

Review your pensions ahead of April 2012 changes

Hospital doctors are encouraged to ensure that they have the correct pension arrangements in place ahead of changes that come into force in April 2012. On 6 April 2012 the current lifetime allowance will reduce from £1.8 million to £1.5 million. The lifetime allowance is the total amount of pension savings you can build up tax efficiently over your life.

Although the new limit, which includes any private pensions as well as your NHS pension, still sounds like a lot of money, many hospital doctors could well exceed this as a result of the generous nature of the NHS pension scheme, especially those later in their career. A pension pot of £1.5 million translates roughly into an annual pension income of between £65 000 and £75 000 depending on which section of the NHS pension scheme you are in.

What impact will the changes have?

If your benefits at retirement exceed the lifetime allowance, you will incur a special tax charge on the excess amount. This will be 55% if taken as a lump sum and 25% if taken as income.

How likely am I to exceed the lifetime allowance?

Hospital doctors in the following groups may be close to, or have already amassed, a pension pot in excess of £1.5 million:

- Those who have accrued significant NHS pension benefits already during their career (this will be driven by both the amount of years that they have paid into their pension(s) as well as by their current salary)
- Those who have made significant contributions over their working life to a private pension as well as their NHS pension.

Is there any way I can protect myself from the changes?

Some doctors may be able to register with HM Revenue & Customs for a special

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Case study

Andrea, a 56-year-old hospital doctor, is resigning from her role shortly to pursue other interests and is leaving the NHS pension scheme in January 2012.

She intends to delay taking the scheme's benefits until her normal retirement age of 60 years. By then, it is estimated the capital value of her NHS benefits will be approximately £1.5 million and her personal pension will be roughly £500 000, giving her a total expected pot of £2 million.

Andrea registers with HM Revenue & Customs for fixed protection before the deadline of 6 April 2012 and secures a lifetime allowance of £1.8 million rather than the standard lifetime allowance of £1.5 million that would normally be applicable. She makes no further pension contributions.

When she takes her NHS benefits on her 60th birthday, the value (£1.5 million) of these benefits is under her lifetime allowance of £1.8 million, and so she incurs no special tax charges.

When she takes additional benefits of £500 000 from her personal pension shortly afterwards, her total pot of £2 million takes her over her lifetime allowance of £1.8 million by £200 000, so she decides to take these excess benefits entirely as cash, incurring a tax charge of £110 000 (55% of the £200 000 excess). Because she registered for fixed protection her tax bill is reduced by £165 000, as she is only taxed on an excess of £200 000 rather than £500 000.

form of protection, called fixed protection, which will allow them to maintain their current lifetime allowance of £1.8 million. However, most will either be ineligible for this protection, or it will be unsuitable because of the restrictions on those who apply. Applications for fixed protection must be received by HM Revenue & Customs by no later than 5 April 2012.

What restrictions result from applying for fixed protection?

Anyone who accrues any further pension benefits from 6 April 2012 will lose fixed protection. This restriction effectively means that fixed protection is unsuitable for the vast majority of active members.

It also means you can not pay any further contributions into a defined contribution arrangement, such as a personal pension plan, start or open new pension arrangements, and face certain restrictions on when and how you transfer existing pension benefits.

Generally, this means that fixed protection is normally only suited to those doctors with large pension assets who have:

- Already left (or are about to leave) the NHS pension scheme, but have not yet taken their benefits from it, or
- Already retired (or are about to retire) from the NHS pension scheme, but who still have not yet taken their benefits under other private pension arrangements, such as personal pension plans, and

- No wish to make any further contributions to defined contribution pension plans (e.g. personal pensions) after 6 April 2012.

Should I opt out of the NHS pension scheme?

For the vast majority of active members, this would be unwise as the benefits lost by voluntarily opting out of the NHS scheme before retirement would be far greater than any advantage gained by having a higher lifetime allowance.

However, for a small number of members, such as those already very close to retirement, there may be some merit in exploring this option further. Decisions about leaving your pension scheme prematurely should be taken extremely carefully. While minimizing your tax liabilities is definitely one consideration, it should not be the only one (see *case study*).

This is a highly complex area and one which is not easily navigated. Only by understanding all of your options and your current pension position will you be able to make an informed decision. It is important to remember that there is no one size fits all approach when it comes to fixed protection and that no 'rule of thumb' applies. You should seek guidance from a financial adviser who has a good understanding of the NHS pension scheme. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.