



Tax charge protection

Introduction

This factsheet is for you if you are a member of the 1995 Section of the NHS Pension Scheme who is:

- considering moving to the 2008 Section under the NHS Pension Choice Exercise; and
- have either primary or enhanced protection in respect of the way pension benefits will be taxed.

Who has enhanced protection?

Pension scheme members had to actively apply for primary or enhanced protection (also known as transitional protection), from HM Revenue and Customs (HMRC). The last date applications were accepted by HMRC was 5 April 2009.

How will Choice affect transitional protection?

NHS Pensions have received confirmation from HMRC that members of the 1995 Section who move to the 2008 Section under the NHS Pension Choice Exercise will not lose their primary or enhanced protection, solely as a result of transferring.

However, the 2008 Section provides different benefits to the 1995 Section. If you transfer to the 2008 Section this could affect transitional protection once benefits build up.

For example, in the 1995 Section:

- you build up an annual pension equal to 1/80th of your final year's pensionable pay for each year or part year of membership; and
- you get a standard lump sum, which is normally three times your annual pension.

However, in the 2008 Section:

- you build up an annual pension equal to 1/60th of your reckonable pay for each year or part year of membership; minus
- the amount needed to pay for the minimum lump sum, which is paid in addition to your pension.

Here's how this could affect moving to the 2008 Section

If you have primary protection

You have generally been provided with an increase to the standard lifetime allowance giving you a personal lifetime allowance. If the capital value of your benefits exceeds this personal lifetime allowance the excess will be taxed.

If you move to the 2008 Section, the capital value of your benefits at retirement is likely to be higher than it would have been if you remained in the 1995 Section. So, you could reach your personal lifetime allowance limit sooner than you would have done under 1995 Section arrangements.

If you have enhanced protection

You are subject to a HMRC test called relevant benefit accrual (RBA). If you fail this test you lose your enhanced protection. The RBA test is normally applied when you retire (or take) your benefits.

To pass the RBA test, the capital value of your benefits at retirement/crystallisation must be lower than at least one of the following two amounts:

- the capital value of your pension and lump sum at 5 April 2006 increased by the greater of 5% or RPI each year; or
- the capital value of your annual pension and lump sum based on membership at 5 April 2006 but using your final year's pensionable pay at retirement

If you move to the 2008 Section the capital value of your benefits at retirement is likely to be higher than it would have been if you had remained in the 1995 Section. So you may have a higher risk of failing the RBA test in the 2008 Section.

Further information on primary and enhanced protection and the RBA test can be found at

<http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm03201020.htm> and

<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM03201030.htm>