Why do GPs pay different pension contributions?

Specialist medical accountant Faye Armstrong answers a common query from practice managers about GP pension contributions

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Partners' profits, drawings and superannuation contributions are shown side by side in the practice accounts, so it is very easy for them to compare each other and wonder why they are different.

A common area of comparison is superannuation contributions. It is reasonable to think that a GP working the same number of sessions as a fellow partner should earn about the same and pay about the same in superannuation contributions. So why might that not be the case?

Opting in and opting out

In a world of annual allowance and lifetime allowance tax charges, choosing to suspend membership of the NHS pension scheme and stop paying superannuation contributions is becoming more and more common.

Personal expenses

If a fellow partner has lower superannuation contributions than you, have a look at their car, their mobile phone and how many courses they go on. Superannuation contributions are based on taxable profits after deducting practice and personal expenses, so if a colleague has higher personal expenses than you, their taxable profits, superannuable profits and superannuation contributions will all be lower.

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The tier

GP partners pay both the employer and employee elements of their superannuation contributions. Employers' contributions are paid at a flat rate, but the employee contribution rate varies with the level of pensionable earnings from all practitioner posts, which include partnership profits, locum fees, CCG earnings, out-of-hours income, appraisal fees and various other items. So even if two partners have the same earnings from their main practice work, one could pay more employee contributions on those earnings if they also have locum earnings which push them from the 13.5% to the 14.5% tier rate.

As the higher rate is applied to all earnings even if they are £1 into the higher tier, a small difference in earnings can make a large difference to the amount of employee contributions paid. For instance, a GP in England or Wales who tips £1 over the 9.3% tier will see their employee contributions increase by £1,530 or 34%.

NHS/non-NHS income

GPs can only pension earnings (profits) from specific sources and when the annual superannuation certificate works these profits out, it can give some unexpected results. Take three GPs who all work the same number

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of sessions in the same practice and have the same share of income (£230k), practice expenses (£160k) and practice profits (£70k). Let’s assume all of the income earned by the practice is for pensionable NHS work.

Dr A has no other income, so has pensionable profits of £70k. Dr B has an additional £20k of income outside the practice from doing NHS out-of-hours work, so his pensionable profits are £70k+£20k = £90k and he will pay more superannuation than Dr A. Dr C also has an additional £20k of income from outside the practice, but from doing non-pensionable private medicals. We might think that Dr C would have the same pensionable profits as Dr A of £70k but this isn’t the case.

Dr C has a pensionable income of £230k but we need to work out how much of her expenses she can deduct from this income to arrive at her pensionable profits. Ninety-two percent of Dr C’s income is from pensionable sources (£230k of £250k) so she can deduct 92% (or £147,200) of her £160k share of practice expenses from her pensionable income, giving her pensionable profits of £82,800. This gives Dr C higher pensionable profits than Dr A because, in effect, £12,800 of Dr C’s expenses have been treated as relating to her non-pensionable income.

Dr C could think about using an alternative method of calculating superannuable profits, which is permitted by the superannuation certificates rules.

Which scheme are you in?

Rarely, a member of the 2015 Pension Scheme in England or Wales can pay more superannuation contributions than a 1995 or 2008 scheme member who has the same level of earnings. This is because of the process of annualisation which applies if a 2015 scheme member has had a break in service of more than one month during the year.

For instance, take a 2015 scheme member who joined the pension scheme halfway through the year and earned £60,000 in six months. Although they only pay superannuation contributions on those six months’ earnings, the employee contribution rate they must use is based on the earnings they would have received had they continued at the same pay rate for the full year, which would be 14.5%. If a colleague has the same work pattern and earnings but is in the 1995 or 2008 sections of the pension scheme, they would not need to annualise their earnings and would pay employee’s superannuation contributions at 12.5%.

Annualisation can bring some unusual results if a GP provider does *ad-hoc* GP locum work with a break of more than three months between posts. The locum earnings have to be annualised as well, which can easily move a GP doing such work into a higher tier than they might expect.

These are just a few of the many reasons why two partners you might think have very similar circumstances could have different superannuation contributions. PM