

# Pensions - the state of things

Dr Phil de Warren-Penny  
Deputy Co-Chair (Negotiations)  
UK Consultants Committee



# Timetable

History	History	Meteorology	Applied Maths	Applied Maths	Applied Maths	Business Studies	Politics	Home-work
Pensions 1995 2008 2015	Pension Tax  AA Tapering	Perfect Storm	Example 1  Tapering	Example 2  Cliff Edge	Example 3  Interaction	Impact on Services  Contract	Lobbying  Meetings  Media	Local Policy  Education

# NHS Pension schemes

- Four NHS pension schemes
  - England and Wales
  - Scotland
  - Northern Ireland
  - Isle of Man
- 3 different sections
  - 1995 section (final salary)
  - 2008 section (final reckonable pay)
  - 2015 section (career averaged)

# Pensions and Tax

- Pension contributions deducted before income tax is calculated
- Results in tax relief on pension savings
- Government introduced measures to limit the amount of tax relief available
- These measures are the :
  - Annual Allowance
  - Tapered Annual Allowance
  - Lifetime Allowance
- These measures are impacting doctors in unintended ways

# Annual Allowance

2006 /7	2007 /8	2008 /9	2009 /10	2010 /11	2011 /12	2012 /13	2013 /14	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20
£215k	£225k	£235k	£245k	£255k	£50k	£50k	£50k	£40k	£40k	£40k	£40k	£40k	£40k

In the Summer 2015 Budget, it was announced that a taper would be introduced to the Annual Allowance for those with adjusted incomes, including their own and employer's pension contributions (or Pension Input Amounts in Defined Benefit Schemes), over £150,000 from April 2016.

For every £2 of adjusted income over £150,000, an individual's Annual Allowance will be reduced by £1, down to a minimum of £10,000.

# Pension Tension

- Consultants are now regularly receiving large, unexpected tax bills
- Relates to exceeding the 'annual allowance' for pension growth
- Many consultants retiring early or reducing the hours they work for the NHS
- BMA survey:
  - Half of consultants plan to retire at or before 60
  - Half of these cite pensions taxation as a major factor in their decision
- Exacerbating an already critically low level of capacity
- Increasing agency spend and outsourcing costs
- The biggest single issue affecting consultants and GPs at present

- The BMA are deeply concerned that the separate changes made to the annual allowance and the NHS pension scheme have created a 'perfect storm' that results in doctors in particular receiving unexpected and punitive taxes
- These taxes are creating a perverse incentive that will inevitably lead to consultants to:
  - Reduce the work they do for the NHS
  - Stop taking on leadership roles
  - No longer innovate or strive for excellence
  - No longer cover vacancies
  - Consider early retirement
- Unless there is urgent action, these taxes will lead to a significant reduction of workforce capacity in the NHS

