# NHS pensions crisis:

## symptom of a more serious malady


**By Daniel Gerring – Partner and Head of Pensions, Travers Smith**
**Chris Roebuck – Associate, Travers Smith**

**The 2019 NHS pensions crisis highlighted the undue complexity of the Annual and Lifetime Allowances as many clinicians felt forced to decline additional shifts or even retire early for fear of punitive and unexpected tax bills. As schemes and employers seek interim solutions, calls for reform of the broader pensions tax regime are rightly growing louder.**

Three key allowances curtail tax relief on pension benefits in registered pension schemes (over a member's lifetime and in each year): (a) the Lifetime Allowance (LTA) - £1.055m; (b) Annual Allowance (AA) – £40,000; and (c) tapered Annual Allowance (Taper).

The NHS pensions dispute resulted mainly from the Taper which, broadly, reduces AA for those with higher incomes - tapering AA by £1 for every £2 income earned between £150k-210k, down to a minimum AA of £10,000.

The Taper is notoriously complex - it turns on highly technical concepts of 'adjusted' and 'minimum' income. It makes things particularly difficult for NHS Pension Scheme members whose annual incomes can be hard to predict and who can accrue benefits under different schemes at different rates. The Financial Times reported one case of a doctor who breached their £110,000 threshold income by £3 due to an extra shift (not itself pensionable), triggering a £13,000 pensions tax charge.

The NHS crisis hit the headlines as staff opted to reduce their workload (and even retire early) for fear of punitive tax bills. In December 2019, pending implementation of flexibilities in the NHS Scheme proposed by the government, NHS England adopted an interim solution - AA charges incurred in the 2019/20 tax year will be effectively waived, absorbed by Scheme Pays on a cash-neutral basis for members.

Yet the problem affects others, including judges, police, firefighters and armed forces personnel. Some private sector employers are offering high earners cash alternatives, and demand for 'scheme pays' solutions is increasing across the board. Is the current pensions tax regime workable? Arguably not. For many, the logical solutions are abolition of the Taper or broader reform.

Firstly, whether the allowances are set at the right level is questionable. The original policy rationale was that lifetime tax-free saving should have an objectively justifiable limit. This feels tenuous when that limit has been almost halved, from £1.8m in 2011/12. Such allowances also have arbitrary 'cliff-edge' outcomes.

Secondly, AA is similarly inflexible. It is a flat limit imposed on members' shifting financial priorities, disincentivising higher contributions in higher-paying career stages. This can be particularly unfair for people with uneven careers (including due to parental responsibilities).

Thirdly, a tax regime under which individuals cannot easily predict or monitor their tax compliance can erode trust and will risk deterring individuals from pension saving. The government's NHS 'fix' has been called a 'sticking plaster'. A cure is needed for everybody.