

# Understanding pensions for GPs

Wednesday 16 June 2021, 19.00-21.00

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[www.mshealth.co.uk](http://www.mshealth.co.uk)

# PENSION CONSIDERATIONS

*16<sup>th</sup> June 2021*

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# MOORE SCARROTT HEALTHCARE

- **Rob Glentworth and Chris Clark – associate directors**
- **We deal solely with medical professionals**
- **Over 2 decades' combined experience of dealing with the sector**
- **Particular interest in the pension scheme and assisting doctors through this maze**
- **National client base**

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## LEARNING OBJECTIVES

- Understanding the different schemes and how the contributions translate to growth
- McCloud judgement and its effects
- Annualisation rules and potential pitfalls
- Paying 'right' amount of pension as a salaried GP
- Importance of Type 2 forms
- Checking your pension record
- Tax effects and implications of the pension

## THE DIFFERENT PENSION SCHEMES

- Currently three in place – 1995, 2008 and 2015
- All have different rules
- Practitioner and/or officer membership

## THE 1995 SCHEME

### Practitioner member

- Total career earnings tallied, uplifted for inflation
- Multiplied by 1.4% - this is annual pension
- So for example, £2.5m career earnings, £35k pension

## THE 1995 SCHEME

### Officer member

- 1/80 of final salary
- Multiplied by number of years membership - this is annual pension
- So for example, £100,000 final salary, 28 yrs 56 days membership, £35,187 pension
- Tax free lump sum of three times the annual pension for *both* practitioner and officer members





## THE 1995 SCHEME

Can take pension earlier but there are abatements

*For example*

Age 59 – pension reduction 5%, lump sum 3%

Age 58 – pension reduction 10%, lump sum 7%

All the way down to age 50, pension reduction 37%, lump sum 27%

## THE 2008 SCHEME

### Practitioner member

- Total career earnings tallied, uplifted for inflation
- Multiplied by 1.87% - this is annual pension
- So for example, £2.5m career earnings, £46,750 pension

### Officer member

- 1/60 of final salary (average of best three consecutive years in the ten years before retirement) – multiplied by number of years
- So £100,000 earnings, 28 yrs 56 days = £46,916
- So, is it better.....?

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## THE 2008 SCHEME – THE BUTS

- NO lump sum
- Retirement age of 65
- Very few members changed to this scheme when the ‘choices’ option was given

## THE 2015 SCHEME

- From April 2015
- Automatic transfer for those born after August 1965
- Gradual transfer for those born April 1962 – August 1965
- No requirement to transfer for those born before April 1962
- New rules covering *both* practitioners and officers
- Pension based on 1/54 of pensionable earnings each year
- A number of separate ‘pots’ uplifted each year and tallied to give overall pension

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## THE 2015 SCHEME

- £100,000 earnings –  $1/54 = £1,851$  increase in pension per annum
- So 25 years = £46,275 before any uplift

### BUT...

- No lump sum
- Retirement age is equal to state pension age – so as late as 68 and this could change if SPA increases in the future



## THE 2015 SCHEME

- A number of doctors have transferred to this scheme without fully understanding the implications
- Most people will now have at least two separate scheme memberships
- Older doctors may consider their membership of the newer scheme

## IMPORTANT POINT

# YOUR CONTRIBUTIONS DO NOT TRANSLATE TO THE GROWTH IN YOUR PENSION!

- Contributions do not go into 'your' pot – but fund the scheme as a whole
- Defined benefit scheme rather than a defined contribution scheme



## THE TIERED CONTRIBUTION RATES

0 – £15,431 – 5%

£15,432 – £21,477 – 5.3%

£21,478 – £26,823 – 7.1%

£26,824 – £47,845 – 9.3%

£47,846 – £70,630 – 12.5%

£70,631 – £111,376 – 13.5%

£111,377 and above – 14.5%

- Once you go over a threshold, *all* of your earnings are at the higher rate

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## THE PAY INCREASE PARADOX

Increase in pay can lead to a reduction in net pay!

*Consider this example*

**Salary £46,000**

**Pension £4,278 (at 9.3%)**

**Tax £5,830**

**NIC £4,372**

**Net £31,520**

**Or £2,626 per month**

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## THE PAY INCREASE PARADOX

Increase in salary of £2,000 – so a 4.3% increase – good news?

Salary £48,000

Pension £6,000 (at 12.5%)

Tax £5,886

NIC £4,612

Net £31,502

Or £2,625 per month – so a £1 per month reduction!