## Case Example 1

The effect of the tapered annual allowance

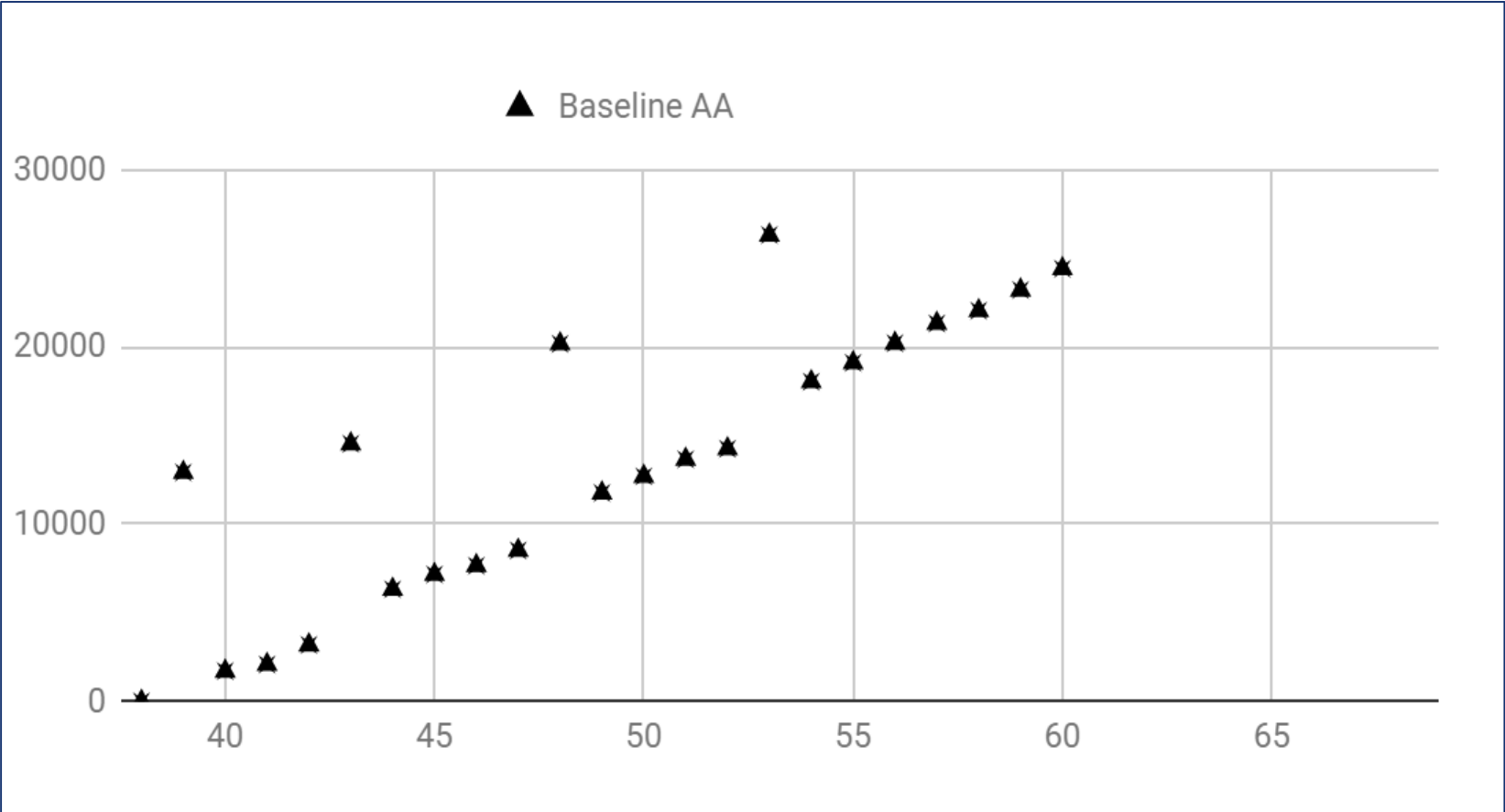




## Case example 1 – Consultant A

- 40 years old
- 12 Programmed activities (10 pensionable, 2 non-pensionable)
- Level 4 pensionable Clinical Excellence Award
- 5% on call supplement (Category A, medium frequency)
- £25,000 additional income
- 14 years accrued in 1995 pension scheme
- Transitioned to the 2015 CARE scheme in 2015

# Consultant A's annual allowance yearly tax charge



40-year-old consultant  
12 PAs  
Level 4 CEA  
5% on call  
£25k additional income

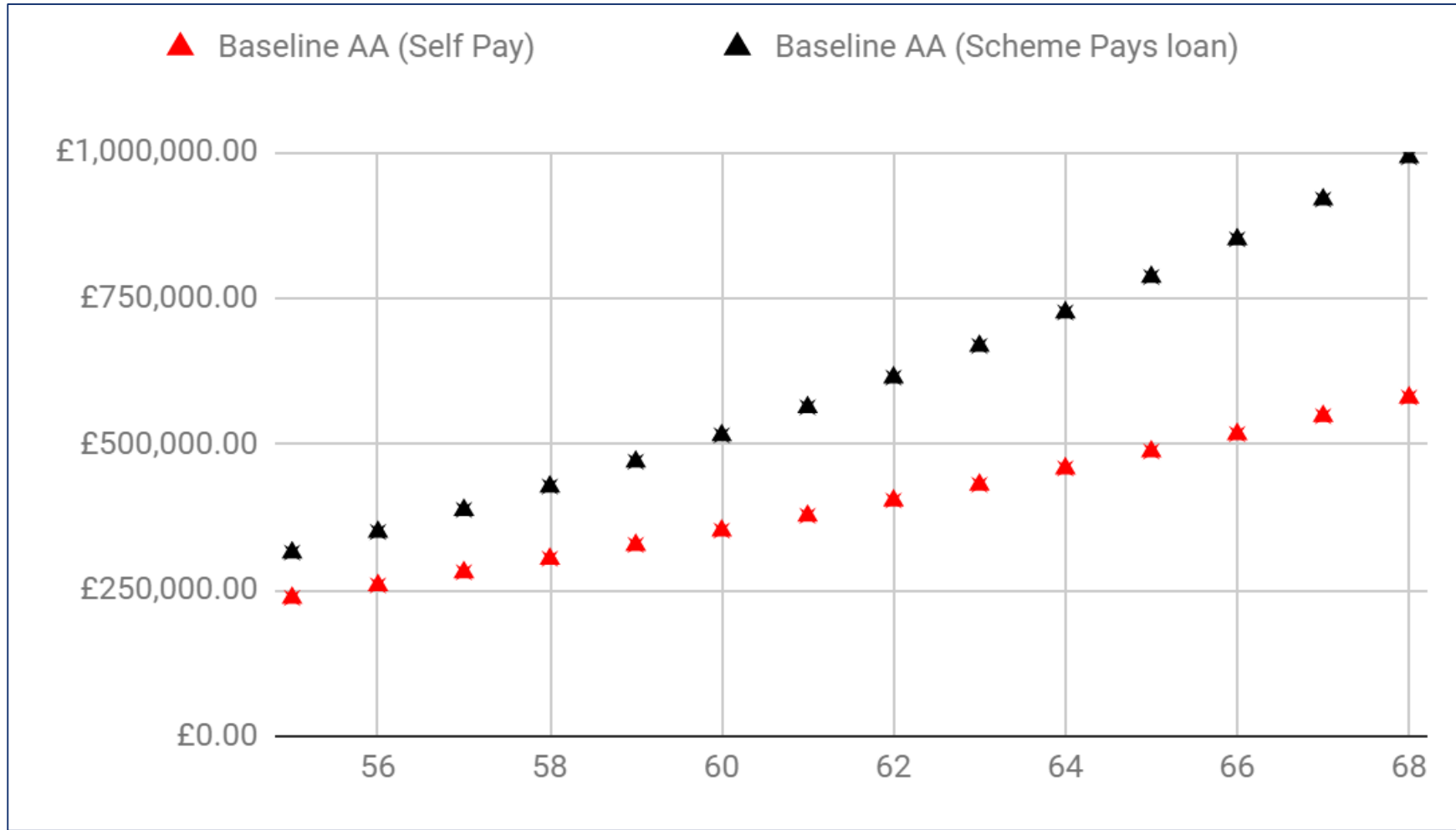
# How can consultant A pay these tax charges?

- Consultant A will incur tax bills of:
  - >£10k per year from the age of 48
  - >£20k per year from the age of 56
- These tax bills will continue to rise each year if they remain in the scheme
- They have 2 options:
  - Pay these bills from their (already taxed) net income. This is unaffordable for most consultants
  - Pay these bills to HMRC from their pension pot using 'scheme pays'.

