Welcome news on NHS pension changes

Some much-needed lifting of restrictions and fixes to pension scheme problems are long overdue.

One thing pension savers crave, is certainty, with that one certainty being that throughout a working life, pension arrangements will change.

The NHS pension scheme has undergone changes, most significantly in 2008 and 2015 (with the introduction of 'new' schemes); but also with minor changes made on an almost annual basis.

Many of the changes made in recent decades have been perceived as negative, and justifiably so. Higher retirement ages, driven by increased longevity, and increased costs to members, driven by economic conditions, mean that new NHS dentists now face a less attractive offering than their forebearers would have done 40 years ago.

Despite this the NHS pension scheme does remain a high quality savings vehicle offering access to a guaranteed income for life based on your NHS earnings, which keeps pace with cost of living changes. It also offers options to take a tax free lump sum on retirement.

A growing crisis

In recent years however, the tide has begun to turn, and we are starting to see potential improvements being introduced. Many of these are being driven by the NHS workforce crisis, and (linked to the pension scheme) the fact that many people are seeing retirement as an attractive alternative to remaining in work. The Government has also realised that the limits placed on tax free pension savings, through the annual and lifetime allowance, are pushing members with larger pension pots into reducing NHS commitments.

I'm pleased to report some improvements are being implemented. Perhaps not on the scale we would like – such as acceptable reform of GDS contracts, or a pay award that keeps pace with inflation – but we're seeing them as good news, nonetheless.

All of these reflect issues that we have campaigned on for years. We expect both Scotland and Northern Ireland to follow England and Wales, although this may be at a delayed pace.

Budget 2023 – Pensions Tax changes

At the time of writing, the Chancellor announced some changes which, on the face of it, will be of benefit to a significant cohort of higher-earning/longer-serving NHS dentists.

BDA has been highlighting the problems of pensions tax for a number of years – mainly that large pensions and their consequent tax charges serve to reduce enthusiasm for NHS work. In recognition of the fact that the NHS (and so NHS dentists) are taxpayer funded, and that limiting the level of tax free pension saving is a legitimate government aim, BDA has advocated for a solution specific to the NHS. This would have allowed NHS workers better control by reducing their pension, in exchange for higher take-home income, which would bring pension savings within tax limits.

The Chancellor has gone much further than anticipated and the main issues are commented on below:

Abolition of the Lifetime Allowance – this will effectively take place from 6 April 2023. It means that an unlimited level of pension benefit can be paid, without any extra tax charge being applied. This will be greatly welcomed by those approaching retirement and looked at enviously by anyone who has retired with a Lifetime Allowance charge in recent years. It will however free up this group to carry out pensionable work in the future. For members whose retirement is imminent (before 6 April, when this change takes effect), it may mean you wish to delay your retirement. We have been in touch with pension scheme administrators to ask that this facility can be promoted to such members as soon as possible.

Whether this abolition survives the test of time, and any future change of Government, remains to be seen (Labour are saying that this abolition is “deeply unequitable”).

Increase to the Annual Allowance – the increase of the standard Annual Allowance from £40,000 to £60,000 will take place from 6 April 2023. This will bring many dentists out of paying Annual Allowance charges in future, which is welcome.

Aggregating Pension Schemes for Annual Allowance purposes – this is a technical but important consideration. The Chancellor has adopted a solution originally proposed by BDA and is allowing Pension Growth across multiple NHS Schemes to be aggregated and potentially offset against each other. This is particularly important for salaried dental officers with a legacy final salary NHS Pension, and for whom the recent position has been sub-inflationary pay awards. Until now, Annual Allowance calculations have ignored the effect of such pay awards, to members’ detriment. Going forward this will not happen but instead, it will serve to reduce Annual Allowance exposure for many.

Freezing the maximum tax-free lump sum on retirement – one of the main attractions of pension saving is the provision of tax free cash at retirement. Up until now the maximum allowed tax-free lump sum is about £270k. A consistent rumour of Budgets for many years is that this will be abolished. The Chancellor has not abolished this, but by freezing the maximum level, the availability of tax free cash will be diminished with the passage of time.

Retirement flexibilities

The **flexibilities around retirement** apply for members considering taking their pension. Up until now, restrictions have been placed on individuals who would seek to retire from the 1995 NHS pension scheme and carry on with NHS work. Such restrictions are being eased. The easements include:

- 16-hour rule – up until now, anyone drawing a 1995 scheme pension has to restrict NHS activity to a maximum of 16 hours per week, for at least one month. This requirement is set to be abolished from 1 April 2023
- Pensionable re-employment – up until now, anyone drawing a 1995 scheme pension has been excluded from building up any further NHS pension from ongoing NHS work. This restriction will be abolished from 1 April 2023
- Partial **r**etirement – at present, anyone seeking to draw upon a 1995 scheme pension must take a break from their NHS contract of at least 24 hours. This presents problems for employed NHS officers who risk losing benefits linked to continuous service, and especially for sole trader practitioners who have to set up in temporary partnership in order to retain continuity of their NHS contract.

  Partial retirement, which already exists in the newer (2008 and 2015) NHS pension schemes will mitigate against the need for 24-hour retirement when it is introduced to the 1995 pension scheme in October 2023. It will allow members to draw on their 1995 scheme pension and retain continuity of their contract, provided:

  - For an officer, pensionable earnings are reduced by at least 10% for a period of at least 12 months
  - For practitioners, a 10% reduction in NHS commitment will be required. Further discussions will be required with BSA as to how this will be measured for practitioners.

Whilst there are details to be finalised, these are all significant improvements that will make retirement, and working at older ages, more profitable in the NHS.

Revaluation and dynamisation of NHS pensions

This is a technical issue, one we first raised in early 2022 and summarised in a previous blog. The annual allowance tax charge is based upon the growth in an NHS pension over the course of a tax year. Such growth is a factor of two things – the pension you build up over the year, based upon your earnings; and also, the growth of the pension you had built up in previous years (known as dynamisation or revaluation). Dynamisation and revaluation apply to pensions built up in the 2015 scheme and (for practitioners) in the 1995 and 2008 scheme.

The issue is that, until now, the measure of growth used for the dynamisation and revaluation of pensions has not been matched by the level of inflationary growth that is permitted by HMRC in annual allowance calculations. For the current (2022/23) tax year, this mismatch would have resulted in a vast swathe of large annual allowance tax charges.

DHSC has announced changes to the pension scheme that will delay the revaluation and dynamising of pension benefits from 1 April until 6 April, from this year onwards. This change will serve to avert this mismatch and the consequential rise in tax charges, whilst not impacting upon members' pension benefits. As a result, many members will see much lower, or no, annual allowance tax charge arising.

Age discrimination remedy

Amongst all of these changes, the behemoth that is the McCloud Remedy continues to rumble on. As a reminder this is the remedy to age discrimination that was introduced by Government in 2015. It means that anyone in the Health Service prior to April 2012 will be able to have a choice of pension schemes for the period April 2015 to March 2022. No one should be worse off as a result of this choice, and many may find themselves with a higher pension as a result.

It remains the case that all such members will be offered this choice at retirement. For those already retired (or who might retire before October 2023) this choice will be presented as early as possible after October 2023, with back payments of any extra pension due.

The work involved in ensuring this remedy is properly presented is huge with a very significant effort being made in the fields of member communications and pension administration systems. The range of personal circumstances that must be addressed (including death, divorce, retirement, ill health retirement and previous decisions made related to pensions) is almost overwhelming. Despite this, the Government do seem to be proceeding slowly, but in good faith to remedy their discrimination.

More information will be forthcoming in the coming months.