

NHS Pensions - About your 2008 Section annual pension

How your 2008 Section pension is worked out

Your annual pension is equal to one-sixtieth of your reckonable pay (see below) for each year and part year of Scheme membership. The calculation is as follows:

$$\frac{1}{60} \times \text{reckonable pay} \times \text{years of membership}^*.$$

*For example, 5 years and 213 days of membership is equal to 5.58 years of membership.

If, at the date of retirement, you decide to give up some of your pension to provide a lump sum retiring allowance, we will deduct £1 from your annual pension (including any additional pensions) for each £12 of lump sum retiring allowance you choose to receive.

If you chose to move to the 2008 Section of the NHS Pension Scheme under the Choice exercise, when you retire, you must take at least the same amount of lump sum retiring allowance that you had earned at 31 March 2008 in the 1995 Section. This mandatory lump sum is paid for by reducing your pension by £1 for every £12 of lump sum that you take and was explained in the Choice statement we sent to you.

If, by the date of retirement, you have bought any additional pensions, they will not be included in the calculation of your mandatory lump sum retiring allowance.

Part of your annual pension will be increased for each complete month you work after reaching age 65 years if you are an active member of the Scheme.

Optional lump sum retiring allowance

When you apply for your pension, you will be given the option to exchange some of your pension (including any additional pensions you may have bought) for a lump sum or (if you chose to move to the 2008 Section of the NHS Pension Scheme under the Choice exercise) of increasing your mandatory lump sum, by exchanging some of your pension (including any additional pensions you may have bought). For every £1 of pension you give up, you will receive £12 lump sum retiring allowance.

You are able to give up as much of your pension as you like as long as you do not:

- reduce your pension below your guaranteed minimum (as defined by HM Revenue and Customs), or
- increase your lump sum retiring allowance to the extent that it will exceed 25% of the capital value of your NHS Pension Scheme benefits.

For the purposes of illustration, we have worked out your pension benefits assuming you chose to:

- have no lump sum retiring allowance, and
- take the maximum amount of lump sum retiring allowance possible.

If you chose to move your 1995 Section benefits to the 2008 Section we have worked out two sets of pension benefits by assuming that you choose to:

- take your mandatory lump sum retiring allowance only, and
- take the maximum amount of lump sum retiring allowance possible.

You do not have to give up any pension at all, but to help with planning a calculator is available on our website. It will enable you to use the information from the enclosed pension estimate to look at different lump sum options, if you decide to give up a smaller part of your pension.

It is important to understand that any figures you obtain from the calculator will be provided for the purpose of illustration only. They will give an indication of what you might get, but the final benefits may vary depending on changes in your personal circumstances and to the rules of the pension scheme.

You should consider seeking independent professional financial advice before making any decisions.

Any lump sum retiring allowance is normally payable on your retirement.

Maximum lump sum

HMRC has restrictions on the amount of tax free pension commencement lump sum (PCLS) paid by a pension scheme, unless the individual has a protected lump sum or other types of protection. The PCLS is the lower of:

- 25% of the capital value of the benefits to be paid (after the exchange of pension for lump sum and not the basic amounts), or
- 25% of the available standard Lifetime Allowance (LTA).

The actual amount of tax free lump sum available at retirement will depend on your individual circumstances and may be:

1. higher than the current maximum possible tax free PCLS if you hold certain types of protection or have a protected lump sum from HMRC, or
2. lower than the current maximum possible tax free PCLS if you already have benefits in payment (either from the NHS Pension Scheme or another pension provider) which reduces their available LTA.

If the maximum lump sum after commutation exceeds 1 above, then not all the lump sum may be tax free.

More detailed information about maximum lump sums and tax can be found on our website.

