 to 65, which cost £1625.00 per year (£25,000.00 * 6.5%). Also ‘Reckonable Pay’ will be used for benefit calculation rather than final pensionable pay as well as there is no free lump sum.

3.0 Research Methodology

This chapter provides outline of the methodology followed to examine the cost and benefits of the 2008 section introduced to NHS Pension Scheme, while firmly focusing on the main features of the form's (Quality of service, Sickness absence and Opt-out) and limitation of data which have a direct and significant impact on investigation. Like other scholars the author cannot replicate all difficulties that can manipulate the consequence of the measured pension reform.

The author applied the burden of proof process to study the research objectives referred to in the above section through both quantitative and qualitative methodologies. The researcher examined each key objective in different angles in order to reach a justifiable conclusion. The results obtained via Freedom of Information Requests, Data collection and analysis, interview and surveys. In order for the research objectives to be met it was necessary to carry out a combination of both secondary and primary research. The findings of the secondary research have been presented in the preceding chapter and those of the primary research will be presented in the following chapter.
4.0 Introduction Results, Analysis & Discussion

This chapter looks first at the data collected from NHS Business Service Authority (NHSBSA). This data gives the fundamentals for following the stipulation of examination and strategy suggestion, by the NHSBSA itself and governments that rely on this data. Although the NHSBSA is well appreciated for its data, a benefit that has helped the researcher to obtain considerable academic reliability, it faces a number of confronts which are serious enough to ask questions about the helpfulness – if not the legality – of the data produced.

The purpose of this chapter is to investigate whether the 2008 section has had any impact on the pension system. The author will compare the empirical results with hypotheses and literature review. In addition the author looks primarily at active members of the NHS Pension Scheme then at the pensioners at the payment level, as well as examining a proportion of the NHSPS within the 16 to 70 years age group who contribute to the scheme.

Finally, the chapter examines some of the associated characteristics such as opt-out, sickness and Voluntary Early Retirement (VER). Secondly the author will evaluate the results from the questionnaire. The varieties of data published in the past by different scholars may have different outcomes with this chapter and have different exposure and description. The investigator used the basis that is most suitable for the subject, however unavoidably there are resources that are distinct in the categorical of pension covered and in the population base between one examination and another.

4.1 Analysis secondary data

<table>
<thead>
<tr>
<th>Years</th>
<th>Active members</th>
<th>Deferred members</th>
<th>Pensioners in payment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31/03/2012</td>
<td>1,257,269</td>
<td>595,953</td>
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<td>524,726</td>
<td>638,610</td>
<td>2,531,551</td>
</tr>
</tbody>
</table>

Source: NHSBSA

4.1.1 Active members

The definition of active members is present employees who are contributing to NHSPS. As you can see from (Table 3) the active members dropped by 8% from March 2010 to March 2012, in the meantime the number of scheme holders claiming their pension increased sharply for the same period by almost 8.9%. This kind of outcome will make the government apprehensive and worried by the obvious decline in the number of people saving for retirement.

The decline of the number of active members of the pension scheme also raises the question of whether there is something essentially wrong with the system of pension form. These results have a direct impact on the pension scheme deficit and make the scheme unaffordable further for the government. There are a number of factors that resulted from the decline of active members of the pension scheme as follows:

- Increasing contribution rate sharply from April 2008 to April 2012.
- Increasing retirement age from 60 to 65 and further.
- Increasing cost of living.
- Decline economically and deep recessions as well as reduction in tax relief.
- Uncertainty about the scheme sustainability in the long term and government cuts back on NHS as well as thousands of scheme holders redundant in past years.
This meant that the overall level of NHS pension scheme membership continued to decline in coming years resulting in consequences such as moving from final pensionable pay to career average. As the ONS has reported previously, the contributor level to the public sector will continue to decline in future. On the other hand changing political power crashed pension generosity and public confidence.

(Table 4), data requested from NHPSA, shows the breakdown of contributors by age from 2008 to 2012. The trends of active members are increasing beside age.

