



## Practice Finance

### Picking the age to take your pension

12-Dec-07

#### Age 58, 60, 63 or 65? When is the best age to draw NHS scheme benefits?

Uncertainty over future pay is helping to fuel GPs' interest in taking 24-hour retirement.

Doing this enables GPs to take their NHS pension and lump sum, and still have an income from their practice.

Since 2004, the advantages of 24-hour retirement have been enhanced. As a result it is sensible for GPs who are in their fifties to consider how 24-hour retirement works.

Put simply, 24-hour retirement allows a GP after reaching the age of 50 to retire from the NHS for a day, retire completely from the NHS Pension Scheme, take their pension benefits and return to NHS work as a GP.

There are a number of conditions. For example, you must resign as a principal and as a performer for 24 hours and then be readmitted. The primary care organisation (PCO) or your partners may take the opportunity to block your return.

#### Contract risks

Be advised: this is a real risk. Some PCOs argue that a partner in a two-partner practice taking 24-hour retirement changes the nature of the practice's contract and that the PCO can renegotiate it.

If you continue to work after 24-hour retirement and do not want a restriction applied to your post-retirement earnings, you must not do more than 16 hours a week of NHS work for the month after retirement.

#### Benefits reduction

If the option to take 24-hour retirement is exercised before age 60, your pension is reduced.

For instance, a GP retiring at 57 will receive 84 per cent of the pension they would have expected at the normal retirement age of 60, and 92 per cent of their tax-free lump sum. A GP retiring at 58 will receive 89 per cent of the full pension they would have expected at 60, and 94 per cent of their lump sum.

In contrast a GP retiring at 59 will receive 94 per cent pension, and 97 per cent lump sum.

Enhancements since April 2004 do make a significant difference. Before then, GPs contributed 6 per cent of their income into their pension and the PCO contributed 14 per cent directly to NHS Pensions.

So when a GP exercised 24-hour retirement they stopped contributing this 6 per cent and the 14 per cent contribution stopped too. This resulted in a modest increase in the GP's monthly drawings.

Under the new GMS contract from April 2004, global sums and PMS baselines now include the 14 per cent employer's superannuation that used to be paid directly to NHS Pensions and which is instead paid to the practice.

#### Use intelligently

A GP retiring from general practice not only saves on the 6 per cent contribution but also keeps the employer's 14 per cent, giving a significant increase in monthly drawings.

Some GPs' reaction to the idea of 24-hour retirement is that it cannot be advantageous unless they have a pressing need for the funds. However, if the option is used intelligently it can increase your income overall, depending on how long you survive.

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#### Assumptions

- NHS service 33 years at 58; £60,000 annual dynamised, superannuable income.
- GPs works full time after 24-hour retirement. NHS pension increases by 2 per cent a year.
- Dynamising (uprating for pay increases) is 6.5 per cent for 2007/8 and 4.5 per cent per annum (inflation plus 1.5 per cent) thereafter.
- Before full retirement, pension is taxed at 40 per cent. After full retirement, pension is taxed at rate of 30 per cent.

#### Taking pension at age 58 versus age 60

##### Taking pension at 58 and fully retiring at 60

At age	Accumulated pension paid	Lump sum paid	Superannuation saved Benefit	Total
63	£103,955	£78,170	£14,400	£196,525
64	£123,403	£78,170	£14,400	£215,973

##### Taking pension and fully retiring at 60

At age	Accumulated pension paid	Lump sum paid	Superannuation saved Benefit	Total
63	£94,237	£97,989	0	£192,226
64	£118,985	£97,989	0	£216,974

GP must survive to 64 to be better off not taking pension at 58

#### Taking pension at age 58 versus age 63

##### Taking pension at 58 and fully retiring at 63

At age	Accumulated pension paid	Lump sum paid	Superannuation saved Benefit	Total

69	£216,058	£78,170	£36,000	£330,228
70	£237,960	£78,170	£36,000	£352,130
<b>Taking pension and fully retiring at 63</b>				
<b>At age</b>	<b>Accumulated pension paid</b>	<b>Lump sum paid</b>	<b>Superannuation saved Benefit</b>	<b>Total</b>
69	£208,303	£120,083	0	£328,386
70	£240,488	£120,083	0	£360,571

*GP must survive to 70 to be better off not taking pension at 58*

<b>Taking pension at age 58 versus age 65</b>				
<b>Taking pension at 58 and fully retiring at 65</b>				
<b>At age</b>	<b>Accumulated pension paid</b>	<b>Lump sum paid</b>	<b>Superannuation saved Benefit</b>	<b>Total</b>
71	£257,522	£78,170	£50,400	£386,092
72	£280,309	£78,170	£50,400	£408,879
<b>Taking pension and fully retiring at 65</b>				
<b>At age</b>	<b>Accumulated pension paid</b>	<b>Lump sum paid</b>	<b>Superannuation saved Benefit</b>	<b>Total</b>
71	£236,814	£136,518	0	£373,332
72	£273,405	£136,518	0	£409,923

*GP must survive to 72 to be better off not taking pension at 58*

<b>Taking pension at age 60 versus age 65</b>				
<b>Taking pension at 60 and fully retiring at 65</b>				
<b>At age</b>	<b>Accumulated pension paid</b>	<b>Lump sum paid</b>	<b>Superannuation saved Benefit</b>	<b>Total</b>
75	£368,297	£88,200	£36,000	£492,497
76	£369,549	£88,200	£36,000	£520,749
<b>Taking pension and fully retiring at 65</b>				
<b>At age</b>	<b>Accumulated pension paid</b>	<b>Lump sum paid</b>	<b>Superannuation saved Benefit</b>	<b>Total</b>
75	£359,133	£126,484	0	£485,617
76	£395,829	£126,484	0	£522,313

*GP must survive to 76 to be better off not taking pension at 60*

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