

MEDICAL & DENTAL

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Financial Planning

Taking Control of Who gets What



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Taking Control of Who gets What

There are lots of ways to talk about “estate planning”, often all sounding very complicated. However, ultimately, it’s the collective term for ensuring that your money and your possessions are left to the people you love when you are no longer around.

It consists of planning to protect you and your assets, now and in the future. Whilst it is not a fun topic to consider, the thought of you no longer being around, it can provide peace of mind knowing that your loved ones are looked after if the worst happens to you.

Have you ever wondered what would happen to your wealth if you were no longer around?

Have you found yourself losing sleep about the thought of not leaving your family in the best position if you were no longer around?

What can you do?

Simple steps to protect your assets

Before you start, it can be useful to work out how much you have and its associated value.

The importance of making a Will

Having a Will helps to ensure that your possessions are given to the people you intend and also makes life easier for your family and friend at a difficult time. A will is an essential part of your plans.

Granting a Power of Attorney

Being able to have decisions made when you are no longer capable can ensure a smoother process and appoints someone you trust to manage this on your behalf. Appoint someone you trust, so that your finances can continue to be managed and tick over if you’re unable to manage them.

More control over your pension benefits

Your will does not normally control who benefits from your pension benefits. Having a nomination in place for your pension is an important step to ensure your loved ones inherit your pension.

You can do this by completing a Beneficiary Nomination form. For any personal pensions, you can indicate your preference in terms of the split of your pension. For the NHS pension, there are specific benefits depending on your service and the scheme in which you have built benefits.

Using a trust for control

Using a trust can help to protect your assets both now and, in the future, helping to ensure that they end up in the hands of those you intend.

Protect yourself against disaster

Defending your future and the future of your family and myself through protection can help you should the worst happen. We all feel invincible when we're young but as we get older we start to consider the "what if" especially as significant life events, such as marriage, children or losing loved ones. Getting the right protection can support you and your family should you become unable to work and afford your current lifestyle - you need to insure your financial future.

Being informed

Being prepared and informed helps you to make the best decisions for you, your circumstances and your loved ones. You might feel comfortable taking on some or all of these decisions yourself, however, working with a professional could help you avoid unforeseen situations and free you up to spend more time doing what you enjoy.

Protect yourself against disaster

Not only do you need to think about protecting your financial future, you also need to build up funds for any short term, unexpected events.

Every healthcare professional needs an emergency fund

Just as a moat surrounds and protects a castle from attack, your finances need protection from unexpected expenses. The amount comes down to personal preference, however, having the cost of essential outgoings for 3 months' worth, saved up in cash to use in event of trouble can be a prudent step.

Inflation proofing your emergency fund

With inflation rearing its ugly head over recent memory, it's hard to store wealth as cash without its value effectively going down due to inflation. Wherever you store it, the emergency cash just needs to be instantly accessible and you need to carefully calculate the best option for you.

If the moat is your emergency cash fund, then insuring against illness or disability is the foundations of the castle itself. A moat will protect you for a short period but an often overlooked, absolutely fundamental, part of protecting your finances is to insure yourself against illness or disability.

You have worked hard to become a healthcare professional and that is an asset that you need to protect.

If you've got protection already, well done, but it's worth reviewing to ensure it remains suitable for your needs. As your career (and personal circumstances) evolve your protection needs will evolve with you.

If you've left the NHS pension scheme or complete locum or private work, you have likely given up valuable protection benefits. It's important to know what you're giving up before you come out of the scheme.

Who benefits from your pension?

NHS Pension

The NHS pension is a valuable benefit for healthcare professionals. It could be one of the best investments that you make. For each month that you work for the NHS you pay into the scheme and build up pension benefits will build. Everyone is an individual and your circumstances will be personal to you, however, for many the pension benefits that are built through NHS service can provide you with a valuable income later in life. It's a valuable benefit and not one to be given up lightly!

