**Redundancy –** Basic overview for employers

Redundancy – Basic overview for employers

**NHS Pensions**

**Employer factsheet**

## Disclaimer

The information contained in this guide has been prepared by the Stakeholder Engagement Team at NHS Pensions.

It represents the relevant NHS Pension Scheme Regulations and should not be treated as a complete and authoritative statement of the law.

No responsibility whatsoever will be assumed by the NHSBSA for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information contained in this guide.

Whilst every attempt is made to ensure the accuracy of the guide, it would be helpful if employers could bring to our attention any perceived errors or omissions using the Stakeholder Engagement email address at: stakeholderengagement@nhsbsa.nhs.uk.

## Contact details

You can contact us by calling:

Member helpline: 0300 330 1346

Employer helpline: 0300 330 1353

Opening times: 08:00 to 18:00 – Monday to Friday

**Postal address:**

NHS Pensions
PO Box 683, Unit 5
Newcastle Upon Tyne
NE5 9EE

All [contact information](https://www.nhsbsa.nhs.uk/member-hub/members-contact-us) can also be located on our website.

**Contents**

[Background 4](#_Toc203114777)

[Options available to members 4](#_Toc203114778)

[What are capitalised costs? 6](#_Toc203114779)

[Requesting an estimate 7](#_Toc203114780)

[Submitting an award application 7](#_Toc203114781)

[Invoicing for capitalised costs 8](#_Toc203114782)

[Interests of efficiency (IOE) 8](#_Toc203114783)

[Members who increase their pension benefits 9](#_Toc203114784)

[Different employers and redundancy 9](#_Toc203114785)

[Substitute/Revised awards 10](#_Toc203114786)

[Increases in the capitalised cost 10](#_Toc203114787)

[Decreases in the capitalised cost 10](#_Toc203114788)

## Background

As part of the 2015 pay settlement for staff covered by Agenda for Change terms and conditions, new redundancy provisions were introduced with effect from 1 April 2015.

When an employee is made redundant and chooses to claim pension benefits, the employer’s responsibility to pay capitalisation costs is limited so that they cannot exceed an employee’s redundancy payment.

A lower limit of £23,000 and an upper limit of £80,000 has been set for the whole-time equivalent salary used to calculate an employee’s redundancy payment that is payable by the employer. No redundancy payment will exceed £160,000 (pro-rata).

These provisions apply in both the 1995/2008 Scheme and the 2015 Scheme, where a formal redundancy consultation began on or after 1 April 2015. Section 16 of the Agenda for Change [NHS Terms and Conditions of Service Handbook](https://www.nhsemployers.org/system/files/2025-01/nhs-terms-and-conditions-of-service-handbook-21.pdf) provides further guidance in respect of redundancy payments for members subject to Agenda for Change terms and conditions.

If there is doubt as to the level of redundancy payment a member is entitled to, you may decide to take your own legal advice as we, NHS Pensions are unable to assist in such matters.

The revised redundancy provisions impact members who are employed in England and subject to Agenda for Change terms and conditions and, therefore do not apply to:

* staff employed in NHS Wales
* hospital doctors and dentists who are not subject to Agenda for Change or equivalent terms and conditions
* very senior managers who are not subject to Agenda for Change or equivalent terms and conditions.

Paragraph 16.3 of the Agenda for Change handbook highlights that to qualify for a redundancy payment the member of staff must be an employee, working under a contract of employment for an NHS employer. An NHS employer is any of the organisations listed in Annex 1 of the handbook and any predecessor or successor body.

## Options available to members

A member may be retired prematurely because of redundancy or in the interests of the efficiency of the service (IOE). As opposed to redundancy, retirement in the IOE is whereby a member is no longer capable of meeting the requirements of their role either because of new or expanded duties, or a decline in their ability for perform their duties (but fall short of the criteria for ill-health retirements). In either case, member’s pension benefits may be paid immediately where the following conditions have been met:

A member must have:

* at least 2 years qualifying membership
* 2 years continuity of employment reached their minimum pension age
* not unreasonably refused to seek alternative employment and to accept an offer of such employment.

Members who are made redundant for reasons other than IOE and meet the qualifying criteria have a choice to make whether they:

* choose to take their redundancy payment and have their pension benefits paid unreduced at normal pension age
* choose to take their redundancy payment and take their pension benefits early with a reduction (early retirement)
* take their pension benefits early without a reduction using the redundancy payment to meet the capitalised cost, or
* take the redundancy payment and leave their pension benefits to be claimed later

For members made redundant from NHS employment in England who choose to take their pension immediately without any reduction, the cost incurred of paying the unreduced pension will be met by the member, the employer, or a combination of both depending on their profession and terms and conditions of the contract.

The redundancy payment is used to meet capitalisation costs and any further cost met by the employer if the members are:

* staff employed in NHS Wales
* hospital doctors and dentists
* very senior managers who are not subject to Agenda for Change or equivalent terms and conditions.

