

Pension contribution alternative reward policy



Policy descriptor

This policy outlines arrangements and options for employees who are current active members and members who have left the NHS Pension Scheme (the NHS Scheme) who may be affected or who have been affected by the annual and lifetime allowances in respect of their pension savings in registered pension schemes in the UK.

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1. Introduction

- 1.1 This policy outlines arrangements and options for employees who are current active members of the NHS Pension Scheme (the NHS Scheme) who may become affected by the annual or lifetime allowances in respect of their pension savings in registered pension schemes in the UK and for those members who have opted out of said schemes as a consequence of AA/LTA charges.
- 1.2 This policy has been introduced to address operational risks that have been identified as a result of the changes introduced to the pension tax regime. In particular, the Trust has experienced a number of requests for reduced contractual hours, a reluctance to take on additional work or management responsibilities. The policy is an attempt to address these operational issues.
- 1.3 This policy does not form part of any employee's contract of employment and the Trust may amend or remove it as its sole and absolute discretion.
- 1.4 This policy will come into effect on 1st April 2019. No retrospective payments would be made for those staff who had opted out of the pension scheme prior to the approval of the policy, but all staff - irrespective of whether they had previously opted out – may access the restructuring payments from the date the policy is initiated.

2. Purpose

- 2.1 To provide an optional alternative pension contribution for those employees who can demonstrate that they are impacted by the pension tax thresholds and have decided to opt out of the pension scheme.

3. Lifetime and annual allowance tax limits

- 3.1 The pension tax regime imposes limits on the value of pension savings that an individual can build up (with the benefit of tax reliefs) each year and over the course of a lifetime.
- 3.2 These limits are known as the Annual Allowance (AA), and the Lifetime Allowance (LTA).

4. Annual allowance

- 4.1 While there are no limits on the amount of pension arrangements each tax year, the AA is the maximum amount of saving that you can make in a registered pension scheme each tax year without incurring a tax charge.
- 4.2 For the 2018/19 tax year the AA is £40,000 tapering down to £10,000 depending on your income. The government may change these limits in the future. Current HMRC limits in place from time to time can be found here:

<https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance>
- 4.3 Currently unused AAs from the preceding three tax years can be carried forward, and these can reduce or in some cases eliminate an AA charge that would otherwise apply.
- 4.4 If you exceed your AA you will have to report this in your annual tax return, and any pension savings which exceed the AA will be taxed at your marginal rate.

5. Lifetime allowance

- 5.1 While there are no limits on the amount of pension you can build up or the amount which can be paid into your pension arrangement over the course of your working life, the LTA is the maximum amount of pension savings that you can build up in all of your registered pension schemes without incurring a tax charge.
- 5.2 For the 2018/19 tax year the lifetime allowance is set at £1,030,000 (unless you have lifetime allowance protection). The LTA will be indexed rising annually in line with the increase in the Consumer Prices Index (CPI). The government may decide to change these limits in the future. Current HMRC limits in place from time to time can be found here:

<https://www.gov.uk/tax-on-your-private-pension/lifetime-allowance>
- 5.3 The test against LTA is normally assessed at the date that any of your benefits are drawn. This is known as a benefit crystallisation event.
- 5.4 Currently, in basic terms, pension savings which exceed the LTA on the date of a benefit crystallisation event will be subject to a one-off tax charge of 25% and will then be taxed at your marginal income tax rate. Additionally, any benefits above the LTA taken as a lump sum payment will be subject to a tax charge of 55%.
- 5.5 Those staff with pension benefits that are approaching the lifetime allowance value may wish to discuss their options with an independent financial advisor.

6. How do annual and lifetime allowances operate?

- 6.1 The AA and LTA operates differently dependent on the relevant pension scheme arrangement, as summarised in the table below:

	AA	LTA
Defined contribution	Total amount of contributions paid in by you or anyone else.	Capital value of all pension pots that goes towards paying benefits, however you decide to take them.
Defined benefit (such as the NHS Scheme)	The annual increase in the pension benefits promised to you when you retire in accordance with the rules of the scheme.	Calculated using a set formula of usually 20 times the pension you get in the first year plus your lump sum.

