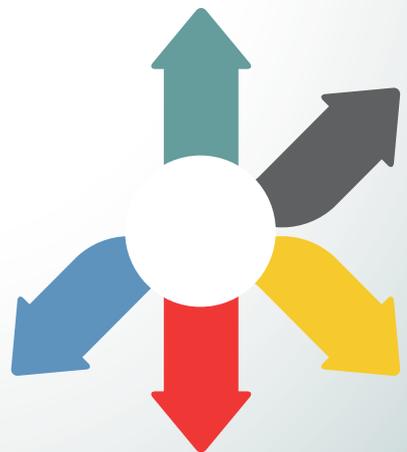


NAVIGATING THE PENSIONS MAZE

An HCSA guide for hospital doctors





ST. JAMES'S PLACE
WEALTH MANAGEMENT

Wham. Bam. Taxman.

Don't let it happen to your pension.

You've been sensibly saving for a deserved retirement.
The last thing you deserve is a shocking tax bill.

We understand the unique issues confronting healthcare professionals like you in the NHS, as you head towards eventual retirement. All you have to do is respond to find out how Stuart and team can help you avoid a large unexpected tax bill.

The levels and bases of taxation and reliefs from taxation, can change at any time.
The value of any tax relief depends on individual circumstances.

STUART DAVIES WEALTH CONSULTANCY LTD
Partner Practice of St. James's Place Wealth Management

Call: 07794 049 608 | Email: Stuart.Davies@sjpp.co.uk
Explore: www.stuardavieswealthconsultancy.co.uk

The Partner Practice is an Appointed Representative of and represents only St. James's Place Wealth Management plc (which is authorised and regulated by the Financial Conduct Authority) for the purpose of advising solely on the Group's wealth management products and services, more details of which are set out on the Group's website www.sjpp.co.uk/about-st-james-place/our-business/our-products-and-services. The 'St. James's Place Partnership' and the titles 'Partner' and 'Partner Practice' are marketing terms used to describe St. James's Place representatives.

PENSIONS: What you need to know

ABOUT HCSA

HCSA is a nationally recognised professional association and trade union representing all grades of post-graduate hospital doctors, from Foundation to Consultant.

We are a democratic, doctor-led organisation supported by a team of specialists in labour law and NHS policy to ensure personalised advice and support for members who face problems at work.

Our professional team works closely with members locally to act as a watchdog over policy, while at national level we are recognised in England to take part in negotiations on terms and conditions affecting all hospital doctor grades.

We believe that the direction of 21st century health services requires hospital doctors to have their own dedicated voice to protect and assist the profession in providing safe, excellent patient care.

Many of our most experienced doctors risk falling foul of the current Pensions Taxation system. Junior Doctors should also be aware of the issues they could face later in their career, and the changes and issues involved.

Two aspects are impacting on hospital doctors: the annual allowance and the tax taper mechanism within it, and the lifetime allowance.

The way growth is calculated within NHS pensions means that an annual allowance breach, triggering a bill from HMRC for repayment of relief, is almost inevitable at some point for full-time consultants. Many will also hit their lifetime tax relief ceiling (£1.055 million in 2019/20).

If you earn enough to trigger the “taper,” which reduces the size of contributions you can make

each year which qualify for tax relief, then you run an even higher risk of breaching your annual allowance and triggering a demand for repayment of tax relief.

What’s more, since it can be hard to precisely predict how much you will earn in a given year, and in particular precisely how much your NHS pension growth will be, hospital doctors are being left in a position where they only find out they face a bill after the tax year has ended. By this time it is too late to avoid a bill, and one which will be due within a few months.

Understandably, many are taking drastic steps in a bid to head off any unwelcome surprises.

This is why HCSA and others are working hard to change the system.

For the majority of doctors, the figure of £110,000 is key.

If what is known as your “threshold income”



OVERVIEW

(essentially your total taxable income from all sources less a handful of HMRC-permitted deductions) is going to reach over £110,000 in a tax year, you face a higher risk of receiving a reduced annual allowance and therefore that your pension growth may breach your annual allowance.

