# The Basics of the NHS Pension Scheme

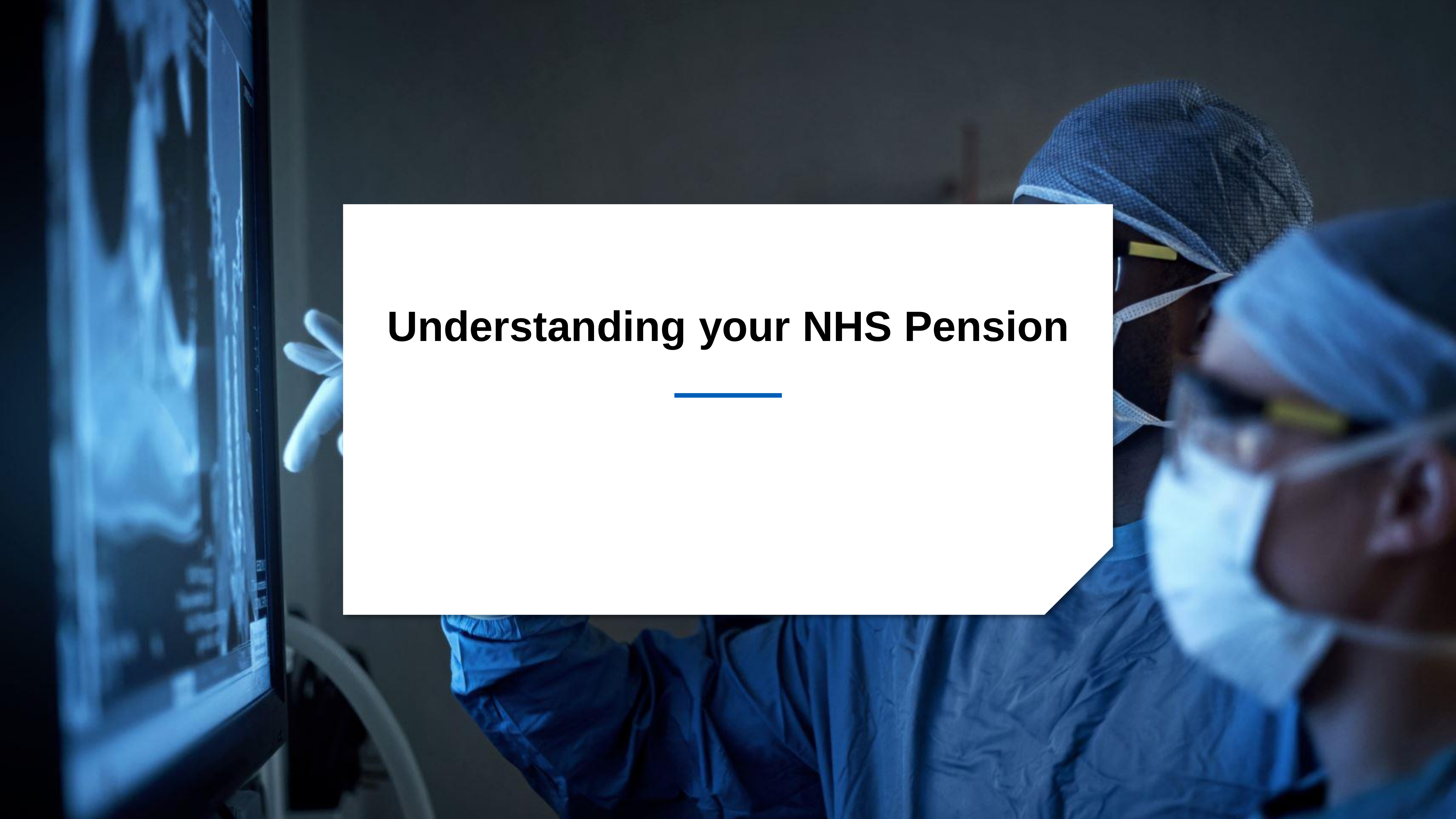
# McCloud and Pension Taxation

Make the most of your pension with a basic understanding

Chase de Vere Medical

# Today’s agenda

- Understanding your NHS Pension
- Public sector pension changes (McCloud)
- What else does being a member offer?
- Increasing your pension
- Pension Taxation
- About Chase de Vere



# Understanding your NHS Pension

# Two schemes, three versions

## Final salary or Dynamising

1/80th for Officers

1.4% accrual rate for GPs

Retirement age 60

Automatic lump sum of 3x pension

Added years

1995 Section
1995|2008 NHS Pension Scheme
Securing tomorrow, today

## Final salary or Dynamising

1/60th for Officers

1.87% accrual rate for GPs

Retirement age 65

No automatic lump sum

No added years

2008 Section
1995|2008 NHS Pension Scheme
Securing tomorrow, today

## Career average (CARE) scheme

Final salary protection

1/54th accrual rate

Retirement age in line with State pension age

No automatic lump sum

Added years continue if purchased prior to April 2008

2015
NHS Pension Scheme
Securing tomorrow, today

# Annual Benefit Statements

After the end of each Scheme year (31 March), an Annual Benefit Statement of the pension benefits you have earned will be available for you to view. This will be either:

- part of your Total Reward Statement (TRS) which will also provide you with information about your pay, annual leave and any local benefits offered by your employer; or
- a stand alone statement covering pension benefits only.

- You can access your statement through the TRS portal at: *www.totalrewardstatements.nhs.uk/*
- For more information about the statements, visit the TRS information website at: *www.nhsbsa.nhs.uk/TRS*

- In Scotland the SPPA aims to provide members with an annual Pension Benefit Statement. These statements are made available through **My Pension – Online Member Services**
- In Northern Ireland The Member Self Service website can be accessed via https://mypension.hscni.net/

# The NHS Pension

One of the most complicated pension schemes has just got more complicated but what does it mean for you and your ability to retire early?

