

Helping NHS staff plan for retirement

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Making your money work harder

Our Affinity Partners

Premier partner



How many years until retirement?



Aims of this presentation

By the end of this seminar we hope you will have a better understanding of:

- State and employer pension schemes
- Whether your pension will be enough to provide you with the lifestyle you expect
- Pensions Freedom and Choice - does it affect me?
- McCloud judgement
- Options available to increase your income in retirement
- Inflation - an important consideration
- Investing for additional income or capital growth

Sources of income

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Sources of income

**Investment
Income**

**State
Pension**

**NHS
Pension**

**Other
Pensions**

**FSAVC/
AVC**

Sources of income

A photograph of a couple sitting on beach chairs on a sandy beach, holding hands and looking out at the ocean during a sunset. The sky is filled with soft, golden light and scattered clouds. The couple is seen from behind, and their shadows are cast on the sand. Overlaid on the image are five large, semi-transparent blue oval callout bubbles. One bubble in the upper right contains the text 'State Pension'. The other four bubbles are empty.

**State
Pension**

What will the State give you?

Changes from 2016

Flat Rate Pension

NI History of 35yrs (up from 30)

Increases in line with growth in AEI

End of Contracting Out

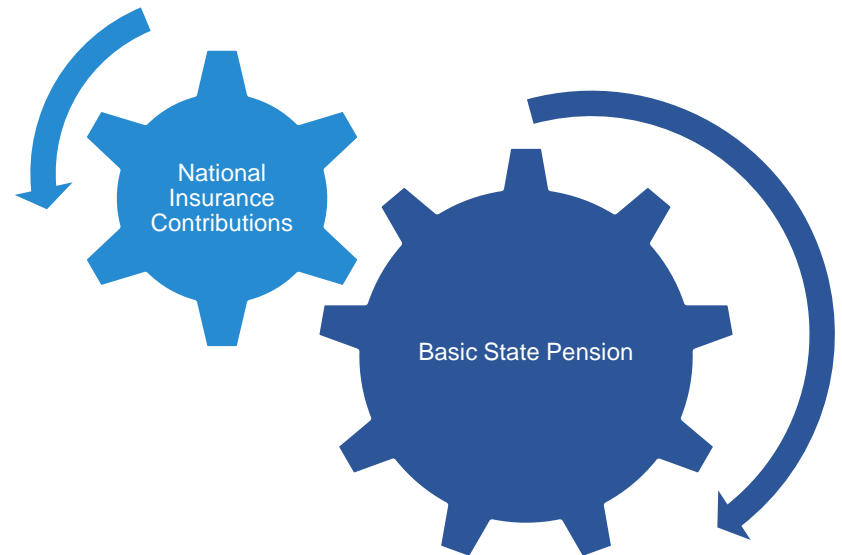
What will the State give you?

Single rate
£175.20pw for tax year 2020/21

State pension forecast
www.gov.uk/check-state-pension

Apply in writing - BR19

Telephone - 0800 731 0175



Source: <http://www.parliament.uk/briefing-papers/SN07054/2015-benefit-uprating>

Sources of income



**NHS
Pension**

NHS Pension Schemes

■ 1995 Section

- Closed to new members 1st April 2008
- Active members pre 1st April 2008 may still enjoy benefits
- “Certain circumstances” allowed new employees to join post 2008

■ 2008 Section

- New scheme introduced for new employees
- 1995 Section members eligible to transfer benefits across
 - Choices 1 & 2

■ 2015 Section (1st April) NHS Pension Scheme

- Based on **C**areer **A**verage **R**evalued **E**arnings (CARE)
- Full and Tapered Protection may have applied
- Previous benefits unaffected

Section 1995 Pension Scheme

1995 Section

Pension:

- Accrual 1/80 of your “pensionable” salary credited for each full-time year
- Pension in payment indexed - CPI

Tax-free lump sum:

- 3 x your annual pension

Normal retirement age:

- 60
- Special Class Status & MHO from 55

Death-in-service benefit:

- 2 x final years pensionable pay
- Actual pensionable pay for P/T staff

Spouse's pension:

- 50% of notional Tier 2 ill health retirement pension

2008 Section Pension Scheme

2008 Section

Pension:

- Accrual 1/60 of your reckonable pay per year of membership
- Pension in payment indexed - CPI

Tax-free lump sum:

- Exchange part of pension up to approximately 25% of Capital Value

Normal retirement age:

- 65

Death-in-service benefit:

- 2 x reckonable pay
- Actual reckonable for P/T staff

Spouse's pension:

- 37.5% of notional Tier 2 ill health retirement pension

CARE Timeline

Further **3yrs 5mths**
before Scheme NRD

1995 Section
NRD Age 60
2008 Section
NRD Age 65

10 yrs away from
Scheme NRD

Tapered
Protection

Full Protection

1st April 2012

1st April 2015
CARE
Scheme
introduced

2015 Section Pension Scheme

2015 (CARE) Section

Pension:

- Accrual 1/54 of your average earnings revaluated by CPI plus 1.5%
- Pension in payment indexed - CPI

Tax-free lump sum:

- Exchange part of pension up to approximately 25% of Capital Value

Normal retirement age:

- Not fixed but in line with the individuals State Retirement Age
- Early retirement currently from age 55 (early retirement factors apply)

Ill Health Retirement:

- Enhancement for higher tier awards 50% of prospective service to NRD

Spouse's pension:

- 37.5% of notional Tier 2 ill health retirement pension

Transitional Protection

- Full or Tapered

Accruing benefits under CARE

- Member earning £30,000pa accruing 1/54th pa

	Year 1	Year 2	Year 3	Year 4
Year 1 Pension	£556	£575	£595	£616
Year 2 Pension	NA	£556	£575	£595
Year 3 Pension	NA	NA	£556	£575
Year 4 Pension	NA	NA	NA	£556
Total Pension Accrued				£2,342

Assumes nil salary increase. Pension re-valued @ 3.5% (assuming 2% CPI plus 1.5% scheme increase)

CARE: what's different?

- Your Normal Pension Age will be linked to the 'State Pension Age'.
- From 2015 scheme is a 'Career Average'
- Each of these years, you will accumulate a pension based on 1/54th of your earnings.
- Accrued CARE benefits are revalued annually by a rate published by HMT (Treasury Order) plus 1.5%
- You will still be able to retire earlier if you wish, although your pension will be reduced to take account of this.

Options to increase your NHS pension

- **Additional Pension**
 - Buy a set amount of additional pension in £250 increments
- **Money Purchase Additional Voluntary Contributions (MPAVC)**
 - Separate fund to be accessed independently
 - Contributions taken from pay
- **Early Retirement Reduction Buy Out (ERRBO)**
 - Option is for members of the 2015 Scheme only
 - Facility to buy out the early reduction factors 1,2 or 3 yrs before NPA
 - Cost dependent on age and years reduction
- **Stakeholder/Personal Pension**
 - NHSPS members can use to top up main scheme benefits

Early Retirement

- Benefits can currently be taken from age 55
- Early retirement factors applied “**Actuarially Reduced Benefits**”
- ARB’s typically between 4% and 5%pa for each year benefits taken early
- Generally there is a need to plan ahead for a comfortable retirement if wish to retire early.

