The new GMS contract explained

Focus on….

Pensions: An Overview

This guidance note has been produced by the General Practitioners Committee and the BMA's Pensions Department to help GPs and Local Medical Committees in understanding the new arrangements for pensions as a result of the new General Medical Services contract. This is one of a series of guidance notes on the new contract.

The guidance applies to all four UK countries.

Background

This guidance note is intended to give an overview of the changes to pensions arising from the negotiations and implementation of the new General Medical Services contract. This note will not go into any great detail about the specific changes as full details of these have been provided in other, more specific guidance notes, for example on pension flexibilities, superannuation contributions and the dynamising factor.

It is important to note that the changes negotiated as part of the new GMS contract affect all practitioners, not just those working under a GMS contract. They therefore cover all PMS GPs as well as salaried GPs who have been principals at some stage. Non-principals and freelance GPs should also note that some of the changes could affect them now, while others will do so in the future if they become GP principals.

Flexibilities

Although seemingly minor, the new flexibilities introduced will offer substantial benefits for those to whom they will apply. The purpose of the flexibilities is to recognise the growing trend towards portfolio careers where many GPs will no longer spend the whole of their career as principals, but instead will move between different contractual states. Therefore, the primary benefit of the new flexibilities is to ensure that the rules governing GPs' pensions acknowledge and do not unduly penalise such career movement. Thus, most of the flexibilities centre on providing a choice of mechanisms by which earnings are pensioned so as to allow the best method to apply that will deliver the best pension result. The flexibilities apply to any doctor who has received earnings as a practitioner at any time in their career, as long as they retired or retire after 1 April 2003. Thus, the benefits of this change will be available to those doctors still working in the NHS and those who return to the NHS before drawing their pension.

Full details of the flexibilities are contained in the 'Focus on pension flexibilities'.

Superannuable income

All NHS income, less expenses – net NHS profits – will now be superannuable. Before, some income was explicitly excluded and thus not used for pension purposes, such as higher rate target payments. The definition has been expanded to include amongst other things all work performed under GMS or PMS, or under delegation directly from GMS and PMS, and out-of-hours work performed for a provider that is an NHS body.

GPs' pensions will be based on the actual profits they make. This is now possible because all NHS income is superannuable and is necessary because the concept of Intended Average Net Income has disappeared, due to the fact that GPs now make whatever profit they can from the total resources available to them, rather than being paid through a system of fees and allowances uplifted to bring about an intended average net income for GPs.

It is important to remember that, under the old Red Book arrangements, pensionable earnings were related to the amount paid to GPs via the contract classified as superannuable, rather than what was their actual profit from the income received.

Therefore, some individuals will start the new system with a higher level of pensionable earnings than under the old system because their actual profits have historically been greater than their Red Book superannuable income.

Others will start from a lower pensionable income because their profits have historically been less than their Red Book superannuable income. Much of this potential "drop" in superannuable income will be offset by higher income through the increased resources available to all practices, by the extended range of work that now is counted towards superannuated income that was not counted under the old Red Book and by the corresponding rise in the dynamising factor.

In order to base pensions on actual profits, a new methodology has been agreed for calculating superannuable income. In essence, GPs will have to record their taxable profits each year and to account for their expenses on a pro-rata basis between NHS and non-NHS income. Your accountant will usually do this work at the end of the financial year. A standard form with instructions is currently being devised and GPs will have to work closely with their professional advisers to ensure that the system is implemented correctly.

Full details will be available on this issue as soon as possible in a forthcoming guidance note "Focus on calculating superannuable income".

Dynamising factor

The dynamising factor is used to uprate GPs' pensionable earnings. It is set for each financial year and is used to calculate each GP's pension at the time it is first claimed. Practitioners' pensions are calculated by recording the pensionable earnings that are received throughout the whole of their NHS career as a doctor and uprating (dynamising) each individual year's earnings[1] by a factor to maintain their value.

As a result of the new GMS contract, it has been agreed to continue with this process but as there is no longer a figure for **intended** average net income (IANI) the dynamising factor will be based on the change in average **actual** pensionable profit year on year. Under the new contract, actual GP pay is assessed retrospectively based on the actual profits made by GPs from the total funding available to them via the different funding streams of the contract.

Given that the dynamising factor is based on actual profits, it may not be known until about fifteen months after the relevant year to which the income applied. Therefore, an interim factor will be calculated each year which will be used to uprate the pensions of those who retire in that year pending the calculation of the final, actual figure. The interim factor will be set at a level that is sufficiently 'safe' in order to try to ensure that the final figure is greater and thus to avoid any repayment by retired GPs.

Full details about the new dynamising factor arrangements can be found in "Focus on the dynamising factor".

Superannuation contributions

Independent of the new GMS contract negotiations, all employers in the NHS are now responsible for paying the full employer superannuation contributions.

