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## PENSION CONTRIBUTION ALTERNATIVE AWARD POLICY

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## CONTENTS

QUICK REFERENCE GUIDE.....	3
1. INTRODUCTION .....	4
2. PURPOSE .....	4
3. SCOPE .....	4
4. DEFINITIONS.....	4
5. DUTIES AND RESPONSIBILITIES.....	6
6. PROCESS .....	6
7. TRAINING REQUIREMENTS .....	8
8. REFERENCES AND ASSOCIATED DOCUMENTATION .....	8
9. EQUALITY IMPACT STATEMENT .....	8
10. MONITORING COMPLIANCE WITH PROCEDURAL DOCUMENTS .....	10
EQUALITY IMPACT SCREENING TOOL .....	13

## QUICK REFERENCE GUIDE

This policy must be followed in full when developing or reviewing and amending Trust procedural documents.

For quick reference the guide below is a summary of actions required. This does not negate the need for the document author and others involved in the process to be aware of and follow the detail of this policy. *The quick reference can take the form of a list or a flow chart, if the latter would more easily explain the key issues within the body of the document*

1. Employees who meet the eligibility criteria, PHT will pay employees who opt out of the NHS Pension Scheme a sum equivalent to the Employer's Contribution (amount that the employer would pay into the relevant NHS Pension Scheme if they had remained a member of the NHS Pension Scheme) net of the employer's National Insurance contributions – current 12.38%.
2. This proposal is not an inducement to leave the NHS Pension Scheme. PHT does not recommend that employees leave the NHS Pension Scheme and any decisions must be informed by taking independent advice.
3. Employees must opt out of the NHS Pension Scheme.
4. Employees must take independent financial advice.
5. Employees can then apply for the alternative award.
6. This award will cease on 31<sup>st</sup> March 2020.

## 1. INTRODUCTION

To address operational risks that have been identified as a result of the changes introduced to the pension tax regime. In particular, the Trust has experienced a number of requests for reduced contractual hours, a reluctance to take on additional work and a desire to focus on private work as a direct result of the pension tax regime. This policy is an attempt to address these operational issues.

## 2. PURPOSE

To provide an optional alternative pension contribution until 31<sup>st</sup> March 2020 for those employees who are impacted by the pension tax thresholds.

## 3. SCOPE

The policy applies to all staff who are eligible to be members of the NHS Pension Scheme and have a current tax liability or are about to attract a tax liability as a result of pension tax thresholds and if their current pension arrangements continue will be able to opt out of the NHS Pension Scheme and instead receive a separate cash payment.

This policy does not form part of any employee's contract of employment and the Trust may amend or remove it at its sole and absolute discretion.

This policy will come into effect on 1<sup>st</sup> October 2019.

In the event of an infection outbreak, flu pandemic or major incident, the Trust recognises that it may not be possible to adhere to all aspects of this document. In such circumstances, staff should take advice from their manager and all possible action must be taken to maintain ongoing patient and staff safety.

## 4. DEFINITIONS

### **Lifetime and annual allowance tax limits**

The pension tax regime imposes limits on the value of pension savings that an individual can build up (with the benefit of tax reliefs) each year and over the course of a lifetime.

These limits are known as the Annual Allowance (AA), and the Lifetime Allowance (LTA).

### **Annual allowance (AA)**

While there are no limits on the amount of pension you can build up or the amount which can be paid into your pension arrangements each tax year, the AA is the maximum amount of saving that you can make in a registered pension scheme each tax year without incurring a tax charge.

For the 2019/20 tax year the AA is £40,000 tapering down to £10,000 depending on your income. The government may change these limits in the future. Current HMRC limits in place from time to time can be found here:

<https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance>

Currently unused AAs from the preceding three tax years can be carried forward, and these can reduce or in some cases eliminate an AA charge that would otherwise apply.

If you exceed your AA you will have to report this in your annual tax return, and any pension savings which exceed the AA will be taxed at your marginal rate.

### **Lifetime allowance (LTA)**

While there are no limits on the amount of pension you can build up or the amount which can be paid into your pension arrangements over the course of your working life, the LTA is the maximum amount of pension savings that you can build up in all of your registered pension schemes without incurring a tax charge.