# Public Sector Pension Consultation

HM Treasury release public sector
pension schemes consultation

# Public Sector Pension Consultation

- Following legal cases brought against the Government, they have conceded that the protection offered to older members when introducing new public sector pension schemes which includes the NHS Pension Scheme 2015 Career Average Revalued Earnings (Care) Scheme resulted in unlawful age discrimination.
- The introduction of the 2015 CARE scheme in itself was not deemed as discriminatory.

# Background

- As part of the 2015 reforms, anyone within 10 years of retirement on 31/3/2012 could remain within their legacy (1995/2008) scheme.
- There was a further, tapered, transitional protection offered to members who just missed being within 10 years of the scheme NRD at 31/3/2012.
- This tapered protection was offered if a member was between 10 years and 13 years and 5 months from retirement at this point, where joining the new scheme was delayed on a tapered scale ranging from a few months to a number of years until joining the 2015 scheme.

# Outcome of legal challenge

- In December 2018, the Court of Appeal found that the reforms unlawfully discriminated against younger members, of the judicial and firefighters' pension schemes in particular, as transitional protection was only available to older scheme members, as explained.
- Following the ruling, the Government issued a consultation on the best way to remove those aspects that were the subject of the discriminatory ruling.  As a Public Pension Scheme this Consultation included the NHS Pension Scheme.

# Final judgement

**Who is in scope of the policy?**

- In scope following this judgement are scheme members who were serving on or before 31 March 2012 and still serving on or after 1 April 2015.
- This includes those members who are currently active, deferred or retired, and those with a qualifying break in service of less than 5 years.
- Members do not need to put in a legal claim to be eligible for these changes.
- Affects Members in England, Wales and Scotland.  Also affects members in Northern Ireland who have been consulted on separately.

# How are members affected?

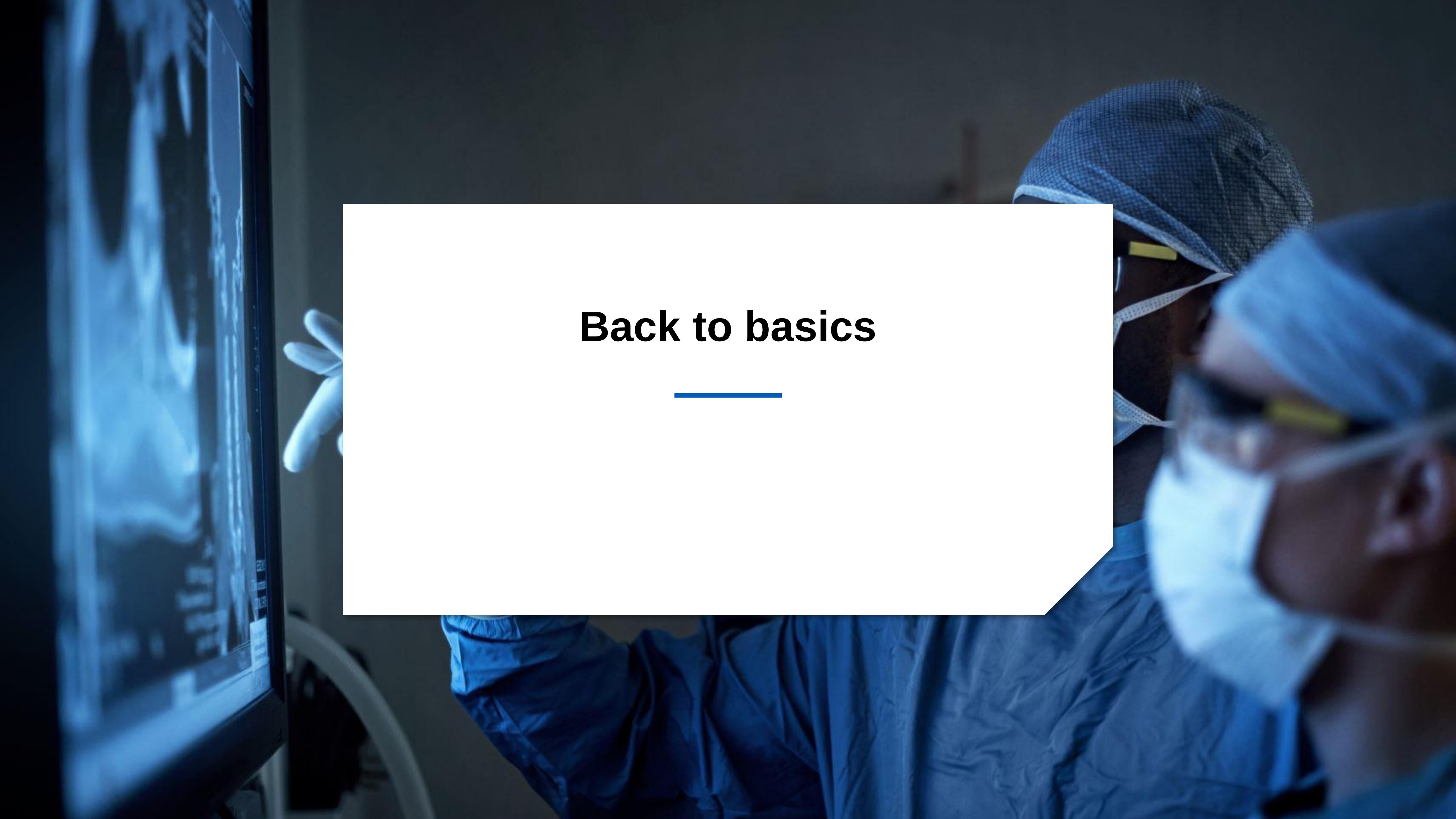
- To address the discrimination, eligible members will remain in, or be returned to, their old (legacy) schemes for service between 2015 and 2022.
- When benefits become payable members will receive a choice of whether they would rather receive the benefits of their reformed pension scheme for that period. (Known as Deferred Choice Underpin or DCU).

