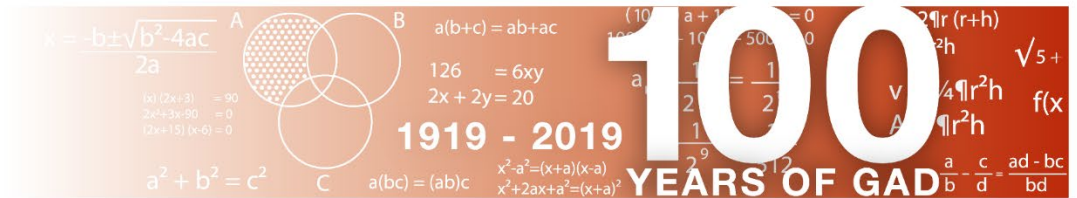




Government  
Actuary's  
Department



## National Health Service Pension Scheme

### Reduction to benefits due to Scheme Pays Annual Allowance and Lifetime Allowance Tax Charges

#### Factors and guidance

Date: 26 September 2019





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## 1 Introduction

### Purpose

- 1.1 This Note is addressed to the NHSBSA as administrator of the National Health Service Pension Scheme ('NHSPS' or 'Scheme'). It sets out how a benefit reduction should be calculated in certain circumstances such as retirement or transfer, following an individual's election to exercise the 'scheme pays' option in respect of tax charges incurred due to the Annual Allowance ('AA'). It also sets out the calculation of the member's and dependant's pension reduction at retirement for a Lifetime Allowance ('LTA') tax charge.
- 1.2 This document relates to regulation T2A of the NHSPS 1995 Regulations (SI 1995/300) and regulations 2.J.8/3.J.8 of the NHSPS 2008 Regulations (SI 2008/653). Under these regulations, the member's benefit reduction should be calculated by reference to advice provided by the Scheme Actuary.
- 1.3 The factors and guidance provided in this note have been prepared in light of our advice to the Department of Health and Social Care dated 30 October 2018 and its instructions following that advice.
- 1.4 This guidance and updated factors are intended to supersede any previously issued by GAD for the purposes of scheme pays calculations. The updated factors contained in this guidance should be used for calculations carried out from 1 April 2019. No factors issued in the past should be used for such cases after this date. In particular, this guidance supersedes:  
  
"National Health Service Pension Scheme: Reduction to benefits due to Scheme Pays Annual Allowance and Lifetime Allowance Tax Charges - Factors and guidance" dated 6 March 2015 (updated April 2015).
- 1.5 No factors or advice issued in the past for the NHSPS should be used for Scheme Pays calculations. No advice or factors issued for the National Health Service Pension Scheme 2015 ('NHSPS 2015') should be used for reductions to NHSPS benefits.
- 1.6 Where a transitional member<sup>1</sup> has benefits in both the NHSPS and the NHSPS 2015, the Scheme Pays charge should be applied to the Scheme in which the tax liability arises. For the purposes of determining this the Annual Allowance (including any carry forward) should be pro-rated between the Schemes based on the increase in value accrued in each Scheme. Section 3 explains the calculations required
- 1.7 The effective date of the factors contained in this guidance is 1 April 2019 and the guidance note is effective from the date of issue.

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<sup>1</sup> Transitional members refers to members with benefits in both the NHSPS and NHSPS 2015 where the NHSPS benefit retains the final salary link (including practitioners retaining the active service level of revaluation in relation to NHSPS benefits).



- 1.8 A summary of the assumptions underlying the factors is listed in Appendix A. The factors are provided in Appendices B, C and D.

### **Exclusions and Scope**

- 1.9 This guidance note should only be used for calculating the reduction to benefits following an election to utilise the Annual Allowance or Lifetime Allowance 'Scheme Pays' mechanism. It should not be used for any other purpose.
- 1.10 NHSBSA should satisfy themselves that the pension reduction resulting from a scheme pays election complies with all legislative requirements including, but not limited to, tax and contracting-out requirements. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 1.11 This guidance note does not cover the method for determining the amount of any Annual Allowance or Lifetime Allowance charge although Section 3 does refer to this calculation. This guidance note also does not cover the method used to calculate the negative DC balance at retirement or other relevant date. This guidance has been provided separately to NHSBSA in a note dated 27 June 2016.

