

The new GMS contract explained

Focus on....

The Dynamising Factor

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 the dynamising factor, which is applied to GPs' pensions. It is one of a series of guidance notes on the new contract.

The guidance applies to all four UK countries. Where there are differences in approach or detail, this is indicated in the text of the guidance.

Introduction

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. Due to the introduction of the new GP contract, a new methodology for the dynamising factor is required for GMS and PMS GPs. Under the old contract, the annual uprating of GP pensionable earnings related to the Intended Net Average Income (IANI) figure. Under the new contract, the uprating relates to an average of GPs' actual profits.

This guidance note sets out in detail the new arrangements for the dynamising factor for GMS and PMS GPs.

What is the dynamising factor?

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) these recorded earnings annually by a factor in order to maintain their value.

The dynamising factor could be based on any index or, indeed, be a fixed amount. However, historically, it has been calculated as the change in intended average net income (IANI) for practitioners, year on year. Thus, the sector has its pension based on the earnings relevant to its members and it is not influenced by external changes in, for example, retail prices or national average earnings.

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 IANI the dynamising factor will be based on the change in average **actual** pensionable profit year on year. This is because, as a result of the new GMS contract, a figure for **intended** average net income (IANI) is no longer calculated. Under the old contract, a precise figure for GP pay increases could be determined prospectively based on the increase in gross fees and allowances that were announced to deliver the intended increase to average net income. 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.

This new calculation requires new methods to capture the relevant data, new definitions of pensionable profit and, because it is necessarily retrospective, it causes a delay to the process while actual data are prepared, made available and then analysed. This means that the actual, final figure to be applied to any particular year will not be known until about fifteen months after the end of the relevant year. Thus, the final dynamising factor for 2003-04 will not be known until the spring of 2005 at the earliest.

Due to this delay, it has therefore been necessary to agree an initial calculation to ensure that, for those who retired in 2003-04, they at least have their pensionable earnings uprated to some degree before the final figure is known. This is known as the **interim dynamising factor**.

What is the interim dynamising factor?

The interim dynamising factor is used to uprate earnings for those retiring in the year concerned before the actual dynamising factor is available. This is because, given that GPs' actual profits cannot be known in advance for the year to which they apply, an interim figure for the dynamising factor is required to uprate pensionable earnings in the meantime. This provides doctors who are retiring (or receiving a pension estimate) with a more accurate level of pensionable earnings and prevents them having to wait for a long period before benefiting from the growth in their pensionable earnings. When the profits' data are available, a final figure will be calculated and this final figure will be the one that will apply. Any adjustment to pensionable earnings resulting from a difference between the interim and actual figures will then be made.

It has been agreed that the interim dynamising factor should be set at a level that is expected to be exceeded, thus when benefits are re-calculated they should be higher and arrears paid. This is preferable to recovering overpayments should the actual factor be smaller.

The interim figure for 2003-04

In its Technical Newsletter number 13, the NHS Pensions Agency announced the interim figure for the first year of the new GP contract, 2003-04. This was published on 16 August 2004 and the BMA provided an initial factsheet to explain the interim figure, which accompanied the BMA press release.

The **interim figure** for 2003-04 is 7.2 per cent.

The **final figure** for 2003-04 is estimated to be around 8.8 per cent.

Given the considerable increase in resources as a result of the new contract for 2003 to 2006, similar, if not greater, increases are expected in each of the next two years.

Due to the need to estimate profits, there is the very slight possibility that the final figure for 2003-04 will be lower than the interim of 7.2 per cent. It is recognised, in this case, that the Pensions Agency will be required to recover the overpayment.

However, the 7.2 per cent figure was agreed between the GPC, the NHS Confederation and the Department of Health according to the statistical analysis provided by the Technical Steering Committee¹, which determined there was 90 per cent confidence that the final figure would be higher than 7.2 per cent. If, as expected, this will be the case, the Pensions Agency will make good the deficit, backdated to the date from which the pension was first paid.

For GPs who retired during 2003-04, the interim figure will apply until the final figure is known. This will not be known before early 2005.

