

# EMPLOYER Technical Update

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# 1. Changes to the Annual Allowance and the Lifetime Allowance

HM Revenue and Customs (HMRC) has announced a significant change to the way in which tax relief is provided to members of pension schemes in the UK.

Tax relief is to be limited to a maximum pension savings amount of £50,000 per year, with any excess subject to a tax charge. Although most members are unlikely to be affected, all members should take note of these important changes. The Annual Allowance (AA), which is currently set at £255,000 per year, will be reduced to £50,000 per year from 6 April 2011. The following is a link to detailed information on the HMRC website that explains the calculation of the reduced AA:

<http://www.hmrc.gov.uk/pensionschemes/annual-allowance/index.htm>

HSC Pensions is currently assessing the impact of the changes on members, but early indications are that the changes will primarily affect high earning members, broadly speaking those earning approximately £100,000 per year or more. But, this can vary very widely depending on length of pensionable service and the rate of salary increase in any particular year.

Members on lower salaries can be affected if they receive a large increase in pay, although in these cases, assuming it is not a recurring event, up to 3 previous years' unused AA values can be utilised.

In addition HMRC has announced that the Lifetime Allowance (LTA) will reduce from £1.8 million to £1.5 million and it is proposed that this further change will take effect from April 2012. The final details of how the LTA change will be implemented are still under consideration. The Government believes that there should be some form of transitional protection in place for those who will have accrued benefits based upon the £1.8 million limit but the detail of this has yet to be decided.

The LTA is different in that it is normally applied at the point at which benefits come into payment, and it is a limit above which any excess benefit received is subject to a specific tax charge.

The NHS Employers website also sets out some advice for those who may be affected.

<http://www.nhsemployers.org/PayAndContracts/NHSPensionSchemeReview/Changestopensioncontributiontaxrelief/Pages/Taxreliefforpensions.aspx>

## 2. Changes to Pension Regulations – Disclosure to Employers

The HSC Pension Scheme Regulations which came into force on 1 April 2010 include the following measures:

### Waiting Period for Joiners

*Waiting Period for 1995 Section pensioners who retired on or after 1 April 2008 and before 1 October 2009 and who wish to join the 2008 Section*

With effect from 1 April 2010, members of the 1995 Section of HSC Pension Scheme who retired from active service on or after 1 April 2008 and before 1 October 2009, and who are not eligible to rejoin the 1995 Section of Scheme, may be eligible to join the 2008 Section of the Scheme if they become re-employed in the HSC/NHS.

To be eligible employees must not have reached the maximum service limit of 45 years or age 75, the upper age limit of the Scheme, and they must wait at least 2 years<sup>1</sup> from their date of retirement in the 1995 Section before being eligible to re-join the Scheme in the 2008 Section. This break is called the 'Waiting Period'.

The ability to build more pension benefits after retirement is not normally available to those who take pension benefits from the 1995 Section of the Scheme and return to work<sup>2</sup>.

The following table confirms how the Waiting Period will operate:

Reason for 1995 Section Retirement	Waiting Period before eligible to rejoin the 2008 Section
Age retirement	2 years from date of retirement
Early retirement with actuarial reduction	2 years from date of retirement
New style redundancy retirement	2 years from date of retirement
New style ill health retirement <i>[over 50 at date of return so unable to rejoin the 1995 Section]</i>	2 years from date of retirement as long as any tier 2 pension has reverted permanently to a tier 1 pension [this will be after 1 year of HSC/NHS re-employment]
Old style ill-health retirement <i>[enhancements range from doubled service to 9 years 364 days]</i>	Longer of 2 years from date of retirement, or the calendar length of any enhancement credited under the 1995 Section.
Transitional redundancy retirement – range of enhancements tapering off at 30 September 2011	Longer of 2 years from date of retirement, or the calendar length of any enhancement credited to the member under the 1995 section transitional redundancy arrangements

<sup>1</sup> ***Any member who retired because of ill-health or redundancy may have to wait longer than 2 years before re-joining the 2008 Section of the Scheme – this is because they may have received benefits based on enhanced membership.***

<sup>2</sup> ***Members who retire from the 1995 Section due to ill-health are eligible to be re-employed and build up further pension benefits if they return before age 50.***

### 3. Changes to Early Retirement – A reminder

The minimum pension age is changing for any member who joined the HSC Pension Scheme for the first time on or after 6 April 2006, or who rejoined on or after 6 April 2006 and had previously left before 30 June 2000.

Currently the minimum pension age is 50 however for the above group of members the minimum pension age will change from 6 April 2010 to age 55.

For members who fall into the above category this means that if they wanted to draw voluntary early retirement pension benefits before 6 April 2010 they are able to do so from age 50 but from 6 April 2010 they must be at least age 55 to access these pension benefits.

This includes voluntary early retirement, early paid deferred benefits, redundancy and Interest of Efficiency.

Ill health awards are **NOT** affected by these changes.

### 4. HSC Employer Reminders – Pension Administration

Employers should note the following when administering pensions:

- Salaries and Wages Department should forward hard copies of an employee's P45 directly to the HMRC Office. HSC Pension Service do not require a copy of a member's P45 as this service is automated and member's records are updated via EDI files.
- Contributions must be paid **BEFORE** the 19<sup>th</sup> of each month.
- Member's are entitled to one estimate of pension benefits per year. Any additional requests for estimates must be fully justified.
- Form AW6 has been amended to allow for a written explanation to be provided for any TSR figures which differ more than 10% on basic salary.

## 5. NHS Employers – NHS Pensions Scheme Guidance

HR Directors and line managers may be interested to read new material published by NHS Employers about the NHS Pension Scheme. The NHS Pension Scheme retirement flexibility resource pack could provide HSC organisations with the information to help understand the strategic context of the Pension Scheme.

The pack is available on the web at:

<http://www.nhsemployers.org/payandcontracts/nhspensionschemereview/NHSPensionSchemeFlexibilitiesPack/Pages/NHSPensionSchemeFlexibilitiesPack.aspx>

## 6. Changes to Cash Equivalent Transfer Value Factors

In his Emergency Budget of 22 June 2010, the Chancellor announced a change in the future pension increase basis from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). On 6 July 2010 CETV Factors were suspended until the full impact of this change was reviewed and revised CETV factors implemented.

CETV calculations based on the factors in use before 6 July 2010 may result in a lower valuation of members' pension rights.

## 7. Abatement for Special Class/Mental Health officer age retirees

### **Members returning to HSC employment before reaching age 60 – commutation of pension to lump sum**

Pensions may be abated (reduced) to take account of earnings in a new HSC employment. When abatement applies it may continue until age 60 for members who retire from the 1995 Section of the Scheme, or until age 65 for those who receive pension from the 2008 Section.

It is important to be aware that the abatement calculation is based on the gross annual pension before it is reduced to pay for any optional lump sum. Converting pension to optional lump sum will not reduce the impact of any pension abatement.

## HOW TO CONTACT US

### By writing to us at:-

HSC Pension Service  
Waterside House  
Londonderry  
BT47 6FP

**Via e- mail at:-** [superannbr@hscni.net](mailto:superannbr@hscni.net)

**By Fax:-** 028 71 319144

**For urgent enquiries only, you can contact us by Telephone: 028 7131 9000**

**9.00am to 5.00pm – Monday to Thursday; 9.00am to 12.00 Friday**

**If you have any comments about the content or format of this newsletter please email them to [superannbr@hscni.net](mailto:superannbr@hscni.net)**

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