

Important note: When reading this fact sheet please bear in mind the following important changes.

Simplification of pensions taxation

From 6 April 2006 pension benefits will continue to receive the existing tax allowances subject to only two new Her Majesty's Revenue and Customs (HMRC) limits:

- the total lifetime pension saving from all types of pension (including the NHS pension scheme benefits, added years, AVCs, FSAVCs, personal pension plans and stakeholder schemes) cannot exceed the lifetime allowance. The **lifetime allowance** for the first five years are as follows:

2006/07 – £1,500,000

2007/08 – £1,600,000

2008/09 – £1,650,000

2009/10 – £1,750,000

2010/11 – £1,800,000

- the increase in the value of pension savings cannot be more than the annual allowance, except in the year in which the benefits are taken in full. The **annual allowance** for the first five years are as follows:

2006/07 – £215,000

2007/08 – £225,000

2008/09 – £235,000

2009/10 – £245,000

2010/11 – £255,000

Further to the introduction of these new rules all previous pension taxation regimes have been abolished. For example:

- the abolition of the 15 per cent contribution limit into occupational pension schemes, and age dependent contribution limits for personal pension plans
- the abolition of the earnings cap, which applies only to those who joined or rejoined (with a break of more than 12 months) an occupational pension scheme after 1 June 1989
- the removal of existing membership limits, eg 40 years' service by age 60 and 45 years' service by age 65 and beyond.

However, the above changes are 'permissive legislation' meaning that individual occupational pension schemes may operate within the HMRC framework without altering much of their existing 'scheme specific' rules. As such, the NHS pension scheme intends to retain the contribution limit of 15 per cent, an earnings cap, and the current membership restrictions. Greater contributions will be permitted into the NHS money purchase AVC plan and 25 per cent of the fund value will be able to be taken as a tax free lump sum.

From 6 April 2006, HMRC has set up transitional protection arrangements for those members whose total benefits were within the pre 6 April 2006 regimes, but who could now exceed the new tax regime. There are two different types of protection which can be applied for, by registration directly with HMRC, up until the deadline of 5 April 2009. For further details

please refer to the HMRC website. (www.hmrc.gov.uk/pensionschemes/protection-of-existing-rights.pdf)

After 6 April 2006, if the two limits (lifetime and annual allowances detailed above) are exceeded additional tax charges will apply. Specific guidance for NHS pension scheme members and details of how to assess whether your potential benefits fall within the lifetime allowance, and the charges that will apply to benefits in excess of these limits, can be found on the NHSPA website. (www.nhs.gov.uk)

Should further guidance be required, BMA members can obtain independent financial advice from BMA Services on 0870 901 4566.

Voluntary early retirement

BMA membership guidance

September 2005

Please read the disclaimer and notes section at the end of this guidance before acting on any information given here.

Introduction

- 1.1 The term 'early retirement' is used in a number of different contexts. This guidance looks at voluntary early retirement. Voluntary early retirement is where a member decides to leave the NHS pension scheme of their own accord, prior to age 60 (55 for eligible mental health officers).
- 1.2 The normal retirement age in the NHS pension scheme is age 60 (except for mental health officers, for whom it is age 55). At this age any doctor may retire and claim their pension and lump sum unreduced. Retirement before this age is therefore 'early retirement'.
- 1.3 There are several types of early retirement; voluntary early retirement, redundancy or compulsory organisational change or in the interests of the efficiency of the service. These will be discussed in separate guidance.

Voluntary early retirement – with actuarial deduction

- 2.1 It is possible to retire at present from age 50 onwards. However, changes to pensions may mean that in the future, retirement is only possible from age 55, (salaried doctors do not require the consent of the employer, nor a GP the consent of the PCT/HA/LHB)
- 2.2 The pension and lump sum will be calculated as at the date of retirement. They will then be reduced to take account of the fact that they are being paid before the normal retirement age of 60.
- 2.3 The NHS scheme actuarial reduction factors have been set by the Government Actuary's Department and are shown in the appendix, paragraph 1. Examples of the effect on pension and lump sum are given in the appendix, paragraph 2.

- 2.4 Although voluntary early retirement does not require employer/PCT consent, the pension will only be payable if the benefits are at least equal to the guaranteed minimum pension (GMP). The Pensions Agency will calculate this.
- 2.5 GMP is the minimum pension that a member would have been guaranteed if they had remained a member of the state earnings related pension scheme (SERPS). As members of the NHS pension scheme are automatically contracted out of SERPS, the NHS pension scheme has to guarantee to pay a pension at least equivalent to this. The National Insurance Contributions Office is responsible for calculating the GMP.

