

## **NHS Pensions – Total Reward /Annual Benefit Statements and the Practitioner flexibilities value earnings credit (FVEC)**

You should read this factsheet if you have access to a Total Reward Statement (TRS) or an Annual Benefit Statement (ABS) and you are a Scheme transition member who has pensionable membership as:

- an Officer member in the 1995/2008 NHS Pension Scheme, and
- a Practitioner member in either the 1995/2008 NHS Pension Scheme or the 2015 NHS Pension Scheme.

You are a Scheme transition member if you moved from the 1995/2008 Scheme to the 2015 Scheme on or after 1 April 2015 because you did not qualify for full Scheme protection in the 1995/2008 Scheme, or your tapered protection has expired.

Pension benefits for a Scheme transition member who is a medical, dental or ophthalmic practitioner may include a flexibilities value earnings credit (FVEC) in respect of their officer membership in the 1995/2008 Scheme.

### **What is the FVEC?**

Because of your pensionable membership in the 1995/2008 Scheme, as both a Practitioner and an Officer, you have built up pension benefits on a final salary basis as well as on a Career Average Revalued Earnings (CARE) basis.

The 1995/2008 Scheme includes flexibilities which allow certain periods of Officer membership to be treated as practitioner membership providing CARE pension benefits. When you retire, as part of these flexibilities, we compare the pension benefits available using the final salary and the CARE methods and pay you the higher pension.

Flexibilities are not part of the 2015 Scheme however your 1995/2008 Scheme flexibility rights are safeguarded when you move to the 2015 Scheme. We do this by calculating an earnings credit, which represents the value of the flexibilities as at your last day of pensionable membership in the 1995/2008 Scheme.

This is called the flexibilities value earnings credit (FVEC). You are eligible for a FVEC if you have pensionable membership:

- as a Practitioner in either the 1995/2008 Scheme or the 2015 Scheme, and

- as an Officer member in the 1995/2008 Scheme.

Once calculated the FVEC is updated annually for as long as you continue to be an active 2015 Scheme member. The updating will stop if you have a break in 2015 Scheme membership but will restart if you become an active member again and the break in membership is no more than five years.

You will not have an FVEC if you have a break in pensionable NHS membership of more than five years between your last pensionable day in the 1995/2008 Scheme and your first pensionable day in the 2015 Scheme. Instead, your pension benefits before you join the 2015 Scheme, inclusive of the flexibilities, will be deferred in the 1995/2008 Scheme.

### When does FVEC become effective?

The FVEC is always calculated as at your last day of pensionable membership in the 1995/2008 Scheme, irrespective of whether that last day was Practitioner or Officer.

The last day could be:

- before 1 April 2015, because you left the 1995/2008 Scheme before 1 April 2015 and joined the 2015 Scheme on returning to the NHS after 31 March 2015, or
- on 31 March 2015, because you were an active member of the 1995/2008 Scheme and moved to the 2015 Scheme on 1 April 2015, or
- after 31 March 2015, because:
  - your tapered protection expired and you moved to the 2015 Scheme after 31 March 2015, or
  - you became a Practitioner for the first time after moving to the 2015 Scheme. Although becoming a Practitioner is the trigger for an FVEC, it is still calculated as at the last pensionable day in the 1995/2008 Scheme.

### What is included in the FVEC calculation?

The FVEC calculation must take account of:

- a) your 1995/2008 Scheme flexibilities as at the last day of pensionable membership in the 1995/2008 Scheme, including the continued dynamising of earnings for historic Practitioner membership, and
- b) any increase that would be due under the Pensions (Increase) Act 1971 on an Officer pension if it were being paid at normal pension age, as at the last day of membership in the 1995/2008 Scheme, and

- c) any Added Years you have bought as at the last day of pensionable membership in the 1995 Section of the 1995/2008 Scheme.

## How is the FVEC calculated?

The FVEC is calculated using the following formula:

$$\frac{(F - P)}{A}$$

where:

**F** is the total amount of pension in the 1995/2008 Scheme as at the last day of pensionable membership in that Scheme, taking account of flexibilities

**P** is the amount of pension in the 1995/2008 Scheme derived solely from pensionable membership as a Practitioner as at the last day of pensionable membership in that Scheme (including concurrent Officer membership of less than 365 reckonable days that must convert to practitioner membership)

Both F and P must include the proportion of any Added Years bought in the 1995/2008 Scheme as at the last day of membership in the 1995/2008 Scheme.

