NHS

NHS Pension Schemes

A plain-English guide to the 1995, 2008, 2015 CARE schemes and the McCloud remedy

The NHS pension is one of the most valuable employee benefits in the UK. It is a defined benefit (DB) scheme — your pension is based on your salary and years of service, not on investment performance. The employer contributes 23.7% of your salary on top of your own contributions, which is exceptionally generous by any modern standard.

Overview of the three schemes

Most NHS staff with long service have pension built up across more than one scheme. Which scheme applies depends entirely on when you joined the NHS and when you were moved to the newer arrangements. All three are defined benefit schemes — the key differences are in how the pension is calculated and when you can access it.

Feature	1995 scheme	2008 scheme	2015 CARE scheme
Type	Final salary	Final salary	Career average (CARE)
Accrual rate	1/80th per year	1/60th per year	1/54th per year
Pension age	60	65	State pension age (67)
Lump sum	Automatic 3× pension	Optional only	Optional only
Pay rise effect	Boosts all past years	Boosts all past years	Only future years
Best for	Steep late-career rises	Steady careers	Flat or early careers

Your contributions

Contributions come out of your pay before tax, so the actual cost to your take-home pay is lower than the headline percentage. The rate is tiered by pensionable pay.

Up to £13,259	5.1% employee contribution
£13,260 – £26,831	5.7% employee contribution
£26,832 – £47,845	7.4% employee contribution
£47,846 – £111,376	8.3% employee contribution
Above £111,376	8.6% employee contribution

The employer (your NHS Trust) contributes 23.7% on top of your salary — this is the hidden value of the scheme that is easy to overlook. In the private sector, employer contributions of this size are virtually unheard of.

Final salary · Pension age 60 · 1/80th accrual

1995 Final Salary Scheme

For staff who joined the NHS before 1 April 2008

How your pension is calculated

The formula is straightforward: your salary on the day you retire, divided by 80, multiplied by every year you worked. The key word is *final* — the salary used is your retirement salary, applied retroactively across your entire career.

Annual pension formula	Final salary ÷ 80 × years of service
Example (£45,000, 20 years)	£45,000 ÷ 80 × 20 = £11,250 per year
Automatic lump sum	3× annual pension, tax-free, no application needed
Example lump sum	£11,250 × 3 = £33,750 arrives on retirement day
Pension age	60 — early retirement is possible with an actuarial reduction
Index-linking	Rises with CPI each April for the rest of your life

Why final salary is so powerful

Because the formula uses your *retirement* salary, every pay rise you receive between now and retirement retroactively increases the value of every year you have ever worked. A promotion in your last five years before retirement boosts your entire career's worth of pension, not just the years after the promotion.

Example: someone earning £30,000 for 18 years then promoted to £50,000 for 2 years gets their full 20 years calculated at £50,000 — not an average of the two salaries. Annual pension: £50,000 ÷ 80 × 20 = £12,500. Lump sum: £37,500 tax-free.

The automatic lump sum

The 1995 scheme is unique in providing an automatic tax-free lump sum of exactly 3 times your annual pension. You do not apply for it — it simply arrives on the day you retire. You can also commute additional annual pension at a rate of 12:1 to increase the lump sum further, though this reduces your ongoing monthly income.

Final salary · Pension age 65 · 1/60th accrual

2008 Final Salary Scheme

For staff who joined the NHS between 1 April 2008 and 31 March 2015

How your pension is calculated

The 2008 scheme is also a final salary scheme — your retirement salary is applied retroactively across all your years of service. The key differences from 1995 are the accrual fraction (1/60th instead of 1/80th) and the absence of an automatic lump sum.

Annual pension formula	Final salary ÷ 60 × years of service
Example (£45,000, 10 years)	£45,000 ÷ 60 × 10 = £7,500 per year
Lump sum	No automatic lump sum — optional commutation only at 12:1
Pension age	65 — five years later than the 1995 scheme
Index-linking	Rises with CPI each April for life

Comparing 1995 and 2008

Although 1/60th is a more generous accrual fraction than 1/80th — meaning you earn more pension per year — the 2008 scheme has two significant disadvantages: the pension age is 65 rather than 60, and there is no automatic tax-free lump sum. Over a full career the total value tends to be broadly comparable, but the distribution between income and capital is very different.

Career average · State pension age (67) · 1/54th accrual

2015 CARE Scheme

For all NHS staff — everyone moved here by April 2022

How your pension is calculated

The 2015 scheme works fundamentally differently from the 1995 and 2008 schemes. Instead of using your final salary across your whole career, each year stands alone. You bank 1/54th of that year's salary as a pension slice, and that slice is revalued upward by CPI every year until you retire.

Annual accrual	1/54th of that year's pensionable salary
Example (£40,000 salary)	£40,000 ÷ 54 = £740 added to pension pot that year
Revaluation	Each year's slice rises by CPI annually until retirement
Lump sum	No automatic lump sum — optional commutation at 12:1 only
Pension age	State pension age — currently 67, rising over time
Effect of pay rises	Only future years benefit — no retroactive boost

How the pot builds up

Because earlier slices accumulate more years of CPI revaluation, the pot grows faster than you might expect. Year 1's slice has 19 more years of CPI growth by the time you retire; year 20's slice has none. This compounding effect means the pot accelerates over a long career even without pay rises.

