Pension tax webinar

2 August 2019
The NHS Pension Scheme – the good news
NHS Pension Scheme – taking a step back

- A valuable part of the total reward package.
- DB pension scheme → provides a wage in retirement.
- The four Rs:

  - Recruitment
  - Retention
  - Return
  - Retirement
The positives

- Employer contribution is £6.4bn and employee contribution is £4.3bn.
- 1.5m active scheme members, 900k pensioners in payment.
- Access to a range of insurance benefits.
- Accrued benefits banked.
- Benefits underwritten by government.
- No DC scheme would provide the same level of benefit.
Pension tax annual allowance
Annual allowance - overview

• The maximum amount of **pension growth** permitted each year free of tax – not contributions.

• Includes **all** pension benefits.

• Tax relief claw back on benefits earned over the allowance.
The annual allowance limits are set by HMRC.
Reduced over recent years.
A wider range of NHS staff are now affected by the annual allowance – not just an issue for high earners.
Tapered annual allowance

Threshold income is taxable income, including earnings from all employment, and income from other sources such as rental properties, investments and pensions.

Adjusted income includes threshold income, plus the value of pension savings.

Members with adjusted income below £150,000 will be subject to the standard annual allowance of £40,000.

Members with adjusted income between £150,000 and £210,000 will be subject to a lower tapered annual allowance between £40,000 and £10,000.

Members with adjusted income over £210,000 have an annual allowance of £10,000.
Options for affected staff

**Carry forward**
Employees can use any leftover annual allowance from the previous three tax years.

**Scheme pays**
Employees may ask the scheme to pay the tax charge to HMRC, in return for lower benefits in retirement.

Now available to all staff submitting a notification by the deadline.

**Pay the tax charge**
The employee may pay the tax charge directly to HMRC from existing funds or savings.
Annual allowance is complicated!

- Value of benefits measured by pension growth, not contributions paid.
- Outcome only known after the tax year has ended.
- Annual allowance tapering depends on all taxable income:
  - pensionable pay + non-pensionable pay + other taxable income.
- Scheme only notifies members who breach the £40,000 annual allowance.
- Up to the individual (and their advisor) to:
  - calculate any carry-forward
  - combine all taxable income to see if tapering applies
  - assess any tax charge payable
  - choose how to settle any tax charge.
Annual allowance – key dates and actions

- **31 JULY**: Employees must inform NHS Pensions if they wish to use scheme pays to settle a tax charge from the year before the previous tax year.
- **6 OCTOBER**: NHS Pensions will send pension savings statements to certain scheme members to confirm the value of their pension savings over the last tax year.
- **31 JANUARY**: Employees must submit their self-assessment tax return to HMRC.
- **6 APRIL**: Employers must send pay and membership data for the previous scheme year to NHS Pensions.
- **6 APRIL**: Start of the tax year.
- **5 APRIL**: End of the tax year.

For more information please see our annual and lifetime allowance web pages. Our annual and lifetime allowance resources are designed to help you raise awareness and improve understanding of pension tax issues. Tell us what you think about our products and resources: pensions@nhsemployers.org.

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Employee survey – pensions knowledge

Over 2,500 responses

- c1,800 from consultants and c300 from senior managers

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<thead>
<tr>
<th>Group</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
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<tbody>
<tr>
<td>All (2,521)</td>
<td>42%</td>
<td>46%</td>
<td>12%</td>
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<tr>
<td>Consultant (1,810)</td>
<td>38%</td>
<td>48%</td>
<td>14%</td>
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<tr>
<td>Non-Consultant (711)</td>
<td>55%</td>
<td>40%</td>
<td>5%</td>
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<td>Under 50 (1,318)</td>
<td>51%</td>
<td>41%</td>
<td>8%</td>
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<td>Over 50 (1,203)</td>
<td>51%</td>
<td>33%</td>
<td>16%</td>
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Employee survey – Past AA breaches

Have you breached your Annual Allowance in the past (not including the 2018/2019 tax year)?

- Yes – the NHS Pension Scheme notified me: 312
- Yes – an Independent Financial Adviser (IFA) or tax accountant raised this with me: 255
- Yes – I found out through other means: 34
- Other - Response construed as 'yes': 130
- Other - Response construed as 'no': 87
- No: 1,703
Employee survey – Future AA breaches

Do you think you will be affected by Annual Allowance breaches in the future (including the 2018/2019 tax year)?

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<thead>
<tr>
<th></th>
<th>Yes</th>
<th>Don't know</th>
<th>No</th>
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<tbody>
<tr>
<td>All (2,521)</td>
<td>56%</td>
<td>28%</td>
<td>16%</td>
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<td>Breached the AA (731)</td>
<td>84%</td>
<td>8%</td>
<td>7%</td>
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<td>Has not breached the AA (1,790)</td>
<td>45%</td>
<td>36%</td>
<td>19%</td>
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Employee survey – Awareness of AA tapering
Employee survey – Financial advice

Have you taken or are you seeking to take financial advice on how to manage your pensions tax position?

- All (2,521): 67% Yes, 33% No
- Breached the AA (731): 91% Yes, 9% No
- Has not breached the AA (1,790): 57% Yes, 43% No
Employee survey – Actions taken

Have you ALREADY changed your working behaviour in any of the following ways as a result of pensions tax issues?