<table>
<thead>
<tr>
<th>End Date</th>
<th>Under 20</th>
<th>Under 25</th>
<th>Under 30</th>
<th>Under 35</th>
<th>Under 40</th>
<th>Under 45</th>
<th>Under 50</th>
<th>Under 55</th>
<th>Under 60</th>
<th>Under 65</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>31/03/2008</td>
<td>0</td>
<td>8,387</td>
<td>62,294</td>
<td>123,656</td>
<td>145,421</td>
<td>172,702</td>
<td>207,686</td>
<td>203,608</td>
<td>165,445</td>
<td>116,296</td>
<td>1,205,495</td>
</tr>
<tr>
<td>31/03/2009</td>
<td>110</td>
<td>15,836</td>
<td>85,405</td>
<td>134,080</td>
<td>153,428</td>
<td>180,532</td>
<td>214,980</td>
<td>208,045</td>
<td>164,441</td>
<td>102,684</td>
<td>1,259,541</td>
</tr>
<tr>
<td>31/03/2010</td>
<td>487</td>
<td>26,424</td>
<td>103,577</td>
<td>142,263</td>
<td>159,631</td>
<td>186,842</td>
<td>220,336</td>
<td>210,829</td>
<td>161,502</td>
<td>87,656</td>
<td>1,299,547</td>
</tr>
<tr>
<td>31/03/2011</td>
<td>1,270</td>
<td>35,205</td>
<td>110,849</td>
<td>141,416</td>
<td>157,507</td>
<td>184,610</td>
<td>217,088</td>
<td>205,990</td>
<td>151,427</td>
<td>70,156</td>
<td>1,275,518</td>
</tr>
<tr>
<td>31/03/2012</td>
<td>2,707</td>
<td>43,698</td>
<td>105,578</td>
<td>122,791</td>
<td>135,610</td>
<td>162,181</td>
<td>191,061</td>
<td>179,066</td>
<td>124,190</td>
<td>48,071</td>
<td>1,114,953</td>
</tr>
</tbody>
</table>

Source: NHPSA

As you can see under 20 contributors increased sharply by 2361% from 2009 to March 2012, this is a positive result for the government, and the trend continued to under age 30 which increased by 70% from 2008 to 2012. However the decline picks up from under 35 and onwards. Changes to methodology for 2011 onwards mean that contrasts with 2010 and earlier should be examined with concern.

4.1.2 Deferred members

NHSBSA (2010) defined deferred members as those who are no longer contributing to the NHS Pension Scheme; also do not transfer their annuity to another pension scheme, as well as their payment of pension is delayed and not payable until retirement age. Table 3 shows that deferred members increased by 14% since 2010 to March 2012. The most important reason for the increase in deferred members is due to the high deficit of public expenditure, and the government reacted to reduce the deficit by freezing pay rise from April 2011, that derived scheme members to leave the NHS and scheme all together or opt out of the scheme.

This is having a negative impact on future economic, state welfare and personal savings for retirement age. Another reason for the increase in deferred members is due to a high number of the NHS staff being made redundant. Singh (2012) said during 2010/11 the NHS spent almost £170 million on NHS redundancy pay outs.

4.1.3 Pension in payments

Table 4 revealed that the number of pensioners increased by 10% from March 2010 to March 2012. This is not a good indication for the government whilst the system struggles to survive and to be sustainable and affordable for the long term. This increase is due to a number of factors such as a special class which is eligible to claim their pension at 55 years of age. As well as increasing demographic and the generosity of the scheme, in addition introducing S number of reforms since 1995, especially to the 2008 section and these reforms have had a direct impact on the changing behaviour of the scheme holders.

