

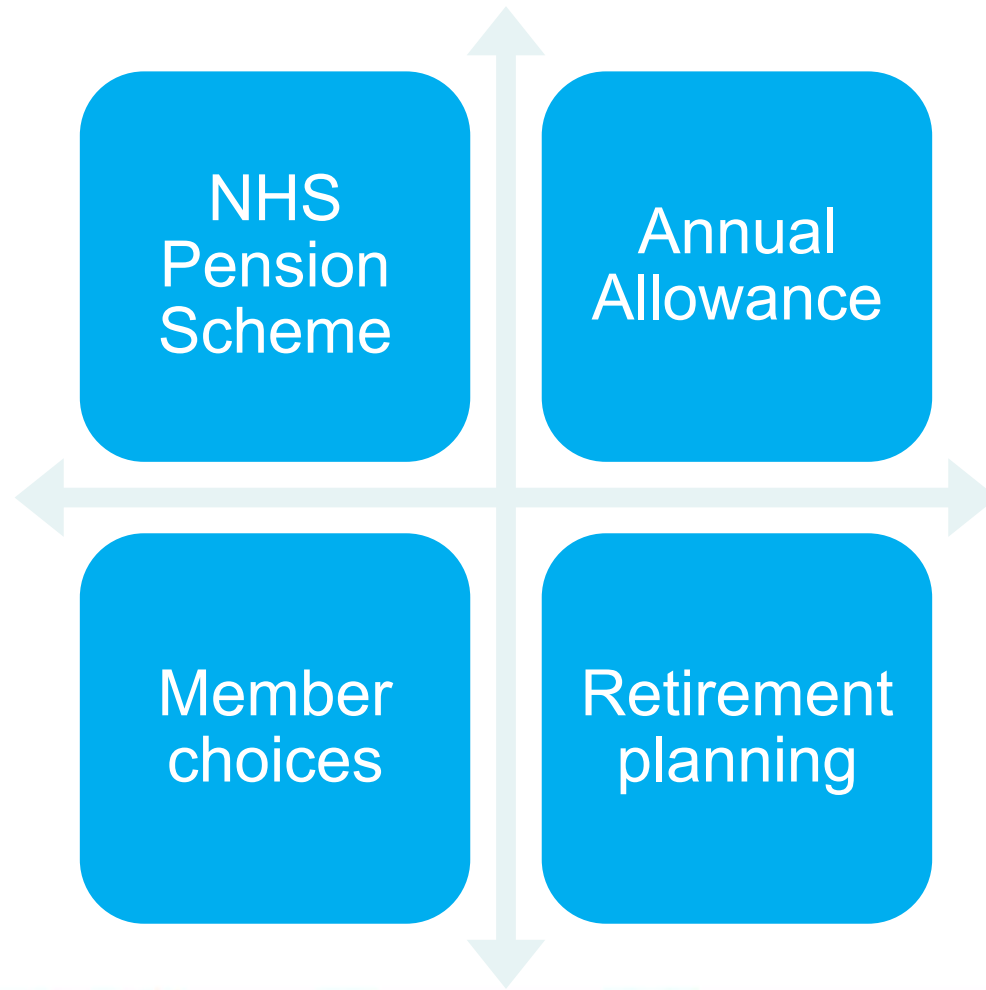
# NHS Pension Scheme Planning How Changes Affect Retirement Planning

