

# NHS Pension Scheme Guide

## Key Dates

Solutions for a Members who were within 10 years of retirement as at 1st April 2012 received full protection and can remain in their current section until they retire or leave the scheme.

Members who were more than 10 years, but less than 13 years and 5 months from retirement on 1st April 2012 were entitled to tapered protection. This meant their move to the 2015 scheme was delayed to a later date.

Any members who were more than 13 years and 5 months from retirement on 1st April 2012 received no protection. They were therefore moved to the 2015 scheme as soon as it was launched.



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## Understanding the NHS Pension Scheme.

### Introduction

The NHS Pension Scheme is a well-earned benefit for the hard workers of the health service. But with three different parts of the scheme in operation, it's not the easiest thing to understand.

In this guide, we'll break down exactly how membership of the NHS pension works, and what it might mean for your future retirement plans.

The guide focuses mainly on hospital doctors and dentists.

### The three different parts of the NHS Pension Scheme

The way in which your NHS pension works depends much on when you joined the scheme. That's because there are three parts to the NHS pension – the old scheme, which has a 1995 section and a 2008 section, and the 2015 scheme.

For hospital doctors and dentists (also known as officers), the 1995 and 2008 sections predominantly pay a final salary pension, whereas the 2015 scheme is a career average (CARE) scheme.

For GPs and General Dental Practitioners, all parts of the schemes are CARE schemes.

**Both these types of pension are known as 'defined benefit' schemes, because they promise to pay a pre-agreed income in your retirement.**

In the final salary sections of the scheme, that pre-agreed income is calculated based on how much you're earning when you finish work. In the career average scheme, it's based on average earnings across your NHS employment.

Knowing which part of the NHS Pension Scheme you are in is key to understanding your benefits and planning your retirement.

### Which section of the NHS Pension Scheme are you in?

The 1995 section of the NHS Pension Scheme applies to members who joined the scheme before 1st April 2008. The 2008 scheme covers members who joined the scheme after this date, but before the 1st April 2015 (unless you chose to move from the 1995 section to the 2008 section when it launched).

## The cost of Retirement

It might sound like a cliché, but it's never too early to start thinking about retirement. The further you plan in advance, the more comfortable a retirement you're likely to enjoy.

For those in the medical profession, membership of the NHS Pension Scheme is certainly a handy place to start, but the NHS pension won't necessarily provide you with your dream retirement on its own.

Making the most of your pension (and any other retirement income) depends on careful planning, smart timing and clear understanding of all the options open to you.

Effective retirement planning begins with knowing how much money you'll need for the retirement you want.

The [Retirement Living Standards](#) suggests that couples need a retirement income of £47,500 per year to be 'comfortable' (for individuals it's £33,000) – but naturally, it depends on your own unique circumstances, and the expenses you'll incur in later life.

On that note, it's important to recognise that your spending in retirement may look significantly different to how it does now.



# How NHS Contributions Work.

The 3 types of NHS Pension available –  
All dependent on your joining date.

## How NHS pension contributions work

When you start working for the NHS, you automatically gain membership to the NHS Pension Scheme. The scheme is voluntary though, so you can opt out at any time.

If you choose to remain in the scheme, you'll pay a set contribution to your pension each month, which is automatically taken from your salary. The amount you have to contribute is dictated by how much you earn, starting at 5% for the lowest-earning bracket (5.2% in Scotland), and rising to 14.5% for the highest earners (14.7% in Scotland).

Your employer contributes to your pension too. Currently they are obliged to contribute 20.68% of your salary (20.9% in Scotland) regardless of what salary bracket you're in, or which part of the pension scheme you're in.

## How much your NHS pension might pay

The NHS pension is a defined benefit scheme. That means regardless of how much you accrue, your pension income is guaranteed to a certain level, as calculated by a formula.

That formula is slightly different depending on which part of the pension scheme you're in, and what kind of role you hold.