Voluntary early retirement – without actuarial reduction

- 3.1 Doctors may volunteer for early retirement without actuarial reduction or employers may seek volunteers, provided that:
- other early retirement options are not appropriate; and
 - the efficiency of the organisation would be improved.
- 3.2 Whether the doctor volunteers or the employer seeks volunteers, this option is completely voluntary. The employer is responsible for meeting the cost involved in not actuarially reducing the pension and lump sum.
- 3.3 This option is not available to GPs because there is no employer to meet the cost and this option is not available to GP practice staff.
- 3.4 If an employer agrees to voluntary early retirement without actuarial reduction, doctors must take their pensions early (without actuarial reduction) from all NHS posts.

Employer costs of early retirement

- 4.1 The employer is required to meet the following costs of voluntary early retirement without actuarial reduction:
- the pension up to age 60
 - pension increases in line with inflation up to age 60
 - actuarial cost involved in paying the lump sum before 60
 - the extra costs of retiring from concurrent posts as well as the original post.
- 4.2 The employer pays the additional costs involved in the following ways:
- a single capitalised lump sum payable within one month of the date of retirement; or
 - spreading the cost over five years in equal annual instalments (including interest).

Mental health officers

- 5.1 Doctors with mental health officer (MHO) status, and at least 20 years' service as an MHO, can claim their pension and lump sum from age 55 with no actuarial reduction. However, if they take voluntary early retirement before age 55, then they will be subject to the same actuarial factors as other doctors. This means that if they retire at, say, age 54, they will receive only 71.6 per cent (see appendix para1) of the pension accrued to that age, whereas, if they waited just one more year they could receive 100 per cent of the accrued pension at age 55.

Planning ahead for early retirement

- 6.1 It is possible to pay extra contributions into the NHS scheme to plan ahead for voluntary early retirement and to offset the actuarial reduction. This can be done by buying additional years of service, paying additional voluntary contributions (AVCs) or free standing additional voluntary contributions (FSAVCs). The separate BMA guidance on improving benefits provides further information.

Returning to NHS employment after early retirement

Eligibility for re-employment

- 7.1.1 Where a doctor takes voluntary early retirement with actuarial reduction, a return to work is permitted.
- 7.1.2 Where a doctor takes voluntary early retirement without reduction, employers, who meet the extra costs, have been told by the Department of Health¹ that re-employment is not expected to take place unless such re-employment clearly represents good value for money. Employers are responsible for making this decision on a case-by-case basis.

¹ HSG (95)25 NHS Early retirement arrangements

Membership of the NHS pension scheme

- 7.2 Doctors are not allowed to rejoin, or continue in the NHS pension scheme after claiming their NHS pension through voluntary early retirement either with or without actuarial reduction.

Abatement

- 7.3.1 Abatement is the procedure whereby the NHS pension is reduced or removed, if NHS pension plus NHS income on return to work exceeds pre-retirement NHS income.

- 7.3.2 Doctors will only be abated if they are aged under 60, but this will not apply to a doctor taking voluntary early retirement with an actuarial reduction after 1 April 2000 and who subsequently resume NHS employment after the required break.
- 7.3.3 Further detail on abatement can be found in the guidance for salaried doctors and GPs.

Break in service

- 7.4 For abatement not to apply when voluntary early retirement with actuarial reduction is taken there must be a genuine retirement involving a significant break in service that must be a period of at least one month. If the break is less than one month, then the pension is suspended completely during the re-employment. However, a break of just one day can be taken if the re-employment is for 16 hours a week or less (this exception does not apply to practitioners). The hours may then be increased after a month at a reduced level.

Distinction awards

- 7.5.1 Consultants who are employed after retirement may continue to be paid their distinction awards/discretionary points/clinical excellence awards, where applicable, if the employer agrees.
- 7.5.2 If re-employment is on a locum basis then distinction awards are not payable. However, trusts may take a former award into account in determining remuneration arrangements.

Cost of living increases

- 8.1 The NHS pension is normally increased each year in line with the retail prices index. However, if voluntary early retirement occurs before age 55 then the pension is not increased until age 55 at which point there is a 'catching up' increase to take account of inflation since retirement. From age 55, the pension is increased annually in the normal way.

Effect of early retirement on added years/AVCs/FSAVCs

- 9.1 If a doctor retires early:
- a credit will be given for any added years purchased. The size of this credit will depend upon the extent to which the added years contract has been completed.
- ie added years contract of 4 years purchased from ages 40 to 60 (20 years) doctor retires at age 55.