Check what you've worked hard for and built

Each year, as an active member of the scheme you should receive a statement of the benefits you have built. This is an Annual Benefit Statement (ABS), provided by The Scottish Public Pensions Agency (SPPA) for members of the NHS (Scotland) Superannuation Scheme. Mistakes in pension records are unfortunately very common and unless you spot them, they could prove costly. Keep your ABS statement safe, it could be the only record you have of one of the best investments you can make.

The pension accumulated from your service with the NHS also offers a number of valuable benefits to your surviving family members when you die.

Death in service benefits for actively employed members

If you die while still working for the NHS and paying into the NHS Superannuation Scheme, your surviving dependents can claim valuable benefits. Their exact entitlement will depend on which section (or sections) holds your benefits. Therefore, if you have opted out of the scheme, are you aware of the protection you (and subsequently your family) could be missing out on?

Death after retirement

If you die after you've retired from the NHS and started taking benefits from your NHS Superannuation Scheme, your surviving dependents still qualify for valuable benefits. Their exact entitlement will depend on which section (or sections) holds your benefits.

If you die within five years of retirement, a tax-free balancing lump sum, known as a 'deficiency payment', will normally be payable to a surviving spouse, civil partner or nominated partner or to someone else you've nominated using the Death Grant Nomination Form.

Death benefits for deferred members

If you've left your section of the NHS pension scheme with a minimum of two years' qualifying service your survivors will be entitled to benefits when you die. These benefits will depend on when you die relative to when you left your NHS employment.

Although the NHS Superannuation Scheme regulations automatically provide death benefits for married couples and civil partners, the rules for non-legal partners are a little more complex.

There are a number of regulations governing the eligibility of children to receive benefits from the NHS Superannuation Scheme following the death of a member.

Please note there are slight differences between the NHS (Scotland) Superannuation Scheme and NHS (England) Superannuation Scheme. Get in touch to find out more.

Personal Pension

As part of your planning for life after work, you may also have a Personal Pension. Your Will doesn't normally provide for who should inherit your Personal Pension. Your pension provider usually makes the final decision, with reference to a beneficiary nomination form, which you should complete to indicate your preference. It is vital to ensure that this is up to date and in line with your current views and preferences. This can help your chosen beneficiaries to decide to:

- Take a lump sum
- Use it to buy an income for life (such as an annuity)
- Keep the inherited pension invested, tax efficiently and accessible at any age, drawing from it if and when required. They could also nominate the next generation on their subsequent death.

If you pass away before the age of 75, these benefits will be free from tax, no matter the option they choose.

Inheritance tax

The importance of planning for inheritance tax

Having worked hard all of your life, the ability to pass on your wealth to your loved ones will no doubt be important to you.

Without careful planning and advice, your loved ones could be faced with a sizeable tax bill, which is required to be paid before they can inherit your wealth. This could cause your loved ones additional stress at what is already a difficult time. With careful planning ahead of time can make a big difference, whilst also giving you peace of mind that your loved ones will be looked after when you are no longer around.

Inheritance tax receipts for the Government

Previously perceived as a tax only on the wealthy, more and more individuals are paying inheritance tax. If you own your home and have some savings in place to help you with life after work, you could be caught and have exposure to an inheritance tax liability.

How does it work?

Inheritance Tax is usually payable when you pass away, if it's over a certain value (though it can be payable whilst you are still alive). The current threshold for inheritance tax is £325,000, frozen since 2009. Above this, a 40% tax charge is applied to any balance above this threshold. This threshold is called the "nil-rate band" (NRB). The residence nil-rate band (rNRB) was introduced in April 2017 and can be claimed where you own a property and pass this onto your direct descendants (such as children & grandchildren).

Combined, these thresholds give an individual potentially £500,000 of allowance before Inheritance Tax is applicable. And if you're a surviving spouse or civil partner you could have an estate worth up to £1,000,000 before an inheritance tax liability is due.

Your estate is the total value of all of your possessions and property minus any debt. If this exceeds the thresholds applicable above, inheritance tax can become payable.

Do you know how much you are worth?