### 1995 section

If you're an officer in the 1995 section, your pension is usually calculated as 1/80th of your final salary (the greater of your salary for the last 365 days or the best of your last 3 years' pensionable pay), multiplied by the number of years you've been in the scheme. In addition, you will also get a lump sum, equivalent to three times your annual pension. If you want, you can give up some of your pension in exchange for a higher lump sum up to 25% of the notional fund value. If the lump sum is within 25% of your remaining lifetime allowance, it will be paid tax free.

### 2008 section

If you are in the 2008 section, you will receive a pension based on 1/60th of your 'reckonable pay' for each year you have been a member of the NHS Pension Scheme.

Reckonable pay is the average of the best three consecutive years' pensionable pay received over the last 10 years before retirement. You can usually take up to 25% of the notional fund value as a lump sum, but you would receive a reduced pension if you did so. If the lump sum is within 25% of your remaining lifetime allowance, it will be paid tax free.

### 2015 scheme

The 2015 scheme is a career average scheme, based on 1/54th of your pensionable earnings each year. It's calculated the same way for both hospital doctors and dentists, and GPs and GDPs.

When the time comes for you to retire, all your revalued pots of money are added together to calculate your final pension.



## Alternative Income Options

### Accessing your other retirement income streams

Your NHS pension will usually consist of both a regular monthly payment and a retirement lump sum. Sometimes, you'll be able to take a larger lump sum up-front, in return for reducing your monthly pension.

How you choose to take your pension – and what you do with that lump sum – will depend on various factors, but one of the most crucial is your access to other retirement income streams.

In an ideal world, your NHS pension will be supplemented by savings, investments and [personal pensions](#), but you'll need to consider the best time to access these. You may not always be able to get your money as quickly as you need it, as some investments can't be cashed in instantly.

Property, for example, can take time to sell. If you have invested in the stock market meanwhile, you may not wish to sell your shares or fund units until market conditions are more favourable. There could also be financial penalties for surrendering investments early.

### Accessing your pension

If you have personal pensions, the earliest you can take your money out is currently aged 55. However, this is set to increase in the near future – so you'll need to plan with that in mind. Depending on the types of pension you hold, you may also have several options on how you access your benefits. You may be able to:

- ❖ Use your pension to buy a guaranteed income for life (annuity)
- ❖ Use your pension to provide a flexible retirement income (flexi-access drawdown)
- ❖ Take your pension pot as cash
- ❖ Take your pension as several lump sums
- ❖ Mix your options

Having a plan in place that takes all your income streams into account can help ensure liquidity in your later years, so [speak to SJ Wealth Management](#) to understand the right retirement strategy for you.

### Your entitlement to the state pension

Another common retirement income stream is the state pension. However, the age at which you can draw your state pension is currently going through a phased increase, rising steadily towards 68 for most people. That means you could be retired for a good while before you can take it.

Changes in 2016 introduced a new flat-rate state pension to replace the previous one, which was made up of two parts – a basic state pension and additional state pension. This has implications for members of the NHS Pension too, because prior to these changes, the NHS Pension Scheme automatically 'contracted out' members from the additional state pension - allowing you to pay lower National Insurance Contributions (NICs) and pay into your NHS pension instead.

As a result, while the full new State Pension is £185.15\* per week, you may receive less when your entitlement is calculated, especially if you have not achieved the minimum qualifying period of NIC contributions.

\* Based on 2022/23 tax year

To help you make accurate calculations about your retirement income, you can ask for a forecast of your new state pension on the [UK government website](#).





## Support for your surgery

If you're already running your own medical practice, **SJ Wealth Management** can also support you on a range of business protection issues.

You can talk to us about things like protecting the practice against some of the costs of losing a key person, protecting practice loans or insuring to provide funds for efficient succession planning or the need for a Locum to protect you if you are off longterm sick. We can also help you with life cover for employees and Directors of the business.

## Services that we offer;

### A meeting with a Specialist Financial Adviser can help you:

- Create a plan to help you reach your financial goals
- Plan for your retirement
- Get started with investments
- Protect your income for absence due to illness or injury
- Understand the complexities of the NHS Pension Scheme
- Utilise your current schemes in with new schemes available
- Maximised your pension contributions? Have you thought about utilising VCTs? Speak with a Specialised Adviser today....

## Contact Details

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