

# NHS Pension Scheme: Tax and reforms

Relaunch of our 'ready reckoner' pensions tax awareness tool



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# Agenda

1. Ready reckoner refresher
2. Pensions tax and the latest changes
3. Ready reckoner demonstration
4. Pensions tax and McCloud
5. Supporting guidance
6. Q&A
7. Close



# 1. Ready reckoner refresher



# First Actuarial and NHS Employers: Working in partnership



**Independent actuarial advisors to the Scheme Advisory Board  
Working with NHS Employers on many pensions issues**

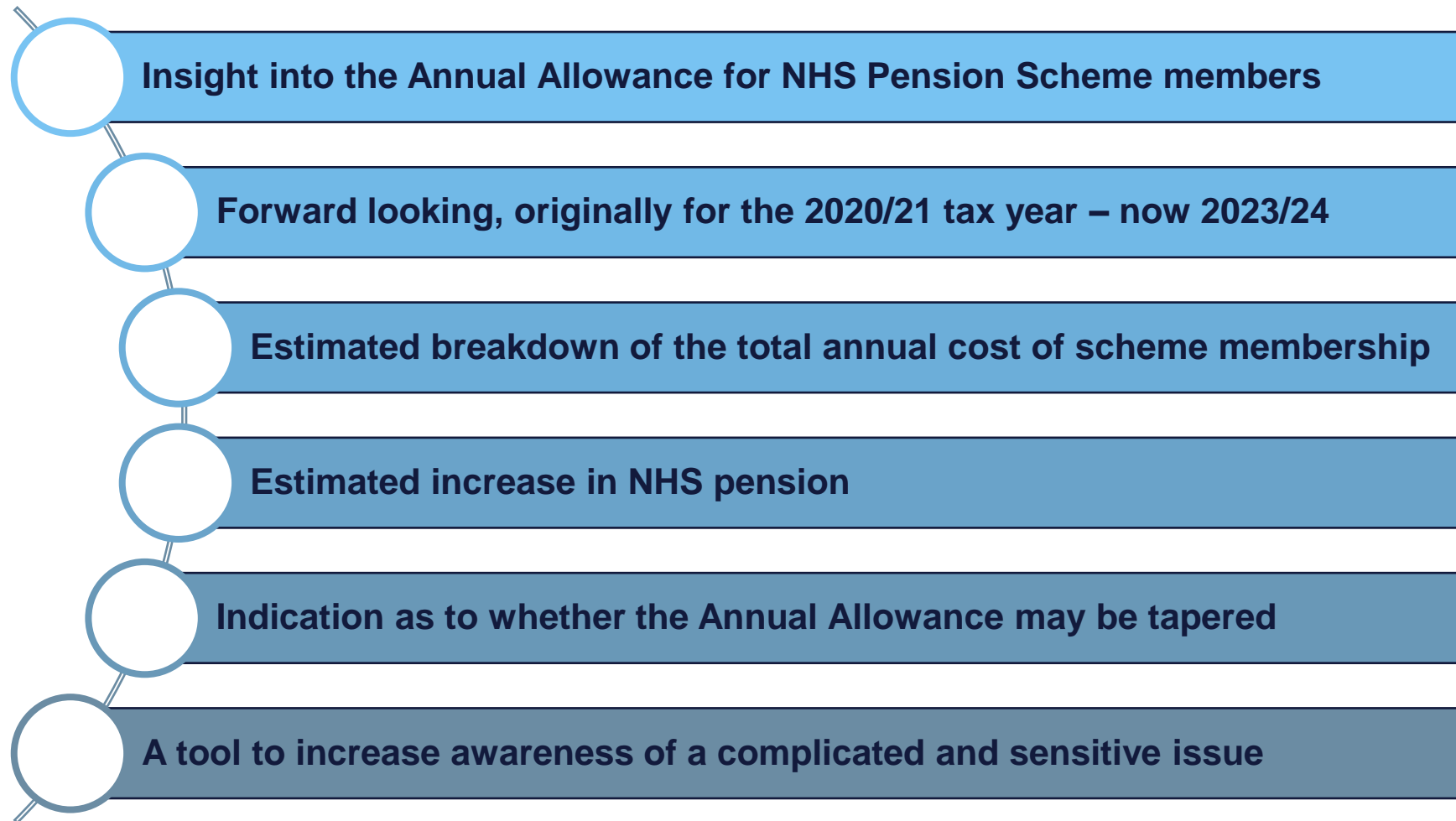


**Research into the impact of pensions tax in the NHS  
Impact felt by NHS staff and NHS employers**



**Problems around awareness, understanding and advice  
Ready Reckoner designed as an educational awareness tool**

# Purpose of the ready reckoner



# 2. Pensions tax and the latest changes



# Introduced by the Finance Act 2004

## Annual Allowance

The maximum amount of tax-relieved savings that an individual can build up over one tax year.

