

Pensions – a simple guide

Q&A

What is a pension?

A pension allows you to save for your future and provides you with an income when you retire.

Why do I need to think about pensions?

It is worth taking the time to stop and think about how your life and your finances will change when you retire, and the income you will have. This is where your pension comes in. A pension is an investment for your longer-term future. The sooner you start thinking about saving for your retirement, the better prepared you will be.

What types of pension are there?

The state currently provides the basic state retirement pension. The basic pension you get depends on your National Insurance contributions. Employers may provide an occupational pension scheme. The NHS does this. You can find out more about the NHS Pension Scheme at: www.nhspa.gov.uk

Individuals may be able to buy a personal pension or a stakeholder pension from a pension provider such as an insurance company.

What is a 'final salary' pension?

A final salary pension is based on your salary near to retirement and how long you've been paying into the scheme. In the current NHS scheme, pension benefits are based on your highest salary in the last three years of paying into the scheme. The pension you get on retirement is calculated by multiplying best pensionable pay by the number of years'

service multiplied by 1/80ths. Members also receive a tax-free lump sum calculated by multiplying best salary times years' service times 3/80ths.

Example: if you have 20 years' service and were earning £24,000 per year in your last year, on retirement at 60 you would be entitled to a pension of 20/80 multiplied by £24,000, which equals £6,000. You would also receive a lump sum of 60/80 multiplied by £24,000, which equals £18,000.

What does the current NHS Pension Scheme provide?

- a pension based on 1/80 of your pay at retirement for each year you have paid into the scheme
- a tax-free lump sum on retirement worth three times your pension
- if you die in service, the person you have nominated will receive a lump sum of twice your annual salary
- pensions and allowances for your husband or wife and children if you die
- benefits if you have to retire because of ill-health after two years of paying into the scheme – these improve after five years' membership
- improved benefits if you are made redundant at or after age 50.

Who can join the NHS Pension Scheme?

Currently any NHS employee (except general dental practice staff) aged between 16 and 70.

How much do I pay into my NHS pension?

Currently most members pay six per cent of their salary and manual workers pay five per cent. Because members get tax relief on their pension contributions and a National Insurance rebate, the real cost of individual contributions is around 3.5 per cent.

How much does my employer pay into my NHS pension?

Your employer currently pays the extra required to meet the total cost of the benefits, which is 14 per cent of your pensionable pay.

Will I get a state pension as well?

Yes, the basic pension you get depends on how much National Insurance you have paid. National Insurance is automatically deducted from your pay.

Where can I get more information about my scheme?

Your pensions manager should be able to help with any queries you may have. Further information can be found on the NHS Pensions website.

What if I leave the NHS before I retire?

If you leave the NHS before you retire you can:

- choose to transfer your benefits to another pensions arrangement within a year of leaving the NHS

Or:

- if you have more than two year's service, leave your benefits in the scheme for payment when you are 60

Or:

- if you have less than two year's service, you can choose a refund of your contributions.

What if I want to retire early?

You can choose to take voluntary early retirement and start to draw your pension at age 50. Your benefits will be reduced to cover the cost of being in payment longer. You can ask your pensions manager to find out how much you would be entitled to.

When can I retire?

Currently, you can retire at any time after the minimum pension age of 50. However, if you retire before your normal pension age (60 for most staff), your pension will be reduced through an 'actuarial reduction calculation' to account for it being paid over a longer period of time than had you retired at 60.

What if I work part time?

If you work part time your pensionable pay is based on the full-time rate for your job. However, your years of pensionable service accrue at your part-time rate. If you work half time, you are credited six months' service for every calendar year.

How can I calculate/estimate my pension?

The NHS Pensions website has a pension calculator: www.nhspa.gov.uk/pension_calculator.cfm

You can also ask your pensions manager to get a quotation for you.

Useful links

NHS Employers
www.nhsemployers.org/pay-conditions

NHS Pensions
www.nhspa.gov.uk

The Pension Service
www.thepensionsservice.gov.uk

Department for Work and Pensions (DWP)
www.dwp.gov.uk

Disclaimer: This document is a general guide only and is not financial advice. You should consider seeking independent financial advice in relation to your pension.