First Time Buyer Offset Mortgage

Every now and then we spot a new product in the market that is very appealing for our client base.

We have recently formed a partnership with one of the major banks to offer a semi-exclusive mortgage which is specifically targeting young professionals. They will lend up to 90% of the property's purchase price and applicants must be First Time Buyers (or not had a mortgage in the last12 months). The mortgages are competitively priced and offer both a fixed rate and a discounted rate with full offsetting facilities. Offsetting allows any credit balances you may have in savings or current accounts to be offset against the interest charged against your mortgage.

Perhaps most refreshing of all is the Bank's willingness to be flexible in its decision making. It is often a very frustrating task to obtain a mortgage, when you are in the first few years of self-employment. The underwriters in the bank understand the career progression of medics and dentists and will take a positive view of self-employed income.

Offset mortgages can be useful when you are saving monies for tax. The mortgage lets you link your current and savings accounts to your mortgage – so you can save on interest payments; effectively using the tax man to pay your mortgage off early!

RDR and what it means to our clients

Since 2006, the Financial Services Authority (FSA) has been reviewing the way retail investment products (investments and pensions) are distributed through the Retail Distribution Review (RDR) and the changes will be implemented in our industry from 1 January 2013. It aims to give consumers more clarity on financial products and to better address their needs and wants. It wants to rebuild an industry that consumers will trust and feel confident engaging with.

As part of this, it intends to raise the professional standards of advisers and to do away with provider bias by ending commission payments. They'll do this under a new clearer defined market structure based on the type of advice offered.

In the FSA's own words, it wants:

- an industry that engages with consumers in a way that delivers more clarity for them on products and services
- a market which allows more consumers to have their needs and wants addressed
- remuneration arrangements that allow competitive forces to work in favour of consumers
- standards of professionalism that inspire consumer confidence and build trust
- an industry where firms are sufficiently viable to deliver on their longer-term commitments and where they treat their customers fairly
- a regulatory framework that can support delivery of all of these aspirations and which does not inhibit future innovation where this benefits consumers

What are MedDen doing?

The majority of our advisers are already at the level of qualification that is required. Many have been at this level long before it was a requirement of the FSA. We have always been transparent in the way that we charge for advice and in a way that means that it is very much 'business as usual' for our company. There are a few changes that we will have to make to our paperwork, but we are committed to remaining independent; something that we have been championing since our formation nearly 5 years ago.

We will be in touch with you over the coming months as the changes are implemented, but be assured that MedDen will continue to strive for excellence in all of our client dealings both now and in the future.

financial focus issue 7

med den

The specialist provider of holistic financial advice for medics and dentists

21st December 2012; a date for your diaries

The 21st December is a notable date for two reasons; it's the day the world will end as foretold by Mayans and also it's the end of the gender pricing discrepancy in Europe. Whilst one of these is purely fictional (hopefully) the other is pure fact! However, neither of them are particularly good for you.

Let's set aside the Mayan prophecy and focus on G-Day; and see who is likely to win and who is likely to lose when the current justifiable gender related premiums get neutralised in December...

Currently, based on average figures from the market, women pay less for life insurance and more for income protection. From 21 December 2012 gender will no longer be used to calculate the cost of protection policies due to the EU Gender Directive, despite the UK insurance industry being able to fully justify the cost differences between the sexes. This new legislation means that generally the cost of life insurance for women will increase by up to 15%, according to one estimate from HM Treasury*. The same document showed that the cost of income protection insurance for men could cost up to 25% more.

Life and income protection are not the only gender based products that are being affected. You will have probably heard that car insurance will be affected as well as annuity payments from pensions.

Act now, before it's too late

In all our collective years of advising clients on their financial plans for the future, we can't recall such a well sign-posted price increase. Nor can we remember there being just enough time to get your affairs in order to beat the price rise.

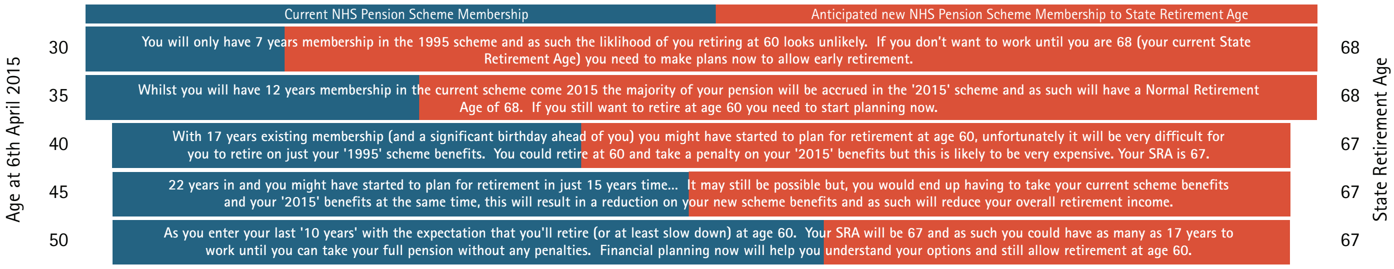
Whilst we can all put getting our protection insurances off for another day, week, month, the simple fact is, the sooner it's done and in place, the sooner you'll have the peace of mind of knowing your plans are secure for the future.

With the significant increases that will be suffered on new contracts in the New Year and also to ensure that you have the right protection policies in place at the right price, call your adviser to arrange a review today. After all, Christmas will be here before we know it!