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19 November 2014



# Planning retirement

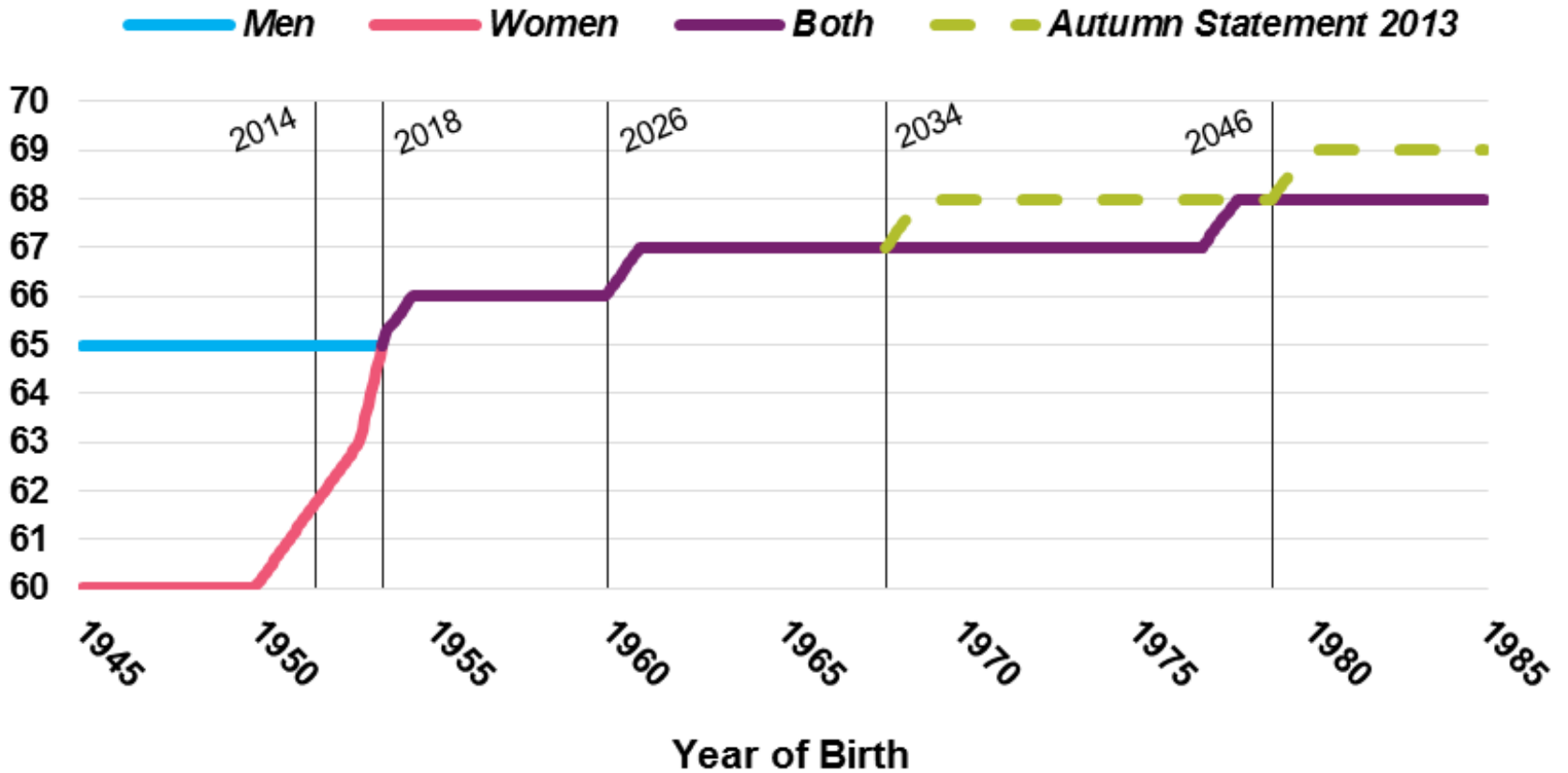


# Overview of NHSPS benefits

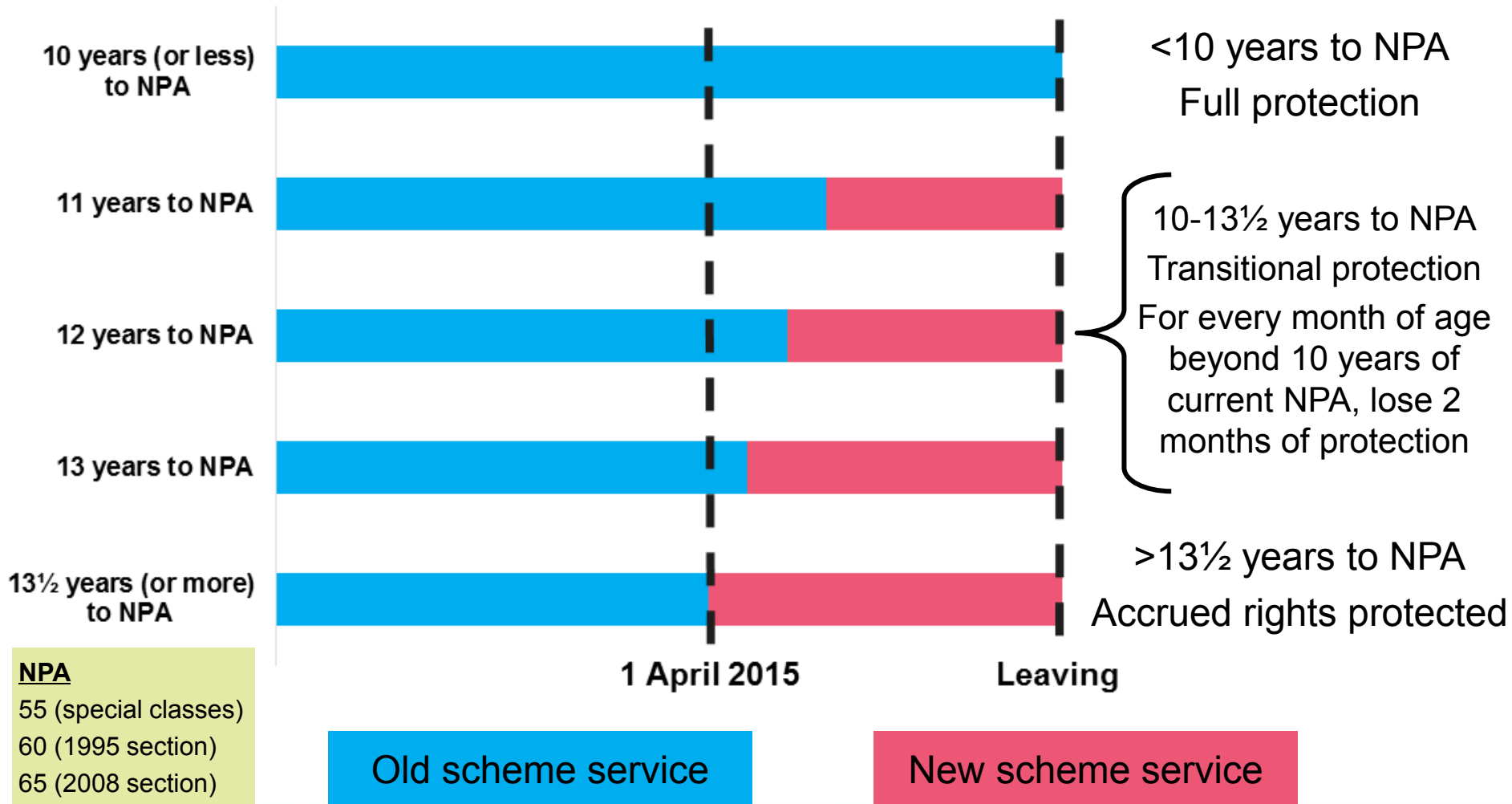
Section/Scheme	Structure	Accrual	Normal Pension Age	Indexation in active service
<b>1995 Section</b>	Final Salary	1/80 <sup>th</sup> pension + 3/80 <sup>th</sup> cash	60	'Final Salary'
<b>2008 Section</b>	Final Salary	1/60 <sup>th</sup>	65	'Final Salary'
<b>2015 Scheme</b>	CARE	1/54 <sup>th</sup>	State Pension Age	CPI + 1.5%

