NHS Providers

# The pensions crisis: Impact on staffing and morale

**In recent months a crisis has been gradually taking hold in the NHS. Changes to pensions tax rules, which first came into effect in 2016 limiting the amount pension pots could grow tax free each year, have caused senior staff in the NHS to be hit by large, unexpected bills.**

These rules have affected large numbers of principally – but not exclusively – higher-paid staff, whose pension contributions have exceeded the standard or 'tapered' annual allowance and triggered tax bills often in the tens of thousands of pounds. This has prompted senior clinicians and managers to take action to avoid tax liabilities, such as reducing their hours or declining additional work, or retiring altogether. Others have left the pension scheme or turned down promotions to avoid pay rises which can also lead to large one-off tax bills.

## The impact on trusts

Consultants reducing the amount of work they do has resulted in an overall reduction in clinical capacity, which risks damaging patient care by leading to longer delays for treatment. In recent weeks, particular evidence has emerged that cancer performance has deteriorated due to the loss of staff to the pensions crisis. Trusts have also reported difficulties filling board vacancies, which threatens to compromise efforts to improve care through continuity of leadership. As we move into the most pressurised weeks of winter, there are serious concerns about the impact on trusts' ability to maintain services.

## Government proposals to tackle the issue

In September the Department of Health and Social Care (DHSC) published a set of proposals to mitigate workforce losses. The aim was to help senior clinicians – but not non-clinical staff – manage their tax bills, for example by offering them the flexibility to limit their pension payments and therefore avoid paying tax on those contributions.

However concerns over clinical capacity in the short term persisted, and an ambitious proposal for the government to cover the cost of 2019/20 tax bills for senior doctors and nurses became public in November 2019. This proposal is specifically designed as a stop-gap to reduce the impact of the issue in the coming winter months, in lieu of a longer-term, more comprehensive solution.

## Exclusion of key staff groups

These proposals exclude managers, with DHSC saying they have not seen compelling evidence that there is a need to extend flexibilities or one-off tax benefits to non-clinical staff. We see this as a damaging oversight. Excluding non-clinical directors risks downgrading the importance of their contribution. We are

concerned it will make management roles less attractive for senior clinicians, when greater clinical representation in NHS leadership is a long held policy objective.

It is misguided to overlook the importance of managers in providing safe and effective care, as large and complex organisations need talented individuals willing and able to lead them. Many trusts have taken their own steps to mitigate the impact of this issue within their own organisations and have included managers in the offer. Providers are concerned about the impact of a national solution which proposed to exclude these valued staff.

Finally, the flexibilities proposed from April 2020 do not apply to staff in lower pay bands unaffected by annual allowance tax charges. While on one level this makes sense, younger, lower paid staff are actually far more likely to choose to opt out of the pension scheme, often citing the impact of high member contribution rates on their relatively low disposable income.

Many trusts believe it may be divisive to give additional flexibilities to senior staff that may also appeal to less well-off staff groups.

## Overall effect of current proposals

While the national measures and local workarounds currently proposed go some way towards alleviating the risk of more consultants retiring or reducing their hours, there are no guarantees that these flexibilities will prompt consultants to return to their previous working hours having reduced their workload.
The best option to address this issue is to fix the annual allowance taxation system that is causing these problems. In order to alleviate trusts' concerns and allow staff to retain their entitlements to full NHS pension scheme benefits, the government should consider several options:

- Removing the annual allowance taper altogether
- Increasing annual allowance income thresholds
- Introducing pensions contribution and accrual flexibilities fairly for all NHS staff
- Applying policies retrospectively to the 2019/20 tax year, to help those who have already opted out of the pension scheme as a result of these problems

## Considerations for governors

Conversations around the pensions issue will be taking place frequently at board level. There are a number of considerations for governors, when reflecting on how they can best support and challenge boards. The following points could act as a starting place for discussion:

- The extent to which pension tax issues affect the workforce at your trust, versus the wider NHS impact
- Whether directors feel nationally proposed solutions will improve the morale of staff and mitigate the workforce capacity issues caused by the pensions problem
- Whether short-term actions could compromise longer-term workforce priorities locally or within the system
- The extent to which pensions issues are a problem for trust performance this winter

- How different staff groups are impacted by locally developed policies or national plans for the pension scheme from next year
- The amount of management and administrative time dedicated to an organisational response to this challenge