

# Booklet D

Notes for pension credit claimants

# Introduction

**This Booklet is issued by National Health Service Pensions**, who administer the NHS Pension Scheme on behalf of the Secretary of State for Health.

**The Scheme Administrator is the NHS Business Services Authority.**

**Paymaster is the Company we use** to pay your pension correctly and on time and to answer any queries you may have about payment.

**The Booklet tells you about the pension credit benefits** payable and gives general information that may be helpful to you.

**It explains some of the main rules** relating to the payment of benefits, but it is not intended to be a full statement of the law which governs the Scheme.

**Please note that this booklet relates to Pension Credit benefits allocated on divorce or dissolution of a civil partnership.** If you are a member of the NHS Pension Scheme in your own right, you should also read the NHS Pension Scheme Booklet R. This will give you information about your own pension benefits that will be paid on retirement.

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## Glossary

In this Booklet:

- **“We” or “Us” or “the Scheme”** means the NHS Pension Scheme.
- **“GMP”** means Guaranteed Minimum Pension.
- **“SPA”** means State Pension Age.
- **“DWP”** means the Department for Work and Pensions.

## Personal Details

You may find it helpful to write your personal details in the box below. You will need these details if you write to us or to Paymaster. Your dependants will also need to know them.

Your date of birth _____
Your NHS Pension Scheme reference number (SD) _____ / _____
Your Paymaster pension credit reference number _____
Your National Insurance number _____
Your date of retirement or the date your pension starts _____

## Notice about data given to NHS Pensions

We have a duty to protect the public funds we administer. To this end from time to time we may use information provided to us for the prevention and detection of fraud and share it with other bodies administering public funds solely for these purposes.

NHS Pensions is currently participating in an anti-fraud initiative organised by the Audit Commission and being carried out under Section 6 of the Audit Commission Act 1998. Under this initiative we are providing details of occupational pensioners to the Commission so that they can compare them with information provided by other public bodies to ensure that:

- no pensions are being paid to persons who are deceased
- occupational pension income is being declared by housing benefit claimants.
- re-entry to the Scheme is disclosed

While the object of the exercise is the detection of fraud, previous exercises also uncovered underpayments to pensioners, which were rectified. These exercises help ensure the best use of public funds.

# Part 1 General information

## 1.1 Application forms

With this Booklet you will get an application form AW8PC. Please fill this in as soon as you can and return it to NHS Pensions at the address below.

## 1.2 Notification of benefits

We will work out your benefits and tell you how much they are. Normally there will be a pension and a lump sum, unless your pension sharing order came into effect after the retirement of your spouse or civil partner. In these cases there will only be a pension.

## 1.3 Useful addresses

**Our address is:** NHS Pensions  
Hesketh House  
200-220 Broadway  
Fleetwood  
FY7 8LG.

**Our telephone number is 0845 421 4000**

If you need to get in touch with us, eg because of a change of address, please tell us your Scheme membership number. It begins with the letters SD

**Paymaster's address is:** Paymaster,  
Sutherland House  
Russell Way  
Crawley  
West Sussex  
RH10 1UH.

**Paymaster's telephone number is 0845 1212 522**

If you live **outside the United Kingdom** the telephone number is **0044 1293 591959**

If you need to get in touch with Paymaster about the payment of your pension, please write or telephone, telling them your Paymaster pension reference number. Paragraph 3.2 in **PART 3** of this Booklet tells you about your Paymaster pension reference number.

**Scheme Administrator's address is:** NHS Business Services Authority  
Bridge House  
152 Pilgrim Street  
Newcastle upon Tyne  
NE1 6SN

## Part 2 Limits on tax-free pension benefits

From 6 April 2006 HM Revenue and Customs (HMRC) changed the way it limits tax-free pension savings in registered schemes like the NHSPS. The previous limits have been replaced, for tax purposes only, with an individual lifetime allowance (LTA). For most people, this change increases opportunities for tax efficient savings for retirement. **Only consistently high earners with long Scheme membership and/or substantial other pensions savings are likely to be adversely affected.** If you think you will be affected by the new tax regime, you should seek professional financial advice. However, everyone applying for their Scheme benefits must complete a declaration or supply the relevant information in order that the capital value of their pension benefits can be tested against the LTA. (See Part 2.5 - Completing the claim form AW8PC).