- Not a limit to annual pension saving.
- For the NHS Pension Scheme, not based on the contributions paid in.

## Lifetime Allowance

The maximum amount of tax-relieved savings that an individual can build up over their lifetime.

- Not a limit to lifetime pension saving.
- For the NHS Pension Scheme, not based on the contributions paid in.

# Annual Allowance: Before and after the Spring Budget

	2022/23	2023/24
<b>'Standard' Annual Allowance</b>	£40,000	£60,000
<b>First income test for tapering "Threshold income"</b>	Above £200,000	Above £200,000
<b>Second income test for tapering "Adjusted income"</b>	Above £240,000	Above £260,000
<b>Minimum tapered Annual Allowance</b>	£4,000	£10,000
<b>Carry forward</b>	Unused Annual Allowance from 3 previous tax years can be carried forward	
<b>Treatment of 1995/2008 and 2015 Schemes</b>	Schemes treated independently  Any 'negative' final salary growth was floored at zero	Schemes treated in aggregate  Any 'negative' final salary growth to be offset against career average growth



# Lifetime Allowance: Before and after the Spring Budget

	2022/23	2023/24
<b>‘Standard’ Lifetime Allowance</b>	£1,073,100	£1,073,100
<b>Lifetime Allowance tax charge</b>	55% of excess savings if taken as a lump sum, or 25% of excess savings if taken as an income	Nil
<b>Maximum tax-free cash lump sum</b>	25% of the Lifetime Allowance	Frozen at £268,275

**Lifetime Allowance planned to be abolished in a future Finance Bill**

# Other recent changes affecting pensions tax

## Annual inflation increases applied to benefits

- From the 2023/24 tax year, the CPI inflation figure used for the revaluation of benefits will be aligned with that used in Annual Allowance calculations.
- This change mitigates the impact of the Annual Allowance on scheme benefits resulting from different inflation measures.

## Partial retirement for members of the 1995 section

- Introduced from 1 October 2023
- May be used to support staff affected by the Annual Allowance
- More information about flexible retirement:
- [www.nhsemployers.org/articles/flexible-retirement](https://www.nhsemployers.org/articles/flexible-retirement)

# Implications for NHS Pension Scheme members

**The changes could encourage staff to remain in NHS employment or to take on additional work to help alleviate workforce challenges.**

