

## NHS Pensions - Early retirement reduction buy out (ERRBO)

This factsheet provides members of the 2015 Scheme with information about the facility for buying out the reduction that would apply if retirement benefits were claimed before Normal Pension Age (NPA). Normal Pension Age in the 2015 Scheme is the same as the member's State Pension Age (SPA), or age 65 if that is later, and may rise during membership of the Scheme if State Pension Age rises.



### Background

This Scheme has a Normal Pension Age linked to your State Pension Age which can rise if your State Pension Age rises. An option exists in this Scheme only, for you to pay additional contributions to buy out the reduction that would apply if you retired before your Normal Pension Age. This is known as an 'ERRBO agreement'. Your employer can, if they agree, pay all or part of the required additional contributions on your behalf.

The agreement can be for early retirement one, two or three years before your Normal Pension Age but no earlier than age 65. An exception to this is where your Normal Pension Age is not a whole number, for example if your Normal Pension Age is 65 years and a number of months then an ERRBO agreement can be taken out to include the number of months.

The rate of additional contributions payable is based on your age at the effective date of the agreement (ie your age on 1 April of the first Scheme year to be covered by the agreement) and the number of years' reduction being bought out. There is an overall limit on the total value of additional benefits that can be bought in this Scheme by the payment of additional contributions. If you have bought or are buying Additional Pension (AP) this may limit the scope of the ERRBO agreement available. We will tell you if this applies if you make an application.

The additional contributions are payable during each Scheme year (1 April of one year to 31 March of the following year) that the early retirement reduction is being bought out.

### Examples

Member A has a Normal Pension Age (linked to State Pension Age) of age 66. Member can buy an ERRBO agreement for one year and retire at age 65 with unreduced benefits.

Member B has a Normal Pension Age (linked to State Pension Age) of age 67. Member can buy an ERRBO agreement for two years and retire at age 65 with unreduced benefits, or buy an ERRBO agreement for one year and retire at age 66 with unreduced benefits.

Member C has a Normal Pension Age (linked to State Pension Age) of age 68. Member can buy an ERRBO agreement for three years and retire at age 65 with unreduced benefits, or buy an ERRBO agreement for two years and retire at age 66 with unreduced benefits or buy an ERRBO agreement for one year and retire at age 67 with unreduced benefits.

Member D has a Normal Pension Age (linked to State Pension Age) of age 66 years and six months. Member can buy an ERRBO agreement for one year and six months and retire at age 65 with unreduced benefits or buy an ERRBO agreement for six months and retire at age 66 with unreduced benefits. The ERRBO agreement must result in a reduced retirement age that is a whole number of years.

In all of the above examples the additional contributions must be paid for each Scheme year for it to be included in the ERRBO agreement.

## When can I apply?

An application for an ERRBO agreement must be made within three months of joining or transitioning to the 2015 Scheme for it to be effective from your first Scheme year. Similarly, an application must be made within three months of the beginning of any subsequent Scheme year for it to be effective from that Scheme year. Application forms must be received within three months of either joining the 2015 Scheme or the beginning of the Scheme year, whichever is earlier. Once an agreement is in place it will automatically roll forward to subsequent Scheme years until ended.

It is not permissible to make retrospective applications for earlier Scheme years.

## Example

A member joins this Scheme on 1 April 2015. Provided an application is received by 30 June 2015 the ERRBO agreement will be effective from the beginning of the 2015/2016 Scheme year (1 April 2015) and arrears of additional contributions will be collected by the employer. An application received at a later date will be effective from the beginning of the **next** Scheme year (2016/2017) and additional contributions will be collected by the employer from April 2016. Only Scheme years 2016/2017 and later will be covered by the ERRBO agreement and the pension built up in year 2015/2016 will be reduced for being paid early and for longer.