Even if you do not earn £110,000, but instead have received a rise in pensionable pay – for instance when going from part time to full time or receiving a salary increase – you may risk breaching the full £40,000 allowance for tax relief. This is because the “growth” in your NHS Pension may increase substantially once it is run through the relevant multipliers used to calculate your retirement benefits. It is therefore worth getting your situation checked out by an expert if you are concerned.

Those whose “threshold income” is over £110,000 must make a further calculation to find their “adjusted income”.

If your “adjusted income” exceeds £150,000, the amount of tax relief your pensions contributions attract begins to “taper” off, at a rate of £1 for every £2 above £150,000. That can mean that the £40,000 maximum tax relief quickly disappears, hitting the floor of £10,000 once adjusted income reaches £210,000.

Crucially, for hospital doctors, the way growth of the various NHS pension schemes is calculated can mean very big “on paper” increases in pension value if your situation changes – and it is this that can trigger HMRC bills.



HOW THE TAPER WORKS

The full Annual Allowance eligible for tax relief is £40,000. However, if an individual’s “threshold income” exceeds £110,000, and subsequently their “adjusted income” exceeds £150,000, their pensions contribution qualifying for tax relief falls by £1 for every £2 in excess. Here are some broad examples (your own annual allowance would relate to your precise adjusted income):

ADJUSTED INCOME	ANNUAL ALLOWANCE
£150,000	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000+	£10,000

It is the responsibility of the individual to report any breach, and HMRC then issues a bill for repayment of relief.

Since this pension growth is included when calculating “adjusted income” it is quite easy for this figure to exceed £150,000.

It is estimated that at least a third of Consultants are affected by the taper. What’s more, particularly if you have other retirement incomes, you may not even know that you have breached the limit.

Crucially, it is the individual’s legal responsibility to tell HMRC if you have exceeded your annual pensions tax relief allowance, not the other way around.

Faced with this situation, many within the profession are taking matters into their own hands, seeking to cut down on PAs, reducing additional commitments, rejecting additional responsibilities, or retiring altogether.

Still others are using “self-help” pensions calculators and guidelines in a bid to predict their position, and as a result are taking drastic and potentially inappropriate steps such as pulling out of the NHS Pension scheme altogether.

This confused picture is not helped by the inexperience of many accountants and

non-specialist financial advisors.

The impact and choices vary widely between individual hospital doctors. HCSA is receiving mounting queries from confused members. However, we are unable to give financial advice or recommendations.

If you are concerned you may be impacted by the tapering or annual allowance, there is no substitute for expert advice from NHS Pensions specialists to assist you to navigate the maze.

This guide is designed as a brief overview of the current situation facing hospital doctors. No part of it is intended to constitute financial advice.

FOUR FIGURES TO WATCH:

£110,000

The income threshold which triggers the taper test

£150,000

The adjusted income threshold which triggers the taper

£40,000

The maximum annual allowance for pension contributions that attract tax relief, if the taper does not apply

£10,000

The lowest annual allowance available due to tapering, applicable to those whose adjusted income is over £210,000



FREQUENTLY ASKED QUESTIONS

Assistance navigating the pensions maze

We answer some important questions you should be aware of...

If my 'threshold income' is below £110,000, am I safe?

Your annual allowance won't be tapered, but... in certain circumstances people may still owe HMRC even if their allowance is not subject to tapering. If you have received a pay rise, promotion, or are working additional hours, for instance, this may still trigger a significant rise in the value of your pension calculation. This list is not definitive. If a doctor's calculated pension growth across all their retirement schemes (NHS and any private schemes) exceeds the £40,000 cap for pensions tax relief, they would face an HMRC bill.

How do I know if I have exceeded my tax relief allowance and face a bill?