McCloud judgement

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McCloud - Background

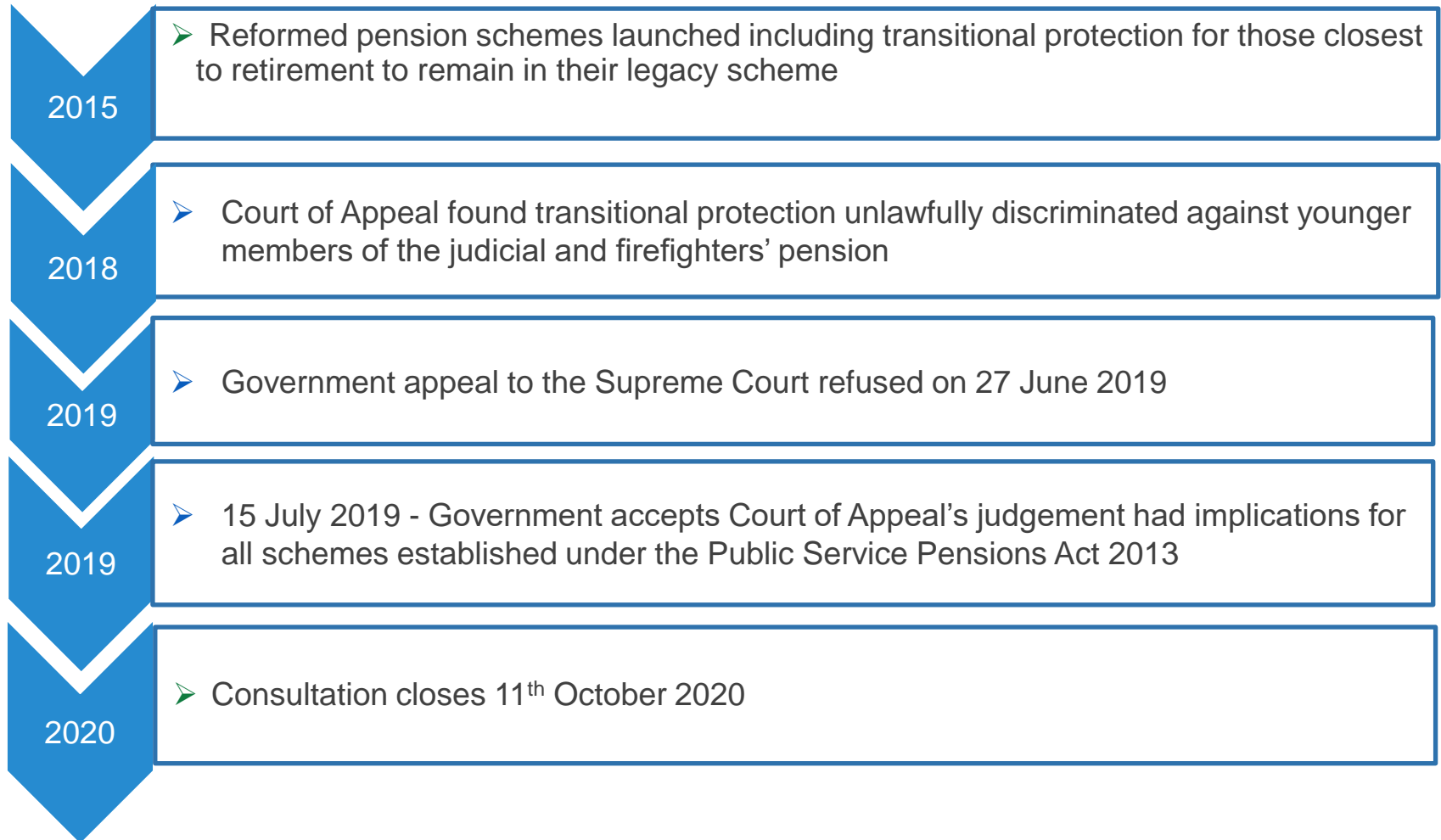


