APP0003

Written Evidence submitted by HCSA – The Hospital Doctors' Union

Scope: How has the public service pensions landscape changed since 2010? What challenges remain?

1. Introduction

1.1 HCSA – the hospital doctors' union

HCSA is a nationally recognised professional association and trade union with a membership comprised of hospital doctors of all grades. In HCSA's Doctors At Work member survey, our members overwhelmingly responded that pensions were a top campaigning priority[1]. Doctors report that they feel anger at the financial detriment caused by unexpected, punitive tax bills and experience worry over the future. It is apparent there has been an erosion of trust between our members and policy-makers on pensions. HCSA recognises that the NHS Pension Scheme must cater for a broad range of skills and salaries, however this submission aims to draw attention to the unique implications for hospital doctors. HCSA is concerned with changes to the NHS Pension Scheme since 2010 which amount to a diminishing of the remuneration of Hospital Doctors, and the knock-on effect this has on the recruitment and retention of hospital doctors to the NHS. Investment in pensions should be seen as an investment in the NHS.

1.2 Summary of our submission:

2) Overall Pensions Landscape for HCSA members
3) Changes to Tax Relief
4) Implications of McCloud
5) Challenges – Recruitment, Retention & Financial Planning
6) HCSA Recommendations

2. Overall Pensions Landscape for HCSA members

2.1 As relatively high earners, hospital doctors within the NHS are disproportionately affected by increases in member contributions. For the highest earners in the NHS Pension Scheme, member contribution rates have increased from 8.5% in 2011/12 to 14.5% in 2015/16.[2]

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[1] Unpublished HCSA Hospital Doctors at Work survey, 714 respondents conducted January-February 2021.

2.2 Furthermore, the introduction of the new scheme in 2015, with linkage to state pension age, means younger members will need to work at least 7 years longer to access their pension.

2.3 From April 2011, the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) has been used as the measure by which annual increases to public sector pensions are calculated. RPI is generally expected to increase faster than CPI.[3] Therefore the switch to CPI has further reduced the benefits of the pension and the cost to the employer.

2.4 Traditionally, pensions have been a valuable part of remuneration for doctors, as public sector workers and taxpayers, and an incentive for doctors to work within the NHS. Yet long gone are the days of "gold-plated pensions" within the public sector, and this perception can no longer be used as a justification for paying a lower salary than in the private sector. There has been drastic pay decline within the medical profession over the last 10 years.

2.5 The Doctors & Dentists Remuneration Board (DDRB) 2020 report[4] used a benchmark of the 5th point of the Consultant scale to illustrate pay decline for Consultants when compared to wider earnings trends. Real average earnings across the economy were in line with 2008 levels in 2019; yet for Consultants the 2019 figure was 15 percent below the 2008 level.

2.6 HCSA also highlighted the impact on other grades of doctor in our submission to DDRB 2021 "*Year 2 foundation trainees had seen a particular decline, falling from above to below the upper quartile of full-time UK employees, while the average earnings of year 1 foundation trainees had also suffered a relative drop, albeit to a lesser degree."*[5]

3. Changes to Tax Relief

3.1 Changes to tax relief are particularly pertinent to hospital doctors as higher earners within the public sector. Section 5 will explore in more detail the challenges associated with the changes.

3.2 The Annual Allowance (AA) limits the amount that can be paid into a pension each year before taxation. AA has reduced drastically over the last 10 years - from £255,000 to £50,000 in April 2011 and then to £40,000 in April 2014.

3.3 The Lifetime Allowance (LTA) limits the total value of pension wealth which can be accrued with the benefit of pension tax relief. The Lifetime Allowance has also reduced significantly over the last 10 years – from £1.8m in 2011/12 to £1.073m in 2021/22 (and as of Budget 2021, it is now frozen for the next 5 years[6]). If the LTA is exceeded, tax will be levied on any excess at a rate of 25% where the money is taken as regular pension income and 55% where the money is taken as a lump sum.

