



cutting through complexity

PENSIONS

NHS Pensions:

Fit for the future?

kpmg.com/uk

The combined pressures of public service pension reform, increases in member contributions, pay and workforce restructuring and auto-enrolment amongst other things means that NHS employers are facing new challenges in relation to pensions

NHS Pensions challenges

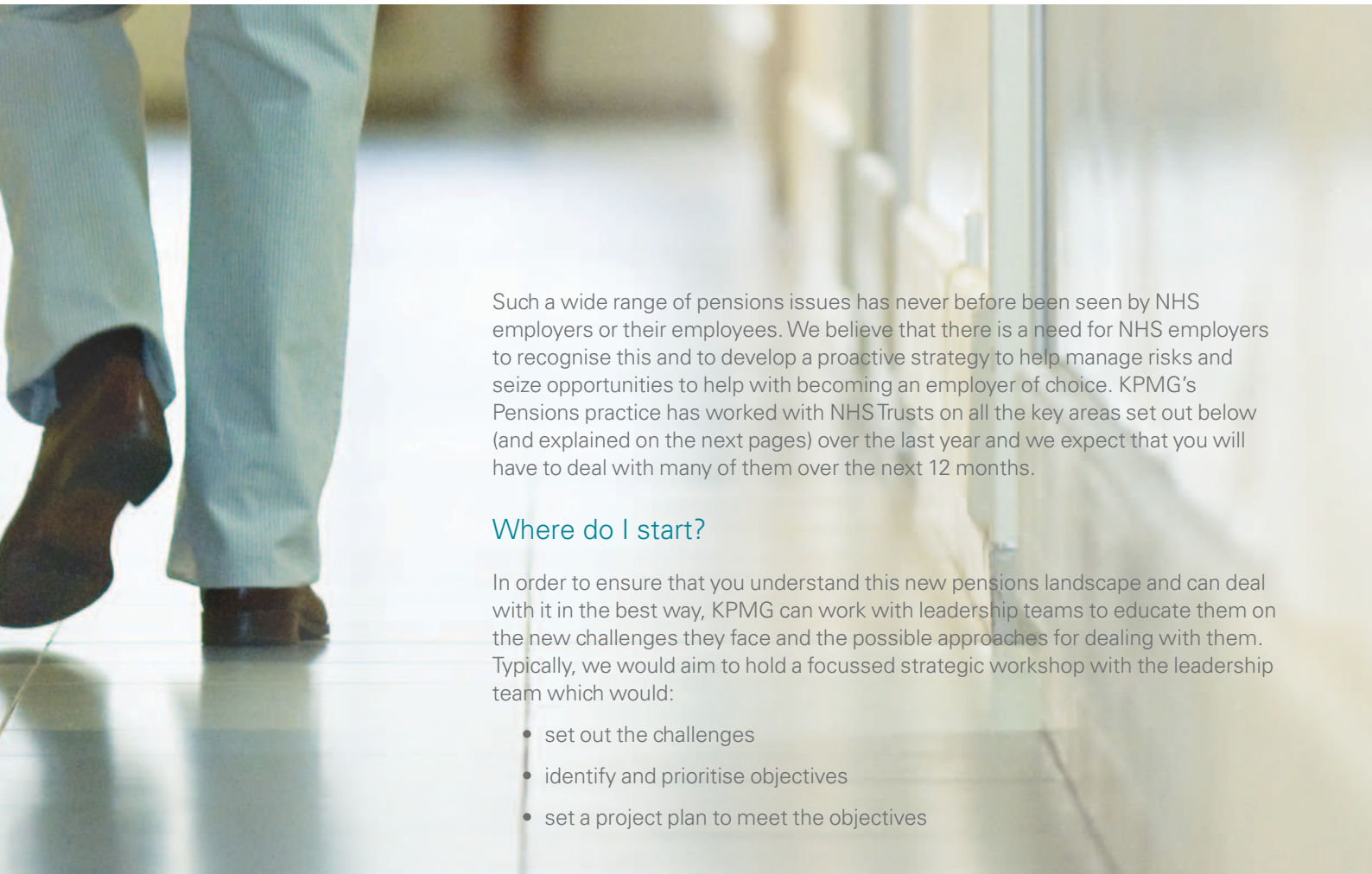
2015 benefit
changes

Cost
reduction

Pensions
and Total
Reward

Tax
changes





Such a wide range of pensions issues has never before been seen by NHS employers or their employees. We believe that there is a need for NHS employers to recognise this and to develop a proactive strategy to help manage risks and seize opportunities to help with becoming an employer of choice. KPMG's Pensions practice has worked with NHS Trusts on all the key areas set out below (and explained on the next pages) over the last year and we expect that you will have to deal with many of them over the next 12 months.