### **Implementation**

- 1.12 The factors contained in this note should be used with immediate effect. The factors applicable for AA deductions are essentially the same as the factors used to determine pension credits on divorce, as detailed in our note 'National Health Service Pension Scheme: Pension Sharing Following Divorce: Calculation of Cash Equivalents and Pension credits'.
- 1.13 The factors set out in the appendices are as follows:

<b>Factors</b>	<b>Table name</b>	<b>Appendix</b>
AA factors for normal health retirement reductions	SP1	B
AA factors for ill-health retirement reductions	SP2	C
LTA pension reduction factors	SP3	D

- 1.14 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the NHS Pension Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to NHSBSA.
- 1.15 In line with best practice and in order to make sure that factors are being used as intended and the instructions are fit for purpose, we suggest that some example calculations are sent to GAD for review.



- 1.16 The factors contained in this guidance will be subject to review periodically. This will depend on external circumstances, for example whenever there is a change in the SCAPE basis; when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future actuarial valuation where mortality and other relevant experience is reviewed or if other credible and material information comes to light.
- 1.17 The remainder of this note contains the factor tables, guidance on their use and a number of worked examples.

### **Third party reliance**

- 1.18 This guidance has been prepared for the use of DHSC and NHSBSA as the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on DHSC and NHSBSA's website but must not otherwise be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.
- 1.19 Other than DHSC and NHSBSA as the scheme administrators, no person or third party is entitled to place any reliance on the contents of this guidance, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this guidance, whether or not GAD has agreed to the disclosure of its advice to the third party.

### **Limitations**

- 1.20 This guidance should not be used for any purpose other than those set out in this guidance.
- 1.21 The factors contained in this guidance are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- 1.22 Advice provided by GAD must be taken in context and is intended to be considered in its entirety. Individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect. GAD does not accept responsibility for advice that is altered or used selectively. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.
- 1.23 This guidance only covers the actuarial principles around the calculation and application of scheme pays tax charge debits factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 1.24 Scheme managers and administrators should satisfy themselves that scheme pays tax charge calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.



- 1.25 This guidance is based on the Regulations in force at the time of writing. It is possible that future changes to the Regulations might create inconsistencies between this guidance and the Regulations. If users of this guidance believe there to be any such inconsistencies, they should bring this to the attention of NHSBSA and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.



## 2 Annual Allowance, Lifetime Allowance and Scheme Pays in NHSPS

### Introduction

- 2.1 Subject to meeting certain conditions, when a member becomes liable to an AA or LTA charge, he or she can make an election requiring the NHSBSA to pay the charge on their behalf out of their pension benefits (referred to as 'Scheme Pays').
- 2.2 Mandatory scheme pays is available if the pension input amount in the Scheme is more than the standard annual allowance.
- 2.3 Additionally, voluntary scheme pays is also available. From 2017/18 onwards the Scheme can pay up to 100% of any annual allowance charge due in respect of NHSPS 2015 benefits, either using mandatory scheme pays facilities, or a mixture of mandatory and our extended voluntary scheme pays facilities.
- 2.4 For cumulative AA charges NHSBSA will keep track, via a 'negative DC balance', of the amount paid or due to be paid by the NHSBSA (effectively a debt owed to NHSPS by the member). When the member takes benefits or transfers benefits out of the Scheme, the negative DC balance is converted into a benefit reduction.
- 2.5 For LTA charges, the deduction is applied at the point of retirement.
- 2.6 This Note describes the steps required to calculate the benefit reduction applicable in the circumstances described in paragraphs 2.3 and 2.4.
- 2.7 In the calculations included in this Note, the 'Total DC Pot' represents the negative DC balance in respect of AA charges paid by the Scheme at the effective date of the calculation. The negative DC balance should be calculated by following the guidance and examples provided for that purpose. Note that in the remainder of this document the 'Total DC Pot' for transitional members<sup>2</sup> relates solely to that relevant to the NHSPS. Section 3 sets out how that amount should be determined.

