

The specialist provider of holistic financial advice for medics and dentists

## Are you looking after yourself properly?

If you travelled abroad on holiday last year it is highly likely that you took out a travel insurance policy. In fact, recent research from financial services provider, Friends Provident shows that 80% of people who travel abroad do just that.

Travel insurance can help you to cover medical expenses should you be unfortunate enough to be involved in an accident or suffer from an illness when overseas.

Whilst it is important to take precautions to safe guard yourself when planning a trip or holiday, surely it is as equally as important to consider the impacts of having an accident or illness whilst at home?

- Have you considered the financial impact you may encounter if you were unable to work?
- Are you in the fortunate position to have some short term protection provided by your employer?
- Have you taken any previous personal protection to help safeguard this event?

The question list could be endless, but is designed to be thought provoking for your own position and if any answer is 'Yes', 'No' or 'Maybe', then it is now a good time to further consider this area.

The same research done by Friends Provident shows that only 29% of people hold an individual Income Protection Plan.

If you are unable work through an accident or illness suffered at home or abroad, an income protection policy can help provide you with regular monies to replace your lost income.

So why do 80% of people choose to protect against stubbing their toe on a pedalo as opposed to the 29% who choose to protect against maybe something more serious AND longer term?

As its name suggests, these arrangements are 'individual'. This means that you set up

protection based on your own circumstances and therefore can take into account short term employment benefit, existing 'rainy day' savings and existing personal arrangements already held.

MedDen will undertake all the research on your behalf in order to consider the huge number of potential providers that are out there.

As we specialise in the provision of advice to the Medical and Dental professions, we understand exactly which providers fit the requirements of our clients and the career they have.

An example of this would be to ensure that any arrangement is set up on an 'own occupation' basis as opposed to an 'any occupation' basis. This makes sure that monies are paid to you if you are unable to perform the specialist occupation that you undertake. The 'any occupation' definition is more generic and may mean that potential benefits are not paid if you can undertake 'other' or 'suited' work.

Would you want an arrangement that pays benefits if you cannot perform only your own occupation?

If this is the first time you have considered protection in this area or indeed, you feel that it's now the right time to make sure current arrangements are doing what you want them to do, then speak to us here at MedDen for a personal review and help on how you might be able to look after yourself.



*A hospital consultant progresses along the 'new contract' pay spine and attracts a clinical excellence award in the same tax year. They could face a tax bill of £5,511 for over-contributing to pensions even though they only contributed to the NHS Pension Scheme!*

## More Pension Complication on its way?

Back in 2006 the Government of the day (and the Treasury) introduced new pension legislation, commonly known as 'A-Day' it heralded in 'pensions simplification', how times have changed!

Subsequent legislation has continually eroded the notion of 'simplification' to the point that the pensions industry have taken to renaming 'pensions simplification' as '*pensions complication*'. Examples of these changes have made our previous newsletters – particularly the last Governments chosen method of reducing tax relief for higher earners, anti-forestalling.

The coalition Government have acted surprisingly quickly to overturn what they labelled 'unworkably complex' legislation and to provide something easier to decipher. They have gone some way towards this...

So, what are these easier rules? Well, to start with everybody is to be given a £50,000 annual allowance for pension contributions – this is significantly lower than the outgoing annual allowance of £255,000, but higher than the anti-forestalling allowance of £20,000!

This new annual allowance is to cover all pension contributions, NHS and personal, the personal contributions are easy to quantify: if you pay in £12,000 you have used £12,000 of your annual allowance. The NHS pension contributions though aren't simply based upon your contribution; they are based upon a notional contribution that is calculated by assessing the increase in your benefits.

For example: at the beginning of the tax year your NHS pension rights were £34,399, after 1 more year's membership and an increase in pensionable income your NHS pension rights are £36,684. This increase is counted as using £43,412 of the £50,000 annual allowance.

The increase in your annual pension benefit is multiplied by 16 and the corresponding increase in your tax free cash entitlement is added in full – an adjustment for inflation is allowed and may result in reducing, or increasing, the amount of annual allowance used.

From the example above you can see that £50,000 might not be that generous, the example used isn't an unusual case it is simply the addition of a clinical excellence award for a consultant.

### **Pension Tax Penalties?**

If an individual exceeds the £50,000 annual allowance they face a tax penalty of essentially the level of tax they would pay on the amount in excess of £50,000. So, a 40% taxpayer who makes £60,000 of pension contributions faces a tax bill of £4,000.