## Considerations if using 'scheme pays'

- Scheme pays is effectively a loan against your final pension
- This is deducted from your final pension BEFORE assessment against the lifetime allowance – may be a good option particularly close to retirement
- However it attracts an interest rate equivalent to the consumer prices index (CPI) plus the SCAPE discount rate
- This combined interest rate has recently been as high as 5.8%
- SCAPE discount rate reduced to 2.4% in 2019 and CPI was 2% giving a current combined interest rate on scheme pays loan of 4.4%
- Can be a very expensive option especially for younger members

# Cumulative value of scheme pays loan



Consultant A would have a cumulative scheme pays loan of ~£1,000,000 at state pension age

The significant increases in loan are a powerful lever to retire before state pension age

# What does this mean for Consultant A's pension?

- The deduction of the scheme pays loan reduces the value of the pension pot
- This in turn reduces the value of the final pension

Retirement age 60 (12PAs)	scheme pays	self pay
Pension	£55,555	£78,242
Pension (today's money)	£36,511	£51,421
AA tax charge	£0	£351,764
AA loan	£514,969	£0

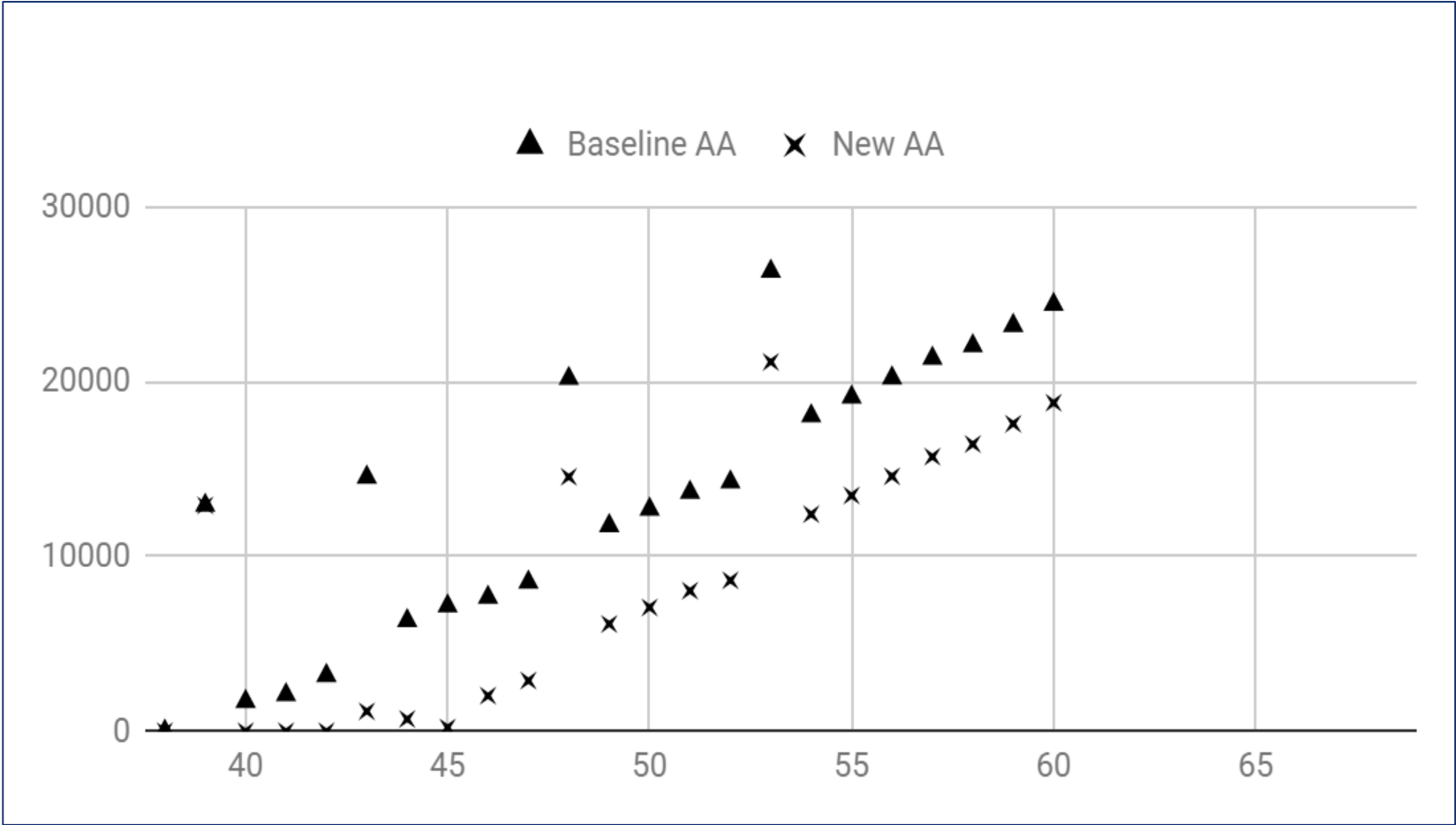
NB: Consultant A's total reward statement pension value age 60 would be calculated at £107,745.

Consultant A is paying tax on a pension value they will not receive.

# What can consultant A do to reduce their tax bills?

- It is a defined benefit scheme – cannot change the value they pay in
- Consultant A cannot control their pay progression – nationally determined
- Too young to retire
  
- Options to reduce Annual Allowance Tax:
  - Opt out of the NHS pension scheme completely
  - Opt out of the pension scheme for parts of the year (hokey-cokey)
  - Reduce non-pensionable pay
  - Work part time