**2008 and 2015:** Exchange pension for cash on retirement  
£12 cash for £1 annual pension

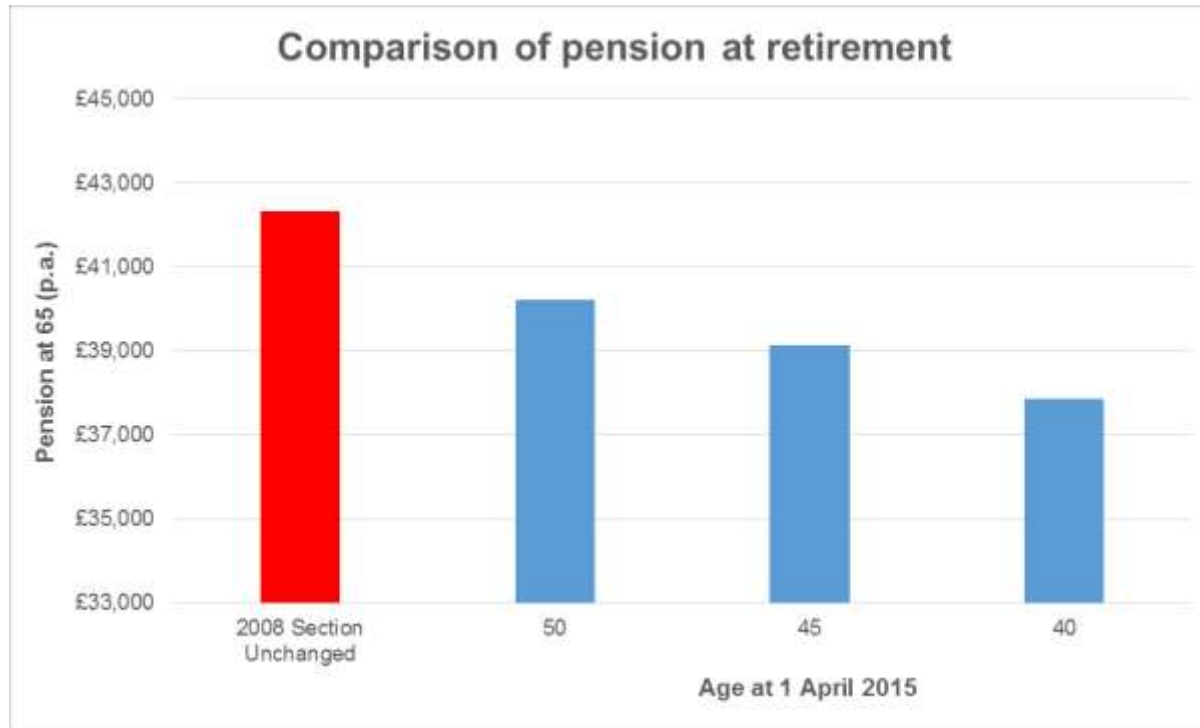
# State Pension Age



# NHSPS Transitional Protection



# Impact of the new scheme



**Calculators** for estimating future benefits and seeing changes to benefits under the new scheme can be found at:

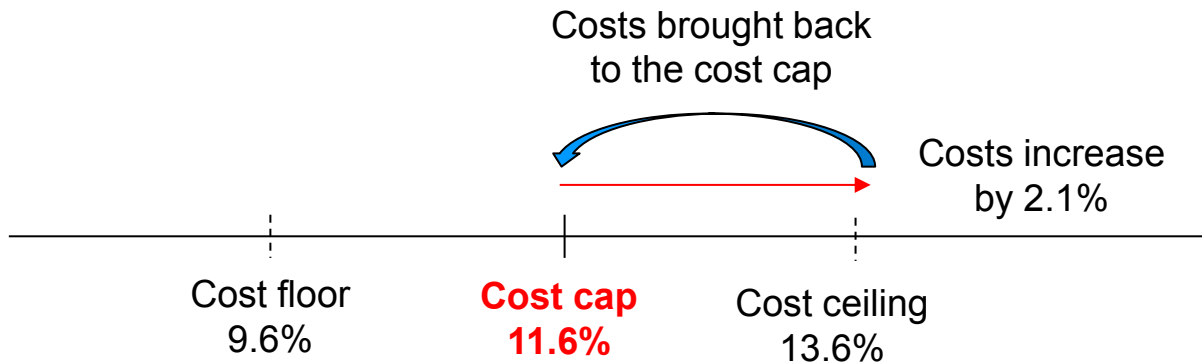
<https://www.gov.uk/government/news/new-nhs-pension-scheme-calculators-published>