2011 - Hutton report proposes reforms to public sector pensions

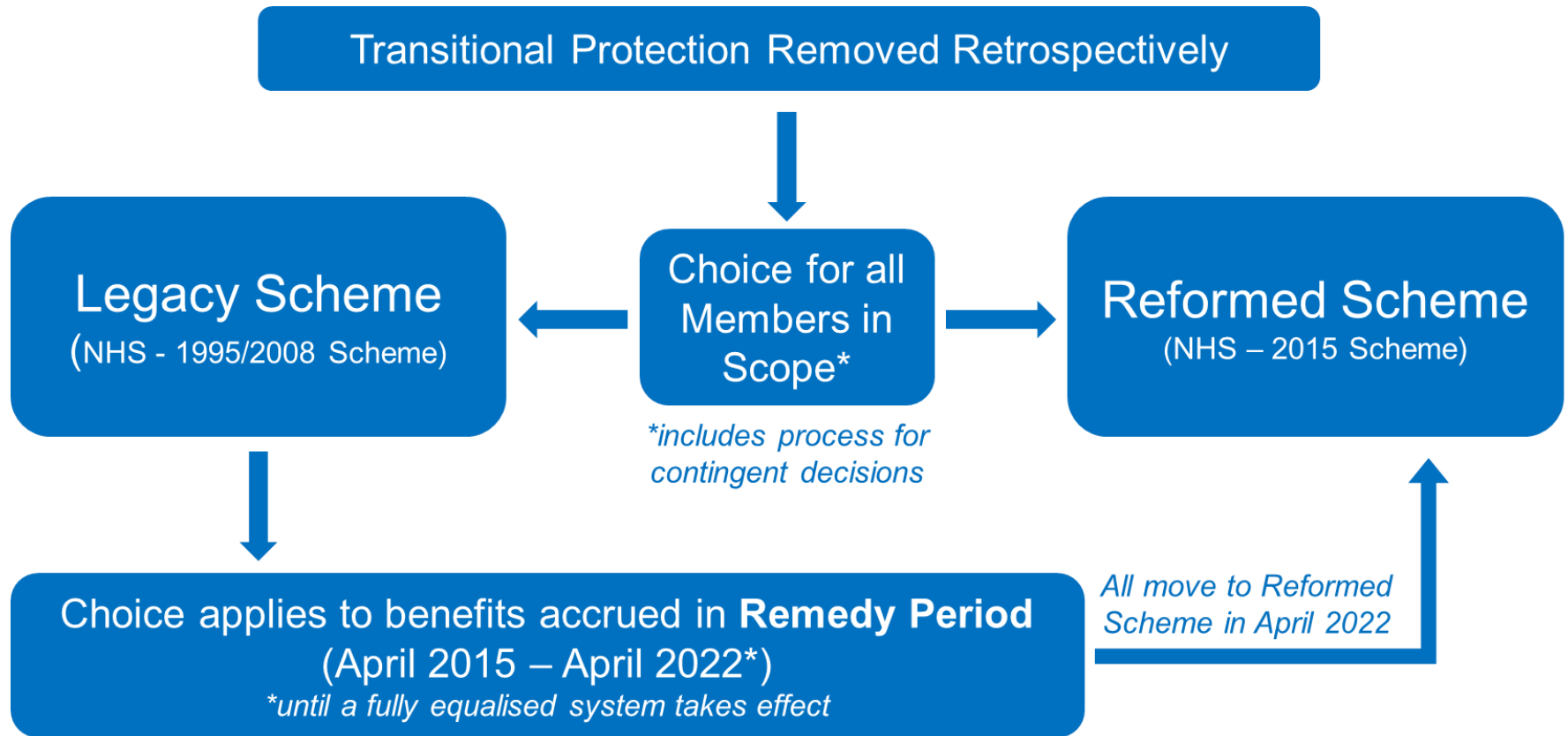
Replace existing final salary pension scheme with new career average schemes