Under 2015 scheme, annual addition to pension will increase  
from £852 to £889

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## LOCUM GP PENSIONS

- Locum A and B forms – usually completed monthly for each practice
- Payment then sent to NHS pensions for both employees and employers
- Practice pays locum the employer's contributions of 14.38% - need to reflect this in invoice and make sure this is paid over
- Usually a three month window for pensioning the work
- This has been extended during Covid
- If you do not pension it, then after the window closes you are no longer able to

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## McCLOUD JUDGEMENT

- Age discrimination case brought against pension scheme

### Case was upheld – remedy is as follows:

- *Everyone will be required to join 2015 scheme from April 2022, regardless of age*
- For period April 2015 – April 2022, default position is that contributions will be deemed to be in the older scheme (depending on when they were transferred to 2015 scheme)



## McCLOUD JUDGEMENT

- On retirement, members can make the choice as to whether they wish the default position to take effect, or whether they wish to keep benefits in the newer scheme
- Members may wish to consider their position as at April 2022
- Avoid making contributions for a scheme they cannot access until age 68?
- Will be a nightmare to administer!
- People will have taken decisions based on rules at the time (coming out of scheme etc) – so could be legal challenges

## ANNUALISATION

- Contributions based on pensionable earnings in a year
- Rules have changed in 2015 scheme
- Tier rates based on annual equivalent if you had worked whole year
- Not everyone aware of this!

## ANNUALISATION

### Salaried GP, working six months of the year for £40,000 in total

- Would have paid pension at 9.3% - so £3,720
- Under 2015 scheme rules, will pay based on annual equivalent of £80,000 – so rate will be 13.5%
- Equates to pension of £5,400 on £40,000 – increase of £1,680
- Net pay reduces as a result



## ANNUALISATION

### For locums, the position is difficult

- Rules are based on number of days worked
- If you do not work every day of the year – then you will need to annualise
- This can lead to much higher rates



## ANNUALISATION

Locum working 150 days of the year at £600 per day

- Total is £90,000 – so rate would normally be 13.5%
- But with annualisation -  $£90,000 / 150 \times 365 = £219,000$
- So should use rate of 14.5%!

## ANNUALISATION

Locum working 100 days of the year at £600 per day

- Total is £60,000 – so rate would normally be 12.5%
- But with annualisation -  $£60,000 / 100 \times 365 = £219,000$
- So should use rate of 14.5%!

## ANNUALISATION

### Locum working 50 days of the year at £600 per day

- Total is £30,000 – so rate would normally be 9.3%
- But with annualisation -  $£30,000 / 50 \times 365 = £219,000$
- So should use rate of 14.5%!

## ANNUALISATION

- So should 14.5% always be used? This suggests so!
- Unless you are working every day of the year
- Remember effectively paying more for same result
- BMA have lobbied for a change in this rule
- Incumbent on locum to declare correct rate and pay any shortfall at the year end if they have paid too low a tier rate
- Mechanism for making these payments not totally clear
- We still see many locums using lower rates



## **PAYING CORRECT PENSION AS A SALARIED GP**

- Pension deductions are made by your practice via payroll
- Tier rate needs to take account of all NHS income
- Practice submits estimate of earnings for its GPs at start of year
- Pension then deducted from practice funding each month
- Need to ensure that as the GP you are not paying a wrong amount
- Practice also needs to ensure that the amounts deducted for their GP from their funding is correct



## PAYING CORRECT PENSION AS A SALARIED GP

- Accountants may assist practice managers in ensuring the position is correct for their GPs
- Vital that the GP keeps practice informed of their overall earnings for the correct rate to be used
- As a practitioner member, you must pension all NHS income; you cannot pick and choose
- If there are discrepancies, what then?

## TYPE 2 PENSION FORMS

- Return to NHS pensions annually setting out earnings and pension paid on them to date
- If you have paid too much, you can get a refund, and vice versa
- Any differences are channeled through the *practice* funding
- Should then be paid over to GP by practice – or collected!
- If you have left the practice, may need to approach them

## TYPE 2 PENSION FORMS

- All salaried GPs need to complete the form annually (by law)
- Pension record may not be updated if you do not complete the form
- Can go back several years and resubmit forms if necessary
- Locums do not have to submit Type 2 forms – covered by A & B forms
- GP partners do a similar type of return (Type 1)
- Vital to make sure record is up to date and resubmit if necessary

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## CHECKING YOUR INDIVIDUAL POSITION

- Vital to regularly check the position and keep it up to date
- Make sure address is up to date and any other changes reflected
- Can request Total Reward Statement – but often incomplete or out of date
- Carefully check details on this statement
- Ensure you keep all information – payslips, P60s, Type 2, A&B forms
- Letter of authority for an agent to deal with your pension



## INCREASING AND ENHANCING PENSION

- Older members had chance to purchase added years contracts – not available now

### Available methods

- Additional pension – can pay monthly or as a lump sum
- ERRBO – can take benefits a year or two early
- All additional contributions are fully tax deductible
- Can also have private provision

## TAX ISSUES OF PENSION

- All contributions totally tax deductible
- Not like 'normal' pensions where tax relief is given a different way and doesn't all translate to your tax bill
- The 'net' position after pension is what you pay tax on
- Has implications when considering child benefit...