# Tiered Member Contribution Rates

Tier	In force 2014/15		Draft regulations 2015/16 to 2018/19		Long term
	Whole-Time Equivalent Pensionable Earnings	Rate	Whole-Time Equivalent Pensionable Pay	Rate	2019/20 onwards
1	£0 to £15,431	5.0%	£0 to £15,431	5.0%	?
2	£15,432 to £21,387	5.6%	£15,432 to <b>£21,477</b>	5.6%	
3	£21,388 to £26,823	7.1%	<b>£21,478</b> to £26,823	7.1%	
4	£26,824 to £49,472	9.3%	£26,824 to <b>£47,845</b>	9.3%	
5	£49,473 to £70,630	12.5%	<b>£47,846</b> to £70,630	12.5%	
6	£70,631 to £111,376	13.5%	£70,631 to £111,376	13.5%	
7	£111,377 and over	14.5%	£111,377 and over	14.5%	

# Employer Cost Cap

- 2012 valuation used to determine employer contribution and cost cap:  
**Employer contribution rate: 14.3%, Employer cost cap: 11.6%**
- Cost cap intended to provide protection to the taxpayer and to cover unforeseen events and trends that significantly increase scheme costs
- Action will be needed if the costs described above breach a 2% margin either side of the cost cap (Scheme Advisory Board to advise)  
e.g. change future benefit accrual and/or member contributions






# Annual Allowance

**A limit on the pension savings an individual can build up in any one year**


- Above which a tax charge may apply
- Covers all contributions to DB and DC schemes
- Unused allowances from last 3 years can offset future years



2010-2011: **£255,000**

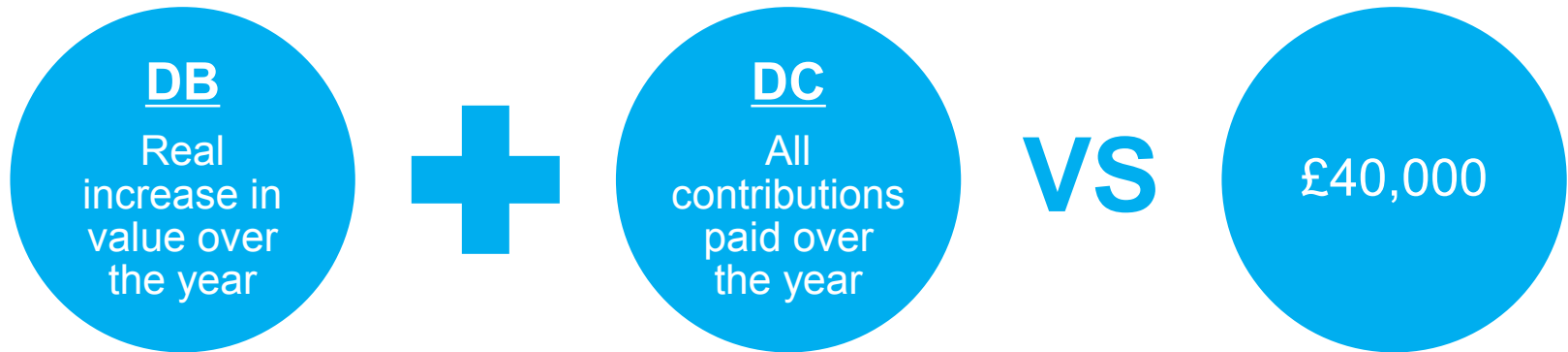


2011-2014: **£50,000**



2014-2015: **£40,000**

# Annual Allowance



## No past service

$$1 / 60 \times \underline{\pounds 150,000} \times 16 = \pounds 40,000$$

## With 20 years' past service & 3% real salary increase

$$(21 \times 1.05 - 20 \times 1.02) / 60 \times \underline{\pounds 91,000} \times 16 = \pounds 40,040$$

# How to pay the Annual Allowance Charge

Taxed at *highest marginal rate* on amount over the Annual Allowance

**SELF-ASSESSMENT  
TAX RETURN**

Via HMRC

**SCHEME PAYS**  
if charge >£2,000

Charge paid at retirement (or if transfers out), interest at CPI + 3% pa  
Member benefits – reduced  
Dependant benefits – unaffected