Members who have deferred 1995 Section and 2015 Scheme benefits may claim the 1995 Section benefits due to either redundancy or IOE from age 50 if they had membership between 31 March 2000 and 5 April 2006. Should a member then subsequently be re-employed, members will then be able to build up further pension benefits in the 2015 Scheme. If a member is in receipt of some or all of their pension benefits through flexible retirement, this may affect the redundancy payment from the employer depending on terms and conditions of employment.

Members with both 2008 Section and 2015 Scheme benefits may claim their pension early due to redundancy or IOE from both the 2015 Scheme and those from earlier membership. However, they must have reached the minimum pension age of 55.

## What are capitalised costs?

Capitalised costs are based on the difference between an unreduced pension and a pension reduced for early payment plus the cost of paying a lump sum early. These 2 amounts are then multiplied by the appropriate factors provided by the Government Actuary’s Department (GAD). These factors are available on the <https://www.nhsbsa.nhs.uk/employer-hub/technical-guidance/retirement> page of our website.

If the capitalisation cost exceeds the redundancy payment any cost remaining after the employee redundancy payment has been used must be covered by the member if they are subject to Agenda for Change terms and conditions or equivalent. The member cannot use any of their pension benefits to pay the capitalised cost shortfall. The member must commit the whole of the redundancy payment and can then choose to:

* have some of their benefits actuarially reduced to cover the shortfall
* pay an additional contribution to meet all of the remaining costs
* pay a lesser amount to limit the actuarial reduction

If the capitalisation cost is less than the redundancy payment, the member receives the remainder of the redundancy payment after the full costs have been met.

Alternatively, the member can choose to keep the full redundancy payment and receive either immediate payment of benefits with full actuarial reduction or unreduced deferred benefits paid from their normal pension age.

Where members have pension entitlement in both the 1995/2008 Scheme and 2015 Scheme, the capitalised cost is determined as the sum of the costs calculated separately for each Scheme.

The redundancy payment must be used to first secure unreduced benefits from the 1995/2008 Scheme and any residue is then set against the capitalised cost of the 2015 Scheme. If the member has an option to pay an additional contribution, the payment should be used first to secure lower (or no) reduction in benefits from the 1995/2008 Scheme before being allocated to secure a lower or no reduction in benefits from the 2015 Scheme. Further consideration should be given that:

* members can select redundancy pension benefits for the 1995/2008 Scheme and defer their 2015 Scheme. The member can make a claim for their 2015 Scheme pension later
* members can select redundancy pension benefits for the 1995/2008 Scheme and chose to take early retirement pension from the 2015 Scheme. They will keep any residue severance payment
* in general, a member can make a separate selection providing they do not claim their 2015 Scheme on redundancy. If they do claim 2015 Scheme redundancy pension benefits, then both legacy and 2015 Scheme must be paid as redundancy. The redundancy payment is set against legacy benefits first before any residue is applied to the 2015 Scheme

## Requesting an estimate

When requesting an estimate, employers are required to provide information that enables, us, NHS Pensions to determine the pension benefit options available to the member. A redundancy calculator is available on our website to assist with your calculations. It is located under the ‘Reason for retirement – Redundancy’ section. However, where the working pattern of the member is an exclusion from the calculator, estimates can be requested from us, NHS Pensions, by completing and submitting form AW295 either through Pensions Online or by forwarding a scanned copy to nhsbsa.pensionsemployers@nhsbsa.nhs.uk.

Our estimate will illustrate:

* the unreduced pension and pension commencement lump sum, including the amounts after commutation (£1 to £12)
* the capitalised cost of paying the unreduced benefits early
* the pension and pension commencement lump sum reduced for early payment, including the amounts after commutation (£1 to £12)
* where there is a shortfall between the redundancy payment and the capitalised cost, the reduced pension and pension commencement lump sum after the redundancy payment has been used

The estimate will be forwarded directly to the employer requesting the information and there is no charge applicable for redundancy estimates.

## Submitting an award application

If a member wishes to claim their pension due to a redundancy event, they must complete the retirement benefits claim form (AW8). The employer must close the record before submitting the AW8 through Pensions Online on the grounds of redundancy (exit code 03) or forward a paper copy of the form to us, NHS Pensions, if Pensions Online is unavailable.

It is imperative for employers to ensure that when submitting the AW8 they also submit the supplementary checklist to us, NHS Pensions. This can be found within the ‘Employer forms’ section of our website: <https://www.nhsbsa.nhs.uk/employer-hub/employer-forms>

## Invoicing for capitalised costs

Where the member’s redundancy payment meets the capitalised cost, or the member has not made an additional contribution, their employer must make payment to us, NHS Pensions, within one month from the date on which the member’s pension benefits become payable.

If there is a shortfall in the payment and the member elects to make an additional contribution the member must pay the additional amount to the employer. An invoice will be sent to their employer and payment must be made to us, NHS Pensions, no later than one month before the member’s pension becomes payable.

Ensure that invoices are paid as soon as possible to avoid any delay in the processing and payment of a member’s pension benefits.

Members who have more than one employment may decide to retire from all their employments and claim their pension benefits. In these circumstances the employer that is making the member redundant is responsible for meeting the cost of paying pension benefits early.

