Outline

• A vision for Consultants work and working lives
• A tool to influence decision makers
• High level issues that all Consultants can relate to and solutions
• A way to talk to wider world about Consultants
What Consultants told us:

• 70% of respondents have low morale
• Average additional 6.3 hours working a week
• Half say job plan reflects actual hours
• Half say workload hinders ability to deliver patient care
• Over half say their control over work has decreased in the last 5 years

- Management decision making
- Additional administration/regulation/meetings
- Lack of control over lists
- Management targets having priority over clinical judgement
- Changes made to job plans/rota
Consultant Strategy - Other Factors

- Vacancies and gaps in specialties
- No new CEA awards since 2010
- A drop in Junior Doctors going into specialty training
- Increase in locum use
Consultant Strategy – Key Asks

- Reverse extremely low levels of morale in Consultants with a series of measures to properly value them and their work
- Improve recruitment and retention of Consultants in Northern Ireland to make the service better for patients
- Deliver a manageable workload for Consultants and shorter waits for patients by organising services more effectively
- Support Consultants to be leaders of service development and drive up the quality of patient care.
Consultant Strategy – Key Asks

• Staff services safely by filling vacancies & producing the right number of trainees in every specialty to ensure future service sustainability

• Progress priority areas for service transformation to improve access to, and reduce waiting times for, health and care services
• We will use the strategy to raise these issues and influence decision makers, politicians and the public to improve situation for both patients and Consultants.
Pensions Tensions 2019

Dr Anne Carson
Chair of NI Consultants Committee
First things first

• I am **NOT** a pensions expert...
• I am **NOT** giving you any advice... we are here to promote awareness
• If YOU want to find out more... contact the BMA, get an accountant and a financial advisor

**DON’T ASSUME EVERYTHING WILL BE OK!**
Outline

– Background to the Annual Allowance
– Why is this a problem for Consultants and the NHS?
– What are the consequences unless action is taken?
– What is the BMA doing about it?
Pensions Tensions

– Consultants are now regularly receiving large, unexpected tax bills
– Relates to exceeding the ‘annual allowance’ for pension growth
– Many consultants retiring early or reducing the hours they work for the NHS
– BMA survey:
  – Half of consultants plan to retire at or before 60
  – Half of these cite pensions taxation as a major factor in their decision
– Exacerbating an already critically low level of capacity
– Increasing agency spend and outsourcing costs
– The biggest single issue affecting consultants and GPs at present
What is the ‘Annual Allowance’?

- Maximum amount your "deemed" pension can grow in the financial year without incurring additional tax
- The total allowance applies across all schemes (including private pension)
- In 2010-2011, the annual allowance was £255,000
- In 2011-12 reduced to £50,000
- In 2014-15 reduced to £40,000 (remains the current level for the standard allowance)
- In 2016/17 Tapered annual allowance was introduced – reduces for ‘adjusted incomes’ over £150,000
- "Adjusted income" = £150k. This is taxable income + "deemed pension growth" – This is NOT the same as your annual earnings
- ALL full time consultants and many other senior NHS staff WILL exceed the annual allowance and incur tax bills under the current rules
Why is the annual allowance a problem for Doctors?

– Most non-public sector pensions are defined contribution (DC) schemes – i.e. you can plan exactly how much to pay in
– The NHS pension scheme is a defined benefit (DB) scheme – you can't control how much you put in but you know what you will get at the end*
– Pensionable pay rises through increments are out with the control of the employee
– In DB schemes there is a multiplication factor applied to any in year pension growth (between 16 and 19)
– Small increases in pensionable pay can lead to large pension input amounts
– The interaction of annual allowance calculations for members in 2 pension schemes

*assuming the government doesn’t change the rules along the way…….
The Tapered Annual Allowance

2 key earnings thresholds to consider:

**Threshold income of £110,000**
Your total income (from all sources) minus any personal contributions entitled to tax relief at source (e.g. pensions contributions) - NB salary sacrifice set up after 9th July 2015 are added back

**Adjusted income of £150,000**
Your total income plus any pensions contributions and any pension growth
It is very easy for consultants with ‘earnings’ of £100k to have an adjusted income of >£150k
How the tax is calculated

– If you don’t breach the threshold income tapering does not apply even if the adjusted income is breached but you may still have an AA charge if your growth exceeds standard AA (it’s a common misconception you are safe if you always stay below threshold)

– If you breach both thresholds, your annual allowance drops by £1 for every £2 above £150,000

