

NHS Pension Choice: what does it mean for you?

NHS pensions are under the spotlight more than ever at the moment. The Hutton Report has put public sector pensions, including the NHS scheme, at the forefront of government cutbacks and we are in the middle of the NHS Pension Choice exercise.

Wesleyan Medical Sickness recently conducted research to gauge health-care professionals' views on the exercise. The survey of 351 people showed that there is no clear understanding of what the Pension Choice exercise involves, although understanding increased among those who had received and read their NHS Pension Choice pack. There was also widespread concern over NHS pension provision, with 92% expecting cuts to this in future.

What follows is a clear breakdown of what the NHS Pension Choice exercise entails, as well as top tips on making the most of it.

NHS Pension Choice: the fundamentals

So what is happening? Essentially, the NHS pension scheme is split into two sections: the 1995 section and the 2008 section. If you joined the pension scheme on or before 31 March 2008 you will fall into the 1995 section; if you joined on or after 1 April 2008 you will automatically have been assigned to the 2008 section.

Throughout 2010 and 2011, members of the 1995 section will receive a choice pack offering a one-off option to transfer all pension benefits to the 2008 section. The websites listed in the box show the timetable as it currently stands.

When you receive your pack, it will include the potential benefits available to

you in both sections and assess whether or not you should transfer. If you are given a green light status, this indicates that you should probably transfer to the 2008 section. Red suggests you may be better off remaining in the 1995 section, while amber signals that you are likely to receive similar benefits whichever section you opt for.

You are not forced to take up the recommendation suggested in your pack – this has to be your choice. Broadly speaking, if you fall into the red or green categories your decision is quite clear cut. However, if you are assigned an amber status you should investigate further the differences between the two schemes and how these might affect your retirement plans.

This is clearly a complicated process and you should seek professional financial advice from an adviser who has an in-depth understanding of the NHS pension scheme ahead of making your final decision. Remember that once you have made your choice, you will not be able to change your mind so it is important that you take time and expert advice, if necessary, to reach the right decision for your needs.

Age of retirement: the defining factor

The age that you want to retire is probably going to be the most important factor in deciding whether or not to transfer to the 2008 section. Generally speaking, if you plan to retire closer to 60 years of age then it is likely that the 1995 section will provide higher pension and cash benefits. However, if you think that you will be retiring nearer to 65 years of age, the 2008 section will probably offer greater benefits. If you are planning to retire between 60 and 65 years of age, then the difference in projected benefits may be quite small and you should take other factors into consideration.

Conversely, if you are looking to retire before the age of 55 years, you should remain under the 1995 section, where early retirement is normally permitted from the age of 50 years – unless you joined after 6 April 2006 when the minimum retirement age was increased to 55 years of age from 6 April 2010. Under the 2008 section, early retirement is not available until 55 years of age.

Key considerations: reading the small print

If you have, or plan to buy an additional pension, the 1995 section is likely to be preferable as you can take these benefits from 60 years of age. Under the 2008 section they will incur an actuarial reduction if you take them before 65 years of age.

Additionally, if you are making extra contributions to buy added years and it is important to you that you can buy the full number of added years you originally subscribed to, then you will need to stay in the 1995 section as the 2008 section does not allow added years.

If it is likely that you'll want to take some benefits from the NHS pension scheme, while continuing to work and accrue additional pension contributions, the 2008 section offers more flexibility to take part of your pension while still working. In the 1995 section, however, benefits are only payable upon retirement from the NHS.

If you expect to see an increase in salary, because of seniority payments for example, you should consider remaining in the 1995 section as the pay you receive from your pension will be based on the highest pay in any one of the 3 years before retirement. Under the 2008 section, benefits are based on an average of the best 3 years pay in the last 10 years so if you expect to see your pay decrease this may prove the better option.

Retirement planning and you

As our research shows, there is a level of concern among health-care professionals over their retirement funds. It might be sensible to use the opportunity of the Pensions Choice exercise to carry out a full review of your retirement planning and consult a financial adviser if necessary. Once you have decided on the most appropriate scheme for you, review your existing retirement plans to ensure they are still relevant. Remember that this is a one-off opportunity, so ensure that you make the right decision for your long-term financial needs. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.

Useful websites

England and Wales www.nhsbsa.nhs.uk/Choice.aspx

Scotland www.sppa.gov.uk/nhschoice.htm

Northern Ireland www.dhsspsni.gov.uk/index/hsc-pensions/choice

Wesleyan Medical Sickness provides specialist financial advice for doctors

Telephone: 0808 100 1884

Website www.wesleyanmedicalsickness.co.uk