The doctor has completed 15 years of a 20 year contract.

Therefore the calculation of added years will be:

$$\frac{15}{20} \times 4 = 3 \text{ years}$$

- the accumulated value of any AVCs or FSAVCs can be taken at the same time as the NHS pension on early retirement and used to purchase an annuity. This need not be the case however, and the purchase of the annuity can be deferred up to age 75. (An annuity is a type of insurance policy that provides a regular income in exchange for a lump sum.)

Please note that the deferment of an AVC/FSAVC plan does not necessarily result in greater benefits because this will depend upon the interest rates prevailing at the time of purchasing the annuity. Financial advice should be sought if this option is being considered.

Voluntary early retirement – appendix

1 NHS pension scheme: early retirement factors by age attained

(para 2.3 refers)

| Complete months | | | | | | | | | | | | |
|-----------------|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| Age | Pensions | | | | | | | | | | | |
| 50 | 0.599 | 0.601 | 0.604 | 0.606 | 0.608 | 0.610 | 0.612 | 0.614 | 0.616 | 0.618 | 0.620 | 0.622 |
| 51 | 0.624 | 0.627 | 0.629 | 0.631 | 0.634 | 0.636 | 0.638 | 0.640 | 0.643 | 0.645 | 0.647 | 0.650 |
| 52 | 0.652 | 0.654 | 0.657 | 0.660 | 0.662 | 0.665 | 0.667 | 0.670 | 0.672 | 0.675 | 0.677 | 0.680 |
| 53 | 0.682 | 0.685 | 0.688 | 0.691 | 0.694 | 0.696 | 0.699 | 0.702 | 0.705 | 0.708 | 0.711 | 0.713 |
| 54 | 0.716 | 0.719 | 0.723 | 0.726 | 0.729 | 0.732 | 0.735 | 0.738 | 0.742 | 0.745 | 0.748 | 0.751 |
| 55 | 0.754 | 0.758 | 0.761 | 0.765 | 0.768 | 0.772 | 0.775 | 0.779 | 0.782 | 0.785 | 0.789 | 0.792 |
| 56 | 0.796 | 0.800 | 0.803 | 0.807 | 0.811 | 0.815 | 0.818 | 0.822 | 0.826 | 0.830 | 0.833 | 0.837 |
| 57 | 0.841 | 0.845 | 0.849 | 0.853 | 0.857 | 0.861 | 0.865 | 0.869 | 0.873 | 0.878 | 0.882 | 0.886 |
| 58 | 0.890 | 0.894 | 0.899 | 0.903 | 0.907 | 0.912 | 0.916 | 0.921 | 0.925 | 0.929 | 0.934 | 0.938 |
| 59 | 0.943 | 0.947 | 0.952 | 0.957 | 0.962 | 0.966 | 0.971 | 0.976 | 0.981 | 0.986 | 0.990 | 0.995 |
| Age | Lump sums | | | | | | | | | | | |
| 50 | 0.747 | 0.749 | 0.751 | 0.753 | 0.755 | 0.756 | 0.758 | 0.760 | 0.762 | 0.764 | 0.766 | 0.767 |
| 51 | 0.769 | 0.771 | 0.773 | 0.775 | 0.777 | 0.779 | 0.780 | 0.782 | 0.784 | 0.786 | 0.788 | 0.790 |
| 52 | 0.792 | 0.794 | 0.796 | 0.798 | 0.800 | 0.801 | 0.803 | 0.805 | 0.807 | 0.809 | 0.811 | 0.813 |
| 53 | 0.815 | 0.817 | 0.819 | 0.821 | 0.823 | 0.825 | 0.827 | 0.829 | 0.831 | 0.833 | 0.835 | 0.837 |
| 54 | 0.839 | 0.841 | 0.843 | 0.845 | 0.847 | 0.849 | 0.851 | 0.854 | 0.856 | 0.858 | 0.860 | 0.862 |
| 55 | 0.864 | 0.866 | 0.868 | 0.870 | 0.872 | 0.874 | 0.877 | 0.879 | 0.881 | 0.883 | 0.885 | 0.887 |
| 56 | 0.889 | 0.892 | 0.894 | 0.896 | 0.898 | 0.900 | 0.902 | 0.905 | 0.907 | 0.909 | 0.911 | 0.913 |
| 57 | 0.916 | 0.918 | 0.920 | 0.922 | 0.925 | 0.927 | 0.929 | 0.932 | 0.934 | 0.936 | 0.938 | 0.941 |
| 58 | 0.943 | 0.945 | 0.948 | 0.950 | 0.952 | 0.955 | 0.957 | 0.959 | 0.962 | 0.964 | 0.966 | 0.969 |
| 59 | 0.971 | 0.973 | 0.976 | 0.978 | 0.981 | 0.983 | 0.985 | 0.988 | 0.990 | 0.993 | 0.995 | 0.998 |