Linking of Normal Pension Age to State Pension Age for most public sector schemes

McCloud - Background



McCloud - Removing Discrimination



McCloud judgement

- If in CARE scheme continue to accrue benefits in CARE
- Benefits will be calculated to see if better off in old or new scheme – “upward lift”
- Those in retirement before remedy implemented will not be forgotten
- Deceased spouses' benefits will also be reviewed
- Potential taxation consequences for AA – LTA (if retiring before legislation approval)

Pension Commencement Lump Sum

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Pension Commencement Lump Sum

Pension tax-free entitlement

- Up to 25% of “capital value” can be taken, by surrendering part of final salary pension income in exchange for tax-free amount - typically 12:1
- Tax-free 25% applicable to all pension schemes

Should you take maximum cash?

Things to consider

- ✓ Age
- ✓ Health
- ✓ Family longevity
- ✓ Dependants
- ✓ What are you going to do with it
- ✓ Investment options
- ✓ Access required
- ✓ Need for extra income
- ✓ Other pensions/employer/private/state
- ✓ Partner/spouse pension
- ✓ Taking financial advice!

Sources of income



AVCs: factors to consider

AVC Choices

- Do you take it as an income?
 - If so, what are the positives and negatives?
- Do you take it as a single lump sum?
 - If so, what are the positives and negatives?



INCOME



Vs

SINGLE LUMP SUM

Sources of income



Other
Pensions

Pensions Freedom and Choice

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Pensions Freedom & Choice – the headlines

Pensions Freedom and Choice

- From April 2015 increased flexibility and options to members of Defined Contribution (DC) schemes
- Complete flexibility once the holder gets to age 55
 - 25% tax free and remainder taxed as income
- On death of pension holder, unused funds can be passed down through generations or to designated beneficiaries
- From April 2015 members of "unfunded" public sector Defined Benefit schemes are unable to transfer out benefits



Pension Jargon

Enhanced Annuity

Secure Annuity

Death Benefits

**Uncrystallised Funds
Pension Lump Sum**

Pension Commencement
Lump Sum

Flexible Access
Drawdown

Lifetime Annuity

Triviality

Lifetime Allowance

Protected Benefits

Annual Allowance

Pension terminology can be confusing!

Pension Freedom & Choice

- This could affect you or your partner if **either** of you have a pension other than the NHS Pension, such as:
 - Private sector company pension
 - An AVC or FSAVC such as Prudential or Scottish Widows
 - An individual pension such as a Personal Pension or Stakeholder Pension

Pension Freedoms - what options are available

What options do pension holders have?

