

Planning ahead for your retirement

If you retire at the age of 60 years and remain fit and healthy, it is not inconceivable that you could live for another 30 years. That is a third of your life where you could be depending on a pension as a main source of income, so it is important to put plans in place to ensure you are able to maintain the standard of living you desire in retirement.

Retirement planning can seem like a complex business, but all you are doing over the years is building up a savings fund that will be used to provide an income in your retirement.

How much will you need in retirement?

Research by Wesleyan Medical Sickness revealed the average annual amount hospital doctors think they will need in retirement is £44760, although how much you, personally, will need will depend on your own circumstances and requirements.

As an NHS employee, you have a good occupational pension scheme compared to many, but in order to achieve the kind of lifestyle you would like to have, you may still want to supplement it with additional pension contributions or by paying into other types of long-term investment.

By talking to a financial adviser with expertise of the medical profession, you will be able to develop a lifetime financial plan that will take into account your individual needs and how much you are able to save.

Changes to pension tax legislation

The past couple of years have seen significant changes to pension taxation. Last year, the annual allowance, the total amount you can save into your pension each year with tax relief, reduced from £255 000 to £50 000, although it remains limited to 100% of earnings for those who

earn below this amount. Carry forward of any unused annual allowance from the previous 3 years was also introduced.

Whether or not you exceed the annual allowance will be determined by the annual increase in your NHS pension, including any additional pension or added years that you buy, and the amount you contribute to private pensions or the NHS additional voluntary contributions scheme.

If you exceed the annual allowance, and you do not have any unused annual allowance to carry forward from the previous three tax years, you will be taxed on any amount you contribute above the annual allowance at your marginal rate of tax.

In April, the lifetime allowance, the total amount you can save into a pension tax efficiently before you retire, reduced from £1.8 million to £1.5 million. If you have a long period of service under the NHS pension scheme, a history of high pensionable

'You should regularly review your retirement plans to ensure they keep pace with changes in your personal and professional circumstances throughout your life.'

earnings and large funds in a private pension scheme, this change could impact you, so you may need to consider alternative savings products such as individual saving accounts.

If you do exceed the lifetime allowance, you will incur a special tax charge on the excess above this when you take benefits. This is charged at 55% if the excess is taken as cash or 25% if it is taken as an income.

Using individual saving accounts for retirement planning

If you feel you may be affected by changes to the annual and lifetime allowance limits, then it may be beneficial to use an individual saving account to build up additional funds for your retirement outside of your pension plan.

While individual saving accounts will not benefit from tax relief when you pay in, as would be the case with a personal pension, you will not be liable for any income

tax when you withdraw the money which you would pay on any income received from a pension. In fact, subject to certain limits, you will be able to withdraw your money from an individual saving account and put it into a pension plan, where it will enjoy tax relief again, assuming there is no change to current tax legislation.

Whether you are better off saving into an individual saving account as part of your retirement planning will depend on your specific circumstances. As this is a particularly complex area of financial planning, you should seek professional advice before you make any decisions.

Conclusions

You should regularly review your retirement plans to ensure they keep pace with changes in your personal and professional circumstances throughout your life.

Part of this will be to keep informed on the changes to the NHS Pension Scheme and knowing what benefits you will receive from it. The benefits you currently receive will depend on which section of the scheme you are in. If you joined after

1 April 2008, you will be a member of the 2008 section. Members who joined before this could be in either section, as they were recently given a one-off option to transfer all their pension benefits to the 2008 section. If you are not sure which section you are in, visit the NHS website (www.nhsbsa.nhs.uk).

The government has announced that the bill to reform public sector pensions, including the NHS Pension Scheme, will be introduced during this parliament, with the aim of implementing it in 2015.

This will have an impact on your retirement planning, so you should talk to a financial adviser who understands all the changes affecting the NHS Pension Scheme and retirement savings to ensure you will get the income you need in retirement. **BJHM**

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

Wesleyan Medical Sickness provides specialist financial advice for doctors
Telephone: 0808 100 1884
Website www.wesleyanmedicalsickness.co.uk