



# Cavendish Medical

## THE FIRST CUT IS THE DEEPEST?

With the skill of a central London estate agent marketing a shoe box as a bijou pied a terre, the Prime Minister has stopped proselytising on the perils of abandoning his beloved Keynesian spending policies in favour of a “*prudent programme of austerity measures*”, or cuts, to “*non-essential*” government services.

Quite what is “non-essential” in relation to the NHS is not yet clear, although it seems that a drastic reduction in the front line head count is less imminent with the Minister of Health, Mike O’Brien, recently denying that recommendations from a report prepared by the management consultancy McKinsey were being seriously considered.

What is clear is that hospital consultants, and in particular Surgeons, will be asked to do more than their fair share in helping to reduce the projected £180 billion deficit in the nation’s finances. Unlike a hedge fund manager, it is less easy for a surgeon to amend his modus operandi and relocate to Switzerland at short notice when the taxation environment becomes less favourable.

A cursory examination of the 2009 Budget reveals more pain to come for “high earners”. This tax year, everyone is entitled to earn their first £6,475 free of income tax, known as the “personal allowance”. As of April 2010, the allowance will be given up by those earning £100,000 per annum or above, resulting in a punitive marginal rate of tax of 60% on earnings between £100,000 and £114,000 (not including national insurance contributions)!

The headline income tax rate for those earning over £150,000 has been well advertised as increasing from 40% to 50%. Perhaps less well known, is the

significance of the new restriction of higher rate tax relief on pension contributions. Those who have made a lump sum pension contribution since the 22<sup>nd</sup> April 2009 may well have fallen foul of special transitional rules and should contact their financial adviser.

More alarming is the continued interest of various commentators in the “drag on the economy” of unfunded public sector pension liabilities, variously estimated at between £30 and £40 billion per annum. Last year, personal contributions of higher earning members of Superannuation were increased from 6% to 8.5% per annum to help plug the gap. This move, as well as an increased retirement age of 65 for new joiners to Superannuation, was supposed to have deferred the decision over major surgery to the NHS pension to a future government.

However, as long as it is politically expedient to highlight the “iniquity” of guaranteed, inflation proofed, final salary pensions in relation to the apparently riskier investment backed schemes found in the private sector, the NHS pension may not be safe from further reform.

Although most vitriol is usually reserved for those in “management positions”, stories of recent senior retirees from the police force taking home tax-free lump sums in excess of £450,000 have not been well received in the current climate.

Perhaps it’s time to revise that retirement date?

Prepared by Simon Bruce on behalf of Cavendish Medical Ltd

[simon.bruce@cavendishmedical.com](mailto:simon.bruce@cavendishmedical.com)

Tel: 0207 636 7006

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