



Government Actuary's Department

National Health Service Pension Scheme 2015

Abatement of member's pension on return to work

Factors and guidance

Version 1.0

Date: 6 March 2015

Author: Sue Vivian



Contents

1	Introduction	1
2	Abatement	2
3	Calculation of “earned pension”	4
4	Examples	6
	Appendix A: Assumptions underlying factors	10
	Appendix B: Factors	11



1 Introduction

- 1.1 This Note is addressed to the NHSBSA as administrator of the National Health Service Pension Scheme 2015 ("NHSPS 2015" or the 'Scheme') and sets out the additional factors required to calculate "earned pension" which is required to determine the level of abatement which is needed when members under their NPA return to NHS employment whilst in receipt of certain pensions (generally pensions due to retirement on ill health or redundancy). The factors provided in our Factors and Guidance Notes 'NHSPS 2015: Voluntary Early and Late retirement in normal health' are also required for abatement purposes in certain cases, and should be used in conjunction with this Note.
- 1.2 This guidance is limited to the scope outlined above. It does not cover abatement in detail. In particular, it does not cover which situations might require abatement, how the level of reduction should be calculated nor for how long pensions should be abated.
- 1.3 The factors provided in this Note have been prepared in light of our advice to the Department of Health dated 16 January 2015 and its instructions following that advice. They are based on the assumptions set out in Appendix A.
- 1.4 The effective date for this guidance is 1 April 2015. The version number for this guidance is 1.0.
- 1.5 For all cases where the pension in payment came into effect solely from the NHSPS and the member re-joins pensionable employment in the NHSPS, please refer to the equivalent NHSPS guidance. Where pensionable employment is to the NHSPS 2015 and the pension in payment is from either the NHSPS or both the NHSPS and the NHSPS 2015 then this guidance should be followed.
- 1.6 This Note relates to SI2015/94 Regulation 103 and SI2015/95 Regulations 38 and 39 which cover the transitional provisions for members with benefits in both the NHSPS and NHSPS 2015. The term 'Regulations' is used generally in this note to refer to the abatement provisions as they apply to members with benefits in either the NHSPS 2015 or in both the NHSPS and NHSPS 2015.

Implementation and review

- 1.7 This guidance should be used for all cases where a pension in payment came into effect from the NHSPS 2015 after 1 April 2015.
- 1.8 Factors should be reconsidered in light of a review of the SCAPE discount rate, following each actuarial valuation where mortality, and other recent experience, is reviewed and if other relevant and credible evidence comes to light.
- 1.9 The remainder of this Note covers the factor tables (for cases where the pension came into payment from 1 April 2015) and guidance on the use of these factors.
- 1.10 In line with best practice, GAD should review a number of sample cases to ensure factors are used as intended.



2 Abatement

General information

- 2.1 Under the Regulations, if a pensioner member returns to pensionable employment in the NHS, then their pension may be reduced, or abated. Members who are in receipt of benefits from the 1995 section of the NHSPS are not generally eligible for further pensionable employment either in the NHSPS or NHSPS 2015 although such members in receipt of Tier 1 ill-health benefits and who re-join the NHS before age 50 may be admitted to pensionable employment. Those members in receipt of pensions from the 2008 section of the NHSPS or from the NHSPS 2015 are eligible for readmission to pensionable employment provided they are not in receipt of Tier 2 ill-health benefits. In all cases where readmission to pensionable employment is allowed abatement may apply.
- 2.2 There are a number of conditions to be met before a member's pension is abated but these are not covered in this Note.
- 2.3 For members in receipt of benefits from both the NHSPS and NHSPS 2015, or in receipt of benefits in the NHSPS but admitted to further pensionable employment in the NHSPS 2015 abatement may apply to benefits paid from one or both schemes. Section 4 deals with such circumstances but the general rules below may be considered to apply across the whole of NHS benefits/earnings.
- 2.4 Under the relevant Regulation the member's pension is only reduced if their "relevant income" for the scheme year exceeds their "previous pay". The amount of the reduction is equal to that excess, subject to a maximum reduction of the "enhancement amount". The terms "previous pay", "relevant income" and "enhancement amount" are defined in 2.7 below.
- 2.5 Generally, abatement applies where earnings from re-employment plus the unearned element of pension exceeds earnings before retirement, where the unearned pension is the difference between the member's annual pension and "earned pension". (For these purposes all pension terms should be taken to mean the aggregate benefits paid by both the NHSPS and the NHSPS 2015). Section 3 of this Note illustrates how to calculate the "earned pension".
- 2.6 'Earned pension' should have no deductions made due to the Lifetime Allowance or Annual Allowance even if the member previously elected to utilise Scheme Pays or there was a deduction to benefits as a result of the Scheme paying any Lifetime Allowance charge.



