Your NHS Pension Choice

Factsheet

NHS

Pensions

The pay used to work out your pension

Introduction

Like most 'final-salary' pension schemes, your pension from the NHS Pension Scheme is worked out as a portion of your annual pay for each year (or part year) you are a member. The annual pay figure used is calculated using your pay in the run-up to your retirement.

In the 1995 Section the annual pay figure used is called 'Final Year's Pensionable Pay' and in the 2008 Section it is called 'Reckonable Pay' and they are worked out differently. This factsheet explains the difference between these two figures.

Is it worked out differently if I work part-time?

No. If you work part-time Final Year's Pensionable Pay and Reckonable Pay both use the full-time equivalent of your actual pensionable pay. If you work full-time your actual pensionable pay is used.

Use the online calculator

There is a Career Calculator on the NHS Pensions website which helps you see how the differences between the two sections can affect the amount of benefits you get when you retire.

How is Final Year's Pensionable Pay worked out for the 1995 Section?

Final Year's Pensionable Pay is simply the highest pensionable pay of your last three years of service. Usually this is your last year.

How is Reckonable Pay worked out for the 2008 Section?

Working out Reckonable Pay can be complex because it looks back over a longer period and uses an annual average of three consecutive years' pay rather than a single year. Here's how it works:

1. We look at your last 10 years of pay (from 1 April 2008 at the earliest) and revalue it to what it is worth on the day you retire. This is done so each year's pay can be compared in like terms to today's earnings.
2. We find the best three consecutive years over this 10 year period and calculate the average of these three years. We do this using the actual amounts, rather than the revalued amounts.
3. We adjust this average to bring the earliest two of the three years up to date with the last of the three years.
4. Your pension is then calculated using this 'Reckonable Pay'. If the earnings used to calculate your pension are not from your last year of working, it is revalued again to what it is worth on the day you retire.

What if I have been in the 2008 Section for less than three years?

If you have been in the 2008 Section for less than three years when you retire we work out the annual average for the period you have been in the 2008 Section.

How does it work in practice?

There are some examples on pages 2 and 3 of how Reckonable Pay is used to calculate your pension. For the purpose of these examples, the members' service is worked out for a full year from 1 April – 31 March. However a year could run from any given date within the year depending on when you retire.

NHSB/PAY/V1/1010 October 2010

John's pension using Reckonable Pay

John retires on 1 April 2020 on his 65th birthday. He started in the 1995 Section on 1 April 1990 and made the choice to move to the 2008 Section. John has 30 years' membership and moved to a job that paid less five years before retirement.

The table shows John's full time equivalent (FTE) pensionable pay up to 10 years before he retired. It also shows the increase factor and what his revalued (increased) pay would be.

						Best 3 consecutive years				
Year	1	2	3	4	5	**6**	**7**	**8**	9	10
From	2019	2018	2017	2016	2015	**2014**	**2013**	**2012**	2011	2010
To	2020	2019	2018	2017	2016	**2015**	**2014**	**2013**	2012	2011
FTE pensionable pay	£25,390	£24,770	£24,165	£23,575	£23,000	**£38,162**	**£36,518**	**£34,945**	£33,440	£32,000
Increase factor	1	1.03	1.06	1.09	1.12	**1.15**	**1.18**	**1.21**	1.24	1.27
Revalued pay	£25,390	£25,513	£25,615	£25,697	£25,760	**£43,886**	**£43,091**	**£42,283**	£41,466	£40,640

The best three consecutive years' are years 6, 7 and 8. The annual average of these three years before they are revalued is (£38,162 + £36,518 + £34,945) / 3 = £36,542.

To find out what John's Reckonable Pay is we revalue the earlier two years of the three by multiplying the average by 1.02530 (see page 3 for more information about this figure).

Reckonable Pay = £36,542 x 1.02530 = £37,467

John's pension (before he takes a lump sum) would be:

Pension = 30 / 60 x £37,467 = £18,734 x 1.15 = £21,544

The pension increase factor used to revalue the pension is 1.15. To find out more about pension increase factors see page 3.

