Feature

Finance

Copper-fasten your retirement income

Ronan McGrath of Oakwood Medscene, part of the Oakwood Financial Advisors Group, gives an overview on how best to plan for a financially healthy retirement

Ronan McGrath, Managing Director, Oakwood Medscene

We are all living longer, meaning that up to a third of your life can be spent in retirement. The average life expectancy is now running into the late 80s. For those looking towards retirement this places even greater importance on a well thought out financial plan.

Critical decisions

The journey to retirement begins as soon as you commence your working career. However, it takes on a greater level of importance during the final decade of your working years. That's because the decisions you make during the last 10 years of your career are critical to your ability to actually enjoy retirement.

Setting and meeting your goals

If you are planning on retiring in 10 years or less, review your finances at least once a year. This will establish if your projected retirement savings will be enough to meet your retirement income goals. The creation of a 'financial plan' has even more importance in the 10 years leading up to retirement. If you have not made the correct provisions, you need corrective action. You either have to find ways to increase your income, through saving more, or investing more aggressively. Alternatively, generating extra income in retirement in other ways (part-time employment, reverse mortgage, rental income, etc.).

Visualise your ideal retirement scenario

What do you look forward to doing during retirement? There is no 'one-size-fits-all' answer to this question. You should personalise your vision of retirement in a way that matches your values and life goals. Carefully consider what your ideal retirement looks like and then take provident steps to guarantee that outcome.

Have clear goals

You should be using your money as a tool to achieve your life goals. Your financial advisor can help you reach those goals, only if you know what they are. For many investors, emotions tend to override investment decisions. That is why a financial plan is essential to protect you from making poor investment choices.

Revenue Audit

A Revenue probe can wreak financial havoc coupled with the stresses that can accompany it. We are all familiar with the recent high-profile cases involving medical professionals and a South Dublin based accountancy firm. Doctors paid over €15 million in 2016 in unpaid taxes and penalties as part of a "blitz" by Revenue. Revenue have a further 318 cases to work through in 2017 with more cases on the horizon.

A Revenue audit brings not only stress but also potential financial and reputational damage. Obviate this by availing of expert financial advice and guidance. Building a team of trusted professionals who provide legal, tax, and financial guidance is essential to protecting yourself. Seek out qualified professionals who are always obligated to put your interests first and abide by a fiduciary standard.

Retirement savings

Have you saved enough for retirement? This is a question that you should ask yourself as early as possible in the planning process. Reviewing all of your potential retirement income sources (GMS, HSE, personal pensions, AVCs, state pension, rental income etc.) will provide an answer to this important question. It will also enable you identify what changes are needed to improve your retirement outlook.

Tax breaks

Are you maximising your tax breaks? Maximise your AVC to your pension; the closer you are to retirement the sooner you get the money back!

Lifetime Cash Extraction Options

	Retirement Relief	Pension Lump Sum
Maximum sum available	€750k	€500k
Amount of Tax Liable	Nil	€60k

**Examples of where Retirement Relief can apply for a GP are the sale of a practice building or receiving a payment for goodwill in a practice. The passing of a practice to a family member (child), if correctly structured, can also result in a tax free income, from the practice, to the retiring GP, for several years.*

- Pension Tax Relief — up to 40% of €115,000
- Retirement Relief* — Potential to take up to €750,000 as a tax free lump sum
- Pension Tax Free Lump Sum* — €200,000 tax free with a further €300,000 taxed at 20%
- Spouses pension — scope to fund additional pension benefits for your spouse.

**Subject to certain conditions*

Ensure your Asset Allocation matches your Risk Tolerance & Time Horizon

As retirement nears your ability to cope with significant volatility in the investment markets is likely to change. That is why it's essential to examine your overall retirement portfolio on a regular basis. You do not need to automatically start divesting from the stock market in the years leading up to retirement. Your total investment time horizon includes the years until retirement plus how long your life expectancy is. If you are investing for the long term (such as ARF investors) you should have some exposure to equities to ensure worthwhile returns.

