CAVENDISH MEDICAL

# DOCTORS' TOP TEN FINANCE ISSUES

## THE CAVENDISH MEDICAL GUIDE

# Are you burying your head in the sand? These are the top ten financial issues you cannot ignore any longer.

## 1 Do you have a retirement plan?

One of the most challenging parts of our job is helping people who have left any form of financial planning until they are about to retire, or harder still, after they have retired.

You are successful, respected, with years of NHS service and private practice behind you. But do you have sufficient perspective? Is it clear if your savings will always be able to support your expected standard of living? Will you outlive your money or it will it run out before you do?

Those considering the next stage in life after clinical practice can face competing pressures to assist family on the housing ladder before even accessing their own wealth to replace income from employment and practice. Engaging early can make all the difference between anxiety and excitement.

## 2 Are you on the right pay scale?

Not everyone understands doctors the way we do. We encounter many new clients who have been on the wrong pay threshold for several years or have not received contractual pay rises when they were due. They may have had poor advice elsewhere or been advised by a non-medical specialist which means key details of their medical income were missed.

Are you being paid what you are contractually entitled to?

## 3 Have you had your annual pension growth checked?

The maximum amount of tax-relievable pension contributions you can make each year is £40K. Be wary of any NHS pay rises received through increments, new management positions or CEA awards, which could increase your contributions. Immediate tax charges of up to 45 per cent can be avoided with planning.

The new 'tapered' annual allowance for those with 'adjusted income' of over £150,000 reduces the limit down further – to as low as £10,000 per year for most senior doctors.

Note that adjusted income includes not only NHS salary but also dividend income from private practice (and investments), rental income, NHS and personal pension contributions. This widens the net significantly and will catch out many hospital consultants who might otherwise have considered themselves exempt as well as most GPs.

In autumn, the NHS Pensions Agency will issue letters notifying those who have 'saved' more than the annual allowance cap for the last tax year. HMRC bases calculations for pensions' contributions on the deemed growth of the pension in the year so the figures used bear little resemblance to the amount you have actually paid into your pot. Check the sums carefully – many have been wrong.

## 4 Will you exceed the lifetime allowance for pension savings?

This is the total amount which can be built up in a pension without triggering an extra tax charge, currently £1,055,000 from April 2019. Many doctors unwittingly breach the allowance, paying up to 55 per cent tax charge on the excess savings when the fund is drawn.

Not surprisingly, the amount of tax revenue raised from lifetime allowance breaches has increased nearly 2,000 per cent over the past decade. Tax revenue has increased from £5m in 2006/07 to £102m in 2016/17. Do you know where you stand?

## 5 Have you protected the value of your pension?

The taxation of pension benefits is a particularly complex area and we see many new clients who have received incorrect pension protection advice.

There are a range of government protection schemes which can help savers restore the value of their pension against lifetime allowance changes. Each one differs in terms of qualification criteria. One such scheme, Individual Protection 2016 (IP2016), is now open for applications for those that had pension savings in excess of £1 million as at 5 April 2016. Do you have the right protection in place?

## 6 Are your financial adviser and accountant working together?

When dealing with large sums of money and critical life choices, you need to ensure your professional advisers have the complete picture of your financial interests and as well as competence in the NHS pension. Make sure your adviser and accountant have the same objectives and work together to ensure opportunities are not missed.

## 7 Are you confident that your practice structure is tax and pension-efficient?

You may well have considered the advantages of trading as a partnership or limited company but are you really maximising the efficiencies that these can provide? The tax landscape has changed significantly over the last few years and there are now more implications to consider when selecting the best structure for your business.

Have you overlooked the impact your trading structure has on pension contributions and pension tax? A limited company can contribute 'pre-taxed' company income to a pension. Higher rate taxpayers can put profit straight into a personal pension rather than taking the income as a dividend – this applies to any director so it can be particularly useful to contribute to a spouse's pension if their lower salary means a higher annual allowance or they do not already have NHS pension contributions to consider.

## 8 Have you thought about the finances of your family?

Are you making the most of inter-generational planning? The introduction of pension freedoms now gives universal access to pension funds from age 55, plus the ability to pass on pensions' tax efficiently on death to family members and other beneficiaries makes pension funding attractive – particularly for some spouses of consultants or where the lifetime allowance and annual allowances are less of a concern. Who will receive your pension fund benefits when you die?

Are your loved ones protected from unnecessary tax charges by considering your inheritance tax position now? Do you and your adult children have up-to-date wills in place?

As busy professionals, it is easy to let these things slip but if the unthinkable happens, you would not wish to add financial concerns to their emotional burden.

### 9 Are you taking advantage of your available allowances every year?

Are you using ISAs, capital gains and gift allowances, or maximising tax reliefs through annual pension allowances to minimise the duty owed to HMRC? This includes allowances for your spouse and family.

Individuals have an annual capital gains allowance of £12,000 from April 2019. This provides significant opportunities for tax-free investment returns every year. At the same time, the reduced annual and lifetime allowances are driving a renewed enthusiasm in ISAs as a supplement to pension funding. They are particularly tax-efficient for higher-rate and additional rate taxpayers. The ISA allowance is now £20,000 per person, allowing a couple to shelter £40,000 a year from future taxation.

### 10 How are your investments performing?

Do you have older style funds which are expensive, performing badly or no longer adhere to your attitude to risk, or a discretionary investment manager who is generally unresponsive?

You may have been tempted to go-it-alone with your investments? Online fund providers are adept at attracting the ‘diy investor’ with exciting company information, one-off opportunities and investment experts who can apparently see into the future. The result is often disappointingly average returns and far too much hard work for the time-challenged consultant.

According to peer-reviewed research by asset management company Vanguard, an average investor achieves returns of around 3 per cent more per year with the help of an adviser.

### Act now

The financial landscape is facing constant change. It is vital to dedicate some time to ensure your affairs are in order. The result will be a stress-free retirement and complete peace of mind that you will enjoy financial freedom in later life.

**For more information or to speak to one of our team, please telephone 020 7636 7006**

**Cavendish Medical Ltd is the go-to company for retirement planning for doctors. It has over 450 consultants as clients and £400,000,000 in client assets under administration. Cavendish Medical operates a transparent investment policy and a fee-based approach allowing independent financial planning advice.**