Cavendish Medical

INTERNATIONAL SURGICAL CONGRESS

Financial Planning Masterclasses

For the very first time, Cavendish Medical will be providing a series of focused **Masterclasses** at the Association's annual International Surgical Congress (11th to 13th May 2011 in Bournemouth). With the shifting sands of pension, investment and taxation rules to navigate, it has never been more important to keep your knowledge up-to-date. As ever, the difficulty is that there is never enough time in the day to do so, and opportunities are missed.

The focused one hour sessions are designed to provide up to the minute impartial information and planning tips in the areas of most relevance to junior members, new consultants and those at a more advanced stage in their surgical careers. The sessions are free of charge and provided in partnership with ASGBI as a benefit to members, and Fellows are encouraged to take advantage of them.

The **Cavendish Medical Masterclasses** are complimentary and open to all ASGBI Fellows. They will be held in the **Branksome Suite** at the Bournemouth International Centre, throughout **Thursday 12th May 2011**, as follows:

1. **Financial Planning for Trainees.**
   9.00am to 10.00am.
2. **Financial Planning for New Consultants.**
   2.00pm to 3.00pm.
3. **Pre-Retirement Financial Planning**
   4.00pm to 5.00pm.

For further information about the Congress, please visit:

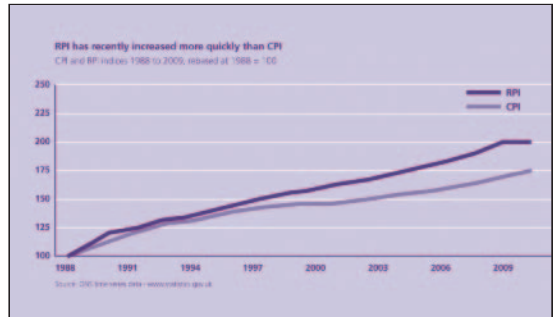
www.asgbi.org.uk/bournemouth2011

INFLATION HITS 5% AS IT IS CONFIRMED THAT NO SAVINGS ACCOUNT IN THE UK PROVIDES A POSITIVE AFTER TAX RETURN FOR HIGHER RATE INCOME TAX PAYERS

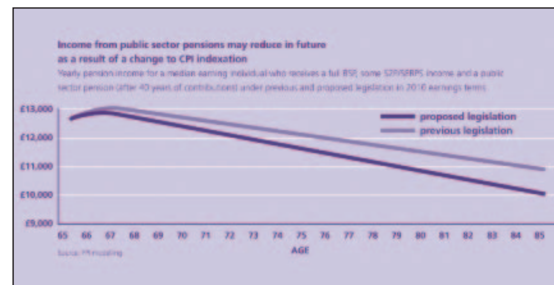
Cash at the bank is the cornerstone of every financial plan. It provides security, liquidity and peace of mind. However, with interest rates stuck at historically low levels and inflation on the rise (defined as "the rate at which the general level of prices for goods and services is rising"), we need to make sure that cash savings are working hard. This vigilance should also extend to Cash ISAs where we have seen interest rates revert to around 0.1% per annum when the first year's introductory rate has finished.

If a top rate taxpayer has £50,000 in cash on deposit at an interest rate of 2% gross per annum (many do not), this equates to an after-tax return of just £500. Remember, any interest earned from general and fixed-term deposit accounts is taxable. RPI inflation (the "retail prices index") remains stubbornly high. If RPI is 5%, it is effectively costing the top rate taxpayer £2,000 per annum to hold cash, effectively an inflation and tax adjusted negative return.

Research published by the Pensions Policy Institute (PPI) [1] highlights the Coalition Government's policy on switching the annual inflation linking of the basic state pension and all public sector pensions (including the NHS pension) from the RPI to the CPI ("Consumer Prices Index") from April this year.



According to the PPI, "*since 2003 the official UK measure of inflation has been the Consumer Prices Index (CPI), which uses a similar basket of goods to measure inflation but excludes housing costs. CPI rises more slowly than RPI because the indices use different averaging formulae. Over the last four years, the 'formula effect' has accounted for between 0.5% and 0.9% difference* [2] *each month.*" As shown in the chart below, this is likely to result in lower NHS pensions in the future:



"*If the proposals for public sector pensions are enacted in April 2011, public sector pension income will be indexed to CPI in future. If inflation continues at current expected levels (this analysis assumes average yearly increases of 2% for CPI and 2.87% for RPI), uprating by CPI instead of RPI could reduce the total yearly income that a median earner (with 40 years of membership in a public sector scheme) receives from their state and public sector pensions by 4% per year at age 75 (10 years after retirement) and by 8% per year at age 85 (20 years after retirement) in 2010 earnings terms.*"

New lifetime pension accrual limits due to start from April 2012

It has been confirmed that the Lifetime Allowance for total accumulated tax relievable pension funds (NHS and private) will be capped at £1.5 million. As the current cap is set at £1.8 million, this is a significant reduction as any "excess benefits" will be subject to a tax charge of 55%.

