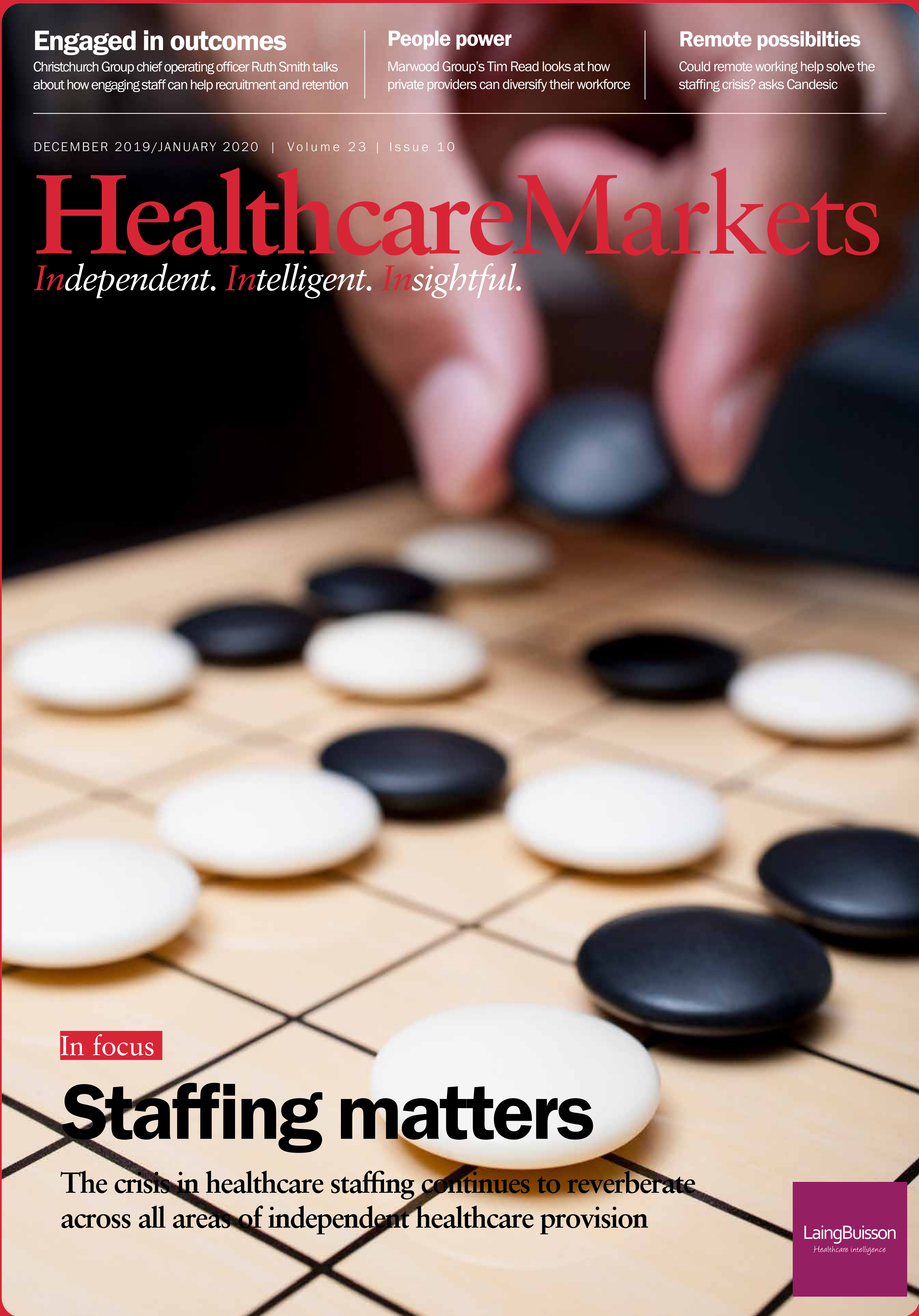

Engaged in outcomes
Christchurch Group chief operating officer Ruth Smith talks about how engaging staff can help recruitment and retention

People power
Marwood Group's Tim Read looks at how private providers can diversify their workforce

Remote possibilties
Could remote working help solve the staffing crisis? asks Candesic

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HealthcareMarkets

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In focus

Staffing matters

The crisis in healthcare staffing continues to reverberate across all areas of independent healthcare provision

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Healthcare intelligence

As the government announces its short-fix to cover tax charges imposed on doctors' pensions when they work additional hours, **John Hanratty**, a specialist in public service pension schemes at international law firm CMS, takes a deep dive into the increasingly complex NHS Pension Scheme

Is there a doctor in the house?

A recent press release from the Royal College of Surgeons gave some alarming statistics:

- **68%** of consultant surgeons are considering taking early retirement
- **64%** of consultant surgeons had been advised to do fewer NHS hours
- **69%** of consultant surgeons have reduced the amount of time they work for the NHS

The reason? Doctors accrue more pension under the NHS Pension Scheme.

Ordinarily, building up more pension would be seen as a positive thing and changes introduced to the NHS Pension Scheme in 2015 - it switched from being a final salary scheme to a career average revalued earnings scheme – would instinctively make people assume that increasing the amount of pension to be paid would be a good thing.

