

## Impact of freezing the lifetime allowance on the NHS workforce

### About the BMA

The BMA is a professional association and trade union representing and negotiating on behalf of all doctors and medical students in the UK. It is a leading voice advocating for outstanding health care and a healthy population. It is an association providing members with excellent individual services and support throughout their lives.

**This briefing provides an overview of the significant impact of freezing the lifetime allowance on the medical workforce.**

### Overview

Our survey of over eight thousand doctors revealed that:

- **72% said freezing the lifetime allowance would make them more likely to retire early**
- **61% of respondents said they would be more likely to work fewer hours**
- **41% said they would be more likely to give up additional responsibilities.**

This is in addition to the thousands who have already left in previous years due to other government pension taxation rules, including the tapered annual allowance.

When those working in the NHS have gone above and beyond to meet the challenges of the pandemic, it is unfathomable that the Budget included a measure to freeze the lifetime allowance. By taking on additional responsibilities or extra work commitments to meet the unprecedented demand caused by COVID-19, and now to address the huge backlog of services, doctors are likely to incur punitive tax bills. Many doctors feel they have no choice but to leave the NHS entirely.

We are calling for NHS workers to be given the same flexible pension arrangements recently offered to judges. This could prevent doctors from being forced out of the NHS at the time when they are most needed. We ask that you support this call.

### What is the Lifetime Allowance?

The lifetime allowance introduced by the Finance Act 2004 imposes a limit on the total value of an individual's pensions pot. Exceeding this limit triggers an additional tax liability for that individual. The lifetime allowance amount has changed over time and was previously indexed to the consumer price index (CPI). At the Budget on the 3<sup>rd</sup> March, the Chancellor announced that this indexing was to be removed and the lifetime allowance frozen at its current rate for five years, until April 2026. This will have significant implications for NHS workers, particularly senior clinicians. By removing this indexing, any increase in pay (promotion, taking on additional responsibilities, additional shifts, inflationary rises) will push healthcare workers towards exceeding the limit, in many cases, exceeding this limit results in retiring being a better option for these senior healthcare workers rather than continuing to work. Although impacted by a number of measures designed to claw back tax relief, including the lifetime allowance, doctors do not benefit from higher rate tax relief on their employee pension contributions in the first place, as the design of the NHS pension scheme specifically adjusts for higher

rate tax relief by charging higher earners more for their pension. This coupled with the fact pensions savings are directly linked to the level of earnings, rather than controlled separately is why these rules that have resulted in such a detrimental impact on doctors in particular.

### **Why is freezing the lifetime allowance going to push doctors out of the NHS?**

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Any change to the lifetime allowance or the annual allowance can have a profound, and often unforeseen impact on the NHS workforce. At last year's budget, the Chancellor, following significant pressure from the BMA and its members, had to take urgent action to mitigate the effects of the tapered annual allowance on the NHS workforce and prevent doctors and other healthcare workers effectively 'paying to go to work'. Unlike in the private sector, doctors' only real mechanism to avoid tax bills running in to the tens of thousands of pounds, as a result of taking on extra work, was to reduce their working commitments or to leave the profession.

We know that the lifetime allowance is a potent driver of early retirement. Our survey ahead of the Budget asked what impact a freeze on the level of the lifetime allowance would have on their retirement plans and work patterns. 72% of doctors said that they are likely to retire even earlier as a result of the lifetime allowance being frozen. In addition, 61% of doctors said they would reduce their hours and over 40% indicated they would give up additional roles and responsibilities within the NHS as a result of these changes.

NHS pension scheme members, which is a defined benefit scheme, are particularly vulnerable to changes in the lifetime and annual allowance as the scheme is inflexible. Unlike many in the private sector they are unable to offset these changes, resulting in recent years in them receiving significant and often unexpected tax bills. The direct impact to the already understaffed NHS, is that doctors cannot afford to take on extra work. This situation will clearly continue as the NHS looks to reduce the significant backlog which has arisen due to the pandemic.

The NHS workforce is already in a precarious situation and this policy will dangerously exacerbate it. At the end of June 2020 there were at least 8,278 secondary care FTE (full time equivalent) medical vacancies (10% of all current recorded NHS vacancies), while full-time equivalent GP numbers were down 1.8% (600) compared to the same time last year. This is especially concerning given the impact and workload of COVID-19, and the fact that the waiting list for elective treatment now stands at 4.5 million, with over 224,000 people waiting more than a year for treatment.

Doctors should be supported to do all they can to meet patient demand - not be penalised for trying to do so.

### **What is the solution?**

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An exemption to the punitive effects of pension taxation was agreed by the Government in February for the judiciary<sup>1</sup>, by introducing a tax-unregistered scheme. An unregistered defined benefit pensions scheme is one where the member does not receive tax relief on their contributions, and therefore in exchange these benefits are not tested against the annual or lifetime allowance. This scheme was introduced for the judiciary as they faced very similar issues with recruitment and retention to doctors, and the BMA firmly believes that the government should offer a similar tax unregistered defined benefit pension scheme for those affected in the NHS.

This view was supported by our member survey which showed that 77% of doctors responding would be less likely to leave the NHS if they were exempt from the impact of the lifetime allowance, and 73% said if offered a similar scheme to the judiciary they would be more likely to work for more years than previously planned.

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<sup>1</sup> [House of Commons Library, Briefing Paper Number 8540, 22 February 2021, Judges' pension schemes](#), p.13

### How can I support NHS workers?

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We ask that you raise this issue directly with the Chancellor, asking that NHS workers are provided with a long-term solution to mitigate the current punitive pension taxation system, such as the solution offered to judges.

**For questions or to arrange a meeting with a BMA representative to discuss this issue in more detail please contact:** Gemma Hopkins, Senior Public Affairs Officer on [ghopkins@bma.org.uk](mailto:ghopkins@bma.org.uk)