## How much will it cost?

How much an ERRBO agreement will cost depends on your age in complete years at the day before the effective date of the agreement and the number of years' reduction the agreement is for. The effective date is your age at 31 March immediately before the intended start date of the agreement. The table below gives the rate of extra percentage contributions payable each year in addition to your normal tiered contributions, to secure the agreement. Where the agreement is for or includes a number of months, the cost will be pro rata the percentage rate shown in the table for a one year reduction buy out. However, the cost is subject to review based on advice from the Scheme Actuary, and following review the cost of future instalments of an existing arrangement could be changed.

If the cost of future instalments increases as a result of a review you will have the option to end your agreement. You do not lose everything but simply the pension built up during the payment period of the ERRBO agreement attracts the reduced retirement age.

Age [Complete years at previous 31 March]	Additional contribution rate (% of pay)		
	NORMAL PENSION AGE – 1	NORMAL PENSION AGE – 2	NORMAL PENSION AGE – 3
16	1.39%	2.78%	4.17%
17	1.39%	2.78%	4.17%
18	1.39%	2.78%	4.17%
19	1.40%	2.80%	4.20%
20	1.40%	2.80%	4.20%
21	1.40%	2.80%	4.20%
22	1.41%	2.82%	4.23%
23	1.41%	2.82%	4.23%
24	1.42%	2.84%	4.26%
25	1.42%	2.84%	4.26%
26	1.42%	2.84%	4.26%
27	1.43%	2.86%	4.29%
28	1.43%	2.86%	4.29%
29	1.44%	2.88%	4.32%
30	1.44%	2.88%	4.32%
31	1.44%	2.88%	4.32%
32	1.45%	2.90%	4.35%
33	1.45%	2.90%	4.35%
34	1.46%	2.92%	4.38%
35	1.46%	2.92%	4.38%
36	1.46%	2.92%	4.38%
37	1.47%	2.94%	4.41%
38	1.47%	2.94%	4.41%
39	1.48%	2.96%	4.44%
40	1.48%	2.96%	4.44%
41	1.49%	2.98%	4.47%
42	1.49%	2.98%	4.47%
43	1.50%	3.00%	4.50%
44	1.51%	3.02%	4.53%
45	1.51%	3.02%	4.53%
46	1.52%	3.04%	4.56%
47	1.52%	3.04%	4.56%
48	1.53%	3.06%	4.59%
49	1.54%	3.08%	4.62%
50	1.54%	3.08%	4.62%
51	1.55%	3.10%	4.65%
52	1.56%	3.12%	4.68%
53	1.56%	3.12%	4.68%
54	1.57%	3.14%	4.71%

55	1.58%	3.16%	4.74%
56	1.59%	3.18%	4.77%
57	1.60%	3.20%	4.80%
58	1.61%	3.22%	4.83%
59	1.62%	3.24%	4.86%
60	1.63%	3.26%	4.89%
61	1.64%	3.28%	4.92%
62	1.66%	3.32%	4.98%
63	1.67%	3.34%	5.01%
64	1.69%	3.38%	5.07%
65	1.71%	3.42%	
66	1.69%		
67			

## Example

A member has a Normal Pension Age of age 68 and takes out an agreement to purchase a buy out of three years immediately on joining the 2015 Scheme at age 35. Additional contributions are paid up to their 65<sup>th</sup> birthday when they retire and claim their pension. The normal actuarial reduction that would apply to the pension being paid three years early is eliminated by the buy out and the pension is paid in full. The member will have paid additional contributions of 3.87%, before tax relief\*, in addition to their normal tiered rate contributions for 30 years to be entitled to claim their entire 2015 Scheme benefits without reduction at age 65 i.e. three years earlier than Normal Pension Age.

\*ERRBO contributions do not count towards the annual limit of tax relief on pension contributions, although high earners may need to consider the overall limit for Annual Allowance and Lifetime Allowance purposes as it applies to their normal NHS Pension benefits.