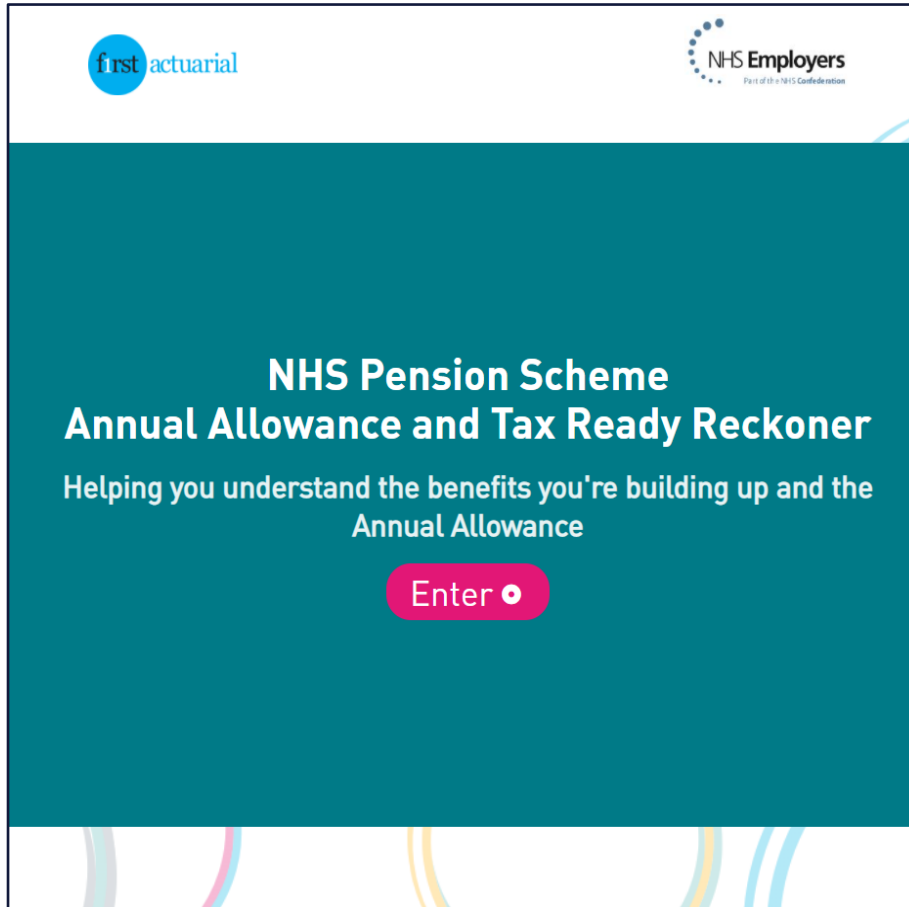
**Some members will continue to be affected by the Annual Allowance.**

The categories of members who are most likely to be affected by the Annual Allowance are:

- Members with 2015 Scheme benefits and pensionable NHS earnings approaching £200,000
- Members with significant earnings outside of the NHS
- Members with 1995/2008 Scheme service who receive pay rises significantly above inflation

# 3. Ready reckoner demonstration





- Promotes understanding
- Outcome only known after the tax year has ended
- Not easy to look ahead
- Broad guide to pension growth and tapering
- Traffic light guide and signposting to further help and possible next steps
- Heavily caveated!
  - Will not match actual statements from NHS BSA
  - Calculations are heavily simplified
  - Estimates depend on the inputs

# Three illustrative examples

## Example 1

- 1995/2008 Scheme service: 25 years
- 2015 Scheme pension: £1,000 pa
- 2022/23 pensionable pay: £60,000
- 2023/24 pensionable pay: £75,000

## Example 2

- 1995/2008 Scheme service: Nil
- 2015 Scheme pension: £17,500 pa
- 2022/23 pensionable pay: not needed
- 2023/24 pensionable pay: £125,000

## Example 3

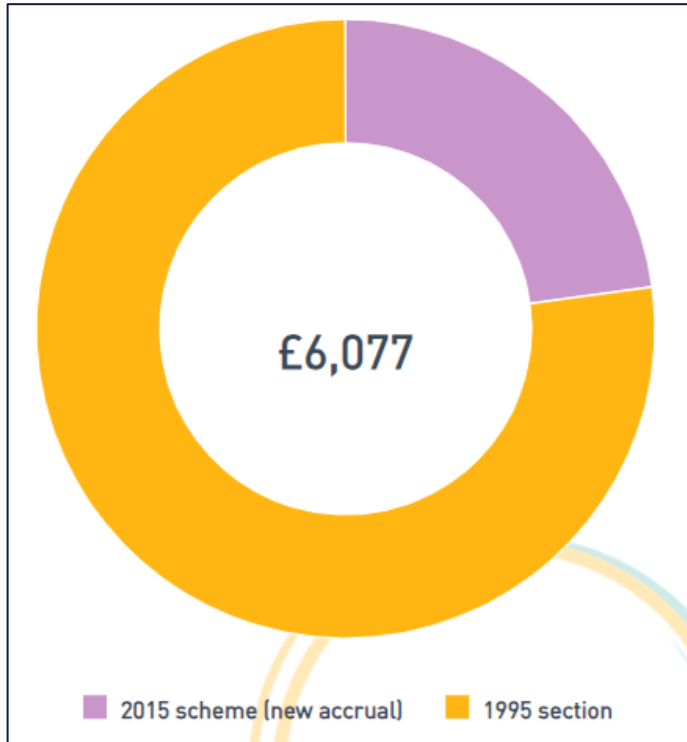
- 1995/2008 Scheme service: 15 years
- 2015 Scheme pension: £25,000 pa
- 2022/23 pensionable pay: £240,000
- 2023/24 pensionable pay: £240,000