Definitions

2.7 Definitions of terms used in 2.4 and 2.5 above are as follows:

2.8 “previous pay”

- > if the employed pensioner's old employment was neither as a practitioner nor as a non-GP provider is defined in as the greater of:
 - the optimum re-valued pensionable earnings in the old employment; and
 - the annual rate of pay for the old employment at the time it ceased.
- > if the employed pensioner's old employment was as a practitioner or non-GP provider is the average of the annual amounts of the person's re-valued pensionable earnings in respect of practitioner service.

The member's previous pay is then increased by the same amount by which the annual pension would have been increased under the Pensions (Increase) Act 1971.

2.9 “relevant income” is the total of amount of pay received during the scheme year from the new employment and the “enhancement amount”, and

2.10 “enhancement amount” is the amount of member's pension less the equivalent actuarially-reduced pension (excluding any service enhancement granted on ill-health retirement) i.e. the “earned pension”. Where benefits in the 1995 section of the NHSPS are relevant the pension equivalent of the retirement lump sum should be included in both amounts, other lump sums from commutation should be ignored but pre-commutation amounts should be used. Where benefits are payable from both the NHSPS and the NHSPS 2015 the “enhancement amount” should be the total of the enhancement amount determined based on entitlements from both schemes independently. In calculating “earned pension” any reduction in benefits due to allocation should be allowed for.



3 Calculation of “earned pension”

- 3.1 The factors provided in this Note (and in our Notes ‘Voluntary Early and Late retirements in normal health’) allow the equivalent actuarially-reduced pension to be determined in the situations described above, as if it had been calculated under the early retirement with actuarial reduction regulations as applicable. This pension is referred to as the “earned pension”. The factors in this Note are identical to the current early retirement factors except that the age range is wider to allow for the additional retirement ages possible under ill-health retirement.
- 3.2 In comparing the pension in payment with the equivalent actuarially-reduced pension as calculated under the early retirement with actuarial reduction regulations, it should be noted that it is pre-commutation pensions that should be compared. The pension equivalent of automatic retirement lump sums should be included where benefits in the 1995 section of the NHSPS are relevant.
- 3.3 Any Added Pension should be included in the abatement calculations. (And Added Years’ benefits where benefits from the 1995 section of the NHSPS are relevant.)
- 3.4 ‘Earned pension’ should have no deductions made due to the Lifetime Allowance or Annual Allowance even if the member previously elected to utilise Scheme Pays or there was a deduction to benefits as a result of the Scheme paying any Lifetime Allowance charge.
- 3.5 In calculating “earned pension” any reduction in benefits due to allocation should be allowed for.
- 3.6 The formulae below show how the actuarially-reduced pension is to be calculated as at the member’s initial retirement date as if under the early retirement with actuarial reduction regulations. Pension increases as required under the Pensions (Increase) Act may then need to be added to the figure calculated before comparisons are made. These formulae do not cover the calculations required in order to make the required comparisons or to determine the actual level of abatement required. The factors used in the formulae should only be used in respect of pensions that came into payment from 1 April 2015.
- 3.7 Members may have chosen to contribute to an Early Retirement Reduction Buy-Out (ERRBO) agreement. The period during which the member contributed is known as the Buy-out period. If so, the calculations should be carried out by reference to the member’s “Reduced Retirement Age” (RRA) as applicable to each Buy-out period (if the agreement has been varied), with there being at most three such periods. All benefits earned during any Buy-out period will be subject to an effective RRA. For the purposes of this document RRA is determined based on SPA as specified in legislation at the date of the member’s retirement less the period(s) of reduction secured by the agreement. Note this may be different to RRA as determined for the purposes of setting the cost of the agreement (which is linked to SPA as set out in stated Government policy).