# Annual allowance taxation

- The most pressing concern for members is likely to be for those who have transitioned to the reformed 2015 pension scheme during the remedy period and will therefore need to adjust their Annual Allowance tax charge for this period.
- Whilst the significant majority of members will likely see a reduction, it is not the case for all and does not remove the administrative burden created in adjusting the tax position.
- Of course, members will be reliant on the information that will be provided by the relevant schemes which at this juncture is not known.
- **Individuals already retired/looking to retire will also be required to make decisions on what route they wish to take for the remedy period.**

# What next?

- **Importantly eligible members do not have to do anything at this stage** – you will be contacted by the pension schemes. These changes will take some time to be made as they require new legislation.
- Therefore for the majority of those of you planning your early retirement it should not delay your plans but you may need to take some action when the new legislation is put in place



# Back to basics

# Retirement Options

## Early retirement

- 1995 Scheme: Minimum age – increased from 50 to 55 (does not affect members of the 1995 scheme who were members of the scheme on 5.4.06)
- Members with special class status in the 1995 section may have the right to retire from a normal pension age of 55 without any reduction to their pension benefits
- The Government has recently reaffirmed its intention to introduce legislation to increase the normal minimum pension age (NMPA) from age 55 to age 57 from 6 April 2028. The NMPA is the minimum age at which a pension scheme member may take their benefits within the standard retirement framework.*

## Late Retirement

- Maximum age – 75
- Maximum service 45 years in the 1995/2008 Schemes but unlimited in 2015 scheme
- Late retirement factors after Normal retirement age in 2008 and 2015 Schemes

*Legislation will protect members of registered pension schemes who before 4 November 2021 were members of pension schemes that gave the right as at February 2021 to start accessing their benefits under those schemes at or before 55. Our current understanding is that 1995 section membership before April 2006 will retained 50 as the minimum pension age.  Mental Health Officers (MHOs) in the 1995 section and members of the 2008 section will retain 55 as the minimum pension age.

# The Nations

- There are three separate schemes dependent on where the doctor is working:
  - England and Wales **(NHSPS)** | Scotland **(SPPA)** | Northern Ireland **(HSC)**
- If a member moves between nations benefits are not automatically transferred
- A member must apply for payment of the transfer within 12 months of joining the new scheme; and the period between leaving the scheme and joining the receiving scheme must be no more than five years.
- If either of these conditions are not met the transfer may only be completed on non-Club terms.

When transferring from a Club Scheme, on Club terms, any excess growth in the pension benefits (for example arising from an increase in pensionable pay) will be taken into account when calculating the pension input amount for Annual Allowance purposes. The transfer must also be completed before Normal Pension Age.

# NHS Pension basics

- Membership is not compulsory – however recommended.
- Doctors CAN opt out.
- Basic contribution rate is based on a percentage of pensionable income.
    - NHSPS : between 5.1% and 13.5%. (England and Wales)
    - HSC : between 5.1% and 13.5%
    - SPPA : between 5.2% and 14.7%
- The current level of employer's contribution is 20.68%.*
- 0.08% of this is an admin fee and is used to fund the running of the England and Wales scheme

*(This figure is 20.9% in Scotland and 22.5% in Northern Ireland)

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from 1st Oct 2022 England and Wales and in Northern Ireland from 1st November percentages based on actual pay although **annualisation remains in place for GP's)**

| Tier | Pensionable earnings * | Contribution rate from 1 April 2023 until the introduction of phase 2 (TBC) |
|---|---|---|
| 1 | Up to £13,246.99 | 5.1% |
| 2 | £13,247.00 to £17,673.99 | 5.7% |
| 3 | £17,674.00 to £24,022.99 | 6.1% |
| 4 | £24,023.00 to £25,146.99 | 6.8% |
| 5 | £25,147.00 to £29,635.99 | 7.7% |
| 6 | £29,636.00 to £30,638.99 | 8.8% |
| 7 | £30,639.00 to £45,996.99 | 9.8% |
| 8 | £45,997.00 to £51,708.99 | 10% |
| 9 | £51,709.00 to £58,972.99 | 11.6% |
| 10 | £58,973.00 to £75,632.99 | 12.5% |
| 11 | £75,633.00 to and above | 13.5% |