John's pension using Final Pensionable Pay

If John had chosen to stay in the 1995 Section then his Final Pensionable Pay would be used (£25,390) and his pension would be 30/80 x £25,390 = £9,521.

John's pay using Voluntary Pay Protection – 1995 Section

Because John moved to a job that paid less before he retired, he could choose Voluntary Pay Protection in the 1995 Section. If he did this, we would work out the benefits he had earned for each period of membership separately, based on the pensionable pay at the end of each period and then revalue it. He would get the highest rate as his pension.

25/80 x £38,162 = £11,926 x 1.15 = £13,715 plus 5/80 x £25,390 = £1,587 giving a total pension of £15,302.

The pension increase factor used to revalue the pension is 1.15.

This means that separate membership calculations are more beneficial for John's pension. Had he chosen to remain in the 1995 section and protect his pay, he would get £15,302 instead of £9,521.

What is Voluntary Pay Protection?

If your earnings have reduced because you've moved to a job that pays less, you have a one-off chance to protect your higher pay. To do this you must have reached minimum pension age and your pay must be at least 10 percent less.

Jane's pension using Reckonable Pay

Jane started in the 1995 Section on 1 April 1990 and chose to move to the 2008 Section. Jane retires on 1 April 2010 aged 65 with 30 years' membership. Although Jane has more than three years in the NHS Pension Scheme, she has less than three years' pay in the 2008 Section. Only the pay received when she moved to the 2008 Section is used to work out her pension.

	Used for 2008 Section		
Year	1	2	3
From	2009	2008	2007
To	2010	2009	2008
Pay	£25,390	£24,770	£24,165
Increase factor	1	1.03	1.06
Revalued pay	**£25,390**	**£25,513**	£25,615

Reckonable Pay = (£25,390 + £24,770) / 2 x 1.0148 = £25,451

Pension (before she takes a lump sum) = 30 / 60 x £25,451 = £12,726. Her pension is not revalued (increased) because it is worked out using up to date pay figures.

Jane's pension using Final Pensionable Pay

If Jane had chosen to stay in the 1995 Section the pay that would have been used to work out her pension would have been Final Year's Pensionable Pay (£25,390) and her pension would be:

30/80 x £25,390 = £9,521.

Adding Pensions Increase to the two earlier years when calculating Reckonable Pay (see 'John's pension using Reckonable Pay')

When working out Reckonable Pay, each year's pay in the last 10 years to retirement is increased to bring that pay figure up to what it would be worth on the day you retire. By doing this your past pay can be compared to your later pay in like terms. The revaluation factor used for this is called the pension increase factor.

However the legislation that ensures pensions are kept up to date with prices (the Pensions Increase Act 1971) insists that pensions are increased using the pension increase factor from **the day after the day on which the pay used to calculate the pension was last paid.**

If Reckonable Pay was the average of the three revalued years then the effect of the Pensions Increase Act would be to double-count pensions increase i) because the pay is first increased by it to find the best three years in current terms and ii) because the pension is then also increased by it as required by the Pensions Increase Act.

To avoid this double-counting of pension increase, the pension that is calculated is based on the average of the best three consecutive years' pay before revaluation. However this is not entirely correct either as the earliest two years are still at their original value and the pension is only increased from the end of the last of the three years. So, the earliest two years are increased to be brought up to date with the last of the three years.

This is done by multiplying the average of the best three consecutive years ratio. The result of this is Reckonable Pay.

The ratio is between a pension calculated using the revalued annual average pay and a pension calculated using the average of the original pay figures, but also having Pension Increase applied to that pension (rather than the pay).

Example (from John's example in the factsheet)

$$\text{Reckonable Pay} = £36{,}542 \times \underbrace{\left[\frac{(£43{,}886 + £43{,}091 + £42{,}283)/3}{£36{,}542 \times 1.15}\right]}_{\text{The ratio is found here}}$$

= £36,542 x [1.02530] = £37,467