This might not be a question to which you immediately know the answer, and that's ok. You've worked hard, done the right things and have built your wealth. However, taking the time to better understanding your circumstances can help you plan for the future and ensure your loved ones received more of your wealth. If the total value of your assets is over the thresholds, a 40% tax charge on the balance above the threshold could be applied to your cherished possessions.

Things to consider:

Assets you might Own	Example	Personal	Partner	Joint
Your Home	£700,000			
Other Property				
Your household contents	£80,000			
Cars/Boats/Caravans	£35,000			
Cash (including Bank Accounts & Premium Bonds)	£85,000			
Investments (including Stocks & Shares, Bonds and ISAs)	£400,000			
Life Assurance (which is paid to your estate, not to a Trust)				
Anything you've Inherited				
Any gifts you've made in the last 7 years				
Total	£1,300,000			

And any debts:

Debts your estate might have to pay	Example	Personal	Partner	Joint
Your share of any outstanding Mortgage(s)				
Funeral Expenses	£12,000			
Other Loans outstanding				
Other debts (overdraft, credit cards, utilities etc.)	£1,000			
Total	£13,000			

How the tax bill is calculated

- Total Assets - Total Debts = Value of your Estate
- Value of Your Estate - Your Nil Rate Band entitlement = Value that could attract an inheritance tax charge.

n.b. Anything you pass to your spouse or civil partner is exempt, however, you'll need to consider what happens when they pass away.

Any balance above your available thresholds will be potentially subject to tax at 40%.

For a married couple, or civil partners, on second death:

Total Assets	-	Total Debts	=	Value of Estate
£1,300,000		£13,000		£1,287,000
Value of Estate	-	Available Thresholds	=	Value of Estate which could attract Inheritance Tax
£1,287,000		£1,000,000		£287,000
40% of this is the Inheritance Tax bill			=	£114,800

- This example assumes that the surviving spouse/civil partner inherited the nil rate band and residence nil rate band in full and that the family qualified for the full residence nil rate band.

Is the value of your estate below the inheritance tax thresholds?

If the total value of your estate, minus any debts, is below the threshold(s) for Inheritance Tax then your estate will not have an Inheritance Tax bill to pay.

Even if this is the case, a Will is an absolute essential and a Trust or Trusts could be beneficial and useful in your planning.

Making gifts during your lifetime

Exempt gifts

There are a number of gifts which can be made during your lifetime, which will not attract Inheritance Tax and could lower the bill in the event of your passing.

Taking steps to reduce your exposure to inheritance tax doesn't have to be complex. There are some simple and effective steps you can take. And you can start now.

Keeping a record

By keeping a note of the gifts you make, it will make it easier for your family to claim any exemptions in the event of you not surviving seven years after the gift is made. Keeping a record of who you made the gift(s) to, their value and the date they were made, should speed up any of the checks that may have to be made with HM Revenue and Customs.

Gifts

- 1) Regular gifts of surplus income can be immediately free of IHT. There needs to be a pattern to the regular gifts and you must have enough income left over for your own usual standard of living.
- 2) Each individual has an annual allowance of £3,000 (which can be carried forward by one year if not used)
- 3) Small Gift exemption - You can give small gifts to as many people as you like in one tax year up to £250, though you can't use it towards the value of a gift for more than £250. Nor can you combine it with the £3000 annual exemption.
- 4) Gifts to charities, political parties, national benefit, museums, universities, libraries and National Trust are all exempt.
- 5) Gifts on Marriage - You can make a gift to a family member or friend who is getting married/entering into a civil partnership. How much is exempt depends on your relationship to the recipient.
 - a. £5,000 from each parent
 - b. £2,500 from each grandparent
 - c. £2,500 by the bride and groom to each other
 - d. £1,000 to anyone else

- 6) Gifts made over and above this will form part of your estate for a period of 7 years from the date the gift was made.

Gifts which could attract a charge

Potentially Exempt Transfers (PETs)

A gift of this nature comes with a seven-year clock - meaning that this type of gift will only be exempt once you have survived seven years since making the gift. If you were to pass away within 7 years, the value of the gift would be added into the value of your estate. This will impact your exposure to Inheritance Tax.