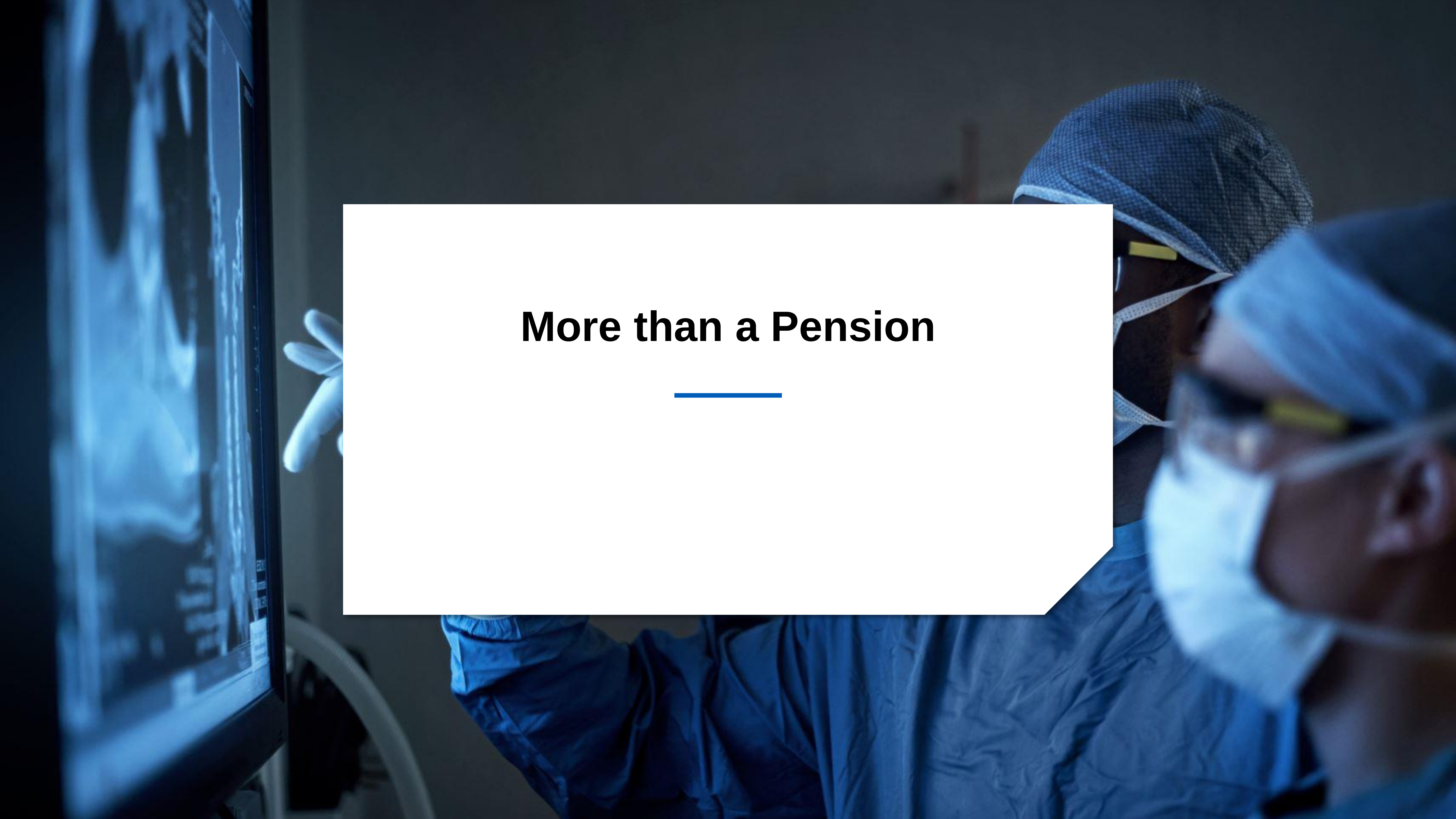
*until there is a change in the AfC pay scales in England

| Tier | Pensionable earnings | Contribution rate following implementation of phase 2 changes |
|---|---|---|
| 1 | £0 - £13,246.99 | 5.2% |
| 2 | £13,247.00 - £22,548.99 | 6.5% |
| 3 | £22,549.00 - £27,779.99 | 8.3% |
| 4 | £27,780.00 - £42,120.99 | 9.8% |
| 5 | £42,121.00 - £54,763.99 | 10.7% |
| 6 | £54,764.00 and over | 12.5% |

Note: The earnings bands listed in this table will be updated following announcement of the 2023/2024 AfC pay award. The bands shown are placeholders only. Revised bandings will be issued as soon as available.

# Pensionable pay and members contributions

- A member's contribution rate prior to October 2022 was determined based on their notional whole time equivalent (WTE) pensionable pay. This will be changed to using actual pensionable pay from October 2022
- In the 2015 CARE Scheme, the build up of pension is based on actual earnings in each scheme year of a member's career, rather than being linked to their WTE final salary.
- Contribution rates based on actual pensionable pay will therefore mean that contributions for members that work part-time will more accurately reflect the amount of pension they are building up in the scheme.
- Many part-time employees will see a reduction in their pension contribution as a result of this change.



# More than a Pension

# Additional benefits

So we can see it provides generous pension benefits, at great value for money, but for active members did you know it also provides….

## Life Insurance

- The NHS Pension Schemes provide lump sum and pension benefits to eligible dependants in the event of the member's death.
- Amount paid is the higher of:

  2 x earnings in the last 12 months of pensionable service.

  Or

  2 x revalued pensionable earnings for the Scheme year (up to 10 years earlier) with the highest revalued pensionable earnings.

## Dependants' Benefits

- These are payable to a spouse, registered civil partner, nominated qualifying partner or dependent child or children from the date of the member's death.
- Amount paid is 33.75% of the notional tier 2 ill health pension* if under normal pension age at date of death.  16.875% of the notional tier 2 ill health pension for one child (33.75% shared equally for two or more children).

*We will cover ill health pension later in the presentation

# More about dependants' pensions

Dependents pensions on death are less generous for deferred members:

A continuing adult dependant's pension of either: 33.75% of the tier 2 ill health pension if date of death is within 12 months of leaving; or 33.75% of the notional* age pension if date of death is more than 12 months after leaving

*a 'notional' pension is the amount that would have been payable as at the member's date of death