- 6.2 If you have been building up pension benefits or have pensions savings in more than one registered pension scheme in the UK, the you will need to add up the amount in all the pension schemes you belong to when determining if you are approaching or have reached the AA or the LTA (as applicable).

7. Your options

- 7.1 If you are currently an active member of the NHS Scheme, and will be affected by the AA or LTA you can :
- Continue in the NHS Scheme and bear any additional tax charges that arise; or
 - You can opt out of the NHS Scheme and be paid a separate cash payment as explained in 9.2 below ("Separate Cash Payment").

If you opt out of the NHS Scheme you will become a deferred member. You will also not be able to make any further money purchase additional voluntary contributions into the NHS Scheme.

The Separate Cash Payment that will be paid to you in the event that you opt out of the NHS Pension Scheme will be the sum equivalent to the Employer's Contribution (amount that the employer would pay into the relevant NHS Pension Scheme if you were still a member of that NHS Pension Scheme) net of the employer's National Insurance contributions, maintaining cost neutrality to the NHS. This will be paid as a supplement to your salary.

From 01.04.2019 this will be 17.75% of your pensionable pay (20.6% of pensionable pay net of employer's national insurance contributions at a rate of 13.8%).

Your pensionable pay for the purpose of calculating the Separate Cash Payment will be determined by the Trust but will be based on what your pensionable pay would have been for the purpose of calculating employer contributions to the NHS Scheme had you continued to participate in the NHS Scheme.

- 7.2 If you opt out of the NHS Pension Scheme it is your responsibility to provide the pension scheme administrator with effective notice of the opt-out. You must provide the Trust with a copy of this notification and evidence that the opt-out is effective, before any cash payment will be paid.

- 7.3 If you opt out of the NHS Scheme some benefits, such as ill health benefits and lump sum on death benefits, may be reduced as a result of opting out of the scheme. You must consider the impact of this.
- 7.4 If you have already opted out of the NHS pension scheme as a consequence of AA/LTA charges you may also be eligible to apply for the Separate Cash Payment prospectively.

8. Impact of the separate cash payment

- 8.1 The Separate Cash Payment would not form part of your base salary and would not be included in the calculation of any overtime, bonus, long-term incentive plan, or other benefit entitlements that you may have.
- 8.2 Although not forming part of your base salary, the Separate Cash Payment will increase the amount that you receive each month. It will also impact on the following:
 - a. The amount of holiday pay received by you. Such calculation will include an element to reflect the Separate Cash Payment.
 - b. The amount of any redundancy pay calculation, but only in so far as the statutory cap (currently £508). Where your week's pay is higher than the statutory cap applicable at the point of redundancy, then the Separate Cash Payment will not be included in the calculation.
- 8.3 The Separate Cash Payment would be paid in equal monthly instalments in arrears. Payments would be subject to deduction for income tax and national insurance contributions.
- 8.4 As noted at the onset of this policy document, the Trust may amend or remove the policy at any time. The Trusts' discretion is absolute in relation to the policy as a whole and/or its ongoing application to any individual employee, and that discretion will be exercised taking into account the purpose of this policy as set out in paragraph 1.2 above (i.e. there will need to be a clear and justifiable operational need to retain the member of staff before the Trust can agree to making a Separate Cash Payment).

9. Making a request

- 9.1 In order to make a request under this policy you must provide evidence that you are affected (or about to be affected) by the AA or the LTA if your current pension arrangements continue or, if you have already left the pension scheme, that you have been affected or would have been affected in the past.
- 9.2 Individuals are responsible for obtaining whatever advice is necessary for them to make an informed decision, including where appropriate (though not limited to) professional advice from an accountant or independent financial advisor, guidance from the NHS pension scheme (<https://www.nhsbsa.nhs.uk/nhs-pensions>), information from reputable sources such as professional organisations and unions, HM Revenue & Customs