- **Early retirement**
  - All (2,521): 3%
  - Breached the AA (731): 4%
  - Has not breached the AA (1,790): 2%

- **Retire and return**
  - All (2,521): 3%
  - Breached the AA (731): 3%
  - Has not breached the AA (1,790): 3%

- **Reduce hours**
  - All (2,521): 18%
  - Breached the AA (731): 31%
  - Has not breached the AA (1,790): 13%

- **Reduce additional work**
  - All (2,521): 42%
  - Breached the AA (731): 61%
  - Has not breached the AA (1,790): 33%

- **Avoid promotions**
  - All (2,521): 20%
  - Breached the AA (731): 34%
  - Has not breached the AA (1,790): 15%

- **Opt-out**
  - All (2,521): 9%
  - Breached the AA (731): 17%
  - Has not breached the AA (1,790): 5%

- **None of the above**
  - All (2,521): 39%
  - Breached the AA (731): 50%
  - Has not breached the AA (1,790): 17%

- **Other**
  - All (2,521): 10%
  - Breached the AA (731): 13%
  - Has not breached the AA (1,790): 8%
Employee survey – Actions considered

Have you CONSIDERED changing (but not yet taken any action) your working behaviour in any of the following ways as a result of pensions tax issues?

- Early retirement: 42% (2,521) of all respondents considered this. Among those, 19% are likely to be affected by AA in the future, 15% are not likely to be affected, and 5% don’t know if they will be affected.
- Retire and return: 26% (1,416) considered this action. Among those, 21% are likely to be affected, 5% are not likely to be affected, and 5% don’t know if they will be affected.
- Reduce hours: 25% (396) are considering reducing their hours. Among those, 18% are likely to be affected, 17% are not likely to be affected, and 5% don’t know if they will be affected.
- Reduce additional work: 39% (709) are considering this. Among those, 25% are likely to be affected, 9% are not likely to be affected, and 5% don’t know if they will be affected.
- Avoid promotions: 40% (709) are considering avoiding promotions. Among those, 27% are likely to be affected, 14% are not likely to be affected, and 5% don’t know if they will be affected.
- Opt-out: 50% (1,416) are considering opt-out. Among those, 35% are likely to be affected, 14% are not likely to be affected, and 5% don’t know if they will be affected.
- Leave NHS: 35% (2,521) are considering leaving the NHS. Among those, 12% are likely to be affected, 14% are not likely to be affected, and 5% don’t know if they will be affected.
- None of the above: 48% (709) are considering none of the above actions. Among those, 26% are likely to be affected, 21% are not likely to be affected, and 5% don’t know if they will be affected.
- Other: 39% (2,521) are considering other actions. Among those, 26% are likely to be affected, 21% are not likely to be affected, and 5% don’t know if they will be affected.
Employer survey – Size of the problem

How widespread do you believe pensions tax issues are in your organisation?

- Affects a small group of people: 2
- Affects more than a small group: 3
- Affects a relatively large group: 5
- Issue is widespread: 10
- Don't know: 2
Employer survey – Impact of pensions tax

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<tr>
<th>Issue</th>
<th>Don't know</th>
<th>No impact</th>
<th>Low</th>
<th>Medium</th>
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<td>HR time and resources</td>
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<td>Agency costs</td>
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<td>Staff attraction</td>
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<td>Promotion and recruitment of senior staff</td>
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<td>Staff retention</td>
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<td>Staff reducing hours</td>
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<td>Training for junior staff</td>
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<td>Service quality</td>
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<tr>
<td>Employee unwillingness to take on more work</td>
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Possible solutions
Action to be taken nationally

It’s all about the tax.

Greater flexibility for all.
Local options

All local payments could be non-pensionable.

All temporary payments could be non-pensionable.

Convert old style CEAs to NEW.

Re-cycling employers contributions.

Provide stand alone insurance benefits.

Multiple contracts.

Education for all.
Broader implications

HM Treasury

Future

Past
£525bn
Our resources
Briefing on responding to pension tax and pay queries

Our briefing outlines the factors employers should consider when dealing with:

- requests for additional salary in lieu of scheme membership
- requests to reduce contracted hours
- requests for non-pensionable payments.

The briefing links to further background information and resources.
Pension tax briefings

• A growing number of NHS staff are affected by pension tax allowances.
• This is a complex area which is causing confusion for staff.
• Employers are telling us about the impact this is having on recruitment and retention.

Our briefings explain:
- how the allowances work
- the options available to affected staff
- where to go for further help and advice.
Infographics

Our infographics are designed to help your conversations with staff around:

- important deadlines for annual allowance
- options available to affected staff.

Our framework shares details of independent financial advisers who have knowledge of the NHS Pension Scheme and related tax impacts.

We are not promoting or recommending the use of any organisation and may amend or update the list at any time.
Pension resources

• We regularly update our [pension resources](#) page to make it easier for you to find the resources you need. Download and share resources to help with:

- Promoting the value of the NHS Pension Scheme
- Annual and lifetime allowance
- Local administration
- Flexible retirement
Promoting the value of the NHS Pension Scheme

- Presentation pack and guide - to help you explain NHSPS benefits during:
  - induction
  - pension workshop
  - pre-retirement course.

- Poster – illustrating six key features of the NHSPS.

- Infographic – encouraging regular conversations about pensions.
Q&A
Thank you for attending today’s webinar.

You can access our pension resources at www.nhsemployers.org/pensions