Your reckonable pay

For estimation purposes, your reckonable pay is calculated using the average of the best consecutive three years in the last 10 (or, if less, the amount of time you have been in the 2008 Section of the NHS Pension Scheme). Before selecting the best consecutive three years pay, each year in the last ten will first be revalued in line with the Consumer Price Index (CPI). This may result in an earlier three year period providing the reckonable pay to work out your pension benefits.

If you have moved from the 1995 Section to the 2008 Section under the Choice exercise, only pensionable earnings from 1 April 2008 up to your last day of membership are taken into account. If you work part time, we calculate your reckonable pay as if you were full time.

Protected pay

This estimate shows your current reckonable pay, but if you have one or more periods of deferred or protected membership, we calculate your pension using the most beneficial of the following two methods:

- Calculating a pension for each period of membership using the reckonable pay earned in that period, and adding the pensions up, or
- Calculating your pension using your reckonable pay at retirement for all periods of membership.

Normal pension age

The normal pension age for members of the 2008 Section is age 65.

Your membership

If you work full time, you build up one day's membership for each day you are a member of the Scheme. If you work part time, the membership you build up is proportional to the hours or sessions you work when compared with the whole time equivalent hours or sessions.

For estimation purposes, we have assumed that your current membership pattern is maintained up to the date of retirement.

If you chose to move to the 2008 Section under the Choice exercise, the membership you have built up to 31 March 2008 may be reduced if you were over age 60 at 1 October 2009. If your membership is subject to a reduction the amount you built up to 31 March 2008 is reduced before being used to calculate your annual pension. This was explained in more detail on the Choice statement you received at the time you elected to move.

Increasing your membership

Your membership may be increased if, by the date of retirement:

- you transferred your pension rights from another scheme into the NHS Pension Scheme, or
- you bought additional membership as a member of the 1995 Section
- you retire because of ill health.

Limiting your membership

You are allowed to build up membership up to a total limit of 45 years pensionable membership at calendar length. If you achieve 45 years pensionable membership and continue in NHS employment you can, if you wish, continue to pay contributions into the Scheme. To be eligible to do so, you must apply in writing giving notice of an intention to remain in pensionable employment beyond 45 years. NHS Pensions and your employing authority should receive that notice not earlier than three months before you reach the 45 year limit and by the end of the pay period during which you reach the 45 year limit.

For members who elect to contribute to the 2008 Section after they have reached 45 years pensionable membership, any benefits payable will be assessed taking into account the reckonable pay up to the date you stop contributing to the Scheme or retire. Pension benefits will be calculated using the most beneficial 45 years.

Additional pension purchases

If you have purchased or are purchasing additional pension this has been shown separately in our calculation.

Scheme pays election

If you are subject to an annual allowance charge and have elected for NHS Pensions to pay some or all of the charge, on your behalf, from your NHS pension, we have not made any scheme pays deductions to the estimated pension. The deduction will be applied when you retire.

Pension sharing and earmarking orders

If you are subject to a pension sharing order or an earmarking order, the estimated benefits shown do not include any adjustments which may be made at retirement in accordance with the terms of the order.

Earnings cap

If you joined the NHS Pension Scheme on or after the 1 June 1989, you will be subject to the earnings cap for membership built up to 31 March 2008. The estimated benefits have taken this into account where it is applicable.

Whole time limit

Where your membership has been projected it is calculated using the hours worked in the last periods of employment. If your projected membership exceeds whole time, it has been restricted to whole time.

Members with entitlement in both the 1995 and 2008 Sections of the Scheme

Redundancy benefits are based only on your membership of the Section of the Scheme in which you are an active member. For the purpose of this estimate deferred membership in the 1995 Section has not been taken into account when considering maximum membership limits. If you think that your combined membership in both the 1995 and 2008 Sections may exceed the maximum membership limit, contact NHS Pensions.

Pensions increase

Once in payment NHS Pensions are reviewed annually and are increased to keep pace with the cost of living.