**A** is:

- (i) 1.4% if you moved from the 1995 Section to the 2015 Scheme
- (ii) 1.87% if you moved from the 2008 Section to the 2015 Scheme.

## When is the FVEC updated?

Up-rating starts on the day after the last day of pensionable membership in the 1995/2008 Scheme, even when this day is before 1 April 2015. It continues until the earlier of the:

- a) day when your pension benefits in the 1995/2008 Scheme become payable, or
- b) last day of pensionable membership in the 2015 Scheme, or
- c) last day of pensionable membership before a break in 2015 Scheme membership of more than five years. If there is more than one, the first of those breaks.

## How is the FVEC updated?

The FVEC is updated by 2% each year, pro-rata for a part year (to four decimal places). The increase is compounded with annual rests. Negative inflation does not reduce the rate.

Uprating at 2% is also applied to a period before 1 April 2015 when the last pensionable day in the 1995/2008 Scheme is before this date.

The Scheme Actuary will review the rate as part of a four yearly scheme valuation cycle.

## Uprating the FVEC for a part year

Uprating for a part year is assessed using the formula:

$$n/12 \text{ of } A$$

where:

**A** is the FVEC uprating rate

**n** is the number of complete months between **x** and **y**

### Value of **x**

**x** is either:

- a) the day after the last day of pensionable membership in the 1995/2008 Scheme – when the period since leaving is less than a year, or
- b) an anniversary of the day after the last day of pensionable membership in the 1995/2008 Scheme – when the period since leaving is a year or more.

### Value of **y**

**y** is the earlier of the:

- a) day when pension benefits in the 1995/2008 Scheme become payable, or
- b) last day of pensionable membership in the 2015 Scheme, or
- c) last day of pensionable membership before a break in 2015 Scheme membership of more than five years. If there is more than one, the first of those breaks.

### Value of **n**

The value of **n** is a number of complete months, determined by the period between **x** and **y**.

What constitutes a complete month is best illustrated with an example:

- a) if the last day of pensionable membership in the 1995/2008 Scheme was 31 March, then the first complete month is 1 April to 30 April.
- b) if the last day of pensionable membership in the 1995/2008 Scheme was 15 April, then the first complete month is 16 April to 15 May.

Additional complete months follow the appropriate equivalent cycle.

## What happens to the FVEC when I retire?

In respect of your Officer membership in the 1995/2008 Scheme you will receive the higher of:

- a) **an Officer pension** - based on Officer membership in the 1995/2008 Scheme and the final salary linked pensionable pay in respect of Officer membership in the 2015 Scheme, or
- b) **an FVEC pension** - calculated on the following basis:
  - i. if you moved from the 1995 Section to the 2015 Scheme – the uprated FVEC x 1.4% = FVEC pension
  - ii. if you moved from the 2008 Section to the 2015 Scheme – the uprated FVEC x 1.87% = FVEC pension

We will make the above comparison each year when we calculate the current value of pension benefits for a 1995/2008 Scheme TRS or ABS.

## Adding Pensions Increase (PI) to the FVEC pension

The deemed date of the FVEC pension is the day following the last day of pensionable membership in the 1995/2008 Scheme. The FVEC pension is increased by the published PI rate relevant to that deemed date.

When Consumer Prices Index (CPI) inflation is negative HM Treasury normally sets the annual PI rate to zero.

## Practitioner dynamising

In respect of 1995/2008 Scheme practitioner membership, the established method of dynamising Practitioner earnings continues for the duration of 2015 Scheme Practitioner membership; however 2015 Scheme practitioner earnings are disregarded.

Dynamising ends if there is a break in 2015 Scheme membership of more than five years.

## Added Years and the FVEC

If you were a member of the 1995 Section and buying added years when you moved to the 2015 Scheme, the Added Years contract will continue until the earlier of:

- the chosen Added Years contract end age – i.e. age 55, 60 or 65. This is subject to you not requesting earlier termination of the contract
- the day immediately before a break in pensionable membership of 365 days or more
- the day before your 1995 Section pension becomes payable.

The proportion of Added Years purchased during your 1995 Section Officer membership is used to determine an FVEC. At retirement if the final pension calculation results in payment of:

- an FVEC pension - then those Added Years will remain in the FVEC, or
- a 1995 Section Officer pension - then those Added Years will be included in the membership used to calculate this pension.

The proportion of Added Years purchased during Officer membership after you have moved to the 2015 Scheme will always provide you with a 1995 Section Officer pension calculated using final salary linked pensionable pay.