# Lump sum on death for deferred members

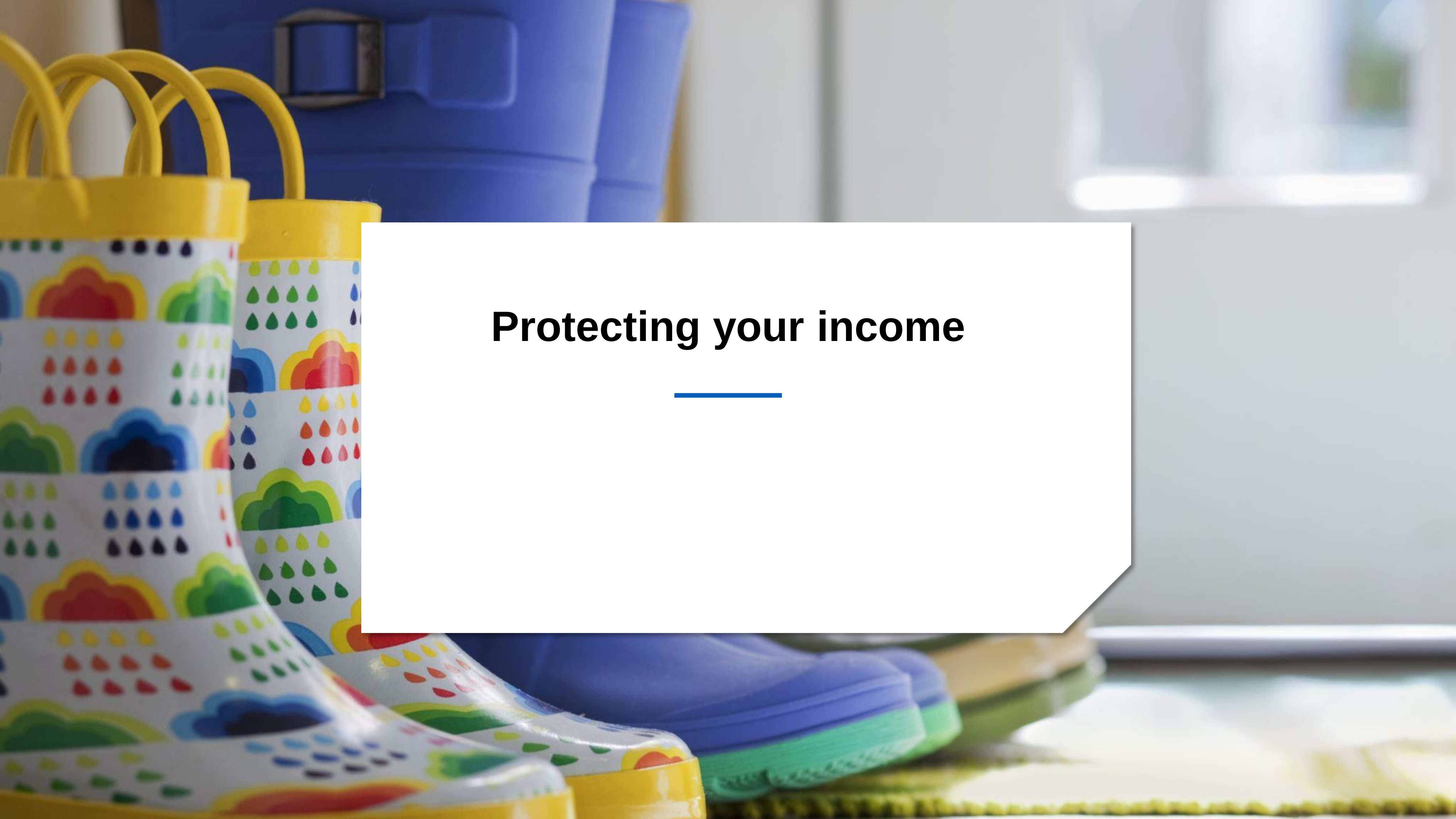
Lump sum on death benefits are also less generous for Deferred members:

A deferred member of the pension scheme will still receive death benefits, but these will be based on the annual pension the member would have received on the date of death

1995 Section - 3 x pension payable if member had retired on date of death

2008 Section - 2.25 x pension payable if member had retired on date of death

2015 Scheme - 2.025 x pension payable if member had retired on date of death



# Protecting your income

# Sick Pay Benefits

| Service | Full pay | Half pay |
|---|---|---|
| During the first year of service | 1 month | 2 months |
| During the second year if service | 2 months | 2 months |
| During the third year of service | 4 months | 4 months |
| During the fourth year of service | 5 months | 5 months |
| During the fifth year of service | 5 months | 5 months |
| After completing five years of service | 6 months | 6 months |

**GPs, agency staff, Locum workers**

- Any sick pay entitlement is likely to be less structured, and based on your contract
- For some, such as locum GPs, this could be nil

**What happens when this ceases?**

# Ill Health Retirement Pension

From 1 April 2008 there has been a two tier system **dependent on the severity of the condition or illness, which must be of a permanent nature**

**Tier 1**

Assessed as being unable to ***undertake current duties***

**Tier 2**

Assessed as being unable to ***undertake any regular employment***

(i.e. unable to undertake current duties AND could not do any other job across a general field of employment to the same extent as they were undertaking in their own job)

# Ill Health Retirement Pension

Tier 1 - Pension already earned paid without reduction.

Tier 2 - Tier 1 plus the ‘tier 2 addition’ which is pro rata enhancement based on

1995 Section – 2/3rd of prospective pension service to age 60

2008 Section – 2/3rd of prospective pension service to age 65

**Since April 2022 all members will have the enhancement paid based on membership of the 2015 Scheme:**

**2015 Scheme - 1/2 of prospective pension to Normal Pension Age. (State Pension Age)**

# Would you qualify?

- An ill health pension is payable only if you are **PERMANENTLY** unable to work
- What is the probability of being able to prove any illness is permanent?
- If you do qualify which of course some do, will this be enough?
- Would you prefer to be in control of your own financial future, or take a chance?
- Now more than ever, we all appreciate, it can happen to any of us
- Ensure your income protection is in place and up to date to reflect your current circumstances

# Pension Taxation

# The Key Facts

## [£60,000]

Annual allowance increased from £40,000 on 6th April 2023

Reduced for those with higher taxable incomes

Carry forward of 3 years of unused allowance

Tax can be paid via self assessment or scheme pays

## ~~£1,073,100~~

From 6 April 2023 the lifetime allowance charge has been removed. The lifetime allowance will be fully abolished from the 2024 to 2025 tax year, through a future Finance Bill.