– Any pension growth above the available annual allowance is taxed at your marginal rate (i.e. 40 or 45%)
Case Example 1

The effect of the tapered annual allowance
Case example 1 – Consultant A

- 40 years old
- 12 Programmed activities (10 pensionable, 2 non-pensionable)
- Level 4 pensionable Clinical Excellence Award
- 5% on call supplement (Category A, medium frequency)
- £25,000 additional income
- 14 years accrued in 1995 pension scheme
- Transitioned to the 2015 CARE scheme in 2015
Consultant A’s annual allowance yearly tax charge

40-year-old consultant
12 PAs
Level 4 CEA
5% on call
£25k additional income
How can consultant A pay these tax charges?

- Consultant A will incur tax bills of:
  - >£10k per year from the age of 48
  - >£20k per year from the age of 56
- These tax bills will continue to rise each year if they remain in the scheme

- They have 2 options:
  - Pay these bills from their (already taxed) net income. This is unaffordable for most consultants
  - Pay these bills to HMRC from their pension pot using ‘scheme pays’.
Considerations if using ‘scheme pays’

- Scheme pays is effectively a loan against your final pension
- This is deducted from your final pension BEFORE assessment against the lifetime allowance – may be a good option particularly close to retirement
- However it attracts an interest rate equivalent to the consumer prices index (CPI) plus the SCAPE discount rate
- This combined interest rate has recently been as high as 5.8%
- SCAPE discount rate reduced to 2.4% in 2019 and CPI was 2% giving a current combined interest rate on scheme pays loan of 4.4%
- Can be a very expensive option especially for younger members

*CPI assumed at 2% and SCAPE 2.4% for future years in modelling – i.e. total of 4.4%
Cumulative value of scheme pays loan

Consultant A would have a cumulative scheme pays loan of ~£1,000,000 at state pension age

The significant increases in loan are a powerful lever to retire before state pension age
Cumulative value of scheme pays loan with decreasing work for the NHS (12 to 7PAs)
What does this mean for Consultant A’s pension?

- The deduction of the scheme pays loan reduces the value of the pension pot
- This in turn reduces the value of the final pension

<table>
<thead>
<tr>
<th>Retirement age 60 (12PAs)</th>
<th>scheme pays</th>
<th>self pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>£55,555</td>
<td>£78,242</td>
</tr>
<tr>
<td>Pension (todays money)</td>
<td>£36,511</td>
<td>£51,421</td>
</tr>
<tr>
<td>AA tax charge</td>
<td>£0</td>
<td>£351,764</td>
</tr>
<tr>
<td>AA loan</td>
<td>£514,969</td>
<td>£0</td>
</tr>
</tbody>
</table>

NB: Consultant A’s total reward statement pension value age 60 would be calculated at £107,745.

Consultant A is paying tax on a pension value they will not receive.
What can Consultant A do to reduce their tax bills?

– It is a defined benefit scheme – cannot change the value they pay in
– Consultant A cannot control their pay progression – nationally determined
– Too young to retire

– Options to reduce Annual Allowance Tax:
  – Opt out of the NHS pension scheme completely
  – Opt out of the pension scheme for parts of the year (hokey-cokey)
  – Reduce non-pensionable pay
  – Work part time
AA tax for consultant A working 10 (x) PAs instead of 12 PAs (▲)

- 40-year-old consultant
- 12 PAs
- Level 4 CEA
- 5% on call
- £25k additional income
Cumulative value of ‘scheme pays’ loan 10PAs vs 12 PAs

Cumulative tax bill dropped £250k using scheme pays if works 10 PAs rather than 12PAs (crosses are 10PAs)

NB coming in and out of the scheme ‘hokey’ is another option
What does this mean for Consultant A’s pension?

- Consultant A now working 10 PAs
- The scheme pays loan has reduced in value
- The final pension has increased by dropping 2 non-pensionable PAs
- This effect is driven by the tapered annual allowance

<table>
<thead>
<tr>
<th>Retirement age 60 (10 PAs)</th>
<th>scheme pays</th>
<th>self pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>£62,157</td>
<td>£78,242</td>
</tr>
<tr>
<td>Pension (todays money)</td>
<td>£40,849</td>
<td>£51,421</td>
</tr>
<tr>
<td>AA tax charge</td>
<td>£0</td>
<td>£274,199</td>
</tr>
<tr>
<td>AA loan</td>
<td>£375,675</td>
<td>£0</td>
</tr>
</tbody>
</table>

Working 12 PAs their pension was £55,555 using scheme pays with an AA loan of £514,969 or £36,511 in today’s money.