# 2023/24 contribution

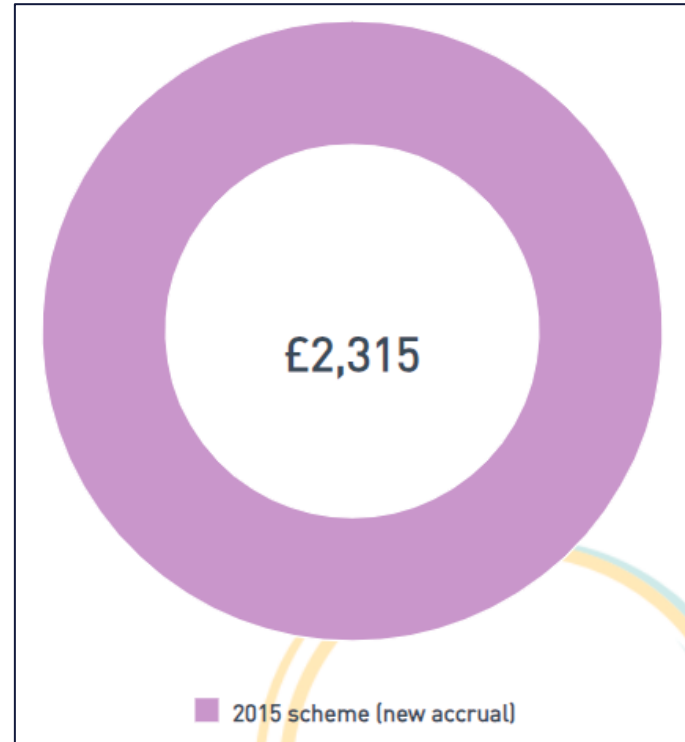
		Example 1	Example 2	Example 3
Member	Net ?	£5,625	£6,750	£17,820
	Income tax relief ?	£3,750	£10,125	£14,580
	Gross ?	£9,375	£16,875	£32,400
Employer ?		£15,450	£25,750	£49,440
Total contribution ?		£24,825	£42,625	£81,840

# 2023/24 pension build-up

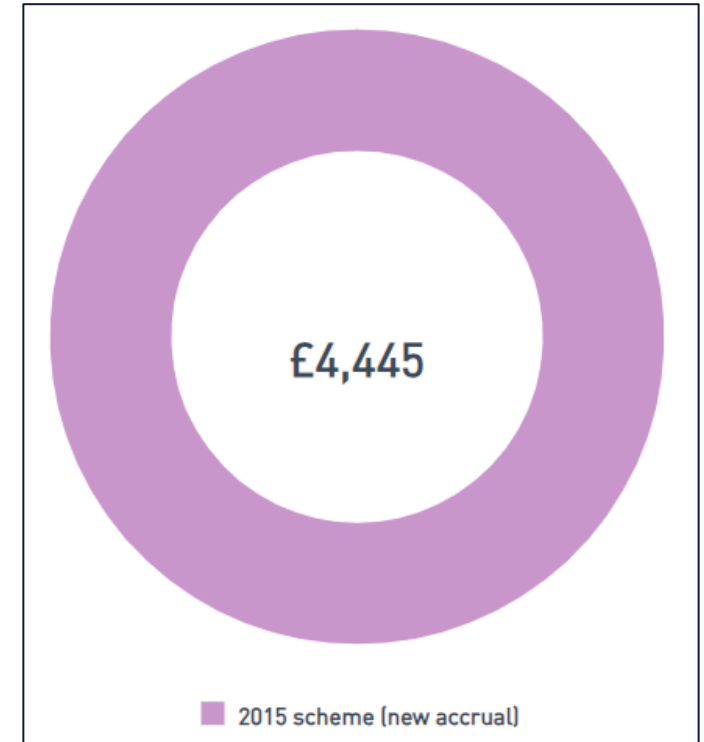
Example 1



Example 2



Example 3





# 2023/24 pension tax

**Example 1**

1995 PIA	£53,081
2015 PIA	£22,462
Total PIA	£75,543
Threshold income ?	£65,625
Adjusted income ?	Not calculated as threshold income is estimated to be under £200,000
Annual Allowance ?	£60,000
Breach ?	£15,543

