

## NHS Pensions - The Flexibility Value Earnings Credit and the Annual Allowance

### What is the Flexibility Value Earnings Credit?

In the 1995/2008 Scheme practitioner flexibility rules normally increase the value of the non-practitioner membership benefits. These practitioner flexibilities enable certain periods of non-practitioner membership to be treated as though they were practitioner membership for the purposes of the pension scheme. This means that the pensionable earnings received in non-practitioner posts may be dynamised to provide CARE benefits if more beneficial.

We automatically compare the benefits available using both the final salary method and the dynamising method, and pay the highest pension. This is known as a 'no detriment' test.

There are no practitioner flexibilities in the 2015 Scheme, however practitioner transition members with membership in the 1995/2008 Scheme will have their non-practitioner membership flexibility rights protected up to the point of joining the 2015 Scheme or the date they became a practitioner, if later.

A Flexibility Value Earnings Credit (FVEC) will be calculated for non-practitioner membership which is not converted to practitioner membership under the 1995/2008 Scheme regulations. At retirement comparison calculations of the non-practitioner membership is undertaken. The most beneficial pension is then the one that is paid. The two 1995/2008 Scheme calculations are:

**Calculation 1:** The total of:

- the revalued FVEC pension; and
- the 1995/2008 dynamised practitioner pension

**Calculation 2:** The total of:

- the final salary linked separate non-practitioner pension; and
- the 1995/2008 dynamised practitioner pension

The FVEC pension represents the value of the best non-practitioner flexibilities' pension up to the date of leaving the 1995/2008 Scheme. The FVEC pension is revalued annually by a FVEC factor, provided by the Scheme Actuary, to the last day of pensionable membership in the 2015 Scheme.

If the practitioner has a break in 2015 Scheme pensionable membership of more than five years the FVEC credit is revalued to the point when the member began the break.

### How will the Flexibility Value Earnings Credit affect the Annual Allowance for Dental Practitioners?

Valuation assumptions are used when calculating pension growth for Annual Allowance. Pension benefits used in the opening and closing values are calculated on the basis of what would be available to the member if they had already reached normal pension age and retired, without an actuarial reduction, immediately before the start and at the end of the pension input period.

The FVEC factor will be calculated by the Scheme Actuary using Scheme valuation data which is not due until the end of the calendar year. This means we will not be able to calculate the 1995/2008 Scheme pension benefits for the opening and closing values until the FVEC factor has been calculated and confirmed.

We do not send out estimated pension savings statements. On receipt of the FVEC factor statements will be issued where growth in the 1995/2008 Scheme exceeds the Annual Allowance. Equally, we will only issue statements on request after we have received confirmation of the FVEC factor. This process is in line with HMRC's Annual Allowance requirements.

## **Which Dental Practitioners will not be affected by the Flexibility Value Earnings Credit?**

Protected 1995/2008 Scheme member and 2015 Scheme dental practitioner members who do not have membership in the 1995/2008 Scheme will not be affected by the FVEC and we will issue statements by 6 October, or if later within three months of receiving the relevant Scheme information from Dental Services, where pension growth in the NHS Scheme exceeds the Annual Allowance.

## **Will the Flexibility Value Earnings Credit affect the Annual Allowance for Medical Practitioners?**

Statements will be issued only when the medical practitioner has completed their Annual Certificate of Pensionable Profit and given this to their Regional Teams or delegated Clinical Commissioning Groups in England or Local Health Boards in Wales. In turn these bodies will need to confirm and update NHS Pensions with the confirmed final pensionable earnings. We will only issue statements on request where we have received certified final pensionable earnings.

## **Estimating pension growth in the 1995/2008 Scheme in order to complete a Self Assessment Tax Return**

Information is available on HM Revenue & Customs' (HMRC) website confirming what affected practitioners should do if they do not have exact Annual Allowance figures for their self assessment tax return. It states that either an estimated or a provisional figure could be used. If a provisional figure is used they must tell HMRC when the actual figures become available. If adjustments are made at a later date and members have not paid enough tax they may have to pay interest on any late payment to HMRC.

Practitioners can find this on page PTM051700 of HMRC's Pensions Tax Manual at: [www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm051700](http://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm051700). In addition HMRC has published a help sheet (HS345) with guidance on Annual Allowance at [www.gov.uk/](http://www.gov.uk/).

Practitioners can estimate their Annual Allowance charge and complete an election notice for us to pay their charge via Scheme Pays. The Scheme Pays Election Notice (SPE2) is available on our website and must be returned to us by HMRC's deadline, by 31 July in the year following the year in which the tax year to which the annual allowance charge relates ended. The deadline is earlier if members retire in the same tax year or they have a 75<sup>th</sup> birthday. They then have a further four years to amend their estimated election.

Information about Scheme Pays, the mandatory and voluntary conditions and how to complete the election notice is available on the website.