HMRC has announced the standard LTA for the first five tax years as follows:

Tax Year	LTA
2006-2007	£1.5m
2007-2008	£1.6m
2008-2009	£1.65m
2009-2010	£1.75m
2010-2011	£1.8m

The standard LTA values for subsequent years will be set by HMRC on an on-going basis. Transitional Protection measures are available in certain circumstances. There is specific protection for a person in receipt of a pension share. Please refer to HMRC's website for more information.

If you have claimed and received Enhanced Protection from HMRC, then we will complete the test for Relevant Benefit Accrual (RBA) when we calculate your benefits (and for any subsequent revisions) and let you know if you have retained or lost your Enhanced Protection.

We will tell you the percentage of the standard LTA used by the benefits in the NHS Pension Scheme when you retire. You may need it in the future so please keep it in a safe place.

If you have accrued a very small amount of benefits with the NHS Scheme and any other providers where the Capital Value from this Scheme is less than 0.35% of the standard LTA, then you may be able to have your pension and lump sum from us paid as a one-off payment. If this is possible we will write to you again to explain the amounts payable and confirm the details needed to be able to do this.

If you believe that the value of your NHS Scheme benefits and any other pension benefits you have accrued with any other providers is greater than 0.35% but less than 1% of the standard LTA, and you would like a quotation of a one-off payment, you should attach a request prominently to the application form AW8PC.

### 2.1 How benefits are tested against the LTA

Any benefits crystallised on or after 6 April 2006 and any benefits that were in payment before 6 April 2006 must be tested against the LTA limit. This limit applies to **all** pension rights you have built up including the NHS Pension, money purchase AVC funds, personal pensions, pension credits and other occupational pensions. Your state pension benefits and any dependant benefits you are receiving are not included within this limit.

### Pension benefits taken on or after 6 April 2006

If you have taken benefits from another registered pension provider(s) since 5 April 2006 then the percentage of the lifetime allowance used by those benefits must be included when testing against the LTA. Your other registered pension provider(s) **must** provide you with the percentage of lifetime allowance used.

### Pension benefits taken before 6 April 2006

If you have taken benefits from another pension provider(s) before 6 April 2006, then the pension you are receiving when your NHS pension benefits crystallise **must** also be included when testing against the LTA. To do this we use the formula:

$$(\text{Gross current annual rate of pension} \times 25) = \text{Capital Value}$$

## **2.2 Lifetime Allowance Charge (LTAC)**

We will pay you a lump sum, which will be calculated in accordance with the Scheme Regulations. We will then check this payment to ensure that it is within HMRC limits, or if there is a LTAC applicable. Up to 25% of the capital value of your benefits or your available LTA, whichever is the lower, is allowed by HMRC to be taken as a tax-free pension commencement lump sum (PCLS). Any lump sum paid in accordance with the Scheme regulations, which exceeds HMRC limits, is known as a lifetime allowance excess lump sum.

Without valid Transitional Protection any lump sum in excess of this limit will be subject to a LTAC of 55%. We will also check to see if the payment of your lump sum takes you over your personal LTA. If it does then the excess lump sum over the LTA will be subject to a LTAC of 55%.

Without valid Transitional Protection if the capital value of the pension is in excess of the LTA any excess will be subject to a LTAC of 25%, ie 25% of each instalment of your pension in excess of your available LTA, is withheld.

NHS Pensions will pay any LTAC directly to the HMRC and recoup the cost by reducing your pension and/or lump sum accordingly. We will inform you of:

- the chargeable amount of your retirement benefits
- how the chargeable amount was calculated
- the tax due and that we have accounted for the tax to HMRC

**Important:** If you do not complete the relevant questions on the application form AW8PC then the recovery charge will be automatically applied to all of your benefits, unless you instruct NHS Pensions to defer payment of your benefits until you have gathered the necessary information.

