Research into the impact of pensions tax in the NHS – Summary

Background

The Annual Allowance, which limits the amount of tax relief on pension saving, has been a growing problem for members of the NHS Pension Scheme ("NHSPS") for several reasons. The Annual Allowance has reduced substantially over time, tapering of the standard Annual Allowance was introduced and employees are exhausting their carry-forward of unused Annual Allowance from prior years. This has resulted in some members of the NHSPS receiving large and unexpected tax bills. The full research paper explains the problem and presents the results of research into the effect on NHS employees and on the Service. Here are some highlights from this research.

Online survey for employees

An online survey was issued to NHS employees to gather their opinions and experiences and over 2,500 responses were received, the majority from consultants. Less than a third of respondents have received Annual Allowance tax charges in the past, but more than half believe they will receive them in the future.

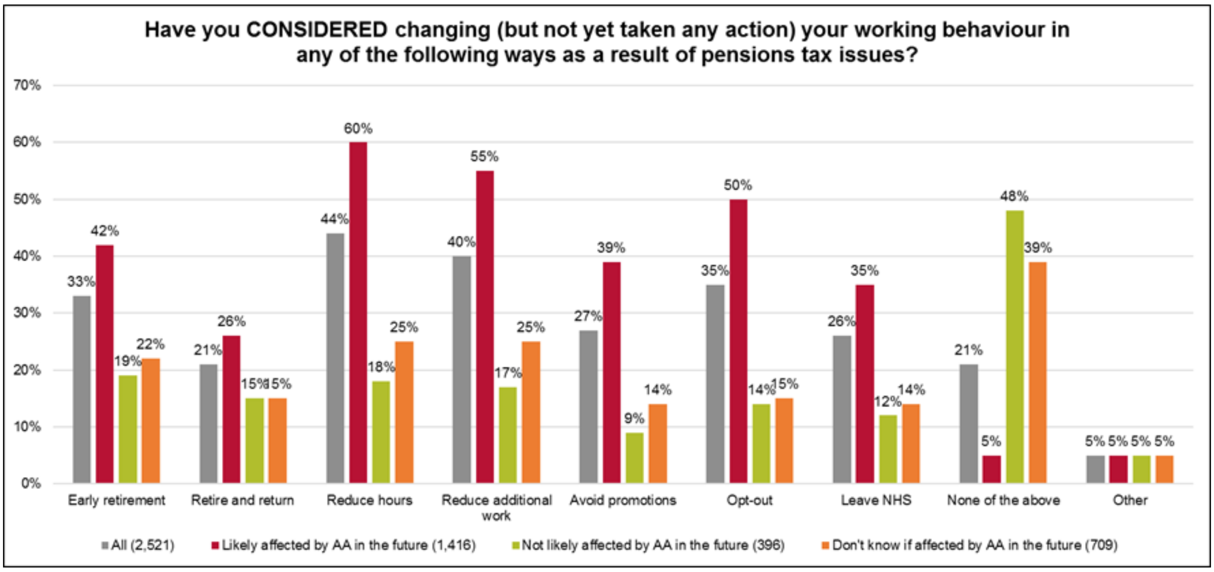
Difficulty in finding answers

Many of the respondents struggled to find answers to their questions about the Annual Allowance. Few felt supported by either their employer or the NHSPS when it comes to pensions tax issues. Several stated that the time it takes for the NHSPS to send Pensions Savings Statements (which employees need to calculate their tax position) is too long. Around two in three respondents stated that they have approached or are seeking an Independent Financial Adviser to advise them. There is a clear need for better information to be made available. The uncertainty caused by lack of understanding may be driving unnecessary behaviour.

