

## Ill-health Retirement Factsheet

### Qualifying conditions

Current members who have at least 2 years membership, and become permanently incapable of doing their present job because of ill-health may be able to receive a pension.

Termination of the employment contract because of unsatisfactory attendance due to sickness, will not automatically lead to early payment of a pension.

If our medical advisers accept the application they will qualify for early payment of Scheme benefits if:

- they are working in the NHS and have at least 2 years' membership; or
- they have chosen to leave the Scheme and are still working in the NHS and have at least 2 years' Scheme membership.

If a current member thinks ill-health retirement applies to them, they should complete form AW33E. But they must be leaving work because of permanent ill-health. If dismissed for any other reason they cannot qualify for an ill-health pension.

Benefits may also be paid early if they no longer work in the NHS provided:

- they have at least 2 years' deferred membership and are no longer able to earn an income through regular work.

They should write to NHS Pensions and request form AW240.

Our medical advisers, in every case, will assess the medical evidence and confirm that they are permanently incapable of either carrying out their present NHS duties or doing any regular work. If this is confirmed and we are satisfied they meet the rules for ill-health retirement, we will pay a pension.

### Benefits

There are two tiers of ill-health benefits.

Tier 1 is entitlement to the retirement benefits they have earned to date, paid without any actuarial reduction for early payment. This level of benefit is payable if they are:

- a Scheme member accepted by our medical advisers as permanently incapable of doing their current NHS job; or
- a former Scheme member accepted by our medical advisers as permanently incapable of earning an income by doing regular work.

Tier 2 is entitlement to the retirement benefits they have earned to date enhanced by two thirds of their prospective membership up to reaching their normal retirement age. This level of benefit is payable only if they are a Scheme member accepted by our medical advisers as permanently incapable of both doing their current NHS job AND permanently incapable of regular employment of like duration to their NHS job, taking account of their:

- mental capacity;
- physical capacity;
- previous training; and
- previous practical, professional and vocational experience,

irrespective of whether or not such employment is actually available to them.

If they have ever worked part time, any extra membership they get will be reduced to take account of this.

1995 section

Members of the 1995 Section of the NHS Pension Scheme who retire due to ill-health up to 31 March 2016, will get a minimum increase of 4 years, subject to the maximum membership that could have been achieved by their normal retirement age.

### Example Tier 2 calculations for members of the 1995

1. A member of the above Scheme, who has a normal retirement age of 60, is accepted as qualifying for Tier 2 ill-health benefits at age 48, after 28 years' full time Scheme membership. Their ill-health pension would be calculated using total Scheme membership of 36 years, 28 years actual plus 8 years enhancement (2/3rds of the 12 years' prospective membership to normal retirement age of 60).

1995 section

2. A member of the above Scheme, who has a normal retirement age of 60, is accepted as qualifying for Tier 2 ill-health benefits at age 55, after 30 years' full time Scheme membership. Their ill-health benefits would be calculated using total Scheme membership of 34 years, 30 years actual plus the minimum guaranteed enhancement of 4 years. This is because 2/3rds of the prospective membership to normal retirement age of 60 is less than the guaranteed enhancement.

2008 section

### Example Tier 2 calculations for members of the 2008 Section.

1. A member of the above Scheme, who has a normal retirement age of 65, is accepted as qualifying for Tier 2 ill-health pension at age 56, after 10 years' full time Scheme membership. Their ill-health pension would be calculated using Scheme membership of 16 years, 10 years actual plus 6 years enhancement (2/3rds of the 9 years' prospective membership to normal retirement age of 65).

2. A member of the above Scheme, who has a normal retirement age of 65, is accepted as qualifying for Tier 2 ill-health pension at age 41, after 3 years' full time Scheme membership. Their ill-health pension would be calculated using Scheme membership of 19 years, 3 years' actual plus 16 years enhancement (2/3rds of the 24 years' prospective membership to normal retirement age of 65).

### Index linking

NHS ill-health pensions are fully index-linked to protect them against inflation. This means they are increased each year in line with the cost of living, for as long as they are paid. The increases are paid from April each year. In the first year the amount of increase will depend on the date they retire.

### Re-employment

If the member receives Tier 1 ill-health benefits, and returns to work in the NHS before their normal retirement age and their earnings exceed a certain level, some of their pension will be subject to Abatement as explained below.

If the member received **Tier 2** benefits and is re-employed anywhere, as well as being subject to Abatement they will not be able to earn more than the equivalent of the lower earnings level (LEL) set by HM Revenue & Customs (HMRC) for the payment of national insurance contributions before their Tier 2 pension is replaced by a Tier 1 pension.

