HSC Pension Service

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The new 2015 HSC Pension Scheme explained

The 2015 HSC Pension Scheme came into effect on 1 April 2015.

This factsheet provides an outline of the main features of the new 2015 Scheme.

A) It's a Career Average Revalued Earnings (CARE) scheme

The 2015 Scheme is a defined benefit pension scheme which means you get a guaranteed level of benefit at retirement.

In a CARE scheme your pension is based on your pensionable pay right across your career. The pension you earn each year is based on your pensionable pay in that year and is revalued by a set rate linked to inflation, known as revaluation, each year up to retirement or leaving the scheme. (Further details below).

The final pension is calculated by adding together the revalued pension earned in each year of membership.

A Power Point overview of how a CARE pension scheme works is available on our website.

B) How your pension builds up in a CARE scheme

The rate at which your pension builds up in a CARE scheme depends on three factors.

i. Build up rate

The amount of pension you earn each year is determined by what is known as the 'build up rate' which is usually shown as a fraction of your pensionable pay.

In the 2015 Scheme the build up rate is 1/54, so you earn a pension each year of 1/54 of your pensionable pay. So if you earn £20,000 in a year you would earn a pension for that year of 1/54 of £20,000, which equals £370.37.

The lower the bottom number in the fraction, the more of your salary you earn as a pension for each year of membership – so 1/54 is better than either 1/60 or 1/80 (as offered by the 2008 and 1995 Sections respectively of the previous HSC Pension Scheme).

ii. Annual Revaluation

Your pension earned each year will be revalued each year by a set rate to account for inflation in the period before you retire or leave.

The revaluation rate is a rate set by Treasury plus 1.5% each year. The pension earned in a scheme year (April to March) is revalued on 1 April of the following Scheme year and each subsequent Scheme year until you retire or leave. For example, if the rate set by Treasury in a year was 2% then the pension would be revalued by 3.5% (2% + 1.5%) at the beginning of the following year.

If you leave before becoming entitled to claim your retirement benefits, and do not return within five years your pension benefits earned would become deferred and be revalued when they come into payment. However this would be in line with the rate set by Treasury only and would not include the additional 1.5%.

iii. Length of Scheme Membership

You can continue to build up pension benefits in the Scheme until age 75 with no limit to the amount of years of membership you can have. The more years of membership you have, the higher the amount of pension you will earn.

Example

In the text above we saw that £370.37 was the pension earned at the end of Year 1 of Scheme membership. At the beginning of Year 2 and each subsequent Scheme year this pension would be revalued as shown in the table below. This revaluation will be repeated at the beginning of each following Scheme year until you retire or leave the Scheme.

At retirement these separate elements will be added together and paid as one pension. The table below shows how revaluation is applied and a new pension earned each year up to retirement or leaving. For the purposes of this hypothetical example no annual increases of salary have been included.

Pensionable Pay	Revalued Pension				
	No revaluation	1years revaluation	2 years revaluation	3 years revaluation	4 years revaluation
Year 1 Salary £20,000	£370.37	£383.33	£396.75	£410.64	Year 1 Value at end of 4Yrs £425.01
Year 2 Salary £21,000	£388.89	£402.50	£416.59	Year 2 Value at end of 3Yrs £431.17	
Year 3 Salary £22,000	£407.41	£421.67	Year 3 Value at end of 2Yrs £436.43		
Year 4 Salary £23,000	£425.93	Year 4 Value at end of 1Yr £440.84			
Year 5 Salary £24,000	Year 5 Value £444.44				

*Revalued at 3.5% assuming 2% CPI +1.5%

C) Breaks in membership

If you have a break of five years or less, your pension earned so far will continue to be revalued as described above. Where the break is more than five years your pension continues to be revalued but only at the rate set by Treasury.

D) Impact of Salary Sacrifice

Each year of your pensionable pay counts separately towards the build up of your final pension benefits. Therefore entering into any salary sacrifice arrangement (e.g Childcare Vouchers, Lease Car Schemes etc) that reduces your gross pensionable pay will have a negative effect on the amount of pension you are able to build up in that year. The overall effect from participating in any salary sacrifice scheme would reduce the amount of final benefits you earn.

E) Normal Pension Age

Your Normal Pension Age (NPA) is the age at which you can retire without a reduction in your pension benefits for early payment. In the 2015 Scheme your NPA is the same as your State Pension Age (SPA) or age 65 if that is later. You cannot claim your benefits without reduction for early payment in the 2015 Scheme until you reach your NPA, unless you have planned for this in advance by making additional contributions.

The earliest point you can access your benefits with a reduction for early payment in the 2015 Scheme is currently age 55.

F) Range of Benefits

The new Scheme provides a similar range of pension and life assurance benefits as the 1995/2008 sections of the current Scheme. These include:

- Normal Age Retirement Pension,
- Voluntary Early Retirement Pension (with reduction for early payment)
- Redundancy Pension,
- Ill Health Retirement Pension[1],
- Partner / Survivor Pensions,
- Children's Pension
- Lump Sum payable on death.

You also have the option to purchase Additional Pension to increase the amount of pension payable to you at retirement (with or without increases for dependents). This can be done either by a lump sum payment or regular extra contributions up to a set date.

G) Transfers In and Out

Pension rights in another pension scheme can be transferred into the new 2015 Scheme subject to time limit rules. You can also transfer the cash equivalent value of your HSC pension benefits to another registered pension scheme if you leave the HSC or the Scheme before Normal Pension Age (NPA) or before drawing any benefits from the Scheme.

H) Early Retirement Reduction Buy Out (ERRBO)

If you take your 2015 Scheme benefits before your NPA they are reduced to take into account their early payment. A new provision exists for you or your employer to pay extra contributions so you can take your 2015 Scheme benefits at an unreduced level before you reach your NPA.

You cannot purchase a buy out that would reduce your NPA by more than three years or would result in a retirement age of less than age 65.

An application must be received within three months of joining the Scheme in order for the arrangement to be backdated to the first day of membership. Applications made after this point will be effective from the beginning of the next Scheme year and will only apply to future Scheme years.

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[1] The way Ill Health Retirement benefits are calculated in the 2015 Scheme is different to the 1995 and 2008 Sections of the existing Scheme.

I) SchemeContributions

You will pay contributions based on the amount of pensionable pay you earn, these rates can be viewed on the HSC Pension Service website by clicking on this link.