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financial planning
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York VTS Launch Pad

16th March 2016



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Medical Money
MANAGEMENT

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Medical Money Management

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About MMM



- Established 1971
- 8 Offices Nationwide
- 30 qualified Financial Advisers
- One of the largest Partnerships regulated by the FCA
- Independent of Third Party influence

Agenda

- The NHS Pension Scheme (NHSPS)
- The “old” Schemes (the 1995 and 2008 Sections)
- The “new” Scheme (the 2015 Scheme)
- Personal Financial Planning



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The NHSPS

Based on Medical Money Management's understanding of the Scheme Rules

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How much do you pay?

Tier	Pensionable Pay (whole- time equivalent)	Contribution Rate in 2015/16
1	Up to £15,431.99	5.0%
2	£15,432.00 to £21,387.99	5.6%
3	£21,388.00 to £26,823.99	7.1%
4	£26,824.00 to £47,845.99	9.3%
5	£47,846.00 to £70,630.99	12.5%
6	£70,631.00 to £111,376.99	13.5%
7	£111,377.00 and over	14.5%



What do you get for your money?

- Tax free Pension Commencement Lump Sum (PCLS) and Index-Linked Pension when you retire.
- An Index-Linked Ill-Health Retirement Pension.
- Death in Service Benefits.
- Index-Linked Widow's / Dependants' Pensions.



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NHSPS The 'Old' and the 'New'

Why changes were needed

- The costs of providing public service pension schemes continue to rise.
- Previous arrangements were not sustainable and affordable in the long-term [Hutton review of Public Sector Pensions].
- The NHSPS was modernised in 2008 to strike a balance of how costs were met by both scheme members and the tax payer.
- People in general are living longer.

Why changes were needed

- The NHSPS is unfunded (i.e. there is no 'pot' of money set aside from which to pay pensions) – the Government pays pensions from public finances.
- The Scheme needs to account for pension benefits that current members are currently accruing.

The 1995 Section

Salaried Members (officers)

Pension = $1/80$ × Final Salary for each year of service

PCLS = 3 × Pension

GPs

Pension = 1.4% × Total Dynamised Income

PCLS = 3 × Pension

Normal Pension Age - 60

Example: the 1995 section

- Doctor joins NHSPS at age 24.
- 1 year Break in Service.
- Assume retirement at age 60.
- 35 years' service.
- Final salary £100,446.
- Pension = $35/80 \times £100,446 = £43,945$ p.a.
- PCLS = $3 \times £43,945 = £131,835$.

The 2008 Section

Salaried Members

Pension = $1/60$ × Final Salary for each year of service

No automatic PCLS

GPs

Pension = 1.87% × Total Dynamised Income

No automatic PCLS

Normal Pension Age - 65

Example: the 2008 section

- Doctor joins NHSPS at age 24.
- 1 year Break in Service.
- Retirement at age 65 at the earliest.
- 40 years' service.
- Final salary £116,444.
- Pension = $40/60 \times £116,444 = £77,629$ p.a.
- PCLS = NIL.



The 2015 Scheme – 1st April 2015

- If you were more than 13 years and 5 months from your Normal Pension Age as at 01st April 2012, you will have moved to the new 2015 Scheme on 01st April 2015.
- Pension Choices Exercise 2 allowed the switching of 1995 Section benefits to the 2008 Section.

The 2015 Scheme – 1995 & 2008 Section benefits

- Will remain in the 1995 or 2008 section as appropriate.
- Will be treated separately and calculated in accordance with section rules.
- Will be based on the member's final salary in accordance with scheme.

The 2015 Scheme

- A Career Average Revalued Earnings (CARE) scheme.
- No distinction between Officer and Practitioner service.
- A pension worth $1/54^{\text{th}}$ of each year's pensionable earnings.
- Revalued in line with Consumer Prices Index (CPI) + 1.5% each year.
- Normal Retirement Age = your State Pension Age (SPA).
- Maximum age for accrual is 75.
- No automatic lump sum entitlement.

Career Average Revalued Earnings (CARE) – How does it work in the NHS 2015 Scheme?

Example – An individual earns £18,000 in the NHS

	Year 1	Year 2	Year 3	Year 4
Year 1 Pension	£333	£345*	£357*	£369*
Year 2 Pension	N/A	£333	£345*	£357*
Year 3 Pension	N/A	N/A	£333	£345*
Year 4 Pension	N/A	N/A	N/A	£333
Total Pension to date	£333	£678	£1,035	£1,404

*Revalued at 3.5% assuming 2% CPI + 1.5%



When can 2015 benefits be claimed?