> *"There is no reliable, easy to understand advice and even pensions advisors seem confused"*
>
> **Scheme member**

Actions taken or considered

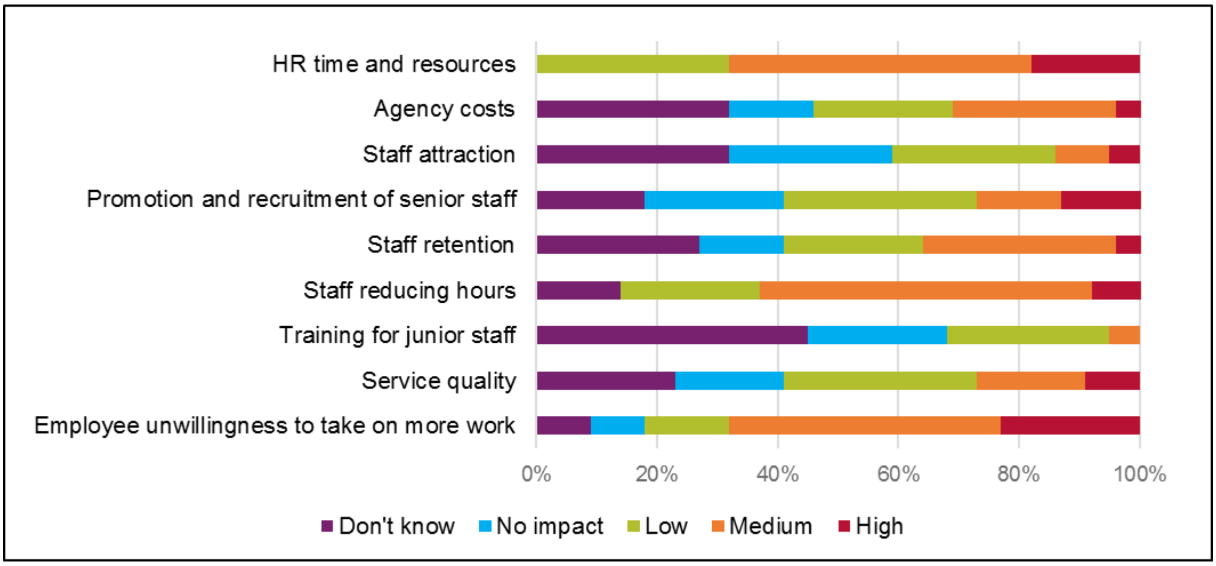
Many of those who expect to be affected by pensions tax issues in the future have taken or are considering taking action to try and avoid these issues. The chart below shows the actions employees are considering as a result of pensions tax issues.



Those likely to breach the Annual Allowance in the future are considering taking actions such as taking early retirement, reducing their hours or turning down any additional work. These factors in combination could put significant strain on the NHS workforce and lead to staff shortages.

Online survey for employers

Employers in the NHS were also asked about the impact of pensions tax issues. Around a third believed that the issue affects at least a relatively large group. The chart below shows what employers thought the impact was on staff and the Service.



> *"It affects a small but very vocal and senior group of people - in particular the medical consultants and as such it has had a high profile with senior staff and a lot of air time"*
>
> ***Employer view***

Almost mirroring the results of the employee survey, employers are particularly concerned about the impact on staff retention (e.g. from early retirement), staff reducing hours or not taking on additional work. These issues have also had a noticeable impact on HR time and resources – which are allocated to solving queries and handling complaints from those with pensions tax issues and on Service quality.

Conclusion and next steps

There are two potential categories of solution: reforming the tax system or reforming the NHS Pension Scheme. Government has stated its preference for reforming the Scheme, giving members greater control over their pension growth, so they can manage pensions tax charges.

On 3 June 2019, Government announced a proposal to introduce a 50:50 option to the NHSPS. This would allow employees to halve their pension contributions for halving the rate of pension growth in the 2015 Scheme. However, the proposal is currently limited to senior clinicians. This would help to 'decelerate' pension growth, reducing the risk of both Annual and Lifetime Allowance charges, but it may not protect those with significant past service already accrued from Annual Allowance charges related to salary increases. This option may not on its own allow an adequately sophisticated approach to allow effective tax management.

In the meantime, it is important to improve communications around the issue – including making employees aware of the pensions tax 'cliff-edge' which may be faced when annual taxable income goes over £110,000.

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