### Calculation of the benefit reduction

- 2.8 Calculations related to Scheme Pays AA benefit reductions in different circumstances are set out in the different sections of this Note. The calculations allow for the following features:
  - Individual pensions and lump sums are reduced proportionately
  - Dependants' benefits are unaffected by AA scheme pays, i.e. reductions do not apply to dependants' benefits payable on death in service, death in deferment or death in retirement

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<sup>2</sup> Transitional members refers to members with benefits in both the NHSPS and NHSPS 2015 where the NHSPS benefit retains the final salary link (including practitioners retaining the active service level of revaluation in relation to NHSPS benefits).



- Pension debits applying in retirement will be subject to annual increases in line with the Pensions (Increase) Act 1971
- Separate factors are provided for ill-health retirement cases to reflect reduced life-expectancy.

2.9 This Note describes the steps necessary to calculate AA benefit reductions in the following circumstances:

Circumstance	Section
Age Retirement	4
Early Retirement	5
Late Retirement	6
Ill-health Retirement	7
Transfer Values	8
Divorce Cases	9
Partial Retirement	10
Abatement	11
Redundancy	12

- 2.10 This Note reflects our current interpretation of how Scheme Pays reductions will be treated in practice. Please note, however, that certain aspects of the Scheme Pays mechanism may require clarification from your legal advisors and/or HMRC. The calculation guidance set out in this Note is therefore subject to change.
- 2.11 Section 13 cover the calculation of pension reductions in respect of LTA charges paid by the scheme. In the case of LTA charges, both the member's pension and dependant's pension are subject to reduction.





### 3 Transitional members - Allocation of AA charge in any year to relevant Scheme

- 3.1 For transitional members (those accruing benefits in the NHSPS 2015 but with retained final salary linking on NHSPS benefits, including practitioners who retain the in service revaluation rate on NHSPS benefits), the amount of any annual allowance charge arising in respect of NHSPS benefits should be determined as below.
- 3.2 The amount subject to any annual allowance charge which arises in respect of NHSPS 2015 benefits should be determined separately in accordance with guidance specific to that scheme. This amount is required for the calculation set out below and is referred to here as 'NHSPS 2015 AA value'.
- 3.3 The policy on elections for 'Scheme Pays' has been separately determined by NHSBSA.
- 3.4 In the remainder of this document 'Total DC Pot' relates only to any charge arising in respect of NHSPS benefits.
- 3.5 **Determine increase in value of NHSPS benefits in year [NHSPS AA value]**

Increase in value of NHSPS benefits in year

1995 section =  $\text{Max} [ [(RS_1 \times FPP_1) - (RS_0 \times FPP_0 \times CPI)] \times (19 / 80) , 0 ]$

2008 section =  $\text{Max} [ [(RS_1 \times FPP_1) - (RS_0 \times FPP_0 \times CPI)] \times (16 / 60) , 0 ]$

Where

$RS_1$  = reckonable service in NHSPS at end of year

$RS_0$  = reckonable service in NHSPS at start of year

$FPP_1$  = final pensionable pay at end of year

$FPP_0$  = final pensionable pay at start of year

CPI = increase in CPI measure of inflation for the year in question (equal to PI increase applied in April following the year end)

Any transfers in received, AP or AY secured or MP AVCs paid in the year should be included in the calculation as normal

- 3.6 **Determine amount of annual allowance applicable to the NHSPS [NHSPS AA]**

Annual allowance applicable to NHSPS

= Annual allowance for the year (including any carry forward available) x

NHSPS AA value (from 3.5) / (NHSPS AA value + NHSPS 2015 AA value (see 3.2))



**3.7 Determine increase in value of NHSPS benefits in year in excess of AA [NHSPS AA EXCESS]**

= Maximum [(NHSPS AA value – NHSPS AA), 0 ]

The annual allowance charge in relation to the NHSPS is based on this amount.



## 4 AA charge: age retirement

- 4.1 The calculations below are appropriate for members subject to benefit reduction due to AA charges retiring at their normal pension age from either active or deferred status.

### Factors

- 4.2 The factors used for the calculations are included as Table SP1 (Table 601 in the consolidated factors spreadsheet) in Appendix B.
- 4.3 The appropriate factor will depend on the member's age (last birthday) at their date of retirement. Factors are selected according to whether members are in the 1995 or 2008 Section.