To mitigate these tax penalties HMRC are to re-introduce 'carry forward' relief, whereby any unused allowances from the previous 3 tax years can be used to reduce any over contribution – as always it's not quite that straight-forward and needs close attention.

### **More Pension Tax Penalties?**

With the introduction of pensions simplification came a new limit on pension funds, known as the Lifetime Allowance (LA). The LA started at £1.5million and increased over the first 5 tax years to £1.8m – the last budget confirmed that it was to be frozen at this level until 2016. However, the Coalition Government have decided to reduce the LA back to £1.5m from April 2012 onwards. Anyone whose pensions total more than the LA face a tax charge of 55% on the excess, ouch!

The Government haven't confirmed how they will protect those who already exceed this allowance (or indeed those who already took our protection against the previous LA) but when it is published you can be confident it'll be complex, MedDen will communicate details of these rules when they are known. In the meanwhile if you expect your NHS pension to exceed £65,000 per year (or have personal pension plans and are close to this level) then you need to review your planning sooner rather than later.

### **Pragmatic Pension Planning**

Now is the time to look at your pension contributions not just for the year in question but for the following 2, 3, 4 or even 5 years. By doing this you can ensure that you can maximise the tax relief available, steer clear of any tax penalties and build the pension benefits that you wish to have for your retirement.

These rules start to come into force April 2011 – speak to MedDen to ensure you don't get caught out by them!

A practitioners NHS pension increases by £2,000 over a tax year, at the same time they have contributed £20,000 into a personal pension. They could face a tax bill of £3,200 for over-contributing to pensions.

# NOTICE BOARD

## Dental Practice Sales and Valuations

With a successful first year under our belt, the Sales and Valuation Department are always looking for dental practices to sell to the wider dental community. If you are interested in this service please contact MedDen on 0113 2470088.

## Mortgage talk

With base rate still at a historic low, many clients are using the current market conditions to fix their payments. Common sense says there is only one way that rates can go from here and trying to judge when the right time to fix is a difficult, and more or less impossible, judgement call. This affects not just residential lending, but also buy to let and commercial mortgages. For more information contact your adviser who has access to all of the UK's mortgage deals.

## Let MedDen talk to your group

Over the years MedDen have delivered a number of talks and seminars throughout the country. Many more are already scheduled.

Various hospital departments, GP Surgeries, BDA, LDC and Post Graduate groups have benefited from our medical and dental focused knowledge of the ever changing financial services marketplace. Areas covered in the presentations have included the changes to the NHS Pension, Financial Protection, Budget Changes and Business Financial Planning. However, talks can be structured around the individual group.

Foundation (VT) Dentist Courses have also been run with very positive feedback. The content of the course covers;

- Taxation and how it affects the individual

- The NHS Superannuation scheme and its component parts
- The need for financial protection
- Pension and investment opportunities
- Mortgages and how best to fund the purchase of property
- Example associate accounts
- Tactics for repaying loans

MedDen offers nationwide coverage, and so if you are responsible for organising talks for your group and would like to book a presentation from MedDen you can register your interest using the enclosed pre-paid reply card or call the office on 0113 2470088

## University fees; start saving now

In a recent Sunday Times article, David Willetts, the minister of state for universities and science, had a direct message at last month's Conservative Conference: 'If you want your children to go to university, start saving as soon as they are born.'

Using 3% annual inflation in 18 years' time students could face costs of between £86,000 and £100,000 for a three-year course as the government ditches plans to tax graduates and allows universities to charge higher fees.

According to the National Union of Students, attending a university outside London now costs about £14,088 per year or £43,329 for a three-year course. This currently includes £3,225 per year for university fees.

Therefore, if the fees were £6,000 or £9,000 per year, the cost of attending university for three years would be £50,589 or £59,589 respectively.

Project forward 18 years with assumed inflation of 2% and the cost of attending a three-year course with the above annual fees would be £72,253 or £85,107 respectively.