- 9.3 Retrospective Evidence that you are or would be affected by:
- a. The AA will usually be in the form of acceptable document evidence from NHS Business Services (and any other applicable pension provider) confirming the annual increase in you NHS pension benefits (and any other contributions paid to any other applicable pension scheme) and acceptable documentary evidence confirming that the AA applies to you;
 - b. The LTA will usually be in the form of confirmation (such as benefit statements) from all your pension arrangements detailing your total pension entitlement
- 9.4 Prospective Evidence that you will be affected will typically be in the form of pension/pay modelling data using evidence from sources contained within 9.2 & 9.3 taking into account, for example, incremental pay progression and changes in working patterns.
- 9.5 If your request is granted and the Trust subsequently determines that you are not or would not have been affected by the AA or the LTA (as applicable), any sums paid to you as cash payments in accordance with this policy may be deducted from your salary or any other sums owed to you by the Trust.
- 9.6 If you are interested in taking advantage of this policy, you should speak to the HR department before submitting a formal request to change your current pension arrangements. You will be provided with a copy of a Request Form, which will require completing and submitting with the relevant evidence to make a formal request.
- 9.7 In some cases we will need to have a meeting with you before making a decision.
- 9.8 Your request should be made in good time and ideally at least two months before you would like the changes to take effect. The Trust accepts no responsibility for changes to pension benefits or arrangements not being made in sufficient time to avoid the impact of the AA or LTA (as applicable).
- 9.9 If your request is accepted, or where the Trust proposes an alternative to the arrangements you requested, we will write to you with details of the new arrangements, an explanation of the changes to your contract of employment, and the date on which the new arrangements will commence. You will be asked to sign and return a copy of the letter. This will be placed on your personnel file to confirm the variation of your terms of employment.
- 9.10 The Separate Cash Payment will apply to your current role only. In the event that you apply for or otherwise change roles, then the continuation of the Separate Cash Payment will be at the absolute discretion of the Trust, although not unreasonably withheld.
- 9.11 If your request is refused you will not be able to make another request to change your pension arrangements by means of this policy until twelve months after the date of your most recent request, unless there has been a change in circumstances in terms of how the AA or the LTA (as applicable) affects you.
- 9.12 If your request is refused, reasons for refusal must be provided in writing, and are you may appeal to (eg *Medical Director, Director of Nursing, Chief Executive, Trust Chair*) in the case of factual inaccuracy. Acceptance of requests shall not be unreasonably withheld.

10. Your responsibilities

- 10.1 The Trust cannot advise you if the options set out above will be right for you. If you believe that you may be affected by the AA or the LTA (as applicable) you must take a decision based on your individual circumstances and may wish to take independent financial advice. Some Trade Unions (including the BMA) offer advice to their members as part of their membership offering.
- 10.2 Evidence that you have taken independent financial advice (such as a statement from your Financial Advisor) or a statement from you that you have fully understood the risks of choosing a particular option with regard to your pension will need to be submitted with your Request Form. The Trust accepts no liability or responsibility for the consequences of any changes to your pension benefits or arrangements, or consequences of no changes being made.
- 10.3 The Trust will not provide you with financial advice or warn you if your benefits might exceed the AA or the LTA (as applicable). You are responsible for keeping track of your total pension benefits and for managing your personal tax allowances and affairs. You are responsible for notifying the Trust if you are affected by the AA or the LTA, and that you want your pension arrangements to be changed.
- 10.4 You are responsible for monitoring the AA and the LTA limits (as applicable) in place from time to time. If you are affected by the AA or the LTA (as applicable) it is your responsibility to report this to HMRC and to ensure that any tax charges are paid.

11. Automatic enrolment

- 11.1 If you opt out of the NHS Scheme the Trust will be under an obligation to automatically enrol you into another qualifying pension scheme in the future (unless you have LTA protection or are not eligible for automatic enrolment). You will need to arrange with the Trust's Pension Manager to opt out of membership of the qualifying pension scheme before contributions are paid to ensure that further pension benefits do not start to accrue. If you choose to remain within that qualifying pension scheme, any Separate Cash Payment would be reviewed and could be stopped or adjusted to take into account the employer contributions being paid on your behalf.

12. Monitoring

A report will be produced six monthly in order to monitor the demand, financial impact and in line with any legislative or national changes. This will be reviewed through the Trust Executive Committee.

13. References

NHS Employers – Lifetime Allowance and Annual Allowance

14. Workforce planning and development considerations

The committee/group responsible for the development of this policy will work with staff from the Workforce Planning and Development service to support the development/maintenance of the competences required by staff in various roles throughout the organisation/service to ensure that the policy can be implemented safely and effectively to enable high quality delivery of services.

