

Healthcare Matters

For General Practitioners

GP Pensions update

Following on from our piece in the Spring issue of Healthcare Matters, we expand further on the recent changes to pension legislation, in particular the changes to the Lifetime Allowance (LA).

LA for pensions is being reduced, and those GPs with large pension funds may get caught out if they don't take appropriate action to protect themselves.

Will you be affected?

To judge whether or not you may be affected, you firstly need to value your total pension savings. The method of doing this depends upon the type of schemes you have. If pension benefits are held under a money purchase scheme, such as a personal pension, then you simply use the value of the fund. However, if you have benefits in a final salary scheme, such as the NHS Superannuation Scheme, the annual benefit needs to be multiplied by a factor of 20, and added to any lump sums paid in addition to the pension.

Example

George is a GP aged 55. He currently has deferred final salary benefits within the NHS scheme of an annual pension of £55,000 plus a lump sum of £165,000 (LA value £1,265,000). In addition, he also has self-employed earnings and has been paying into a personal pension, which now has a fund value of £225,000, bringing his total pension funds to a LA value of £1,490,000.

On retirement at age 60 his NHS benefits are expected to provide an annual pension of £66,000 plus a lump sum of £198,000, which will total £1,518,000 for LA purposes. In addition, his personal pension fund could also grow, perhaps to circa £315,000 even without any further contributions. So, George does have a problem with the reducing LA, but what can he do about it?

Fixed protection

If your pension funds are likely to be more than the proposed new LA of £1.5m, you can apply for 'fixed protection' from the change, and retain the current higher £1.8m allowance. The value of your existing pensions does not have to be above £1.5m now to apply, and you do not need to provide a valuation with their application. By applying you are agreeing to be bound by certain conditions.

Broadly, this means that you cannot contribute to any pension schemes after 5th April 2012, and the value of your final salary benefits cannot increase by more than a "reasonable percentage" (defined by the scheme rules) or by the annual change in CPI if not specified.

However, securing fixed protection is not binding, and can be revoked at any time in future, should it become beneficial to do so.

If your pension funds are valued at more than their LA when you start to draw pension benefits, they will suffer a lifetime allowance tax charge. The rate of the tax charge depends on how the excess benefits are taken, and is either 55% if taken as a lump sum, or 25% if taken as income.



Planning options

There are therefore some very important factors and options which need to be considered now to plan for the LA change.

- Should fixed protection be applied for? Any claim must be made by 5 April 2012 although we would advise not leaving it to the last minute
- Should you maximise contributions for 2011/12, perhaps taking advantage of the carry forward allowance?
- Should you consider ceasing any contributions to AVCs or added years?
- Should you stop funding any personal arrangements?
- Considering whether any benefit could be gained by leaving the NHS pension scheme, becoming a deferred member or even taking early retirement. What about "24 hour retirement" - is this an option?

Specialist advice

Kingston Smith Financial Advisers has developed a specialist LA analysis service, to help assess clients' positions in respect of reducing the LA and what action to take to achieve this.



Healthcare funding

In the current financial climate one shouldn't be reliant upon an existing banking relationship to provide market-competitive and flexible lending terms to your practice. Taking a step back to shop around for the 'best deal' could save you money and attract less onerous small print.

This is particularly pertinent to GPs, where the impact of the LA and interaction between the NHS pension scheme, added years, AVC's and personal pensions must all be taken into account.

Our statistical analysis considers all of the existing pensions in place, current values for LA purposes, likely future values year by year, taking into account any early retirement reductions factors and future growth rates, and also the effect of drawing different benefits at different ages.

This is a very effective and valuable exercise to undertake, although it can take some time to put together. If you think you may be affected by the changes please contact us.

This article has been prepared with all possible care to ensure its accuracy. It is based upon our understanding of current HMRC practice. A full review of your circumstances and objectives should be carried out before any action is taken.

Kingston Smith Financial Advisers is a trading name of Blacktower Financial Advisers Limited, which is authorised and regulated by the Financial Services Authority (FSA). The FSA does not regulate taxation and trust advice, commercial mortgages or some offshore investments.

Recognising the importance of providing flexibility by tailoring products, many of the major banks have recruited teams of specialist managers to unsettle existing complacent banking relationships. Additionally, off the High Street, there are niche lenders specialising in the healthcare sector, giving GPs far greater choice and allowing for all valid borrowing needs to be sympathetically considered.

So if you are thinking about buying, improving or developing your practice premises, buying into an existing practice, buying out a retiring partner, expanding your practice or you simply wish to refinance existing borrowings, now is an ideal time to do so with renewed enthusiasm in the market.

Accepting that the serviceability of any debt is key, secured funding to 100% is available and capital holidays can be negotiated with a repayment profile to suit.

To find out more about possible funding options for your practice, contact Nicola Hinkley on 020 8605 1213 or email nhinkley@kingstonsmith.co.uk

Practice Manager and GP financial clinics

Kingston Smith will be running free financial clinics for Practice Managers and GPs on either a one-to-one or on a group basis at practices from August onwards. These sessions will address any areas of concern that you might have. Topics may include:

- Cashflow management
- Understanding practice accounts
- HR matters
- Partnership taxation
- Financial advice
- Bookkeeping and management accounts
- Tax and legal consultancy
- VAT advice

To find out more about these clinics please contact lead healthcare partner, Paul Samrah on 01737 779000 psamrah@kingstonsmith.co.uk

Contact us

More information about Kingston Smith LLP and our services can be found at www.kingstonsmith.co.uk/healthcare

Kingston Smith LLP
Devonshire House
60 Goswell Road
London EC1M 7AD

020 7566 4000

Paul Samrah - Redhill
psamrah@kingstonsmith.co.uk
01737 781546

Daniel Martine - Romford
dmartine@kingstonsmith.co.uk
01708 759738

Jon Sutcliffe - City
jsutcliffe@kingstonsmith.co.uk
020 7566 3810

Keith Halstead - Redhill
khalstead@kingstonsmith.co.uk
01737 781567

Nicola Hinkley - New Malden
nhinkley@kingstonsmith.co.uk
020 8605 1213

Maureen Penfold - Hayes
mpenfold@kingstonsmith.co.uk
020 8848 5503

Offices in Hayes, West End, Romford, St Albans, Redhill and New Malden