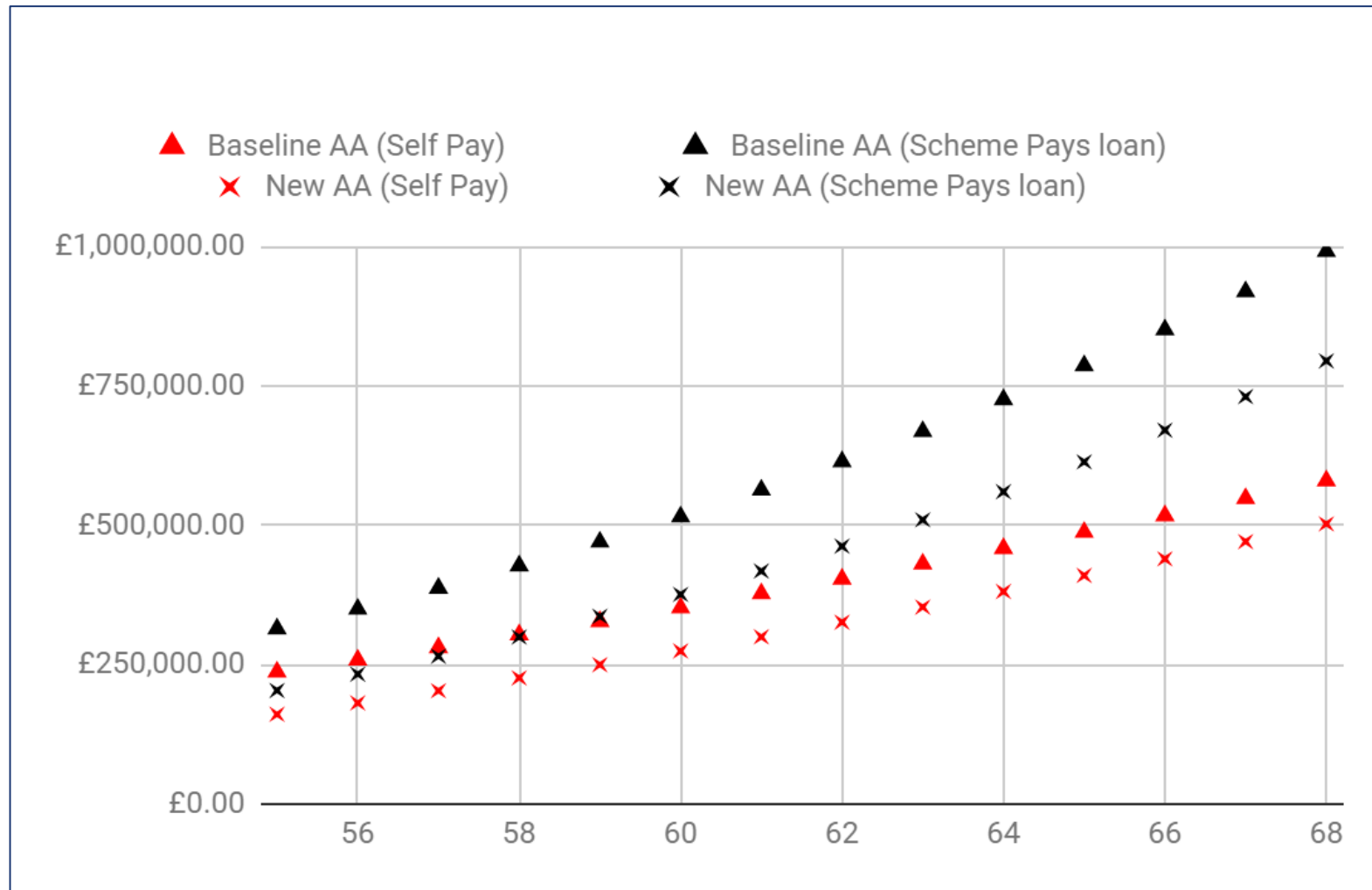
# AA tax for Consultant A working 10 (x) PAs instead of 12 PAs (▲)



40-year-old consultant  
12 PAs  
Level 4 CEA  
5% on call  
£25k additional income



# Cumulative value of 'scheme pays' loan 10PAs vs. 12 PAs



Cumulative tax bill dropped £250k using scheme pays if works 10 PAs rather than 12PAs (crosses are 10PAs)

NB coming in and out of the scheme 'hokey' is another option

# What does this mean for Consultant A's pension?

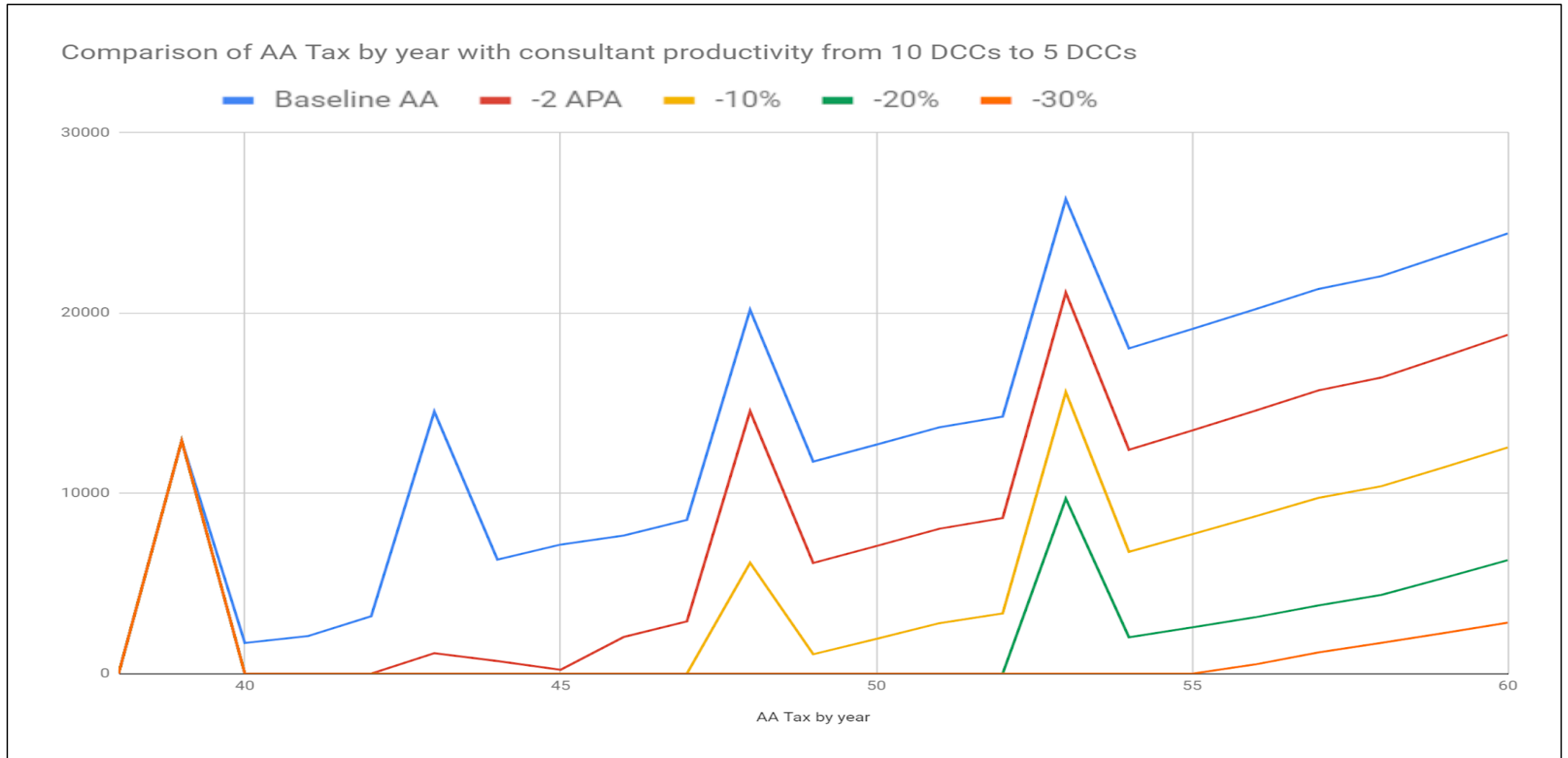
- Consultant A now working 10 PAs
- The scheme pays loan has reduced in value
- The final pension has increased by dropping 2 non-pensionable PAs
- This effect is driven by the tapered annual allowance