## Interests of efficiency (IOE)

Where a member is retiring in the interests of the efficiency of the service, their benefits will be paid without reduction and the employer will meet the costs of paying the pension early.

Members whose employment is terminated in the interests of efficiency of the service are not eligible for a redundancy payment from their employer. If the member meets the qualifying criteria they are entitled to immediate payment of unreduced pension benefits. In all cases the full capitalised cost must be met by the employer and must be paid within one month from the date on which the member’s pension benefits become payable. There is no option for the member to make an additional contribution towards the capitalised cost.

When submitting retirement benefits claim form (AW8) the employer must submit the supplementary checklist found on <https://www.nhsbsa.nhs.uk/employer-hub/employer-forms> Employers must complete this and email polia3@nhsbsa.nhs.uk following submission of the AW8.

## Members who increase their pension benefits

If a member is:

* buying added years, and/or
* buying additional pension (AP) by instalments

they cannot have their payments back if they are forced to leave NHS employment early. Members will be credited with the extra benefits that they have already paid for but if they choose to claim their pension, the benefits they get from the additional contributions will be reduced because benefits are being paid before the expected retirement date. The reduction for early payment also applies to those members who purchased added years or additional pension by a single lump sum.

## Different employers and redundancy

Redundancy is, in the main, an employment event and as such a number of considerations need to be made in respect of redundancy prior to engaging with NHS Pensions. We are unable to comment specifically on employment events and can only confirm whether the member is eligible to access their pension under the redundancy provisions of the NHS Pension Scheme.

Classic alternative provider medical services (APMS), personal medical services (PMS), general medical services (GMS), or Out of Hours employees do not have access to redundancy pension benefits through the NHS Pension Scheme. However, you may wish to consider any statutory obligations as an employer that you may have in respect of redundancy events.

NHS trusts and independent providers normally have access to the redundancy pension provisions of the NHS Pension Scheme. This is providing the member’s contract of employment includes redundancy provisions and will also determine who would be responsible for meeting any capitalisation costs.

Direction bodies and local authorities can have different types of access to the NHS Pension Scheme. In these circumstances we would advise that they seek their own legal advice in the first instance with regards to their responsibility to meet the redundancy provisions of a member’s contract of employment. We are unable to advise and can only provide details of the member’s pension and the capitalised cost, where eligibility is met.

Capitalisation costs for direction bodies may be payable by the employer, member or in some circumstances the NHS Business Services Authority. This would need to be referred to your own legal advisors and consideration made against the NHS Pensions Regulation.

Where the member’s terms and conditions provide, the redundancy payment must be used to meet any associated capitalised cost.

## Substitute/Revised awards

### Increases in the capitalised cost

Where the revision increases pension benefits it will result in one of the following:

1. The revised capitalised cost continues to be met by the redundancy payment. A new invoice will be raised by us, NHS Pensions, for payment of the extra amount and sent to the employer.
2. The revised capitalised cost is no longer met by the redundancy payment. If the member’s redundancy payment is subject to Agenda for Change (AfC) terms and conditions, the employer must discuss with the member whether they would like to make an additional contribution or to receive the extra amount of pension benefits with a reduction for early payment. In all other circumstances the employer will meet the additional amount owed.
3. The member has previously made an additional contribution, however the revision increases the difference between the capitalised cost and the redundancy payment. The employer must ask the member whether they would like to:
4. pay a further additional contribution to cover the cost of the increase in pension benefits now due, or
5. make no further contribution and have the additional benefits reduced for early payment.

The revision of the additional contribution will be limited to the extra payment payable.

The employer must recover any residue redundancy payment that may have been given to the member to meet the revised capitalised cost. Where the member opts to make or increase their additional contribution the amount must be paid to the employer.

### Decreases in the capitalised cost

Where the revision decreases the pension benefits it will result in one of the following:

1. The revised capitalised cost continues to be met by the redundancy payment. Any excess charge will be noted as a credit on the employer’s record, and the employer can then request a refund of the credit amount. This can be paid either as a bank transfer, or to be used as credit against another outstanding invoice. However, this cannot be used to offset employer contributions.
2. If a member has made additional pension contributions, then deemed to be overpaid as a result of the redundancy calculation revision, a credit note would also be required by Finance to adjust the charges to the employer.

If a refund is due to the member in respect of the additional contributions, the employer can add in a minus adjustment to their contribution submission via MCP/RFT1/GP1, but they must ensure that they are added to the month/s where the contributions were first paid and using the correct contribution type (Add Pen).  If the employer use POL and the additional pension was paid over in more than one month then refund forms would need to be completed instead, copies of which can be provided by contacting the NHS Pensions Finance Team

**How we use your information**

For more information about how the NHSBSA processes your personal data, please see our Privacy Notice - [www.nhsbsa.nhs.uk/our-policies/privacy/nhs-pensions-privacy-notice](http://www.nhsbsa.nhs.uk/our-policies/privacy/nhs-pensions-privacy-notice)

**NHS Pensions**

**Redundancy basic overview**

[www.nhsbsa.nhs.uk/nhs-pensions](http://www.nhsbsa.nhs.uk/nhs-pensions)