NHS Pension Scheme (NHPS) 2015 and Early Retirement Reduction Buy Out (ERRBO)

On 1st April 2015, the NHSPS 2015 was introduced and this will be the scheme that all new members of the NHS will join. Certain members of the 1995 section and the 2008 section of the old NHPS will also be moved to the NHPS 2015 depending on their ages as at 1st April 2012.

Any members of the 1995 section that were age 50 or above on 1st April 2012 will remain in that scheme and retain the scheme’s Normal Pension Age (NPA) of 60, whereas any members of the 2008 section of the NHPS who were age 55 or above on 1st April 2012 will remain in the 2008 section, thereby retaining the right to take benefits at the scheme NPA of age 65.

Members of both the 1995 and 2008 section will be able to take benefits earlier than ages 60 or 65 respectively, however, any benefits taken early will be subject to Early Retirement Factors (ERFs).

Members who were younger than 50 (1995 section) or 55 (2008 section) on 1st April 2012 will be moved to the new NHPS 2015 at varying times depending on their ages. Any member who was more than 13 years and 5 months from the respective scheme’s NPA as at 1st April 2012 will move to the NHPS 2015 on 1st April 2015.

Existing rights in the old NHPS 1995 and 2008 sections up to the point of moving to the NHPS 2015 will be preserved.

NHPS 2015 - NPA

The NPA for the NHPS 2015 will be linked to the members State Pension Age (SPA) which, for most members, moving across to the new scheme will initially be age 67. The NPA of the scheme will rise as and when the SPA rises, which is expected to happen due to increased longevity.

Early Retirement Reduction Buy Out (ERRBO)

Members joining the NHPS 2015 will be given an option to pay additional regular contributions to “buy out” the ERF reduction that would apply if the member were to retire before their NPA (which, as mentioned, will be linked to their SPA). This agreement is known as an ERRBO agreement and will be available for early retirement one, two or three years before the member’s NPA. It will not be possible to enter an ERRBO with a retirement age earlier than age 65.

The rate of additional contributions will be based on a member’s age at the effective date of the ERRBO agreement, as well as the number of years of reduction that is being bought out.
Members must make an application for an ERRBO agreement within three months of joining the 2015 scheme, if it is to be effective from the scheme’s first year of membership. Applications made after three months will only be effective from the beginning of the following scheme year.

Please note that it is not possible to make retrospective applications for earlier scheme years. For example, if a member were to join the scheme on 1st April 2015 then, provided an application is received by 30th June 2015, the ERRBO agreement will be effective from the beginning of the 2015/16 scheme year. If an application is not made in time, then the ERRBO will only be effective from the following scheme year, i.e. the 2016/17 scheme years, which means that, on retirement, although the benefits from the 2016/17 scheme years onwards would be covered by the ERRBO agreement, any pension benefits built up in the 2015/16 tax year would still be reduced by ERFs.

An application for an ERRBO agreement must be made within three months of the start of the scheme year to which it is to apply.

**Costs**

The cost of an ERRBO will be dependent on the age of the member on the day before the effective date of the agreement and the number of years’ reduction the agreement is for. For example, members with an NPA of age 67 can purchase a one year reduction to enable benefits to be taken at age 66 without ERFs applying or a two year reduction to enable benefits to be taken at age 65 without ERFs applying.

Based on example figures provided by NHS Pensions Agency (NHSPA), a 50 year old member buying a one year reduction will pay an additional 1.42% pension contributions and the rate for two years is doubled to 2.84%.

The payments will need to be made until the member’s selected early retirement age (i.e. 66 or 65 in the above examples) and will entitle the members to take their benefits without any ERFs at the earlier age (i.e. one or two years earlier than NPA).

**Tax Issues**

The extra contribution that is being paid will qualify for tax relief at the member’s marginal rate of tax and as the payment is not actually increasing the member’s benefits from year to year, the extra contribution should have no impact on the member’s annual allowance (AA) of £40,000 per annum for the 2015/16 tax year, above which an AA tax charge would arise.
However, the ERRBO may increase the tax charges in respect of exceeding the overall Lifetime Allowance (LTA), which is due to be reduced to £1m (from its current limit of £1.25m) from 6th April 2016. This is because a member with an ERRBO will receive a higher pension at age 65 than would otherwise have been the case due to the fact that (without the ERRBO) the benefits at 65 will have been reduced by ERFs to reflect the fact that the benefits are being paid early and will therefore be paid for longer.

The effect of this is that the higher pension will result in a higher value for LTA purposes, therefore if the member’s total benefits exceed the LTA limit at retirement, the excess benefits will be subject to an LTA charge of 55% if taken as a lump sum or 25% if taken as a pension, which will then be subject to income tax at the member’s marginal rate.

There is an overall limit to what additional contributions can be paid, therefore members who are already purchasing (or who intend to purchase Additional Pension (AP)) within the NHSPS may find the overall limits restrict their payments. This will be advised to members by the NHSPS once they have made their application to enter into an ERRBO agreement.

**Other Issues**

**Stopping Payments**

Once the ERRBO agreement is in place, it will not usually be possible to stop payments. It will, however, be possible to stop the contract on financial grounds for up to one year. If the additional contributions are not restarted within one year, the agreement will be terminated and the member will not be able to take out a further agreement.

**Cancelling the Contract**

It will be possible to cancel the agreement at any time, however, if the contract is cancelled in less than one year, then the additional contributions will be repaid and the agreement will be cancelled. If, on the other hand, the additional contributions have been paid for more than one year, then only the contributions that were paid during any part of a scheme year will be repaid and the buyout period will then be limited to the end of the previous scheme year and applied proportionally.

It is also worth noting that, in the event of early retirement on health grounds, the ERRBO has no benefit and the contributions paid will not be returned. Members will, however, receive their pension early without reduction in the usual way.

**Summary**

In summary, most members of the NHSPS 2015 will have a NPA of 67 (or later if the SPA increases) and will be subject to ERFs if they take benefits before their NPA.
Members will be given the opportunity to buy out the ERFs by paying an increased percentage of superannuable pay from the start of the ERRBO contract until age 65 or later, at which point they will be able to take their benefits without any reduction.

The extra percentage of superannuable pay will depend on the member’s age at the start of the contract and how many years early the member wishes to take benefits.

Once the contract has started, it will generally only be possible to stop the payments for a period of up to one year and if payments are not recommenced within that year, then the contract will be cancelled and it will not be possible to subsequently take out a further ERRBO agreement.

If a contract is terminated and the termination occurs within the first twelve months, then the contributions are returned and the agreement is cancelled. If the contract is terminated after the first twelve months, then only payments made for part of the scheme year will be returned and the buyout period will then be applied only to the year for which full payments have been received.

In the event of early retirement due to ill-health, the ERRBO contract will have no value and payments made will not be returned.

If members wish the ERRBO to apply for a particular scheme year, then they will need to apply for the contract within three months of the commencement of that scheme year, or else the contract will not apply until the following scheme year.

For example, members who wish to take out an ERRBO for the 2015/16 tax year will need to apply by 30th June 2015 otherwise the ERRBO will not start until the 2016/17 scheme year, which means that benefits accrued in 2015/16 will still be subject to an ERF.