

## **PENSION CONTRIBUTION ALTERNATIVE PAYMENT POLICY (Pension Recycling)**

ICB document reference:	<b>LICB HR 022</b>
Name of originator/author:	AGEM HRBP Team
Date of approval:	March 2024
Name of responsible Committee:	Senior Management Operational Delivery Group
Responsible Director/ICB Officer:	Director of Nursing and Quality
Category:	Human Resources
EIA undertaken:	Yes
Date issued:	April 2024
Review date:	April 2026
Target audience:	All staff
Distributed via:	Email, Website, Intranet and Board Portal

# Document Control Sheet

Document Title	Pension Contribution Alternative Payment Policy (Pension Recycling)
Version	3
Status	Approved
Authors	AGEM HRBP Team
Date	January 2023

Document history			
Version	Date	Author	Comments
1	January 2023	AGEM HRBP Team	
2	October 2023	AGEM HRBP Team	Changes made to reflect changes to Annual Allowance (AA) and the removal of the Lifetime Allowance (LTA) as announced by the Chancellor of the Exchequer in his Spring 2023 Budget.
3.	March 2024	AGEM HRBP Team	Updated following comments received from the ICB Remuneration Committee Members.

## Contents

1. Introduction .....	4
2. Scope.....	4
3. Objectives .....	4
4. Definitions .....	5
5. The Options .....	5
6. Impact of the alternative payment .....	6
7. Eligibility for making a request for the alternative payment.....	6
8. Process for applications.....	7
9. Approval .....	7
10. Implementation .....	7
11. Equality Impact Statement (EIA) .....	8
Appendix 1.....	9
Appendix 2.....	10

## **1. Introduction**

The NHS pension scheme is a fundamental element of the overall NHS reward package and is key to attracting and retaining employees. The ICB is committed to encouraging participation in the NHS pension scheme at all levels ensuring individuals eligible for scheme membership can effectively plan for their retirement.

The ICB recognises that some employees are being disproportionately impacted by additional tax charges and may find that their future pension benefits are affected. This is because they are or may be affected by exceeding the Annual Allowance (AA) particularly when the taper applies. As a result, they make choices which include leaving the NHS Pension Scheme or reducing their employment commitments or leaving employment of the ICB altogether.

This policy has been introduced to provide an operational alternative to the provision of NHS pension contributions for those employees who confirm and are able to demonstrate to the Remuneration Committee, that they are impacted by the AA in respect of their pension savings and have therefore decided to opt out of the NHS pension scheme.

Given that the number of employees impacted the AA tax requirements is likely to be small, every application will be considered by the Remuneration Committee, who are the decision-making Committee.

## **2. Scope**

This policy is only intended for those employees affected by pension taxation issues and for whom the ICB pays an employer contribution into the NHS pension scheme. This policy does not apply to staff for whom the ICB pays employer contributions to the National Employment Savings Trust (NEST).

## **3. Objectives**

The policy sets out the key difference between the NHS pension scheme and the Pension Contribution Alternative Payment Scheme (PCAP) and the process and eligibility criteria for joining the PCAP.

It will also set out an optional alternative to pension contributions for those employees who can demonstrate that they are impacted by the AA pension tax thresholds and decide to opt out of the pension scheme thereby choosing to forego pension tax relief.

For most employees, it is likely to be in their best financial interest to remain in the NHS pension scheme and individuals should consider this policy and any associated information carefully before deciding. Employees must obtain their own independent financial advice before making any changes.

#### 4. Definitions

<p><b>Pensions Annual Allowance</b></p>	<p>The maximum amount of saving that can be made in a registered pension scheme each year without incurring a tax charge.</p> <p>For the 2023/24 tax year the AA is £60,000. Any pension savings in excess of this will be subject to an annual allowance tax charge. The government may change these limits in the future. Different annual allowance limits may apply to any separate defined contribution pension savings you may have.</p>
<p><b>Tapered Annual Allowance</b></p>	<p>The annual allowance for ‘high income individuals’ tapers from £60,000 to £10,000 depending on the level of income.</p> <p>Tapered AA applies to individuals with a threshold income of more than £200,000 and an adjusted income of more than £260,000.</p> <p>For every £2 your adjusted income goes over £260,000, your annual allowance for the current tax year reduces by £1. The minimum reduced annual allowance you can have in the current tax year is £10,000.</p>
<p><b>Employer Pension Contribution</b></p>	<p>Amount that the ICB ordinarily pays into the NHS pension scheme if the employee were still a member of the NHS Pension Scheme</p>