## Why pay VAT?

With so much media coverage given to the debate on fees versus commissions in the financial services arena MedDen have positioned themselves to be at the forefront of the changes which will be implemented by the Financial Services Authority in 2012. We work on an agreed notional fee basis, whereby the cost of the advice will be made clear up front and we will help the clients understand which route will be best for them. In our opinion too many companies have taken the fee only route. Whilst fees clarify the costs incurred for the advice given fees are by no means the panacea, it is not always in the client's interest to pay for advice this way. Take an example of a £500 agreed fee for advice; if this relates to pension planning for a 40% taxpayer then you could pay this fee either directly or via the pensions contract;

	Fee 'direct'	Fee via 'contract'
Cost of advice	£500	£500
Net cost to client*	£500	£300
Plus VAT	£100	-
Total Cost	£600	£300

\*Assuming higher rate tax payer  
The fee basis in this example is by no means the optimal route, in fact the costs incurred for the advice are 100% higher and yet provide no additional benefits.

## Tax relief of up to 60% on pensions

In a previous newsletter we discussed the change for those people earning between £100,000 and £112,950. Once your earnings reach £100,000 you lose your personal allowance by £1 for every £2 earned. Once you reach £112,950 the personal allowance is lost completely, resulting in a tax charge on this element of 60%. But you don't have to suffer this penal rate if you plan carefully.

Pension and gift aid contributions can reduce this liability to zero. For help on this important area of financial planning contact MedDen.

It is important to remember that the value of investments, and the income from them, can go down as well as up and is not guaranteed and that you, the investor, may not get back the amount originally invested.

This publication is for guidance only and individual financial advice should also be sought before making any financial decision.

References to tax are based upon our understanding of tax law and HMRC practice as at December 2010 and are subject to change, tax relief is based upon individual circumstances.

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

For more information please contact: 0113 2470088 [www.meddenifa.com](http://www.meddenifa.com)

# Partnership Protection

Most practices in the UK today make sure they're covered against the effects of fire or burglary - but many don't consider the financial value of their people.

Financial protection is a crucial part of the financial planning process for your business. Unfortunately, it's one area that's often overlooked.

Think about it. What would happen to your practice if a partner, shareholder or a key employee, became critically ill or even worse, died? This could have the potential to cause significant financial problems for your business.

**For example:**

One of the partners in your practice becomes critically ill.

**Possible impacts:**

Your practice may have to run without one of the key people who contribute to its success

If a partner in your practice suffers a severe heart attack for example, it's unlikely that they would be able to return to work for quite some time - if at all. However, they may still expect to receive an income from your practice despite no longer being able to contribute to the running of it.

They may also wish to sell their partnership/shareholding interest if they decide not to return to work. How would the other partners or shareholders make sure they can buy them out?

That's why you need to take the steps to protect your practice now.



## Suspension and its financial repercussions

No matter how long you have been in practice or how rigorous your clinical procedures are, the threat of an allegation or complaint against you is ever present. The nightmare of professional suspension and the implications for you, your practice, and your patients are serious. It's an episode that causes disruption, costs money, and could materialise from nowhere.

In 2006 the General Dental Council received 3,196 queries or reports about practicing dental professionals in the UK on issues ranging from poor practice management through to drug abuse. 414 cases were forwarded to Fitness to Practice procedures, of which 107 dentists were referred to the Professional Conduct Committee for a public enquiry.

In 2006 the General Medical Council conducted 303 Fitness to Practice Hearings up from 262 in 2006, a rise of over 15%. The number of doctors who were subject of an enquiry to the GMC has risen by over 29% in the last five years.

When a suspension is imposed patients are left facing either delays, or being without treatment. For the practice there will be unwelcome financial expense, whether through loss of income or increased overheads arising from employing a locum during the suspension period. Alternatively the remaining partners may have to take on the additional workload due to lack of locum availability or funding.

So what can you do to protect your income against such threats? Suspension insurance cover is a practical solution and is included as a standard feature on only a few locum/practice expense policies. It pays for the additional costs incurred by you or the practice to maintain patient treatment while a disciplinary investigation is pending.

The cover works in a similar way to normal personal accident and sickness claim. An excess period applies (initially selected when starting cover and reviewable throughout the life of the policy). Cover is provided during the remaining suspension period until either a suspension decision is finalised and you return to work or face permanent disciplinary measures, or until the policy benefit period expires.

It's worth checking today whether your current policy includes suspension cover as standard. If it doesn't you're running a daily risk to your own income and the future of your practice. Call MedDen for more information about Suspension Cover and a review of your Practice Benefits or Locum insurance on 0113 2470088.



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