As you can see from table 3 the level of active members of the scheme gradually declined from age 50 onwards, because the earliest age to claim pension benefits is age 50 and special class members who are Nurses, Midwives, Healthcare and Physiotherapist who joined the scheme before March 1995 are eligible to claim their benefits at age 55. Later in this chapter the author will investigate whether or not Voluntary Early Retirement has had an impact on the increase in the number of pensioners.
An increasing number of pensioners on one hand and decline in active members on the other hand is evidence that the government believed the reform to the NHS Pension Scheme were urgent towards demographic problems connected with the increased number of pensioners, to prevent the welfare, health and financial systems from collapsing. The report from the Independent Commission chaired by Lord John Hutton was crucial support for the Government for going ahead with reform. The increasing number of pensioners not only has an impact on the financial side, but also impacts on the labour market. Moreover, the proportion of working age people will decline in the labour market; for example currently the NHS is struggling with shortages of Nurses and Doctors, while the relative number of retired people continues to increase. For the Government the increasing number of pensioners raises alarms and has danger results in the long term, and makes NHSPS unsustainable. Increase in expenditure on health care per capita increased from £231 in 1980 to £1,168 in 2000 and by 2008 it was £1,852. However the advantage of tackling the aging population by increasing the retirement age from 60 to 65 is that it will further improve the labour market and sustain public expenditure.

4.1.4 Voluntary Early Retirement (VER)

There is no exact definition for VER with each pension scheme having its own procedure and eligibility. However for the NHS Pension Scheme, it is the conditions in which scheme holders can take their pension before reaching normal retirement age, the earliest age is 50 for the 1995 section and 55 for the new 2008 section. There are penalties against VER and (Table 5) shows how much the pension and lump sum is reduced by for those who choose to retire early.

Table 5: Cost of VER

<table>
<thead>
<tr>
<th>Age</th>
<th>59</th>
<th>58</th>
<th>57</th>
<th>56</th>
<th>55</th>
<th>54</th>
<th>53</th>
<th>52</th>
<th>51</th>
<th>50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>5%</td>
<td>10%</td>
<td>14%</td>
<td>18%</td>
<td>22%</td>
<td>25%</td>
<td>29%</td>
<td>32%</td>
<td>34%</td>
<td>37%</td>
</tr>
<tr>
<td>Lump sum</td>
<td>3%</td>
<td>7%</td>
<td>9%</td>
<td>12%</td>
<td>15%</td>
<td>18%</td>
<td>20%</td>
<td>23%</td>
<td>25%</td>
<td>27%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age</th>
<th>64</th>
<th>63</th>
<th>62</th>
<th>61</th>
<th>60</th>
<th>59</th>
<th>58</th>
<th>57</th>
<th>56</th>
<th>55</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>6%</td>
<td>11%</td>
<td>15%</td>
<td>19%</td>
<td>24%</td>
<td>27%</td>
<td>31%</td>
<td>34%</td>
<td>37%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: NHSBSA

In past years the NHSPA experienced high volumes of applications for VER according to the data collected from NHSBSA. Based on the data collected from NHSBSA the total applications completed as at 31/03/2012 was 8,006 compared to 4314 at 31/03/2008, an increase of almost 85% (Figure 4). This is a wakeup call to the government and it is indicates that something is wrong with the system; the government needs to be concerned and handle this carefully. There are reasons and factors that make scheme holders take their pensions based on VER and the most important factors are increasing disappointment among scheme holders with amendments in the NHS.
Such as agenda for change increasing working hours for some groups of staffs like Psychologist from 35 to 37.5 hours per week. As well as the reforms to the scheme introduced to the 2008 section and changes from final salary to career average.

![Figure 4: VER applications completed at the end of financial year](image)

Another reason for the sharp increase in the VER is astonishingly pension tax changes. Although personal assumption has an effect on motivation to get their pension before it is affected by tax, especially high earners such as consultants, many of VER applicants return back to work after claiming their pension. Finally there are possibilities and hypotheses relationships between the NHS Pension reforms and VER.

4.1.5 Opt-out
As discussed in chapter 3, many scholars and government advisors suggested the recent NHS Pension reform will increase the opt-out level of the scheme. For the first time, such data collected from NHSBSA will be investigated to determine whether there is any relationship between an increase in contribution, retirement age and opt-out Timmins, (2011).