The lifetime allowance framework therefore remains in place from 6 April 2023, and it is just the lifetime allowance charge that has been removed at this stage

# Flexibility and restrictions of the Pension Commencement Lump Sum (PCLS)

- The NHS Pension allows members to obtain a larger lump sum than the standard 3 x pension
- The maximum lump sum you can take is 25% of your capital value subject to a maximum of 25% of the members standard or protected* lifetime allowance
- As a result of the changes to the lifetime allowance, the maximum amount which a member can take as a pension commencement lump sum (PCLS) is frozen at 25% of the current Lifetime Allowance (£268,275)
- Member can purchase £12 of lump sum for each £1 of pension sacrificed

*Those individuals holding transitional protections (see the next slides), and consequently enjoy a higher level of PCLS, will continue to benefit from this protection moving forward.

# The Annual Allowance

- The Annual Allowance is how much can be saved towards a pension each tax year without a tax charge applying. How pension savings are measured against the annual allowance depends on the type of pension scheme:
    - For defined contribution (DC) pensions (Private), it is the total contributions from all sources paid during the tax year.
    - For defined benefit (DB) pensions (NHS including Additional Pension), it is the capitalised value of the increase in the accrued benefits over the tax year.
- The standard annual allowance for 2022/23 is £40,000 (£60,000 for 2023/24). This can be lower for individuals with higher levels of earnings.
- It is possible to contribute more than the standard Annual Allowance by carrying forward unused allowances from up to three previous years.

# How does the Annual Allowance work (NHS Pension)?

NHS Pensions use this calculation to check the amount of growth of your pension against the annual allowance at the start and end of the tax year.

- At the start of the tax year: Your annual pension x 16 + your lump sum if you're in the 1995 section only + CPI%* = **The value of your NHS Pension Scheme benefits at the start of the tax year**.

- At the end of the tax year: Your annual pension x 16 + your lump sum if you're in the 1995 section only = **The value of your NHS Pension Scheme benefits at the end of the tax year**

- The value of your NHS Pension Scheme benefits at the end of the tax year minus the value of your NHS Pension Scheme benefits at the start of the tax year = **how much your NHS Pension Scheme benefits have grown in a tax year.**

*Consumer Price Index from the previous September to the tax year in question

# How does the Annual Allowance work (Private Pension)?

For private pensions quite simply the annual allowance is measured as the total amount paid into the pension each tax year.

However high earners need to be aware……….

# Tapered Annual Allowance from tax year 2020/21 onwards

From April 2020 the tapered reduction to the annual allowance
has changed

.

***‘threshold income’***
(Gross income from all sources on which income tax is charged* less pension contributions and some charitable deductions**)
***exceeds £200,000***
(2016/17 to 2019/20 £110,000)

***‘adjusted income’***
*(Threshold income plus pension accrual i.e. growth in your NHS Pension plus private pension contributions)*
***exceeds £240,000 (£260,000 from 2023/24)***
(2016/17 to 2019/20 £150,000)

If **both** of these criteria are met
the individual will have their annual allowance tapered down.

For every £2 of adjusted income in excess of £240,000 the annual allowance will be reduced by £1 down to a minimum of £4,000.
In other words anyone with adjusted income of £312,000 or more will have a reduced annual allowance of £4,000***.

*Refer to Income Tax Act 2007
**Typically gifts of property or shares, please refer to your accountant
***2016/17 to 2019/20 adjusted income of £210,000 or more will have a reduced annual allowance of £10,000.
2023/24 adjusted income of £260,000 or more will have a reduced annual allowance down to a minimum of £10,000.

# How will you know if you have an excess?

- By 6th October annually the relevant pension agency in the UK will inform you if **you exceed the standard annual allowance within the NHS Pension**
- They WILL NOT inform you if you do not have an excess over **the standard annual allowance**
- They WILL NOT be aware of any **external income** which could cause tapering
- If you are making any **private pension** contributions these need to be added and once again the pensions agency will not be aware
- If in any doubt you should request an 'On Demand' annual allowance statement from the relevant pensions agency
  - Be aware – there may be a fee for duplicate statements

# How does it work within the NHS pension scheme?

- If your NHS Pension Scheme benefits grow by more than the standard annual allowance in a tax year, then NHS Pensions will let you know by sending you a Pension Savings Statement.
- They need to do this within 3 months after having all the information they need to calculate your pension growth, or by 6 October after the end of the tax year – whichever is the later.
- If you’ve gone over the limit, NHS Pensions will let you know.
- However, if you have a reduced annual allowance and exceed this NHS Pensions will not automatically inform you but you may still face annual allowance tax charges.
- NHS Pensions will not know about private pension arrangements and these may also take you over the limit.

# How do you pay any Annual Allowance tax liability?

- Self Assessment
- Scheme Pays

# What do you need to know about Scheme Pays?

- Tax charge is recorded as a notional negative defined contribution (DC) account on the pension record
- Total negative DC balance owing, including all relevant interest will be converted into an amount to be permanently deducted from NHS benefits.
- The actual reduction is calculated using factors provided by the scheme actuary at retirement
- The interest applied will be based on the **September Consumer Price Index (CPI) figure plus SCAPE** (Superannuation Contributions Adjusted for Past Experience discount rate) this is a variable rate and is currently 1.7%)
- The cumulative AA tax plus interest is deducted from pension and lump sum benefits at retirement
- Irrevocable decision
- In England, Wales and Northern Ireland it is now possible to opt for Scheme pays even after you have retired within the set timescales **

*In Scotland the Interest Rate Charged is CPI and different actuarial factors applied but the cost is broadly similar

