

Pension tax

Rachel Jones, NHS Employers
Charlotte White, First Actuarial
Uche Egenti, First Actuarial
Andrew Rowland, Capsticks
Zoe Dunning, NHS Employers

11 November 2021

Today's webinar

- Pension tax overview
- What can employers do?
- Q&A session
- Resources to support your organisation



Poll questions

1. Are staff in your organisation requesting to change their working patterns as a result of pension tax?
2. Is this having an impact on retention/service delivery locally?
3. Are you recycling contributions for staff who are affected
4. Are you providing access to any guidance or advice?



Pension tax overview

Charlotte White, First Actuarial
Uche Egenti, First Actuarial



Tax relief on pensions

Tax relief on pension contributions

Tax relief on investment returns

At retirement, take up to 25% as a tax-free cash lump sum

Pension is taxed as income in retirement

Possibly lower income tax in retirement than while working

Limits on pension tax relief

Annual Allowance

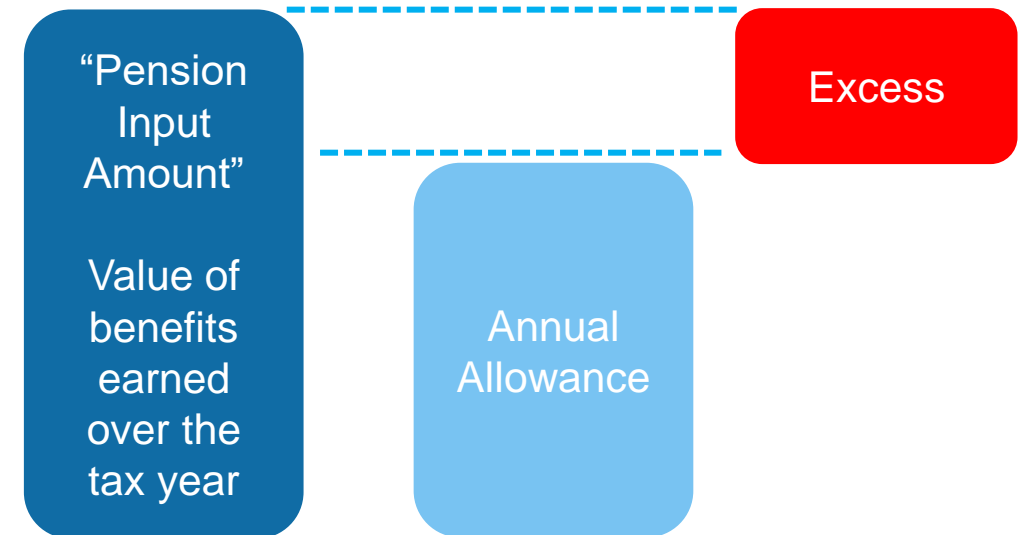
Limit on pension savings
each tax year
that benefit from tax relief

Lifetime Allowance

Limit on pension savings
over a lifetime
that benefit from tax relief

Annual Allowance (AA)

- Limit on the amount of tax-relieved pension savings that can be made to registered pension schemes **over a tax year**
- Standard AA currently £40,000 (2021/22 tax year)
- Very high earners may have a lower “tapered” Annual Allowance
- May have to pay tax if pension savings exceed Annual Allowance
- But membership usually still very worthwhile



Options for paying Annual Allowance tax

Carry forward
Unused AA from the previous three tax years can be offset against any excess pension savings, which will either reduce or eliminate the excess pension savings

