

## If you were making changes to pension, how would you do it more fairly?

There have been a number of recent articles written in the medical press that talk about the proposed changes to public sector pension schemes and the united union opposition to them. The BMA, along with a number of other medical unions are quite vocal in their calls for some form of industrial action. This is not at all surprising; it is, to some extent what a union is supposed to do for its members. In fact, it is probably fair to say that unions are rarely more effective in successfully protecting their members' interests than when they are united behind a common cause and public sector pensions is definitely a cause that unites, with loud shouts for 'fairness' for all members.

The problem is that, even taking the NHS Scheme as an isolated example of a public sector scheme, not all members are equally affected by the proposals. GP Principal Practitioners for instance, are already members of a Career Average Remuneration Scheme where the rest of the NHS is currently in a Final Salary version of the scheme. As a consequence, that part of the proposals will not be an issue to most of them. Similarly, changes to contribution rates in recent years has meant that many senior doctors are already paying 8.5% of earnings for their pensions, whilst junior doctors may only be paying 6.5%, so a move towards 9.5% will affect the seniors significantly less than the juniors.

Mental Health Officers and various other seemingly arbitrary groups, who equally arbitrarily, joined the NHS in time to get 'Special Status' before March 1995, are able to effectively achieve 40 years of pension after 30 years of membership and can get the same pension at 55 that other doctors cannot achieve before age 65. Is that fair? Or possibly more pertinently, is it fair that their colleagues in the same fields, who were 1 month late, were not afforded the same status or benefit – not on any sort of sliding scale where the benefit diminishes over time, but in the way of a drawbridge being raised by those who were lucky enough to cross the moat in time?

And then there is the inherent disparity within the existing scheme and for that matter all existing defined benefit pension schemes, of moving longevity. Although life expectancy in any given year is given as a single number, it is not the case that a 65 year old doctor today has the same life expectancy as a 25 year old doctor today. In fact, it is likely that today's 25 year old will live 10 years longer than their older colleague. Within the scheme as it stands, the younger doctor will derive significantly higher benefit than the older doctor, despite paying the same percentage of income into the scheme and retiring at similar ages and with similarly glittering careers. Ultimately, the measure of the value of a pension scheme is the total amount that is withdrawn over the course of a lifetime, compared with the total amount paid in and on that basis, public sector pensions have simply got better and better with every passing year since they were introduced.

If changes are required in something as complex and important as a pension scheme, there are only really two fundamental ways of doing it.

Firstly, you could pick an arbitrary date and say that anyone joining the scheme after that date joins a new, cheaper, less attractive version of the scheme, as happened with Special Status in 1995 and with the introduction of the 2008 NHS Pension Scheme.

The problem with this approach is itself twofold; it means that any doctor who, for instance, took a gap year, went to Oxbridge or took any of the other 6 year medical courses, could be massively disadvantaged compared to those who didn't, all for a decision made at the end of 'A' Levels. It also inevitably means that, as life expectancy continues to increase, you necessarily end up having to repeat the exercise every 10 years or so, resulting in a mess of different NHS Pensions, with 4, 5 or more versions existing at any given time, causing confusion and resentment between colleagues.

Alternatively, you could introduce a more progressive system that protects benefits already accrued, both in terms of levels of benefit and the age at which the member can access the benefits without penalty. This will undoubtedly affect all existing members, but to differing extents depending upon their age. However, it maintains a single NHS Pension Scheme, which protects against future resentment between the 65 year old in 30 years time with a gold plated pension compared to a 25 year old colleague with a completely different bronze plated version, which would happen if you were to adopt the first approach.

In the end, this is really the point. If we accept that life expectancy has risen over the past 50 years and is expected to continue rising over the next 50 years, then waiting for the tipping point where public sector pensions actually have become unaffordable is not really a sustainable strategy. It can only result in the repeated introduction of massively disparate versions of the scheme that, on each occasion only applies to new joiners, causing the resentment described above. Introducing changes before that tipping point provides the opportunity for a smoother transition of benefits that is ultimately fairer to all members and less likely to divisive.

It is important to bear in mind that despite protestations to the contrary, the proposed changes, whilst understandably never being welcomed by any member, will nevertheless serve to maintain the NHS Pension as a gold plated scheme – albeit 9 carat gold rather than the 24 carat scheme that increased longevity has produced.

Unions should protect their members, that is why you pay your subs, but surely they should do so with their eyes open and recognising that, simply to oppose is unhelpful. The question should surely be – if we don't like these proposed changes to pensions, how would we do it more fairly?

*Hampton Dean, as an Independent Financial Advisor, specialising in looking after the interests of doctors and specifically doctors.net.uk members, for many years, only has an interest in the NHS Pension Scheme insofar as we explain how it works to members. Where top up pensions are required, we will invariably look to use NHS alternatives first, except in specific individual circumstances. Consequently, we have no vested interest with regard to the proposed changes, other than the fact that new rules will require new explanation. As you know, we have always tried to keep you as up to date as possible with any and all changes and we will continue to do so into the future*