#### 5. The Options

Where employees are currently active members of the NHS pension scheme, and can evidence that they will be affected by the AA they can:

Continue in the NHS Scheme and bear any additional tax charges that arise in the tax year for an AA charge.

or

Opt out of the NHS scheme and apply to be paid an alternative payment. Individuals who opt out of the NHS scheme will become deferred members and will not be able to make any further money purchase, added years or additional voluntary contributions into the NHS Scheme.

The alternative payment that will be paid in the event of an opt out of the NHS Pensions scheme will be “the sum equivalent to the employer pension contribution net of the employer’s national insurance contributions, maintaining cost neutrality to the NHS. This will be paid as a supplement to salary and so will be subject to income tax. In 2023/24 the PCAP is circa 12.4% of pensionable pay.

Where individuals opt out of the NHS Pension Scheme it is their responsibility to provide a completed SD502 opt-out form before any alternative payment will be paid.

Individuals considering the alternative payment should carefully review and consider the impact of opting out of the NHS Scheme on all their benefits.

Where individuals opt out of the NHS Scheme there may be a significant impact on the level of benefits which may be received from the NHS Scheme. There is likely to be a notable reduction in ill-health benefits and death benefits.

## **6. Impact of the alternative payment**

The alternative payment does not form part of base salary and would not be included in the calculation of any overtime, or other entitlements. Although not forming part of base salary, the alternative payment will increase the amount paid. It will also impact on the following:

The amount of holiday and sick pay. Such calculations will include an element to reflect the alternative payment.

The amount of any redundancy pay calculation, but only in so far as any statutory cap. Where an individual's weekly pay is higher than any statutory cap applicable at the point of redundancy, then the alternative payment will not be included in the calculation.

Income for the purposes of the tapered annual allowance may be higher than before and so the annual allowance may reduce for any pension savings already built up in the tax year. This means individuals may be entitled to a lower amount of tax relief on their pension contributions.

The alternative payment will be paid in equal monthly instalments. Payments will be subject to deduction for income tax and national insurance contributions.

In deciding on the alternative payment, individuals may wish to consider whether it will be financially beneficial to receive the alternative payment (subject to income tax and national insurance contributions) or paying an additional pension tax charge by staying in the NHS Scheme and consider the effect on pension benefits and growth by staying in the Scheme versus opting out.

The policy will be reviewed at the start of each financial year and will be considered in the light of any progress on the introduction of pension flexibilities within the NHS Pension Scheme.

Individuals are responsible for obtaining whatever advice is necessary for them to make an informed decision, including where appropriate (though not limited to) professional advice from an accountant or independent financial advisor, guidance from the NHS pension scheme (Member hub/NHSBSA), information from reputable sources such as professional organisation and unions, HMRC.

## **7. Eligibility for making a request for the alternative payment.**

To be eligible to make a request under this policy, employees must comply with all the following:

- Be in the employment at the ICB
- Be an active member of the NHS Pension Scheme at the point of application; or

- was an active member of the NHS pension scheme on the 1 April of the previous calendar year to that in which the application is being made and had been for at least six calendar months
- Demonstrate to the Remuneration Committee that the AA tax regulations have caused them to have left, or be leaving, the NHS Pension Scheme. Must opt-out of the NHS pension scheme and not be in receipt of pension benefits after the application is approved (ie must become a deferred member)

The Pension Contribution Alternative payment (PCA) will be the sum equivalent to the employers NHS pension contribution net of the employers NI contributions, to maintain cost neutrality to the NHS. This will be paid as a supplement to salary and subject to income tax.

Meeting the criteria as set out above does not automatically mean that applications for the alternative payment will be approved.

## **8. Process for applications**

Application for a PCA payment should be made on the application form attached to this policy. All applications should be accompanied by a statement demonstrating that the applicant has been, or is, impacted by the AA tax regulations.

The Remuneration Committee will consider the effective start date for any applications which it approves. This will be in the light of information or evidence which the applicant submits as part of the application process.