If you are not subject to the taper, and you are only paying into NHS pension schemes (1995/2008, 2015 or both) then you should receive a pension savings statement when your total growth exceeds £40,000.

If you are subject to the taper, currently you will not receive an automatic statement unless your pensions growth exceeds

£40,000. This means that if, say, a doctor's pensions relief allowance was tapered to £20,000, and their pensions growth was £38,000, they would not receive an automatic statement from the pension scheme.

NHS Business Services says that statements should be sent to you by 6th October following the tax year, provided it has received the correct information from your employer(s) by 6th July (otherwise three months after it has received the correct information).

Note: NHS Pensions and its equivalents in the other nations can only see the value of the pensions contributions you make to its schemes. If you have retirement savings elsewhere, such as private pensions, AVCs etc, this could mean you are not alerted when growth across all your schemes exceeds the maximum allowance.

Is there any way to reduce the pain of an unexpected bill?

The main mechanism available to NHS Pension scheme members to offset big tax relief repayment demands is called "Scheme Pays."

KNOW YOUR 'INPUTS'

WHAT IS THRESHOLD INCOME?

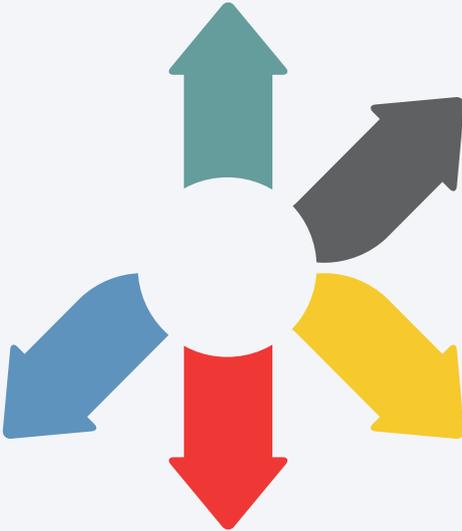
Essentially your total taxable income from all sources – including rental, investment etc – less certain permitted tax reliefs. You must include the value of any salary sacrifice schemes which began after August 2015 for this calculation. You cannot use Gift Aid contributions to “reduce” your threshold income figure.

WHAT IS ADJUSTED INCOME?

This is your total taxable income from all sources, less certain tax reliefs, plus pension “growth”, (this is known as “the pension input amount”). Multipliers used to calculate growth within the defined benefit NHS pension schemes mean that this figure can be surprisingly large. Pay rises, promotions and increased hours are some things which could lead to significant leaps in “growth”.

PENSION INPUT AMOUNT (ANNUAL PENSION ‘GROWTH’)

The rise in value across all of your pensions at the start and end of the year. For NHS pensions, both figures are calculated using a formula which produces a projection of gross pensionable salary. This is multiplied by 16 for members of the 2008 and 2015 schemes, and 19 times for members of the 1995 scheme. The starting value only is increased by CPI as it stood the previous September. The formula means relatively small pay increases can balloon into breaches of the annual allowance, especially if you are subject to the taper.



To use this facility to pay some or all of such a charge, you must complete the relevant form and return it to NHS Pensions by 31st July in the calendar year after the relevant tax year (eg July 2019 for 2017-18).