- Flexible Access Drawdown (FAD)
 - Take tax free lump sum and or income.
- Uncrystallised Fund Pension Lump Sum (UFPLS)
 - Take tax free payment as part of income
 - Take entire fund
- Annuity
 - Tax free lump sum and secure income
 - Many different benefits types can be selected e.g. indexed

Old pensions don't die !

- Old pensions still have a value and can be traced, these may be from:-
 - Former employers from private or public sector
 - An AVC or FSAVC
 - An individual pension such as a Personal Pension or Stakeholder Pension
- Don't forget your partner's past pension history

You may be able to benefit from Pension Freedoms now!

Why does this matter?

Mostly doesn't, if all you have is your NHS Pension and State benefit, but...

**Defined
Contribution**

**MP/Free
Standing AVCs**

**Personal/
Stakeholder
Pensions**

Pension Lifetime and Annual Allowance

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Lifetime Allowance

Lifetime Allowance

- Limit on the value of your pension benefits without triggering an extra tax charge
- Allowance £1,073,100 for tax year 2020/21
- Some protection is available if pension savings exceed allowance
- Tax charge currently up to 55%



Pension Annual Allowance

Annual Allowance

- Limits the amount of tax privileges on pension savings each year
- Annual Allowance £40,000
- Contributions over the Annual Allowance are liable to tax charge
- Defined Contributions/Money Purchase, this is simply the amount paid in contributions during the tax year.
- Defined Benefits (DB) or Cash Balance (CB) scheme, it is the increase in value of a member's rights during the tax year



Sources of income

Investment

The effects of inflation

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Inflation over the decades

The changing inflation basket down the years

1950s



1980s



2010s



The changing basket of goods used to determine RPI/CPI

In

Out

In

Out

In

Out

Mangle

Camera film

Crisps

Toilet paper

Dance hall

admissions

Frozen cod

fillet

Candles

Soap flakes

Swede

Gown

Beefburgers

Salmon

Cooking oil

Frozen chips

Wine

Hair dryer

Mutton

Herrings

Lard

Dried mash

Condensed milk

Roasting tin

Mobile phone apps

Fruit snack pots

Wild bird seed

Fashion necklace

Oven-ready joint

Fruit smoothies

Pork shoulder

Rose bush

Hardboard

DVD recorder

Wallpaper paste

Gin

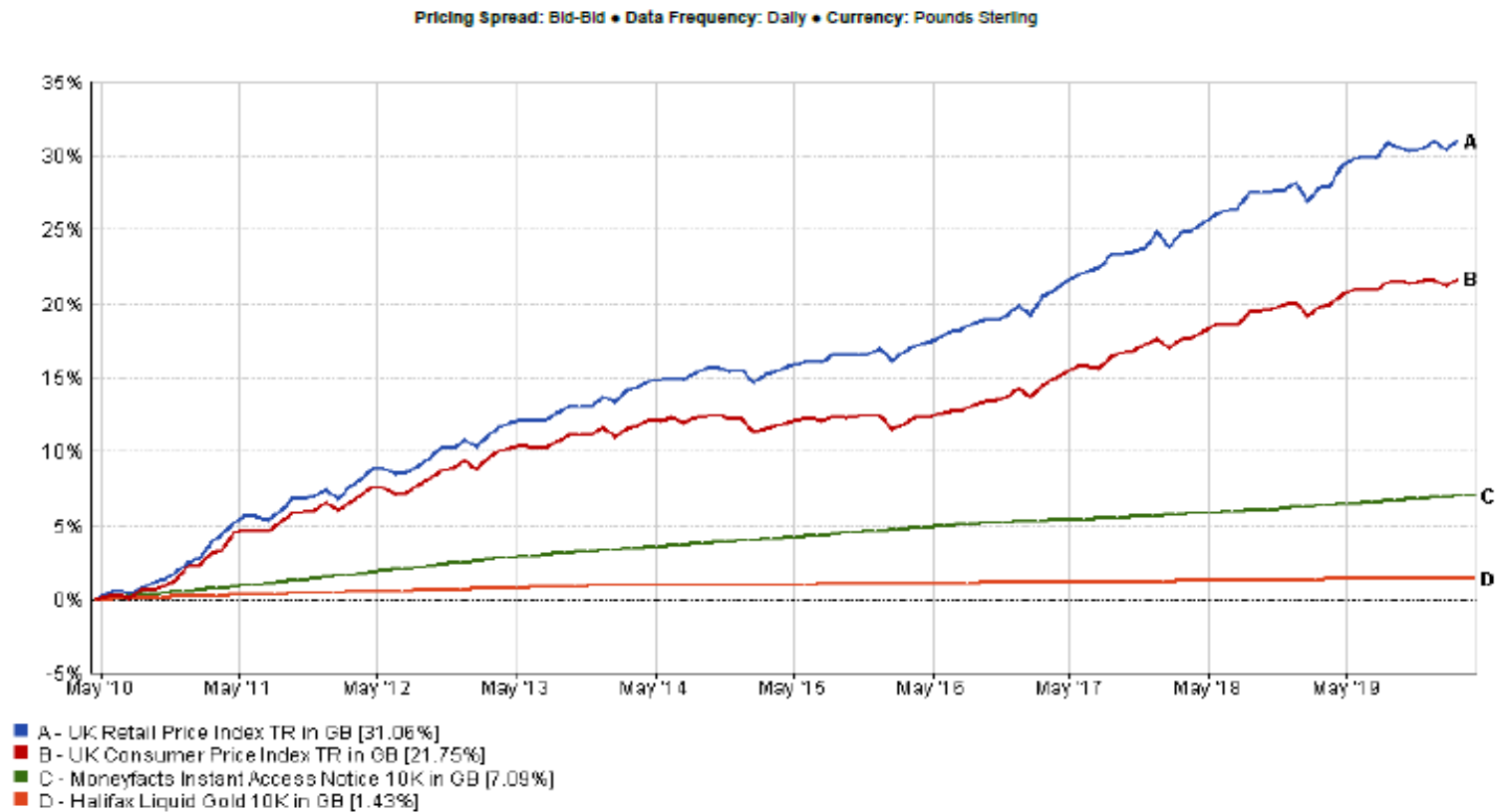
Sources: Office for National Statistics:- Consumer price Inflation: The 2017 Basket of Goods and Services