Signed on Behalf of Trust _____

Signed on Behalf of Staff Side _____

Date for Review _____

Appendix A

Equality impact compliance assessment

1. General

Title of document	Pension contribution alternative award assessment
Purpose of document	
Intended scope	Members of the NHS Pension Scheme

2. Consultation

Which groups/associations/bodies or individual were consulted in the formulation of this document?	Local negotiating committee Local partnership forum
What was the impact of any feedback on the document?	Feedback was used in the development of this policy.
Who was involved in the approval of the final document?	Trust executive committee
Any other comments to record?	None

3. Equality Impact Assessment

Does the document unfairly affect certain staff or groups of staff? If so, please state how this is justified.	No
What measures are proposed to address any inequity?	-
Can the document be made available in alternative format or in translation?	-

4. Compliance Assessment

Does the document comply with relevant employment legislation? Please specify.	Yes. Pension Automatic Enrolment (Pensions Act 2008)
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5. Document assessed by:

Name	
Post title/position	
Date	

Appendix B

Privacy Impact Assessment Screening Questionnaire

Project/policy/procedure title: Pension contribution alternative award policy

Project lead:

Date:

Assessment question		Yes	No
1	Does the project/policy/procedure use or suggest new or extra technologies that will have a greater impact on privacy?		x
Comments:			
2	Is the justification for the new data-handling unclear or unpublished?		x
Comments:			
3	Does the project/policy/procedure involve an additional use of existing identifier?		x
Comments:			
4	Does the project/policy/procedure involve use of a new identifier for multiple purposes?		x
Comments:			
5	Does the project/policy/procedure involve new or substantially changed identity authentication requirements?		x
Comments:			
6	Will the project/policy/procedure result in handling of significant amount of new data about each person, or significant change in exiting data-holdings?		x
Comments:			
7	Will the project/policy/procedure result in the handling of new data about a significant number of people or a significant change in the population coverage?		x
Comments:			

8	Does the project/policy/procedure involve new linkage of personal data in other collections, or significant changes in data linkage?		x
Comments:			
9	Does the project/policy/procedure involve new or changed data collection policies or practise that may be unclear or intrusive?		x
Comments:			
10	Does the project/policy/procedure involve new or changed data quality assurance processes and standards?		x
Comments:			
11	Does the project/policy/procedure involve new or changed data security arrangements?		x
Comments:			
12	Does the project/policy/procedure involve new or changed data access or disclosure arrangements?		x
Comments:			
13	Does the project/policy/procedure involve new or changed data retention arrangements?		x
Comments:			
14	Does the project/policy/procedure involve changing the medium of disclosure for publicly available information in such a way that data becomes more readily available than it was before?		x
Comments:			
15	Will the project give rise to new or changed data-handling that is in any way exempt from legislative privacy protections?		x
Comments:			
Does the project/policy/procedure require further privacy impact assessment?			x

If the project/policy/procedure does not require any further Privacy Impact Assessment, this document should be signed by the Project Lead/Policy Author and relevant Information Asset Owner. The project/policy/procedure should state that it is exempt from a Privacy Impact Assessment, and this questionnaire should be kept with the project/policy/procedure documentation.

No further Privacy Impact Assessment need.

Signed _____ Date _____
Project Lead/Policy Author

Signed _____ Date _____
Information Asset Owner

Appendix C

Pension contribution alternative award policy

Request form for separate cash payment

Full name	
Job title	
ESR assignment number	
NHS Pension Scheme membership reference	
Proposed opt out date of the NHS Pension Scheme	

I confirm that:

- I have read and understood the Pension Contribution Alternative Award Policy.
- I am affected (or about to be affected) by the Annual Allowance or Lifetime Allowance if my current pension arrangements continue and have provided evidence of this (as per section 9.3 and 9.4 of the policy).
- I have obtained whatever advice is necessary to allow me to make an informed decision in relation to this application and have provided evidence of this (as per section 10.2 of the policy).

