

NHS Pensions

Annual Allowance – Estimating the cost of Scheme Pays

If you are considering using the Scheme Pays facility to pay your Annual Allowance charge, this factsheet gives you some important information about Scheme Pays and explains the effect that Scheme Pays will have on your future NHS benefits.

What will happen if the Scheme pays my Annual Allowance tax charge?

If you opt for the Scheme to pay some or all of your Annual Allowance charge, the NHS benefits that you receive when you retire will be reduced in order for NHS Pensions to recover the tax paid on your behalf. We record the amount of Annual Allowance charge paid as a 'notional negative defined contribution (DC) account' and we will arrange for this to be paid on your behalf. We will charge you interest on the amount of tax paid at the relevant interest rate in excess of inflation, measured by reference to the Consumer Price Index (CPI) until you retire.

The interest rate applied to the amount will be as follows:

- Interest applied up to 15 March 2016: 3.0% in excess of inflation
- Interest applied from 16 March 2016 to 31 March 2019: 2.8% in excess of inflation
- Interest applied from 1 April 2019: 2.4% in excess of inflation.

The negative DC account owing when you retire will be converted into a reduction in your NHS Pension benefits.

What benefits will be reduced?

If you are in the 1995 Section both your pension and retirement lump sum will be reduced proportionately. If you are in the 2008 Section or the 2015 Scheme only your pension will be reduced. No reduction will apply to benefits payable to your spouse or dependants in the event of your death.

How much will my benefits be reduced?

The reduction to your benefits will depend on when you retire and the section or scheme that you are in. However, you may obtain an indication of what the reduction might be using the factors in the tables below. Your reduction in NHS benefits can be estimated as follows:

Reduction to pension: Annual Allowance charge ÷ [Factor 1 or Factor 2]

Reduction to lump sum (1995 Section members only): 3 x reduction in pension

The reduction is calculated in current day terms and will increase in line with the relevant interest rate in excess of inflation up to retirement.

- Factor 1 (obtained from table 1) is for 1995/2008 Scheme members and depends on your current age and your Normal Pension Age (NPA).
- Factor 2 (obtained from table 2) is for 2015 Scheme members and depends on the years from now until retirement.

These factors are indicative and may be revised before you retire.

Examples

- If you are a member of the 1995 Section with a normal pension age of 60 and currently aged 45, the factor you would use is 17.3 and the **estimated** reduction to your pension at age 60 would be:

Annual Allowance charge paid by the 1995/2008 Scheme ÷ 17.3

- If you are a member of the 2015 Scheme and 23 years away from your NPA of 68, the factor you would use is 10.2, and the **estimated** reduction to your pension would be:

Annual Allowance charge paid by the 2015 Scheme ÷ 10.2

Does the amount of reduction depend on when I retire?

If you are under your NPA the estimated reduction factor will be adjusted according to your early retirement age. If you are above your NPA the estimated reduction factor will be based on your current age if you retire before your next birthday.

Factor table 1 – members of the 1995/2008 Scheme

Pension Age:	55	60	65	Pension Age:	55	60	65
Current Age:				Current Age:			
22	12.7	10.4	7.3	46	21.7	17.7	12.2
23	13.0	10.7	7.5	47	22.2	18.1	12.5
24	13.3	10.9	7.6	48	22.8	18.5	12.7
25	13.6	11.1	7.8	49	23.3	18.9	13.0
26	13.9	11.4	8.0	50	23.8	19.4	13.3
27	14.2	11.6	8.1	51	24.4	19.8	13.6
28	14.5	11.9	8.3	52	25.0	20.3	13.9
29	14.8	12.2	8.5	53	25.6	20.7	14.2
30	15.2	12.4	8.7	54	26.2	21.2	14.5
31	15.5	12.7	8.8	55	26.3	21.7	14.9
32	15.9	13.0	9.0	56	25.8	22.2	15.2
33	16.2	13.2	9.2	57	25.3	22.7	15.6
34	16.6	13.6	9.4	58	24.9	23.3	15.9
35	17.0	13.9	9.6	59	24.4	23.9	16.3
36	17.3	14.1	9.8	60	23.9	23.9	16.7
37	17.7	14.5	10.0	61	23.4	23.4	17.1
38	18.1	14.8	10.3	62	22.9	22.9	17.5
39	18.6	15.1	10.5	63	22.4	22.4	18.0
40	19.0	15.5	10.7	64	21.9	21.9	18.4
41	19.4	15.8	10.9	65	21.3	21.3	18.3
42	19.9	16.2	11.2	66	20.8	20.8	17.8
43	20.3	16.5	11.4	67	20.2	20.2	17.2
44	20.8	16.9	11.7	68	19.7	19.7	16.7
45	21.2	17.3	11.9	69	19.1	19.1	16.1
				70	18.6	18.6	15.6

Factors current as at April 2015

Please note that the above factors below NPA are based on retirement at normal pensions age. Factors at or above NPA (shaded area) assume that you retire before your next birthday.

Factor table 2 – members of the 2015 Scheme

Years to retirement (rounded up)	Pension factor	Years to retirement (rounded up)	Pension factor
1	17.7	26	9.5
2	17.2	27	9.3
3	16.8	28	9.1
4	16.3	29	8.9
5	15.8	30	8.7
6	15.3	31	8.5
7	14.8	32	8.3
8	14.5	33	8.2
9	14.2	34	8.0
10	13.8	35	7.8
11	13.5	36	7.7
12	13.2	37	7.5
13	12.9	38	7.4
14	12.7	39	7.2
15	12.4	40	7.1
16	12.1	41	6.9
17	11.8	42	6.8
18	11.6	43	6.6
19	11.3	44	6.5
20	11.1	45	6.4
21	10.9	46	6.2
22	10.6	47	6.1
23	10.2	48	6.0
24	9.9	49	5.9
25	9.7	50	5.7

Factors current as at April 2015

Please note that factors are based on complete years until Normal Pension Age.

These factors are produced by the Scheme Actuary and should only ever be used as a guide to estimating the cost of Scheme Pays. They do not include the relevant interest rate in excess of inflation up to retirement. The actual reduction to your NHS Pension benefits will be calculated at retirement.