Progress on Pensions

New proposals to modify the N.H.S. Superannuation Scheme have recently been published by the Joint Superannuation Consultative Committee. The changes suggested are broadly similar to those put to employees in other parts of the public sector, for instance, civil servants, teachers, and local authority staff.

The B.M.A. has been pressing for improvements for doctors for some time now1 and these proposals, summarized in the Supplement (p. 39), will be studied carefully by the profession. They fall into three categories: those wholly acceptable to the Association; those which are an improvement on the existing provisions but still compare unfavourably with the benefits available in good occupational schemes in the private sector; and those which are plainly unsatisfactory. The most important of the latter is the proposal to increase members' contributions to the scheme from 6 to 6½% of pensionable income.

The most beneficial alterations are the change in the basis for the calculation of benefits for salaried employees—pensions for independent contractors are still under separate review—from an average of annual pensionable income over the last three years of service to an average over the last twelve months. This is obviously significant, particularly in an inflationary period. Then there is the granting of immediate life cover under the Scheme for all members regardless of service. An improvement which in any case will soon be mandatory in all approved occupational pension schemes is the introduction of complete preservation of benefits after the completion of five years' service. Other changes for the better are the increases made in children's benefits payable on the death of a member and the option which will now be available to a doctor who returns to the N.H.S. after a period of employment elsewhere to include his first period of service as pensionable.

Ill-health retirement benefits and widows' pensions have also been improved though these benefits will only be payable after the completion of five years' service. The widows' pension is now to be one-half of the member's pension—this compares with the existing benefit of one-third and the lump sum benefit payable in respect of a married man, either on death or retirement will no longer be reduced from 3/80th to 1/80th of his pensionable salary for each year of service. This change for widows, however, will concern future service only, so the benefits for many members will continue to be unsatisfactory. In any event, the ill-health retirement pension on which the widows' pension on death in service is based will still take only limited account of the prospective service of a member, whereas in a good occupational scheme full account of this prospective service to retirement is taken in calculating the benefits payable to a member who retires early because of illness. In addition, there seems no real reason why the cover for these particular benefits should not start as soon as a doctor begins to contribute. The cost of such benefits is lowest for the young contributor yet his need then is highest. An area of great controversy for doctors has been the abatement rule for reducing an individual's pension when he works on (part- or full-time) after the official retirement age. Though the B.M.A.'s objective, namely the complete abolition of abatement for doctors, has not yet been achieved, the new scheme will be better than the existing position.

The profession will be unhappy about the Government's intention to raise contributions, seeing this is an unreasonable price to exact for the improvements. Once again, the N.H.S. compares unfavourably when compared with occupational pension schemes in industry and even with other schemes in the public sector such as those of local authorities. A 6% contribution rate is comparatively rare in private industry and the B.M.A. considers that the benefits proposed by the Department could be satisfactorily met in a properly funded scheme2 by the existing rates of contribution payable by members and the Government. The N.H.S. scheme, however, is not established on a properly funded basis, but on the basis of a notional fund to which the Government credits interest from time to time at a rate recommended by the Government Actuary. Because this rate is linked to that available on British Government Securities, and has been for the last 25 years, the notional fund may not be in a position to meet the proposed increases in benefits without higher contributions. This, however, is not the fault of the members themselves who have had no influence whatsoever on investment policy. Had the assets of the N.H.S. scheme been invested on the basis of a funded scheme over the last 25 years the Association's view is that sufficient funds should now have been available to provide the better benefits and more. Thus no extra contributions from either side would have been required.

It appears that the Government proposes to discontinue the present system of notional funding as it would cease to credit the funds with a fixed level of employer contribution. The intention is presumably to reduce this contribution if the Government Actuary—after one of his periodic reviews—recommends that a lower contribution rate would be sufficient to fund the benefits to be provided. Increasing pressure is being put on the Government by other organizations such as the teachers' unions about the lack of proper funding of pensions in the public sector.

The Government's proposals are, in effect, a package deal. This is a pity because agreement has yet to be reached on the proper basis for calculating pensions of general practitioners and those part-time consultants who still have part of their pension based on their career earnings. In an era of roaring inflation a benefit based on career earnings is unsatisfactory unless some form of dynamism of pensions—the notional updating of career earnings to take account of inflation—or of earnings on which pensions are based is incorporated to offset the continuous fall in the value of money. Though the principle of dynamism has been accepted by the Department of Health, no satisfactory detailed scheme has yet been worked out and the B.M.A. is likely to make its acceptance of these package proposals conditional on this. Nevertheless, the package represents some progress on the present widely-criticized N.H.S. superannuation scheme.

1 British Medical Journal, 1971, I, 622.