NHS Employers

Dear Chancellor,

**Date**
03.08.2022

**For the attention of**
Chancellor of the Exchequer
CEU.Enquiries@hmtreasury.gov.uk

**Urgent changes to pension tax calculations needed to allow doctors to tackle waiting lists**

I write to relay the mounting concern of NHS leaders around the current inflationary environment on pension tax, and the impact is having on NHS care, including meeting the Government's ambitions to tackle the treatment backlogs.

NHS Employers is part of the NHS Confederation, the membership body that brings together, supports and speaks for the whole healthcare system in England, Wales and Northern Ireland. The NHS leaders we represent employ 1.4 million staff, care for more than 1 million patients a day and control £150 billion of public expenditure.

As you will know, the Government acted on the NHS Pensions issue before in March 2020, and we welcomed the change to the tapered annual allowance. While this issue is not new, we must bring to your attention the very real risk that rapidly rising inflation will deter even more senior doctors from working additional hours – that is, unless urgent changes to pension tax calculations are brought in this year.

For members of the NHS Pension Scheme, the value of pension savings is based on the growth in the member's pension over the tax year. Pension growth is calculated by subtracting the value of the member's pension at the start of the year (the opening value) from the value of the member's pension at the end of the tax year (the closing value). If the member's pension growth exceeds the annual allowance, excess benefits may be subject to a tax charge.

It has been standard practice for the NHS Pension Scheme (along with others) to increase the value of pension benefits in April based on the annual increase in inflation to the previous September.

In the 2022/23 tax year, the closing value will include the uprating of career average pensions benefits on 1 April 2023 using the annual increase in CPI inflation measured in September 2022, which the Office for Budget Responsibility has predicted will rise to 8.7%.

However, the opening value is uprated to 5 April 2023 using the annual increase in CPI inflation measured in September 2021 (known to be 3.1%). While both the closing and opening values are uprated for inflation (with the intention of removing pension growth due to inflation from the calculation), for the 2022/23 tax year in particular, the inflation figures used will be dramatically different. Assumed pension growth will be incurred by rapidly increasing inflation rather than above inflationary pension growth.

As you will know, there are two separately registered schemes that constitute the NHS Pension Scheme - the legacy scheme (the 1995/2008 NHS Pension Scheme, which provides pension benefits based on final salary) and the reformed scheme (the 2015 NHS Pension Scheme, where pension benefits are calculated using average revalued earnings over the member's career). While they are technically two separate schemes, they are treated as "connected" under the Public Service Pensions Act 2013 but treated as separate under the calculations applied to pension scheme growth.

The NHS Pension Scheme Advisory Board has recently written to the Chief Secretary to the Treasury pointing out that it is inconsistent that the Scheme can be treated as two separately registered schemes for pension tax purposes while at the same time treated as one 'connected' scheme for many other circumstances.

By not aggregating both values across the two schemes, the approach to valuing pension savings growth for existing scheme members can mean that actual pension growth is overstated. This is a particular concern where the value for pension growth in the legacy scheme is negative and that negative figure is not offset against the pension growth value in the reformed scheme.

This issue of rapidly increasing inflation causing a spike in pension growth is preventing senior medical staff from carrying out the additional work that the NHS desperately needs them to undertake if they are to tackle the elective backlog and meet the huge levels of demand that are currently providing such a big challenge to frontline services.

It is imperative that HM Treasury enacts a solution where the NHS Pension Scheme is treated as a single scheme for the purpose of pension growth measured against the Annual Allowance.

Specifically, we are asking your department to:

- Allow pension growth across both schemes to be aggregated before it is tested against the annual allowance.
- Amend the calculations so that pension growth, which is solely caused by rapidly increasing inflation within the tax year, is not included and tested against the annual allowance.

I would be grateful for your consideration of these matters and if helpful, I would be happy to meet with you and/or your team to discuss them further at your earliest convenience. If so, your team can contact external.affairs@nhsconfed.org.

**Daniel Mortimer**
**Chief Executive, NHS Employers and Deputy Chief Executive, NHS Confederation**

cc.

Rt Hon Stephen Barclay, Secretary of State for Health & Social Care
Dr Navina Evans, Chief Workforce Officer, NHS England
Stella Vig, Clinical Director (Elective), NHS England
Rt Hon Jeremy Hunt, Chair, Heath & Social Care Select Committee
Sue Jacques, Co-Chair, Scheme Advisory Board, NHS Pensions
Jon Restell, Co-Chair, Scheme Advisory Board, NHS Pensions