NHS Business Services Authority

NHS Pensions - Annual Allowance and the Practitioner Flexibilities Value Earnings Credit (FVEC)

You should read the following guidance if you are a transition member who has pensionable membership as:

- a Practitioner member in either the 1995/2008 NHS Pension Scheme (1995/2008 Scheme) or the 2015 NHS Pension Scheme (2015 Scheme), and

- an Officer member in the 1995/2008 NHS Pension Scheme.

You are a transition member if you moved from the 1995/2008 Scheme to the 2015 Scheme on or after 1 April 2015, because you did not qualify for full Scheme protection in the 1995/2008 Scheme, or your tapered Scheme protection has expired.

Annual Allowance calculations for a medical, dental or ophthalmic practitioner who is a transition member may include a Flexibilities Value Earnings Credit (FVEC) in respect of their Officer membership in the 1995/2008 Scheme.

What is the FVEC?

If you are a transition member with pensionable membership in the 1995/2008 Scheme as both a Practitioner and an Officer, you have built up benefits on a final salary basis as well as on a Career Average Revalued Earnings (CARE) basis.

The 1995/2008 Scheme includes flexibilities which allow certain periods of Officer membership to be treated as though they were Practitioner membership providing CARE benefits. When you retire as part of the flexibilities we compare the pension benefits available using both the final salary and the CARE methods and pay the higher pension.

The flexibilities are not part of the 2015 Scheme but you will have your 1995/2008 Scheme flexibility rights protected after you move to the 2015 Scheme. We do this by calculating an earnings credit, which represents the value of the flexibilities as at your last day of membership in the 1995/2008 Scheme. Known as the FVEC, the credit is uprated annually whilst you continue as an active member of the 2015 Scheme.

You will not receive an FVEC if you have a break in NHS Pension Scheme membership of more than five years between your last day of pensionable membership in the 1995/2008 Scheme and the first day in the 2015 Scheme. Instead, your benefits, inclusive of the flexibilities, will be deferred in the 1995/2008 Scheme.

When does FVEC become effective?

The FVEC is always calculated as at your last day of pensionable membership in the 1995/2008 Scheme, irrespective of whether that last day was as a Practitioner or an Officer. The last day could be:

- before 1 April 2015 – because you left the 1995/2008 Scheme before 1 April 2015 and joined the 2015 Scheme on returning to the NHS after 31 March 2015.

- on 31 March 2015 – because you were an active member of the 1995/2008 Scheme and moved to the 2015 Scheme on 1 April 2015.

- after 31 March 2015 – because:

    1. your tapered protection ceased and you moved to the 2015 Scheme after 31 March 2015, or

    2. you become a Practitioner for the first time after moving to the 2015 Scheme. Although becoming a Practitioner is the trigger for an FVEC, it is still calculated as at the last day in the 1995/2008 Scheme.

What is included in the FVEC calculation?

The FVEC calculation must take account of:

1. Your 1995/2008 Scheme flexibilities as at the last day of membership in the 1995/2008 Scheme, including continued dynamising of earnings in historic Practitioner membership.

2. Any increase that would be due under the Pensions (Increase) Act 1971 (PI Act) on an Officer pension if it were being paid at normal pension age, as at the last day of membership in the 1995/2008 Scheme.

3. Any Added Years you have bought as at the last day of membership in the 1995/2008 Scheme.

How is the FVEC calculated?

The FVEC is calculated using the following formula:

$$\frac{(\mathbf{F - P})}{\mathbf{A}}$$

Where:

F is the total amount of pension in the 1995/2008 Scheme as at the last day of pensionable membership in that Scheme, taking account of flexibilities.

P is the amount of pension in the 1995/2008 Scheme derived solely from pensionable membership as a Practitioner as at the last day of pensionable membership in that Scheme (including concurrent Officer membership of less than 365 reckonable days that must convert to Practitioner membership).

Both **F** and **P** must include the proportion of any Added Years bought in the 1995/2008 Scheme as at the last day of membership in the 1995/2008 Scheme.

A is:

(i) 1.4% if you moved from the1995 Section to the 2015 Scheme.

(ii) 1.87% if you moved from the 2008 Section to the 2015 Scheme.

When the FVEC is uprated?