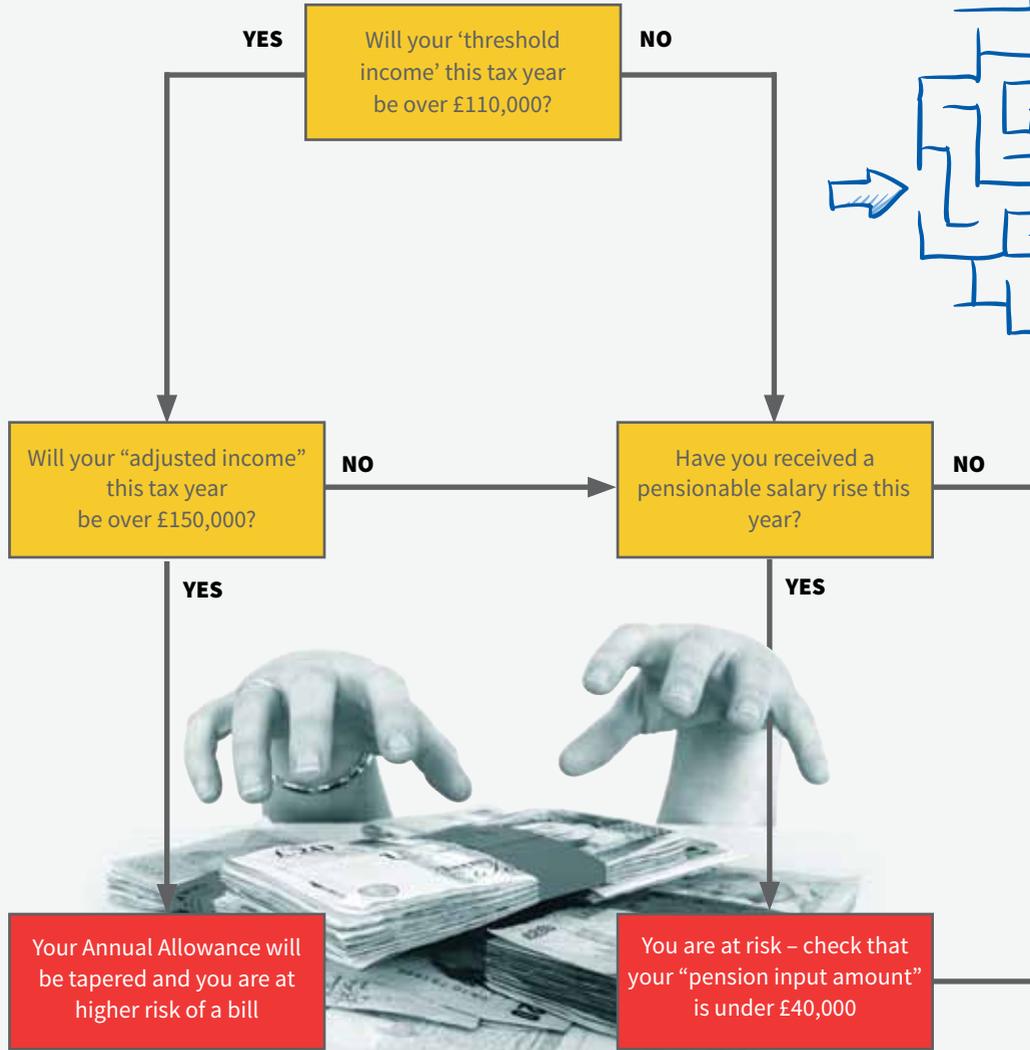
Scheme Pays means that your tax bills, plus interest, are deducted from your final NHS pension benefits – reducing the value of your pension.

What options are available to me to avoid a charge in the first place?

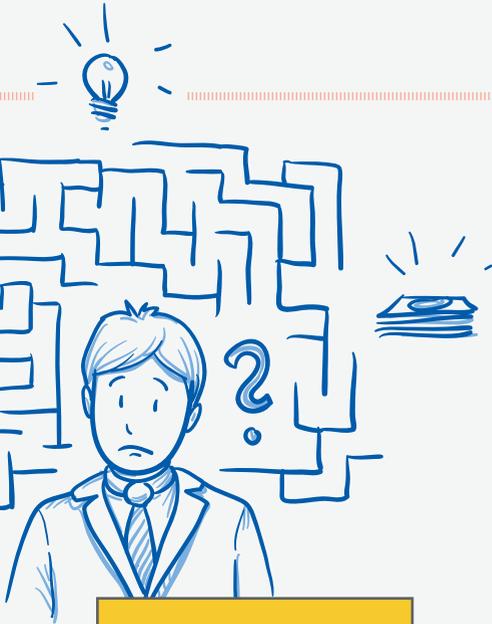
There are two main strands hospital doctors have been using. First, to actively reduce income and work or responsibilities to avoid hitting the £110,000 “threshold income” barrier. Second, to reduce the amount they pay into their pension scheme