### Normal age retirement calculations

- 4.4 The steps necessary to calculate a benefit reduction for members retiring in normal health at their normal pension age are described below for both the 1995 and 2008 Sections.
- 4.5 For Choice members, taking the Mandatory Lump Sum is deemed to be a commutation event and therefore the benefit reduction due to Scheme Pays applies to the pension benefit only.
- 4.6 The debits calculated below should be applied to main scheme benefits before any member options are exercised, e.g. commutation.

Amounts at retirement	Notation
Total DC pot	DC
Main Scheme Pension	P
Main Scheme Lump Sum*	LS
Dependant's Pension	DP
Member's Pension debit	PD
Member Lump Sum debit*	LSD
Net Main Scheme Pension	NP
Net Main Scheme Lump Sum*	NLS
Net Dependant's Pension	NDP

\* 1995 Section only



### 1995 Section

Step	Item	Calculation
1	PD	$= DC \div (\text{Relevant Factor SP1})$
2	LSD	$= 3 \times PD$
<b>Net benefits payable on age retirement:</b>		
3		
a)	NP	$= P - PD$
b)	NLS	$= LS - LSD$
c)	NDP	$= DP$

### 2008 Section (including Choice members)

Step	Item	Calculation
1	PD	$= DC \div (\text{Relevant Factor SP1})$
<b>Net benefits payable on age retirement:</b>		
2		
a)	NP	$= P - PD$
b)	NDP	$= DP$



## 5 AA charge: early retirement

- 5.1 The calculations below are appropriate for members subject to benefit reduction due to AA charges retiring before their normal pension age from either active or deferred status, other than those retiring on grounds of ill-health.

### Factors

- 5.2 The factors used for the calculations are included as Table SP1 (Table 601 in the consolidated factors spreadsheet) in Appendix B.
- 5.3 The appropriate factor will depend on the member's age (last birthday) at their date of (early) retirement. Factors are selected according to whether members are in the 1995 or 2008 Section.

### Early retirement calculations

- 5.4 The steps necessary to calculate a benefit reduction for members retiring in normal health before their normal pension age are described below for both the 1995 and 2008 Sections.
- 5.5 The pension and lump sum debits should be applied to the main scheme benefits after they have been reduced to allow for early retirement<sup>3</sup>. However, the debits should be applied to the main scheme benefits before any member options have been exercised, e.g. commutation.

For Choice members, taking the Mandatory Lump Sum is deemed to be a commutation event and therefore the benefit reduction due to Scheme Pays applies to the pension benefit only.

Amounts at early retirement	Notation
Total DC Pot	DC
Early Retirement Main Scheme Pension	ERP
Early Retirement Main Scheme Lump Sum*	ERLS
Dependant's Pension	DP
Member's Pension Debit	PD
Member Lump Sum Debit*	LSD
Net Early Retirement Main Scheme Pension	NERP
Net Early Retirement Main Scheme Lump Sum*	NERLS
Net Dependant's Pension	NDP

\* 1995 Section only

<sup>3</sup> Refer to 'National Health Service Pension Scheme: Voluntary Early and Late retirements in normal health



### 1995 Section

Step	Item	Calculation
1	PD	$= DC \div (\text{Relevant Factor SP1})$
2	LSD	$= 3 \times PD$
<b>Net Benefits Payable on early retirement:</b>		
3		
a)	NERP	$= ERP - PD$
b)	NERLS	$= ERLS - LSD$
c)	NDP	$= DP$

### 2008 Section (including Choice members)

Step	Item	Calculation
1	PD	$= DC \div (\text{Relevant Factor SP1})$
<b>Net Benefits Payable on early retirement:</b>		
2		
a)	NERP	$= ERP - PD$
b)	NDP	$= DP$



## 6 AA charge: late retirement

- 6.1 The calculations below are appropriate for members subject to benefit reduction due to AA charges retiring after their normal pension age from either active or deferred status.

### Factors

- 6.2 The factors used for the calculations are included as Table SP1 (Table 601 in the consolidated factors spreadsheet) in Appendix B.
- 6.3 The appropriate factor will depend on the member's age (last birthday) at their date of (late) retirement. Factors are selected according to whether members are in the 1995 or 2008 Section.

### Late retirement calculations

- 6.4 The steps necessary to calculate a benefit reduction for members retiring after their normal pension age are described below for both the 1995 and 2008 Sections.
- 6.5 The pension and lump sum debits should be applied to main scheme benefits which have been adjusted to allow for late retirement<sup>4</sup>. The debits should be applied to main scheme benefits before any member options are exercised, e.g. commutation.