The self pay AA tax on 12 PAs was £351,764, (£77k higher than 10PAs)
Key points from Consultant A

– The tapering of the annual allowance is generating significantly higher annual allowance tax bills than otherwise would be incurred
– If paid for via self-pay, consultants face marginal tax rates of over 100% in the taper zone and are effectively working for free
– If they use ‘scheme pays’, younger consultants in particular risk significantly reducing the value of their pension by doing additional work for the NHS
Case Example 2

Covering colleagues and impact to charges
Example

Dr A – NHS consultant, aged 40, no private practice

Pensionable pay rise in 2018/19

Deemed combined pension growth in 1995 & 2015 sections is £80,000
  (higher than usual due to a pensionable incremental pay rise)

Taxable (threshold) income forecast to be £109,000

No AA ‘carry forward’ available

-> Does not need to calculate adjusted income as threshold income
  <£110,000
Example

However Dr A still has an AA charge to pay:

£80,000 pension growth - £40,000 AA limit = £40,000 excess

£109,000 income + £40,000 AA excess = £149,000, remains under top-rate threshold of £150,000 therefore AA excess taxed at marginal rate of 41% = £16,400.

If paid via Scheme Pays this would be an approximate bill (set against her pension at retirement) of £38,800.

That is bad enough in itself, but what about if she did some extra work?
Example

Dr A is working in a shortage specialty. She already works every 6th weekend and is on-call every 6th mid-week night. Her colleague is off sick and she is offered to do a series of extra on-call weekends (or her weekends off) for a gross amount of non-pensionable pay of £2,000.

Dr A now has threshold income of £111,000 and therefore needs to calculate her adjusted income.

Her adjusted income is calculated broadly as her taxable income plus her deemed pension growth (£80,000) – i.e. £191,000.
Example

This non-pensionable additional income has therefore made her subject to tapering.

Her AA is therefore reduced to £40,000 – (£191,000-£150,000)/2 = £19,500.

AA excess is therefore £80,000 (pension growth) - £19,500 (new AA limit after tapering) = £60,500

£111,000 + £60,500 = £171,500. Therefore £21,500 of the growth is now subject to top rate 46% tax, even though she is nominally a higher rate (41%) tax-payer
Example

Her AA tax charge is therefore:

- £21,500 (the amount above £150,000) @ 46% = £9,890
- Remaining £39,000 excess @ 41% = £15,990
- Total tax charge **£25,880**
- Scheme Pays cost would be £61,231 at aged 60
- [NB for comparison in England – tax charge £25,275 & Scheme Pays £60,029]

Therefore for undertaking £2,000 of additional non-pensionable work to help out her short-staffed service Dr A has incurred an extra **£9,480** of tax (a marginal tax rate of 474%) or £22,341 of Scheme Pays loan at time of retirement – significantly reducing the value of her pension.
What happens if a consultant goes part-time?
Case example 3

The threshold income ‘cliff edge’
Beware of the cliff edge – threshold income

- The annual allowance does not taper if the threshold income is below £110,000
- This remains the case even if the “adjusted income” is over £150k
- Remember the “adjusted income” includes deemed pension growth and in some years deemed pension growth can be significant
- Consequently even consultants with actual gross earnings far below £150k can be ‘fully tapered”
- The effects of exceeding the threshold income can be very significant
Consultant B – real life example (reproduced with permission)

- Consultant in their 40s
- No private practice or significant non-NHS income
- Received 1 pensionable CEA (no prior CEAs) in 2017
- Took on a managerial role to support a struggle service in 2017
- Was paid a £10k (pensionable) management allowance
- Submitted self assessment and expected ~£1k rebate (for subscriptions)
- Spoke to colleague at work who had just received a big tax bill....

