

Proposed 6.3% increase to employer contribution rates in the NHS Pension Scheme from April 2019

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The Department of Health and Social Care has issued a formal consultation on proposals to make changes to the NHS Pension Scheme.

The proposals include:

- introducing an increased employer contribution rate of 20.6% (up from 14.3%) for employers from 1 April 2019
- leaving employee contribution rates unchanged from 1 April 2019
- providing civil partners and same sex spouses with the same survivor pension rights as widows
- extending the current forfeiture of pension benefits rules

These proposed changes are subject to final agreement by Health ministers and HM Treasury.

The latest NHS Pension Scheme valuation results indicate that an increase in benefit requires a 6.3% rise in the employer contribution rate to 20.6%. This figure is expected to be confirmed by the Government Actuary's Department in their final valuation report due in December 2018.

This cost increase is driven principally by two “technical” factors:

- A reduction in the discount rate used to set contribution rates of the NHS Pension Scheme; and
- Rectification of a cost cap breach

Funding the increased employer contribution costs

The Prime Minister committed to providing additional funding to meet costs arising from the current actuarial valuation of the NHS Pension Scheme in a speech on the NHS on 18 June 2018 at the Royal Free Hospital:

“Under our plan, NHS funding will grow on average by 3.4 per cent in real terms each year from 2019/20 to 2023/24. We will also provide an additional £1.25 billion each year to cover a specific pensions pressure. Some of the extra funding I am promising today will come from using the money we will no longer spend on our annual membership subscription to the European Union after we have left. We will listen to views about how we do this and the Chancellor will set out the detail in due course.”

There are no further details on exactly how these proposed additional pension costs will be met as yet.

If separate additional funding is made available for NHS bodies to fund the proposed increase in the employer contribution rate, two other important issues remain to be clarified for staff who have been outsourced to contractors who participate in the NHS Pension Scheme under a Direction and/or Determination:

1. Will additional funding also be made available to fund the increased contract costs for NHS commissioners where the terms of their NHS contracts (whether under “change in law” provisions or otherwise) effectively pass back the cost of increased employer contribution rates from an independent sector contractor to the commissioner? and
2. Will the Department make any additional funding available to offset the additional 6.3% increase in costs for independent sector contractors in circumstances where there is no contractual term passing back employer contribution rate increases under the NHS Pension Scheme to NHS commissioners? We note that the Department did make additional funding available so that Agenda for Change pay awards could also be paid by independent sector providers.

A more detailed DAC Beachcroft LLP briefing note regarding the Consultation will be published this year.