For Choice members, taking the Mandatory Lump Sum is deemed to be a commutation event and therefore the benefit reduction due to Scheme Pays applies to the pension benefit only.

Amounts at late retirement	Notation
Total DC pot	DC
Late Retirement Main Scheme Pension	LRP
Late Retirement Main Scheme Lump Sum*	LRLS
Dependant's Pension	DP
Member's Pension debit	PD
Member Lump Sum debit*	LSD
Net Late Retirement Main Scheme Pension	NLRP
Net Late Retirement Main Scheme Lump Sum*	NLRLS
Net Dependant's Pension	NDP

\* 1995 Section only

<sup>4</sup> Refer to 'National Health Service Pension Scheme: Voluntary Early and Late retirements in normal health



### 1995 Section

Step	Item	Calculation
1	PD	$= DC \div (\text{Relevant Factor SP1})$
2	LSD	$= 3 \times PD$
<b>Net Benefits Payable on late retirement:</b>		
3		
a)	NLRP	$= LRP - PD$
b)	NLRLS	$= LRLS - LSD$
c)	NDP	$= DP$

### 2008 Section (including Choice members)

Step	Item	Calculation
1	PD	$= DC \div (\text{Relevant Factor SP1})$
<b>Net Benefits Payable on early retirement:</b>		
2		
a)	NLRP	$= LRP - PD$
b)	NDP	$= DP$





## 7 AA charge: ill-health retirement

- 7.1 The calculations below are appropriate for members subject to benefit reduction due to AA charges retiring on grounds of ill-health.

### Factors

- 7.2 The factors used for the calculations are included as Table SP2 (Table 602 in the consolidated factors spreadsheet) in Appendix C.
- 7.3 The appropriate factor will depend on the member's age at their date of retirement. Factors are selected according to whether members are in the 1995 or 2008 Section.

### Ill-health retirement calculations

- 7.4 The steps necessary to calculate a benefit reduction for members retiring in ill-health are described below for both the 1995 and 2008 Sections.
- 7.5 The pension and lump sum debits should be applied to the (enhanced) main scheme benefits. The debits should be applied to benefits before member options are exercised, e.g. commutation. For Choice members, taking the Mandatory Lump Sum is deemed to be a commutation event and therefore the benefit reduction due to Scheme Pays applies to the pension benefit only.

Amounts at retirement	Notation
Total DC pot	DC
Main Scheme Ill-health Pension	IHP
Main Scheme Ill-health Lump Sum*	IHLS
Dependant's Pension	DP
Member Pension debit	PD
Member Lump Sum debit*	LSD
Net Main Scheme Ill-health Pension	NIHP
Net Main Scheme Ill-health Lump Sum*	NIHLS
Net Dependant's Pension	NDP

\* 1995 Section only



### 1995 Section

Step	Item	Calculation
1	PD	$= DC \div (\text{Relevant Factor SP2})$
2	LSD	$= 3 \times PD$
<b>Net Benefits Payable on ill-health retirement:</b>		
3		
a)	NIHRP	$= IHP - PD$
b)	NIHLS	$= IHLS - LSD$
c)	NDP	$= DP$

### 2008 Section (including Choice members)

Step	Item	Calculation
1	PD	$= DC \div (\text{Relevant Factor SP2})$
<b>Net Benefits Payable on ill-health retirement:</b>		
2		
a)	NIHRP	$= IHRP - PD$
b)	NDP	$= DP$



## 8 AA charge: transfer values

### Statutory cash equivalent transfer values (CETV)

- 8.1 This section covers the calculations appropriate for members subject to benefit reduction due to AA charges and where a CETV is to be paid. A gross CETV should be calculated in the usual way at the relevant date ignoring the negative DC pot. The notional negative DC pot should then be revalued up to the date at which the CETV is calculated. The CETV payable would then be as follows:

$$\text{Net CETV} = \text{Gross CETV} - \text{revalued Negative DC pot}$$

- 8.2 If the transfer-out option forms are received within the guarantee period there is no requirement to amend the total negative DC balance. If the forms are received outside the guarantee period, the total negative DC balance should be revalued only where a revised CETV is calculated.
- 8.3 The calculation of a CETV is subject to an underpin if the member has received a transfer-in of benefits from another scheme. If the underpin bites, the value of the underpin is usually paid. It is extremely unlikely that there would be case where an underpin bites where a member has exercised Scheme Pays, which would have the result that the Annual Allowance charge paid by the NHSPS could not be recouped. However, should such a case arise, this should be referred to GAD.