(Figure 5) shows the opt-out level decreased by 6% from 2007/08 to 2011/12 and this is an optimistic result for the government, because the HM Treasury was concerned that large numbers of scheme holders would leave the scheme.
Based on economic theory, household savings are important, firstly, as it is a vital basis of funds to finance domestic investment. Secondly, it is the proven way by which employees build up their wealth and sustain a living standard into retirement. When a household can afford to contribute to the pension scheme during the current economic downturn, it’s not beneficial for itself, but it helps the government and minimises social welfare cost. According to NHSBSA, 95% of NHS employees are in the pension scheme, hypothetically when a high proportion could impact up on other staff and encourage others to create a pension account.

Since 2008, financial crisis has hit the UK badly and the cost of living increased sharply. For sure many households are struggling to be sustainable between saving for retirement and fulfilling their personal consumption. For example, many households prefer saving to going on holiday and instead invest in the pension fund, because nowadays people are more educated and understand the consequences and difficulty during retirement.

Figure 6: A breakdown of the Opt-out by age in past five years
Figure 5 shows opt-out declined from 2008 to 2012, however in (Figure 6) in which the author requested a breakdown of the opt-out between ages, as you can see the opt-out level is lowest between age 16 to 20 because a small proportion of active members are under age 20. Also the opt-out between ages 21 to 25 increased and decreased slightly in the past five years. Nevertheless opt-out somewhat decreased between ages 26 to 30, though the opt-out gradually declined towards older workers. Figure 6 shows the opt-out is much smaller between the ages of 31 to 35 compared to the ages of 21 to 30.

Early in chapter three a number of scholars suggested increasing employee contribution and retirement age could lead to mass opt-out, especially among young workers. But figure 8 shows there is a negative correlation based on this hypothesis. The conclusion of this analysis is good news not just for the scheme but as well as the government and tax payers, as this shows more people are focusing and relying on personal savings instead of social benefits for retirement. Many people are thinking economically and rationally to stay in rather than opt-out, despite negative headlines in past years by attacking pension indignity and public uncertainty at composite pensions terminology which lead to doubt. A large proportion of NHS employees think if they opt-out of the pension scheme, they avoid paying employee contributions of 5% for lower paid staff, but in reality they pay higher National Insurance and tax.

**4.1.5 Ill health retirement**

NHSPS offers pension benefits to active members, before normal retirement age due to ill health with at least two years of membership, there are two different tiers for ill health retirement. Ill health retirement is very expensive and it costs thousands of pounds. The author requested five years’ worth of data regarding ill health applications with the main purpose of finding out whether there is any relation between NHS Pension reform and ill health. However (Figure 7) shows the level of ill health declined by 17% from 2008 to March 2009. This is good results for the government and it shows the cost of sickness improved; but despite NHS efforts to reduce sickness, the cost is still very high.

![Figure 7: Number of ill health application in past five years](image)

Source: NHSBSA

However (figure 8) shows a breakdown of ill health among ages and it is clear that there is a correlation between increase in sickness absence levels and older workers and among more stressful and physical demanding jobs. The following figures shows sickness absence rates decline between age 60 to 64 and
this is due to small proportion, almost 38%, of NHS active members are represented at the ages of 60 to 64 at 31/03/2012.

**Figure 8: A breakdown of the sickness by age**

![Breakdown the sickness rate by age](image)

Source: NHSBSA

The results from (Figure 8) shows there is a positive relationship between sickness absence rates and demographic trends. As you can see the highest sickness rate is 5.6% at ages 55 to 59 compared to 2% at ages 20 to 24. Consequently NHS Pension reform and the 2008 section resulted in an increase of the retirement age from 60 to 65 and this will further lead to higher sickness absence rates and it will costs NHS employers, the government and the taxpayer more. Figure 4 shows the sickness level increased by 12 % from 2009 to 2012.