## **2.3 Ordering Retirements**

If you have accrued benefits with more than one pension arrangement and their total Capital Value is close to or in excess of your available LTA, then you need to carefully decide the order in which you take your benefits. This is important, because the order in which you take your benefits could determine which pension provider has to make a LTA charge against some or all of your benefits.

If this applies to you, you should seek professional financial advice before deciding the order in which you take your benefits.

## **2.4 Recycling of Pension Commencement Lump Sum**

The Finance Act 2006 prevents an individual withdrawing a tax-free lump sum, which is invested back into a registered pension scheme, automatically generating further tax relief on the amount reinvested. This is known as "recycling lump sums". If recycling of lump sums does occur an indi-

viduals Pension Commencement Lump Sum (PCLS) will be treated as an unauthorised payment. This means the individual will be liable to a tax charge of up to 55%.

Recycling of a lump sum is considered to have occurred where:

- the individual receives a PCLS; and
- because of the PCLS the amount of contributions paid into another registered pension scheme in respect of the individual is significantly greater than it would otherwise be; and
- the additional contributions are made by the individual or by someone else, such as an employer, and
- the recycling was pre-planned; and
- the amount of the PCLS, taken together with any other such lump sums taken in the previous 12 month period, exceeds 1% of the standard LTA, and
- the cumulative amount of the additional contributions exceeds 30% of the PCLS.

If you recycle your pension commencement lump sum then you or your representative **must** notify the NHS Pension Scheme Administrator, via NHS Pensions.

## 2.5 Completion of Part B of form AW8PC

It is important that you complete these questions fully and correctly and supply any information asked for. Failure to do so will delay the payment of your pension and lump sum and/or cause all your benefits to have the LTA charge applied to them (see paragraph 2.2).

If you answer "No" to questions 1 or 2 you should answer question 5 only. This will be the case for **most** applicants.

Question 3 - if you answer 'No' you should go to question 4. If you answer 'Yes' you must tell us:

- 3(i) to two decimal places, (ie 43.21) the total aggregated percentage of the standard LTA used by each of your other pension arrangements. Your other registered pension provider(s) should have given you this figure as you took those benefits from 6 April 2006.
  
- 3(ii) the date of the first benefit crystallisation event is either, the date your benefits from another pension provider were authorised or the date they became payable (whichever is the later). If you are unsure of this date, your other pension provider will be able to confirm the benefits crystallisation date for you. This date is important as it could affect the calculation of the lifetime allowance you have used.

Question 4 - if you answer 'No' you should go to question 5. If you answer 'Yes' you must tell us:

- 4(i) the gross annual rate of pension in payment on, either today's date or to the date at 3(ii) if earlier.

If you cannot provide the percentage figure, treating your NHS Scheme benefits as entirely in excess of the standard LTA and applying the LTAC of 55% of your lump sum and 25% of your pension, is the only way your application can be processed, unless you instruct NHS Pensions to defer payment of your benefits until you have gathered the necessary information.

Question 5 - if you answer 'No' please sign and date the declaration. If you answer 'Yes' you must enter details of any valid HMRC certificates you hold. If you hold a valid enhanced protection certificate, provide the certificate number only in a separate box.

## Part 3 Payment of benefits

### 3.1 How and when your pension credit benefits are paid

Paymaster will only pay your pension and lump sum into a bank or building society account. This is by far the safest method of payment.

The account can be at a bank or building society with a branch

- in the United Kingdom (this includes Girobank but **not** National Savings Bank), or
- in the Channel Isles, Isle of Man or Republic of Ireland, or
- overseas provided it is capable of receiving secure electronic payment of funds. Currently such arrangements exist with banks in the following countries:

Antigua and Barbuda	Ginea Bissau	Philippines
Australia	Guyana	Poland
Austria	Hong Kong	Portugal
The Bahamas	India	Saudi Arabia
Bangladesh	Indonesia	Singapore
Barbados	Israel	South Africa
Belgium	Italy	Spain
Canada	Jamaica	Sri Lanka
Cyprus	Kenya	St Kitts and Nevis
Denmark	Luxemburg	St Lucia
Dominica	Malta	St Vincent and the Grenadines
Dominican Republic	Mauritius	Sweden
Egypt	Nepal	Switzerland
Eire	Netherlands	Thailand
Finland	New Zealand	Trinidad and Tobago
France and Monaco	Nigeria	Tunisia
Germany	Norway	Turkey
Ghana	Oman	United Arab Emirates
Greece	Pakistan	USA
Grenada	Peru	Zimbabwe

If you are planning to retire to a country that is not included in the above list, you will need to make arrangements to have your NHS pension credit benefits paid into a bank in one of the countries listed above. Your chosen bank will be able to assist you in arranging for the funds to be forwarded to you.