Uprating starts on the day after the last day of pensionable membership in the 1995/2008 Scheme, even when this day was before 1 April 2015. It will continue until the earlier of the following:

1. The day when your pension benefits in the 1995/2008 Scheme become payable.

2. Last day of pensionable membership in the 2015 Scheme.

3. Last day of membership before a break in 2015 Scheme membership of more than five years. If there is more than one, the first of those breaks.

What is the FVEC uprating rate?

The FVEC is uprated by 2% each year, pro rata for a part year (to four decimal places). The increase is compounded with annual rests. Negative inflation does not reduce the rate.

The uprating rate of 2% is also applied to the period before 1 April 2015 when the last pensionable day in the 1995/2008 Scheme was before this date.

The Scheme Actuary will review the rate as part of a four yearly scheme valuation cycle.

Uprating the FVEC for a part year

Uprating for a part year is assessed using the formula:

$$n/12 \text{ of } A$$

Where:

A is the FVEC uprating rate.

n is the number of complete months between ***x*** and ***y***.

Value of *x*

x is either:

1. The day after the last day of pensionable membership in the 1995/2008 Scheme, when the period since leaving is less than a year.

2. An anniversary of the day after the last day of pensionable membership in the 1995/2008 Scheme, when the period since leaving is a year or more.

Value of *y*

y is the earlier of the:

1. Day when pension benefits in the 1995/2008 Scheme become payable.

2. Last day of pensionable membership in the 2015 Scheme.

3. Last day of membership before a break in 2015 Scheme membership of more than five years. If there is more than one, the first of those breaks.

Value of *n*

The value of *n* is a number of complete months, determined by the period between *x* and *y.*

What constitutes a complete month is best illustrated with an example:

1. If the last day of pensionable membership in the 1995/2008 Scheme was 31 March, then the first complete month would be 1 April to 30 April.

2. If the last day of pensionable membership in the 1995/2008 Scheme was 15 April, then the first complete month would be 16 April to 15 May.

Additional complete months would follow the appropriate equivalent cycle.

What happens to the FVEC when I retire?

In respect of your Officer membership in the 1995/2008 Scheme you will receive the higher of:

1. An Officer pension based on Officer membership in the 1995/2008 Scheme and the final salary linked pensionable pay in respect of Officer membership in the 2015 Scheme.

2. An FVEC pension, calculated on the following basis:

    i. If you moved from the1995 Section to the 2015 Scheme the uprated FVEC x 1.4% = FVEC pension.

    ii. If you moved from the 2008 Section to the 2015 Scheme the uprated FVEC x 1.87% = FVEC pension.

The above comparison must be made when calculating the pension benefits for the opening and closing values in the 1995/2008 Scheme for Annual Allowance purposes.

Adding Pensions Increase (PI) to the FVEC pension

The deemed date of the FVEC pension is the day following the last day of pensionable membership in the 1995/2008 Scheme. The FVEC pension is increased by the published PI rate relevant to that deemed date.

When CPI inflation is negative HM Treasury normally sets the annual PI rate to zero.

Practitioner dynamising

In respect of 1995/2008 Scheme Practitioner membership, the established method of dynamising Practitioner earnings continues for the duration of 2015 Scheme Practitioner membership, however 2015 Scheme Practitioner earnings are disregarded.

Dynamising ends if there is a break in 2015 Scheme membership of more than five years.

Added Years and the FVEC

If you are a member of the 1995 Section and buying Added Years when you move to the 2015 Scheme, the Added Years contract will continue until the earlier of:

1. The chosen Added Years contract end age i.e. age 55, 60 or 65. This is subject to you not requesting earlier termination of the contract.

2. The day immediately before a break in pensionable membership of 365 days or more.

3. The day before your 1995 Section pension becomes payable.

The proportion of Added Years purchased during your 1995 Section Officer membership will be used to determine an FVEC. At retirement if the final pension calculation results in payment of:

- an FVEC pension, then those Added Years will remain in the FVEC, or

- a 1995 Section Officer pension, then those Added Years will be included in the membership used to calculate this pension.

The proportion of Added Years purchased during Officer membership after you have moved to the 2015 Scheme will always provide you with a 1995 Section Officer pension calculated using final salary linked pensionable pay.

The proportion of Added Years purchased during 1995 Section Practitioner membership must be included in **P** when calculating the FVEC.