For the 2019/20 tax year the lifetime allowance is set at £1,055,000 (unless you have lifetime allowance protection). The LTA will be indexed rising annually in line with the increase in the Consumer Prices Index (CPI). The government may decide to change these limits in the future. Current HMRC limits in place from time to time can be found here:

<https://www.gov.uk/tax-on-your-private-pension/lifetime-allowance>

The test against LTA is normally assessed at the date that any of your benefits are drawn. This is known as a benefit crystallisation event.

Currently, in basic terms, pension savings which exceed the LTA on the date of a benefit crystallisation event will be subject to a one off tax charge of 25%, and will then be taxed at your marginal income tax rate. Additionally any benefits above the LTA taken as a lump sum payment will be subject to a tax charge of 55%.

### **How do annual and lifetime allowances operate?**

The AA and LTA operates differently dependent on the relevant pension scheme arrangement, as summarised in the table below:

	<b>AA</b>	<b>LTA</b>
<b>Defined Contribution</b>	Total amount of contributions paid in by you or anyone else.	Capital value of all pension pots that goes towards paying benefits, however you decide to take them.
<b>Defined Benefit (such as the NHS Pension Scheme)</b>	The annual increase in the pension benefits promised to you when you retire in accordance with the rules of the scheme.	Calculated using a set formula of usually 20 times the pension you get in the first year plus your lump sum.

If you have been building up pension benefits or have pensions savings in more than one registered pension scheme in the UK, then you will need to add up the amount in all the pension schemes you belong to when determining if you are approaching or have reached the AA or the LTA (as applicable).

## **5. DUTIES AND RESPONSIBILITIES**

### **Your responsibilities**

The Trust cannot advise you if the options set out above will be right for you. If you believe that you may be affected by the AA or the LTA (as applicable) you must make a decision based on your individual circumstances, and should take independent financial advice. Some Trade Unions (including the BMA) offer financial advice to their members as part of their membership offering. Confirmation that you have taken independent financial advice will be required on your Request Form. The Trust accepts no liability or responsibility for the consequences of any changes to your pension benefits or arrangements, or any consequences of no changes being made.

The Trust will not provide you with financial advice, or warn you if your benefits might exceed the AA or the LTA (as applicable). You are responsible for keeping track of your total pension benefits and for managing your personal tax allowances and affairs. You are responsible for notifying the Trust if you are affected by the AA or the LTA, and that you want your pension arrangements to be changed.

You are responsible for monitoring the AA and the LTA limits (as applicable) in place from time to time. If you are affected by the AA or the LTA (as applicable) it is your responsibility to report this to HMRC and to ensure that any tax charges are paid.

### **Automatic enrolment**

If you opt out of the NHS Pension Scheme the Trust will be under an obligation to automatically enrol you into another qualifying pension scheme in the future (unless you have LTA protection or are not eligible for automatic enrolment). You will need to arrange to opt out of membership of the qualifying pension scheme before contributions are paid to ensure that further pension benefits do not start to accrue.

### **Human Resources**

Will assess your application and pass to the Trust's Payroll Provider, SBS, to process.

### **SBS Payroll**

Will process your application.

## **6. PROCESS**

### **Your options**

If you are eligible to be a member of the NHS Pension Scheme, and will be affected by the AA or the LTA you can:

- Continue in the NHS Pension Scheme and bear any additional tax charges that arise; or

- You can opt out of the NHS Pension Scheme and be paid a separate cash payment as explained in 6.2 below (“Alternative Award”).

If you opt out of the NHS Pension Scheme you will become a deferred member. You will also not be able to make any further money purchase additional voluntary contributions into the NHS Pension Scheme.

The Alternative Award Payment that will be paid to you in the event that you opt out of the NHS Pension Scheme will be 12.38% of your pensionable pay (the employers’ contribution net of employers’ national insurance contributions).

Your pensionable pay for the purpose of calculating the Alternative Award Payment will be determined by the Trust, but will be based on what your pensionable pay would have been for the purpose of calculating employer contributions to the NHS Pension Scheme had you continued to participate in the NHS Pension Scheme.

If you opt out of the NHS Pension Scheme it is your responsibility to provide the pension scheme administrator with effective notice of the opt-out. You must confirm this to the Trust, before any cash payment will be paid.

If you opt out of the NHS Pension Scheme you will no longer be entitled to some benefits, such as ill health benefits and lump sum on death benefits.