Not so. Why? Because of the changes to the taxation system which mean that, for those people who have built up long service or high earnings in NHS service, penal tax charges are payable for building up more pension.

The problem

There is a complex method for working out the capital value of the pension (called a 'pension input amount') earned by a doctor during the year for comparison against the annual allowance .

In a nutshell, the member needs to work out the value of his or her pension at the start of the year and multiply this amount by a factor (currently 16) (the 'opening value'). They then need to work out the value of their pension at the end of the year and again multiply this by a factor (again, currently 16) (the 'closing value'); and subtract the opening value from the closing value. The remaining amount is the pension input amount to be assessed against the annual allowance.

A senior doctor whose adjusted earnings exceed £150,000 could be assessed on a tapered annual allowance of as low as £10,000 and be subject to a tax charge at his or her marginal rate of 45% on any pensions input amount assessed to be above that threshold.

The timing of the calculation makes this an even more complex situation. The pension input amount cannot be calculated until after the year end when the earnings are known and, consequently, at a time that the doctor will not be able to mitigate any tax charge.

The annual allowance charge could be mitigated by unused annual allowances from the previous three tax years. However, it may be that doctors have used previous years' unused annual allowances.

How can the tax be paid?

The doctor always has the option to pay an annual allowance charge direct to HMRC, but the amount has to generally be paid as a lump sum.

If the annual allowance charge is more than £2,000, then the doctor can require the NHS Pension Scheme to pay the charge and adjust his or her benefits to reflect the payment (this is known as 'scheme pays').

Scheme pays results in a permanent adjustment to the doctor's benefits under the NHS Pension Scheme which could result, if the doctor lives longer than expected in the Scheme's actuarial assumptions, in the doctor paying more than the annual allowance charge plus interest over the term his or her pension is paid.

So, what is the government doing about it?

The government has issued a consultation document proposing increased flexibility under the NHS Pension Scheme. The proposed changes would allow clinicians to:

1. Choose a personal accrual level before the beginning of each scheme year (increasing in 10% increments) with a commensurate lower contribution rate
2. update the accrual rate before the end of the year when they are clearer on their total earnings

Some commentators believe that the flexibilities do not go far enough and should be extended to the whole of the membership of the NHS Pension Scheme. And some believe that the only cure is to remove the tapered annual allowance regime.

On 18 November 2019, the government announced that for the 2019/2020 year it will cover the additional tax charges incurred by doctors in England when taking extra shifts as a means of easing increasing waiting list times.

An example

Take a doctor earning a salary (pensionable and other) after additions and allowances (including tax deductions including for pension contributions) of £125,000 (the 'threshold salary').

Also assume that the doctor's accumulated CARE benefits at the end of this year are £5,822. Last year, the doctor's threshold salary was £120,000.

The doctor's accumulated CARE benefits at the end of the year before this year were £3,600. This doctor has 26 years of service in the 1995 section and four

years of service in the 2015 section.

The doctor's opening pension would be £44,822. His or her closing pension would be £48,762. His or her pension input amount would, therefore be £63,040. The pension input amount is added to the doctor's threshold income to give a total adjusted income of £188,040 which brings in the tapered annual allowance. As the doctor is over the £150,000 threshold for the tapered annual allowance his or her actual annual allowance will be (£40,000 – (£38,040/2)) = £20,980.

An annual allowance charge, therefore, will be due on £63,040 - £20,980 = £42,060. As the doctor's marginal rate for the tax year was 45%, then an annual allowance charge of £42,060 x 45% = £18,928 will be due.

Life time and annual allowance

Under the registered pension scheme system, generally a pension scheme member can build up a fund of £1,055,000 in a registered pension scheme (the 'lifetime allowance') in a tax advantaged way.

Members can build up funds of more than the lifetime allowance, but the benefits associated with funds over the lifetime allowance will be hit with quite penal tax rates (55% if the benefit is taken as a lump sum and 25% on top of the usual income tax rate if taken as income).

At the same time as the lifetime allowance was introduced, an allowance on the amount of contributions paid in any year was also introduced (the 'annual allowance').

FOR THOSE PEOPLE WHO HAVE BUILT UP LONG SERVICE OR HIGH EARNINGS IN NHS SERVICE, PENAL TAX CHARGES ARE PAYABLE FOR BUILDING UP MORE PENSION

The standard annual allowance is currently £40,000 each year (but as explained below, can taper down to £10,000 for high earners).

If you 'contribute' more than the annual allowance, you will be subject to the 'annual allowance charge' which is assessed at your marginal rate of tax.

Reducing personal tax-free allowance and tapered pension annual allowance

Since the 2016/2017 tax year, if your earnings are above £150,000 then the annual allowance will reduce by £1 for every £2 of income above £150,000 to a minimum annual allowance of £10,000 per year.

Defined benefit pension schemes

Under a 'defined benefit' pension scheme (such as the NHS Pension Scheme) members do not build up a 'Fund' with which they can purchase a pension at retirement, they earn a proportion of their earnings to be paid as a pension for every year they are in the Scheme.

To assess how much is to be compared to the annual allowance, a defined benefit scheme must assess the pensions input amount for the year (in the case of the NHS Pension Scheme from 1 April to 31 March each year).