

*NHS Pension Scheme
taxation and the
Government response
to the changes to the
transitional
arrangements to the
2015 scheme*



Today's agenda

- The NHS Pension Scheme Basics
- Pension taxation
- Annual Allowance
 - Case Study
 - Scheme Pays
 - Special Arrangement for 2019/20 tax year
- Lifetime Allowance
- Public Service Pension Schemes: changes to the transitional arrangements to the 2015 scheme – Government response
- About Chase de Vere Medical

Two Pension Schemes, three versions

Final salary or Dynamising

1/80th for hospital doctors

Retirement age 60

3x pension lump sum

Added years

Additional pension



1995 Section

1995|2008 NHS Pension Scheme

Securing tomorrow, today

Final salary or Dynamising

1/60th for hospital doctors

Retirement age 65

No automatic lump sum

No added years

Additional Pension



2008 Section

1995|2008 NHS Pension Scheme

Securing tomorrow, today

Career average (CARE) scheme

1/54th accrual rate

Retirement age in line with SPA

No automatic lump sum

Added years continue in 1995 Section
if purchased prior to April 2008

Additional Pension



2015

NHS Pension Scheme

Securing tomorrow, today

Chase de Vere
Medical

Understanding Scheme Pays

Chase de Vere
Medical

in partnership with
OBIMA



What is Scheme Pays?

- If you have an annual allowance charge you can ask NHS Pensions to pay some or all of that charge in return for a reduction to your NHS benefits.
- NHS Pensions offers two types of scheme pays facility; mandatory scheme pays and voluntary scheme pays.
- From 2017/18 the voluntary scheme pays facility was extended to include members subject to an annual allowance lower than the standard annual allowance of £40,000. (See next slide)
- If you are a member of both the 1995/2008 and the 2015 NHS Pension Schemes you can ask NHS Pensions to pay the charge. The tax charge must be taken from the scheme that the charge arose. You can't ask to pay your charge from only one NHS scheme.

The Key Facts

£40,000

Annual allowance
reduced on 6th April
2014

.....

Further changes
for those with higher
taxable incomes

.....

Carry forward
**3 years of unused
allowance**

.....

£1,073,100

Lifetime Allowance Frozen
until April 2026

Case Study

- Kate is age 54
- She has NHS pensionable income of £100,000
- She rents out a flat which generates income and a taxable profit of £5,000 per annum
- She has a private income of £20,000
- She received an increase in pensionable pay of £5,000 effective from 1st April 2020
- This will increase Kate's total taxable income to £115,825 after the deduction of her NHS Pension contribution

*This is for illustration purposes only to demonstrate the implications of Pensions Taxation

Scenario of Kate for Tax year 2020/21

£51,125

*Kate's total deemed contribution or Pension Input
Amount as shown on her Annual Allowance Statement*

.....

Don't forget

*to add on any gross private
pension contributions*

Calculate

*any unused allowance from the three
previous years*

.....

*As neither of the above apply Kate's annual
allowance is exceeded by*

£11,125

.....

Kate's tax charge at her marginal rate of income tax – in her case **40%**

How can Kate pay the tax?

- Therefore 40% of £11,125 means an Annual Allowance tax bill of £4,450 to be declared via self assessment, this falls due on 31st January 2022
- Pay all of the tax bill via self assessment
- Pay part of the tax bill via self assessment and part via scheme pays
- Pay all of the tax bill via scheme pays
 - If you intend to utilise scheme pays this must be entered on your tax return
- Scheme pays deadline is 31st July 2022 but ideally you should submit an application as soon as possible as interest may be charged

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

(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.

Is Kate affected by tapering?

First we test her threshold income for 6th April 2020 to 5th April 2021

Total income £130,000

Minus her pension contribution of £14,175

Threshold income - £115,825

As this isn't over £200,000 we do not need to test Kate's adjusted income

However, Kate needs to check her position carefully for the 19-20 tax year

First we test her threshold income for 6th April 2019 to 5th April 2020

Total income £125,000

Minus her pension contributions of £13,500

Threshold income - £111,500

As this exceeds £110,000 we must test Kate's adjusted income

We need to obtain Kate's pension input amount for the 2019/20 tax year which for this example we will assume was £48,117 as shown on her annual allowance statement

Adjusted Income Calculation for 2019/20

Kate's adjusted income = her threshold income plus her pension input amount

$$\text{£111,500} + \text{£48,117} = \text{£159,617}$$

Kate has exceeded the adjusted income threshold by £9,617 and therefore for every £2 over the threshold Kate's annual allowance will be reduced by £1

Therefore Kate's annual allowance for 2019/20 will be reduced by £4,808.50 to £35,191.50

As Kate has a reduced annual allowance she needs to check her position carefully and determine how to pay any tax due

How will Kate know if she has an excess?