The author obtained further information under the freedom of information from NHS Employers regarding the costs of sickness absence from 1 April 2008 to 31 March 2012 – £1.7bn a year. Musculoskeletal disorders account for 30%, stress 30% and violence against staff 13% of the sickness absence levels from 1 April 2008 to 31 March 2012.

The author collected additional information from the NHS Information Centre to investigate if there is any relation between sickness absence and high demanding jobs. (Figure 9) shows the sickness absence rates vary between staffs groups. The higher sickness absence rates are Ambulance staff and the healthcare group, and those with the lowest sickness absence rate are the healthcare scientists.
The author’s aim of this analysis is to find out whether the pension reform has a direct impact on certain staff groups. The outcome is positive and there is a positive relationship between pension reforms such as increase in the retirement age and higher sickness absence rate for those staff whose job is more physically demanding.

Of course the government should not expect the cost of sickness to decline whilst the government increases the retirement age from 55 to 60 for the special class and for the non-special class to 65. In the meantime special class staff such as Ambulance and Healthcare Assistants has the highest sickness absence rate. On the other hand reforms to NHS pensions did not impact on sickness cost but also had an impact on delivery quality of services for certain groups of staff such as community nurses who treat mentally disabled patients.

The researcher interviewed a Medical Director from one of the NHS Community Mental Health Trusts regarding in what ways the 2008 section is affecting community mental health officers. She said the physically demanding side could be manageable by introducing new equipment and new technology but the worrying issues are that older staff are an easy target for mentally disabled patients to attack and older staff such as healthcare community officers and ambulance staff would feel less protected.

Lombard (2011) said “One in seven mental health staff is subject to violence”. Another study carried out in 2010 by the NHS regarding abuse against NHS staff, showed that 15% of mental health professionals had experienced physical assaults, while 18% had suffered bullying, harassment and abuse from mentally disabled patients.

Based on the theory and empirical studies, increasing the retirement age to 65 and 66 in the future is having a direct impact on certain groups in terms of morality and quality of services and increasing sickness costs, because 13% of sickness costs are due to anxiety and stress. There is no sign of improvement in the decline of sickness costs for those groups of staff who currently have the highest sickness rate. The 1995 section allows groups of staff such as community mental officers or healthcare...
professional to retire at 55, because the policy makers assumed these staff is not able to carry on with their duty when they are older.

4.1.6 Liabilities and Contribution

Further information was requested from NHSBSA under freedom of information regarding the surplus and deficit of the NHS Pension Scheme. The purpose of this was to investigate how much the NHS pension scheme pays out to pensioners and the amount of contribution collected from active members and employers. Figure 8 shows that more money goes into the pension pot compared to what is paid out to pensioners.

![Fig. 10: Payable to pensioners and contribution to the scheme](image)

Source: NHSBSA

As you can see from the above figure the contribution to the scheme increased gradually from 2008 onwards and this is due to increasing employee contributions in April 2008 and April 2012. Nevertheless, the contribution collected from the employer and employee was not enough to meet the pension payable to pensioners. According to the NHSBSA report, there are deficits accrued each year since 2008 and there is no balance between payment to pensioner and contribution to the scheme.

The only way the government can reduce the deficit is by increasing employee contributions and also by increasing the retirement age and other reforms that are part of the 2008 section. Consequently it is uncertain whether or not HM Treasury will be able to increase employer contributions more than the estimated rate increase of 0.2% in 2016. Though if VER applications keep increasing then Payments out of the NHS scheme will likely go beyond the contributions being collected in future, as this is the normal situation for many scheme holders from the 1995 section and the liabilities could increase further.

4.2 Analysis primary data

The questionnaire was internet administered and posted on NHS Forums and Facebook; and there were a total of 72 responses. As mentioned in the previous chapter, in order to give a true representation of the population with an error of 10% and level of confidence of 90%, a minimum of 68 responses were needed.

