

GP pensions

Luke Bennett offers a quick guide to what practice managers need to know.



● Can you help the GPs in your practice build maximise their pensions?

Practice managers are meant to be the fount of all knowledge on all topics, and are often asked questions by their GPs about pensions. Here is a layman's guide to what you need to know, and equally what you don't!

Practice managers should be familiar with their own pension rights

Luke Bennett is a partner at Francis Clark and is an AISMA accountant.

under the NHS Pension Scheme, and understand that their pension on retirement will be dependent on their final salary and the number of years they have been in the scheme. This is known as the 'officer scheme'.

GPs are part of the 'practitioner scheme' and their final pension is based on the total of their career earnings, not on their final salary.

All GPs get tax relief on the total contributions (employee, employer and added years) they pay each year. There are, however,

some limits to pension savings which if exceeded may mean they have additional tax charges. This is particularly important at the moment because these limits are reducing from April 6, 2014.

There are two separate limits in place and it is easy to get confused between the two.

1. Annual allowance

The annual allowance is measured against the growth in value of a GP's pension rights during the tax year. Arriving at the ➔

Practice managers should be familiar with their own pension rights under the NHS Pension Scheme, and understand that their pension on retirement will be dependent on their final salary and the number of years they have been in the scheme.

Annual allowance is a complicated calculation – it is not simply the total of contributions paid during the year. How the growth is calculated is beyond the scope of this article, but depends on a number of factors including:

- Pensionable pay in the year
- Career earnings
- Added years contracts
- Length of service both before and after becoming a GP
- Dynamisation rate (the percentage by which career earnings are increased each year)
- Inflation rate as measured by the Consumer Prices Index

For the tax years 2011/12 to 2013/14 the annual allowance was £50k and relatively few GPs exceeded this allowance.

Those that did were typically GPs who met at least one and probably more than one of the following points:

- Had high pensionable pay in the year
- Were approaching the end of their career so had high career earnings
- Were paying into added years contracts
- Were paying into private pension schemes in addition to the NHS Scheme

The annual allowance is reducing from £50k to £40k for the 2014/15 tax year onwards and many more GPs are likely to exceed this reduced allowance.

If the allowance is exceeded then income tax is payable on the amount growth exceeds the allowance. If the tax charge exceeds £2k the GP can elect for the NHS Pension Scheme to pay the tax on their behalf, but this will reduce the final pension.

2. Lifetime allowance

Unlike the annual allowance, the lifetime allowance only comes into play when a GP draws his or her benefits from the scheme. The lifetime value of the NHS pension is calculated by multiplying the pension by 20 and adding the lump sum. For example a GP retiring with a pension of £50k and a lump sum of £150k will have a lifetime value of £1,150,000 (20 x £50,000 + £150,000).

The lifetime allowance for GPs drawing their pension between April 6, 2012 and April 5, 2014 is £1.5m. This is reducing to £1.25m for GPs drawing their pension on or after April 6, 2014.

If the lifetime allowance is exceeded then a tax charge will apply. The tax will be paid by the NHS Pension Scheme and the pension, and possibly lump sum, paid to the GP reduced accordingly.

GPs can elect to fix their lifetime allowance at £1.5m, but in most circumstances this will only be valid if they cease contributing to the NHS, or any other pension, scheme on April 5, 2014. Time is running out for this election, which needs to be submitted to HM Revenue and Customs by April 5, 2014.

Another election available to GPs with a pension fund valued at more than £1.25m is to apply for 'Individual Protection'. This will increase their lifetime allowance from £1.25m to an amount equal to the value of their fund at April 5, 2014 (subject to a maximum of £1.5m). This election cannot be made before August 2014, but must be made before April 5, 2017.

Options

● Do nothing and continue to be active members of the NHS scheme. Just because tax charges may apply, doesn't mean that GPs should automatically assume they should stop paying into the scheme. It could well be that the

return from continuing to invest in the scheme is still better than any other options.

- Stop paying into any added years contract, but continue to be an active member of the scheme.
- Take 24 hour retirement. A GP can choose to draw their pension before their normal retirement date, although the pension paid will be reduced. There has to be a complete break of 24 hours from all NHS posts, and a limit of 16 hours per week worked in the next 30 days. Once this period has elapsed the GP can continue to work as before if desired, although often it coincides with a reduction to part-time working.
- Become a deferred member of the NHS scheme. This means that the GP stops contributing to the scheme, but defers drawing the pension to a later date.

What should I be telling GPs to do?

Any GPs concerned about their position will need to take individual advice, as each person's circumstances are different. This will typically mean:

- Requesting an estimate of pension benefits from NHS Pensions;
- Getting specialist advice from an accountant about the likely impact of the annual and lifetime allowance. Note that this advice will be outside the experience of most accountants, and it is important to get advice from an accountant who understands the workings of the NHS Pension Scheme;
- Take advice from an independent financial adviser on what action to take. ■

Luke Bennett can be contacted on 01872 276477 or luke.bennett@francisclark.co.uk. To find an AISMA accountant in your area go to www.aisma.org.uk