This ensures that any value linked to flexible treatment of your 1995 Section Officer membership is captured in the FVEC when the Practitioner pension **P** is deducted from the total pension **F**. For example: when the basic Practitioner pension is increased by Officer membership of no more than 10 years before becoming a Practitioner, commonly known as the Reg. 72 rule.

At retirement you will receive a Practitioner Added Years pension based on:

1. 1995 Section Practitioner earnings,

2. 1995 Section Officer pensionable earnings from employment that was subject to mandatory conversion under the flexibilities, and

3. 2015 Scheme Practitioner earnings.

Dynamising of the earnings is for the whole term of the Added Year's contract, not just the period before your move to the 2015 Scheme. Calculation of the Practitioner Added Years pension uses the established method for calculating a Practitioner only Added Years pension.

Added Years pay credit =

$$\frac{\text{Average dynamised Added Years earnings x Added Years bought (in days)}}{365}$$

Added Years pension = Added Years pay credit x 1.4%

Calculating the FVEC pension for Annual Allowance - Opening value and closing value

2015/2016 Annual Allowance

The combined pension input period for 2015/2016 was from 1 April 2015 to 5 April 2016.

Pension benefits calculated to:

1. 31 March 2015 for the opening value, and
2. 5 April 2016 for the closing value.

1. **Opening value as at 31 March 2015**

Although an FVEC may be effective from a date earlier than 1 April 2015, a member can only become a transition member on or after 1 April 2015. As a result there is no FVEC pension in the opening value.

2. **Closing value as at 5 April 2016**

If there is Officer membership in the 2015 Scheme during the pension input period a comparison must be made at 5 April 2016 between:

a) the uprated FVEC pension including PI from the day following the last day in the 1995/2008 Scheme until 5 April 2016 where applicable, and

b) a separate Officer final salary pension, calculated using Officer membership in the 1995/2008 Scheme and the final salary linked pay in respect of Officer membership in the 2015 Scheme as at 5 April 2016 (or the date of leaving the 2015 Scheme if earlier).

The pension to be included is the higher of a) and b).

If there is insufficient 2015 Scheme Officer membership to calculate the pensionable pay, the pay period should be stepped back into the 1995/2008 Scheme Officer membership. However, the pay from any concurrent Officer membership of less than 365 days that must be treated as Practitioner membership cannot be included in this calculation.

If there is no 2015 Scheme Officer membership to provide a final salary link, then a) is used in the closing value.

In addition to pension a) or b) there will be a 1995/2008 Scheme Practitioner pension (including any mandatory converted Officer membership) which has dynamising applied to 5 April 2016.

There will be a separate Annual Allowance calculation in respect of the pensionable earnings in the 2015 Scheme.

2016/2017 Annual Allowance

The pension input period for 2016/2017 was from 6 April 2016 to 5 April 2017.

Pension benefits calculated to:

1. 5 April 2016 for the opening value, and

2. 5 April 2017 for the closing value.

1. Opening value as at 5 April 2016

The opening value pension will be the 2015/2016 closing value pension, this will be pension a) or b) plus a 1995/2008 Scheme Practitioner pension.

2. Closing value as at 5 April 2017

If there is Officer membership in the 2015 Scheme during the pension input period a comparison must be made at 5 April 2017 between:

a) the uprated FVEC pension including PI from the day following the last day in the 1995/2008 Scheme until 5 April 2017, and

b) a separate Officer final salary pension, calculated using Officer membership in the 1995/2008 Scheme and the final salary linked pay in respect of Officer membership in the 2015 Scheme as at 5 April 2017 (or the date of leaving the 2015 Scheme if earlier).

The pension to be included is the higher of a) and b).

If there is insufficient 2015 Scheme Officer membership to calculate the pensionable pay the pay period should be stepped back into the 1995/2008 Scheme Officer membership. However, the pay from any concurrent Officer membership of less than 365 days that must be treated as Practitioner membership cannot be included in this calculation.

If there is no 2015 Scheme Officer membership to provide a final salary link, then a) is used in the closing value.

In addition to pension a) or b) there will be a 1995/2008 Scheme Practitioner pension (including any mandatory converted Officer membership) which has dynamising applied to 5 April 2017.

There will be a separate Annual Allowance calculation in respect of the pensionable earnings in the 2015 Scheme.