## **9. Approval**

The application will be considered by the Remuneration Committee, who will be responsible for approving or rejecting applications considering the eligibility criteria defined in this policy and will record the justification for each decision.

Where an application is approved, the employee will be issued a letter confirming the payment.

## **10. Implementation**

Where an application has been approved, the employee's application to opt out of the NHS Pension Scheme(s), will be activated by the ICB. The PCA payment will be paid to the employee monthly.

The alternative payment will apply to an individual's current role only. Any changes to terms of employment will continue as agreed by the ICB and the continuance of the alternative payment will be subject to the ICBs overriding legal duties. If an individual in receipt of the allowance changes roles, then the continuation of the alternative payment will be at the absolute discretion of the ICB, although not unreasonably withheld. If individuals subsequently choose to reduce sessions/working hours while in receipt of the alternative payment, this will automatically trigger a review to assess ongoing eligibility.

If the national AA (or LTA allowance) pension tax requirements change, the Remuneration Committee will consider if previously approved decisions need to be reviewed.

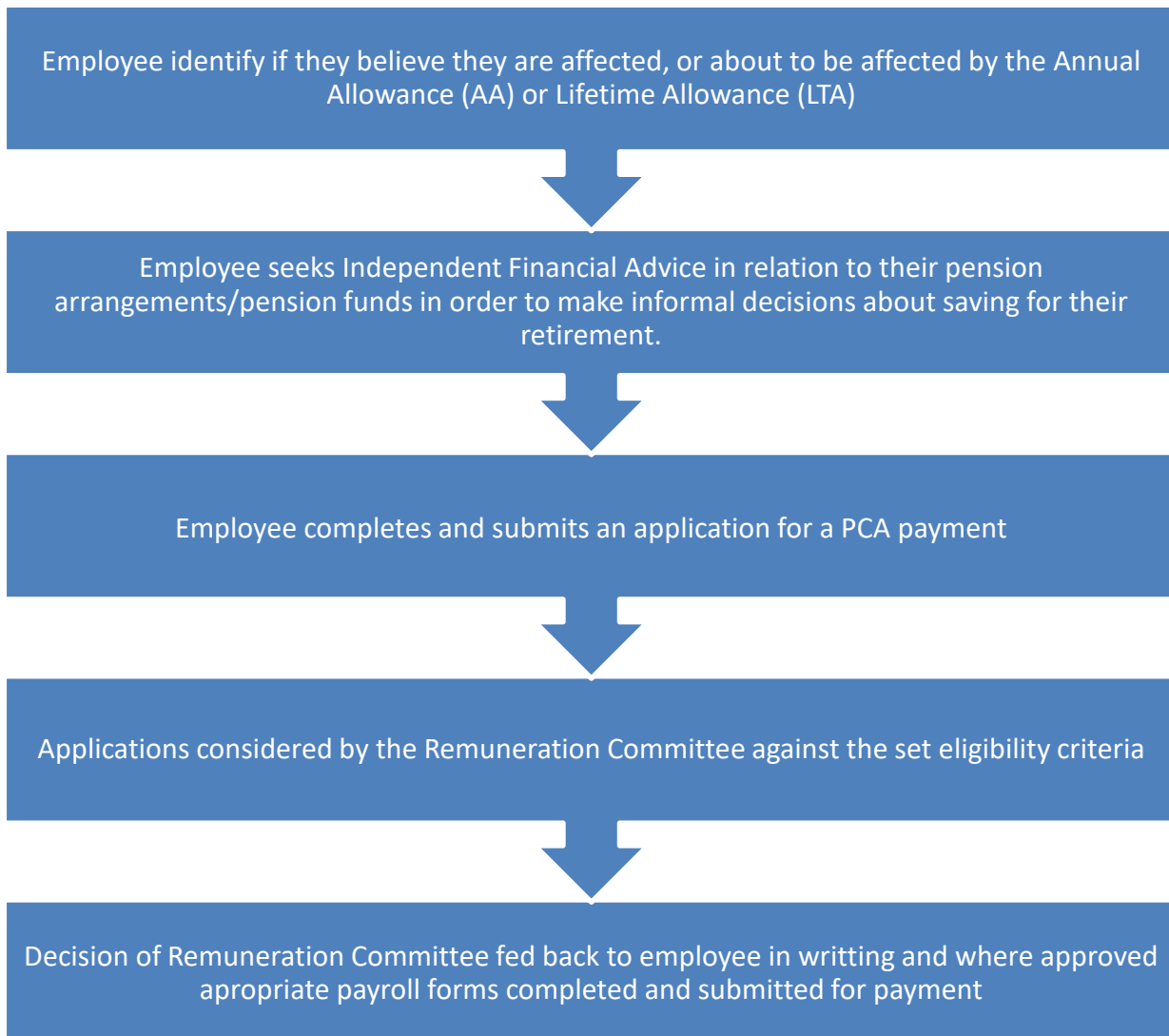
## 11. Equality Impact Statement (EIA)