Effects of inflation

- The cost of living
 - RPI
 - CPI



Is cash really king?



15/04/2010 - 01/04/2020 Data from FE fundinfo2020

The above image is for information purposes only
Past performance is not an indicator of future performance

Planning for the longer term

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Long Life Equation

The long life equation



Source: Extracted from The Long Life Equation: 100 factors that can add or subtract years from your life by Dr Trisha Macnair, published by New Holland as at 25.12.2008.

National Statistics

A man in the UK at 65 can now expect to live a further 19yrs
12yrs at age 75,
6yrs at 85
3yrs at 95

A woman in the UK at 65 can now expect to live a further 21yrs,
13yrs at age 75,
7yrs at age 85
3yrs at 95

<https://www.gov.uk/government/news/life-expectancy-at-older-ages-is-the-highest-its-ever-been>

Adopting an investment strategy

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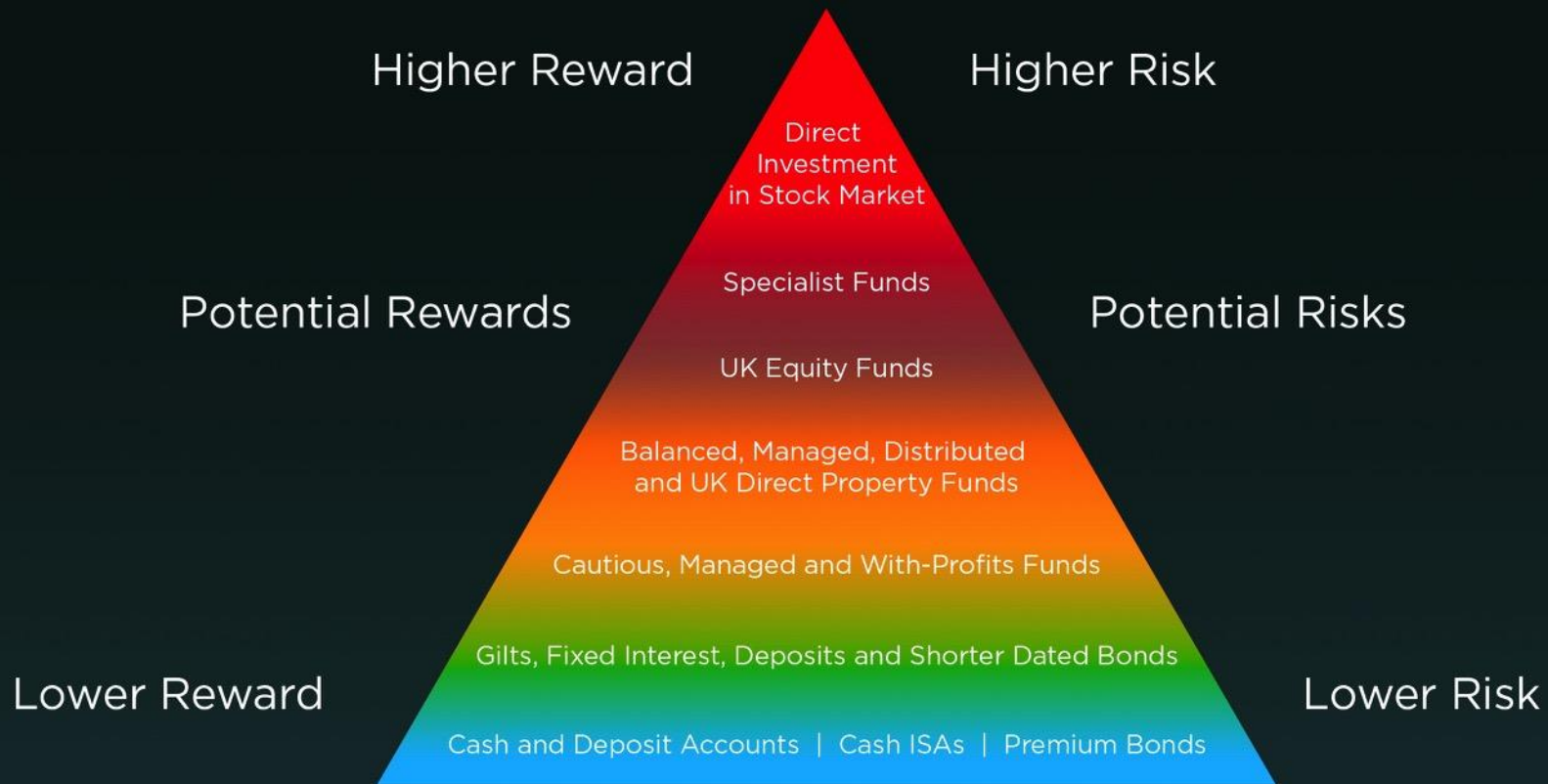
Investment strategy



Investment strategy



Risk / Return ratio



Investment strategy

Cash & Deposits

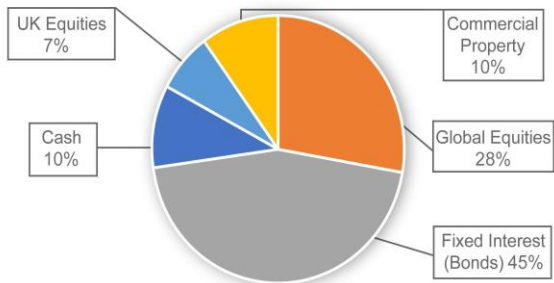
Fixed Interest

Property
(Direct Holdings)

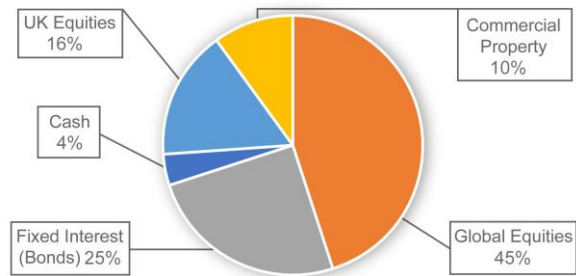
Stocks & Shares
(Equities)

Asset allocation in practice – three risk profiles

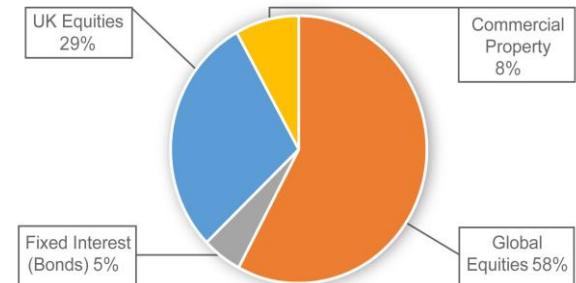
Balanced



Moderate



Dynamic



Source: Moody's Analytics

- **ISAs - cash or equity**

- Adult maximum subscription £20,000 tax year unchanged in 2020/21
- Any proportion cash or equity
- Junior ISA subscription £9,000 tax year 2020/21
- Help to Buy ISA – government boost to savings of 25% up to £3,000*
*Closed to new entrants wef 30th November 2019
- Lifetime ISA launched from 6th April 2017

- Free from Income and Capital Gains Tax in the hands of the investor

- Can pass between spouses on death of the ISA holder free of tax

Stocks and Shares ISAs invest in Corporate Bonds, Stocks and Shares and other assets that fluctuate in value.