CONTINUED ON PAGE 10 ➡

THE ANNUAL PENSIONS MAZE



THE ANNUAL PENSIONS MAZE

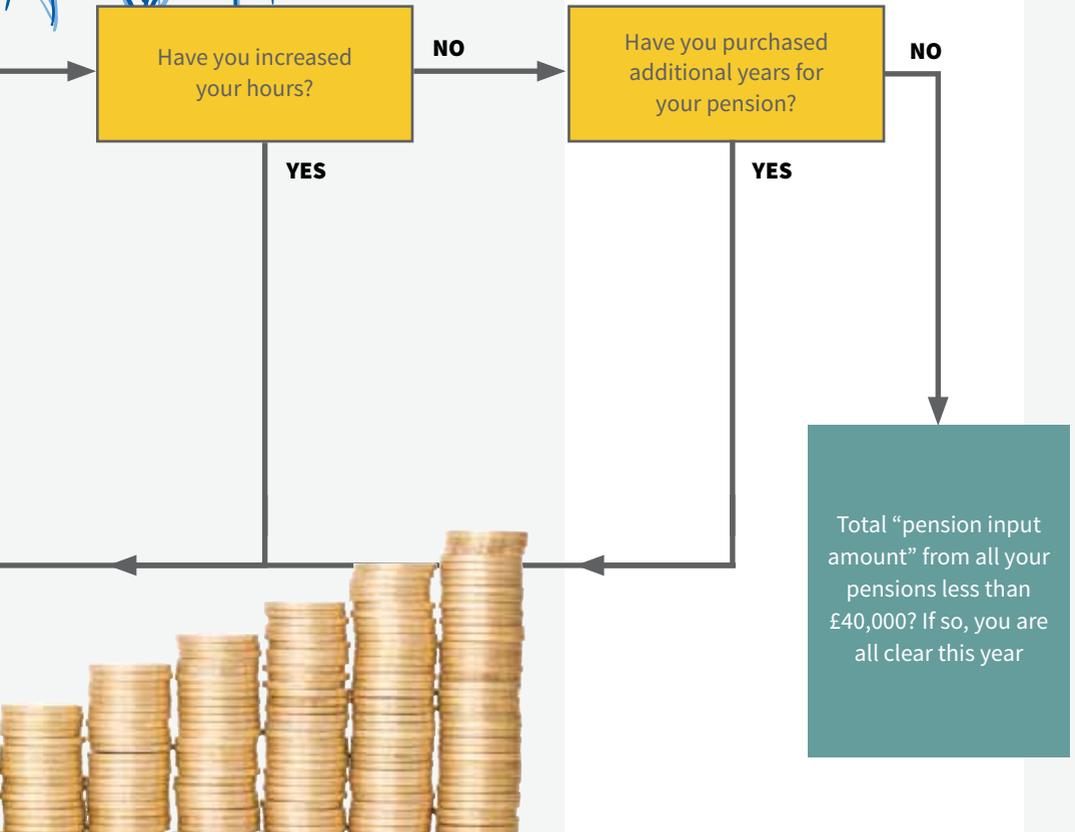


JARGON-BUSTER

Threshold income: Your gross salary less permissible tax reliefs (not Gift Aid)

Adjusted income: Your gross salary less permissible tax reliefs, plus the calculated “growth” of all your pensions over the year – this is called the “pension input amount”

Annual Allowance: The maximum you can claim tax relief on in a year – starts at £40,000 but tapers at a rate in £1 for every £2 above £150,000 of adjusted income.



FREQUENTLY ASKED QUESTIONS

➔ CONTINUED FROM PAGE 8

by withdrawing for part of the year, or withdrawing from the scheme altogether. One consideration here is that generous in-work benefits such as death-in-service benefits and others tied to the pension scheme would be forfeited at the same time.