### **Impact of the separate cash payment**

The Alternative Award Payment would not form part of your base salary, and would not be included in the calculation of any overtime, bonus, long-term incentive plan, or other benefit entitlements that you may have.

Although not forming part of your base salary, the Alternative Award Payment will increase the amount that you receive each month. It will also impact on the following:-

- The amount of holiday pay received by you. Such calculation will include an element to reflect the Alternative Award Payment.
- The amount of any redundancy pay calculation, but only in so far as the calculation of a weeks’ pay (for redundancy purposes) does not exceed the statutory cap (currently £508).

The Alternative Award Payment would be paid in equal monthly instalments in arrears. Payments would be subject to deduction for income tax and national insurance contributions.

This policy is only valid for the period from 1<sup>st</sup> October 2019 to 31<sup>st</sup> March 2020 at which point it will be withdrawn and the Trust will adopt the revised national scheme.

An individual may choose to opt back into the NHS Pension Scheme in any time but realistically it is expected that this would require a month’s notice to transact the required processes. The Trust’s discretion is absolute in relation to the policy as a whole and/or its ongoing application to any individual employee, and that discretion will be exercised taking into account the purpose of this policy as set out in paragraph 1.2 above.

## **Making a request**

In order to make a request under this policy you must confirm that you have a current tax liability or can demonstrate that you are about to attract a tax liability in relation to the AA or the LTA if your current pension arrangements continue. You may be requested to provide evidence of this.

If your request is granted and the Trust subsequently determines that you are not or would not have been affected by the AA or the LTA (as applicable), appropriate action will be considered and any sums paid to you as cash payments in accordance with this policy may be deducted from your salary or any other sums owed to you by the Trust.

Your request should be made in good time and at least one month before you would like the changes to take effect. The Trust accepts no responsibility for changes to pension benefits or arrangements not being made in sufficient time to avoid the impact of the AA or the LTA (as applicable).

If your request is accepted, we will confirm the new arrangements. This will be placed on your personnel file to confirm the variation of your terms of employment.

The Alternative Award Payment will apply to your current role only. In the event that you apply for, or otherwise change roles, then the continuation of the Alternative Award Payment will be at the absolute discretion of the Trust.

## **7. TRAINING REQUIREMENTS**

None required.

## **8. REFERENCES AND ASSOCIATED DOCUMENTATION**

Current HMRC limits in place from time to time can be found here: <https://www.gov.uk/tax-on-your-private-pension/lifetime-allowance>

## **9. EQUALITY IMPACT STATEMENT**

Portsmouth Hospitals NHS Trust is committed to ensuring that, as far as is reasonably practicable, the way we provide services to the public and the way we treat our staff reflects their individual needs and does not discriminate against individuals or groups on any grounds.

This policy has been assessed accordingly

*All policies must include this standard equality impact statement. However, when sending for ratification and publication, this must be accompanied by the full equality screening assessment tool. The assessment tool can be found on the Trust Intranet -> Policies -> Policy Documentation*

Our values are the core of what Portsmouth Hospitals NHS Trust is and what we cherish. They are beliefs that manifest in the behaviours our employees display in the workplace.

Our Values were developed after listening to our staff. They bring the Trust closer to its vision to be the best hospital, providing the best care by the best people and ensure that our patients are at the centre of all we do.



We are committed to promoting a culture founded on these values which form the 'heart' of our Trust:

***Working together*** for patients  
***Working together*** with compassion  
***Working together*** as one team  
***Working together*** always improving

This policy should be read and implemented with the Trust Values in mind at all times.

## 10. MONITORING COMPLIANCE WITH PROCEDURAL DOCUMENTS

Minimum requirement to be monitored	Lead	Tool	Frequency of Report of Compliance	Reporting arrangements	Lead(s) for acting on Recommendations
<i>Number of staff who apply and receive the alternative award</i>	Head of Employee Resourcing	<b>ESR</b>	1 <sup>st</sup> April 2020	Policy audit report to: <ul style="list-style-type: none"> <li>• Workforce Performance and Governance</li> </ul>	Director of Workforce and OD

This document will be monitored to ensure it is effective and to assure compliance.