## How do I apply?

You can download an expression of interest form from the increasing your pension section of the website. Use this form to enquire about your eligibility to enter into an ERRBO agreement and seek confirmation of the rate of additional contributions that you would pay if an ERRBO agreement is possible. If you then wish to proceed you will need to sign and return the application for agreement (ERRBO3) form available on our website. Your employer will then be instructed to deduct the additional contributions from the effective date.

## Changes in your plans or circumstances after an ERRBO agreement has started

Below is a series of questions and answers to explain the impact of any change in your plans or circumstances after an ERRBO agreement has started.

### **Q1. What happens if I have to retire before my ERRBO retirement age due to permanent ill health?**

A1. The ERRBO agreement will have no value and you will not have your additional contributions returned. You will, however, receive your pension early and without reduction.

### **Q2. Can I decide to stop and later restart paying ERRBO additional contributions?**

A2. Not routinely. However an ERRBO agreement can be suspended on hardship grounds only for up to one year. If the additional contributions are not restarted within one year the agreement is terminated and you can not subsequently take out a further agreement. We will tell you when you must restart paying additional contributions to avoid termination of the agreement.

### **Q3. Can I terminate the agreement before reaching my ERRBO retirement age?**

A3. Yes you can terminate the agreement at any time. If the period during which additional contributions are paid is less than one year then the additional contributions will be repaid and the agreement cancelled. If the period during which additional contributions have been paid is one year or more, then additional contributions paid during any part Scheme year will be repaid and the buy out period is limited to the end of the previous Scheme year.

### **Q4. What happens if I decide to retire before reaching my ERRBO retirement age?**

A4. Your pension benefits would be reduced for being paid earlier and longer **after** taking account of the ERRBO agreement. For example, a member with a Normal Pension Age of age 66 who purchased a ERRBO agreement of one year decides to retire at age 64. After taking account of the ERRBO, the retirement age is one year earlier than the effective Normal Pension Age and the pension would be reduced by the appropriate factor for early retirement at (Normal Pension Age -1).

### **Q5. What happens if I decide to retire later than my ERRBO retirement age?**

A5. If you take your pension later than the date when an ERRBO agreement would completely eliminate the early retirement reduction, you must continue to pay the ERRBO contributions until you retire or reach your Normal Pension Age. The pension built up in the period of the agreement will be increased because it is paid later than your reduced retirement age.

### **Q6. What happens if I die before reaching my ERRBO retirement age?**

A6. If you die before retirement your ERRBO will not have any value as any survivor benefits are paid unreduced. Any benefits based on prospective service take account of the service to the member's Normal Pension Age and the ERRBO is effectively ignored. This is reflected in the way the ERRBO contributions are set.

**Q7. What happens if I leave on redundancy grounds or in the interests of efficiency before reaching my ERRBO retirement age?**

A7. If you are made redundant and choose to claim your pension the cost of paying it early is assessed on the reduced retirement age taking into account the ERRBO agreement. This may result in less of your redundancy payment being needed to offset the employer's cost and the surplus (if any) returned to you will be greater than if no ERRBO had been purchased.

**Q8. What happens if I have a break in NHS pensionable employment?**

A8. If you have a break in pensionable service of five years or less, an ERRBO agreement will automatically recommence on the same basis as that on which it was previously agreed. This is subject to any changes to the costs as part of the reviews by the Scheme Actuary.

If there is a break in pensionable service of more than five years the ERRBO agreement is terminated. You do not 'lose everything' but simply the pension built up during the payment period of the ERRBO agreement attracts the reduced retirement age.

**Q9. What if I want to increase ERRBO contributions?**

A9. A member who has entered into an ERRBO agreement may increase the amount of ERRBO contributions in order to secure an earlier reduced retirement age, no lower than age 65. The cost of increasing the agreement is determined by the age of the member as at 31 March immediately prior to the increase.

The earlier retirement age will only affect the pension accrued after the date the revised contributions commenced. The pension accrued before the change will continue to be based on the reduced retirement age made in that previous election.

Once a member has entered into an ERRBO agreement they cannot elect to reduce their payments.