

# Brief Update on Pensions from the British Medical Association (BMA) (Webinar on Tuesday 23 February 2021)

Sheffield  
LMC



The need to review pensions has arisen from the McCloud case in December 2018 when judges and firefighters challenged government in offering age discriminatory cut offs in their 2015 pension scheme. The government lost the case, but it is noted that the 2015 scheme itself is not discriminatory, it was the offer to allow some participants, dependent on age, to stay in their legacy schemes.

GP pensions are based on career average earnings with dynamising factors boosting values of early career contributions. The Hutton reforms of 2011 altered the pensions link from Retail Price Index (RPI) to Consumer Price Index (CPI), instantly reducing pension value by approximately 25%.

There are currently 3 pension schemes with different benefits:

## 1. 1995 Based on Number of years worked/80

- Retirement age 60;
- Pension benefits lost if you work beyond 60;
- Tax free lump sum ;
- Greater “in service” death benefits.

## 2. 2008 scheme Based on No. of years worked/60

- Retirement age 65;
- Pension benefits if you work beyond this;
- No lump sum;
- Reduced “in-service” death benefits.

## 3. 2015 scheme Based on No. of years worked/54 + 1.5% dynamising factor

- Retirement aged based on State retirement age (currently 67-68);
- Pension benefit if you work beyond this;
- No lump sum;
- Reduced “in-service” death benefits;
- Dynamising factor of 1.5% can significantly enhance pension if you are in the scheme for a long time.

In each scheme your pension will reduce by approximately 4-5% for every year you take it before official retirement age.

Many GPs were transferred into the 2015 scheme from their legacy scheme, but this has had to be reviewed since the McCloud judgement. From 2015 - April 2022 all pension contributions **can** be transferred into your legacy scheme, but from April 2022 onwards all contributions will be to your 2015 scheme. Pension statements will **automatically** be altered to reflect contributions into your legacy scheme, **but** you can choose at retirement whether you want these contributions to stay in your legacy scheme **or** be transferred into your 2015 scheme.

## **Lifetime Tax Allowance**

This was initially set at £1.8m before tax was due, but has gradually reduced to £1.07m this year. It has been frozen at this level until 2026. This is equivalent to an annual pension of approximately £46k. For a 1995 scheme member this is 23 x annual pension.

## **Annual Tax Allowance**

This was initially set at £255k annual increase in pension in 2010 and did not catch doctors. It has now reduced to £40k increase per annum. The pension increase is not just contributions, but also the investment increase in your pension pot.

Tax has been payable dependent on Threshold Income (TI) (excluding pension growth) of £110k and Adjusted Income (TI + pension growth) of £150k. The limits were increased this year to £200k and £240k respectively. There is a tapering of this tax free allowance so it will reduce by £1 for every £2 Adjusted Income above the threshold. Tapering can reduce the tax free sum to £4k from £40k.

There are options for paying these taxes. If you pay them directly it will come out of taxed income. If you opt for scheme pays it will come out of gross pension, hence more tax efficient.

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The details in this document were received by Sheffield LMC during a recent BMA webinar, and are being shared with represented Sheffield GPs for information. Please note that Sheffield LMC provides representation, guidance and support for GPs and practices in Sheffield, but cannot provide individual legal or financial advice. We would always recommend that independent pension advice is sought.