Briefing Note – Should I (24 Hour) Retire?

Over the last few years we have been asked by an increasing number of our GP clients about the option of 24 Hour Retirement, mainly as a result of...

1) Longer hours for less money. Many GPs are reviewing retirement plans as workload increases yet available funding diminishes.

2) The scheme is becoming more expensive. Prior to the introduction of the new contract in 2004, GPs paid 6% employee contributions plus any added years. Since then however, ever-increasing tiered employee contributions have crept in and the maximum rate from April 2015 is 14.7% for top earners.

3) Potential exposure to Annual and Lifetime Allowance tax charges. As updated by the 2015 Budget, from April 2016 a tax charge arises where the ‘deemed input’ to a pension scheme exceeds £40,000 per year or where the ‘deemed value’ of the retirement pot exceeds £1m. These thresholds were eroded from £50,000 and £1.5m respectively, so the goalposts continue to move. The calculations required to derive the deemed input and value are relatively complicated but suffice to say GPs with higher earnings, longer service and added years are much more likely to be affected.

Sounds bleak, so what’s the alternative?

In light of the above and the current uncertainty around public sector pension reform, GPs are taking advantage of NHS Pension rules that allow them to draw down their pension while continuing their NHS responsibilities. Such an arrangement is known as "24 Hour Retirement" because the regulations under the 1995 Pension Scheme (as opposed to the 2008 Pension Scheme) require retirement for 24 hours in order to trigger the pension benefits.

GP partners or single-handed practitioners must resign from any involvement in a GMS contract or PMS agreement. Such GPs cannot undertake any NHS work, including locum, OOHs, or salaried employment, for at least 24 hours. Salaried GPs must also resign from their NHS contract of employment with their practice, or Health Board. Locums must have no involvement in NHS work for at least 24 hours.

Following a ‘day’s retirement’ the GP may then return to work provided he or she does not undertake more than 16 hours of NHS work per week for the first month. It is up to the GP to prove compliance with the 16 hour per week rule; if this is exceeded pension payments will be stopped and any received may have to be repaid. Subsequent to the first month, there are no restrictions on the number of hours that may be worked in NHS re-employment.

But what are the financial implications?

There are four main financial implications following 24 Hour Retirement, aside from the obvious implication of having now opted out of making NHS superannuation contributions.

The first is the way in which a partnership will treat the superannuation contributions previously made by a partner who returns from 24 Hour Retirement. Typically, a GP’s employer’s superannuation contributions are treated as prior allocations to each partner upon “divvy up” of the practice profits. Employee and added years (if applicable) superannuation contributions are deducted from each partners’ capital account akin to drawings. Therefore each partners’ total superannuation contributions are ultimately reflected via their capital account balances.
If a partner is no longer contributing to the NHS pension scheme, these adjustments are no longer applicable. Therefore a partner who has opted for 24 Hour Retirement is entitled to receive their normal profit share, unabated by the employer’s superannuation prior allocation and suffer no deduction from their capital account for employee or added years superannuation. Assuming Tier 6 of the 2013/14 employee rate bandings for example, the capital account of the retired partner would be bolstered by 29.6% (14.9% employers + 14.7% employees) more than the capital accounts of those partners still making superannuation contributions. It is worth noting at this juncture that, aside from envy, the impact on the other partners is £nil. The reduction in employers superannuation paid by the practice increases profits and this increase is allocated entirely to the retired partner - so the other partners’ profit shares remain unchanged. Similarly, the practice has received the benefit of reduced employee contributions and this too should be allocated to the retired partner, either by increased drawings or a greater capital account balance.

As a potential cloud to this silver lining, no superannuation means no tax deductibility. If taxable income increases by 29.6%, within the same tax banding, the tax bill increases by the same percentage. However it's possible that the removal of superannuation relief will result in the retiree’s taxable income exceeding £100,000 resulting in the loss of Personal Allowances at £1 for every £2 over the £100,000 and an effective tax rate of 62% on income from £100,000 to £120,000. Therefore, retirees should give serious consideration to reducing their sessional commitment and therefore profit share so as to maintain the same after-tax earnings.

Thirdly, a GP taking 24 Hour Retirement would typically hire (and pay for) a locum to cover his workload for the month following “retirement”, and the GP would continue to draw down partnership profits, as well as receiving retirement benefits. Where the partnership agree to pay for the locum the “retired” GP’s profit share should for that month reflect his or her sessional commitment. Following 24 Hour Retirement, the returning partner may have negotiated a reduced workload and as such, there will be financial implications of resourcing any sessional shortfall.

Finally, GPs may also see their seniority payments reduce if workload and thus pensionable earnings reduce. Although GPs who have taken 24 Hour Retirement do not make superannuation contributions, they still have a deemed amount of superannuable income against which their entitlement to seniority payments can be assessed. Therefore we continue to submit Annual Certificates of Pensionable Profits on behalf of such doctors, but include a nil contribution note.

**Partnership agreement**

When next redrafting your GP partnership agreement, consider including provisions covering 24 Hour Retirement. Such wording would include the following:

- An overarching statement permitting 24 hour retirement in principle;
- Statements providing that the partner must comply with the NHS Pension rules surrounding 24 hour retirement;
- Locum arrangements – who arranges the locum; who pays for the locum whilst the partner is absent from the practice in order to fulfill the conditions of 24 hour retirement;
- A general statement that on returning to the practice, the GP’s partnership duties continue as if (s)he had never “retired”;
- A statement that if the NHS Pension rules surrounding 24 Hour Retirement change, the partnership agreement should be updated to reflect any amendments to the rules.

We would, of course, always recommend you seek specialist legal advice in preparing a partnership agreement.

**Summary**

GPs considering 24 Hour Retirement should:

- Discuss this option with us and their financial adviser.
- Contact the SPPA to confirm eligibility and arrangements.
- Discuss their plans with their partners and decide on a mutually agreed approach, particularly in terms of financial arrangements that may apply on a return to a partnership.
- At least 3 months beforehand inform SPPA of the intended date of 24 Hour Retirement so they can make suitable administrative arrangements and request the Practitioner Services Division cease monthly superannuation deductions.
- Follow the 24 Hour Retirement and the subsequent one month 16 hours per week rule and maintain records to document this.
- Enjoy the pension payments – you’ve earned them!