Some individual hospital doctors have negotiated deals with employers locally whereby they cease to contribute to the NHS Pension scheme and instead receive the employer contribution to their pension as a salary. However, this is not being supporting as a policy by national employer bodies, and would increase your pay for “threshold income” purposes.

If you are considering taking this step, it is essential to gain a full picture from a specialist NHS pension expert of the implications before doing so. HCSA is unable to offer financial advice of any type, so, as with other measures such as use of scheme pays, cannot advise whether doing so would be in your best interests.

Issues around the taper and allowances should not detract from the fact that the schemes are generally some of the most generous around, and any decision to pull out should be considered carefully based on individual circumstances.

Will I definitely face a tax charge if my pensions input amount exceeds my tax free allowance?

No – because you may have unused allowances from the three previous years that

you can offset against this year’s excess. That’s why it is essential to seek specialist independent pensions advice.

What do I do if I think I have exceeded my tax allowance?

NHS Pensions makes clear that it is the scheme member’s responsibility to establish and calculate any annual allowance charge, and to tell HMRC about it in your tax return.

What about Lifetime Allowance?

The lifetime limit on pension contributions which attract tax relief for the 2019-20 tax year is £1.055m, a figure which is currently increasing by CPI inflation on a yearly basis.

When you retire, it is at this point that your pension is “crystallised”.

Your accumulated pension rights will be crunched through a formula and if the total calculation exceeds the LTA then the excess is “taxed” by reducing the value of your pension.

Further advice

Both the NHS pensions scheme website and the HMRC website contain resources on these issues, but the use of an independent expert in NHS pensions is advised

BENTLEY

Independent Financial Advisers

Specialist knowledge and experience to help medical professionals...

We are independent financial advisers with the specialist knowledge and experience to help medical professionals with their complex financial needs and circumstances – from calculating a tapered annual allowance to protecting against a lifetime allowance tax charge.

Whether or not you are part of the NHS pension scheme, we can help you plan for retirement. We can forecast how much money you'll need to achieve your retirement goals, and whether you're on track. If there is a shortfall, we could recommend other ways to get back on track – from postponing

retirement a few years to making additional savings in a personal pension or creating an investment strategy that puts your money to work for you.

We help many medical professionals to structure their finances tax-efficiently and take advantage of all of the available tax allowances. This could include simple options such as paying into an ISA and making the most of a spouse's tax allowances, or more complex tax-efficient investments. We also specialise in helping medical professionals manage NHS pension tax charges.

01746 767682 | clenton@bentleyifa.com | bentleyifa.com

Bentley IFA, Waterloo House, Castle Terrace, Bridgnorth, Shropshire, WV16 4AH

The HCSA position

HCSA is united with other groups in calling for urgent action on the current pension tax regime. We have lobbied MPs and ministers, and are in regular contact with the media in order to maintain the profile of the issue. As a stakeholder in the pension scheme administration in England, we have worked to negotiate greater flexibility for hospital doctors in order to manage their pensions tax liabilities.

However, we believe that an answer which results in doctors forfeiting part of their pay and reward package is no real answer at all.

While providing “topical” relief, HCSA fears that facilities to reduce contributions will make the situation even more complex and difficult to navigate for doctors, and will therefore do little to alleviate the problem.

The biggest issue currently facing hospital doctors and impacting on the NHS – and also the main cause of public interest, which is required to drive a cleaner solution – is the way the thresholds, taper and the annual allowance interact to make additional work effec-

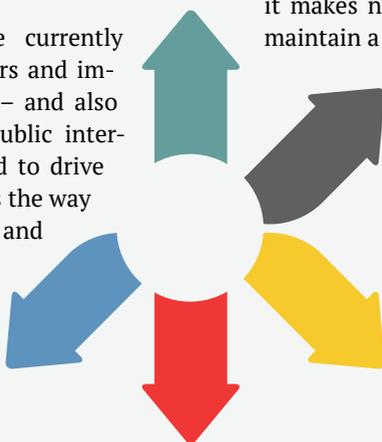


tively unpaid or even a loss maker.