- Remembered receiving a ‘brown envelope’ from NHS pensions the previous in October 2018
### Example 3 – Consultant B (real figures)

<table>
<thead>
<tr>
<th>Baseline</th>
<th></th>
<th>Baseline without £10k</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAXABLE pay from payslip (12 PAs incl. £10k management)</td>
<td>£111,140.00</td>
<td>TAXABLE pay from payslip (without £10k management)</td>
</tr>
<tr>
<td>Interest / other</td>
<td>£500.00</td>
<td>Interest / other</td>
</tr>
<tr>
<td>Private practice</td>
<td>Nil</td>
<td>Threshold income</td>
</tr>
<tr>
<td>Threshold income</td>
<td>£111,640.00</td>
<td>NHS Pension Growth 2017/18 (large PIA due to payslip)</td>
</tr>
<tr>
<td>NHS Pension Growth 2017/18 (large PIA due to payslip)</td>
<td>£107,940.00</td>
<td>Adjusted income (not calculated as under threshold)</td>
</tr>
<tr>
<td>Adjusted income</td>
<td>£219,580.00</td>
<td>Excess over standard AA (£40,000)</td>
</tr>
<tr>
<td>Excess of “adjusted income” limit over £150,000</td>
<td>£65,580.00</td>
<td>Reduction of AA (£1 loss for each £2 over)</td>
</tr>
<tr>
<td>Tapered AA (£40,000 minus reduction) - min £10000</td>
<td>£10,000.00</td>
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<tr>
<td>Excess annual allowance</td>
<td>£97,940.00</td>
<td>Excess annual allowance</td>
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<tr>
<td>Less available carry forward (already lost never to return)</td>
<td>£0.00</td>
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</tr>
<tr>
<td>Taxable pay pre AA</td>
<td>£111,640.00</td>
<td>Taxable pay pre AA</td>
</tr>
<tr>
<td>Marginal tax calculation based on</td>
<td></td>
<td>Marginal tax calculation based on</td>
</tr>
<tr>
<td>Excess AA charge over £150,000</td>
<td>£59,580.00</td>
<td>£0.00</td>
</tr>
<tr>
<td>Excess AA charge under £150,000</td>
<td>£38,360.00</td>
<td>£18,021.00</td>
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<tr>
<td>AA tax charge paid as cash from taxed income</td>
<td>£43,155.90</td>
<td>AA tax charge paid as cash from taxed income</td>
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<tr>
<td>AA tax charge paid via “scheme pays” loan till state pension age (5.8% variable)</td>
<td>£145,724.91</td>
<td>Difference if paying cash</td>
</tr>
<tr>
<td>AA tax charge paid via “scheme pays” loan till 60 (5.8% variable)</td>
<td>£92,821.47</td>
<td>Difference if paying scheme pays to state pension age</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Difference if paying scheme pays to Age 60</td>
</tr>
</tbody>
</table>

Taking on a management role has cost the consultant £111k by state pension age.
Be careful around the threshold income

Baseline

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<tr>
<th>Description</th>
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<td><strong>Threshold income</strong></td>
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<td>Excess of “adjusted income” limit over £150,000</td>
<td>£69,580.00</td>
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<tr>
<td>Reduction of AA (£1 loss for each £2 over)</td>
<td>£34,790.00</td>
</tr>
<tr>
<td>Tapered AA (£40,000 minus reduction) - min £10000</td>
<td>£10,000.00</td>
</tr>
<tr>
<td>Excess annual allowance</td>
<td>£97,940.00</td>
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<tr>
<td>Less available carry forward (already lost never to return)</td>
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<td>Taxable pay pre AA</td>
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<tr>
<td>Marginal tax calculation based on</td>
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<td>Excess AA charge over £150,000</td>
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<td>45%</td>
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<td>Excess AA charge under £150,000</td>
<td>£38,360.00</td>
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<td>40%</td>
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<td>AA tax charge as cash from taxed income</td>
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<tr>
<td>AA tax charge paid via “scheme pays” loan till state pension age (5.8% variable)</td>
<td>£145,724.91</td>
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<td>£92,821.47</td>
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Baseline without £2k of additional WLI clinics

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>TAXABLE pay from payslip (minus £2k extra clinics non-pensionable)</td>
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<tr>
<td>Interest / other</td>
<td>£500.00</td>
</tr>
<tr>
<td>Private practice</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Threshold income</strong></td>
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<tr>
<td><strong>Adjusted income (not calculated as under threshold)</strong></td>
<td>£109,640.00</td>
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<tr>
<td>Excess over standard AA (£40,000)</td>
<td>£67,940.00</td>
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<tr>
<td>Reduction of AA (£1 loss for each £2 over)</td>
<td>N/A</td>
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<tr>
<td>Tapered AA (£40,000 minus reduction) - min £10000</td>
<td>N/A</td>
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<tr>
<td>Excess annual allowance</td>
<td>£67,940.00</td>
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<tr>
<td>Less available carry forward (already lost never to return)</td>
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</tr>
<tr>
<td>Taxable pay pre AA</td>
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<td>Marginal tax calculation based on</td>
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<td>AA tax charge paid as cash from taxed income</td>
<td>£28,555.00</td>
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<td>£43,000.00</td>
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<tr>
<td>AA tax charge paid via “scheme pays” loan till state pension age (5.8% variable)</td>
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<td>Difference if paying scheme pays to state pension age</td>
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<td>AA tax charge paid via “scheme pays” loan till state pension age (5.8% variable)</td>
<td>£92,875.51</td>
</tr>
<tr>
<td>Difference if paying scheme pays to Age 60</td>
<td>£29,945.96</td>
</tr>
</tbody>
</table>
Key points from this example:

