

Earnings cap

Introduction

This factsheet explains how the earnings cap might affect your retirement benefits in the event of you choosing to transfer to the 2008 Section under 'Your NHS Pension Choice'.

What is the earnings cap?

The earnings cap was introduced from the 1 June 1989. Its purpose was to ensure that a member's annual pensionable pay did not exceed limits stipulated by HM Revenue & Customs (HMRC), previously known as the Inland Revenue.

The earnings cap only applied to new entrants who joined the NHS Pension Scheme on or after the 1 June 1989. The earnings cap changed each year and it was the responsibility of the employer to ensure that individual members affected by it only paid contributions on pay earned up to the earnings cap limit.

Does the earnings cap still exist?

The earnings cap was removed on 1 April 2008 for all future service. However, moving forward, the earnings cap still applies to members who were subject to the earnings cap prior to 1 April 2008. Any pensionable pay earned after the 1 April 2008 is unaffected and is not subject to any cap.

The earnings cap still applies to pre 1 April 2008 membership for all members who:

(a) joined the Scheme for the first time on or after 1 June 1989;

and

(b) those members who joined the Scheme before 1 June 1989 but who took a break in employment of 12 months or more that ended on or after 1 June 1989.

Because the earnings cap has been removed, HMRC will no longer be setting annual earnings cap limits for future years. Consequently, in order that members subject to the cap remain subject to the cap in accordance with Scheme Rules, the Scheme will be using what is known as a "virtual cap".

What is a virtual cap?

The virtual cap will be calculated on the advice of the Government Actuaries Department (GAD) and will represent the earnings cap limits that will apply at retirement to the service up to 31 March 2008 for all members who were previously subject to the earnings cap rules.

Will this virtual cap apply if I move to the 2008 Section?

Yes. If you are subject to the earnings cap rules in the 1995 Section any membership transferred over under 'Your NHS Pension Choice' to the 2008 Section will remain subject to the earnings cap rules for benefit purposes.

How will my retirement benefits be affected?

Your pension will be calculated in 2 parts to take account of the "capped" and "uncapped" elements of your membership. We do this in the following way:

- Membership from 1 April 2008 onwards – this will be attached to your final pensionable pay figure (known as final reckonable pay in the 2008 Section).
- Membership prior to 1 April 2008 – this will be attached to the virtual cap in place at the time of your retirement.
- The pension figures for both of the above are then added together to give you your total retirement pension.

Even if the earnings cap rules apply to you, they only affect your benefits if you are earning in excess of the virtual cap at retirement.