Planning for the future...

Chris Strevens advises a well-planned exit strategy

If you are considering a sale in the next three to five years you really do need to start planning now. A well-prepared and informed principal can only realise maximum benefit if an effective exit strategy is in place.

The physical sale of a practice should be seen as the tip of the iceberg as underneath this asset there has to be layers of financial and legal strategies in place to ensure the maximum benefit is realised.

Frank Taylor & Associates valuer and sells hundreds of practices across England and Wales every year and recognise how individual the practices and the principals are. However, there is much common ground and one area where we regularly hear concern is around pension provision.

We work closely with specialist dental trusted advisers and are aware of new regulation which could have a massive impact on dentists with a reasonable NHS pension. So, when did you last analyse the benefits you have built up over your years of service? You may be surprised at just how large your fund has grown.

In April 2012, the Standard Lifetime Allowance (LTA) was reduced from £1.8million to £1.5million (and a further reduction to £1.25 million will take effect from April 2013). This means any pension assets held on retirement exceeding £1.5million will be taxed at 55 per cent. This has sparked a necessity for high-earners nearing retirement to perform a Headroom check to make sure their level of Pension contributions does not take them over £1.5million and incur a large tax bill on retirement.

White-coat professionals are ideal candidates where a Headroom check is a necessity. On average Dentists have a high level of earnings and usually make contributions to Personal Pensions to enhance their pensions for retirement. Where the LTA can catch these individuals out is because they also receive an NHS pension which could easily take them above £1.5million.

It's not easy to go through the process of all the calculations yourself and dealing with the NHS can take up valuable time. It helps to use a specialist who also understands dentistry and can provide a detailed forecast of where your current path will take you. An experienced specialist advisor can also suggest ways of planning your finances to avoid unnecessary tax and maximise your pension.

For instance - taking your NHS pension enhanced cash lump-sum can bring you within the LTA, or contributing instead to ISAs (tax-free environment) will avoid unnecessarily increasing your personal schemes. There are a number of other clever ways to manage your pension funds and avoid exceeding your LTA.

Even if you're not nearing retirement, the earlier you perform a headroom check the better planned you will be with setting up the best and most tax-efficient pension schemes for your retirement years.

To demonstrate the effect of staying over the LTA threshold we have put together two examples to show how Pension finances have been managed.

Listed are just some exam-
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ples (for illustration purposes only) of the potential savings that can be made by Dentists who are starting to consider their retirement.

Pension and Retirement Planning should only be carried out following a thorough review of your personal circumstances by a qualified Financial Advisor, authorised and regulated by the Financial Services Authority.

We are able to recommend a trusted dental specialist IFA to assist in this and are happy to refer you to them to make an appointment.

Example 1
Peter has been a dentist for 28 years and works entirely for the NHS. He joined the NHS pension scheme at outset and in addition has been buying added years for the last five years. In addition to his NHS pension Peter has a Personal Pension (PP) with Prudential which he currently makes regular contributions of £500 gross per month.

With the recent reduction to the Life Time Allowance (LTA) from £1.8 million to £1.5 million Peter wanted a “Head Room Check” to be carried out on his pensions as he was concerned that if he exceeds the LTA that he would be eligible to a 55 per cent tax charge on his pension fund over and above this figure.

By using projected figures provided by both the NHS and the Prudential to Peter’s selected retirement age (SRA) of 60, Peter’s combined fund value at 60 could be £1,587,000. As it is unknown what the LTA will be in five years’ time when Peter is 60 it has been assumed that the LTA will remain at its current level and therefore could give Peter a potential tax liability of £47,850.

Further projections from both providers to age 60, this time with no further contributions to the PP and with no additional added years being purchased with the NHS, show Peter’s new combined fund value is £1,488,500. This would bring Peter under the current LTA threshold. Taking this into consideration, Peter can stop contributing to his PP, stop purchasing added years and continue only with his NHS pension. He can then start to contribute his premium into an ISA thereby allowing his money to grow in a tax free environment.

Example 2
Darmesh is a Dentist who has just celebrated his 60th birthday. He has decided to retire and has a Personal Pension (PP) and is a member of the 1995 Scheme. His NHS pension has a capitalised value which is the equivalent to a PP external transfer value of £1,145,576. This is based on Darmesh taking the lump sum of £140,138 and an annual pension of £46,712. This figure combined with the PP external transfer value gives an overall total value of £1,575,887 which exceeds the Life Time Allowance of £1.5 million by £73,487. This would be taxable at 55 per cent leaving £40,417 tax payable.

The above capitalised value is based on Darmesh taking the Lump Sum but he could take the Additional Lump Sum (ALS) and a reduced pension which reduces his capitalised value. The ALS cannot exceed 25 per cent of the capitalised value, his maximum ALS would be £39,947 with a reduced Annual Pension of £59,947, and a new capitalised value of £1,065,258 in addition to his Personal Pension, giving a new total fund value of £1,495,369, reducing his tax liability to Nil saving Darmesh £40,417.50.

Darmesh would receive the Additional Lump Sum Tax Free but would sacrifice £9,765 p/a pension which would be taxed at source at 40 per cent as he will be a higher rate tax payer in retirement, after tax he will lose £5,859 p/a.

The Spousal Pension would remain the same regardless of the amount of Lump Sum Darmesh takes.

The lifetime allowance will be further reduced to 1.25 million, we strongly recommend you check your headroom. 

About the author

Chris Strevens is a director and co-founder of Frank Taylor & Associates, the leading independent dental broker in the UK.

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