**Example 2**

1995 PIA	£41,237
2015 PIA	£41,237
Total PIA	£41,237
Threshold income ?	£108,125
Adjusted income ?	Not calculated as threshold income is estimated to be under £200,000
Annual Allowance ?	£60,000
Breach ?	£0

**Example 3**

1995 PIA	£-86,355
2015 PIA	£77,111
Total PIA	£0
Threshold income ?	£207,600 (breached)
Adjusted income ?	£207,600
Annual Allowance ?	£60,000
Breach ?	£0

# Summary

## Example 1

### Your rating



We have given you a **Red** rating

We have given you a red rating for 2023/24 as you are projected to breach the Annual Allowance. This is based on estimated calculations and your data inputs. Your true position will only be known when all data has been collected and assessed after the end of the tax year.

Based on your inputs, the ready reckoner estimates that:

- The estimated total cost of scheme membership over 2023/24 is £24,825, of which your "net" contribution was £5,625.
- The estimated extra pension built up over 2023/24 is £6,077 paid every year for life from retirement.
- The estimated breach of the Annual Allowance in 2023/24 is £15,543, although this may be lower or zero depending on any unused AA you may have to carry forward. The AA tax charge from any breach will depend on your taxable income over the year with your marginal rate of income tax applying to the breach – likely to be 40% to 45%.

If you have an AA tax charge to settle, then there are options on how it is paid – including Scheme Pays. This is a facility where the scheme will pay the charge on your behalf, record this debit on your account, increase this debit with interest and a deduction will be made to your benefits at retirement. For example, where the AA tax charge from the 2015 Scheme amounts to £1,000 when retiring at age 65, the deduction to pension at retirement would be  $£1,000 / 18.33 = £55$  pa (using the current Scheme Pays recovery factor).

## Example 2

### Your rating



We have given you a **Amber** rating

We have given you an amber rating for 2023/24 as you are projected to be reasonably close to the Annual Allowance. This is based on estimated calculations and your data inputs. Your true position will only be known when all data has been collected and assessed after the end of the tax year.

Based on your inputs, the ready reckoner estimates that:

- The estimated total cost of scheme membership over 2023/24 is £42,625, of which your "net" contribution was £6,750.
- The estimated extra pension built up over 2023/24 is £2,315 paid every year for life from retirement.
- A green or amber rating does not necessarily mean that your pension growth will be under the Annual Allowance in practice as the outcome depends on your data inputs and there are several limitations as stated throughout the Ready Reckoner.

You can find more information on both the NHS Pensions and NHS Employers websites.

Even where an AA tax charge has been triggered, it will often be the case that the scheme still provides good value. If you are at all uncertain about your position, then you should consider seeking professional guidance.

## Example 3

### Your rating



We have given you a **Green** rating

We have given you a green rating for 2023/24 as you are projected to be well under the Annual Allowance. This is based on estimated calculations and your data inputs. Your true position will only be known when all data has been collected and assessed after the end of the tax year.

Based on your inputs, the ready reckoner estimates that:

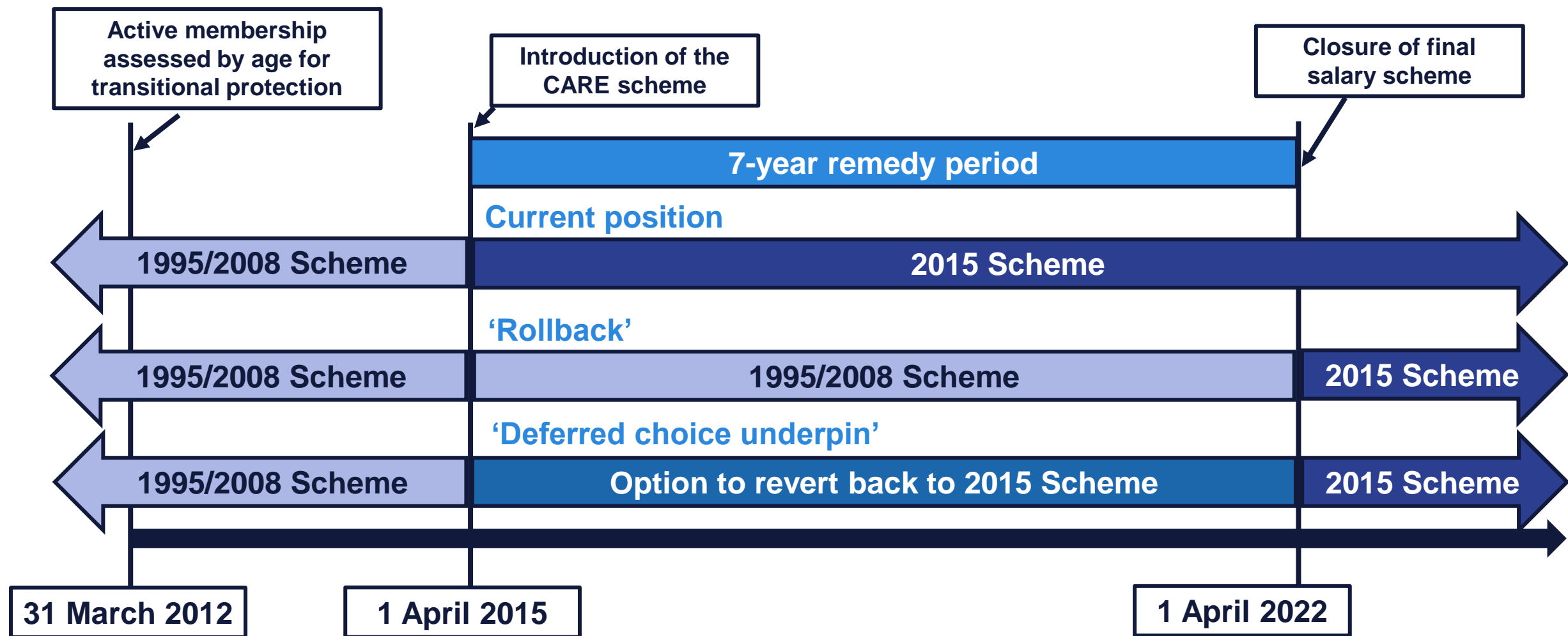
- The estimated total cost of scheme membership over 2023/24 is £81,840, of which your "net" contribution was £17,820.
- The estimated extra pension built up over 2023/24 is £4,445 paid every year for life from retirement.
- A green or amber rating does not necessarily mean that your pension growth will be under the Annual Allowance in practice as the outcome depends on your data inputs and there are several limitations as stated throughout the Ready Reckoner.

- The output is neither definitive nor financial advice
- Limitations are explained throughout
- Based on the inputs and simplifications
- Flags potential next steps

# 4. Pensions tax and McCloud



# Overview of the McCloud remedy



# Interaction of the McCloud remedy with pensions tax

- **Members with underpaid tax charges:** Report and pay them through HMRC's digital service.
- **Claims for compensation for overpaid tax charges:** Also to be managed through the HMRC digital service following receipt of remediable Pension Savings Statements.
- **Where Scheme Pays used:** Adjust/reverse benefit adjustments.
- **No requirement to resubmit self-assessment tax return** for any remedy period year and **no requirement to include an Annual Allowance charge on the 2022/23 tax return**, this is being handled together with the remedy period and through the HMRC digital service.
- **Where reinstatement of opted out service is granted:** Will be retrospective to the remedy period tax year and subject to the Annual Allowance assessment accordingly.

# 5. Supporting guidance



# Supporting guidance from NHS Employers

**Pensions tax guidance for employers:** [www.nhsemployers.org/publications/pension-tax-guidance-employers](https://www.nhsemployers.org/publications/pension-tax-guidance-employers)

This gives suggestions on ways that employers can support staff who continue to be affected by the Annual Allowance and information about the key points for employers to consider before paying additional salary in lieu of employer pension contributions ('recycling').

It also considers other options such as managing pensionable pay and using multiple contracts of employment.

**We also have a list organisations that are able to give expert guidance and advice on pensions tax issues scheme members:** [www.nhsemployers.org/publications/access-pension-tax-guidance-and-advice](https://www.nhsemployers.org/publications/access-pension-tax-guidance-and-advice)



# 6. Q&A





# Thank you.