### Club transfers out of NHSPS

- 8.4 As for CETVs, a gross transfer value should be calculated in the usual way at the relevant date ignoring the negative DC pot. The notional negative DC pot should also be revalued up to the date at which Club transfer is calculated. The Club transfer payable would then be as follows:

$$\text{Net transfer} = \text{Gross Club Transfer Value} - \text{revalued Negative DC pot}$$

- 8.5 NHSBSA will also need to provide the Club scheme with a second transfer statement. This should cover the value of the gross transfer value (i.e. before deduction of the negative DC balance) in order for the Club scheme to calculate the membership credit. It will also mean that the Club scheme can determine the negative DC balance used in the transfer calculation which can then be converted into a Scheme Pays debit (or other method of recovery).

### Non-Club transfers into NHSPS

- 8.6 Where the member had elected to utilise Scheme Pays with their previous scheme, NHSBSA should receive a transfer in payment allowing for this (i.e. with any Scheme Pays pension debit or notional negative balance already having been deducted). The membership credit can then be calculated on this net CETV payment.



### **Club transfers into NHSPS**

- 8.7 Where a member with a previous Scheme Pays election receives a transfer-in from a Club scheme, the transfer value payment will be net of any deduction due to the Scheme Pays election. In addition, NHSBSA will receive a calculation of the gross Club Transfer calculation (i.e. excluding the reduction for Scheme Pays) in order to calculate the membership credit.
- 8.8 A service credit in the NHSPS should be calculated in the usual way based on the gross transfer amount quoted at the relevant date.
- 8.9 The difference in the gross transfer value quoted and the transfer payment actually received should be taken to be the negative DC pot in the NHSPS as at the date of transfer. Interest will then apply to the negative DC pot from 1 January (following receipt of the transfer payment) until benefits become payable or transferred.



## 9 AA charge: divorce cases

### **Scheme pays election applies after divorce pension share**

- 9.1 Benefit reduction due to a Scheme Pays election applies in tandem with a pension debit due to a pension share. The Scheme Pays benefit reduction should be carried out consistently with those described in the relevant section of this guidance (Age Retirement, Early Retirement, Late Retirement or Ill-health Retirement).

### **Divorce cash equivalent calculation following a scheme pays election**

- 9.2 Calculations for divorce purposes are covered in the guidance 'National Health Service Pension Scheme: Pension Sharing Following Divorce: Calculation of Cash Equivalents and Pension Credits'.
- 9.3 If a calculation of a cash equivalent of a member's benefits for divorce purposes is requested for contributing members or deferred pensioners not entitled to an immediate pension without actuarial reduction, this guidance states that the cash equivalent transfer value should normally be quoted. This should be calculated using the same approach as would apply to a normal non-Club transfer value, even if the member is not normally entitled to a transfer value.
- 9.4 The same principle applies when the member has previously elected to utilise Scheme Pays. As described in Section 8, the gross CETV should be calculated in the usual way at the relevant date ignoring the negative DC pot. The negative DC pot should then be determined at the relevant date. The transfer value to be quoted for divorce purposes would then be equal to the gross CETV less the negative DC pot. It may be useful to provide additional disclosures to the courts covering both the gross transfer value and negative DC balance.
- 9.5 For pensioner members, the benefit reduction due to Scheme Pays should already have been applied (at the point of retirement) and so the calculation of a cash equivalent of the member's benefits for divorce purposes can be carried out in the usual way.



## 10 AA charge: partial retirement

- 10.1 Where a member opts to draw down their accrued pension, the negative DC pot relating to their membership to date should be applied at the point of flexible retirement.
- 10.2 Where the member elects to draw down only a proportion of their accrued pension, the pension debit should be calculated based on a pro-rated negative DC pot (based on the proportion of the accrued pension being drawn down). The benefit reduction calculations should be carried out consistently with those described in the relevant section of this guidance (Age Retirement, Early Retirement or Late Retirement).
- 10.3 The remaining negative DC pot will continue to attract interest to retirement, where it will then be converted into a benefit reduction.