# 2008 Section: Opting out of protection

**What:** A one-off chance to opt-out of protection

**Who:** 2008 Section members with full or tapered protection (i.e. born before 1 September 1960)

**Why:** 2015 Scheme benefits (1/54<sup>th</sup> accrual, SPA) may be more valuable than 2008 Section benefits (1/60<sup>th</sup> accrual, NPA 65)

**When:** Shortly after 1 April 2015

# 1995 Section: “Choice 2”

**What:** A second chance to transfer all 1995 Section membership to the 2008 Section

**Who:** 1995 Section members with tapered or no protection (i.e. born after 1 April 1962)

**Why:** Transfer to the 2008 Section may now be more attractive because people may retire later, and because if they draw 1995 Section benefits from 60 they won't be able to stay in the 2015 Scheme

**When:** By 16 March 2015

# Options to pay more

## 1. Early retirement reduction buy out

Pay extra to reduce some of the early retirement reduction that would apply on retiring before NPA

## 2. Additional Pension (“AP”)

Buy more pension in multiples of £250 per year

## 3. Additional Voluntary Contributions (AVCs)

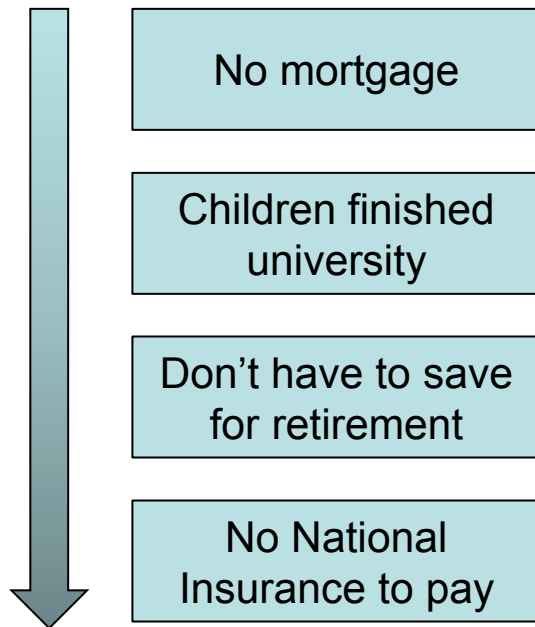
Pay extra into a money purchase fund

# Planning for retirement

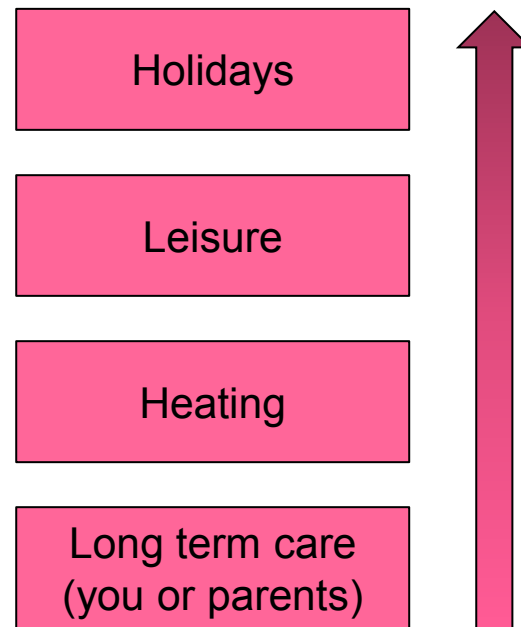
## Having enough money to stop working

- How much will you need? 50% to 75% of your current salary?
- What is right for you? Think this through with your partner?

### Spending might reduce



### Spending might increase



# Planning for retirement

## What money are you building up?

<b>NHS Pension Scheme</b>	1995 / 2008 / 2015 benefits
<b>AP and AVCs</b>	Extra pension and/or extra DC
<b>State pensions</b>	Single Tier Pension from April 2016 Worth around £7,500 per year
<b>Other pensions</b>	From previous employments Personal pensions
<b>Other savings</b>	Shares, cash savings, ISAs
<b>Other sources</b>	Inheritance, buy-to-let, own home

How does this affect the choices members make?



# Questions

