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Fact Sheet No.50 !

GPs & The NHS Pension

How to make it work for you

Four important questions that GPs must find answers to



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WARNING - This factsheet does not constitute advice and you should consult a financial adviser prior to any action. Your individual circumstances will significantly alter the advice you require; in particular, we have found the interaction of the NHS scheme with people's future retirement cannot be generalised. The following points are merely to make sure you look into these and seek professional advice.

GPs & The NHS Pension

How to make it work for you

Four Important Questions for GPs. Do you know the answers to the following?

1. **Retirement date** - Could I take my NHS Pension sooner?
2. **Pension Lifetime Allowance** - Can I avoid or reduce the tax charge?
3. **Contributions** - Should I stop participating in my NHS Pension?
4. **Tax bill** - Can I reduce my tax bill?

NOTE - Read three case studies of how Montgomery Charles help GPs with issues surrounding their NHS Pension by visiting the Montgomery Charles website: www.montgomerycharles.co.uk/factsheets

Directions for use: This guide will explain how to identify the warning signs surrounding your NHS Pension and point you in the right direction to diagnose these symptoms for a healthy retirement. You should read this factsheet and contact a specialist Financial Planner before taking action.

Retirement Date - Does it tie-in with my NHS Pension scheme?

When can I receive my NHS Pension?

The Normal Pension Ages (NPA) for each scheme are as follows:

- 1995 – 60 years old
- 2008 – 65 years old
- 2015 – State Pension Age

Can I retire before my Normal Pension Age?

Yes. You have two options:

1. Take early retirement = will incur a reduction to your NHS Pension
2. Become a deferred member of the NHS Pension scheme = stop paying in and use alternative sources of income until you reach your NHS Normal Pension Age.

What if I am a member of more than one scheme?

When the 2015 scheme was introduced a large number of members were automatically moved to this new scheme. Benefits accrued in either the 1995 or 2008 scheme became 'preserved rights' and are treated separately at retirement.

Members of both the 1995 and 2015 scheme:

- can take their 1995 benefits at age 60 but,
- cannot accrue further benefits in the 2015 scheme.

Members of both the 2008 and 2015 scheme:

- can take their 2008 benefits at age 65 (or earlier with reduction) and,

- provided they meet NHS requirements, can remain an active member of the 2015 scheme. This means they can receive 2008 pension payments whilst still working and adding to their 2015 pension benefits.

Pension Lifetime Allowance - Are my pension savings going to exceed the lifetime allowance (LTA)?

What is the LTA?

The lifetime allowance (LTA) is the maximum you can contribute to your pensions collectively over your lifetime and still receive tax relief.

Unless you have arranged Pension Protection, the LTA for pension savings currently stands at £1m per person.

Will I exceed the LTA?

At retirement your NHS Pension is given a 'capital value' for LTA purposes; which is 20 times your annual pension income plus any tax free lump sum entitlement.

CAUTION - You will meet the £1m LTA threshold if you retire with an annual pension above:

- £43,478 in the 1995 scheme
- £50,000 in the 2008 or 2015 scheme

WARNING - Benefits that exceed the LTA will be subject to an additional tax charge.

Excess benefits paid to you as:

An income will suffer a 25% tax charge at outset (and then be subject to income tax at your marginal rate in the usual way);

A lump sum will be charged at 55%.

What are the consequences of exceeding the LTA?

The NHS calculates and pays the 25% charge to HMRC directly. They recover this tax charge by reducing your annual pension income entitlement. The amount your pension is reduced by is based on a factor specific to your age and scheme. More information about the lifetime allowance charge at: <http://bit.ly/2d1p3hR> (NHS, 2016).

For example, Dr Green is a member of the 1995 scheme and is taking his NHS Pension at age 60. His benefits exceed the LTA by £200,000, a LTA charge of £50,000 is therefore payable to HMRC, by the NHS. This is recovered by reducing Dr Green's pension income by the LTA charge divided by a factor of 20.6 i.e. his annual pension income will be reduced by £2,427.18.



Are you a GP in need of specialist pension advice? Simply call Montgomery Charles on 01225 777999

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Is there any lifetime allowance (LTA) protection available for me?

Yes. The LTA dropped from £1.5m to £1.25m on 5th April 2014 and dropped again from £1.25m to £1m on 5th April 2016. On both occasions transitional protection became available in some circumstances:

Individual Protection 2014

This gives you a protected LTA equal to the total value of your pension savings as at 5th April 2014, provided this was higher than £1.25m.