This has meant that, in addition to the seven per cent practitioners previously paid for employer contributions for their staff, they are also now required to pay a further seven per cent, which is the cost of the retail price indexation of pensions that was previously paid by the Treasury. Furthermore, practices are responsible for the full fourteen per cent employer costs in respect of practitioners, seven per cent of which was transferred from PCOs and the second seven per cent from the Treasury, as above for staff.

In April 2003, responsibility for paying the additional seven per cent that used to be paid directly by the Treasury was transferred to the Department of Health and, from April 2004, this responsibility was devolved, generally via PCOs, to practices. This means that practices are now responsible for paying fourteen per cent for employer superannuation costs for themselves and their staff.

To cover these extra costs, additional funding has been provided through the global sum, as seen by the increase in the global sum from £50 to £54 in England (and from £52 to £58 in Scotland), as well as additional funding increasing PMS baseline allocations.

Superannuation contributions will also increase for another reason.

As a result of the additional investment arising from the new GMS contract negotiations, GPs will make greater profits. As their profits increase, so will partners' superannuation costs, given that the contributions are a percentage of their profits. Furthermore, the costs will be higher than otherwise anticipated because of the indexation transfer (see above).

The Department of Health in England is providing an additional £28m in 2004-05 and £60m in 2005-06 to support employer contributions on new income. There has been an on-going disagreement about the amount of additional money needed to cover the full costs and the GPC still maintains that this amount is not sufficient. It is, however, a significant contribution

The Government originally stated that additional funding to cover all these costs was factored into the original investment envelope. The GPC disputed this. Nevertheless, agreement on the additional £88m has finally been reached following strenuous representations from the GPC. Unlike the additional funding arising purely from the Treasury indexation transfer, this additional funding for new income will be distributed both through the global sum (the superannuation premium noted in paragraph 2.4(b) of the Statement of Financial Entitlements), and via PMS baseline allocations, and through the Quality and Outcomes Framework where it is likely most profit will be made from the new contract.

The equivalent details in Scotland, Wales and Northern Ireland are still being finalised.

Full details concerning superannuation contributions can be found in "Focus on superannuation contributions -2".

Overall impact

Due to our belief that full funding for employer superannuation contributions has not been provided, we have obtained assurances that, in the future, it will be made clear explicitly what proportion of additional funding relates specifically to income and what relates to cover increased, consequential pension costs.

Nevertheless, the overall impact on pensions arising from the above changes is very healthy, and this is principally due to the nature of the dynamising factor which, as it relates to actual profits, will follow the increased profits that GPs collectively make.

The GPC is aware that the subject of pensions is a very sensitive issue, especially as speculation on the impact of the contract on pensions has led to very high expectations.

The starting point in calculating the dynamising factor from April 2003 will be the overall increase in resources of thirty-three per cent over three years being allocated to primary care by the Government.

However, it is expected that the increase in expenses will be significantly less than the commonly accepted ratio to earnings of 60:40 even allowing for greater investment to attract quality payments. We estimate that the increase in expenses over the three years for the average GP will be in the region of twenty-five per cent. This is because the only significant increase in expenses will be staff costs and these historically make up only sixty per cent of practice expenses.

It follows, therefore, that the increase in the dynamising factor up to and including 2005-06, and hence the increase in the pensions of doctors retiring, would be at least thirty per cent, if these assumptions are correct for the profession as a whole. Already from the calculations undertaken by the Technical Steering Committee[2] for determining a safe interim dynamising factor, the compound increase from 2003-05 is estimated to be approximately twenty per cent. Even the compound increase of the interim factors will be over thirteen per cent by the end of 2004-05.

The GPC and the BMA cannot make general recommendations to doctors as to their retirement intentions. The above figures are for illustrative purposes only and are based on our best estimates of average income and expenditure movements for the profession as a whole. GPs who are BMA members can obtain independent financial advice from BMA Services on 0845 974 7737, or GPs can contact an independent financial adviser of their choice.

The future

A modernisation review of the entire NHS pension scheme is currently underway. It is being led on behalf of the Government by the NHS Confederation. The outcome of the review is likely to have far-reaching consequences, including the possibility of an increase in the retirement age for pension purposes. The BMA is represented, along with other trades unions, as part of this review. All the staff-side representatives will continue to challenge proposals that could have a detrimental impact on Scheme members. This review will be the subject of a future guidance document.

September 2004

[2] The Technical Steering Committee is a joint committee with representatives from the GPC, the four Departments of Health and the NHS Confederation. The Chairman and Secretariat are Department of Health statisticians. The main remit of the committee has been to provide impartial statistical advice on GPs' earnings and expenses and on the GP workforce to the negotiating parties and to the Doctors' and Dentists' Review Body. Its remit has now been expanded to include the provision of impartial statistical advice on the new GMS contract to the negotiating parties.