*The effectiveness in practice of all procedural documents should be routinely monitored (audited) to ensure the document objectives are being achieved. The process for how the monitoring will be performed should be included in the procedural document, using the template above.*

*The details of the monitoring to be considered include:*

- *The aspects of the procedural document to be monitored: identify standards or key performance indicators (KPIs);*
- *The lead for ensuring the audit is undertaken*
- *The tool to be used for monitoring e.g. spot checks, observation audit, data collection;*
- *Frequency of the monitoring e.g. quarterly, annually;*
- *The reporting arrangements i.e. the committee or group who will be responsible for receiving the results and taking action as required. In most circumstances this will be the committee which ratified the document. The template for the policy audit report can be found on the Trust Intranet Trust Intranet -> Policies -> Policy Documentation*
- *The lead(s) for acting on any recommendations necessary.*
- *recommendations necessary.*

## Appendix A

### Application for Alternative Award Policy

<b>Full Name</b>	
<b>Job Title</b>	
<b>ESR Assignment Number</b>	
<b>NHS Pension Scheme Membership Reference</b>	
<b>Opt out date from the NHS Pension Scheme</b>	

I confirm that:

- I have read and understood the Pension Contribution Alternative Award Policy.
- I have a current tax liability or am able to demonstrate that I am about to attract a tax liability in relation to the Annual Allowance or Lifetime Allowance if my current pension arrangements continue. You may be required to provide evidence of this e.g. letter from Independent Financial Advisor or NHS Pension Scheme letter.
- I have taken independent financial advice in relation to my decision to leave the NHS Pension Scheme.
- I fully understand the impact (including loss of associated benefits) of leaving the NHS Pension Scheme.

I understand that:

- The policy and alternative award payment do not form part of my contract of employment.
- The payment will cease on 31<sup>st</sup> March 2020.
- The Alternative Award Payment does not form part of my base salary, and is not included in the calculation of any overtime, bonus, long-term incentive plan, or other benefit entitlements that I may have.

- Payments will be subject to deduction for income tax and national insurance contributions.
- The Trust accepts no liability or responsibility for the consequences of any changes to my pension benefits or arrangements, or any consequences of no changes being made.

<b>Signed</b>	
<b>Name</b>	
<b>Date</b>	

Please return this form to the [HR.Inbox@porthosp.nhs.uk](mailto:HR.Inbox@porthosp.nhs.uk)

### EQUALITY IMPACT SCREENING TOOL

To be completed and attached to any procedural document when submitted to the appropriate committee for consideration and approval for service and policy changes/amendments.

Stage 1 - Screening			
<b>Title of Procedural Document:</b>			
<b>Date of Assessment</b>	9 <sup>th</sup> October 2019	<b>Responsible Department</b>	Workforce and OD
<b>Name of person completing assessment</b>	Natalie Sanderson	<b>Job Title</b>	Head of Employee Resourcing
<b>Does the policy/function affect one group less or more favourably than another on the basis of :</b>			
	<b>Yes/No</b>	<b>Comments</b>	
• Age	Y		
• Disability	N		
• Gender reassignment	N		
• Pregnancy and Maternity	N		
• Race	N		
• Sex	N		
• Religion or Belief	N		
• Sexual Orientation	N		
• Marriage and Civil Partnership	N		
<b>If the answer to all of the above questions is NO, the EIA is complete. If YES, a full impact assessment is required: go on to stage 2, page 2</b>			
More Information can be found by following the link below <a href="http://www.legislation.gov.uk/ukpga/2010/15/contents">www.legislation.gov.uk/ukpga/2010/15/contents</a>			

## Stage 2 – Full Impact Assessment

What is the impact	Level of Impact	Mitigating Actions (what needs to be done to minimise / remove the impact)	Responsible Officer
Age – proportionately older employees are more likely be affected by the tax liability and need to consider the impact on their pension.	Low	All employees, irrespective of their age, are entitled to apply this policy which would reduce the impact of the tax liability on pension.	Deputy Director of Workforce

### Monitoring of Actions

The monitoring of actions to mitigate any impact will be undertaken at the appropriate level

Specialty Procedural Document:

Specialty Governance Committee

Clinical Service Centre Procedural Document:

Clinical Service Centre Governance Committee

Corporate Procedural Document:

Relevant Corporate Committee

All actions will be further monitored as part of reporting schedule to the Equality and Diversity Committee