I understand that:

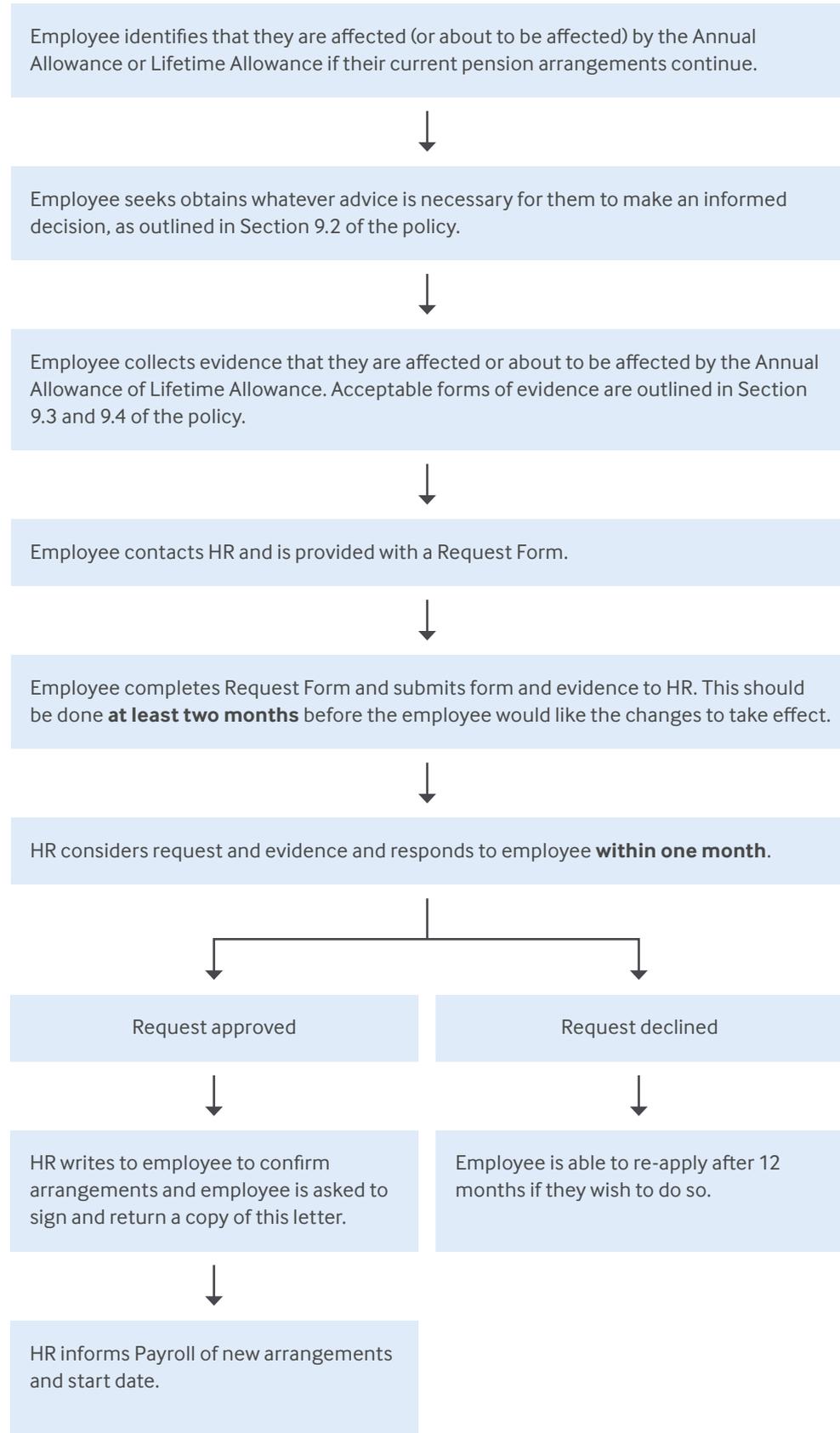
- The policy and the separate cash payment do not form part of my contract of employment.
- The Trust may amend or remove this policy and payment at its sole and absolute discretion.
- The separate Cash Payment does not form part of my base salary and is not included in the calculation of any overtime, bonus, long-term incentive plan, or other benefit entitlements that I may have.
- Payments will be subject to deduction for income tax and national insurance contributions.
- The Trust accepts no liability or responsibility for the consequences of any changes to my pension benefits or arrangements, or any consequences of no changes being made.

Signed	
Name	
Date	

Appendix D

Pension Contribution Alternative Award Policy

Application Process for Separate Cash Payment



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