You will need to complete a special form for payment to be made to an overseas bank. You can get one by writing to NHS Pensions at the address shown at paragraph 1.3. Please complete it and attach it firmly to form AW8PC.

Paymaster will normally pay the pension or allowance monthly (one twelfth of the yearly rate, to the nearest penny), on the same date each month. They will tell you what your payment date is. This may not be the last day of the month.

When the payment date falls on a weekend or on an English or a Welsh public holiday, the payment will go into your account on the last working day before the weekend or the holiday.

A "pension month" is the period between one payment date and the next. The number of days in each pension month varies, as in a calendar month, and determines the amount of any part month

payment. If a pension or allowance starts during a pension month the first payment will be for the amount due for the number of days in that part pension month.

To keep down costs, Paymaster will not send details of your pension each time a payment is made. But they will write to you when your pension begins and each time there is a change **in your tax code** or in the yearly rate, for example because of a cost of living increase.

### 3.2 Your Paymaster pension reference number

Paymaster will give you a pension reference number when they start paying your pension or allowance. It will be on all the correspondence you get from them. Please write the pension reference number in the Personal Details section on **page 2**.

Remember that your Paymaster pension reference number is **not** the same as your Scheme pension credit reference number. Take care not to confuse the two.

### 3.3 Changes you should tell Paymaster about

You should tell Paymaster if:

- you change your address
- your bank or building society account details change.

### 3.4 Death

When you die, your spouse, civil partner, nominee or personal representative **must** tell Paymaster straight away, quoting your pension credit reference number (see paragraph 3.2).

### 3.5 Overpayment of benefits

If your pension or lump sum is overpaid for any reason the money will have to be repaid.

We may recover this overpayment by reducing your pension, however if this is the case, Paymaster will contact you or your personal representatives.

### 3.6 Income tax

For tax purposes your pension credit is treated as earned income. At first, Paymaster will deduct tax under a temporary code until they get the right code from the Tax Office. The Tax Office will decide what your tax code should be.

If you want to query your tax code, please write direct to the address given below. Tell them your National Insurance Number and your Paymaster pension reference number (see paragraph 3.2).

The address is:            Inland Revenue (PD2),  
                                 Ty Glas,  
                                 Cardiff, CF14 5YA.            Or telephone **0845 300 3949**

If tax has been deducted from your pension, Paymaster will send you a form P60 after the end of each tax year to show the total pension paid and the amount of tax deducted in that year.

When Paymaster sends payments to your bank etc. it includes details of any income tax deducted, but not your tax code. Most banks will show on your statement the tax deducted from your pension payments.

If you prefer details of your tax deductions not to be included with the payment information sent to your bank, please say so in a covering letter and attach it firmly to the payment details part of the application form AW8PC.

## Part 4 Pensions Increase

Your pensions credit is increased to keep pace with rises in the cost of living. Your pension credit is increased by the same percentage as the increase to SERPS paid by the State pension scheme. This increase is paid in April, based on the rise in retail prices in the 12 month period up to the end of September in the previous year.

### 4.1 Will my pension credit benefits qualify for increases right away?

This depends on the type of pension credit you receive.

- Pensions shared after your 60th birthday and put into payment immediately - increases will be applied from the April after the pension begins.
- Pensions shared before your 60th birthday and put into payment from age 60 - increases from the day of the pension share will be paid immediately.

### 4.2 Will my pension always get the full increase?

Yes. But increases are normally paid from April, so in the first year the amount of increase you get will depend on when the pension started. For example, if the full increase is 5% but your pension has only been in payment for 6 months, the increase you will get will be 2.5%.

