



Govt under pressure to reform NHS Pension Scheme

Jack Gray investigates the ongoing crisis affecting the NHS as senior staff continue to retire early or scale back their working hours due to pension tax charges

The government is facing continued pressure to address issues in the NHS Pension Scheme and pension tax system that is reportedly leading to high numbers of senior staff retiring early to avoid pension tax bills.

Many high earners in the NHS are choosing not to work additional hours or

are retiring early due to fears of incurring pension tax charges for exceeding the annual allowance (AA). Currently, the standard AA is £40,000.

However, due to the tapered annual allowance, pension savers can see their AA reduced to as little as £4,000.

In the NHS Pension Scheme, pension growth, including employer

contributions, is added to threshold income to get adjusted income.

If a staff member has a threshold income of above £200,000 and their adjusted income is below £240,000, they will be subject to the standard allowance.

However, if their threshold income is above £200,000 and their adjusted income is above £240,000, then their AA will be reduced.

For each £2 that their adjusted income exceeds £240,000, their AA threshold will be reduced by £1, up to a reduction of £36,000.

Therefore, if an NHS staff member's adjusted income exceeds £312,000, then they will have a reduced AA of £4,000 and be likely to incur pension tax charges for exceeding their AA.

A joint survey conducted by the Royal College of Physicians, the Royal College of Physicians of Edinburgh and the Royal College of Physicians and Surgeons of Glasgow in 2019 found that 45 per cent of doctors had decided to

retire earlier than planned, with 86 per cent of those citing pension taxations as their reason why.

It also found that in the previous two years, 38 per cent of clinicians aged 50-65 said they had an AA tax charge due to exceeding their pension threshold.

In early 2020, NHS Providers warned that the issue could see an “exodus of NHS leaders”, with 44 per cent of trust leaders considering leaving the NHS due to the pensions crisis.

According to analysis conducted by Quilter in April 2022, at least 34 per cent of all people who exceeded the AA in 2019/20 were members of the NHS Pension Scheme. Furthermore, NHS Business Services Authority (BSA) data showed that 18,631 GPs had not received their 2019/20 AA statement at the time the statistics Quilter analysed were published, with the firm warning that the final proportion of NHS members exceeding the AA could be higher.

A freedom of information request to the NHS BSA revealed that of the 15,583 NHS pension scheme members that exceeded the standard AA in 2019/20, 10,766 did not use the scheme pays facility.

Scheme pays allows those who have an AA charge to ask NHS Pensions to pay some or all of that charge in return for an appropriate reduction in NHS benefits.

In March 2020, the government increased the earnings threshold for the tapered AA from £110,000 to £200,000. However, in July 2022, the Health and Social Care Committee stated that whilst those in government had suggested that changes to the taper had solved the issue, this was “evidently not the case”, with sources warning the committee that the NHS is “haemorrhaging senior staff” over pension concerns.

The committee described pension tax rules that are exacerbating pressures on the NHS workforce as a “national scandal” and that the NHS and social care sector were facing “the greatest workforce crisis in their history”.

Commenting in response, a

Department of Health and Social Care spokesperson said: “The NHS Pension Scheme is one of the best available, providing generous retirement benefits for hardworking staff after a lifetime of service looking after our nation’s health, and the majority of NHS staff are able to build their pension tax-free.”

“A small number of senior clinicians on the highest wages will exceed their allowances for tax-free pension saving, as is the case in other industries, and we continue to monitor retirement patterns and hours worked by staff.”

“15,583 NHS pension scheme members exceeded the standard annual allowance through the NHS Pension Scheme in 2019/20”

The issue was further highlighted in a freedom of information request from Quilter, which showed that April 2022 saw 8,902 pension awards, compared to 6,932 in April 2021, and while there are several reasons for someone being awarded pension benefits, Quilter noted the most common reason was retirement.

In an attempt to help address the issue, the British Medical Association (BMA) has proposed the introduction of a tax unregistered ‘top up’ scheme, similar to the one the government introduced for judges from April 2022.

Under a tax unregistered scheme, the employee does not receive tax relief on employee pension contributions and, as there is no tax relief in the first place, the pension savings are not tested against the annual or lifetime allowance measures put in place to limit or retrieve tax relief.

A petition was started by an NHS staff member calling for the NHS Pension Scheme to be made tax unregistered, arguing that the tax bills resulting from annual pension growth can leave senior staff choosing to take on less work

to reduce their tax bill. The petition gathered around 11,500 signatures.

“If the government made the scheme tax unregistered then senior staff will surely be more willing to undertake extra clinics, extra operating lists and contribute to the reduction in waiting times, which have grown significantly since the pandemic,” it stated.

“It is perversely punitive that staff who undertake additional sessions can be faced with a tax bill of more than what they earned for those sessions.”

However, in its response, the government stated that a tax unregistered scheme would remove tax relief on pension contributions, “which is a valuable benefit designed to incentivise retirement saving”.

“The annual and lifetime allowances restrict the cost of tax relief and ensure the incentive to save is targeted across society,” the government said.

“The vast majority of NHS Pension Scheme members are able to build their pensions tax free. Therefore, a tax unregistered pension arrangement would not benefit the vast majority of NHS Pension Scheme members, as it would mean that they lose tax relief on their contributions.

“An unregistered scheme would also mean that members lose the benefit of a tax-free lump sum of up to 25 per cent of the value of their pension on retirement.”

In a debate hosted by *Sky News* in early August, Liz Truss, who at the time of writing is one of two candidates, along with Rishi Sunak, fighting to become leader of the Conservative Party and Prime Minister, hinted that she would look to address the problem if she was chosen to lead the party.

In the session, she said that she will “sort out” the issues with senior NHS staff’s pensions and noted that she had met “lots of doctors” who had gone into retirement because of the specific issues around their pensions.

 **Written by Jack Gray**