Tax treatment is subject to change.

Collective Investments

- **Unit Trusts/OEICs and Investment Trusts**
Annual Capital Gains Tax allowance (£12,300 – 2020/21)
- **Dividend Allowance**
£2,000 tax year 2020/21
- **Offshore Investment Bonds**
Gross roll up
- **Investment Bond**
Tax deferment available

Case Study – Tax year 2020/21

Objective:

Generate a tax efficient income while providing potential for growth on invested capital over the medium to longer term.

(5 years or longer)

Case studies are for illustrative purposes only and do not constitute advice.

Case Study – continued

- Worker going part time/retiring/needs extra income
- Investment either from Pension Commencement Lump Sum/Savings : £70,000

How can they receive additional tax efficient income ?

Case Study – continued

Step 1

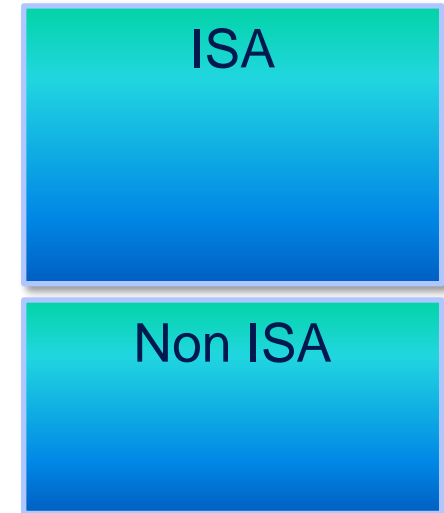
Amount available for investment



Partner 1



Partner 2



Case Study – continued

Step 2

Partner 1



(£40,000)

(£30,000)

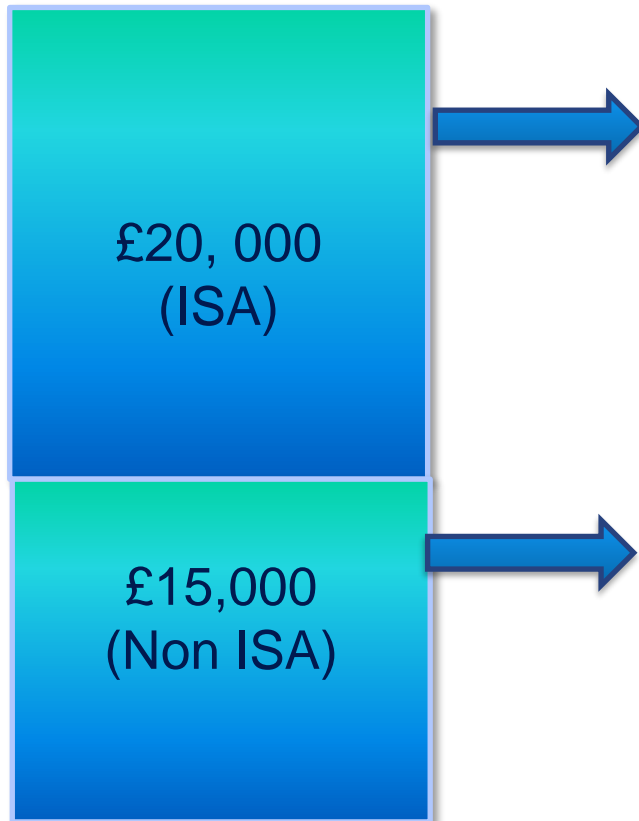
(£70,000)

Partner 2



Case Study – continued

Partner 1



Income 4%pa

= £800 pa (£66.67 pm)

= £600 pa
(Offset against dividend allowance)

Total Income	= £1,400
Repeat exercise for P2	= £1,400
Total Tax	= 0%
Total	= £2,800pa

What next ?

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Any questions?

**If you wish to arrange your free
initial 1:1 consultation, please
contact Hilary Thomson:
Hilary.Thomson@quilter.com
01273 523717**

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