



SWITCHING TO A NEW NHS PENSION?



SWITCHING TO THE NEW NHS PENSION? 5 TRAPS TO AVOID

In most instances, I believe that most doctors will be better off in the original scheme, unless they want to retire after 65. I don't believe that there is a hidden agenda by those funding the NHS or running it, but clearly the new scheme would not begin providing a pension to most people for an extra 5 years – a massive saving, given that the clock is running down on life and therefore how long a pension might have to be paid out. Also it would make life easier for the NHS Pensions Agency if everyone was in the new scheme – administration is expensive and can be complex. The GP scheme is perhaps the most complex pension scheme I have ever come across. So I can see that this would also be an attractive advantage to the NHS. Other than these two points, I'm struggling to find anything that warrants a subtext or even a whiff of one. However, here are 5 traps to avoid.

TRAP 1: FASTER FUNDING?

TRAP 2: YOU GIVE ANOTHER 5 YEARS

TRAP 3: NEW SCHEME - RETIRING AT 60 LEADS TO A LOWER PENSION

TRAP 4: SWITCH AND YOU WILL LOOSE BONUS OF GUARANTEED ADDED YEARS SCHEME

TRAP 5: ALL IN THE MATHS

TRAP 1: FASTER FUNDING

On the face of it the new scheme appears to be better – you build benefits faster at a rate of 1/60th as opposed to 1/80th. So simply put 20 years of service – $20/60\text{th} = 33.33\%$ of salary against $20/80\text{th} = 25\%$. This is entirely accurate with a catch – the new scheme does not come with an automatic lump sum – the old scheme does.

TRAP 2: YOU GIVE ANOTHER 5 YEARS

The new scheme allows you to retire at 60, but has an official scheme retirement date of 65. So whilst you may be willing to work from 60-65 this does have an obvious impact on your lifestyle – in that you defer doing the things you have worked hard for by another 5 years – when you are obviously older. Alternatively you may decide to gradually retire and reduce your hours from age 60 – but be careful this will probably work against you on TRAP 5.

TRAP 3: NEW SCHEME - RETIRING AT 60 LEADS TO A LOWER PENSION

To retire at 60 and draw your NHS pension, you would have to suffer a penalty of 26% on the benefits that you build up as you would be retiring early and expecting to have a pension in payment for longer.

Here's an example:

A Doctor builds 34 years of service (age 26-60). In the new scheme this would appear to provide a pension of 56.6% whereas the old scheme would provide only 42.5%. However the new scheme would not be available until 65 without suffering a penalty. It also does not provide an automatic lump sum which is worth a further 10.63% (commuted from lump sum /12) under the old scheme boosting the sum to 53.12% but available without penalty. If you take the pension at 60 within the new scheme your pension suffers a 26% penalty, reducing 56.6% to 41.88% - less than the original scheme without the penalty.

TRAP 4: SWITCH AND YOU WILL LOOSE BONUS OF GUARANTEED ADDED YEARS SCHEME

The existing Added Years Scheme (now closed) provides very valuable guaranteed benefits, which are frankly impossible to match outside of the NHS. OK, so Added Years is not cheap – but they provide a cast iron guarantee. Yes it is possible that the same money invested elsewhere might grow into a decent fund, but not with a guarantee attached. If you switch to the new scheme you get to keep the proportion of Added Years that you have bought, but not the full amount of years you planned to buy.



TRAP 5: ALL IN THE MATHS

A key difference between the schemes is that the original scheme uses the “Final Years Pensionable Pay” which is normally the best pay received in one of the three years before your retirement date – invariably the last. The new scheme uses the annual average of the best three consecutive years pay in the last ten years – which in practice for most people will probably end up being the penultimate year of pay. The caveat being that I’m assuming that your salary rises each year – as it does for the majority of doctors. If you reduce your sessions and pay from age 60, you may well find that in the following 5 years (60-65) your pay has reduced considerably and you may find that the best three consecutive years were actually when you were 57-60, not what the full time equivalent salary is when you are 64.

BONUS INFORMATION

- **TAX FREE CASH**

One of the main improvements which has occurred to both schemes, is that it is possible to increase the tax free lump sum – but the maths is the same for both in terms of how this is really calculated. The advantage of a larger tax free lump sum is simply that you have more money to spend or invest at retirement. Your pension is reduced, but then given that you would only see 60% (assuming 40% tax rate) it is arguably a price worth paying – particularly as the death benefits to a spouse do not reduce.

- **LIFE ASSURANCE, SPOUSE & CHILDREN’S BENEFITS**

There are very few differences in benefits of a spouse and children and frankly nothing worth commenting on within this document.

- **WHO MIGHT ACTUALLY GAIN FROM JOINING THE NEW SCHEME?**

People that want to work to 65 (or have to due to limited assets) who will typically be late starters or not doctors.

Whilst the law may be moving against age discrimination, any practicing doctor will recognise that in some specialities age can become a disadvantage in practical matters.

If you believe that your income is unlikely to rise considerably in your last 10 years, the new scheme may offer a better final salary however most doctors will have salary increments each year and some may also achieve awards that count for pensionable pay. Of course, if you plan to reduce your sessions or alter your career course this may naturally reduce your income.

Whilst the information is available within the NHS documentation “Which NHS Pension Path Will You Take” these are the real issues for any Doctors considering switching.

There’s lots of information on the NHS Pensions Agency website including calculators – but as with any projection about the future do remember that life does not always pan out as planned

About the Author

Dominic has been advising doctors since 1992. Today he advises many of the top Consultants in the UK, predominantly in the London region, but also nationally. He formed a Solomon’s a fee based firm in 1999 and works with clients to provide fee based financial planning. If you would like to know more please either visit the company [website](#) or his [personal blog](#).

