



HM Treasury

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Andrew Pow
By email

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Our reference: TO2022/10940

Dear Andrew Pow,

Thank you for your correspondence dated 25 May to the Financial Secretary to the Treasury. As it is not practical for Ministers to respond personally to all the correspondence they receive, I have been asked to reply.

Your letter raises concerns that the annual allowance on tax-relieved pension savings is unfair to GPs and senior clinicians in the NHS. It may be helpful if I set out the context for this restriction. The tax relief offered on pension contributions is one of the most expensive reliefs offered by government. In 2019/20 Income Tax relief on total contributions and National Insurance relief on employer contributions for pension savings cost the Exchequer £61 billion, with around 60 per cent of Income Tax relieved at the Higher and Additional rates. The reforms to the annual allowance and lifetime allowance made since 2010 are expected to save £6 billion per year, and are necessary to deliver a fair system, and to protect the public finances.

Furthermore, the NHS Pension Scheme is a defined benefit scheme, and is one of the most generous schemes available, whilst these measures only affect the highest-earning savers. 99 per cent of pension savers make annual contributions below £40,000, the level of standard annual allowance which has applied from 2014/15. Across the population, median annual defined contribution pension contributions are around £2,000.

Regarding the issue you raise around different CPI figures being used for calculation of the annual allowance and for revaluation of you accrued scheme benefits, the annual allowance calculation utilises the September CPI figure from before the tax year in order to account for the effect of inflation up to the beginning of the tax year. Using this CPI figure provides certainty to individuals about how much annual allowance will be available to them in the coming tax year, and the use of September CPI before the start of the tax year is a common feature of the tax system. Where defined benefit pension schemes use a different date for revaluing accrued benefits, this may lead to an increase in pension input amounts and subsequently a breach of the annual allowance if the individual has a very significant level of accrued pension and/or in-year accrual. However, this revaluation ensures that defined benefit pensions keep pace with inflation and make these schemes some of the most generous pension provision available. Furthermore, in future years where inflation

is lower, members will receive the benefit of having their opening value (the value of their accrued benefits at the start of the tax year) uprated by the previous year's CPI to allow them to offset against accrual in the following year.

Your letter also raises an issue around pensions administration and the provision of accurate pension records for GPs. As the Treasury does not hold responsibility for the administration of the NHS Pension Scheme, you may wish to contact the Department for Health and Social Care to raise this issue.

Finally, your letter also asks for a replication of the temporary operational measure implemented for the tax year 2019-20 only to tackle service delivery impacts specific to the NHS as a result of senior clinicians breaching their tapered annual allowance.

Clinicians who are members of the NHS Pension Scheme and who, as a result of work undertaken in the 2019-20 tax year, face a tax charge in respect of the growth of their NHS pension benefits above their annual allowance limit could have elected, until 31 July 2021, to have this charge paid by the NHS Pension Scheme. The pension scheme would have paid the charge now and the individual's NHS employer would fully compensate them in retirement for the effect of the 2019-20 Scheme Pays deduction on their retirement income. The Government is not minded to replicate this scheme at present.

Thank you for taking the trouble to make us aware of these concerns.

Yours sincerely,

Pensions and Savings Team
HM Treasury