HCSA has described this as a Russian roulette, and really it is the patient and NHS who are the ultimate victims. Given its reliance on hospital doctors working extra shifts to paper over the vacancy gaps, it makes no sense for the NHS, either, to maintain a system which effectively incentivises reductions in workload – a fact not lost on employers and government.

Key problem areas include:

- The “cliff edge” of the £110,000 “threshold income,” which is seeing doctors facing unexpected bills after, for instance, taking



on extra non-pensionable shifts to assist employers

- The similar perverse impact of a normal annual incremental pay step, taking a promotion, career progression, working more PAs or additional responsibilities
- The way additional pensionable pay within a tax year impacts on the calculation of a hospital doctors' "pension input amount", which can trigger sizeable tax bills for breaching annual allowances
- The difficulty of predicting a breach of any thresholds until after the event: leading many hospital doctors to adopt an extra cautious approach to agreeing to additional shifts
- The pension lifetime allowance ceiling, which among other factors is causing some more experienced hospital doctors, and senior NHS managers, to consider the exit.

While some will be content to present limited steps as a solution, we believe that a wholesale package of reform to the current complex pensions tax regime is the best path.

Although it is not the only issue hospital doctors face, the taper is one of the biggest complexities lurking to ambush hospital doctors in the pensions trap. Ultimately it must go.

That is why pressure for change needs to be, and is being, applied on every possible front to ensure the government recognises the perverse impact, but also that it does not replace the current regime with something equally as bad or worse.

What is being proposed to resolve the situation?

National employers and the Department of Health currently view the solution as the introduction of greater flexibilities to pension scheme rules, and have been promoting a so-called "50:50 facility" that would reduce pensions growth, and therefore the risk of breaching allowance thresholds, in return for reduced contributions (and a reduced pension pot).

However, such changes are likely to reduce the overall benefits package for doctors. HCSA believes the answer lies in Treasury action to alter the tax system itself. We argue that relying on greater flexibility will not just leave doctors worse off, but by making things more complex it may do little to actually alter behaviour on the ground and the knock-on impact on services and staffing.

In recognition that this is the current direction of travel HCSA has, however, put forward the position to policy-makers that any flexibilities reducing pension contributions must be in turn accompanied by a facility to pay the equivalent

CONTINUED ➔

WHAT ABOUT SOLUTIONS?

➔ CONTINUED

amount as salary. A range of other suggestions have been floated, with pros and cons:

1. CASH INSTEAD OF PENSION CONTRIBUTIONS

Some hospital doctors who have opted out of their NHS pension scheme have successfully negotiated the ability to have employer contributions paid as salary, allowing them to exit the pensions maze altogether.

HCSA believes that allowing staff to opt out of the pension scheme and receive the value of contributions in cash would be a fair approach, although opting out of the pension scheme would only benefit individual doctors in very specific circumstances and so expert advice is essential before making any decision.

However, while this kind of facility has been seen in a piecemeal way locally, it is not a policy endorsed by NHS Employers nationally. In fact, in a circular to employers, NHSE warned there may be legal implications to making regular non-pensionable payments, and suggested that implementing them could also spark equality claims.

These issues would likely be removed if this became a formal national policy. HCSA has joined others in calling for this facility as a backstop option as part of a pension flexibility approach to easing the issues we are seeing, although we believe it is not the real answer.

2. REDUCED CONTRIBUTION RATES

One flexibility proposal is to introduce a for-

mal facility to NHS staff to voluntarily reduce pensions contributions in a given year in order to avoid charges for breaching Annual Allowance, and to lessen the chance of hitting the Lifetime Allowance threshold on retirement.

