A BEGINNER’S GUIDE TO PENSIONS
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WHAT WE’LL BE COVERING

• WHAT IS A PENSION?
• WHY DO WE NEED ONE?
• WHAT ARE THE DIFFERENT TYPES OF PENSION?
  • WHY ARE THEY DIFFERENT?
  • MODERNISING PENSION SCHEMES
• HOW DO I KNOW I’LL GET MY MONEY?
  • HOW MUCH WOULD I GET?
    • AN EXAMPLE
    • HOW IT GROWS
• IT CARRIES ON GROWING
  • TAX BREAKS
  • REMEMBER...
**WHAT IS A PENSION?**

- An employee puts a percentage of their monthly salary into a pension fund each month.

- The money paid into the fund is called "contributions" an example is the employee pays in 3% the employer pays in 6%.

- In most cases the contributions are invested and the pension pot grows.

- When the employee retires they draw down the money and take these wages in retirement.

- This is known as the "pension contract"
WHY DO WE NEED ONE?

• Workplace pensions were promoted after the Second World War to provide the work force with security

• Before World War 2 most workers lived in fear of retirement, or injury at work

• The Beveridge Report was a mid-war best seller, setting out a vision for a better, safer, fairer society after the war

• The 2 main elements aimed at removing insecurity and poverty in old age were:
  a) a basic State pension for all funded through a new tax called National Insurance
  b) second workplace pensions to top-up the State pension, with tax incentives to contribute
MODERNISING PENSION SCHEMES

Pension assumptions have had to change as work, and the politics around work, has changed. For example:

- Women are allowed to stay in work
- There is more turnover and staff take career breaks, change employers
- People expecting to live and work longer, whilst still having dependents and mortgages into their 60’s
- The invention of employment law from the early 1970’s and equalities legislation
- Fewer people employed in the public sector and less job security (especially important in private sector)
- Private sector employers contribute less so more strain on the state pension as a whole
- Senior salaries (in both private and public sector) grew (esp 1990 onwards) straining the deferred pay principle and any sense of “fairness”

- Growing gap between public sector and private sector pensions contributes to pay gap and taxpayer pressure (esp 2000’s) arguably amplified by auto-enrolment. More now have a pension but most in the private sector expect to need more whilst in the same period, general saving has reduced
WHY ARE THEY DIFFERENT?

The pension aimed to:

• Provide enough to maintain an independent standard of living for the employee and any dependents

• This was set at a maximum of ½ their final salary (plus the State pension)

• Calculated as a proportion of their final salary based upon the number of years worked

• For example: most people are expected to work 40 years so the pension would be worth $1/80$th for each year of service

• Where people were expected to work for 30 years (e.g. graduates) the pension was worth $1/60$th for each year
WHY ARE THEY DIFFERENT?

• It helps to explain why pensions have changed in recent years and some of the debates around pensions

• Classic model:

• Between 1945 and the late 1970’s there were general assumptions about work that underpinned pension maths

• These were:
  - Most workers with long careers would be men
  - They do the same job with the same employer for their whole career
  - Once qualified they’d generally have a predictable career curve
  - They’d retire between 60 and 65 and live an active life for about 10 years in retirement
CHANGING PENSION SCHEMES

Therefore, pension have had to change and modernise. For example:

- More public sector graduates saw schemes move from 80ths to 60ths (late 90’s)
- Legislation on auto-enrolment, especially targeting private sector saving (early 2000’s)
- Public sector “career average” – giving higher pensions for most but capping “late career bloomers” (2014-15)
WHAT ARE THE DIFFERENT TYPES OF PENSION?

- Essentially there are two types of pension **defined benefit** and **defined contribution**

- A **defined benefit** pension scheme provides a fixed return

- A **defined contribution** pension scheme the amount going in is fixed instead of what you get back

- The NHS pension is a **defined benefit scheme** with a guaranteed return that can be calculated and forecast based on when you expect to take the pension regardless of economic circumstances

- The State Pension is paid to everyone who have paid enough NI contributions during their working life

- This is worth **£9339.20 a year (or £179.60 a week) as of September 2021**
HOW DO I KNOW I’LL GET MY MONEY?

• Pensions have become incredibly important to the economy and so many people rely on them. Government underwrites the “pension contract”. This was tightened up after pension scandals in the late 80’s and early 90’s.

• This is even greater in the public sector where the Government is the employer. When Government tried to reduce public sector pensions in 2012 more people took part in industrial action than in any other previous action in British history. The same happens in other countries.

• Pensions are therefore an incredibly safe forms of investment, and public sector pension are the safest of all.

• In the NHS there isn’t really an investment pot – contributions go into the Treasury. This makes them even safer in some ways. Countries can’t really go bankrupt and the pension pot or liabilities can’t be sold off.
HOW MUCH WOULD I GET?