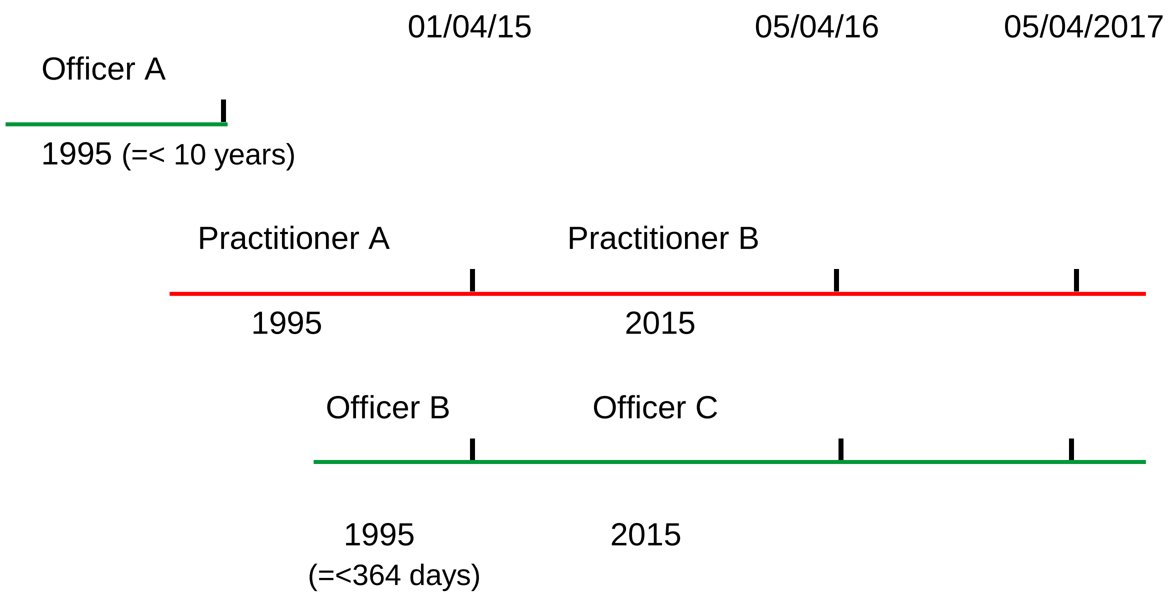
FVEC example

2015/2016 Annual Allowance

Simon is a transition member having moved to the 2015 Scheme on 1 April 2015. He has 1995 Section Officer membership of:

- 10 reckonable years or less before becoming a Practitioner (Officer A), and
- less than 365 reckonable days concurrent with his Practitioner membership (Officer B).

He continues as an Officer after moving to the 2015 Scheme (Officer C).



Opening value as at 31 March 2015

Apply Practitioner flexibilities to calculate best pension as at 31 March 2015. There is no FVEC because Simon did not become a member of the 2015 Scheme until 1 April 2015. In this case the flexibilities to be considered are:

i. Officer B must be treated as Practitioner membership because it is less than 365 reckonable days. The pensionable pay for this membership is dynamised and included as part of the basic Practitioner A pension as at 31 March 2015.

   Plus Officer A is treated as Practitioner membership because it is 10 reckonable years or less. The membership increases the basic Practitioner A pension as at 31 March 2015, under the rule commonly referred to as Reg. 72.

ii. Officer A is calculated as a final salary Officer pension based on pensionable pay only from that period of membership. The pension is increased by PI up to 31 March 2015.

    Plus Officer B must be included in the Practitioner A pension as at 31 March 2015.

iii. both Officer A and Officer B are treated as Practitioner membership. The pensionable pay for this membership is dynamised and included as part of the Practitioner A pension as at 31 March 2015.

Calculate the opening value based on the best of the above options.

Closing Value as at 5 April 2016

Step 1: Calculating the FVEC as at 31 March 2015

The FVEC must be calculated as at the last day of pensionable membership in the 1995/2008 Scheme, in this example 31 March 2015.

Calculate pension F

This is the total amount of 1995/2008 Scheme pension as at 31 March 2015, i.e. the last day of pensionable membership in the 1995 Section, taking account of flexibilities.

In this example pension **F** is the same as the best pension used to calculate the opening value.

Calculate pension P

This is the Practitioner A pension as at 31 March 2015. It must include the pensionable pay from Officer B.