- At the same time as any 1995/2008 benefits with a reduction for early payment.
- At the member's normal pension age in the 2015 Scheme.
- On any date between the above two options with a reduction for early payment if appropriate.

State Pension Age (SPA)

Date of birth

- 06th April 1960 to 05th April 1961 – SPA between 66 and 67.
- 06th April 1961 to 05th April 1969 – SPA age of 67.
- Beyond 06th April 1969 – SPA of 68.

Voluntary Early Retirement

Years early	1995 Scheme	2008 Scheme	2015 Scheme
0	Nil	Nil	Nil
1	5%	6%	5.4%
2	10%	11%	10.4%
3	14%	15%	15.1%
4	18%	19%	19.3%
5	22%	24%	23.3%
6	25%	27%	27.0%
7	29%	31%	30.5%
8	32%	34%	33.7%
9	34%	37%	36.7%
10	37%	40%	39.5%



Early Retirement Reduction Buy Out - ERRBO

- Can pay additional contributions to eliminate or lower the cost of taking early retirement.
- Restricted to a maximum of three years before normal pension age and not before age 65.
- The amount of additional contributions to buy an ERRBO depend on:
 - member's age at the start of the contract and
 - the number of years being purchased.
- For a reduction buy out of 3 years the additional contributions range from 3.6 per cent at age 20 to 4.7 per cent at age 60.
- Additional contributions are payable up to the chosen early retirement age.



Early Retirement Reduction Buy Out - ERRBO

- Doctor X has a normal pension age of 68.
- Takes out an agreement to purchase an ERRBO of three years in April 2015 at age 45.
- Pays additional contributions until age 65 and then claims pension.
- Actuarial deduction that would apply is eliminated by the buy out and pension is received in full.
- Will have paid additional contributions of 4.1 per cent in addition to the normal tiered rate contributions.

Ill Health Retirement

Tier One

- Where a member is assessed as being “*permanently incapable of efficiently discharging the duties of their present job in the NHS*”.
- Pension accrued will be paid (pre and post 2015)
- Benefits will not be increased.

III Health Retirement

Tier Two

- Payable when a member is *“permanently incapable of doing both their current job and other regular employment across the general field of employment of like duration”*.
- Entitlement to early payment of the retirement benefits earned to date could be paid.
- Increase in pension by 1/2 of the member’s prospective membership to Normal Retirement Date.

Death in Service Benefits

Three elements - what are they?

- Lump sum gratuity.
- Spouse's / Civil Partner's pension.
- Dependants' allowance.

Lump Sum Gratuity

Death in pensionable employment

- 2 x pensionable earnings.
- Paid to widow or widower or Civil Partner (unless notice in writing to not do so).
- If no spouse or Civil Partner (or as above), paid to personal representatives.



Spouse's/Civil Partner's Pension

- 6 months' member's final pay initially.
- Then pension of 33.75% of member's pension based on Tier 2 ill health.
- In retirement, widow's / Civil Partner's pension is 33.75% of pension in payment.



Dependants' Allowance

- Child under 23 or in full-time education.
- Pre-retirement - 16.875% of member's Tier 2 Ill-health retirement pension (33.75% if 2+ dependants).
- In retirement, 16.875% of member's pension (33.75% if 2+dependants).

Pension Issues

- Reduction of the Lifetime Allowance (LTA) to £1m on the size of the pension fund from April 2016.
- Any pension benefits in excess of the LTA will be subject to the LTA Charge.
- The LTA Charge is a tax of 55% on excess funds.
- Pension Annual Allowance (AA) £40,000 since April 2014.

Summary

- Stay in the NHSPS.
- Obtain statement of service and current benefits.
- NHS Total Reward Statement (register online).



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Personal Financial Planning



Agenda

- **Life Assurance**
- **Income Protection**
- **Critical Illness Cover**
- **Locum Insurance**
- **Savings & Investments**



Financial Planning Objectives

- To ensure you have enough income to maintain and improve your standard of living in “*real terms*” throughout your life.
- To ensure that, following the death of a partner, the surviving spouse/civil partner has enough income and capital to maintain his/her standard of living in real terms for his/her life.
- To create a transfer mechanism to pass assets to your nominated beneficiaries.



Estate Planning

Why make a Will?

- Ensure your assets are passed to the right individual(s).
- Appoint guardian(s) for your children.
- To mitigate any Inheritance Tax (IHT).
- To avoid the laws of Intestacy.
- To avoid unnecessary delays.