The website the questionnaire was designed on enabled the author to monitor all these until all the required number of respondents had been met. In designing the questionnaire all questions were made
compulsory which insured all respondents answered all questions. In addition filtering of results options on the website have also aided in the analysis by giving a detailed breakdown of each question answered. In the following stage the author will provide an analysis of the answers to the questions.

4.2.1 Analysis Question 1

The main purpose of Q1 is to identify the number of NHS Pension Scheme holders among total number of NHS employees. NHS Workforce revealed in 2010 the total number of NHS employees was 1,431,557. The researcher started with a simple question “Are you member of the NHS Pension Scheme” (Figure 11).

The survey revealed in (Figure 11) 89% of the NHS employees is member of the NHS pension scheme, and only 11% are not a member of the pension scheme. The outcome of Q1 revealed there is positive relationship between Q1 and active members from table 4. For the government, this result which shows that a large percentage of NHS employees are members of the pension scheme is a good indication, despite the current financial crises and economic recessions. This has also proven that the reforms to the NHS Pension scheme have not, at large, driven employees out of the scheme. The more employees that contribute to the pension scheme, either public or private, the better for the government to help reduce social welfare and improve personal saving along with recovery from the current economic recession.

4.2.2 Analysis Question 2

The aim of question 2 is to evaluate how many of NHS pension scheme holders transferred their pension to the 2008 section. The author in chapter two explained the difference between 1995 and 2008 section; and the key difference are increasing retirement age from 60 to 65 and abolishing of special class and free lump sum.
Figure 12: Which Section of the NHS Pension Section do you belong to?

The questionnaire shows (Figure 12) almost 85% are part of the 1995 section, it is very clear the 2008 section is not valuable as the 1995 section where retirees are allowed to collect a free of tax lump sum which is three times of annual pensions. Also the result from figure 12 shows that since the 2008 section has been introduced by the government the total of scheme holders who are part of the 2008 section is 13%. For sure the 1995 section will continue declining and the 2008 section will continue rising because the 1995 section no longer exist for new entrants and in 50 years’ time will come to an end.

4.2.3 Analysis Question 3

The aim of question 3 is to examine what is the motivation behind opting out of the pension scheme and to investigate whether the reforms had an impact of the opt out level since the 2008 section was enforced from April 2008.

Figure 13: Reason for Opted Out of the NHS Pension Scheme
Firstly there is strong correlation between empirical studies and the survey based on the reasons for opting out of the scheme. The main reason for opting out is largely due to unaffordable, also question 4 and 5 indicate those staff who opted out of the scheme are low earners and young staff. However there are a number of reasons why staff cannot afford to contribute to the scheme, such as current economic downturn, increase in cost of living and pay rise freeze. Nevertheless 25% of respondents indicated the motivation behind opting out of the pension scheme was due to reform and uncertainty of the scheme. Contribution to the NHS Pension Scheme is more expensive than ever before and less beneficial compared to the past decade. Increasing numbers of members opting out of the scheme will not only damage the reputation of the system but also increase social welfare costs, and have an impact on the economy whilst the government is making every effort to restore the economic system.

4.2.4 Analysis Question 6

The aim of this question is to investigate whether reform has an impact on the service and the author started with “Do you believe the changes to NHS Pension Scheme could impact upon the quality of services delivered? For example, the extension to the Scheme Retirement Age from Age 60 to Age 65 for the 2008 Section Members only, where a high level of physical demands (i.e. Geriatric Services) is placed on human resources?”

Figure 14: Changes to NHSPS could impact upon the quality of services delivered

Figure 14 shows there is a positive relationship between hypothetical studies and the outcome from the survey. The survey asked general NHS Staff, however if the question was asked to different groups then the responses would vary amongst the different groups. Increasing the retirement age from 60 to 65 has a different impact for, example Nurses and E&A groups have more demanding duties compared to Administrative and Clerical workers. In addition the reform to the NHS Pension Scheme and introducing the 2008 section have a negative impact on specific areas as explained in chapters two and three.
4.2.5 Analysis Question 7

The purpose of question 7 is to study how many scheme holders from the 1995 section transferred to the new 2008 section. The author started with the question “Under the Choice Exercise, you were provided with a time limited opportunity to transfer from the 1995 Section to the 2008 Section. If the Choice Exercise applied to you: Did you choose to remain in the 1995 Section?” The survey shows 80% of the NHS Scheme holders stayed in the old 1995 section and only 20% of respondents transferred their pension to the 2008 section (Figure 15).