- By 6th October annually the relevant pension agency in the UK will inform her if **she exceeds the annual allowance of £40,000**
- They WILL NOT inform her if she does not have an excess over **£40,000**
- They WILL NOT be aware of any **external income** Kate has which could cause tapering
- If Kate is making any private pension contributions these need to be added and once again the pensions agency will not be aware
- If in any doubt Kate should request an 'On Demand' annual allowance statement from the relevant pensions agency
 - Be aware – there may be a fee for duplicate statements

In summary what do we 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
- Deduction calculated by scheme actuaries at retirement
- The actual reduction is calculated using factors provided by the scheme actuary
- Interest is currently charged at $\text{CPI} + 2.4\%$
- Tax deducted from pension and lump sum benefits at retirement
- Irrevocable decision

* In Scotland the Interest Rate Charged is CPI and different actuarial factors applied

Special arrangement for 19/20 – NHS England and Wales

- NHS England has provided a contractually binding commitment for any clinician who provided services to it, to pay their pension tax bill for the 19/20 tax year.
- The tax liability will be settled on the retirement of the individual, even if the NHS body does not exist in the future.
- This was adopted by NHS Wales on 19th December 2020
- Individual tax calculations must still be completed and a relevant scheme pays application submitted
- The deadlines are
 - Tax return must be submitted by 31st January 2021 (was extended to 28th February 2021)
 - Scheme pays application by 31st July 2021 (Extended to 31st March 2022)

Scheme Pays Validation Process for 2019/20

- Employers have been provided with the eligibility criteria and will need to confirm the eligibility of clinicians based on their clinical registrations
- Employers must demonstrate that the appropriate registrations are in place and up-to-date, and that they have had a proper process for certifying active service building on existing HR and clinical governance processes
- To confirm this a 2019/20 Annual Allowance Charge Compensation Policy Application Form needs to be signed off by employers to confirm that work was undertaken in the NHS (or pensionable in the NHS) during 2019/20
- Finally all deadlines must be adhered to

Scheme Pays Validation Process for 2019/20 for GP's

- As a GP your application form for the 2019/20 Pension Annual Allowance Charge Compensation Policy will need to be endorsed by PCSE before it can be processed by the NHS Business Services Authority (NHSBSA).
- PCSE is going to be accepting forms for endorsement in application windows. **The next application window will open on the 2 August 2021 and will close on the 1 October 2021.**
- As the next application window is after the mandatory scheme pays election deadline for 2019/20 closes on the 31 July 2021 you must make sure that you have submitted a scheme pays election before this deadline.
- Visit the [NHSBSA annual allowance webpage](#) to download a scheme pays election form. You must return your scheme pays election form to the NHSBSA before 31 July 2021. (extended to 31st March 2022)
- If you have recently retired and were advised to submit your application for the 2019/20 Pension Annual Allowance Charge Compensation Policy in March 2021 but were unable to do so, you will still be able to submit your application when the next application window opens on 2 August.

What does the compensation policy include?

- The Compensation Policy does not cover any tax charge in relation to money purchase additional voluntary contributions (AVCs) and any Additional Pension purchased in 2019/20, including the growth in contracts taken out before 2019/20.
- Pension growth resulting from 'added years' purchases taken out prior to 2008 however will be covered under this policy.

Working for more than one employing Authority

You may work for a number of different organisations. The Employing Authority certification is required from just one of them.

- Please choose the employer where you have undertaken the majority of your clinical work up to the end of 2019/20.
- If you work for a single employer but have changed employers during 2019/20 you should ask the employer for who you were working for at the end of the tax year (2019/20) to complete the certification.

Public Service Pension Schemes: changes to the transitional arrangements to the 2015 scheme – Government response

Often referred to as

‘the McCloud Judgement’

Chase de Vere
Medical



NHS Pension

One of the most complicated pension schemes has just got more complicated but what does it mean for you at retirement?



The Public Pensions 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.

Outcome – Final Judgement 4th February 2021

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 with a final response on 25th February 2021

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)

Who is affected?

Were you in service as a member of the NHS Pension Scheme on or before 31 March 2012 and remained in service on 1 April 2015?

No

You are not affected.

Yes

Have you retired or are you planning to retire (including partially) before October 2023?

Yes

The choice will be offered to you as soon as practicable once your benefits become payable. For some cases, particularly those already in receipt of pension benefits, this may need to be after legislative changes are in place.

No

You will be offered a choice when your benefits become payable at your retirement between the legacy and reformed scheme benefits for any relevant service over the period 2015-22.

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.

It's not as straight forward to think that if you were a fully protected member that you are not affected by the Judgement. For example some members drawing their pension later than their schemes standard retirement age you may be entitled to a higher pension from the 2015 Scheme.

Total Reward Statements

Two sets of data will be produced for all members for the remedy period within their annual total reward statements. This is intended to provide the member with as much information as possible on how their benefits compare under both schemes during the remedy period.

At this stage we do not know what this will look like.

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.

