

TALKING POINT



Pension Reforms - Update

2015 Scheme

On 9 March 2012, the Government published its final proposals on the new design of the public sector pension schemes within England and Wales, which included the NHS Pension Scheme (NHSPS). The changes to the NHSPS will be introduced from April 2015 and the new scheme will be known as the 2015 Scheme.

The main features of the scheme will be as follows:

- ▶ Benefits will be based on Career Average Revalued Earnings (CARE) for all members. Currently, benefits for some members are linked to their salary at retirement.
- ▶ Members will build up 1/54th (1.85%) of their pensionable earnings each year.
- ▶ The pension that is built up will be revalued each year in line with the increase in the Consumer Price Index (CPI) + 1.5%.
- ▶ Retirement ages will be brought in line with the State Pension Age (SPA), although members will retain the option to retire between 55 and 75. Early retirement will result in a reduced pension.
- ▶ There will be an option for members who (in the new scheme) have a normal pension age higher than 65 to pay additional contributions to reduce any early retirement reductions. Only reductions that would apply from age 65 can be bought out and the maximum reduction is 3 years.
- ▶ There will be no automatic lump sum, but members will have the option to exchange part of their pension for a lump sum at retirement, up to 25% of capital value. Commutation will be at a rate of £12 lump sum for every £1 per annum of pension foregone.
- ▶ Members who are currently in the 1995 or 2008 sections of the NHSPS will have the benefits they have built up in those schemes preserved. Those preserved benefits will be treated separately and calculated in accordance with the rules of the 1995 or 2008 sections, as appropriate.
- ▶ Members taking their 1995 benefits after the age of 55 will be able to defer their 2015 benefits but without the possibility of further accrual in the NHSPS. For example, a member could take their 1995 benefits unreduced at age 60, without the need to take 2015 benefits until their SPA.

Choice 2 Exercise

This provides another opportunity for members of the 1995 Scheme to transfer into the 2008 Scheme of the NHSPS. This is because when the original choices exercise took place, the 2015 Scheme, with a retirement age equal to SPA, was not known about. Had this information been available when the original choices exercise took place, some members may not have elected to remain in the 1995 section. The exercise begins September 2014 and all packs will be issued by November 2014. The last date for opting in to Choice 2 is 31 March 2015. Further details will be published on the NHSPS website when they become available.

Protection of existing benefits

The Government has stated that any benefits already earned by members in the existing NHSPS will be protected and that they can be assured that:

- ▶ For members of the final salary scheme, entitlement for benefits, (pension and any applicable lump sum) already earned (up to the point of joining the 2015 Scheme), will be calculated using the member's final salary when benefits are taken.
- ▶ Those with 10 years or less to their normal scheme pension age (60 for the 1995 Scheme or 65 for the 2008 Scheme) on 1 April 2012 will not be automatically transferred to the new scheme. This means they will not see a change to how their benefits are calculated, nor any decrease in the amount of pension they receive at their current normal pension age.
- ▶ Active members who were between 10 and 13.5 years to normal scheme pension age at 1 April 2012 will have tapered protection. This means that for every month they are over the 10 years they will lose 2 months of protection. At the end of the protected period they will automatically be transferred into the 2015 Scheme. Individuals with tapered protection will therefore move to the new scheme between April 2015 and April 2022.

Members will continue to earn benefits in the current scheme until they move to the 2015 Scheme.

Annual Allowance

From April 2014 the Annual Allowance (AA) was reduced from £50,000 to £40,000. Any amount over the AA may be liable for a tax charge at their highest marginal rate of income tax and can be up to 45%. However, some individuals may be able to carry forward unused AA from the previous three tax years to reduce or eliminate any AA tax charge. A statement from the NHS will be sent to members whose pension input is more than the AA in the NHSPS.

Scheme Pays

This is where the AA charge is paid by the pension scheme on the member's behalf. The NHSPS can pay the charge if the growth in a members benefits exceeds the AA and the AA charge is £2000 or more. The pension will be permanently reduced at the point of taking benefits, and in the 1995 section, the lump sum also. A Scheme Pays Election Notice must be completed and sent to the NHSPS by 31 July in the year following the tax-year the AA charge applies. The NHSPS add interest annually to any amount paid on the member's behalf of CPI plus 3%.

Lifetime Allowance

From April 2014, the amount accumulated into pensions over a lifetime without a tax charge reduced from £1.5 million to £1.25 million. If pension benefits exceed this amount a 25% or 55% tax charge could be implemented, depending on whether excess benefits are taken as an income or a lump sum. If a form of Lifetime Allowance (LTA) protection is held, for example Individual Protection, the member's personal LTA will be higher than £1.25m.

Individual Protection

This provides a personalised LTA up to £1.5m, based on the total value of pension funds at 5 April 2014. Individual Protection will not be lost by making further pension savings, but those who already hold Primary Protection are not eligible. Individual Protection can be applied for from August 2014, and HMRC must receive applications by 5 April 2017.

Wesleyan provides specialist financial advice based on an in-depth understanding of the medical and dental professions.

We work closely with clients to develop bespoke, long-term financial plans that meet their needs, through each stage of their career and into retirement.

To see how we can help you plan for a profitable future,
call **0845 351 2352** or visit **www.wesleyan.co.uk**

we are all about you

Advice is provided by Wesleyan Financial Services Ltd. 'WESLEYAN' is a trading name of the Wesleyan Group of companies. Wesleyan Financial Services Ltd (Registered in England and Wales No. 1651212) is authorised and regulated by the Financial Conduct Authority and is wholly owned by Wesleyan Assurance Society. Wesleyan Assurance Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Incorporated in England and Wales by Private Act of Parliament (No. ZC145). Registered Office: Colmore Circus, Birmingham B4 6AR. Telephone: 0845 351 2352. Fax: 0121 200 2971. Telephone calls may be recorded for monitoring and training purposes.