Where do I start?

In order to ensure that you understand this new pensions landscape and can deal with it in the best way, KPMG can work with leadership teams to educate them on the new challenges they face and the possible approaches for dealing with them. Typically, we would aim to hold a focussed strategic workshop with the leadership team which would:

- set out the challenges
- identify and prioritise objectives
- set a project plan to meet the objectives

Auto-
enrolment
and opt-outs

Employer's
Charter

New
providers

Employee
engagement

Pensions tax

In the 2012 Autumn Statement, the Chancellor announced a reduction in the:

- Annual Allowance (AA), from £50,000 pa to £40,000 pa; and
- Standard Lifetime Allowance (LTA), from £1.5 million to £1.25 million.

The reduction in the pensions tax thresholds are an especially pertinent issue for the NHS due to its relatively high proportion of high income earners. Also, the NHS Pension Scheme is exposed because Annual Allowance charges can arise as a result of standard NHS pay band increases, which might be further compounded by the awarding of pensionable bonuses or a promotional pay increase. Across the public sector it is expected that as many as 10 times more people will be affected by the new limits.

The reduction in the Lifetime Allowance is time critical. For employees that might feel they are affected by the reduction, they should consider whether they need to take any action now. There are two forms of protection that have been made available by HMRC to mitigate the reduction in the Lifetime Allowance for those affected and individuals should commence a review now to understand whether any action is required now or in the future.

Many employees may not be aware of the changes or that they are affected and you can provide guidance to alert them to the issues and guide them through the changes.

We have been helping NHS employers with a range of services including:

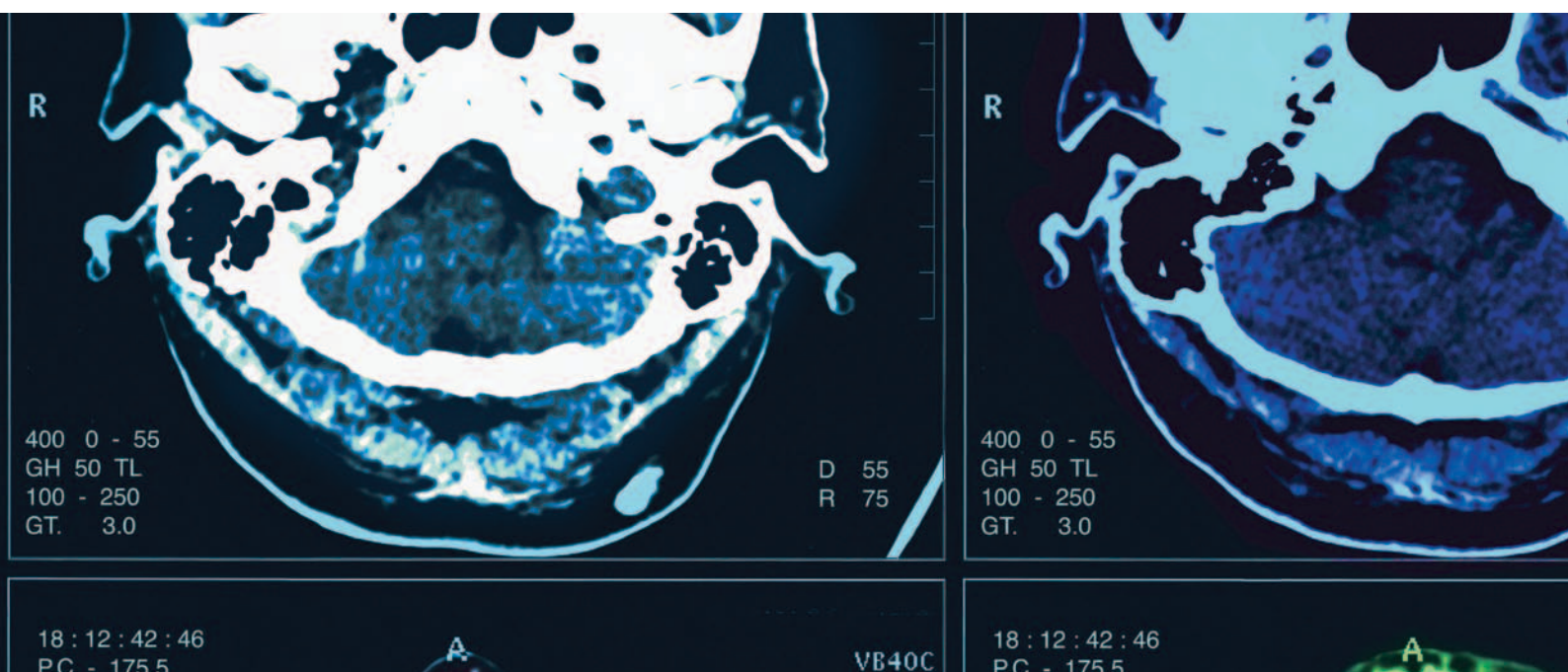
1. Data analysis to identify employees who may be affected now or in the future
2. Preparing and delivering generic communications, conducting workshops and one to one sessions, use of a bespoke pensions tax modeller to produce personalised statements and bespoke reports around the available options
3. Assistance to Remuneration Committees to devise tailored strategies to help optimise employees savings for retirement.