Chase de Vere Medical

Our service

Chase de Vere
Medical

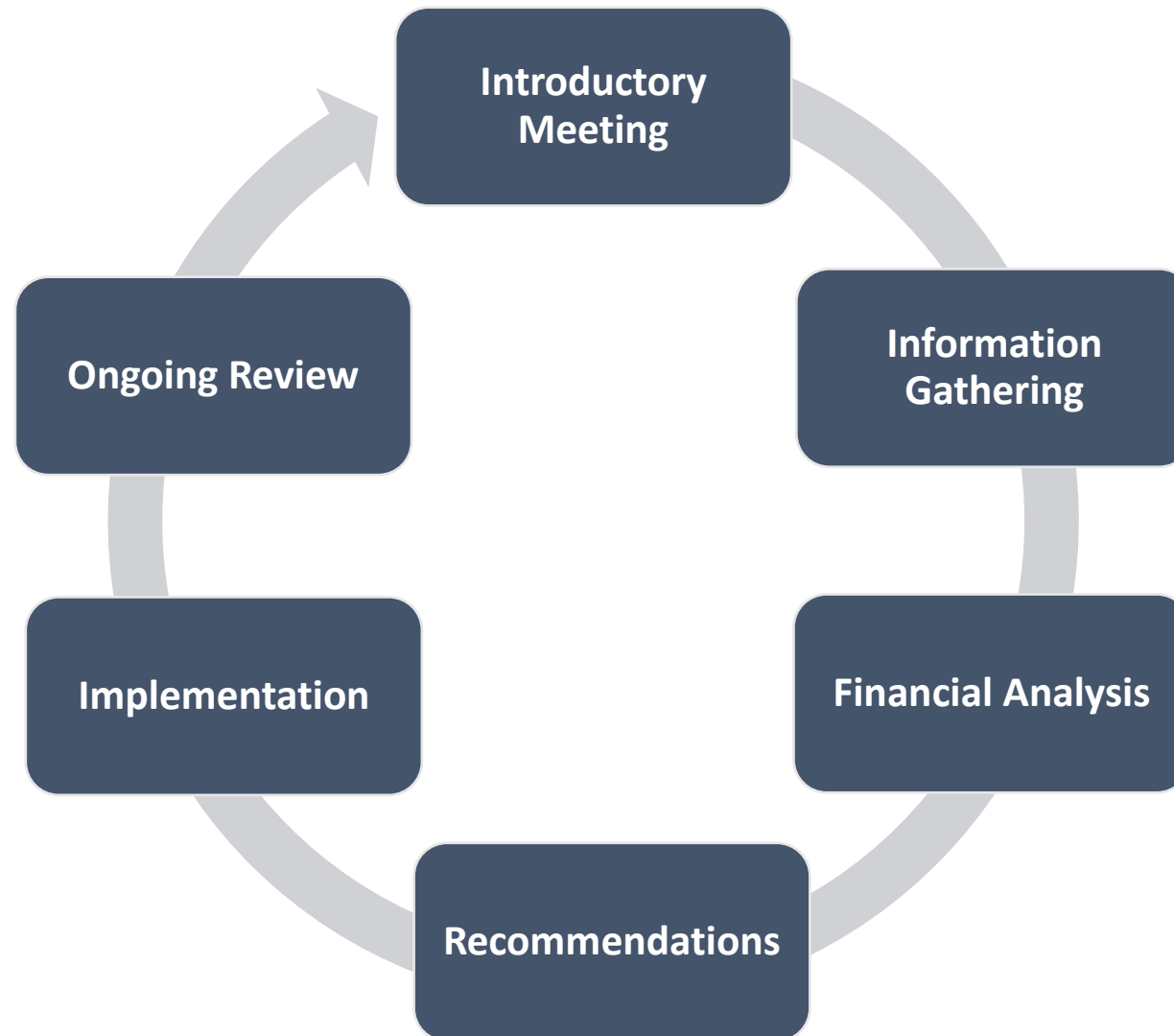


Chase de Vere Medical are Independent and Holistic

- We have been advising medical professionals since 2005
 - We offer a comprehensive range of financial advice services tailored to the medical profession.
- We are truly independent
- We find the right solution to meet the precise needs of our clients.
- Whatever the context, whatever the situation – we provide holistic advice

*We can find the right
solutions for our clients
across the whole market
place*

Our Service



Scan Below for appointment



Questions

Important information

- The levels and bases of, and reliefs from taxation are subject to change, and any changes might be applied retrospectively
- The value of investments may go down as well as up
- The Financial Conduct Authority does not regulate trust advice, tax advice, will writing, inheritance tax planning or offshore investments
- Issued by Chase de Vere Medical
- Chase de Vere Medical is a trading name Chase de Vere Independent Financial Advisers Limited (registered in England Number 2090838) is authorised and regulated by the Financial Conduct Authority. A member of the Swiss Life Group. Registered office: 60 New Broad Street, London, EC2M 1JJ. VAT Registration Number 503 3745 71