• If you remain in the scheme your pension “accrual” is 1/54th of your pensionable pay. You can take this without any penalty from your Normal Retirement Age – which is now the **State Pension Age (currently 67)**. If you work past 67 you can still grow your pension (**up to aged 75**). Unless you are medically retired your pension will be reduced if you take it early. The size of the reduction depends on how early it’s taken. The pension maths expect you to take the pension for an average of **12 years**. So expect it to be reduced by around **1/3 for every 4 years** you take it early.

• Pensionable pay covers pay up to your normal **37 ½ hours AfC Contract**. Unless you are part-time overtime and additional hours (and allowances related to overtime) are not pensionable – also meaning you don’t pay contributions on this money.

• If you’re part-time, all pay is pensionable until you have earned the equivalent of a full time contract.

• This could be confusing as it is not in line with the principles of CARE set out in **2015**.

• If you are on paid maternity leave or in receipt of sick pay your pension should not be impacted.
AN EXAMPLE

• Bill starts as a Band 5 radiographer in June 2020. Their annual salary is £25,654. They join the pension scheme, currently paying 7.1%

• Their pension pot starts to grow with 1/54th of £25,654 for their first year - £475.07

• This is banked and is inflation proofed. If Bill left after 1 year they’d get a pension at 67 of the equivalent of £475.07 a year
HOW IT GOES

• Bill’s wages and pension get slightly bigger as the progress through the increments and (for easy maths as an illustrative example) after 4 years in Band 5 his pot is worth £2,100. When Bill earned £26,825 their contributions increased to 9.3% (of all their pay)

• Bill gets promoted to a Band 6 at the start of their 5th year moving to £32,306. Their pension for the next 2 years grew by 2 x £598.26 (£11,96.52). If Bill left then their pension would be £33,96.52 p/a

• Bill stays and for 3 years earns £34,172. Their pension grows by 3 x £632.81 (£18,98.44). Their pension is then worth £52,94.96

• Bill then moves to the top of Band 6 earning £39,027. This accrues £722.72 each year for their pension. Bill is still paying 9.3%

• After 2 years at the top of the Band 6 scale and 10 years in the scheme Bill’s pension is worth £6,740.40 p.a. If they drew that for 15 years they will have earned £101,106.06 in retirement for their 10 years in the NHS pension. That is around 4 times what was paid by Bill in contributions
IT CARRIES ON GROWING

• Bill stays as a Band 6 for the next 3 years

• Their pension carries on growing by £722.72 each year (£2168.16)

• They then move to a different Trust where radiography shortages and a new pay deal allow them to move straight to the top of the Band - £45,839. Bill’s pension now grows by £848.87 a year.

• Bill does this for a year and then takes a break for parental leave. Even though they earn less their pension is not impacted and grows by £848.87. Bill’s pension is now worth £10,606.83 p/a

• Bill then takes a 2 year break – going to live in France. Bill returns and re-joins the NHS in a new role still at the top of Band 7 after support from her SoR Rep. Bill works at the top of Band 7 for another 5 years (Bill now has 20 years NHS service). Their pension would now be worth £14,851.18.

• Bill is then 47 years old (has started in the NHS at 25). If Bill worked until they were 67 and stayed at the top of Band 7 their pension would be £31,828.58 p/a (69% of their final salary after 40 years service). Bill would also get their state pension
PRIVATE SECTOR

• Most private sector providers are not in the NHS pension scheme. They would be expected to auto enrol you in a defined contribution scheme where you and they would have to pay the Government’s minimum contribution rates (now **8% with 5% employee contribution**) – although some employers support more. A common formula is to match employee contributions up to **6% each**

• These are invested and you get access to the value of the fund when you retire, with various options on how to take the money (e.g **as a pension, lump sum, combo, etc**).
TAX BREAKS

• All Government’s like to encourage **second workplace pensions** as these take the strain off the **state pension scheme**

• This works by deducting all contributions from taxable earnings

• You do pay tax on your pension when you receive it – the tax is deferred like the pay
REMEMBER…

• Agencies and Bank contracts are frequently non-pensionable – bank work is usually assumed to be overtime

• This is part of the reason why Agency rates can seem high – the agency adds on the pension contributions you and they are not paying whilst charging the NHS the same as if they were built in

• Some agencies also try to get people to work as if they were self-employed which means the employee has to meet all of their tax and NI liabilities themselves and are excluded from auto-enrolment

• Private sector radiographers also need to buy additional indemnity insurance. The NHS and SoR schemes do not cover them. This still needs to be paid for, even if they return to the NHS later, as claims that arise later are only covered if the insurance is still in place when the claim arrives...known as “run-off cover”