

# 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 to 30 March 2023: 2.4% in excess of inflation
* interest applied from 31 March 2023: 1.7% 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 dependents in the event of your death.

## How much will my benefits be reduced?

The reduction to your benefits will depend on when you retire, the section or Scheme that you are in, the interest applied over the period to retirement and the Scheme Pays factors in force at your retirement date.

As there are elements that can change, this factsheet provides an illustrative set of simplified factors that you may use to give an indication of what the reduction might be at your retirement date - assuming you do not retire due to ill-health. The reduction to your 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 illustrative 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.

The factors in this factsheet are produced by the Scheme Actuary and should only ever be used as a guide to estimate the cost of Scheme Pays. They do not include the relevant interest rate in excess of inflation up to retirement. These factors should not be used for retirement in ill health.

The actual reduction to your NHS Pension benefits will be calculated at retirement using the actual Scheme factors in force at that date.

## 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 20.1 and the estimated reduction to your pension at age 60 would be:

# Annual Allowance charge paid by the 1995 Section ÷ 20.1

# If you are a member of the 2015 Scheme and 23 years away from your NPA of 68, the factor you would use is 12.1, and the estimated reduction to your pension would be:

# Annual Allowance charge paid by the 2015 Scheme ÷ 12.1

## 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:** | **1995 Section, Pension age 55** | **1995 Section, Pension age 60** | **2008 Section,Pension age 65** | **Pension Age:** | **1995 Section, Pension age 55** | **1995 Section, Pension age 60** | **2008 Section, Pension age 65** |
| Current Age: |  |  |  | Current Age: |  |  |  |
| 22 | 17.1 | 14.2 | 10.1 | 46 | 24.8 | 20.5 | 14.4 |
| 23 | 17.3 | 14.4 | 10.3 | 47 | 25.2 | 20.8 | 14.6 |
| 24 | 17.6 | 14.6 | 10.4 | 48 | 25.6 | 21.1 | 14.8 |
| 25 | 17.9 | 14.9 | 10.6 | 49 | 26.0 | 21.5 | 15.1 |
| 26 | 18.1 | 15.1 | 10.7 | 50 | 26.4 | 21.8 | 15.3 |
| 27 | 18.4 | 15.3 | 10.9 | 51 | 26.8 | 22.2 | 15.5 |
| 28 | 18.7 | 15.5 | 11.1 | 52 | 27.3 | 22.5 | 15.8 |
| 29 | 19.0 | 15.8 | 11.2 | 53 | 27.8 | 22.9 | 16.0 |
| 30 | 19.3 | 16.0 | 11.4 | 54 | 28.2 | 23.2 | 16.3 |
| 31 | 19.6 | 16.3 | 11.5 | 55 | 28.2 | 23.6 | 16.5 |
| 32 | 19.9 | 16.5 | 11.7 | 56 | 27.6 | 24.0 | 16.8 |
| 33 | 20.2 | 16.8 | 11.9 | 57 | 27.0 | 24.4 | 17.0 |
| 34 | 20.5 | 17.0 | 12.1 | 58 | 26.4 | 24.8 | 17.3 |
| 35 | 20.8 | 17.3 | 12.2 | 59 | 25.8 | 25.2 | 17.6 |
| 36 | 21.2 | 17.5 | 12.4 | 60 | 25.2 | 25.2 | 17.9 |
| 37 | 21.5 | 17.8 | 12.6 | 61 | 24.5 | 24.5 | 18.2 |
| 38 | 21.8 | 18.1 | 12.8 | 62 | 23.9 | 23.9 | 18.5 |
| 39 | 22.2 | 18.4 | 13.0 | 63 | 23.3 | 23.3 | 18.9 |
| 40 | 22.5 | 18.7 | 13.2 | 64 | 22.7 | 22.7 | 19.2 |
| 41 | 22.9 | 18.9 | 13.4 | 65 | 22.0 | 22.0 | 19.0 |
| 42 | 23.3 | 19.2 | 13.6 | 66 | 21.4 | 21.4 | 18.4 |
| 43 | 23.6 | 19.5 | 13.8 | 67 | 20.7 | 20.7 | 17.7 |
| 44 | 24.0 | 19.8 | 14.0 | 68 | 20.1 | 20.1 | 17.1 |
| 45 | 24.4 | 20.1 | 14.2 | 69 | 19.4 | 19.4 | 16.4 |
|  |  |  |  | 70 | 18.8 | 18.8 | 15.8 |

Factors in force from 30 March 2023

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 | 18.2 | 26 | 11.6 |
| 2 | 17.8 | 27 | 11.4 |
| 3 | 17.3 | 28 | 11.2 |
| 4 | 16.8 | 29 | 11.1 |
| 5 | 16.5 | 30 | 10.9 |
| 6 | 16.3 | 31 | 10.8 |
| 7 | 16.0 | 32 | 10.6 |
| 8 | 15.7 | 33 | 10.5 |
| 9 | 15.5 | 34 | 10.3 |
| 10 | 15.2 | 35 | 10.2 |
| 11 | 15.0 | 36 | 10.0 |
| 12 | 14.8 | 37 | 9.9 |
| 13 | 14.5 | 38 | 9.7 |
| 14 | 14.3 | 39 | 9.6 |
| 15 | 14.1 | 40 | 9.5 |
| 16 | 13.9 | 41 | 9.3 |
| 17 | 13.7 | 42 | 9.2 |
| 18 | 13.5 | 43 | 9.1 |
| 19 | 13.2 | 44 | 9.0 |
| 20 | 12.9 | 45 | 8.8 |
| 21 | 12.5 | 46 | 8.7 |
| 22 | 12.2 | 47 | 8.6 |
| 23 | 12.1 | 48 | 8.5 |
| 24 | 11.9 | 49 | 8.3 |
| 25 | 11.7 | 50 | 8.2 |

Factors in force from 30 March 2023

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