The proportion of Added Years purchased during 1995 Section Practitioner membership must be included in P when calculating the FVEC. This ensures that any value linked to flexible treatment of your 1995 Section Officer membership is captured in the FVEC when the Practitioner pension P, is deducted from the total pension F; for example, when the basic practitioner pension is increased by Officer membership of no more than 10 years before becoming a Practitioner, commonly known as the Reg. 72 rule.

At retirement you will receive a practitioner Added Years pension based on:

- 1995 Section Practitioner earnings, and
- 1995 Section Officer pensionable earnings from employment that was subject to mandatory conversion under the flexibilities, and
- 2015 Scheme pensionable earnings.

Dynamising of the earnings is for the whole term of the Added Years contract, not just the period before your move to the 2015 Scheme. Calculation of the Practitioner Added Years pension uses the established method for calculating a Practitioner only Added Years pension:

Added Years pay credit =

$$\frac{\text{Average dynamised Added Years earnings} \times \text{Added Years bought (in days)}}{365}$$

Added Years pension = Added Years pay credit x 1.4%

## Pension benefits included in 1995/2008 Scheme TRS or ABS

### 1. 2015/2016 – TRS or ABS

#### Pension benefits as at 31 March 2016

If you have Officer membership since joining the 2015 Scheme we have made a comparison at 31 March 2016 between:

- a) the uprated FVEC pension including, where applicable, PI from the day following the last day in the 1995/2008 Scheme until 31 March 2016, and
- b) a separate officer final salary pension, calculated using your Officer membership in the 1995/2008 Scheme and the final salary linked pensionable pay in respect of your membership in the 2015 Scheme as at 31 March 2016 (or the date of leaving the 2015 Scheme if earlier).

If pension (b) is higher the TRS or ABS shows the final salary linked pay we have used. This pay is not shown if pension (a) is higher.

If your 2015 Scheme membership is insufficient to calculate the final salary linked pensionable pay, the pay period has been stepped back into the 1995/2008 Scheme officer membership. However, the pay from any concurrent Officer membership of less than 365 days cannot be included in this calculation because it must be treated as Practitioner membership.

The pension benefits on your 1995/2008 Scheme TRS or ABS include the higher of (a) and (b), plus:

- a 1995/2008 Scheme Practitioner pension, dynamised to 31 March 2016, which includes any mandatory converted Officer membership, and
- any separate Added Years pension you are entitled to.

If you have no 2015 Scheme membership to provide a final salary link, the pension benefits on the 1995/2008 Scheme TRS or ABS include the uprated FVEC pension a), plus:

- a 1995/2008 Scheme Practitioner pension, dynamised to 31 March 2016, which includes any mandatory converted Officer membership, and
- any separate Added Years pension you are entitled to.

The pension for your 2015 Scheme membership is on a separate TRS or ABS. It is calculated as 1/54<sup>th</sup> of your 2015 Scheme pensionable earnings.

## **2. 2016/2017 – TRS or ABS**

### **Pension benefits as at 31 March 2017**

If you have any Officer membership since joining the 2015 Scheme we have made a comparison at 31 March 2017 between:

- a) the uprated FVEC pension including, where applicable, PI from the day following the last day in the 1995/2008 Scheme until 31 March 2017, and
- b) a separate Officer final salary pension - calculated using your Officer membership in the 1995/2008 Scheme and the final salary linked pensionable pay in respect of membership in the 2015 Scheme as at 31 March 2017 (or the date of leaving the 2015 Scheme if earlier).

If pension (b) is higher the TRS or ABS shows the final salary linked pay we have used. This pay is not shown if pension (a) is higher.

If your 2015 Scheme membership is insufficient to calculate the final salary linked pensionable pay, the pay period has been stepped back into the 1995/2008 Scheme officer membership. However, the pay from any concurrent Officer membership of less than 365 days cannot be included in this calculation because it must be treated as Practitioner membership.

The pension benefits on your 1995/2008 Scheme TRS or ABS include the higher of (a) and (b), plus:

- a 1995/2008 Scheme Practitioner pension, dynamised to 31 March 2017, which includes any mandatory converted Officer membership, and
- any separate Added Years pension you are entitled to.

If you have no 2015 Scheme membership to provide a final salary link, the pension benefits on the 1995/2008 Scheme TRS or ABS include the uprated FVEC pension a), plus:

- a 1995/2008 Scheme Practitioner pension, dynamised to 31 March 2017, which includes any mandatory converted Officer membership, and
- any separate Added Years pension you are entitled to.

