Preparing an exit strategy

Adam Brookbanks discusses the steps that need to be in place to have a secure retirement.

If you are approaching an age where your retirement is finally on the horizon, then congratulations are in order. The last few years of frantic work can all too easily absorb any dentist to the point where 'life after selling' becomes tomorrow's worry. Number one on most dental practice owners' minds will be their exit strategy. How and when will you sell the practice? To whom will you sell the practice? Will you retain any business assets? Will you continue working?

The answers to these questions formulate as you begin to explore your many options and are usually only clarified when you get the ball rolling with a sales agent. What you must also be doing once you reach your 50s is assessing your financial stability in retirement. This is an area much neglected by most until time is more available, unfortunately at that point you may have missed out on valuable planning which should have been looked at before retirement. In this article I want to outline the areas which should make up your 'pre-retirement financial checkup' so you can begin to form your plan to get the most out of your money.

Adam Brookbanks
is a director at FTA Financial & Wealth Management.

NHS pension

Most retiring dentists will hold an NHS pension and in many cases this can be extremely valuable. Pensions like this are not widely available anymore so great news if you have one. What you need to do is ensure you know what you are going to get in retirement and your options for taking the benefits.➲


Planning for retirement can help to ensure that your golden years remain care-free.

There are three NHS pension schemes (1995 scheme, 2008 scheme and 2015 scheme) and as there are various differences between them it is vital you know what you have before you plan retirement. In all of the schemes you will have the option of when to take the pension and whether you would like an enhanced lump-sum. Taking the pension early will reduce the pension you receive, taking the enhanced lump-sum will do the same, however in certain instances this would represent a good option such as if you are near the pension lifetime allowance.

Make sure you visit the 'Total Rewards Statement' section of the NHS website and download a copy of your most recent pension statement for your financial adviser to assess. This way you can know ahead of retirement what your options are and what you are going to receive.

Personal pensions and retirement planning

The lifetime allowance (LTA) for pensions has been reduced in recent years and is currently £1,030,000 (increasing in line with inflation each year). You have to be aware of how large your pension savings are (including NHS pension) as the tax charges are between 25 per cent and 55 per cent on excess above the LTA. A countless number of dentists are merrily buying 'added years' for their NHS pension or saving monthly into a personal pension when they are already over the LTA, unaware they are throwing money away.

If you don't have pension values which are close to the LTA and you are within reach of retirement, then saving into pensions should become the number one priority of pre-retirement planning. Pension rules changed in April 2015 to give additional tax-efficiency and flexibility of income options. You receive valuable tax-relief on contributions going in (for example - a £10k contribution can cost you only £6k net if you are a higher-rate taxpayer) and you can contribute from your limited company as a tax-deductible expense. You can then take 25 per cent of the value of your pension as a tax-free pension commencement lump-sum, available from age 55, which can help with pre-retirement expenditure if required. In retirement, modern pensions give you access to 'flexi-access drawdown' which puts you in charge of how and when you would like to take your money, with funds staying invested for long-term growth and full access to the fund given from the age of 55. Finally, the tax charge on death has been removed and pension funds left to your family are completely inheritance tax free.

Equalise your pension assets – if you have large pension assets but your partner has very little then this will make it more difficult for you to be tax-efficient in retirement, therefore I would always suggest trying to build as equal pension savings as possible. There are various rules on pension allowances (including the annual allowance of £40k) and you should always seek financial advice to establish how much you are allowed to contribute.

Once you have sold your business and have a large sum of capital in your bank, you will be thinking how to make this last throughout retirement. A financial adviser will outline a plan of the most tax-efficient way to hold your money, grow your capital and provide you with income throughout retirement. Products such as ISAs, general accounts, investment bonds, business property relief portfolios, venture capital trusts and enterprise investment schemes can be considered at this stage, depending on your situation and objectives, all of which have different features and benefits. The importance of extending your capital in retirement is the proper set-up of investment strategy, diversification, tax-efficiency of the investment vehicles used, and proper ongoing financial advice so that you know your capital is growing as it should and that whenever you take money out, it is done without causing unnecessary taxation.