## CHILD BENEFIT – DON'T LOSE IT UNNECESSARILY!

- Child benefit is repayable for those with taxable earnings of £60,000 or above
- Part repayable for taxable earnings between £50,000 and £60,000

For a salaried GP earning £60,000, and in the pension scheme:

- Pension at 12.5% - so £7,500 – so *taxable* earnings are £52,500
- So can keep at least part of child benefit – and maybe all if there are work-related expenses





## TAX EFFECTS OF OPTING OUT OF SCHEME

- Pension contributions will be saved, but tax will increase:

Salaried GP earning £40,000, in pension scheme

Salary £40,000

Pension £3,720 (at 9.3%)

Taxable £36,280

Tax £4,742

NIC £3,651

Net £27,887

Monthly £2,324

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## TAX EFFECTS OF OPTING OUT OF SCHEME

### Salaried GP earning £40,000 opted out of pension scheme

Salary £40,000 – all of this is now taxable

Tax £5,486

NIC £3,651

Net £30,863

Monthly £2,572

- So increase of £248 per month
- Even though pension saved is £310 per month (£3,720)
- Exacerbated more if a higher rate taxpayer

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## USE OF LIMITED COMPANIES

- Many doctors use companies for part of their work
- Not NHS pensionable – but is this an issue?
- May have salaried position paying £50,000, and additional locum work
- Locum work could go through company and not drawn out (retain for investment or for retirement) – then only pension the locum work
- Could keep earnings at £50,000 to retain child benefit and keep within basic rate tax – control your income

## LIFETIME ALLOWANCE

- Remember contributions do not correlate with your final pension!
- There is a limit you can save into pensions without tax penalty
- Current limit is £1.073m
- Calculated as 20 x pension plus lump sum for NHS scheme
- Tax charge is taken off of final pension
- Can obtain protection in certain circumstances
- Can 'manipulate' position by altering lump sum

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## HOW YOU CAN ALTER YOUR LTA POSITION

- Can take a higher lump sum at expense of annual pension
- For every £1 pension foregone, can increase lump sum by £12 up to a prescribed maximum
- This will affect the LTA calculations:

### Pension of £48,000 – lump sum £144,000

- $LTA = £48,000 \times 20, \text{ plus } £144,000 = £1.104\text{m}$
- So exceeds threshold – tax charge



## HOW YOU CAN ALTER YOUR LTA POSITION

- Reduce by £4,000 – increase lump sum by £48,000

### Pension of £44,000 – lump sum £192,000

- $LTA = £44,000 \times 20, \text{ plus } £192,000 = £1.072\text{m}$
- So no longer exceeds threshold – no tax charge
- Also gives a larger tax-free lump sum
- May wish to have higher lump sum in any case regardless of tax effects
- Depends on your needs in retirement

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## ANNUAL ALLOWANCE

- Limit on how much pension can grow in a year
- Current limit is £40k and can be 'tapered' to as low as £4k; earnings thresholds for this have increased

### Calculation based on specific HMRC rules:

Pension at start of year x 19 (16 in 2015 scheme), uplifted for CPI, then compared with pension at end of year x 19 or 16)

- If this exceeds threshold, then tax issue



## ANNUAL ALLOWANCE

- Tax charge paid with self-assessment each year – potentially on ‘growth’ you have never seen!
- Tax Information from NHS pensions is usually late and inaccurate
- ‘Scheme pays’ is available; compensation for 2019/20 year
- Thresholds are increasing
- McCloud judgement will change all previous figures!
- Get info annually – TRS, benefits statement



## WHEN CAN YOU RETIRE?

- Pension scheme remains a really good one compared to the general market
- Ultimately this is related to your retirement plans
- Avoid mindset of ‘I can’t retire until...’ – when do you want to retire? Drive the process for what works for you
- Doesn’t need to be in line with ‘normal’ scheme retirement age
- Could defer membership for a time, keep working and take pension at the prescribed time



## WHEN CAN YOU RETIRE?

- Can also take pension and keep working – 24 hour retirement
- ‘Retire’ for a day and return to work – cannot work more than 16 hours per week in the NHS for a month afterwards
- Then no restrictions



## WHEN CAN YOU RETIRE?

- NHS pension needn't be your only retirement plan
- Property, investments, other pensions
- Increasing number of doctors utilise private schemes in addition to or in addition to NHS scheme
- Need to consider tax effects – will affect Annual Allowance calculations
- If deferred member, NHS scheme not included in Annual Allowance considerations



## WHEN CAN YOU RETIRE?

- Consider death in service benefits of NHS pension – but alternatives available?
- Some doctors specifically do not remain in scheme so they can utilise company structures
- All about driving the scheme for what works for you – and not being led by it





## CONCLUSIONS

- Understand the scheme you are in and its implications
- Retain all information to ensure you check your position
- Make sure you are checking the position regularly
- Consider the implications of the McCloud judgement
- Review Annual Allowance and Lifetime Allowance position each year
- Drive the process for what works for you – rather than being led by it



## FURTHER INFORMATION

- Happy to field any queries you may have now or as a follow up
- We work with sessional GPs, practices, partners and all other doctors – and practice managers
- Nationwide coverage

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- Thank you for your time this evening
- A full slideset will be circulated shortly