Lifetime allowance

The lifetime allowance (LTA) is the limit, set by HMRC, on the capital value of benefits you can take without incurring a tax charge. The LTA is normally tested at the point at which you take your benefits, and this is called 'crystallisation' of your benefits. We cannot provide the percentage LTA used until benefits are crystallised.

Pension benefits payable after your death

Depending on circumstances, the Scheme may pay one or more of the following benefits:

- lump sum on death benefit
- adult dependant's pension
- one or more children's pensions.

Lump sum on death benefit

A lump sum on death benefit is a normally tax free sum of money that:

- is payable following your death whilst still an active Scheme member, or
- is payable following your death while your pension benefits are deferred, or
- may be payable following your death in retirement if you have been in receipt of your pension for less than five years.

The lump sum is paid to the organisation, or one or more persons, you have specifically nominated to receive it. If you have not made a nomination, the lump sum will be paid to your surviving partner, if you have one; otherwise, it will be paid to your legal personal representative.

You can make a nomination, and change your nomination, at any time. If you would like to make a nomination, or change an existing nomination, please complete form DB2 available on our website.

The lump sum on death benefit quoted in this illustration is payable only in the event of death before pension entitlement. Any lump sum that may be payable following death in retirement will be less. For more information about benefits payable on death please refer to the Survivor's Guide available on our website.

Adult dependant's pension

A pension may be payable for life to your legal spouse, civil partner or qualifying nominated partner. The rate of an adult dependant's pension depends on your circumstances at the time of death.

If you are in pensionable employment at the time of your death, an adult dependant's pension is paid at an initial rate at least equal to your pensionable pay for a period of six months. After this initial period, the pension is paid at a rate equal to 37.5% of a tier 2 ill health pension.

If you retire and are in receipt of your annual pension at the time of your death, an adult dependant's pension is normally paid at an initial rate equal to your standard annual pension for three months (six months if there are dependent children). After this initial period, the pension is paid at a rate equal to 37.5% of your standard annual pension.

If you were to die within 12 months of leaving the Scheme and your pension benefits are deferred, an adult dependant's pension is paid at a rate equal to 37.5% of a tier 2 ill health pension. If you were to die 12 months or more after leaving, the pension is paid at a rate equal to 37.5% of your standard annual pension.

The long term rate of an adult dependant's pension is equal to 37.5% of your annual pension before any reduction for the cost of the mandatory lump sum but before any addition for working beyond age 65.

If you wish to nominate your partner to receive an adult dependant's pension please complete form PN1, which is available on our website.

If, by the date of retirement, you have bought one or more additional pensions with dependant cover, a proportion of these additional pensions will be added to the adult dependant's pension.

For more information about benefits payable on death please refer to the Survivor's Guide available on our website.

Children's pension

A pension may be paid if the child is dependent on you both at retirement and on your death, and they are:

- under age 23, or
- aged 23 or over and incapable of earning a living due to permanent physical or mental disability from which the child was suffering at the time of your death.

The pension will be based on a minimum of 10 years pensionable membership.

Actuarially Reduced Early Retirement

If you elect for Actuarially Reduced Early Retirement (ARER) after reaching minimum pension age and before age 65, your pension benefits will be reduced because they are being paid early. The reduction is based on your age in years and complete months when your pension starts. For information about actuarial reduction factors applied to pension benefits paid before normal pension age please visit the Factor Suite available in the Useful Information section of our website.

If you exchange some of your pension for a lump sum or (if you chose to move to the 2008 Section of the NHS Pension Scheme under the Choice exercise and want to increase your mandatory lump sum) the calculation is based on the actuarially reduced annual pension. Dependant's benefits remain unaffected and suffer no reduction on ARER.

Requests for multiple or non standard estimates

NHS Pensions is required to provide one standard age estimate per year under the Occupational Pension Scheme (Disclosure of Information) Regulations. Any additional estimates requested over and above this, or non standard requests such as for a hypothetical estimate, will incur a charge.

A schedule of charges is available on our website.