- 3.8 For the purpose of determining the applicable AB1 factor from the table in Appendix B, the member's RRA for each Buy-out period should be used separately in place of the member's NPA. For example, for a member retiring at age 50 with an NPA of 68, having paid ERRBO contributions to secure a RRA of NPA - 2, AB1 will be 0.425 for benefits earned prior to the buy-out period and 0.461 for benefits earned during the buy-out period.
- 3.9 The effect of an ERRBO agreement is that a lower level of abatement will apply than otherwise.

Calculation of 'earned pension' as at initial retirement date

- 3.10 Total earned pension at retirement date =
- (Scheme pension from NHSPS 2015 (no ERRBO agreement) + AP from NHSPS 2015 (pro-rata¹)) x AB1 (based on NPA)
- + (Main scheme pension from NHSPS 2015(RRA(1)) x AB1 (based on RRA(1))
- + (Main scheme pension from NHSPS 2015 (RRA(2)) x AB1 (based on RRA(2))
- + (Main scheme pension from NHSPS 2015 (RRA(3)) x AB1 (based on RRA(3))
- + Earned pension at retirement date from NHSPS (if applicable)
- 3.11 Points to note:
- > Scheme pension (no ERRBO agreement) should include any transferred-in benefit (revalued to date of retirement)
 - > Scheme pension should be before any allowance for commutation unless a member has exercised the option to allocate pension
 - > Factors are used as at the member's age at retirement in the NHSPS (in complete years and months) or based on period to NPA/RRA in the NHSPS 2015 (rounded to the next higher month) as applicable at the time of retirement.
 - > To calculate the earned pension as at the initial retirement date from the NHSPS please refer to the guidance, 'National Health Service Pension Scheme; Abatement of a member's pension on return to work'.
 - > Where benefits in the 1995 section of the NHSPS are relevant the pension equivalent of the automatic lump sum should be added to the above. See National Health Service Pension Scheme; Abatement of a member's pension on return to work guidance for further details on the calculation of earned pension for 1995 section benefits

¹ Pro-rated for any unpaid contributions as per Regulation 71 of the NHSPS 2015 Regulations SI 2015/94.



4 Examples

- 4.1 This Section sets out a number of worked examples to help illustrate how the factors should be applied. The examples covered are as follows:
- A. Calculation of 'earned pension' for member with Additional Pension
 - B. Calculation of 'earned pension' for member with ERRBO (one Buy-Out period)
 - C. Calculation of 'earned pension' for member with pension in payment from both NHSPS and NHSPS 2015



A. Calculation of 'earned pension' for member with Additional Pension

Individual Data (benefits in NHSPS 2015 only)

NPA	67
Date of birth	3 December 1961
Retirement grounds	Ill health (unreduced pension)
Date of retirement	6 December 2015
Time to NPA (years and months, rounded up)	13 years 0 months
Pension accrued over period at retirement	£5,000 pa
Added Pension (after pro-rata)	£500 pa
Abatement factor AB1	0.524
Earned Pension at retirement date	$(£5,000 + £500) \times 0.524 = £2,882.00$ pa



B. Abatement of a member with ERRBO (One Buy-Out period)

Individual Data (benefits in NHSPS 2015 only)