** 'UK response to the 1 March European Court of Justice ruling that insurance benefits and premiums after 21 December 2012 should be gender-neutral' HM Treasury December 2011*

Do you plan to work to 66, 67, or even 68? Your employer does!

Not many MedDen clients do and as such didn't choose to move pension rights across to the new '2008 section' scheme following the pension options exercise last year. However, the changes planned to all public sector pension schemes will link the revised schemes (to be implemented during this parliament – to 2015) to normal state retirement age. Let's look at the impact this could have based upon your current age:-



The above assumes that you joined the NHS Pension Scheme aged 23 and have no breaks in service, maximum-part-time working or added years.

We will know more about the shape of the new scheme in due course, but with provisional union approval to the proposals you would be well advised to start examining your options now.

What happens if you missed out on Fixed Pension Protection?

With effect from 6 April 2012 the Lifetime Allowance (LTA) reduced to £1.5 million from £1.8 million. Up until 5th April 2012 it had been possible to protect the higher LTA by applying to HMRC. Fixed protection was not appropriate for everyone. In fact it can easily be lost.

The LTA is the total amount of pension savings that can be accumulated within registered pension schemes. Once benefits are taken that exceed the LTA then a tax charge is applied. The tax charge is 55% if the excess if taken as an immediate lump sum. If the excess is used to provide pension income then the immediate tax charge is reduced to 25%, although the pension income will then be subject to tax for the rest of your life.

The Government has indicated that it will review the LTA again in 2016, however there is no guarantee that it will increase in the future.

Managing the Lifetime Allowance

You should regularly monitor the level of your NHS pension savings and be aware of the impact of future changes in your NHS pensionable earnings.

Where it is highly likely that your projected pension's savings will exceed the Lifetime Allowance available at your normal retirement age, then certain decisions can be made to minimise the resulting tax charge. These include the following strategies:-

Opting out of the NHS Pension Scheme.

This will result in you being treated as a deferred member of the scheme, much in the same way as if you had left pensionable service with your employer. - Care is needed as death in service and ill health pension benefits are affected.– Specialist advice should be sought.

Maximising your Pension Commencement Lump Sum (PCLS) on retirement

The NHS Pension scheme allows commutation of pension to provide a larger PCLS subject to certain limits. £12,000 cash for every £1,000 of annual income sacrificed. Selecting a higher PCLS usually means that less of the available Lifetime Allowance is used up at the time of taking your pension benefits. - Advice needed as it not always appropriate to do this.

Allocation of Personal Pension Growth to a spouse or child

Legislation allows the creation of a trust based pension scheme whereby you can allocate the future growth on your **personal** pension (unfortunately **not** on your NHS pension) to a spouse, child or anyone else you may choose. If you think you may get near the LTA then allocating growth to spouse will allow you to keep more of your pension protected from the LTA tax charge. - Seek advice if you have Personal Pensions.

Taking pension benefits early and leaving NHS service - Early retirement

It is normally possible to take your NHS Pension early from age 55 onwards. Your pension benefits are reduced by an actuarial factor for each month that benefits are taken early. This is due to the fact that your pension is paid early and therefore will be received for a greater number of years. Taking benefits early will reduce the amount of the Lifetime Allowance used when compared with unreduced benefits at normal retirement age.

Taking pension benefits early and remaining in NHS service

It is also possible to take your NHS pension benefits but then return to employment with the NHS. A period of at least 24 hours must have elapsed before you are allowed to return to work and you will not be allowed to work more than 16 hours in any one week for the first month.

It is absolutely essential to bear in mind that permission must be obtained, **in writing**, from your employer or partners confirming that they are happy to agree with this arrangement **prior** to making a decision. Many Secondary Care Trusts are now only offering short term contracts and any excellence awards are normally lost.

NOTICE BOARD

£12,000 pension pot for only £2,400 – LOOK how generous the tax man can be!

No, it's not a misprint; HMRC will grant you such a significant allowance. It's down to a legal tax loophole created when HMRC introduced an effective tax rate of 60% if you have net taxable income in excess of £100,000. If you are in this situation you loose £1 of 'tax free' personal allowance for every £2 of income over £100,000 – this continues until all of your personal allowances are lost, for the current tax year this is 'hit' at £116,210 or above.

So how do you get this break? Using an example of a net taxable income of £116,000 and you were to make a pension contribution of £16,000 you would get essentially a £16,000 fund for a net cost of £6,400. As long as you are 55 (or as soon as you reach 55) then you can take back £4,000 of tax free cash immediately (without having to retire from the NHS). This results in a residual pension fund of £12,000 at a net cost of £2,400.

Thank you Mr Tax Man!

ISAs

Don't forget that it doesn't need to be tax year end before you invest into your ISA for the 2012/13 year. Avoid the April rush and invest up to £11,680 into this tax efficient savings vehicle today.

We can talk to your group

Over the years MedDen have delivered many talks and seminars throughout the country.

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 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
- 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 by calling the office on 0113 2470088. And if you don't organise a group at the moment, feel free to pass this on to others who may be looking for an informative and interesting talk from a group of specialist IFAs.

For more information please contact: 0113 2470088 www.meddenifa.com

Specialist Pensions Advice

Whether you are subject to the Standard Lifetime Allowance or have a higher personal allowance due to eligibility for; primary, enhanced or fixed protection it is important to plan ahead in order to manage the potential impact on your pension savings from the Lifetime Allowance Tax Charge.

Please contact us if you would like a specialist adviser to provide a personal consultation or departmental presentation.