



# NHS Pension Scheme: consultation on increased flexibilities

Submission by Prospect to Department of Health and Social  
Care consultation on the introduction of increased  
flexibilities within the NHS pension scheme.

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## Introduction

1. Prospect is an independent trade union that represents over 142,000 working people across the UK. Our members are professionals, managers, technical experts and craftspeople working in a huge range of industries. In the media and entertainment industries our members are part of the BECTU sector of Prospect.
2. This submission reflects the opinion of Prospect members that even though these changes will be welcomed by those affected, the increased flexibilities only impact senior clinicians and partner GP's within the NHS pension scheme and not those in other sectors and schemes that are affected in a similar way.
3. We feel that this consultation and proposed changes do not tackle the real issue which is how the tapered annual allowance was introduced and how this operates. A wholesale review of the tapered annual allowance is required.

## Prospect's Position

### NHS pension scheme changes

#### General comment

4. Prospect represents specialists, managers and leaders across the public sector with members affected by pension tax rules in Civil Service, Firefighter, Local Government and NHS Pension Schemes. We believe that that tapered element of the annual allowance is not working correctly and that a review of this is required so that members of schemes other than the NHS also have a solution to this issue. In absence of this, we would be seeking further consultations on proposals for similar flexibilities to be created in both the Civil Service and Firefighter Pension Schemes. The tapered annual allowance has and is continuing to cause the most acute problems in the NHS; however these issues also apply elsewhere.
5. The flexibilities proposed will clearly be welcomed by those GP's and consultant's affected by the annual allowance and it is clear that the purpose of the flexibilities being introduced is to provide redress and relief for those particular members. The flexibilities would give GP's and consultants greater ability to manage their pension tax liability but a concern is that these changes go too far on two fronts.
6. First of all, administratively these changes will be very difficult to process and assurances would be needed that the scheme administrators will be provided with enough resource to provide support to members and process these requests. The IT systems would also need to be fit for purpose in order to handle these changes, especially the option for backdated accrual changes.
7. The second concern surrounds member understanding of their pension tax position. The tapered annual allowance has led to a situation where far more individuals are requiring paid for advice to navigate their pension accrual and tax position; these changes therefore need to be easy enough to understand so that this is not increased. Modellers have been mentioned in the consultation and these will need to be clear, easy to understand and tailored for the member so that they are easily accessible and simple to use so that members, with some guidance, can understand and choose their option without there being an inherent requirement to seek financial advice due to the complexity of the situation.

## **Communication**

8. The consultation paper details how reduced accrual will come at a correspondingly reduced contribution rate, e.g. 50:50, but that this relates only to pension accrual and so does not include providing all of the ancillary benefits of the scheme. There will therefore need to be clear communications regarding what the employee and employer contribution levels are for each of the options available.
9. The flexibilities being proposed are a huge change and it is therefore vital that this is treated as a major project with the required resource being provided to ensure that a wide range of communications are provided to members in various formats, if these proposals are to proceed.
10. A 50:50 option is currently available in the LGPS and although originally intended as a mechanism to encourage increased membership of the scheme, this is largely being used by those with pension tax issues. This is mainly due to members not being aware of the option therefore communication to members regarding the option, explaining what it is and how it can be used, needs to be available and publicised.

## **Scheme pays**

11. In regards to the amendment in how scheme pays deductions are calculated, we agree with this approach. This method is far clearer for members to understand the impact that scheme pays has on their pension benefits. It seems from the consultation document that the notional defined contribution pot method was used mainly for administrative ease rather than considering member experience.

## **Expansion of flexibilities**

12. There is an argument that providing these flexibilities for this group only, is a flawed approach and there are other issues, such as increasing membership of the scheme, which should be a priority. Tailored accrual would be welcomed by others, especially younger and low paid staff who cannot currently afford to be in the scheme. If these flexibilities were offered to other groups of staff then it could lead to a reduction in opt outs and therefore help those who need to save for their retirement most.
13. The paper states that around 90% of NHS staff participates in the NHS pension scheme, which leaves 10% of staff who are not in the scheme. By introducing flexibilities, this would lead to increased access to the NHS pension scheme which would allow younger and lower paid staff to be a member of a very good pension scheme, even if only on a limited basis.

## **Employer discretion**

14. The paper leaves two major issues up to employer discretion – the first being whether to allow the employee to benefit from the flexibilities and the second is having the decision as to if the employee can receive the unused employer contribution.
15. It is unclear whether these discretions have been suggested to make the scheme as flexible as possible or whether it is due to not wanting to set the appropriate guidelines in this consultation document.
16. The scheme being proposed is incredibly flexible but these discretions go too far. In terms of eligibility for the employer contribution or even being able to use the flexibilities themselves, there should be clear guidelines and criteria to be followed. This would lead to fairness across the board and avoid situations where employees could be treated differently due to personal or subjective considerations, rather than decisions being made with objectivity.

## **Tapered Annual Allowance**

17. These changes to the NHS pension scheme are being introduced because the current tapered annual allowance system is not working as intended and is far too complicated for members of the pension scheme to understand. This lack of understanding has led to situations where members are having tax charges when they did not expect to, as well as individuals opting out of pension saving through fear of punitive tax charges, even where a tax charge may not be payable.
8. We believe that the annual allowance should be reviewed, especially the tapering element, to make it easier for members to understand so that they can plan their pension saving appropriately. It is acceptable and understandable for those very high earners to pay more through taxation but it should be aimed at those who really are very high earners. The current tapering system means those in defined benefit pension schemes are triggering the tapered annual allowance even though their earnings are not over the adjusted income figure of £150,000. If the tapered annual allowance only affected those whose actual earnings were truly over £150,000, the system would be easier to understand and target those very highest of earners.

## **Conclusion**

9. Whilst these changes will be appreciated by those affected it only helps those in the NHS pension scheme and does not go far enough in fixing the issues with the tapered annual allowance which is far too complex for members to understand and is not working appropriately.
10. Prospect has members within our specialist industries, such as the Nuclear sector, where there are experienced professionals who are also being penalised through the tapered annual allowance. This is having the effect of pushing experienced scientists, engineers and managers into early retirement and/or refusing to work additional hours which is already having a serious consequence on the UK private sector. We appreciate that Government has limited powers to amend private sector schemes therefore we believe that a review of the tapered annual allowance needs to take place.