NPA	68
Date of birth	5 September 1981
Date of retirement	25 January 2046
Number of buy-out periods due to ERRBO	1

Period 1 (No ERRBO)

Buy-out reduction in NPA secured	0
RRA	n/a
Pension accrued over period at retirement	£1,000 pa
Time before NPA at retirement (years and months, rounded up)	3 years and 8 months
Abatement factor for period 1	0.821

Period 2 (Buy-out Period)

Buy out reduction in NPA secured	3
RRA	65
Pension accrued over period at retirement	£2,500 pa
Time to RRA at retirement (years and months, rounded up)	0 years and 8 months
Abatement factor for period 2	0.964

Earned Pension at retirement date	= (£1,000 x 0.821) + (£2,500 x 0.964) = £3,231.00 pa
-----------------------------------	--



C. Abatement of a member with Pension in payment in both NHSPS and NHSPS 2015

NPA (NHSPS 2015)	67
NHSPS section	2008 section
Date of birth	3 December 1961
Retirement grounds	Ill health (unreduced pension)
Date of retirement	6 December 2015
Age at date of retirement (for NHSPS) (complete years and months)	54 years 0 months
Time to NPA (for NHSPS 2015) (years and months, rounded up)	13 years 0 months

Final pensionable pay (FPP)	£30,000
-----------------------------	---------

Pension accrued in NHSPS at retirement	£12,500 p.a.
Mandatory Lump Sum at retirement	£19,000
Pension accrued in NHSPS 2015 at retirement	£5,000 pa
Added Pension from NHSPS	£500 pa

Abatement factor AB2 for NHSPS (age 54)	0.582
Abatement factor AB6 for NHSPS (age 54)	0.054
Abatement factor AB1 for NHSPS 2015 (13 years to NPA)	0.524

Earned pension from NHSPS = Main scheme pension calculated at retirement date x Factor AB2
- Mandatory Lump Sum calculated at retirement date x Factor AB6

$$\begin{aligned}
 &= (£12,500 \times 0.582) - (£19,000 \times 0.054) \\
 &= £7,275.00 - £1,026.00 \\
 &= £6,249.00
 \end{aligned}$$

Earned Pension from NHSPS 2015 = (£5,000 + £500) x 0.524
= £2,882.00 pa

Total earned pension = £6,249 + £2,882 = £9,131



Appendix A: Assumptions underlying factors

Financial assumptions

Nominal discount rate	5.06%
Real discount rate (in excess of CPI)	3.00%

Mortality assumptions

Base mortality tables	S1NMA and S1NFA
Base table adjustment	Adjustments applied so that 20% fewer deaths at each age are assumed for male members and 15% fewer deaths at each age are assumed for female members than implied by the standard tables. (As per 2012 valuation.)
Future mortality improvement	Based on ONS principal UK population projections 2012
Year of use	2016

Other assumptions

Proportion of male members for the purposes of unisexing factors	33.3%
Allowance for commutation	Nil