## 11 AA charge: abatement

- 11.1 Under the NHSPS Regulations, if certain pensioner members (1995 Section members under age 60 or 2008 Section members under age 65) return to pensionable employment in the NHS, then their pension may be reduced, or abated. Full details around abatement and calculating the level of abatement required is given in the guidance 'National Health Service Pension Scheme: Abatement of member's pension on return to work'.
- 11.2 Generally, abatement applies for leavers on or after 1 April 2008 where earnings from re-employment plus the 'unearned pension' exceeds earnings before retirement. The unearned pension is the difference between the member's annual pension and 'earned pension'. Earned pension is generally the equivalent actuarially-reduced pension i.e. the pension in payment but as if it had been calculated under the regulations relating to early retirement with actuarial reduction.
- 11.3 In comparing the pension in payment with the equivalent actuarially-reduced pension as calculated under the early retirement with actuarial reduction regulations, it is the pension gross of any benefit reductions due to Scheme Pays that must be compared.



## 12 AA charge: redundancy

- 12.1 Under the NHSPS Regulations, in the event of compulsory early retirement some members may be able to retire without an early retirement reduction (or with a reduced early retirement reduction). The costs of this are calculated so that they may be covered by either the employer or the employee. Full details around redundancy and calculating the costs of redundancy are given in the guidance 'National Health Service Pension Scheme: Compulsory Early Retirement'.
- 12.2 In calculating the costs of redundancy, the unreduced pension gross of any benefit reductions due to Scheme Pays should be used.





## 13 LTA charge

- 13.1 The process below is appropriate for members at retirement and subject to benefit reduction due to an LTA charge. The HM Treasury note 'How to pass on the lifetime charge' dated 23 December 2004 remains relevant except that a factor of 20 is no longer applied to convert an LTA charge into a pension reduction. Note the factor of 20 is still applied to determine the amount of any LTA charge.
- 13.2 The determination of LTA charges is outside the scope of this note but such charges should be determined after the member has decided the form of benefits to be taken (i.e. after commutation decisions).
- 13.3 Members subject to an LTA charge are subject to a reduction in member's pension and dependant's pension. The dependant's pension entitlement should be reduced by 50% of the member's reduction for 1995 section members and by 37.5% of the member's reduction for 2008 section members.

### Factors

- 13.4 The factors to be used to determine the member's pension reduction to cover an LTA charge are included as Table SP3 (Table 605 in the consolidated factors spreadsheet) in Appendix D.
- 13.5 The appropriate factor will depend on the member's age (last birthday) at their date of retirement. Factors are selected according to whether members are in the 1995 or 2008 Section.

### Pension reduction calculation

- 13.6 The reduction in member's pension should be determined as follows:

$$\text{Pension within LTA} = (\text{LTA} - \text{tax-free cash taken}) / 20 = A$$

$$\text{Pension above LTA} = \text{Pension after commutation chosen} - A = B$$

$$\text{Tax charge payable on pension} = 25\% \times 20 \times B = C$$

$$\text{Reduction in member's pension} = C / \text{SP3} = D$$

Tax charge on any excess lump sum is paid by deduction from the lump sum payable to the member.

$$\text{Pension payable to the member from retirement} = A + B - D = E$$

Dependant's pension payable following member's death

- 1995 section = Total dependant's pension – (50% x D)
- 2008 section = Total dependant's pension – (37.5% x D)

Where the total dependant's pension is less than 50% (1995 section) or 37.5% (2008 section) of the member's full pension (before actuarial adjustment, commutation or other adjustment) and if the above calculation results in a dependant pension (expressed as a % of the member's full unadjusted pension) which is more than 5% different than the unadjusted %, please refer to GAD.



- 13.7 The appropriate reduction applicable in other circumstance (e.g. on retirement at ages below MPA) is outside the scope of this note and such calculations should be referred to GAD.