Sufficient carry-forward
No excess pension savings

Tax payable on excess pension savings

Member pays tax directly

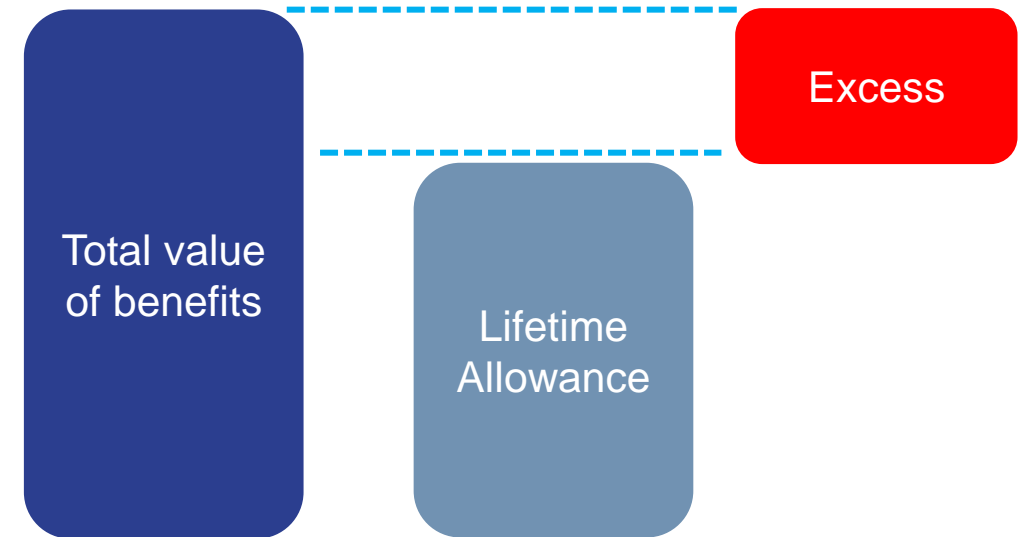
Scheme Pays

- Effectively a loan from the Scheme
- Scheme pays the tax upfront
- Member's pension is reduced (which feeds through to the LTA...)

6 October Pension Savings Statements
31 January Self-assessment tax returns
31 July Scheme Pays elections

Lifetime Allowance (LTA)

- Limit on the amount of tax-relieved pension savings that can be made to registered pension schemes **over a lifetime**
- Currently £1,073,100 (2021/22 tax year)
- Benefits drawn in excess of the LTA will be subject a tax charge
- Again, membership still likely very worthwhile



Options for addressing annual and lifetime allowance issues

Andrew Rowland, Head of
Healthcare, Capsticks



-
- Additional tax payments required as a result of changes to pension allowances
 - Became an acute issue from 2019 onwards for high earners in the NHS
 - Has led to concerns over retention of senior staff and unwillingness to take on extra duties
 - Many organisation have, or are looking to, take steps to address the issue

-
- Reduction in hours/commitments
 - Unpaid leave (e.g. parental)
 - Opting out of the NHS Scheme
 - pay into another scheme with more flexibility?
 - Retire and return
 - Scheme pays

-
- Employer pension contribution recycling schemes
 - Chambers/LLP approach
 - Dual contracts
 - Reconsideration of pensionable payments
 - Time off in lieu
 - *Deferred payment scheme?*

-
- For the individual
 - should be encouraged to take their own financial advice

 - For the employer
 - what is the justification for introducing any changes?
 - are those schemes robust – from tax, pension and employment perspectives?
 - have any schemes introduced by the employer been subject to equality impact assessments?
 - reputational impact

Any questions?



Resources: understanding pension tax

- [Annual allowance briefing](#)
- [Lifetime allowance briefing](#)
- [Annual allowance and scheme pays presentation and recording](#)



Are staff affected?

- [Ready reckoner tool and demonstration](#)
- [Ready reckoner posters](#)
- [Pension tax guidance and advice](#)

What's your pension tax position?

Our ready reckoner provides **members of the NHS Pension Scheme with:**

- a breakdown of the cost of scheme membership
- an estimate of how much your pension has increased by
- a broad insight into your annual allowance position using our traffic light system.

Green

You are projected to be well under the annual allowance

Amber

You are projected to be reasonably close to the annual allowance

Red

You are projected to breach the annual allowance

A red or amber rating doesn't necessarily mean you will have a tax charge to settle, and even if you do, it is often the case that the NHS Pension Scheme still provides good value for money. If your rating is red or amber, we recommend you speak to an independent financial adviser to help you decide what to do next, based on your personal financial circumstances.

Access the ready reckoner and find out your pension tax position
<https://www.nhsemployers.org/readyreckoner>

Options for affected staff

- Annual allowance key dates and actions
- Local options for affected staff
- Annual allowance guide: options for affected staff

Annual allowance – key dates and actions



*The voluntary scheme pays election deadline for tax charges relating to 2018-19 has been extended to 31 March 2021. 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: as.pensions@nhsemployers.org.

Updated August 2020. © NHS Confederation 2019.

Our plans to provide further support

- Pension tax guidance
- Online learning modules
- Past webinars
 - Retire and return
 - Flexible retirement options
 - Promoting the value of the NHS Pension Scheme



Thank you.

Email us – pensions@nhsemployers.org

Twitter - [@NHSE_Reward](https://twitter.com/NHSE_Reward)