Appendix B: Factors

TABLE AB1

NHSPS 2015 (E&W): ACTUARIAL FACTORS FACTORS FOR USE IN ABATEMENT CASES

Time to NPA: Months	0	1	2	3	4	5	6	7	8	9	10	11
PENSION FACTORS												
Years												
0	1.000	0.995	0.991	0.986	0.982	0.977	0.973	0.968	0.964	0.959	0.955	0.950
1	0.946	0.942	0.937	0.933	0.929	0.925	0.921	0.917	0.912	0.908	0.904	0.900
2	0.896	0.892	0.888	0.884	0.880	0.876	0.873	0.869	0.865	0.861	0.857	0.853
3	0.849	0.846	0.842	0.839	0.835	0.832	0.828	0.824	0.821	0.817	0.814	0.810
4	0.807	0.803	0.800	0.797	0.793	0.790	0.787	0.783	0.780	0.777	0.773	0.770
5	0.767	0.764	0.761	0.757	0.754	0.751	0.748	0.745	0.742	0.739	0.736	0.733
6	0.730	0.727	0.724	0.721	0.718	0.715	0.713	0.710	0.707	0.704	0.701	0.698
7	0.695	0.693	0.690	0.687	0.685	0.682	0.679	0.676	0.674	0.671	0.668	0.666
8	0.663	0.661	0.658	0.656	0.653	0.651	0.648	0.646	0.643	0.641	0.638	0.636
9	0.633	0.631	0.628	0.626	0.624	0.621	0.619	0.617	0.614	0.612	0.610	0.607
10	0.605	0.603	0.600	0.598	0.596	0.594	0.592	0.589	0.587	0.585	0.583	0.581
11	0.578	0.576	0.574	0.572	0.570	0.568	0.566	0.564	0.562	0.560	0.558	0.556
12	0.554	0.552	0.550	0.548	0.546	0.544	0.542	0.540	0.538	0.536	0.534	0.532
13	0.524	0.522	0.520	0.518	0.516	0.515	0.513	0.511	0.509	0.507	0.505	0.504
14	0.502	0.500	0.498	0.497	0.495	0.493	0.491	0.490	0.488	0.486	0.484	0.483
15	0.481	0.479	0.478	0.476	0.474	0.473	0.471	0.470	0.468	0.466	0.465	0.463
16	0.461	0.460	0.458	0.457	0.455	0.454	0.452	0.451	0.449	0.447	0.446	0.444



17	0.443	0.441	0.440	0.438	0.437	0.435	0.434	0.433	0.431	0.430	0.428	0.427
18	0.425	0.424	0.422	0.421	0.420	0.418	0.417	0.416	0.414	0.413	0.411	0.410
19	0.409	0.407	0.406	0.405	0.403	0.402	0.401	0.399	0.398	0.397	0.395	0.394
20	0.393	0.392	0.390	0.389	0.388	0.387	0.385	0.384	0.383	0.382	0.380	0.379
21	0.378	0.377	0.375	0.374	0.373	0.372	0.371	0.370	0.368	0.367	0.366	0.365
22	0.364	0.363	0.361	0.360	0.359	0.358	0.357	0.356	0.355	0.354	0.352	0.351
23	0.350	0.349	0.348	0.347	0.346	0.345	0.344	0.343	0.342	0.340	0.339	0.338
24	0.337	0.336	0.335	0.334	0.333	0.332	0.331	0.330	0.329	0.328	0.327	0.326
25	0.325	0.324	0.323	0.322	0.321	0.320	0.319	0.318	0.317	0.316	0.315	0.314
26	0.313	0.312	0.311	0.311	0.310	0.309	0.308	0.307	0.306	0.305	0.304	0.303
27	0.302	0.301	0.300	0.299	0.299	0.298	0.297	0.296	0.295	0.294	0.293	0.292
28	0.291	0.291	0.290	0.289	0.288	0.287	0.286	0.286	0.285	0.284	0.283	0.282
29	0.281	0.281	0.280	0.279	0.278	0.277	0.276	0.276	0.275	0.274	0.273	0.272
30	0.272	0.271	0.270	0.269	0.268	0.268	0.267	0.266	0.265	0.265	0.264	0.263
31	0.262	0.262	0.261	0.260	0.259	0.259	0.258	0.257	0.256	0.256	0.255	0.254
32	0.253	0.253	0.252	0.251	0.250	0.250	0.249	0.248	0.248	0.247	0.246	0.246

Notes:

- 1) These factors are to be used to determine the earned portion of a pension for abatement purposes
- 2) Factors should be applied to unreduced pension as at the member's retirement date before any allowance for commutation (but allowing for any reduction due to allocation)
- 3) Applicable for main scheme pension and Additional Pension
- 4) The appropriate factor is based on the period between date of retirement and NPA (or RRA) in years and months, rounded up to the next higher month.