The pension for your 2015 Scheme membership is on a separate TRS or ABS. It is calculated as 1/54<sup>th</sup> of your 2015 Scheme pensionable earnings.



### **3. Future years TRS or ABS**

In subsequent years the 1995/2008 Scheme TRS or ABS will be updated to include the relevant:

- comparison between further uprating of the FVEC and change to the final salary linked pensionable pay, and
- dynamising of 1995/2008 Scheme practitioner earnings.

You will also receive a separate TRS or ABS for your 2015 Scheme membership.

## FVEC example

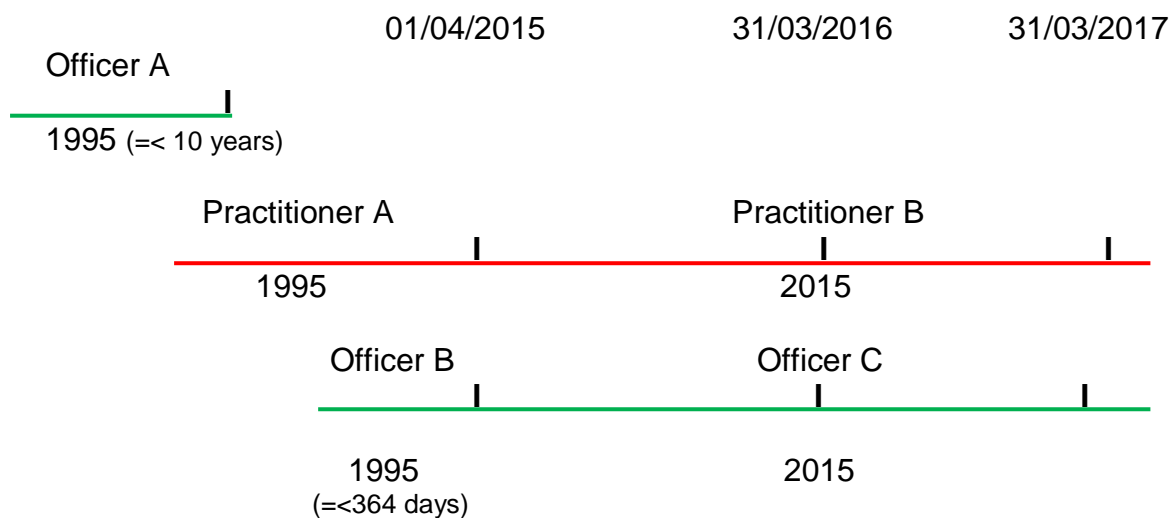
The following example is based on one of the more common Practitioner membership patterns. It illustrates transition from the 1995 Section to the 2015 Scheme

Dr Smith is a Scheme transition member who moved to the 2015 Scheme on 1 April 2015 and has 1995 Section Officer membership of:

- 10 reckonable years or less before becoming a practitioner (Officer A), and
- less than 365 reckonable days concurrent with his practitioner membership (Officer B).

Dr Smith continues as an officer after moving to the 2015 Scheme (Officer C).

Dr Smith has officer membership in the 1995 Section and practitioner membership in the 2015 Scheme and because of this is eligible for an FVEC.



### 1. TRS or ABS as at 31 March 2015

Apply practitioner flexibilities to calculate the best pension as at 31 March 2015.

There is no FVEC because Dr Smith did not become a member of the 2015 Scheme until 1 April 2015. In this case the flexibilities to be considered are:

- Officer B must be treated as practitioner membership because it is less than 365 reckonable days'. The pensionable pay for this membership is dynamised and included as part of the basic Practitioner A pension as at 31 March 2015, **plus**

Officer A is treated as practitioner membership because it is 10 reckonable years or less. The membership increases the basic Practitioner A pension as at 31 March 2015, under the flexibility commonly referred to as Reg. 72.

- ii. Officer A is calculated as a final salary officer pension based on pensionable pay only from that period of membership. The pension is increased by PI up to 31 March 2015; **plus**

Officer B must be included in the Practitioner A pension as at 31 March 2015.

- iii. Both Officer A and Officer B are treated as practitioner membership. The pensionable pay for this membership is dynamised and included as part of the Practitioner A pension as at 31 March 2015.

## **2. TRS or ABS as at 31 March 2016**

### **Step 1: Calculating the FVEC as at 31 March 2015**

The FVEC must be calculated as at the last day of pensionable membership in the 1995/2008 Scheme; in this example 31 March 2015.

