

NHS Pensions - Tiered pension contributions

Effective from 1 April 2008

Introduction

The level of contributions required to maintain the pension scheme are valued periodically by the Scheme Actuary. The costs are shared between National Health Service employers and scheme members.

The employers currently contribute 14% and the Scheme member pays the remainder based on the amount of pensionable pay they earn. High earners pay a higher contribution rate.

There are four rates of member contributions, ranging from 5% for low earners to 8.5% for high earners. The current rates for new joiners after 1 August 2008 is as follows (using annual whole time equivalent rate of pensionable pay - pence can be ignored)

Up to and including £20224 = 5.0%

From £20225 to £66789 = 6.5%

From £66790 to £105318 = 7.5%

Above £105319 = 8.5%

Revaluation of tiers

The thresholds will be changed each year. The top tier will be changed by the same percentage that is applied to the other three tiers.

Allocation to tiers – NHS and GP Practice staff

For the year up to 31 March 2009, the tier will be allocated according to the pensionable pay between 1 April 2007 and 31 March 2008. For new members joining the Scheme during the period 1 April 2008 to 31 March 2009, the pensionable pay will be estimated and updated to a full year to establish the tier. For part time staff it will be the amount earned had they been working full time for a complete year.

Practitioners

Medical and dental practitioners have their pensionable earnings determined either by certifying their actual NHS profits, or by agreement with their Health Board. As practitioners'

pensionable earnings are often determined by reference to practice accounts, that may not be available until after the scheme year-end. There are additional transitional arrangements to determine the rate of contribution for these members. The pensionable earnings used to identify the contribution rate for medical and dental practitioners from 1 April 2008 will be determined by reference to their pensionable earnings for 2006/2007. Some medical practitioners who did not complete a certificate for, or work in 2006/2007 may have their contribution rate determined by reference to their pensionable earnings in 2005/2006.

Basis of paying pension contributions

Pension contributions will be paid at the appropriate rate on the member's total pensionable earnings, and not on the earnings up to each threshold.

Part time work

For part time employment, the appropriate tier is determined by the whole time equivalent rate of pay for the job.

Example - If a nurse works 20 hours a week in a position where 37 hours is the whole time, and earns £12,000.00 a year, the whole time equivalent rate is

$$\begin{array}{r} \text{£12,000} \times 37 \\ \hline 20 \end{array} = \text{£22,200.} \quad \text{The contribution rate would be 6.5\%}$$

As there is no definition of part time work for practitioners their benefits and contribution rate are based on the actual earnings, and these earnings are not adjusted to a whole time equivalent.

Multiple employments

If the member has more than one job in the NHS, each position is treated separately, and the contribution rate is determined according to the earnings of that particular job.

Joining or leaving part way through a year

If someone joins the NHS Pension Scheme part way through a Scheme year, the contributions will be based on a pensionable pay figure that represents the annual rate of pensionable pay they would have received if they had been employed for a full year.

Transitional arrangements

Any member who is currently paying 5% contributions because they are classed as a manual worker will continue to pay 5% contributions regardless of their actual pensionable pay until 1 April 2009. From that date they will be allocated to the tier that reflects their actual pensionable pay.

Tax status

Pension contributions are taken from the salary before tax, so there is tax relief on any amount paid by a taxpayer. This may also result in reduced National Insurance contributions.

HMRC limits the amount of contributions that can be made to a pension scheme whilst attracting tax relief. The limit is 100% of earnings in any year subject to a maximum annual allowance, which is set at £235,000 for 2008/2009.