Retirement age 60 (10 PAs)	scheme pays	self pay
Pension	£62,157	£78,242
Pension (today's money)	£40,849	£51,421
AA tax charge	£0	£274,199
AA loan	£375,675	£0

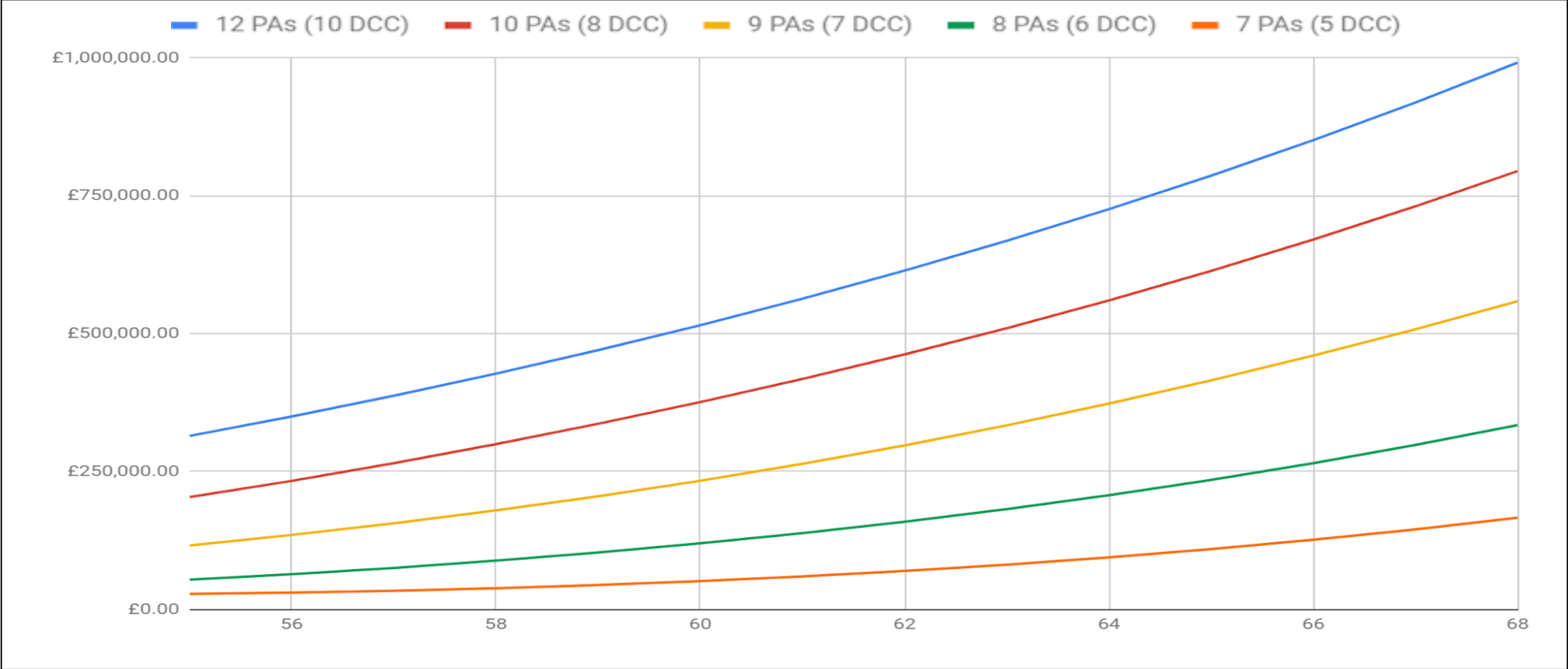
Working 12 PAs their pension was £55,555 using scheme pays with an AA loan of £514,969 or £36,511 in today's money

The self pay AA tax on 12 PAs was £351,764, (£77k higher than 10PAs)