Protection Issues

Life Assurance

- Term Assurance – Level or Decreasing
- Family Income Benefit
- Whole Life



Protection Issues

Writing policies under Trust

- Streamlines and speeds up the payment of any claim.
- Ensures only those individuals you want to benefit actually benefit.
- Paid outside of the Estate.
- Reduces IHT liability.

Protection Issues

Income Protection (Permanent Health Insurance)

- Provides a regular income after a waiting period (deferred period) to a pre-determined age (normally age 60 or 65) or until return to work.
- Benefits are tax-free.

Protection Issues

Income Protection – Key points to consider:

- Definition of Illness.
- Definition of Occupation.
- Practice Agreement.
- Level of Cover.
- NHS Ill-health Retirement Benefits.



Protection Issues

Income Protection – Additional points:

- Cover should dovetail with Practice Agreement.
- Do not over insure!

Protection Issues

Critical Illness Insurance

- Provides a capital sum in the event of being diagnosed with a “*qualifying*” illness.
- Usually to protect a mortgage or other debts.



Protection Issues

Locum Cover

- Provides a regular income after a waiting period for a specific period of time (usually up to 12 months after incapacity).
- Premiums qualify for tax relief – benefits are taxed.

Protection Issues

Locum Cover - What the Clinical Commissioning Group (CCG) provides?

- Pensionable income for up to 12 months, providing medical services continue to be provided for patients.
- Possible CCG Locum Allowance for up to 12 months subject to residual list size (and other factors).
- CCG support varies.
- Current Locum costs are £2,500+ per week

Savings & Investments

What are the factors that determine where to save?

- Time horizon (short / medium / long term).
- Attitude to Investment Risk.
- Monthly or Lump Sum contribution(s).
- Current Tax Situation.
- Potential Future Tax Situation.

Savings & Investments

Tax Allowances

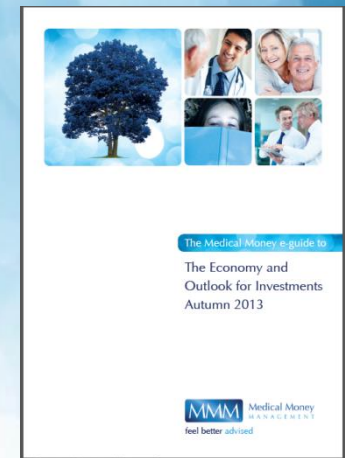
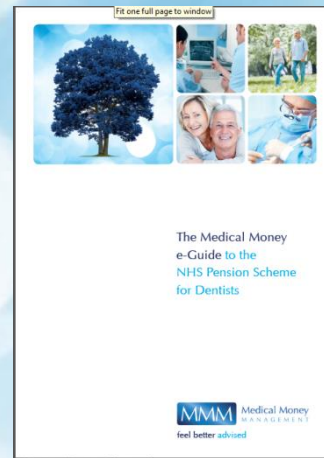
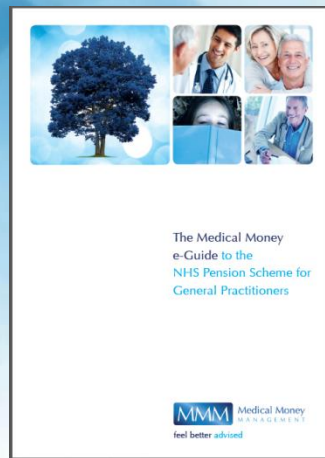
- ISA Allowance £15,240 in 2015/16.
- Capital Gains Tax Allowance £11,100 in 2015/16.
- Pension Tax Relief on £40,000 Annual Allowance. Unused allowance can be carried forward on a 3 year rolling basis.



Where to get advice?

- **Financial Planning** – use a specialist Independent Financial Adviser.
- **Tax Advice** – use a specialist Accountant.
- **Making a Will / Establishing a Trust** – use a multi-partner Legal practice.

Medical Money e-Guides



- NHS Pension Scheme (x3)
- The Economy and Outlook for Investments
- Investments



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Q&A



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Call 0113 205 4130 or
click
www.medicalmoney.co.uk

The content of this presentation is intended for general guidance only, and you should seek specific financial advice before taking action on any aspect of it.

The risk profile of investment products varies and should be matched to your individual attitude to risk.

The value of certain investment products can go down as well as up.

Some funds may include investments that are not designated in sterling and the prices may alter purely as a result of exchange rate movements.

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