

## **NHS Pension Scheme Changes / Incorporation / Pension Allowances**

In recent months, a number of pension issues have come to the fore that will impact on all dentists, in particular those with substantial pension arrangements, and all current NHS members. We have put together the following summary of the changes along with our suggestions for the action you need to consider.

We recommend you read this document very carefully as it contains a number of important topics that may affect you directly.

### **NHS Pension Scheme – To transfer, or remain in the existing scheme?**

NHS Pensions have recently issued a documentation pack on the NHS Pension Choices, inviting members to decide whether to remain in the 1995 Section or transfer to the 2008 Section. If you were a member before 1<sup>st</sup> April 2008, you are in the 1995 Section. The main differences between the two schemes are:

	<b>1995 Section</b>	<b>2008 Section</b>
<b>Contributions</b>	Between <b>5%</b> & <b>8.5%</b> depending on earnings	
<b>Pension</b>	<b>1.4%</b> of uprated earnings per year	<b>1.87%</b> of uprated earnings per year
<b>Retirement Lump Sum</b>	<b>3 x</b> pension. Option to exchange part of pension for cash	<b>No</b> automatic lump sum. Option to exchange part of pension for cash. Some members may have a compulsory lump sum
<b>Normal Retirement Age</b>	<b>60</b>	<b>65</b>

#### **Our advice:**

We have looked at different scenarios for our clients including normal retirement, early retirement and late retirement. In all cases, notwithstanding Lord Hutton's recommendations, we have advised our clients to remain in the 1995 Section. This is not a surprise as the fundamental reason for amending the scheme is to reduce the future cost of funding the NHS pension scheme, so it was never likely that the benefits would be improved.

This does not automatically mean it is the right decision for you, but we have yet to find an example where a dentist would be financially better off transferring to the 2008 Section. We are in the process of obtaining a NHS documentation pack and will closely review the fine print and issue further guidance as appropriate.

### **Incorporation and the NHS Pension Scheme**

An amendment to the NHS Pension Regulations effective from 7th November 2011 highlights that an incorporated performer cannot be a member of the NHS Pension Scheme, a rule that should have been adhered to since the beginning of the new contract in 2006. The Pensions Agency maintain that this rule has been in place since then, as the regulations state that you have to be an individual to be a member of the scheme rather than a sub-contractor.

NASDAL have been involved in discussions with NHS Pensions about the changes and suggest that they will be very significant for many incorporated providers, as typically they have been paying themselves a small salary and dividends (to minimise income tax), whilst claiming a large '43.9% basis' pensionable earnings (i.e. the value of the contract less 'expenses')

Some good news is that there is to be no retrospection, but the bad news is that going forward the "new" basis will apply - which could mean that some incorporations may no longer be tax effective.

It should also be noted that associates who incorporate cannot be a member of the NHS Pension Scheme.

**Our advice:**

If you are thinking about incorporating and are in the NHS Pension scheme, this is a big issue that needs to be carefully considered. If you have already incorporated and hold a substantial NHS contract, this could have a huge impact on your retirement planning and may over-ride the tax benefits of incorporation. We recommend that you obtain advice from your Heritage consultant and your accountant, preferably one with an understanding of the NHS Pension scheme for GDP's.

**Pensions Annual Allowance**

From April 2011, the maximum pension contributions including private pensions and the NHS employer plus member contributions cannot exceed £50,000 per annum. Contributions above this limit are charged to tax at the highest rate.

It is quite possible for a dentist who is an active member of the NHS pension scheme and are also contributing to private pensions, to inadvertently exceed the annual allowance. The calculation is quite complicated, but as a very rough guide, every £50,000 of Pensionable Earnings uses up somewhere around £16,000 of your Annual Allowance each year.

Even if you have exceeded the limits, all may not be lost, as it is now possible to 'carry forward' up to 3 years previous 'unused relief'. In other words, if you didn't use up all your £50,000 Annual Allowance in the previous 3 years, you may carry forward the balance and use it in the current financial year, once you've maximised this year's allowance.

**Our advice:**

If you are an active member of the NHS pension scheme and are also contributing to a personal pension or SIPP, you need to check if you are likely to exceed the Annual Allowance. If you are a Heritage client, we will be undertaking this exercise for you as part of the on-going service.

**Lifetime Allowance**

Not to be confused with the Annual Allowance, the Government has reduced the 'cap' on the size of the pension fund (the Lifetime Allowance) that can be built before retirement, down to £1.5m with effect from April 2012. This includes both private pensions and the NHS pension scheme.

If you expect your total pension benefits to be worth more than £1.5m, you can apply for 'Fixed Protection'. This means your pension benefits are protected from any tax charge, up to the value of £1.8m. To claim fixed protection, you cannot make any contributions to a private pension or accumulate additional NHS pension benefits after April 2012 (except indexation of existing NHS benefits).

The application needs to be in by 05 April 2012. The potential tax charge is 55% of the surplus over the Lifetime Allowance.

HMRC are using a valuation factor of 20:1 for converting a 'defined benefit' scheme such as the NHS pension scheme to a cash equivalent. So if a dentist's estimated NHS pension at age 60 is £50,000 per annum, they will have used up  $£50,000 \times 20 = £1\text{m}$  of their Lifetime Allowance, plus the lump sum of  $£150,000 = £1,150,000$ . Thus if their private pensions are estimated to be more than £350,000 at retirement, they will be above the £1.5m allowance and should consider fixed protection.

**Our advice:**

Quite simply, take advice. This is a very complex area and we will be reviewing the individual position of every Heritage client before the end of 2011, in time to advise if they should be opting for fixed protection.

NHS Pensions have provided a helpful fact sheet regarding the Lifetime Allowance changes:  
[http://www.nhsbsa.nhs.uk/Documents/Pensions/Reduced Lifetime Allowance and Fixed Protection Factsheet \(V1\) 10.2011.pdf](http://www.nhsbsa.nhs.uk/Documents/Pensions/Reduced_Lifetime_Allowance_and_Fixed_Protection_Factsheet_(V1)_10.2011.pdf)

We hope you find the above is informative and useful and re-iterate that if you have any pension concerns whatsoever, please contact us sooner rather than later, and preferably before the end of November 2011 to allow us time to analyse your individual position and give you accurate advice so you can act before the deadline.

Peter Dunn  
26<sup>th</sup> October 2011