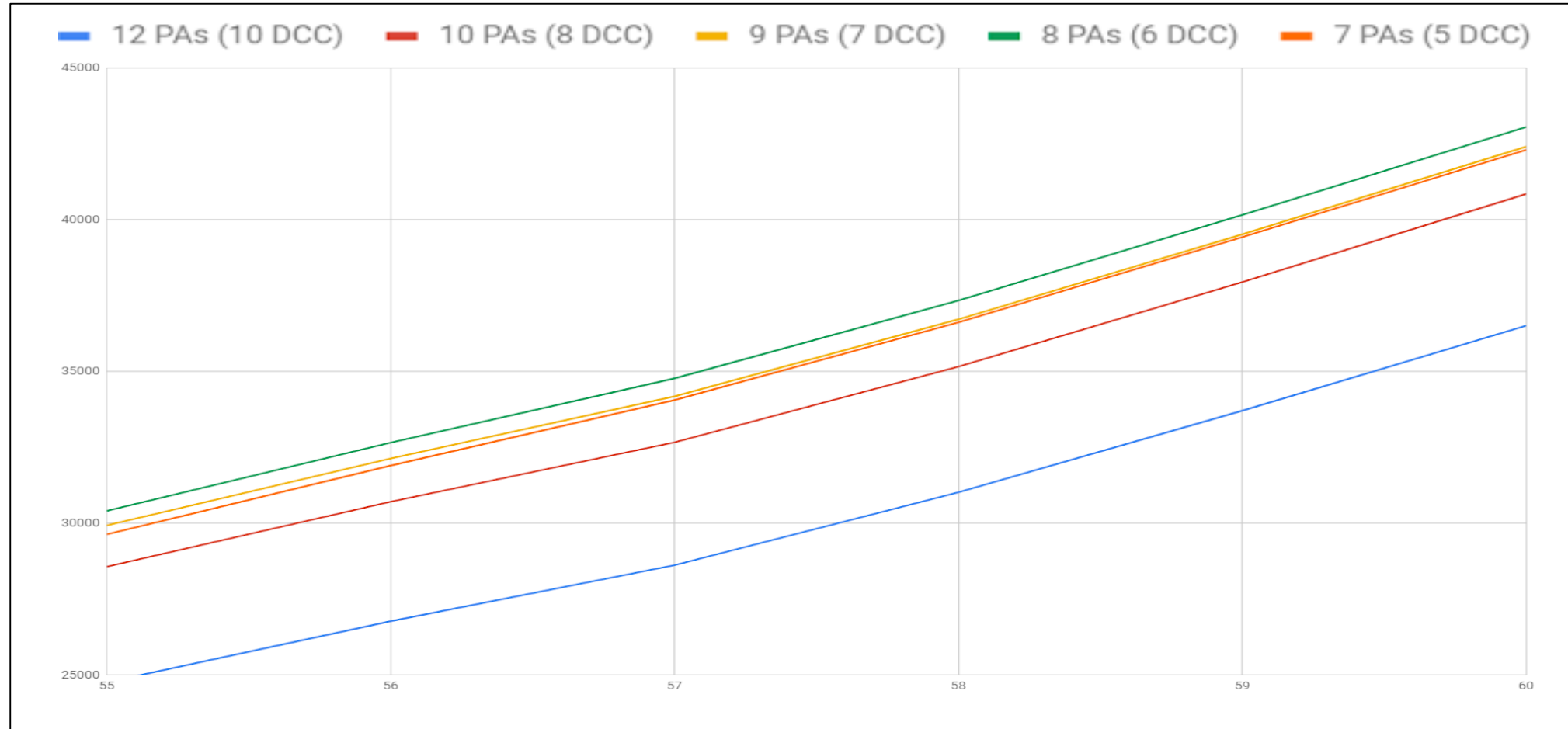
# What happens if Consultant A goes part-time?



# Cumulative value of scheme pays loan with decreasing work for the NHS (12 to 7PAs)



# Net present value of pension with decreasing workload (12 to 7 PAs)



# Key points from Consultant A

- The tapering of the annual allowance is generating significantly higher annual allowance tax bills than otherwise would be incurred
- If paid for via self-pay, consultants face marginal tax rates of over 100% in the taper zone and are effectively working for free
- If they use ‘scheme pays’, younger consultants in particular risk significantly reducing the value of their pension by doing additional work for the NHS

## Case Example 2

The Threshold Income “cliff edge”



# Beware the of the cliff edge – threshold income

- The annual allowance does not taper if the threshold income is below £110,000
- This remains the case even if the “adjusted income” is over £150k
- Remember the “adjusted income” includes deemed pension growth and in some years deemed pension growth can be significant
- Consequently even consultants with actual gross earnings far below £150k can be ‘fully tapered’
- The effects of exceeding the threshold income can be very significant



## Consultant B – real life example (reproduced with permission)

- Consultant in their 40s
- No private practice or significant non-NHS income
- Received 1 pensionable CEA (no prior CEAs) in 2017
- Took on a managerial role to support a struggle service in 2017
- Was paid a £10k (pensionable) management allowance
- Submitted self assessment and expected ~£1k rebate (for subscriptions)
- Spoke to colleague at work who had just received a big tax bill....
- Remembered receiving a ‘brown envelope’ from NHS pensions the previous in October 2018

# Example 2 - Consultant B (real figures)

Baseline			
TAXABLE pay from payslip (12 PAs incl. £10k management)	£111,140.00		
Interest / other	£500.00		
Private practice	Nil		
<b>Threshold income</b>	<b><u>£111,640.00</u></b>		
NHS Pension Growth 2017/18 (large PIA due to payrise)	<b>£107,940.00</b>		
<b>Adjusted income</b>	<b><u>£219,580.00</u></b>		
Excess of "adjusted income" limit over £150,000	£69,580.00		
Reduction of AA (£1 loss for each £2 over)	£34,790.00		
Tapered AA (£40,000 minus reduction) - min £10000	£10,000.00		
Excess annual allowance	£97,940.00		
Less available carry forward (already lost never to return)	£0.00		
Taxable pay pre AA	£111,640.00		
Marginal tax calculation based on	£209,580.00		
Excess AA charge over £150,000	£59,580.00	45%	£26,811.00
Excess AA charge under £150,000	£38,360.00	40%	£15,344.00
<b>AA tax charge paid as cash from taxed income</b>			<b><u>£42,155.00</u></b>
<b>AA tax charge paid via "scheme pays" loan till state pension age (5.8% variable)</b>			<b><u>£145,724.91</u></b>
<b>AA tax charge paid via "scheme pays" loan till 60 (5.8% variable)</b>			<b><u>£92,821.47</u></b>

Baseline without £10k			
TAXABLE pay from payslip (without £10k management)	£101,140.00		
Interest / other	£500.00		
Private practice	Nil		
<b>Threshold income</b>	<b><u>£101,640.00</u></b>		
NHS Pension Growth 2017/18 (large PIA due to payrise)	<b>£58,021.00</b>		
<b>Adjusted income (not calculated as under threshold)</b>			
Excess over standard AA (£40,000)	£18,021.00		
Reduction of AA (£1 loss for each £2 over)	N/A		
Tapered AA (£40,000 minus reduction) - min £10000	N/A		
Excess annual allowance	£18,021.00		
Less available carry forward (already lost never to return)	£0.00		
Taxable pay pre AA	£101,640.00		
Marginal tax calculation based on	£119,661.00		
Excess AA charge over £150,000	£0.00	45%	£0.00
Excess AA charge under £150,000	£18,021.00	40%	£7,208.40
<b>AA tax charge paid as cash from taxed income</b>			<b><u>£7,208.40</u></b>
<b>Difference if paying cash</b>			<b><u>-£34,946.60</u></b>
<b>AA tax charge paid via "scheme pays" loan till state pension age (5.8% variable)</b>			<b><u>£34,949.23</u></b>
<b>Difference if paying scheme pays to state pension age</b>			<b><u>-£110,775.68</u></b>
<b>AA tax charge paid via "scheme pays" loan till age 60 (5.8% variable)</b>			<b><u>£22,261.39</u></b>
<b>Difference if paying scheme pays to Age 60</b>			<b><u>-£70,560.08</u></b>