Does this policy/guideline affect one group less or more favourably than another on the basis of:				
				Comments
1	Age		no	The Policy is available equally to all employees of any age and to men and women employees.
2	Gender		no	The Policy is available equally to all employees of any age and to men and women employees.
3	Race		no	
4	Disability		no	
5	Religion/Belief		no	
6	Sexual Orientation		no	
7	Gender Re-assignment		no	
8	Marriage & Civil Partnership		no	
9	Pregnancy & Maternity		no	
	Is there any evidence that some groups maybe affected differently?		no	
	Could this document have an impact on other groups not covered by a protected characteristic? (e.g.: low wage earners or carers)		no	

Assessment completed by:	<i>Stephen Wright, Head of HR Business Partners</i>	Date completed:	11 December 23
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## Appendix 1

### Recycling of NHS Pension Contribution Flowchart



## Appendix 2

### Pension Scheme Opt Out: Lifetime Allowance/Annual Allowance Threshold

1	<p>I wish to opt-out of the NHS Pension Scheme, and wish to apply for a cash sum, equivalent to the employer pension fund contributions, to be paid subject to tax and national insurance contributions on a monthly basis during the course of my continued employment. I understand I must complete form SD502 which is available from NHS Pensions:</p> <p><a href="https://www.nhsbsa.nhs.uk/sites/default/files/2018-07/SD502%20%28V20%29%2007.2018.pdf">https://www.nhsbsa.nhs.uk/sites/default/files/2018-07/SD502%20%28V20%29%2007.2018.pdf</a></p>
2	<p>I have taken independent financial advice in relation to this decision and I understand that the ICB will not be liable for any pension shortfall or tax due as a result of this application.</p>
3	<p>This decision has been taken as I have reached the Annual Allowance threshold based on salary.</p>
4	<p>I have attached a statement demonstrating that I am impacted by the AA pension tax arrangements.</p>
5	<p>I understand that any payment will be subject to the following conditions and restrictions:</p> <ul style="list-style-type: none"><li>• The amount paid to me from the ICB in the form of a Pension Contribution Alternative payment (PCA) will be circa 12.4% of pensionable pay.</li><li>• If the contribution rates for an individual or the employer decrease under the pension scheme rules, I understand that the alternative payment will reduce by the same amount including any subsequent adjustment to the employer's national insurance contribution.</li><li>• The payment must be cost neutral to the ICB.</li><li>• The payment is conditional upon continued employment within the ICB.</li><li>• The payments will cease at the point I either leave the organisation or reach maximum service eligibility, or if for any reason I become unable to remain an active member of the occupational pension scheme had I chosen to stay in it, or at the point I choose to start to withdraw occupational pension fund benefits.</li><li>• I understand I will still be subject to auto-enrolment and that it is my responsibility to opt-out when re-enrolled.</li><li>• I understand it is my responsibility to notify the ICB should any of the above events take place. Any overpayment as a result of failure to inform the above will be recovered by the ICB.</li></ul>

<b>6</b>	This cash payment is entirely at the discretion of the organisation (subject always to that discretion being exercised and the cash payment scheme being operated in a manner which is non-discriminatory) and may be withdrawn at any point.
<b>Signatories:</b>	
<b>Name of Applicant:</b>	
<b>Signature:</b>	
<b>Date:</b>	
<b>CPO Approval:</b>	
<b>Name:</b>	
<b>Signature:</b>	
<b>Date:</b>	
<b><i>This form to be forwarded to HR Business Partner and retained in the individuals personal file</i></b>	