If the member is re-employed in the NHS, the maximum period of re-employment before their Tier 2 pension is replaced with a Tier 1 pension is 12 months, even if their NHS earnings remain below the LEL. Please notify us immediately if they earn more than the LEL in any tax year or if they are reemployed in the NHS for more than 12 months.

If they earn more than the LEL or are re-employed for more than 12 months in the NHS, their pension will be replaced by a Tier 1 pension from the next pension payable date following:

- the point when their earnings exceeded the LEL; or
- after 12 months reemployment in the NHS,

whichever is the earliest.

If the pension has been replaced by a Tier 1 pension because of this, they can re-qualify for a Tier 2 pension if:

- they are under normal retirement age; and
- their employment ends within 12 months of the substitute Tier 1 pension; and
- our medical advisers accept that they once again satisfy the Tier 2 condition.

1995 section

If they are members of the 1995 Section the period of re-employment in the NHS will be pensionable only if:

- in the case of a Tier 1 pension, they are under age 50 on the date they return to NHS employment;
- in the case of a Tier 2 pension, they are under age 49 on the date they return to NHS employment.

2008 section

If they are members of the 2008 Section, their period of re-employment in the NHS will be pensionable provided:

- they are under age 75; and
- they have not already accrued 45 years' Scheme membership; and
- they have not retired on the grounds of serious ill-health and exchanged their pension for a one-off lump sum payment.

### Abatement

If they return to NHS employment before their normal retirement age and their earnings are above a certain level, some of their ill-health pension may be reduced. We call this abatement.

Abatement applies where earnings from re-employment plus the “unearned” portion of the ill-health pension exceeds earnings before retirement.

Abatement is applied up to a maximum of the value of the “unearned” portion of the pre-commuted pension.

In the case of **Tier 1** benefits the “unearned” portion of the ill-health pension is:

- the difference between the amount of pre-commutation pension in payment and the amount of pre-commutation pension that would have been payable after actuarial reduction for early retirement, prior to your normal retirement age.

In the case of **Tier 2** benefits, the “unearned” portion of the ill-health pension is:

- the extra pension arising from the membership enhancement they have received; plus
- the difference between the amount of pre-commutation pension in payment for actual membership and the amount of pre-commutation pension that would have been payable for that membership after actuarial reduction for early retirement, prior to their normal retirement age.

You should explain how ‘Abatement’ applies to them, if they intend to return to NHS employment.

Abatement no longer applies when they reach their normal retirement age or their earnings fall below the required level, whichever is the earlier.

## If a member is seriously ill

If a member is terminally ill and does not expect to live longer than a year, they can apply to exchange all of their ill-health benefits for a one-off, usually tax-free, lump sum payment. They must have some HMRC personal lifetime allowance (LTA) remaining to make the exchange.

The one-off lump sum payment will be calculated using exchange factors as follows:

1. Pension up to level that gives the maximum permitted lump sum amount (see Guide to the Scheme) will be converted at the rate of £12 lump sum for every £1 of pension given up.
2. The remaining pension will be converted to a lump sum at the rate of £5 lump sum for every £1 of pension.

Their dependants will still get any pension they are entitled to in full.

1995 section

### If they are paying additional contributions

If they are buying 'Added Years' or a bigger lump sum for Scheme membership before 25 March 1972 by deductions from pay and they apply to retire:

- they must have been paying the additional contributions for more than 12 months; and
- when they retire they are under normal retirement age,

they will be credited with the full purchase without having to make any further payments.

If they are buying or have already bought 'Additional Pension' and when they apply to retire:

- they have been paying the additional contributions for more than 12 months; or
- in the case of purchase by lump sum contribution, it is more than 12 months since payment was made,

they will be credited with the full purchase.

If they apply to retire within 12 months of starting to pay for any of the above benefits the purchase will be void. Any payments made will be returned.

## Requesting ill-health retirement

If the member is still employed in the NHS please give them form AW33E.

If the member is no longer employed in the NHS and they approach you, ask them to write to NHS Pensions for form AW240.

If our medical advisers approve the request, please give them form AW8 to claim ill-health benefits.

If seriously ill and would like to exchange benefits for a one-off lump sum payment, please tell NHS Pension.

## Lifetime allowance (LTA)

In testing benefits against the LTA the following values will be used, either

- benefits including any enhanced membership granted; or
- if seriously ill and have exchanged benefits for a one-off lump sum, the total lump sum.