** In Scotland we are waiting to hear confirmation when they are relaxing the rules for retired members

# Upcoming Changes

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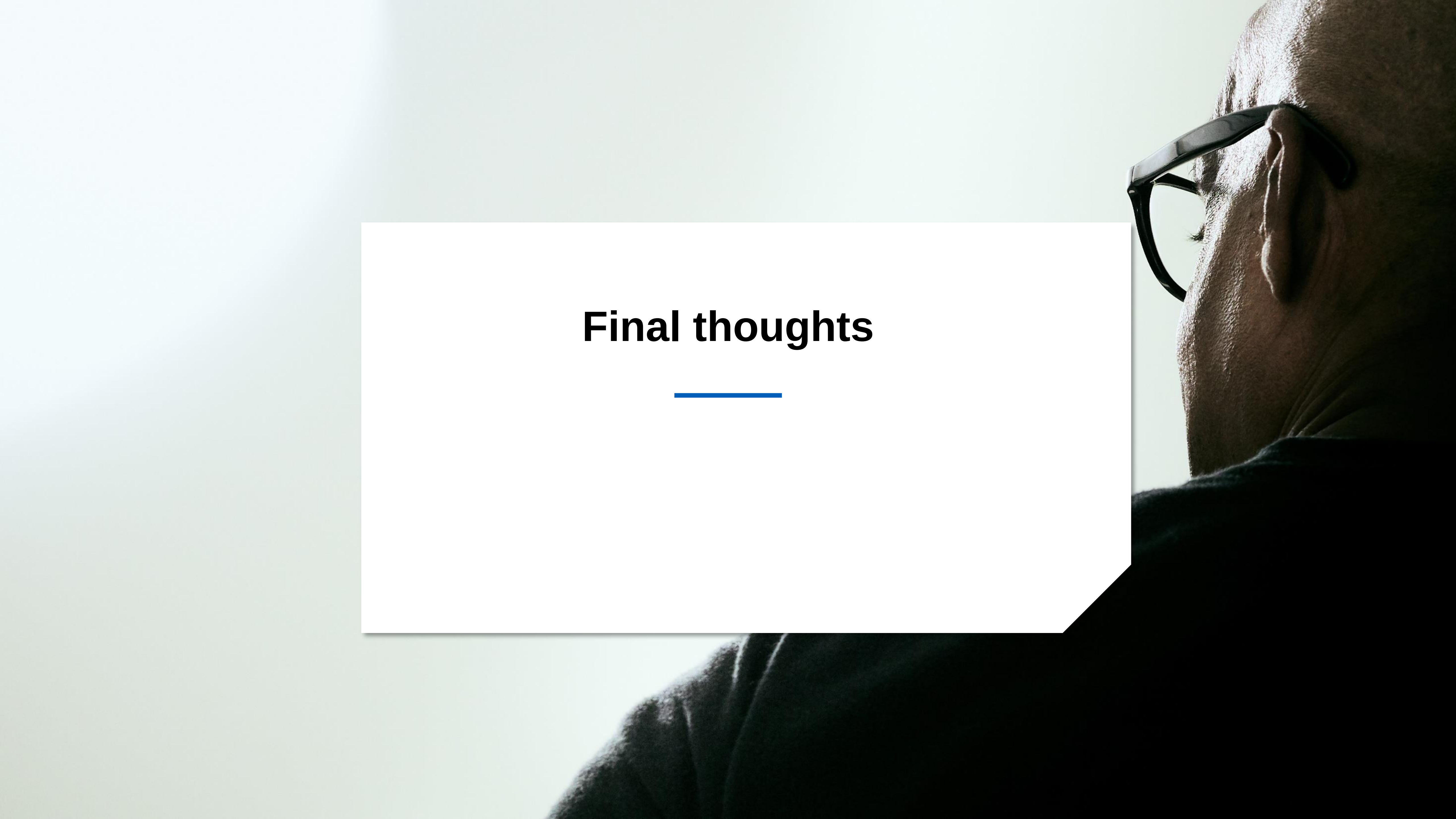
# Pension Changes

- From April 2023, all members have the option to Retire and Re-Join the pension scheme If you’re not ready to stop work altogether
- You can retire and take your full pension, then return to work after a break of at least 24 hours and re-join the 2015 NHS Pension Scheme to earn further benefits.
- This was already available to members of the 2008 Section or 2015 Scheme - and is now also an option for members who have retired with 1995 Section benefits.
- You can return to the NHS or increase your working commitments without having your pension payments reduced or stopped (known as ‘abatement’).
- You can return and earn 2015 Scheme benefits even if you have 45 years of service in the 1995 and 2008 Sections, as long as you’re under 75.
- If you decide to re-join the NHS, you can work as many hours as you choose straightaway – previously, members of the 1995 Section were limited to working 16 hours a week in the first month after retirement to avoid their pension payments being affected.

# From October 2023, additional flexibility is available

- Changes to make it simpler to take partial retirement, meaning you can claim your pension and work in a more flexible way without having to leave your job.
- This was already possible for pension benefits earned in the 2008 Section or 2015 Scheme.  From 1 October 2023, it will also include any 1995 Section benefits you have.
- From age 55, you'll be able to take between 20% and 100% of all your pension benefits in one or two drawdown payments, without having to leave your current job.
- Members of the 1995 Section who have a protected minimum pension age of 50 will also be able to claim pension benefits without leaving their job. Between the ages of 50 and 55, you'll need to take 100% of your pension benefits.
- You can continue building your pension in the 2015 Scheme. You won't need to take a break or change jobs. You can carry on working if you want. You just need to reduce your pensionable pay by 10%

# Final thoughts



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# Know the Basics of the NHS Pension Scheme

## Checklist

- Register for your Total Rewards Statement
- Understand your own NHS Pension situation
- Understand how the McCloud judgement will affect you
- Review life and income protection cover and ensure it compliments your NHS Benefits
- Are you maximising your NHS Pension benefits?
- Pension Tax, are you affected or will you be impacted and have you planned around this?
- Plan early
- Consider using a financial adviser

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# Why use a financial adviser?