## Appendix A: Assumptions underlying factors

### Financial assumptions

Nominal discount rate	4.448%
CPI	2.00%
Real discount rate (in excess of CPI)	2.40%

### Mortality assumptions

Base mortality tables (normal health)	S2NMA and S2NFA
Base table adjustment (normal health)	As per 2016 valuation: Normal health: 83% (M)/ 85% (F) of S2NXA Dependants: 100% of S2NXA
Base mortality tables (ill health)	S2IMA and S2IFA
Base table adjustment (ill health)	Nil
Future mortality improvement	Based on ONS principal UK population projections 2016
Year of Use	2020

### Other assumptions

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



## Appendix B: AA Reduction factors – normal health

Table SP1 (Table 601 in consolidated factors spreadsheet)

Factors to calculate reduction to pension for AA charges - retirement not on grounds of ill health

Age Last Birthday	1995 Section	2008 Section
50	28.39	25.39
51	27.98	24.98
52	27.56	24.56
53	27.13	24.13
54	26.69	23.69
55	26.25	23.25
56	25.80	22.80
57	25.34	22.34
58	24.87	21.87
59	24.39	21.39
60	23.90	20.90
61	23.40	20.40
62	22.90	19.90
63	22.38	19.38
64	21.86	18.86
65	21.33	18.33
66	20.78	17.78
67	20.24	17.24
68	19.68	16.68
69	19.12	16.12
70	18.55	15.55
71	17.98	14.98
72	17.40	14.40
73	16.81	13.81
74	16.23	13.23
75	15.65	12.65



## Appendix C: AA Reduction factors – retirement on ill-health

**Table SP2 (Table 602 in consolidated factors spreadsheet)**

**Factors to calculate reduction to pension for AA charges - retirement on grounds of ill health**

Age Last Birthday	1995 Section	2008 Section
20	33.24	30.24
21	33.04	30.04
22	32.86	29.86
23	32.67	29.67
24	32.47	29.47
25	32.28	29.28
26	32.08	29.08
27	31.89	28.89
28	31.69	28.69
29	31.50	28.50
30	31.31	28.31
31	31.11	28.11
32	30.91	27.91
33	30.71	27.71
34	30.50	27.50
35	30.29	27.29
36	30.08	27.08
37	29.86	26.86
38	29.64	26.64
39	29.40	26.40
40	29.17	26.17
41	28.92	25.92
42	28.66	25.66
43	28.39	25.39
44	28.12	25.12
45	27.83	24.83
46	27.53	24.53
47	27.21	24.21
48	26.89	23.89
49	26.56	23.56
50	26.21	23.21
51	25.85	22.85
52	25.49	22.49
53	25.11	22.11
54	24.73	21.73
55	24.33	21.33
56	23.93	20.93
57	23.52	20.52
58	23.10	20.10
59	22.67	19.67
60	22.23	19.23
61	21.78	18.78
62	21.32	18.32
63	20.85	17.85
64	20.36	17.36



## Appendix D: LTA Reduction factors

**Table SP3 (Table 605 in consolidated factors spreadsheet)**  
**Factors to calculate reduction to pension for LTA charges**

Age Last Birthday	1995 Section	2008 Section
20	34.66	34.57
21	34.47	34.37
22	34.26	34.17
23	34.05	33.96
24	33.84	33.74
25	33.62	33.52
26	33.40	33.29
27	33.17	33.06
28	32.93	32.82
29	32.69	32.58
30	32.44	32.33
31	32.19	32.07
32	31.93	31.81
33	31.66	31.54
34	31.39	31.26
35	31.11	30.98
36	30.82	30.69
37	30.53	30.40
38	30.23	30.10
39	29.93	29.79
40	29.61	29.48
41	29.29	29.15
42	28.97	28.82
43	28.63	28.49
44	28.29	28.14
45	27.94	27.79
46	27.58	27.43
47	27.21	27.06
48	26.84	26.68
49	26.45	26.30
50	26.06	25.91
51	25.66	25.50
52	25.25	25.09
53	24.83	24.68
54	24.41	24.25
55	23.97	23.81
56	23.53	23.37
57	23.08	22.92
58	22.61	22.46
59	22.14	21.99
60	21.66	21.51
61	21.17	21.02
62	20.67	20.52
63	20.16	20.01
64	19.64	19.49
65	19.11	18.96
66	18.57	18.40



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67	18.02	17.84
68	17.47	17.28
69	16.88	16.69
70	16.28	16.10
71	15.71	15.52
72	15.13	14.94
73	14.54	14.36
74	13.91	13.74
75	13.27	13.12