[Source: Government Actuary's Department 15.6.94]

2 Voluntary early retirement: effect of actuarial reduction

(para 2.3 refers)

- Notes:**
1. See paragraph 1 above for actuarial reduction factors.
 2. An explanation of how the accrued pension and lump sum are calculated is provided in the separate BMA guidance for salaried doctors and GPs, available from the BMA website (www.bma.org.uk) and from the BMA pensions department.

Example 1

A 50 year old doctor who has accrued a pension of £20,000 and a lump sum of £60,000:

Pension

0.599 (see para 1) of accrued pension is payable

Pension on voluntary early retirement

$$0.599 \times £20,000 = £11,980$$

Lump sum

0.747 (see para 1) of accrued lump sum is payable

Lump sum on voluntary early retirement:

$$0.747 \times £60,000 = £44,820$$

Example 2

A doctor aged 58 years and 6 months who has accrued a pension of £27,000 and a lump sum of £81,000:

Pension

0.916 (see para 1) of accrued pension is payable

Pension on voluntary early retirement:

$$0.916 \times £27,000 = £24,732$$

Lump sum

0.957 (see para 1) of accrued lump sum is payable

Lump sum on voluntary early retirement:

$$0.957 \times £81,000 = £77,517$$

Further guidance

A number of other pensions factsheets and guidance are available from the website at www.bma.org.uk/pensions or from the BMA pensions department or askBMA:

- NHS pension scheme – An overview
- General practitioners
- Salaried doctors
- Improving benefits
- Leaving the NHS
- Voluntary early retirement
- Redundancy
- Ill-health retirement
- Death benefits
- Injury benefits
- Maternity, paternity and parental leave

- Pre-retirement seminar details
- Glossary of pensions terms
- Frequently asked questions
- Latest news
- Health and activities in retirement
- Pension ready reckoner and calculator
- Useful links to other sites
- State benefits

Useful addresses

BMA Pensions Department
BMA House
Tavistock Square
London
WC1H 9JP
Tel: 020 7383 6166
Fax: 020 7383 6484
Email: pensions@bma.org.uk

Principal Pensions Officer (for members working in Scotland)
BMA Scotland
14 Queen Street
Edinburgh
EH2 1LL
Tel: 0131 247 3035
Fax: 020 7554 6204

NHS Pensions Agency
Hesketh House
200-220 Broadway
Fleetwood
Lancashire
FY7 8LG
Tel: 01253 774 774
Website: www.nhspa.gov.uk

Scottish Public Pensions Agency
7 Tweedside Park
Galashiels
TD1 3TE
Tel: 01896 893100
Website: www.scotland.gov.uk/sppa/

Health and Personal Social Services
Superannuation Branch
Waterside House
75 Duke Street
Waterside
Londonderry
BT47 6FP
Tel: 028 7131 9000
Website: www.dhsspsni.gov.uk

Pension payment enquiries

The Paymaster is responsible for actually paying the NHS pension.
Any enquiries should be directed to:

Paymaster (NHS)
Customer Services Unit
Sutherland House
Russell Way
Crawley
West Sussex
RH10 1UH
Tel: 01293 560 999

Disclaimer

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Notes

- This membership guidance gives general guidance for doctors only and should not be treated as a complete or authoritative statement of the statutory provisions governing the NHS pension scheme.
- Every effort was made to check its accuracy at the time of publication but there may have been later changes.
- The BMA Pensions Department is not authorised under the Financial Services and Markets Act 2000 and cannot give financial advice nor say what options are appropriate. Much will depend on your individual circumstances.
- Members requiring guidance can receive this through BMA Services and their accredited partner AWD Wealth Management, simply visit www.bmas.co.uk or telephone 0870 901 4566 to arrange an appointment with an independent financial adviser.
- All BMA guidance in the pension series can be found on the BMA website at www.bma.org.uk/pensions
- Members may obtain other guidance in the series from *askBMA*. Individual pensions guidance is available from the pensions department at BMA House in London; members in Scotland can obtain guidance from BMA Scotland in Edinburgh.
- When contacting the BMA always quote your current membership number.

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