### Saves time

There's so much information out there: and you've got better things to do than wade through it all.

### Reduces noise

A financial adviser will cut through all the noise and the sheer weight of information to get the information or advice that is right for you.

### Quantify goals

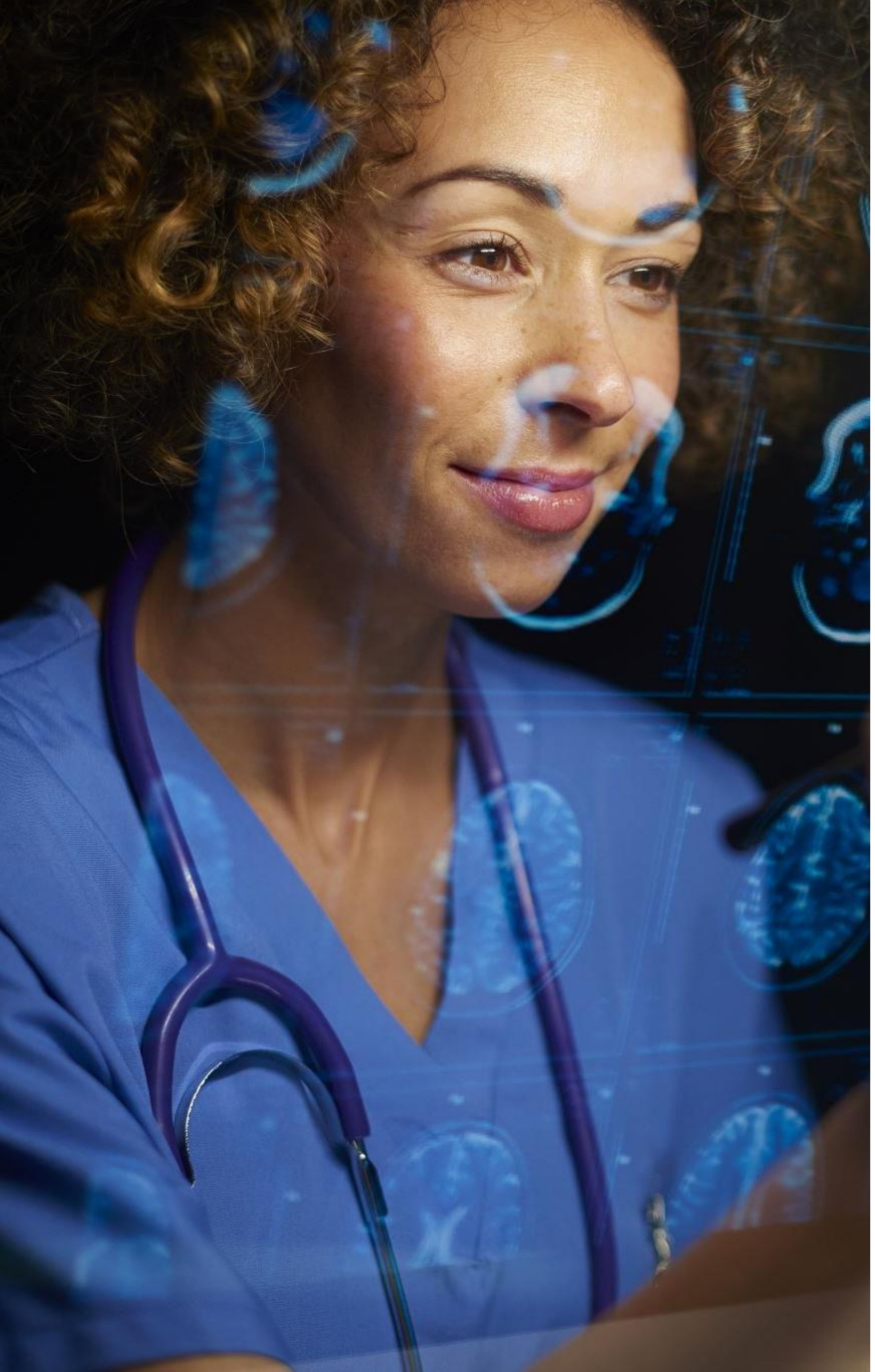
Knowing how much is enough is half the battle. Financial advisers are skilled at taking your dreams and goals and quantifying them.

### Straight talking

A financial adviser has the objectivity to help stop your heart from ruling your head, to make rational decisions.

### Hints & tips

Financial advisers have a wealth of practical hints and tips to help improve your finances.



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# What makes our service different?

## Bespoke

Your goals and circumstances are unique to you, so is the financial advice we provide.

## Independent

We're not tied to any provider and so have the marketplace at our disposal to find the best solutions to suit you.

## Specialist

We empower doctors to make well informed financial decisions. Our expertise is truly specialised to your profession.

## Comprehensive

From investment planning and wealth preservation to insurance protection and providing for retirement – we can help.

## Award-winning

We are often recognised for our unparalleled standards by fellow professionals and independent judges.

## Trusted

Over 14,000 doctors have entrusted their personal finances to our advice. We are also partners to the British Medical Association.

# What to expect from your complimentary meeting

You will meet with one of our specialist advisers by phone, video or in-person – your choice.

Typically between 60 and 90 minutes.

Together, we will build a picture of where you are now, where you want to be in the future, and start thinking about how best to get there.

We will be clear about how we can help, and what our fees might be. It's then up to you whether you instruct us – no pressure.

# Questions and answers

Please use the chat function if you would like to ask our experts any questions about today's presentation.

# Important information

- Your property may be repossessed if you do not keep up repayments on your mortgage.
- The levels and bases of, and reliefs from taxation are subject to change, and any changes might be applied retrospectively
- The Financial Conduct Authority does not regulate trust advice, tax advice, will writing or offshore investments
- The value of investments can go down as well as up
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