Example: earning £40,000 throughout a 20-year career at 2.5% CPI revaluation produces approximately £16,000–£17,000 per year at retirement — around 40% of final salary, for life, index-linked. That is before any state pension on top.

The key difference from final salary schemes

In the 1995 and 2008 schemes, a late-career promotion boosts your entire pension history. In the 2015 CARE scheme it only helps from that point forward. This makes the 2015 scheme more equitable for people with flatter careers, but less generous for those with steep late-career progression.

The McCloud Remedy

Why it exists

When the government moved everyone to the 2015 CARE scheme, older and longer-serving staff were given transitional protection — they could stay in their legacy schemes a little longer. The courts ruled this was age discrimination against younger staff who were moved immediately. Two firefighters — McCloud and Sargeant — brought the legal challenge, which is why the remedy carries their name.

Who is covered

You are covered by the McCloud remedy if you were an active NHS pension scheme member on BOTH 31 March 2012 AND 1 April 2015. This covers most long-serving NHS staff who were already in the scheme before 2015.

The remedy period and what it covers

The contested window is exactly seven years: 1 April 2015 to 31 March 2022. Outside this window the rules are fixed. Before 2015 everyone was legitimately in their legacy scheme. After March 2022 everyone is legitimately in the 2015 scheme. The seven years in between is the contested ground.

Before April 2015	Your legacy scheme (1995 or 2008) — fixed, unchanged
April 2015 – March 2022	McCloud remedy window — you choose the basis at retirement
After April 2022	2015 CARE scheme — everyone, no exceptions

The deferred choice — what actually happens

You were moved into the 2015 scheme in 2015 regardless — there was no option to stay. What the remedy does is give you a retrospective calculation choice at retirement. NHSBSA will calculate the value of those seven years twice: once using your legacy scheme rules, once using the 2015 CARE rules. You receive whichever is higher. You do not need to make an active decision — NHSBSA does the comparison for you.

1995 basis vs 2015 basis — when each wins

1995 basis wins when...	Your final retirement salary is significantly higher than your salary during 2015–2022. The 1995 basis applies your retirement salary retroactively to all seven years, so large late-career pay rises heavily favour this basis. When 1995 wins, those seven years also contribute to your automatic lump sum.
2015 basis wins when...	Your salary was broadly similar throughout — meaning the higher 1/54th fraction and accumulated CPI revaluation on each annual slice outweighs the final salary benefit. High sustained CPI also favours the 2015 basis. When 2015 wins, there is no additional lump sum from the remedy period.

Tax, lump sum and commutation

Is my pension taxed?

Yes — your NHS pension is treated as regular income by HMRC and goes through the normal income tax system. You still receive your personal allowance (currently £12,570 per year) tax-free. Anything above that is taxed at the standard income tax rates.

Up to £12,570	0% — personal allowance, tax-free
£12,571 – £50,270	20% basic rate
£50,271 – £125,140	40% higher rate
Above £125,140	45% additional rate
Automatic lump sum	100% tax-free regardless of size
Additional commutation lump sum	Tax-free up to HMRC lifetime limits

Commutation — trading income for cash

You can give up part of your annual pension to receive a larger tax-free lump sum. The rate is 12:1 — for every £1 per year of annual pension you surrender, you receive £12 of extra lump sum. The break-even point is 12 years: if you live longer than 12 years past retirement, keeping the income wins financially.

The pension income you give up through commutation is guaranteed, inflation-proofed and lasts for life. The implied yield you are giving up is 8.3% — a rate you cannot buy from any insurance company or investment product. For most people in good health, commuting beyond the automatic lump sum is rarely the best financial decision.

State pension and the age 60 to 67 income gap

The state pension

The full new state pension for 2026/27 is £12,548 per year (£241.30 per week). To receive the full amount you need at least 35 qualifying years of National Insurance contributions. It is protected by the triple lock — rising each April by whichever is highest: CPI inflation, average earnings growth, or 2.5%.

The income gap for 1995 scheme members

If you are in the 1995 scheme and also have 2015 CARE service, your retirement income arrives in stages rather than all at once:

Age 60	1995 scheme pension begins — plus McCloud portion if 1995 basis won
Age 67	2015 CARE portion begins — locked until state pension age
Age 67	State pension also begins — both arrive at the same time

Between ages 60 and 67 your income is lower than it will eventually be — your 2015 CARE portion and state pension are not yet payable. This seven-year gap is important to plan for, particularly if you intend to retire early. Commuting additional pension for a larger lump sum makes the income gap worse, not better.

Summary — how a typical mixed-service pension builds up

Most long-serving NHS staff who joined before 2015 will have pension spread across three periods. Here is how it assembles at retirement for someone who joined before 2008 and is still working today:

Pre-2015 (1995 scheme)	Calculated as: final retirement salary ÷ 80 × years worked before April 2015. Includes automatic 3× tax-free lump sum. Accessible from age 60.
2015–2022 (McCloud remedy)	NHSBSA compares 1995 basis (final salary ÷ 80 × 7) against 2015 basis (CARE accrual revalued by CPI). The higher figure is paid. If 1995 basis wins, those 7 years also add to the lump sum.
Post-2022 (2015 CARE)	Each year's salary ÷ 54, revalued annually by CPI. No automatic lump sum. Accessible at state pension age (67), not at 60.
State pension (age 67)	Full new state pension currently £12,548 per year, added on top of NHS pension once you reach state pension age. Protected by the triple lock.