Chargeable Lifetime Transfers (CLTs)

A gift of this nature incurs an immediate 20% Inheritance Tax charge, with further Inheritance Tax to pay if you do not survive seven years from the date of the gift. Many gifts will not have this charge, as they will be within your nil rate band, though care must be taken.

The most common type of a CLT is a gift made into Trust.

Inheritance Tax Taper Relief

This relief can help to reduce the Inheritance Tax applicable on the gift and will depend on the time between the gift being made and the date of passing away. We can provide further detail on this upon request.

Without a Will, your assets will be distributed based on the laws of Intestacy, which may not be in line with your wishes.

The importance of making a Will

A Will is key in protecting your possessions, and helping to ensure that they are passed onto the people you choose. It will also make it easier for your friends and family at what will already be a difficult time.

Why make a Will?

- To choose how your personal possessions are distributed
- To provide for your children and choose their guardians
- To make your funeral arrangements clear
- To leave money to the causes that matter to you, such as your favourite charity
- To choose the who you wish to distribute in line with your views and look after your estate.

Get advice and keep up to date

Professional advice is always recommended when it comes to legal matters. If you want to be sure that your assets are protected for your family and friends, taking legal advice is a good idea.

Keeping your Will up-to-date is also hugely important. Major life events like getting married, divorced or having children can all have a major impact on where you would like your money to go, so it's essential that your Will reflects this.

What happens if I don't have a will?

The law will decide what happens to your estate. So it won't necessarily be distributed to the people you want to have it. Your surviving spouse or civil partner may not automatically inherit the whole estate. And children would inherit at age 18 (16 in Scotland) which you might feel is too young.

Therefore, if you wish to protect your assets, and ensure they go to people you wish, a Will is essential. It also allows you to delay the age at which children inherit.

Do your family and friends know where to find your will?

Once you've made your will, you need to make sure you keep it in a safe place. Also, it's best to tell your close family or friends where it is. If you've asked a solicitor to make your will, they'll usually keep the original and send you a copy too.

Providing a copy to your financial adviser is also a sensible step so that they are aware of and can work with your executors and beneficiaries as appropriate.

Granting a Power of Attorney

Myth

A power of attorney is only needed if you have concerns about dementia in older age.

Fact

An accident or illness can happen at any age which makes a power of attorney a useful tool for many people.

What does it do?

A Lasting Power of Attorney (Continuing Power of Attorney in Scotland) allows you to name someone who will look after your finances if you are unwell and cannot manage them yourself. This is key to keeping your finances ticking over. There is also a separate option to grant powers which relate to your welfare, if you wish.

Do I need one?

If you are not able to deal with your finances, which could be as a result of an illness or an accident, and you haven't granted a power of attorney, your family may have to go to court to have someone appointed to act on your behalf. Going to court is an expensive, and often lengthy process. You can therefore save your family time and money by granting a power of attorney before any issue may arise.

Guidance

Taking legal advice will keep you on track, as a power of attorney usually needs to be signed in a certain way.

Control who benefits from your gift

You may be ready to make gifts, but are you ready to give up control? How old and responsible is the recipient? When it comes to children and grandchildren, sometimes it's helpful to stay involved.

Three key questions to ask yourself when considering a trust:

1) Do you need access to your money?

Are you certain that you won't need to access the money in the future?

2) Who will you appoint as the trustees?

You can include yourself as a trustee. This can give you some control over the decisions that are made.

3) Who are your beneficiaries?

Do you know who they are now, or might they need to change in the future? There are different types of trust depending on whether you've made your mind up about this.

There are various trusts that can be set up to plan for yours and your loved ones' futures. Each type of trust has different tax implications. So, you should always take professional advice if you're considering a trust.

Find out more

For more information on any of the information covered in this guide, speak to your Financial Planner.

Tel: 01224 648 811

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We're open Monday to Thursday, 8.30am to 5pm and Fridays 8.30am to 2pm.

Or you can find out more about what we offer on our website:

[medicaldental.co.uk](https://www.medicaldental.co.uk)