


Staff pensions: an employer's guide

Specialist medical accountant Pauline Hogg takes a look at the recent changes to NHS pensions and how these will affect staff in your GP practice

 On 1 April 2015 major changes were introduced for practice staff who belong to the NHS pension scheme. There are now two separate pension schemes, known as the 1995/2008 scheme and the 2015 scheme. Not everyone is affected (see below) but it is important that staff who are transferred into the 2015 scheme understand how the changes affect them. There are two principal changes:

1. How pension benefits are accrued.
2. When scheme members can retire.

How do benefits accrue?

Instead of being based on a member's final salary prior to retirement, benefits will be calculated on average earnings throughout an employee's membership of the scheme and allow for inflation. This is known as a Career Average Revalued Earnings (CARE) basis.

The accrual rate under the 2015 scheme is 1/54, which means every year a member of the scheme will accrue 1/54 of their pensionable earnings. The total amount of each year's accrued pension is then added together at retirement to calculate the final pension.

To ensure benefits do not lose value over time they are protected from inflation by a mechanism known as dynamisation, which for this scheme uses the Consumer Price Index (CPI) plus 1.5% as the revaluation factor.

Example	
Member's earnings	£25,000
Inflation ratio	2%
Pension earned in the year	$1/54 \times £25,000 = £463$
Revaluation at start of next year	$3.5\% \text{ (CPI } 2\% + 1.5\%) = £479$

That year's earnings will then continue to be recalculated in the same way for every year the member is an active member of the scheme.

At retirement the total of each year's revalued pension will be combined to calculate the final pension.

Later retirement age

The other significant change for members of the 2015 scheme is the removal of the static retirement date, currently set at age 60 for the 1995 section of the NHS scheme and at age 65, for the 2008 section.

The 2015 scheme retirement age will now be linked to a member's state pension age, which is determined by sex and date of birth. For most this will mean a retirement date ranging from 65 to 68 (refer to gov.uk for state pension ages).

Who will be affected?

Importantly, these changes will not affect everyone and transitional protection has been

put in place to protect those closer to retirement.

Please see the rules below to see who will be affected.

- All active NHS pension scheme members who as at **1 April 2012** had 10 years or less to their current normal retirement age (ie over age 50 in the 1995 scheme) will see no change in their retirement age and no reduction in pension benefits.
- Members who are between 10 and 13½ years from normal retirement age (ie those who are aged between 46½ and 50 in the 1995 scheme) on **1 April 2012** will have *transitional protection*, which delays entry to the new scheme depending on age at 1 April 2012
- Members who are more than 13½ years from normal retirement age (ie those who are younger than age 46½ in the 1995 scheme) on **1 April 2012** automatically joined the new scheme on 1 April 2015.

There are some exceptions for those who hold 'special class' status in the 1995 section whose normal retirement age is lower (eg nurses, physiotherapists, midwives and health visitors). Class status can be confirmed by contacting NHS Pensions.

Transferring to the new 2015 scheme

On entry to the new 2015 scheme, members will have their pension service split. Service up to that date will remain in the old scheme

with a protected retirement age of 60 (1995 Section) or 65 (2008 Section) and any future service will be in the new 2015 scheme with a retirement age linked to the state pension age; with penalties if taken earlier.

What happens at retirement?

Any service in the 1995 section of the scheme can be taken at age 60, without penalty. If, however, benefits are taken at this stage, the member will have to leave both parts of the scheme and therefore not accrue any further benefits under the 2015 section. The benefits under the 2015 scheme can then either be taken with a penalty or deferred until state pension age.

If the member wants to stay in the 2015 scheme, then they will have to defer taking their benefits in the 1995 scheme.

The rules are slightly different for those in the 2008 section, as retirement can be phased.

What next?

Before making any decisions about your pension options always seek advice from an independent financial advisor who specialises in the NHS Pension Scheme.

Note: This article is for information only, no individual or practice should act without receiving professional advice first.



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