Figure 15: Did you transfer from the 1995 Section to the 2008 Section

It is very clear the 2008 section is less beneficial compared to the 1995 section, and for this reason the author doubts if 20% of the NHS Pension Scheme holders actually transferred their pension to the 2008 section. The result from question 7 shows there is a strong relationship between the theoretical studies and the result exposed the reform to the NHS pension system is not beneficial in any way and has a direct impact on a number of staff groups.

5.1 Conclusions

This paper has considered the evaluation of the NHS Pension reforms and the 2008 section, the cost and benefits of the reform, how the reform affects the future generation and quality of service to be delivered. For the government the reform to the NHS Pension Scheme is necessary and important; the reform to the system is the best solution to tackle the aging population, reduce the deficit and ensure sustainability for the long term.

The Department of HM Treasury estimated the reform to NHS Pension Scheme at £13 billion over the next 50 years. The main saving will be from increasing the employee contribution rate, abolishing the free lump sum for new entrants and switching from the Retailer Price Index to Consumer Price Index. Unison, the largest NHS trade union, appealed against the latter decision but they lost the case in the High Court.
The reform will not only make the system more sustainable but also improve the labour market and encourage older workers to continue working. NHS employers need to keep experienced staff in their field especially since the NHS is experiencing shortages of experienced management, nurses and doctors. In addition, increasing the retirement age helps the labour market improve domestic demand in the short term and minimise the pressure on governments to cut pension benefits alone (Blackburn, 2005). However, the author examined whether there was any correlation between hypotheses and empirical results, and the results, analysed from five years worth of data from the NHS Business Service Authority, showed that there is a negative relation between reform and opt-out rate. In fact, the rate of opting out from 2008 to 2012 has decreased by 5%.

Nevertheless, the cost of reform will take many years to have a full impact. However, the sharp reform to the scheme such as increasing employee contributions whilst freezing pay rises, the cost of living sharply increasing, as well as the government cutting public sector funding including the NHS, all have a major impact at the present time and will have an effect on personal saving. In addition, many people do not have any choice except to opt-out of the scheme, especially young people and low earning workers.

5.2 Recommendation

1. The retirement age should not be the same for all staff groups, for example it is very clear the Ambulance and Emergency and Accident staff duties are more physically demanding compared to Administrative staff. Certain groups of staff such as Nurse, Midwives and Community Mental Health Officers, their retirement age should not be increased to 65 years of age whilst their responsibility remains challenging.

2. The government made the right decision to increase the retirement age and abandon other special class services for community mental health officers doubling their services after completing 20 years of service. However, the government should not increase employee contributions at this stage whilst the Euro zone is facing economic and financial crisis.

3. The government should contribute towards increasing employer contributions. Since April 2003 the employer contribution has stayed at the same level which is 14%, and the government proposed to increase it only by a small proportion from 14% to 14.2% in 2015. The report from Lord John Hutton said “the reform is not about saving it is about fairness”. But the government spent more money on rescuing the banking system than public sectors pensions. The reality is if the government does not make any contribution towards the NHS Pension system then it is impossible to sustain the scheme and the scheme holders can’t fund the scheme solely.

4. When the government introduced drastic reform to the NHS Pension system they did not take into consideration the loss of social benefits and economic theory. For example, increasing the retirement age is making it more difficult for unemployed people and especially the young and inexperienced people. The government should avoid creating uncertainty among scheme holders as any uncertainty causes welfare losses instead of savings.
References


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