For all other GPs who did not retire in 2003-04, the interim figure announced on 16 August 2004 will not be directly applicable. The final figure, once calculated when the data are known, will apply to the period 1 April 2003 to 31 March 2004 and will be used to uprate all other GPs' pensions in the normal way. This is the figure that counts towards your final pension.

¹ 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.

An example of how a GP's pension is calculated using the interim dynamising factor of 7.2% for 2003-04 is detailed in the Appendix.

The interim figure for 2004-05

The GPC, the NHS Confederation and the Health Departments have recently agreed the interim dynamising factor for 2004-05.

The **interim figure** for 2004-05 will be 6.1 per cent.

The **final figure** for 2004-05 is judged likely to be around 10.8 per cent.

As with 2003-04, the 6.1 per cent interim figure was agreed between the GPC, the NHS Confederation and the Department of Health according to the statistical analysis provided by the Technical Steering Committee (TSC), which determined there was 90 per cent confidence that the final figure would be higher than 6.1 per cent.

Compared to the figures for 2003-04, the interim figure for 2004-05 is lower, but the estimated final figure is higher.

GPs should not worry, as there are very good reasons for this. The interim figure for 2003-04 is an estimate but was based on an actual figure for the previous year. The interim figure for 2004-05 is also an estimate but uses, as its basis, the estimate calculated for 2003-04. Given this, the TSC deducted a proportionately larger element of the estimate in order to retain the same level of caution.

However, although the interim figure is lower, the estimated final figure is higher. This is because there are more resources available for 2004-05 than there were in 2003-04 (for example, through the money for the Quality and Outcomes Framework) and GPs are expected to make greater profits than in 2003-04. Therefore, it is estimated that in 2003-04 GPs' pensionable earnings will be uprated by around 8.8 per cent and in 2004-05 by a further 10.8 per cent. Compounded over the two years, this represents approximately a twenty per cent increase in pensions.

How is the dynamising factor calculated?

The methodology for the final dynamising factor and for the interim dynamising factor is basically the same: the difference in earnings between the previous year and the current year. The change is that the interim figure is based on an estimation of the likely increase in GPs' profits and the final factor is based on actual data. There will always need to be an interim dynamising figure. This is because the calculation of the final figure will always be retrospective, as explained above. Furthermore, the interim factors will be based on estimated equivalents of IANI because final Pensions Agency data (for the proceeding year) will not be available in time. In the first few years, the final factors will require determining an equivalent IANI figure. However, once Pensions Agency data are available, these will be used to calculate the final factors. The following will apply:

Interim 2003-04

estimated equivalent IANI for 2003-04
IANI for 2002-03

Final 2003-04

actual equivalent IANI for 2003-04
IANI for 2002-03

Interim 2004-05

estimated equivalent IANI for 2004-05
estimated equivalent IANI for 2003-04

Final 2004-05

Pensions Agency data for 2004-05
actual equivalent IANI for 2003-04

EXAMPLE

The following is an example of how a GP's pension is calculated using the interim dynamising factor of 7.2% for 2003-04.

Dr Brown retired on 15 April 2003.

Dr Brown's pensionable GP pay up to 31 March 2003 is updated (dynamised) using the actual yearly dynamising factors up to 2002-03.

Dr Brown's updated (dynamised) practitioner pensionable earnings as at 31 March 2003 were £1,800,000.00. This is then increased by 0.60% (1/12th of an interim dynamising factor for 2003-04 of 7.2%) resulting in a figure of £1,810,800.00. This represents the period from 1 April to 15 April.²

Dr Brown's pensionable earnings from 1 April 2003 to 15 April 2003 of £5,000.00 (which are not dynamised) are then added, resulting in a total figure of £1,815,800.00.

This figure is then multiplied by 1.4%³ resulting in an annual NHS pension (payable from 16 April 2003) of £25,421.20 and a tax free lump sum of £76,263.60.

Dr Brown's pension will be recalculated once the final dynamising factor has been established. The revised benefits will be backdated to 16 April 2003.

September 2004

² It is only necessary to work for one day in a month to qualify for an extra month's dynamising.

³ The 1.4% figure has been calculated as the rate required to produce a pension that is broadly equivalent to that earned by other Scheme members calculated using a different method. The exact results will depend on each individual's earnings pattern.