3.4 The tapering of annual allowance introduced in 2016[7], was implemented to further reduce the annual allowance of higher earners with an initial 'threshold income' of £110,000. Lobbying by unions and NHS Trusts alike pointed to the particularly severe impact on senior doctors – leading to unfortunate effects on clinical provision. Resultantly, the Chancellor announced an increase in the taper threshold from April 2020 to £200,000[8], with the adjusted income set at £240,000. Whilst this

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[2] House of Commons briefing paper, Number CBP-3281, (2020) *NHS Pension Scheme*
[3] House of Commons Library, Briefing Paper Number CBP-5434, (2020) *Public Service Pension Increases*
[4] Review Body on Doctors' and Dentists' Remuneration (2020) *48th Report*.
[5] HCSA (2021) *Evidence to the Review Body on Doctors' and Dentists' Remuneration for 2021-22*
[6] HM Treasury (2021), Budget 2021
[7] HM Revenue & Customs (2015), *Pensions Tapered Annual Allowance.*
[8]HM Revenue & Customs (2020), *Pensions Tax Changes to income thresholds for calculating the tapered annual*

has temporarily improved the situation, HCSA must stress it is not a long term solution. As pension input cannot be controlled in a defined benefit scheme (and the Government has announced it will not introduce flexibilities[9]), many doctors will breach the standard £40,000 annual allowance repeatedly.

4. Implications of McCloud

4.1 The McCloud ruling in 2018 found that age discrimination occurred when transitional protection was offered to older members of public sector schemes during the introduction of the 2015 schemes - the subsequent remedy has led to further complications for hospital doctors. [10]

4.2 HCSA lobbied widely for the Deferred Choice Underpin (DCU) as a remedy and welcomes the decision by the Treasury in February 2021 to take this approach. This will allow scheme members to decide at the point of retirement which pension scheme benefits they wish to take for the 7 year remedy period.

4.3 This will give hospital doctors further time to seek specialist advice to evaluate the best option for personal circumstances. Implications include the effects on AA – for example, members with 1995 scheme membership will likely find pension input amounts are lower in one scheme only than across both 1995 and 2015, and retrospective tax calculations will be required.

4.4 The McCloud ruling has also meant that all NHS workers will be in Career Average Revalued Earnings (CARE) schemes from April 2022 wherein final salary linkage will decline over time, helping to stabilise costs further. Tiering of member contribution rates in a CARE scheme appears reasonable when looking at the effects of income tax in isolation. However, when pension taxes are included, the costs of membership for higher earners appear far less favourable.

4.5 The Treasury estimates that "removing unlawful discrimination back to 2015 will cost […] £17 billion for the remedy period" and suggests these costs "feed into future employer contribution rates once the 2020 scheme valuations are completed."[11]. HCSA believes the responsibility for this situation lies firmly with the government and therefore any shortfall to remedy the age discrimination should not be placed on the members of the scheme.

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allowance from 6 April 2020.

[9] HM Treasury (2021), *Public service pension schemes: changes to the transitional arrangements to the 2015 schemes Government response to consultation.*

[10] HM Treasury (2015), *Public service pension schemes: changes to the transitional arrangements to the 2015 schemes.*

[11] House of Commons Library, Briefing Paper Number CBP-5768 (2020), *Public service pensions - 2015 reforms*.

5. Challenges – Recruitment, Retention & Financial Planning

5.1 HCSA wishes to echo the National Audit Office (NAO) report[12] comments that there is a need for a strategy to link pensions with NHS Recruitment and Retention. Pensions reforms in the last 10 years have overlooked this important relationship and have served to expose and compound the historic problem of vacancies within the NHS. The confusion created by McCloud, along with changes to tax relief which target higher earners, is pushing hospital doctors towards life changes which will destabilize the NHS.