A part month of 16 days or more will count as if it was a full month, but a part month of 15 days or less will not count. So, a pension that begins 15 days or less before an increase date will not get an increase until the following year.

Increase dates will often fall part way through your pension month (see paragraph 3.1). Where this happens your pension for that month will be partly at the rate before the increase and partly at the new rate. Your pension for the following month will be all at the new rate.

### 4.3 Who will pay the increases?

Paymaster will pay the full annual pensions increase to which your pension is entitled.

### 4.4 Will any lump sum get Pensions Increase?

Any lump sum will be increased if the pension share took place 16 days or more before your pension credit benefits started to be paid. The lump sum is increased by the same percentage as the pension.

HMRC have confirmed that any increase in your lump sum due to Pensions Increase is a Benefit Crystallisation Event (see Part 2). This means we will contact you again, either to confirm the extra percentage of lifetime allowance used, or if you were a high earner or have transitional protection to confirm your current lifetime allowance position. This is to ensure that you have enough lifetime allowance remaining to allow us to pay this increase without a LTA charge (see paragraph 2.2).

## Part 5 Death benefits

### 5.1 Life assurance lump sum

A Death Gratuity is a lump sum which may be paid when you die. Whether a Death Gratuity can be paid, and how much it may be, depends on how much pension credit benefit you had from the Scheme up to the date of your death.

A death gratuity paid to a surviving spouse, civil partner or named beneficiary is normally tax free. However, if you retired after 5 April 2006 and if payment partly or wholly causes you to exceed the lifetime allowance (LTA), then the excess payment above the LTA will be subject to a lifetime allowance charge (LTAC).

This death gratuity can be treated for lifetime allowance purposes in one of two ways. These are:

- a "Defined Benefits Lump Sum Death Benefit". In this case all the lump sum paid in these circumstances in excess of the LTA will be taxed at 55%. As most members will not exceed the LTA, death gratuities will be treated on this basis, unless you notify us differently in writing that you wish the death gratuity to be treated as a Pension Protection Lump Sum Death Benefit;
- a "Pension Protection Lump Sum Death Benefit". In this case all the lump sum paid will be taxed at 35% regardless of whether you actually exceed the LTA. If your benefits are already over or close to the LTA then you should consider this option. Before you take this decision you should take appropriate financial advice.

If you decide to have your potential death gratuity paid as a "Pension Protection Lump Sum Death Benefit", then **you** must write to NHS Pensions confirming your decision. You can take this option at anytime prior to your death.

Irrespective of which of the two ways you decide to treat your death gratuity, if a death gratuity becomes payable then we will inform your legal personal representative (LPR) of the amount and percentage of the standard LTA represented by the death gratuity within 3 months of the final payment. Your LPR is responsible for notifying this figure to HMRC. The beneficiary of the death gratuity is legally responsible for paying any LTAC that may become due.

In addition to the possible liability to a LTAC as described above, a death gratuity paid to a nominee or into a deceased person's estate may be subject to Inheritance Tax, so you should check your own position with HMRC.

If you are legally married or have formed a civil partnership, your surviving spouse or civil partner will automatically get the lump sum unless you have nominated someone else on form DB1(PC). You can get this form from NHS Pensions. The lump sum will then be paid to your nominee.

If you are single, divorced or have terminated a civil partnership, the lump sum will automatically be paid to your estate unless you have nominated someone on form DB1(PC).

If, before you claimed your pension credits, you nominated another person, child or organisation to receive the lump sum then it will be paid automatically to this nominee, without waiting for Grant of Probate or Letters of Administration. If you nominate a person they may wish to check their own tax position.

If you are also a current Scheme member in NHS employment, you can change your instructions on form DB1 at any time.

If you **only** have pension credits in the Scheme you can cancel an earlier nomination for a request not to pay your legal spouse, but you **cannot make a new nomination** unless you are in NHS employment and have joined the Scheme.

HMRC have imposed a two year time limit upon making these payments. If the DeathGratuity is **not** paid within two years of the Scheme being notified, then the payment will become **unauthorised** and will be subject to a tax charge of 40%. It is very important that you keep your legal personal representative up to date with your circumstances.