NOTE - You have until 5th April 2017 to apply for this protection.

Individual Protection 2016

This gives you a protected LTA equal to the total value of your pension savings as at 5th April 2016, provided they were higher than £1m.

The other protections available were Fixed Protection 2014 and Fixed Protection 2016. To be eligible you would have needed to become a deferred member (not paying in / opted out) of the NHS Pension prior to 5th April 2014 and 2016 respectively, which may not have been appropriate for you.

How can I reduce or mitigate my lifetime allowance charge?

Commutation of benefits - At retirement you can choose to exchange some of your annual pension for a tax free lump sum, up to a certain limit. Specifically, for every £1 of income sacrificed, you receive a tax free cash entitlement of £12. This will lower the capital value of your NHS benefits thus reducing your tax charge.

Take early retirement - If you take your NHS Pension before your normal pension age, your benefits will be reduced by a pre-determined factor. The reduced figure is assessed against the LTA, reducing your exposure to a charge.

CAUTION - It is important to ensure that mitigating a LTA charge is not at the detriment of your long term income requirements.

Become a deferred member or cease additional benefits (i.e. added years or additional pension)

If you are already close to your LTA and have accrued sufficient retirement provision to meet your income requirements it may be worth considering whether you should cease future accrual of benefits (stop paying in) either now or as you approach your retirement.

If you are currently paying towards additional benefits then, rather than opting out completely, it may be in your interests to stop the additional benefit contributions only.

WARNING - You may be paying towards something that you will not receive the full benefit of!

Contributions - Will you be heavily taxed if you continue contributing to your NHS Pension?

Is there a limit to how much I can contribute and receive tax relief?

CAUTION - The annual allowance for pensions is currently £40,000. This restricts the amount of tax relief you are entitled to receive on your 'pension input' in any one year.

The Tapered Annual Allowance - From April 2016 further restrictions were introduced for high earners:

WARNING - The Tapered Annual Allowance could reduce your allowance to just £10,000.

Specifically, if your taxable income is over £110,000 you may be subject to reduced tax relief on your deemed pension contributions. Where your taxable income, plus deemed pension input (see below), exceeds £150,000 then for every £2 of income over £150,000 your annual allowance is reduced by £1, until you reach the minimum allowance of £10,000.

What is my deemed pension input?

Pension input is the measure of how much an individual's pension savings have grown by. Therefore, although you are making contributions to your NHS Pension this does not correlate to the increase in your benefits. Instead, the value of your benefits at the start of the year are deducted from the value at the end of the year. The difference, after taking into account any increase caused by inflation, is your pension input. This complicated calculation can be found on your annual allowance pension savings statement.

Doctors can now access this information online via Total Rewards Statement:

<https://www.totalrewardstatements.nhs.uk/login>

What are the consequences of exceeding the annual allowance?

Any pension input (deemed value) which exceeds the annual allowance is subject to a tax charge. The excess is added to your other taxable income for the relevant tax year and, depending on which tax bracket it falls into, is liable to income tax at your marginal rate.



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Do I need to be concerned? Do my circumstances match those typical of someone who will suffer additional charges?

Ask yourself these three questions:

- Is your annual pension greater than £43,478 or £50,000 or likely to be at retirement?
- Is your taxable income above £110,000?
- Are you purchasing added years or additional pension?

If your symptoms match at least one of the above, seek advice on your NHS Pension from a specialist NHS independent financial adviser.

The information provided in this factsheet is based on our current interpretation of the NHS Scheme Guidance and the rules and guidance applicable to final salary pension schemes.

Factsheet valid as at September 2016 please check for updates that will be published regularly on the Montgomery Charles Website:

www.montgomerycharles.co.uk/factsheets

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In summary, if you are unable to answer the four important questions for GPs, seeking financial advice will help you identify any additional tax charges you may not be aware of. A specialist financial adviser can assist you by taking measures to reduce tax where possible whilst making sure your NHS Pension works for you.

Are you a GP?

For specialist advice on the NHS Pension call Montgomery Charles Financial Management Ltd and find out how we could help you:

01225 777 999

References

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2. KPMG. (2016). An NHS employers guide to Annual and Lifetime Allowances: <http://bit.ly/2dDUGOI>
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