#### **Calculate pension F**

This is the total amount of 1995/2008 Scheme pension as at 31 March 2015, i.e. the last day of pensionable membership in the 1995 Section, taking account of flexibilities.

In this example pension F is the same as the best flexibilities pension calculated for the TRS or ABS as at 31 March 2015.

#### **Calculate pension P**

This is the Practitioner A pension as at 31 March 2015. It must include the pensionable pay from Officer B.

#### **Calculate the FVEC**

Dr Smith transitioned from the 1995 Section. The FVEC is therefore calculated by first subtracting pension P from pension F and then dividing the outcome by 1.4%.

### **Step 2: Upating the FVEC to 31 March 2016**

The FVEC is uprated by 2% for each year from 1 April 2015, pro rata for each complete month of a part year. Increases are compounded at annual rests. At 31 March 2016 there is one annual increase of 2% only, covering the period 1 April 2015 to 31 March 2016.

### **Step 3: Compare the FVEC pension and final salary officer pension as at 31 March 2016**

In respect of Officer A, the TRS or ABS should include the higher of:

- a) the final salary Officer pension as at 31 March 2016, or

b) the FVEC pension as at 31 March 2016.

### **Calculate the FVEC pension as at 31 March 2016**

As Dr Smith moved to the 2015 Scheme from the 1995 Section the FVEC pension is:

Upated FVEC at 31 March 2016 x 1.4%

PI is added to the FVEC pension from the deemed date of 1 April 2015 i.e. the day after the last day of pensionable membership in the 1995/2008 Scheme. At 31 March 2016 there is no PI.

### **Calculate a separate officer pension as at 31 March 2016**

A separate final salary officer pension is calculated in respect of Officer A only, using the final salary linked pensionable pay from 2015 Scheme Officer C as at 31 March 2016.

As Officer C is less than three years we need to step back into the pay during Officer A. Pay from concurrent Officer B cannot be used because it must be included in the separate Practitioner A pension. PI is added to the pension from the deemed date relevant to the pay period used.

### **Step 4: Calculating a practitioner pension as at 31 March 2016**

A practitioner pension is calculated in respect of Practitioner A; dynamised up to 31 March 2016. This pension includes the converted Officer B.

### **Step 5: What pension will be shown on the statement as at 31 March 2016?**

As at 31 March 2016 the statement will show a pension made up of the practitioner pension and the higher of:

- a) the FVEC pension, or
- b) the separate officer pension, as calculated at Step 3 above.

## **3. TRS or ABS as at 31 March 2017**

The FVEC, based on the best available flexibilities, has already been calculated as at the last day of pensionable membership in the 1995/2008 Scheme. It is not necessary to revise the FVEC but it must be uprated to 31 March 2017.

### **Step 1: Uprating the FVEC to 31 March 2017**

The FVEC is uprated by 2% for each year from 1 April 2015, pro rata for each complete part month. Increases are compounded at annual rests.

At 31 March 2017 there are two annual increases of 2% covering the period 1 April 2015 to 31 March 2017.

### **Step 2: Comparing FVEC pension and final salary Officer pension as at 31 March 2017**

In respect of Officer A, the TRS or ABS should include the higher of:

- a) the final salary officer pension as at 31 March 2017, or
- b) the FVEC pension as at 31 March 2017.

### **Calculate the FVEC pension as at 31 March 2017**

As Dr Smith moved to the 2015 Scheme from the 1995 Section the FVEC pension is:

Upated FVEC at 31 March 2017 x 1.4%

PI is added to the FVEC pension from the deemed date of 1 April 2015 i.e. the day after the last day of pensionable membership in the 1995/2008 Scheme.

### **Calculate a separate Officer pension as at 31 March 2017**

A separate final salary Officer pension is calculated in respect of the Officer A membership only, using the final salary linked pensionable pay from 2015 Scheme Officer C as at 31 March 2017.

As Officer C is less than three years we need to step back into the pay during Officer A. Pay from concurrent Officer B cannot be used because it must be included in the separate Practitioner A pension. PI is added to the pension from the deemed date relevant to the pay period used.

### **Step 3: Calculate a practitioner pension as at 31 March 2017**

A practitioner pension is calculated in respect of Practitioner A, dynamised up to 31 March 2017. This pension includes the pay from converted Officer B.

### **Step 4: What pension will be shown on the statement as at 31 March 2017?**

As at 31 March 2017 the statement will show a pension made up of the practitioner pension and the higher of:

- a) the FVEC pension, or
- b) the separate officer pension, as calculated at Step 2 above.