

NHS Pensions - Serious ill health (where life expectancy is less than 12 months)

A member who is not expected to live longer than a year can apply at retirement to exchange all of their ill health benefits for a one off, usually tax free, lump sum payment. To make this exchange, they must have some of their HM Revenue & Customs (HMRC) personal Lifetime Allowance (LTA) remaining. If the member takes up this option, their dependants will still get any benefits they are entitled to in full.

Active members under Normal Pension Age

A member who is under their Normal Pension Age at retirement and has at least two years' membership must complete form AW341 if they wish to exchange their ill health retirement benefits for a one off lump sum payment. The Normal Pension Age in the 1995 Section is age 60, 65 in the 2008 Section and State Pension Age or age 65 if this is later in the 2015 Scheme. Form AW341 can be completed when applying for consideration of entitlement to ill health benefits on form AW33E, but it should only be sent to NHS Pensions with the application for payment of benefits form AW8.

Active members over Normal Pension Age

A member who has reached or is over their Normal Pension Age is ineligible to apply for ill health retirement benefits. However, they do have the option to exchange their retirement benefits for a one off lump sum payment where life expectancy is less than 12 months. If a member wishes to exchange their retirement benefits for a one off lump sum payment, they must complete form AW341A and send it to NHS Pensions with form AW8 (showing reason for retirement as commuted ill health). The benefits will **not** be enhanced under the ill health retirement arrangements.

The one off lump sum payment is calculated using the following formula, which is in accordance HMRC rules:

Pension up to the level that provides the maximum permitted lump sum will be converted at the rate of £12 lump sum for every £1 of pension given up. The remaining pension will be converted to a lump sum at the rate of £5 lump sum for every £1 of pension. Any basic retirement lump sum payable from either the 1995 Section or the 2008 Section will be paid in addition to the pension lump sum.

Where a member exchanges retirement benefits for a one off lump sum payment, dependants are not affected.

An application to exchange retirement benefits for a one off lump sum must be made before the pension is paid and cannot be changed once the lump sum payment has been made. Please see the example on page three.

Members with deferred NHS Pension benefits

Members with deferred NHS pension benefits need to make their application for ill health retirement using form AW240. An application to exchange retirement benefits for a one off lump sum should be made by completing form AW341.

For deferred members who have a last day of Scheme membership after 1 April 2008 the one off lump sum will be converted as noted above.

For deferred members with a last day of Scheme membership between before 1 April 2008 the one off lump sum will be equal to five times the annual pension plus the lump sum.

Deferred members with a last day of Scheme membership before 6 March 1995 may not exchange their retirement benefits for a one off lump sum payment.

Members with entitlement in both sections of the 1995/2008 Scheme

A member who has entitlement under both the 1995 and 2008 Sections of the 1995/2008 Scheme will need to make separate applications for consideration of entitlement to ill health benefits under each section. An AW341 or AW341A should be attached to each application.

Members with benefits in the 1995 or 2008 Sections who are members of the 2015 Scheme

You may need to make separate applications for consideration of entitlement to benefits in each Scheme using the appropriate application forms. However, this is only necessary where you have had a break in Scheme membership of more than five years and you have deferred pension benefits in either of the 1995 or 2008 Sections. This is because your pension benefits will have been decoupled and the pension benefits you have previously built up in either of these sections will have been deferred for payment at your Normal Pension Age. If you are a Scheme member who moves or has moved to the 2015 Scheme as part of the transitional arrangements, on or after 1 April 2015 and have not had a break of more than five years you would only need to make one application.

Example of one off lump sum payment for the 1995 Section

Basic projected benefits:

Pension £1,200.00

Lump Sum Retirement Allowance £3,600.00

For the member to receive the most beneficial one off lump sum payment the basic pension is firstly commuted by giving up some of the annual pension to get the maximum lump sum allowed (using the conversion formula of £1.00 pension to £12.00 of lump sum*);

Pension (reduced): £965.00

Lump Sum Retirement Allowance (maximum) £6,420.00

The ill health one off payment is calculated as follows:

Pension (reduced) x 5 = £4,825.00

Plus the maximum Lump Sum Retirement Allowance £6,420.00

This would result in a one off payment of: £11,245.00

Please note: If the pension is not commuted to give the maximum lump sum before the one off payment is calculated, then the member would receive 5 x the basic pension (5 x £1,200.00) £6,000.00 plus the basic lump sum £3,600.00 = £9,600.00.

*Subject to HMRC limit.

For more information about Ill Health Retirement and the benefits attracted to Tiers 1 and 2 please refer to the 1995/2008 Member Guide and 2015 Member Guide which can be found on our website.

Example of one off lump sum payment for 2008 Section

Basic projected benefits;

Pension £1,900.00

For the member to receive the most beneficial one off lump sum payment the basic pension is firstly commuted by giving up some of the annual pension to get the maximum lump sum allowed (using the conversion formula of £1.00 pension to £12.00 of lump sum*);

Pension (reduced): £1,221.43

Lump Sum Retirement Allowance (maximum) £8,142.84

The ill health one off payment is calculated, as follows:

Pension (reduced) x 5 = £6,107.15

Plus the maximum Lump Sum Retirement Allowance £8,142.84

This would result in a one off payment of: £14,249.99

Example of one off lump sum payment for 2015 Scheme members

The same formula as used for a 2008 Section member would be used for members of the 2015 Scheme.

For those members who move to the 2015 Scheme from either the 1995 or 2008 Section on 1 April 2015 or following the end of their protection period, the one off payment would be made up of two parts. One in respect of the previous 1995 or 2008 Section (or both in some instances) pension benefits and the second in respect of the 2015 Scheme pension. The amounts would be calculated in accordance with the relevant Section/Scheme and as described earlier.