# Be careful around the threshold income

Baseline			
TAXABLE pay from payslip (12 PAs incl. £10k management)	£111,140.00		
Interest / other	£500.00		
Private practice	Nil		
<b>Threshold income</b>	<b><u>£111,640.00</u></b>		
NHS Pension Growth 2017/18 (large PIA due to payrise)	<b>£107,940.00</b>		
<b>Adjusted income</b>	<b><u>£219,580.00</u></b>		
Excess of "adjusted income" limit over £150,000	£69,580.00		
Reduction of AA (£1 loss for each £2 over)	£34,790.00		
Tapered AA (£40,000 minus reduction) - min £10000	£10,000.00		
Excess annual allowance	£97,940.00		
<i>Less available carry forward (already lost never to return)</i>	<i>£0.00</i>		
Taxable pay pre AA	£111,640.00		
Marginal tax calculation based on	£209,580.00		
Excess AA charge over £150,000	£59,580.00	45%	£26,811.00
Excess AA charge under £150,000	£38,360.00	40%	£15,344.00
<b>AA tax charge paid as cash from taxed income</b>			<b><u>£42,155.00</u></b>
<b>AA tax charge paid via "scheme pays" loan till state pension age (5.8% variable)</b>			<b><u>£145,724.91</u></b>
<b>AA tax charge paid via "scheme pays" loan till 60 (5.8% variable)</b>			<b><u>£92,821.47</u></b>

Baseline without £2k of additional WLI clinics			
TAXABLE pay from payslip (minus £2k extra clinics non-pensionable)	£109,140.00		
Interest / other	£500.00		
Private practice	Nil		
<b>Threshold income</b>	<b><u>£109,640.00</u></b>		
NHS Pension Growth 2017/18 (large PIA due to payrise)	<b>£107,940.00</b>		
<b>Adjusted income (not calculated as under threshold)</b>			
Excess over standard AA (£40,000)	£67,940.00		
Reduction of AA (£1 loss for each £2 over)	N/A		
Tapered AA (£40,000 minus reduction) - min £10000	N/A		
Excess annual allowance	£67,940.00		
<i>Less available carry forward (already lost never to return)</i>	<i>£0.00</i>		
Taxable pay pre AA	£109,640.00		
Marginal tax calculation based on	£177,580.00		
Excess AA charge over £150,000	£27,580.00	45%	£12,411.00
Excess AA charge under £150,000	£40,360.00	40%	£16,144.00
<b>AA tax charge paid as cash from taxed income</b>			<b><u>£28,555.00</u></b>
<b>Difference if paying cash</b>			<b><u>-£13,600.00</u></b>
<b>AA tax charge paid via "scheme pays" loan till state pension age (5.8% variable)</b>			<b><u>£98,711.30</u></b>
<b>Difference if paying scheme pays to state pension age</b>			<b><u>-£47,013.61</u></b>
<b>AA tax charge paid via "scheme pays" loan till state pension age (5.8% variable)</b>			<b><u>£62,875.51</u></b>
<b>Difference if paying scheme pays to Age 60</b>			<b><u>-£29,945.96</u></b>

# Key points from this example:

- CEA and management role has generated £42k tax bill
- Using scheme pays results in an additional loan from this single tax bill of £145k at state pension age
- Not taking on the management role would have saved ~£35k in one off tax bill or £111k if using scheme pays state pension age
- Reducing income to just below threshold would have saved £13.6k in one of tax bill or £47k if using scheme pays to state pension age