Those with longer service in the NHS and a Clinical Excellence Award (CEA) or private pension should beware. There will be the opportunity to apply for "fixed protection" prior to April 2012 and keep the higher Lifetime Allowance limit of £1.8 million. However, the *quid pro quo* is that no further accrual will be allowed to pensions (includes the NHS and private pensions) after April 2012.

There are options for those who have significant Lifetime Allowance issues to mitigate the worst effects of this tax, but there is a reducing window of opportunity to do so. Contact your adviser or Cavendish Medical if you think you are at risk.

Personal pension withdrawal rules amended to the benefit of hospital consultants

Have you ever stopped to think about why you have a personal pension or Self Invested Personal Pension (SIPP) and what you might do with the accumulated fund when you decide to cease clinical practice? Even consultants with £500,000+ in personal pension assets struggle to get excited about this subject, as the news on pensions has been almost exclusively poor of late with tax increases, restrictions to benefits and legislative changes coming thick and fast.

However, the Coalition Government appears to be proceeding with a series of what can only be described as revolutionary (in pension terms!) new measures that could come into effect in April 2011, introducing a great deal of flexibility into what was hitherto a very inflexible area – getting money out of personal pensions.

The "revolution" from this April is in two parts. Firstly, there will be no effective compulsion to exchange your pension investment fund for an annuity when you reach age 75. Secondly, there will also be no restriction in how much you draw from your fund.

In order to be able to make use of the new flexibility, there is one qualification to meet which is that you can demonstrate a minimum yearly income of £20,000 in payment and guaranteed for life. £20,000 is far below what I would expect the average hospital consultant's annual NHS pension to provide, meaning that almost all doctors will be able to take advantage of the new withdrawal route on retirement.

In the 1990's and the early part of this decade, it was not unusual to funnel a sizeable amount of private practice income into a personal pension scheme because of the immediate tax breaks. Why pay higher rate income tax when you could shelter cash in your own pension fund and draw the money out from age 55 onwards irrespective if you had retired from the NHS?

Although the upfront income tax benefits were clear, it was always less evident how funds would eventually be withdrawn at "the other end." The rule of thumb was that 25% of the fund could be accessed without any tax implication at all, usually as a lump sum. The difficulty lay in how to get your hands on the remaining 75%.

Traditionally, with a life insurance company pension scheme (which were, and still are, the majority of personal schemes one sees) an annuity was purchased. An annuity, rather like the NHS pension, is a taxable income for life set at a defined rate from the outset.

The difference between the NHS pension and a standard annuity is that the latter does not offer any continuing benefit if the annuitant dies the day after taking benefits. Around 50% of your NHS pension continues, on your death, to your partner and in some cases your children too.

If you want your personal pension annuity to have additional bells and whistles like death benefits for husband or wife, or inflation linking, you have to pay extra, thus significantly reducing the starting annuity income offered by the pension company.

When "flexible income withdrawal" was introduced, it had strong appeal with many doctors who did not like being tied to an income for life (annuity). A flexible income pension allowed the individual to stay invested and draw down a small percentage of his investment fund on an annual basis. If your pension was not drawn down and you died before age 75, then your fund could be passed intact to family, free of inheritance tax. This was a valuable benefit, but the income withdrawal was still not as easy or generous as other tax efficient accounts like ISAs where you could draw out your entire fund at a week's notice (whilst still alive).

What the Government appear to be saying is that, for those who can demonstrate that they have sufficient income not to fall back on the state in old age, then they will be allowed to do as they wish with their accumulated personal pension funds. An aside is that they are also stressing that pensions are meant to provide an income in later life and should not be considered a convenient conduit for the wealthy to pass on funds to future generations. You should also bear in mind that all pension incomes are taxable and so must be added to other income in the tax year they are taken.

The difficulty, as ever with personal pensions, is that few providers are set to allow the new flexibility. Standard life company pensions are still very much designed with the annuity route in mind, and many SIPP providers may not wish to invest to change their systems to accommodate complete access.

So, if you have a SIPP or personal pension or two waiting in the wings, you should consider having these properly reviewed. It is important that you are aware of all of your options when organising pensions, as the choices you make will affect what level of income you can expect to receive and whether there will be anything left for your spouse and family if the worst were to happen.

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For and on behalf of Cavendish Medical Ltd
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This article is not, and should not, be treated as financial or investment advice. Draft legislation can be subject to revision, and this can affect your own retirement plans. Cavendish Medical Ltd. is an independent financial planning practice that is authorised and regulated by the Financial Services Authority (FSA). The firm is also a **Professional Partner of the Association of Surgeons of Great Britain and Ireland.**

References

[1] Extracts from the Pensions Policy Institute (PPI), Briefing Note 57, http://www.pensionspolicyinstitute.org.uk/default.asp?p=12&publication=283

[2] ONS Focus on Consumer Price Indices, September 2010, table 1.4.