5.2 Early retirement is incentivised as senior doctors find it no longer pays to keep working. The DHSC[13] evidenced a stark increase in consultants taking voluntary early retirement over the past decade – 11.6% in 2009 to 30.6% in 2020 (and a significant increase from 27.8% in 2019). It is likely that some recorded are 'retiring and returning', however the NHS does not record reason for leaving so the statistics are not readily available.

5.3 Hospital doctors are reporting that they are leaving the pension scheme early, which means losing employer contributions. In HCSA members' survey, 33.1% stated that they have actively considered withdrawing from the Scheme, 8.9% said that they have already withdrawn and 2.5% said that they have retired and returned on a different contract[14]. Clearly, opting out also has a negative impact on the sustainability of the NHS pension scheme as a whole.

5.4 Even prior to the LTA announcement, HCSA Doctors At Work survey showed 50% of those who had made definite plans to leave the NHS said that pensions taxation was a factor[15]. In HCSA's 2018 survey, over a quarter (27.85%) of 833 respondents said they had made definite plans to leave the NHS, with destinations including retirement (30.26%), private practice (34.65%), and locum work (14.47%)[16].

5.5 Taking on additional Planned Activities or overtime is disincentivised as hospital doctors avoid being pushed over a tax "cliff edge". This has especially been cited as a concern for doctors this year as many have voluntarily taken on extra work to support the pandemic response.

5.6 The nature of hospital doctors' work is such that income for the current year can be very difficult to predict, especially once overtime, locum work and additional responsibilities are factored in. Hospital doctors often find at year end that they have breached the AA limit, and are faced with a significant tax bill.

5.7 Constant changes on pensions make financial planning very challenging. For most Consultants, individual financial advice and accountancy will be required on an ongoing basis, at a substantial cost from post-tax income.

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[12] National Audit Office (2021), *Public Service Pensions.*
[13] Review Body on Doctors' and Dentists' Remuneration (2020), *48th Report*
[14]Unpublished HCSA Survey of Members (2018), 883 respondents conducted October/November 2018
[15] Unpublished HCSA Hospital Doctors at Work survey (2021), 714 respondents conducted January-February 2021.
[16]Unpublished HCSA Survey of Members (2018), 883 respondents conducted October/November 2018

6. HCSA Recommendations

6.1 Pensions should not be seen as a substitute for fair remuneration in other areas. The dramatic changes in the pensions landscape since 2010 has highlighted the impossibility for individuals to accurately predict their future pension. A balance must be struck between safeguarding pensions already acquired and ensuring equitable treatment for younger members.

6.2 A strategy is developed as a matter of urgency to link pensions with recruitment and retention in line with NAO recommendations.

6.3 The DHSC develops a process for collecting data on records of 'reason for leaving' and how many 'retiring and returning' to fully understand the impact of pensions policy.

6.4 There must be an overhaul of pensions taxation for public sector workers so that they are not unfairly penalised. The AA is particularly problematic in Defined Benefit schemes which almost exclusively affect public sector workers. The Office of Tax Simplification has suggested the removal of AA in Defined Benefit Schemes[17], reasoning that the LTA already exists to restrict tax relief.

6.5 Whilst it is the HCSA position that long term solutions must be found to make pensions easily navigable for all levels of salary, we also propose the following short term solutions within the NHS.

> 6.5.1 Centralised NHS mandatory Recycling of Employer Contributions Scheme in order to prevent doctors from losing employer contributions upon opting out. At present, there is a 'postcode lottery', as some Trusts offer this whilst others do not.
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> 6.5.2 An obligation on employers to set up salary sacrifice schemes, allowing employees to access tax relief on financial advice. This would at minimum acknowledge the high cost to the individual.
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> 6.5.3 NHS Pension statements should be made readily available on Electronic Staff Records so that employees have access to up to date, live data which can be used to guide decision making.

[17] Office of Tax Simplification (2019), *Taxation and Life Events: Simplifying tax for individuals*.

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April 2021