A 50:50 option has been proposed where benefits would accrue at half the rate for half the contribution. HCSA is of the view that if such a facility were to be introduced, there should be greater flexibility than this, and that any reduction in contributions from employers should be redirected into the pay packets of hospital doctors.

While a system of reduced contribution rates may allow doctors to avoid some of the tax pitfalls in the system, it would inevitably introduce greater complexity and even with recompense it would reduce the lifetime remuneration and reward package.

It would also not remove the £110,000 income cliff-edge related to the taper, and nor would it end the risk of unpredictable Annual Allowance breaches for those who see increases in pensionable earnings in a given year.

We therefore do not believe that greater flexibility is a real “solution” to the current problems.

3. CAPS ON PENSIONABLE PAY

Another flexibility would be to mirror other schemes which where pension-holders can limit pensionable pay to a certain proportion of their income. Pensions expert Steve Webb notes that in the University Superannuation Scheme (USS), lump sum benefits still remain at the full level, while “each individual can

WHAT ABOUT SOLUTIONS?

choose the cap level that works for them.”

Some have proposed a fixed cap on the level of pensionable pay, but doing so would reduce the overall remuneration package for hospital doctors. Paying the equivalent as salary would go some way to rebalancing this issue.

4. ALLOW DECLINES IN FINAL-SALARY VALUE TO BE OFFSET AGAINST RISES IN 2015 SCHEME

Currently, only increases in pensionable value are taken into account when calculating tax liabilities. There is a facility of “carry forward” where up to three years’ worth of unused allowance can be recycled in future years. However, where a hospital doctor is in both the 1995 and 2008 final-salary pension schemes, and the 2015 career average scheme, and the value of their “rise” falls against inflation – eg because of a below-inflation rise – this is not taken into account. Instead, the growth is simply set to zero. One suggestion is to allow negative rates in one scheme to be offset against the other.

5. DEFER THE TAX YEAR IN WHICH A TAPER IS APPLIED

One proposal put forward is that instead of the taper and annual allowance test affecting the immediate previous tax year, this should be deferred by a year. While this might give more time to prepare to pay a tax bill, and would also give hospital doctors

prior knowledge of their earnings thresholds at the start of the year, allowing them greater control, this does not remove the fundamental issue – that the taper and annual allowance system is at the heart of the problem.

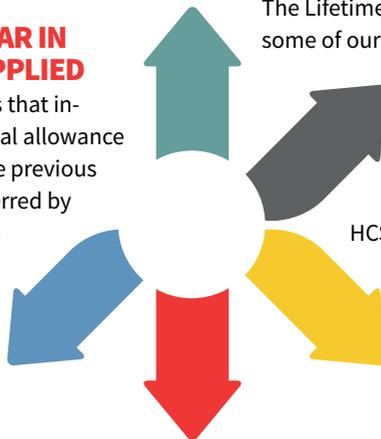
6. ABOLISHING THE TAPER

This is the loudest call from many quarters including HCSA, because abolishing the taper would reduce the chance of a tax ambush and introduce clarity into an eye-wateringly complicated system.

However, its abolition would also cost money, so it is expected that if it were to do so the Treasury would seek to recoup cash elsewhere – for instance by reducing the annual allowance. This in turn would have detrimental consequences.

Yet it remains a central call. Abolishing the taper would mean the pitfalls would be fewer and more predictable. It would not, though, remove all issues facing doctors. The Annual Allowance and the way in which NHS pension scheme growth is calculated would remain problems for many doctors.

The Lifetime Allowance, which is seeing some of our most experienced hospital doctors either retire and return (with associated insecurities and non-standard terms and conditions) would also remain – and HCSA will continue to highlight the issues this is creating in terms of retention and job security.





www.hcsa.com

*The **professional** association and
trade union for all hospital doctors,
from Foundation to Consultant*



1 Kingsclere Road,
Overton,
Basingstoke,
Hants,
RG25 3JA



01256 771777



conspec@hcsa.com



@HCSANews



/Hospital
Consultants
AndSpecialists