

Pension flexibility for NHS Clinicians

I have received the enclosed update from the Secretary of State for Health and Social Care about pension flexibility for NHS Clinicians:

Dear John

PENSION FLEXIBILITY FOR NHS CLINICIANS

I'm writing to update you on the urgent steps that the Government is taking to resolve the pension tax issue that is affecting delivery of frontline NHS care for patients. Yesterday I published a consultation on a new package of pension flexibilities for senior NHS clinicians who face annual allowance tax charges, including consultants, GPs and top nurses.

The NHS Pension Scheme is a highly valuable part of the package of pay, terms and conditions for NHS staff, which continues to compare very favourably with schemes in other sectors. It provides hard working and dedicated staff with security in retirement after decades of public service and patient care.

The Government provides tax incentives to encourage pension saving across society. Pension scheme contributions can therefore be made tax-free. However, the cost of providing this tax incentive is very substantial so there are restrictions on the amount of pension saving that receives tax relief.

The relative generosity of the NHS Pension Scheme means that for some staff, largely senior doctors, changes to the way that these restrictions operate has resulted in their pension growing to a level beyond their tax-free allowance. A tax charge is levied on the value of pension growth that exceeds the tax-free allowance. This is causing significant financial concerns to senior clinicians, with many now looking closely at whether it is in their financial interest to do extra work for the NHS.

The Government recognises that in response to concerns about annual allowance tax charges, some clinicians are seeking to control their income and pension growth by limiting or even reducing their NHS work to avoid breaching their annual allowance for tax-free pension saving.

Discussions with the medical profession and employers have highlighted the need for clinicians to have wide-ranging pension flexibility to control the amount of tax-free pension saving they build up in the NHS Pension Scheme and so manage their annual allowance tax liability without reducing their workload.

Accordingly, the consultation proposes giving senior clinicians the option to:

- Choose a personalised pension growth level at the start of each tax year (1 April) and pay correspondingly lower contributions. The level chosen would be a percentage of the normal scheme contribution in 10%

increments. For example, 50%, 30%, or 70% of the full accrual level.

- Fine-tune their pension growth towards the end of the tax year when they are clearer on total earnings. This will allow them to 'top-up' their pensions to the maximum amount without hitting their tapered annual allowance limit.

This flexibility will allow clinicians to tailor the level of growth in their NHS pension so they can maximise their contribution to patient care without sudden annual allowance tax penalties and whilst sustaining growth in their pensions.

The Government is committed to ensuring that hard-working clinicians who provide additional care for NHS patients do not find themselves considering reducing their work commitments, as a result of the interaction between their pay, their pension and the tax regime that surrounds this. The consultation therefore seeks views on how new important flexibilities in the way the NHS Pension Scheme operates can ensure that senior clinicians are rewarded properly for additional work whilst managing the impact on their pension and their tax liabilities in a fairer manner.

It's vital that we get this right, so we want NHS staff and employers to contribute their views to the consultation so that we get these changes right. The consultation is open until 1 November 2019 and I ask you to encourage interested constituents to have their say. Subject to the consultation outcome and amendment of NHS Pension Scheme regulations, the new flexibilities would be in place ready for the next tax year.

The Government also recognises need for urgent action to help retain and maximise the contribution of our highly-skilled clinical workforce. NHS Employers last week published guidance on possible local approaches that employers can consider taking immediately to mitigate the impact of pension tax on their workforce this tax year.

Taken together, I believe these actions are a clear statement of intent by Government to find an urgent and comprehensive solution to this issue and ensure hardworking NHS staff are not penalised for working overtime. It's all part of our commitment to the NHS.

Yours ever,

MATT HANCOCK