

Pension and Salary Sacrifice

In the NHS pension scheme, pensionable salary is reduced if salary sacrifice is used to provide benefits to employees. Under the existing NHS pension scheme, when salary sacrifice ceases, pensionable salary returns to its pre-sacrifice level, and due to the way in which pension benefits are calculated, if salary sacrifice ceases a few years prior to retirement, there is no impact on the level of final pension benefits.

The NHS pension scheme is currently a final salary scheme, however, from 1 April 2015 most members of the NHS pension scheme will transfer to the new career average scheme, pension being calculated on the level of salary each year rather than the level at retirement. As a result, any salary sacrifice during a year will reduce the level of pension earned in that year. Individuals should therefore consider their position and the potential impact entering into a salary sacrifice arrangement may have upon their final NHS pension entitlement.

For members who are within 10 years of their Normal Pension Age at 1 April 2012 there is transitional protection in place and they will remain in their existing section. Members with between 10 years and 13 years and 5 months of their Normal Pension Age at 1 April 2012 may remain in their existing section for a period of time before joining the new section.

Further information may be found on the NHS Pensions website at <http://www.nhsbsa.nhs.uk/pensions>

The Government have also produced a factsheet for employees, which contains more detailed information: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/216776/Pensions-factsheet.pdf

Where an employee leaves the NHS pension scheme and freezes their pension entitlement, the value of the frozen pension may be affected if an employee participates in the salary sacrifice arrangement in the 3 years prior to leaving the pension scheme.

The only other circumstances where a salary sacrifice may impact on the ongoing pension entitlement is where a staff member becomes seriously ill and is required to take medical retirement or dies in service. In such circumstances, the pension entitlement is determined by the income level in the preceding 3 years (using the best of the last 3 years Pensionable pay) and therefore will be impacted if a salary sacrifice is in place.

It is advisable to seek independent pension advice for further information.