



## Inflation threat to some public sector pensions

### **A warning that high inflation could have a big impact on defined benefits pensions schemes of high-earning public sector professionals, including GPs.**

The current high inflation, not only increases the cost of living, but can push some professionals' pension benefits over the annual allowance – even if the amount that the member has contributed has not changed.

The effect inflation can have on members of defined benefits pension schemes is particularly problematic for GPs, who have their benefits revalued each year in line with inflation. It can also impact the pensions of members of the armed forces, teachers and other public sector professionals.

This is partly due to a disconnect between the way that the pension schemes and HM Revenue and Customs calculate inflation. To calculate the increase to a member's closing pension value for the annual allowance, HMRC uses the consumer prices index (CPI) rate from the

September of the previous tax year. However, to revalue pensions in line with inflation, many defined benefit schemes use the CPI rate from the September of the current tax year.

In a year of runaway inflation, this can make a big difference. For example, when a GP's pension benefits were calculated by HMRC in April 2022 they would have been judged to have increased by 3.1% based on the inflation rate recorded for September 2021. Any pension benefits accrued above that percentage would count towards their annual allowance.

But when the benefits are revalued by the GPs' pension scheme, it will use the September inflation figure for this year, which is expected to be about 10%, plus an additional 1.5 percentage points, which the scheme adds in automatically.

The British Medical Association (BMA) said that "because of the anomalous use of two different values of inflation in calculations, the dramatic rise in CPI over the last year could severely impact doctors, in particular GPs – leaving them facing significant annual allowance charges".

## How parents and grandparents can help reduce student loan debt



**Changes to student loans may increase the debt burden for some graduates. We look at what families can do to help.**

Changes being introduced to student loans are likely to present some university graduates – especially those not moving into high-paid jobs – with the burden of longer-lasting and more expensive debt as a legacy of their studies.

New rules will affect students starting their university courses from September 2023. The main points are:

- The repayment term is being extended from 30 to 40 years.
- The earnings threshold at which students start making repayments will drop to £25,000.
- The interest rate charged will match the retail price index (a dramatic rise in RPI has already seen the UK government cap the 2022 rate at 7.3%).

For parents and grandparents who want to reduce student debt by helping to pay tuition fees, there are some options to consider. First, you can make a gift of £3,000 a year to someone without tax liability. You can give more than that – but there may be a liability if you die within seven years.

A second option for grandparents is to put funds into trust for their grandchildren, which can then be used to pay fees. Trusts come with set-up costs and ongoing work to prepare accounts and annual tax returns, but can be hugely beneficial for income tax, capital gains tax and inheritance tax (IHT) planning. Parents can also set up trusts for their children if they are over 18, although IHT is likely to be less of an issue in this case.

Parents or grandparents could also take out a personal loan to cover fees, which could be cheaper than the capped interest rate for student loans. Of course, the repayment term will be far shorter, and parents and grandparents should generally ensure that they don't have to rely on their children or grandchildren for repayment.

At Shipleys, we can arrange for a trust to be created and provide ongoing guidance on this. There's more on trusts on our website here: <https://tinyurl.com/38z67sdm> <https://tinyurl.com/ykjkua8> There's also information on gifts at <https://tinyurl.com/yk5tah3s>

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