Calculate the FVEC

Simon transitioned from the 1995 Section. The FVEC pension is therefore calculated by first subtracting pension **P** from pension **F** and then dividing the outcome by 1.4%.

Step 2: Uprating the FVEC to 5 April 2016

The FVEC is uprated by 2% for each year from 1 April 2015, pro rata for each complete month of a part year. Increases are compounded at annual rests.

At 5 April 2016 there is one annual increase of 2% only covering the period 1 April 2015 to 31 March 2016. There is no pro rata increase because the period 1 April to 5 April 2016 is not a complete month.

Step 3: Comparing FVEC pension and final salary Officer pension as at 5 April 2016

In respect of Officer A, the closing balance should include the higher of:

1. the final salary Officer pension as at 5 April 2016,

2. the FVEC pension as at 5 April 2016.

Calculate the FVEC pension as at 5 April 2016

Simon transitioned from the 1995 Section. The FVEC pension is therefore uprated FVEC at 5 April 2016 x 1.4%.

PI is added to the FVEC pension from the deemed date of 1 April 2015 i.e. the day after the last day of pensionable membership in the 1995/2008 Scheme.

Calculate a separate Officer pension as at 5 April 2016

A separate final salary Officer pension is calculated in respect of Officer A only, using the final salary linked pensionable pay from 2015 Scheme Officer C as at 5 April 2016.

As Officer C is less than three years we need to step back into the pay during Officer A. Pay from concurrent Officer B cannot be used because it must be included in the separate Practitioner A pension. PI is added to the pension from the deemed date relevant to the pay period used.

Step 4: Calculating a Practitioner pension as at 5 April 2016

A Practitioner pension is calculated in respect of Practitioner A, dynamised up to 5 April 2016. This pension includes the converted Officer B.

Step 5: Calculating the closing value as at 5 April 2016

At 5 April 2016 the pension used in the closing value is the sum of:

- the higher of the FVEC pension or the separate Officer pension, as calculated at Step 3 above, and

- the Practitioner pension.

2016/2017 Annual Allowance

The pension input period for 2016/2017 was from 6 April 2016 to 5 April 2017.

Pension benefits are calculated to:

1. 5 April 2016 for the opening value, and
2. 5 April 2017 for the closing value.

Opening value as at 5 April 2016

The opening value pension will be the 2015/2016 closing value pension.

Closing value as at 5 April 2017

The FVEC, based on the best available flexibilities, has already been calculated as at the last day of pensionable membership in the 1995/2008 Scheme. It is not necessary to revise the FVEC but it must be uprated to 5 April 2017.

Step 1: Uprating the FVEC to 5 April 2017

The FVEC is uprated by 2% for each year from 1 April 2015, pro rata for each complete part month. Increases are compounded at annual rests.

At 5 April 2017 there are two annual increases of 2% covering the period 1 April 2015 to 31 March 2017. There is no pro rata increase because the period 1 April to 5 April 2017 is not a complete month.

Step 2: Comparing FVEC pension and final salary Officer pension as at 5 April 2017

In respect of Officer A, the closing balance should include the higher of:

1. the final salary officer pension as at 5 April 2017,

2. the FVEC pension as at 5 April 2017.

Calculate the FVEC pension as at 5 April 2017

Simon transitioned from the 1995 Section. The FVEC pension is therefore uprated FVEC at 5 April 2017 x 1.4%.

PI is added to the FVEC pension from the deemed date of 1 April 2015 i.e. the day after the last day of pensionable membership in the 1995/2008 Scheme.

Calculate a separate Officer pension as at 5 April 2017

A separate final salary Officer pension is calculated in respect of the Officer A membership only, using the final salary linked pensionable pay from 2015 Scheme Officer C as at 5 April 2017.

As Officer C is less than three years we need to step back into the pay during Officer A. Pay from concurrent Officer B cannot be used because it must be included in the separate Practitioner A pension. PI is added to the pension from the deemed date relevant to the pay period used.

Step 3: Calculate a Practitioner pension as at 5 April 2017

A practitioner pension is calculated in respect of Practitioner A, dynamised up to 5 April 2017. This pension includes the pay from converted Officer B.

Step 4: Calculate the closing value as at 5 April 2017

At 5 April 2017 the pension used in the closing value is the sum of:

- the higher of the FVEC pension or the separate officer pension, as calculated at Step 2 above, and

- the Practitioner pension.