- CEA and management role has generated £42k tax bill
- Using scheme pays results in an additional loan from this single tax bill of £145k at state pension age
- Not taking on the management role would have saved ~£35k in one off tax bill or £111k if using scheme pays at state pension age
- Reducing income to just below threshold would have saved £13.6k in one of tax bill or £47k if using scheme pays to state pension age
Case Example 4

The interaction between 2 NHS pension schemes
The interaction between 2 NHS pension schemes

- The annual allowance is calculated separately for the 1995/2008 and 2015 scheme
- The final salary schemes are closed so there are no further accruals
- Your pension is allowed to increase in value by CPI without this being considered pension growth
- In years of sub-inflationary pay awards, the effective value of the final salary pension falls – however this is considered to be £0
- The revaluation of the 2015 component by a rate of CPI +1.5% generates a recurrent pressure that prevents any build up of unused annual allowance to carry forward
- Results in significantly higher AA tax for members of 2 schemes
The effect of 2 pension schemes (95/2015)

Consultant A would have a cumulative scheme pays loan of only £100k at SPA if solely in the 1995 scheme versus ~£1,000,000 if in 1995 and 2015 scheme.
What is the BMA doing? (1)

- Extensively lobbying government(s) to change rules around Annual Allowance
- Made strong representations to the DDRB on pensions taxation
- Written directly to the Chancellor and the Secretary of State for Health and Social Care to call for reform of pensions taxation with urgent scrapping of the tapered annual allowance. This correspondence was also forwarded to DoH NI Permanent Secretary.
- Have met with NHS Employers/DoH NI reps on multiple occasions to warn them of the impending workforce crisis unless urgent action is taken.
- Lobbied local MPs to increase awareness of the issue including the drafting of template letters to assist consultants in contacting their MP.
- Launched legal proceedings against the discriminatory nature of the 2015 pension scheme, this includes Northern Ireland. Need volunteers affected either financially or reducing work etc to model for Northern Ireland aspect of case.
- Met with DoH NI Permanent Secretary on 25 March and outlined our concerns.
- Wrote to DoH NI Permanent Secretary on 4 April reminding him of actions agreed to take forward.
- Highlighted situation to all NI Trust Chief Executives and Medical Directors.
What is the BMA doing?(2)

– Undertaking roadshows throughout the UK including Northern Ireland to highlight awareness of these changes
– Undertaken detailed modelling of the future impact of the annual allowance for consultants going forward
– Demonstrated that the impacts of the AA will be more widely felt over the next 12-24 months as the three years of carry forward from prior to the introduction of the taper is lost
– Invested heavily in a pension modelling tool (App) for BMA members that will be available imminently. Currently have 2008 volunteers and asking for more volunteers.
– Co-ordinated an urgent meeting with NHS Employers, Providers and NHS England to discuss solutions
– Proposed immediate actions to NHS Employers to stabilise the current situation and are awaiting a response:
What urgent mitigations has the BMA asked NHS employers for?

1. An urgent National policy on the recycling of employers’ contributions to those who are forced to opt out of the NHS pension scheme as a result of these punitive taxes.

2. To begin work on a national policy to offer death in service and ill-health retirement benefits to those who need to opt out of the scheme.

3. To work with the BMA to look at pay ‘smoothing’ of increments, with recycling of employers contributions to minimize spikes in annual allowance tax.

4. To jointly lobby Treasury for fundamental pension taxation reform including the scrapping of the tapered annual allowance and a review of how the annual allowance is calculated, particularly for those who are members of more than one NHS pension scheme.

However whilst these mitigations will offer temporary stability, the long term solutions lie with the Treasury.
Important contacts

• Opt Out (hokey cokey) – Print form SD502 from NI pension website.
• Send to employers via shared services. Contact 02895362190 and choose appropriate option.
• Consider printing ‘opting back in’ i.e. joiner form, at the same time.
Questions?