

Pension liberation is not the answer to early retirement

With the increase in workload and changes to the profession, more and more doctors are considering taking early retirement.

According to official data from the NHS Business Services Authority, in 2006, 7.3% of consultants retired early, but this nearly doubled 5 years later to 14% in 2011. There are suggestions that this upward trend will continue with a survey by the Hospital Consultants and Specialists Association in April 2013 showing that 58% of consultants were considering leaving the NHS or retiring early.

If this is something you are considering, it is important to make sure that you have the finances in place and be wary of the increasing number of schemes that promise to be able to release your pension funds early.

Pension liberation schemes

In most cases, the earliest you can begin taking your pension is 55 years of age. While the prospect of getting access to your pension savings earlier than that may seem like an attractive option, there are several potential dangers for people tempted to use the pension liberation schemes that have been gaining prevalence in recent months.

Pension liberation schemes transfer your pension savings into another plan that the providers say will allow you to gain access to your funds before the age of 55 years.

Those schemes that claim to be able to release funds early for everyone are breaking Her Majesty's Revenue & Customs (HMRC) tax regulations and, according to the Pensions Regulator, in many cases are carrying out fraud.

In rare circumstances, such as ill health, it is possible to gain early access to your pension savings. For the vast majority of people, however, any promises of early pension income will be accompanied by tax charges of over 50%. In addition, administration fees can range from 20–30%, meaning that

there will be less money for you to enjoy if you try to access your pension early. The Pensions Regulator has estimated that individuals have given fraudulent pension schemes around £400 million since 2008.

Plan ahead

Planning ahead is the best way to ensure that you are putting enough money aside to enable you to retire early and provide for your later years.

A good place to start is an individual savings account. A key benefit of an individual savings account is that you do not pay income or capital gains tax on any growth your money makes, as you might with other savings products, and you can access the funds at any time before you retire.

There are two types of individual savings account. A cash individual savings account resembles a bank or building society account and is good for short-term saving goals or if you want your money easily accessible. For longer term savings, like retirement, you might consider a stocks and shares individual savings account. These are usually made up of one or more investment funds that spread risk by investing in a range of shares or individual stocks and shares.

Because of their tax-efficient nature, there are limits to how much you can save into an individual savings account each year. During the current tax year you can put £11 520 into a stocks and shares individual savings account or up to half that amount (£5760) into a cash individual savings account with the rest in stocks and shares.

There are also certain life assurance products, such as investment bonds, that allow you to make regular and one-off payments before providing an income or lump sum.

Under current rules, you can withdraw up to 5% of your investment each year without paying tax on it, while the rest of the investment remains in the plan to provide potential growth. If you do not use the 5% tax allowance in any one year, you can carry it forward to use in future years, up to a total maximum allowance of 100% of the amount you paid in. This means that the longer you leave in the money, the

higher percentage you will be able to withdraw tax efficiently each year.

The option that is best suited to you will depend on your personal circumstances, and you should talk to a financial adviser.

Drawing your pension at 55 years of age

Under both sections of the NHS pension scheme (1995 and 2008), it is possible to retire early and draw a pension. However, there are restrictions and the amount you will receive each year will be less than had you retired at your normal retirement age.

Doctors with a private pension as well as an NHS one will normally be able to access benefits from the age of 55 years, either by buying an annuity or drawing down an income from the pension fund.

When you buy a lifetime annuity, you will receive a guaranteed income for life based on the amount you have saved and your life expectancy. If you choose income drawdown, you will receive a flexible income from your fund, depending on your financial needs, while keeping your pension fund invested.

These options will help bridge the gap until you start taking your NHS pension and can then continue to run alongside it.

Remember that if you do start taking your private pension early, the payments will normally be less than you would receive later in life. This is because the pension pot will be invested for a shorter period of time and will be expected to pay out for longer. There are also tax implications and rules on the maximum amount you are able to receive from drawdown so it is important to take advice from a qualified adviser.

Conclusions

Pension planning is something you should consider throughout your career. The tax implications and potential pitfalls of taking incorrect advice can be costly so it is always best to speak to an expert who can explain the options available to you. **BJHM**

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

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