Workforce restructuring

Pay protection can be applied where there is a reduction of earnings to ensure that the employee does not experience a reduction in prospective retirement benefits. The pay protection calculation is performed, based on accrued benefits prior to any earnings reduction with future inflation projection. It is often a challenge for NHS employers to understand how this impacts on employees and to communicate this in an effective way. KPMG can facilitate these calculations and their communication, especially during periods of organisational restructuring, helping to ensure that all criteria are met for the application of pay protection (no fault).

NHS Pension Scheme reform

In 2015 the existing final salary scheme will be replaced by the new Career Average Revalued Earnings (CARE) scheme. On the whole the new CARE scheme is less generous than the final salary scheme. But with protection for low earners, and protection for those near retirement it not as clear cut as "work longer, pay more, get less". We can advise you on segmenting your workforce to help ensure messages are targeted to the different audiences.



Service delivery reform

Pensions has long been a major component of any plan to redesign service delivery within the NHS and is often a barrier. We expect new activity in this area and more innovative approaches. The Fair Deal requirements have also been reviewed and final details are expected shortly. We can advise on all aspects of the pensions implications of service redesign.

Salary sacrifice

The existing NHS Pension Scheme allows employees to adopt alternative forms of remuneration instead of cash pay with no impact on their pension, so long as these alternatives cease to have any impact on final salary prior to their retirement. However, due to the change from final salary to career average in 2015, salary sacrifice arrangements at any point in an individual's career may diminish their retirement pension. This is subject to future clarification by the Department of Health, but even if pension accrual is protected, existing arrangements will need to be reviewed as employers and employees savings will reduce. KPMG's pension teams can provide specialist pensions advice on the redesign of existing and new salary sacrifice arrangements in conjunction with our employment tax colleagues.

Auto-enrolment

New auto enrolment obligations came into effect at the start of October 2012. As a result, all NHS employees are being automatically enrolled into a qualifying pension scheme unless they specifically opt-out. KPMG can offer advice in many areas including the effective use of the Transitional Period, assurance in relation to your existing systems, controlling cost increases and enhancing employee engagement throughout the process.

Auto-enrolment is not a one-off, it is ongoing and we can provide assurance that you are compliant.

Cost reduction

Working in partnership with NHS employers, KPMG can offer advice on progressive 'pension cost compressors' designed to minimize the total cost of operating the NHS Pension Scheme including additional National Insurance costs from 2016. These can be considered in isolation or as part of a wider review of overall costs.

Total Reward

In the current economic environment and with NHS reform, it is becoming increasingly important that NHS employers are able to effectively communicate the full value of the benefits they provide. A major part of the challenge is the presentation of "defined benefit" pensions as the value is different to present. The Department of Health has taken a view on how this should be done. We can advise you as an employer around what impact this could have on your workforce and what additional communication material you can provide.

NHS Employer's Charter

The NHS Employer's Charter was published to clarify the roles and responsibilities of NHS Pension Scheme Administrators. Adherence to the Charter by NHS employers is critical in order to facilitate punctual and accurate payment of pensions. KPMG can assist in ensuring compliance with the rules set out in the Charter and provide resource.

