Managing pensionable pay

Determining certain elements of pay as being non-pensionable may help staff to limit the value and rate of their pension growth. Individuals with lower pensionable pay will build up a lower pension and will be less likely to breach the annual and lifetime allowances.

Employers have some flexibility in determining what pay is pensionable, depending on the nature and duration of the payment.

Employers must comply with the NHS Pension Scheme regulations that define pensionable earnings.

- For staff employed by NHS organisations, pensionable earnings are broadly all salary, wages, fees and other regular payments.

- Non-pensionable payments include bonuses, non-regular payments, payments made to cover expenses or overtime and pay awards or increases which are expressed by the Secretary of State to be non-consolidated.

Further information about which payments are pensionable and non-pensionable is available on the NHS Pensions website.

Potential flexibilities in determining pensionable pay

Employers may wish to discuss the existing flexibilities around the following payments:

Temporary payments

Most temporary payments are non-pensionable. Exceptions include temporary pay increases and shift allowances.

Most local payments can be determined as non-pensionable. Payments in national contracts such as London weighting are pensionable.

One-off payments

Employers may wish to explore options to establish non-pensionable one-off bonus payments in recognition of the completion of additional activity.

Overtime

All overtime payments are non-pensionable for full-time staff. Overtime for part-time staff is pensionable up to the whole-time standard week, if paid at the basic hourly rate.

Additional programmed activities (PAs)

Additional PAs which exceed the standard contractual limit of 10 are non-pensionable. Employers should ensure job planning processes and any supporting documentation clearly sets out that additional PAs are over and above the standard contract and are subject to regular review.

Allowances for undertaking management responsibilities

Payments will be pensionable if the management responsibility is linked to one of the 10 PA's in a consultant's job plan or if the responsibility is taken on in addition to the job plan but without any additional time being allocated to this work. Payments made on a regular and continuing basis will be pensionable. This applies to both part-time and whole-time employees.

Allowances will be non-pensionable if they are linked to a non-pensionable PA that exceeds the standard contractual limit of 10 or if they are temporary and subject to review.

Employers may wish to bear this in mind when working with individuals to agree their job plan. If additional management responsibilities increase actual working time above 40 hours per week, this extra time worked will also be non-pensionable. If part-time staff are required to work additional PAs due to the additional responsibility, these PAs will be pensionable up to whole-time, but anything above this will be non-pensionable.

Waiting list initiative (WLI) payments

Additional paid waiting list activity that is voluntary and in addition to contracted hours is a form of overtime and is pensionable up to whole-time. WLI payments should be non-pensionable if the activity exceeds whole-time or if the payment is made as a one off bonus.

Weekend and on-call payments

Availability allowance for on-call work is only pensionable if there is a specific rota commitment that an individual is paid for on a regular basis. This applies to both part-time and whole-time employees. Payments for work completed above whole-time whilst on call are non-pensionable.

Local Clinical Excellence Awards (LCEAs)

New LCEA payments made from 1 April 2018 are non-pensionable, as they are non-consolidated and re-earnable, whereas existing LCEAs will remain pensionable. There is scope for employers to convert existing LCEAs into new LCEAs by agreement with the employee and the Joint Local Negotiation Committee (JLNC).

Key considerations for employers

encourage employers to discuss pensionable pay arrangements with staff individually to reach an appropriate agreement. Any measures that are put in place should be reviewed regularly to ensure the arrangements remain appropriate for the individual and the employer. We would advise that employers set a review date when agreements are made.

Annual allowance taper

Non-pensionable payments still count towards an individual's threshold income and adjusted income, which determine whether the employee will have a lower, tapered annual allowance. See our annual allowance briefing for more information about the tapered annual allowance.

Impact on benefits in retirement

Limiting pension growth by reducing pensionable earnings will lead to lower pension benefits in retirement.

Income tax

Members should be aware that they will pay more income tax on their salary due to paying lower pension contributions. This may be offset by a reduction in an annual or lifetime allowance tax charge.