# Case Example 3

**BMA**

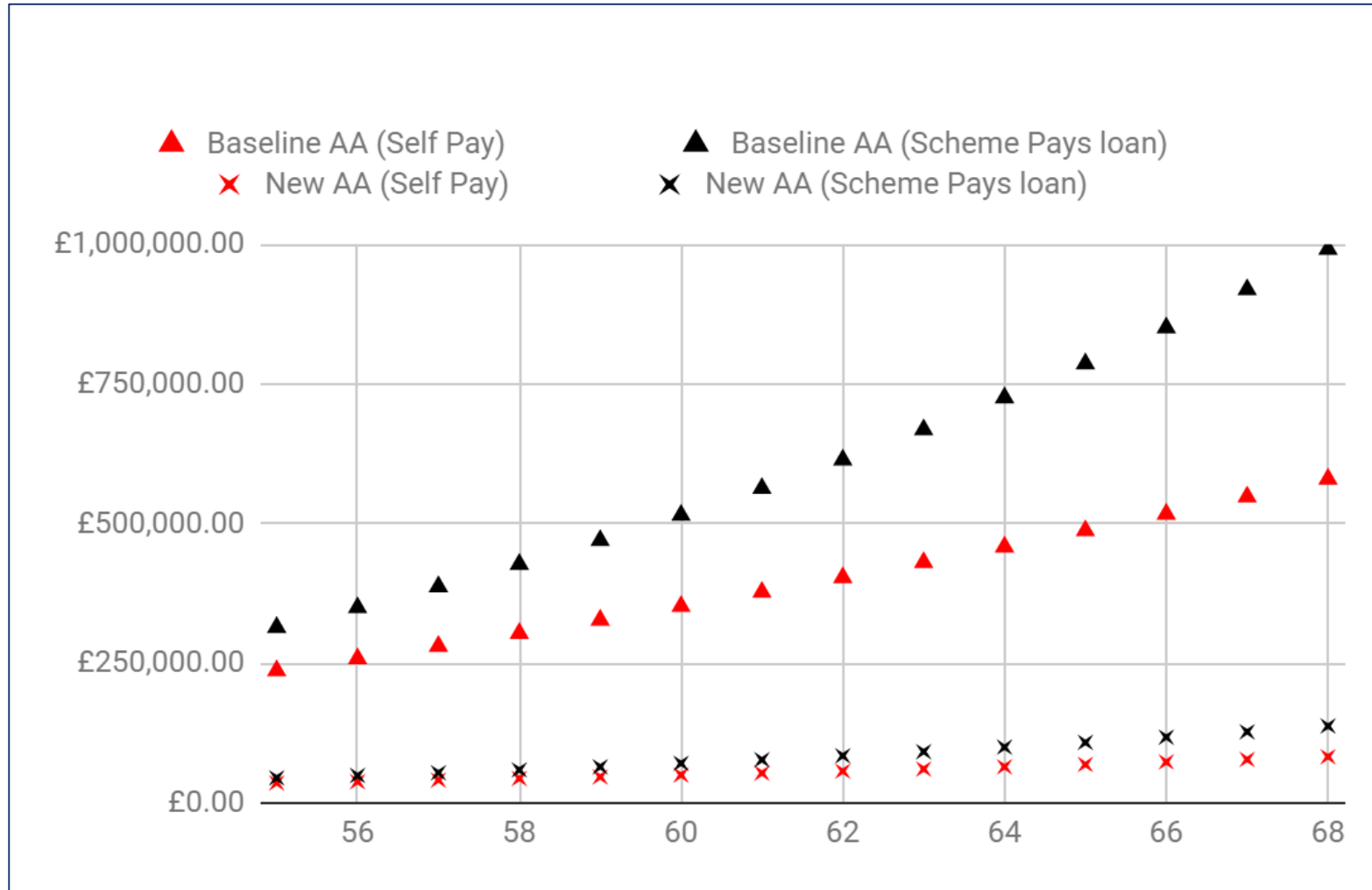
## The interaction between 2 NHS Pension Schemes



# The interaction between 2 NHS pension schemes

- The annual allowance is calculated separately for the 1995/2008 and 2015 scheme
- The final salary schemes are closed so there are no further accruals
- Your pension is allowed to increase in value by CPI without this being considered pension growth
- In years of sub-inflationary pay awards, the effective value of the final salary pension falls – however this is considered to be £0
- The revaluation of the 2015 component by a rate of CPI +1.5% generates a recurrent pressure that prevents any build up of unused annual allowance to carry forward
- Results in significantly higher AA tax for members of 2 schemes

# The effect of 2 pension schemes (95/2015)



Consultant A would have a cumulative scheme pays loan of only £100k at SPA if solely in the 1995 scheme versus ~£1,000,000 if in 1995 and 2015 scheme

# Impact

- Cessation of WLI sessions
- Reduce to 10 PAs (loss of DCC sessions)
- Declining fee paying work (eg. S12 MHA, DVLA)
- Request for part-time working
- Cross-covering for time-in-lieu only, rather than £, leading to reduction in clinical activity
- Declining Clinical Management Posts
- Retirements
- No one applying for CEAs, yet all the funds have to be spent to prevent a trust being in breach of contract...



# Contract

- Full time contract = 10 PAs
- If currently doing >10PAs, able to reduce to 10PAs with 3/12 notice
- Likely to require Interim Job Plan Review, unless additional PAs clearly identified.
- Danger in increasing pensionable PAs, including LTFT to FT, due to significant increase in pensionable income & increase in Pension Input Amount triggering AA charge

# What is the BMA doing (1)?

- Extensively lobbying government(s) to change rules around Annual Allowance
- Made strong representations to the DDRB on pensions taxation
- Written directly to the Chancellor and the Secretary of State for Health and Social Care to call for reform of pensions taxation with urgent scrapping of the tapered annual allowance
- Have met with NHS Employers on multiple occasions to warn them of the impending workforce crisis unless urgent action is taken
- Lobbied local MPs to increase awareness of the issue including the drafting of template letters to assist consultants in contacting their MP
- Launched legal proceedings against the discriminatory nature of the 2015 pension scheme

# What is the BMA doing (2)?

- Undertaken detailed modelling of the future impact of the annual allowance for consultants going forward
- Demonstrated that the impacts of the AA will be more widely felt over the next 12-24 months as the three years of carry forward from prior to the introduction of the taper is lost
- Invested heavily in a pension modelling tool for BMA members that will be available imminently
- Co-ordinated an urgent meeting with NHS Employers, Providers and NHS England to discuss solutions
- Proposed immediate actions to NHS Employers to stabilise the current situation and are awaiting a response:

# What urgent mitigations has the BMA asked NHS employers for?

1. An urgent National policy on the recycling of employers' contributions to those who are forced to opt out of the NHS pension scheme as a result of these punitive taxes.
2. To begin work on a national policy to offer death in service and ill-health retirement benefits to those who need to opt out of the scheme
3. To work with the BMA to look at pay 'smoothing' of increments, with recycling of employers contributions to minimize spikes in annual allowance tax
4. To jointly lobby Treasury for fundamental pension taxation reform including the scrapping of the tapered annual allowance and a review of how the annual allowance is calculated, particularly for those who are members of more than one NHS pension scheme

However whilst these mitigations will offer temporary stability, the long term solutions lie with the Treasury.

# Homework

- Local Policy – 10 Trusts currently have policies to allow for the retention of employers contributions for those who opt out of the NHS Pension scheme due to AA/LTA.
- Available on BMA Website & LNC Chairs Hub
- Table this at every available opportunity!
- NHS Employers have a briefing paper on this, which has been sent to trusts.



# More Homework

## Education

A detailed set of slides is being made available to all LNC Chairs today, with detailed commentary included on the notes to slides.

A recorded version of the slides, with accompanying voice over, will be made available to all members over the next few days

# Thankyou

Acknowledgments

Dr Vishal Sharma,

Deputy Co-Chair (Negotiations) UK Consultants Committee

Dr Tony Goldstone

BMA National Clinician Advisor on Pay and Pensions