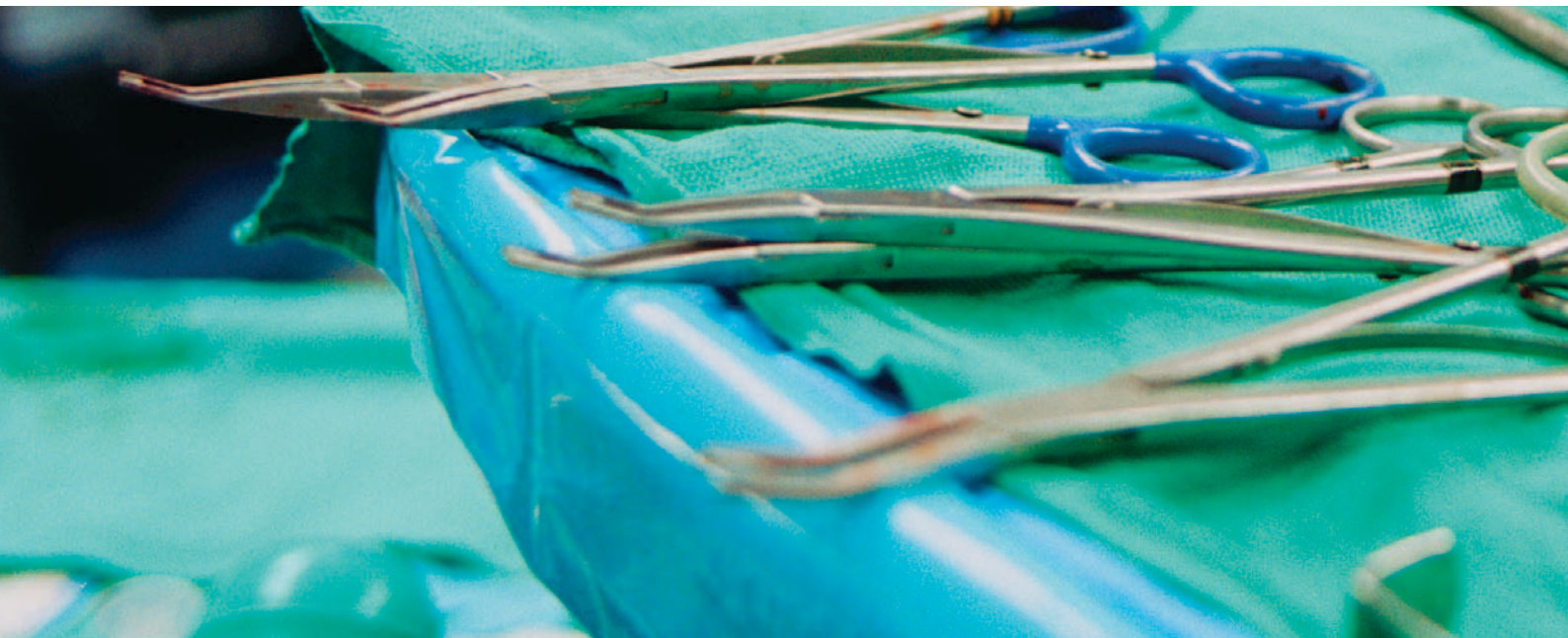


KPMG's pension team is ideally placed to help you, as an NHS employer through the challenging environment that you are now operating in. The issues you face are wide and varied. Our differentiators include our NHS specific credentials and our ability to provide a multi-disciplinary offering.

Steve Simkins, Head of Public Sector Pensions, KPMG

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How do you deliver the message, well!

We have highlighted the need for effective engagement with your workforce to help educate and inform in a focussed way. We recommend that you review the way in which you communicate with your employees and put in place an effective communication strategy that will help you support your employees with all the issues we have raised. Many of the issues are inter-related such as NHS Pension Scheme reform, salary sacrifice, pensions tax and total reward.

Having all of this information in one easy to use and simple to understand format is absolutely ideal. With this in mind

we have developed an NHS Pension Scheme specific “pensions hub”. This is an online portal that houses all of the NHS Pension Scheme specific information alongside flexible benefits, salary sacrifice arrangements and pay information. It can be tailored to your employer-specific needs.

Having an effective communication strategy can lead to an engaged, motivated and productive workforce. Please contact your local KPMG pensions representative if you would like to view a demonstration of the “pensions hub”.





Why KPMG?

Our pensions credentials

- KPMG has a “top four” pensions practice with around 450 pensions professionals and 230 actuarial staff
- Within this team we have a dedicated public sector pensions team with significant experience in the NHS
- We provided strategic advice to Lord Hutton in his work at the Independent Public Service Pension Commission
- Our pensions team works closely with colleagues in other parts of KPMG (eg IT Advisory and reward colleagues) to deliver pensions approaches



Our client's view

“KPMG have worked in partnership with the Trust on a complex pensions matter that affects key individuals in our workforce. They have brought about new perspective and insight that helped increase employee engagement. This was evidenced through senior individuals providing positive feedback to the Trust on the level of support and expertise provided.

KPMG helped us achieve an innovative solution in relation to how the Trust responded to pension challenges. We are actively developing this relationship with KPMG along with our strategic thinking on pensions related matters.”

Martin Roe

Director of Finance/
Deputy Chief Executive
Pennine Care NHS Foundation Trust

This brochure was produced in July 2013 and is based on the NHS Pensions reviews and developments at that time. These are expected to change or develop over time.

Your team

If you would like to discuss any of the issues raised in this note, please contact your usual KPMG pensions contact or one of the people below from our dedicated Public Sector Pensions team:

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