Tips for a Solid Investment Strategy

Regardless of your age, successful investing is based on a solid and disciplined investment plan. There are a few fundamentals you need to adhere to in order to ensure you stay on track.

Many of us, when we investigate this topic, are bombarded by a tsunami of information which can lead to a sea of confusion. It overlooks the fundamental and practical principles experts believe give you the best chance of success with your savings.

While there are many external factors that can impact on investments, one of the major factors which impacts on returns is our own behaviour. In the main, investors do not like volatility and are averse in the extreme to multiple periods of negative returns.

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Human frailty

Investors may require emotional comfort along the way. Emotion, however, is to be controlled, not pandered to, according to the theorists. Guiding investors through the inevitable ups and downs along the journey is part of our job as advisors. Having a disciplined investment strategy is key.

Four main principles for investment success:

1. Identify Your Own Investment Goals

You need to define your goals clearly and be realistic about the ways to achieve them. Without a plan, you can be tempted to build a portfolio based on transitory factors which will impact on your long term returns.

Because most financial goals are long-term, the plan should be designed to endure through changing markets and your personal circumstances. It should also be flexible enough to adjust for unexpected events along the way. If you have multiple goals (paying a mortgage, saving for a child's education or retirement planning) you will be best served accounting and planning for all scenarios, rather than picking one over the other.

Once the plan is in place you should evaluate it at regular intervals, however not so often that it becomes a chore or an emotional concern. Discouraging results often come from chasing unrealistic targets. An unsound and daunting strategy can un-nerve investors, who lack well-grounded plans to achieve their investment goals.

2. Diversification

Equities have done the best over the long term for the simple reason that businesses, in aggregate, generate the best returns. But investing exclusively in equities doesn't suit all clients. This is due to the volatility which may be involved as varying economic states (recession, deflation and inflation) impact on values.

The financial needs of a 30-year-old saving for retirement are quite different to those of a 70-year-old who needs a regular income-flow for their retirement pot.

A sensible investment strategy starts with an asset allocation to meet your objectives. The allocation should be built upon realistic expectations for risk and the returns needed. A diversified portfolio helps avoid exposure to unnecessary risks, stress and concern. A diversified portfolio will contain equities, property, bonds and alternative investment types to reduce the ups and downs. The more equity in your portfolio, the more likelihood for volatility, however over time, **equities = returns + growth!**

3. Costs

Be aware of the charges attaching to your plans. Paying more does not mean you get more. If you have a well devised plan, with lower costs, the greater your share of a fund's return.

4. Discipline

A disciplined approach over the long term will pay dividends. Investing can provoke strong emotions, particularly when markets fall. This can have a knock-on emotional impact on an investor and cause them to think irrationally. In the face of market turmoil and media speculation some investors will make costly, impulsive and short-term-focused decisions. Discipline and perspective, through periods of market uncertainty, are the qualities that help investors remain committed to their long-term investment goals.

Passing on your GMS list

When selling on a practice, part of the intrinsic value is the GMS list built up over the working life of a GP. While a GP does not own their GMS list they can still transition their list to an incoming GP when approached correctly. Passing a GMS list to an incoming GP should be approached in a prudent fashion in order to ensure that:

1. You minimise the risk of issues arising with the HSE
2. The list passes smoothly to the incoming GP and no external interference (outside GP or practices) can occur.

In order to ensure a smooth transition, you should transfer the list on a phased basis. In addition, it is possible for the retiring GP to hold on to the pension element of the capitation for a period as part of a possible buy out — a useful negotiating tool for both retiring GPs to enhance their pension benefits and for younger GPs who may not have access to a lump sum to pay for the buy in/goodwill.

Points to note:

- The panel of a retiring GP will normally be frozen 6 months prior to their retirement.
- A GP can take on a doctor with an open entry GMS number as an assistant/partner and transfer patients under the change of doctor process to build up the new GP's list.
- If looking to make a block transfer of patients, a GP can contact local HSE and seek approval.
- The approval for retention or succession should be granted unless there are reasons consistent with the operation of the GMS for it not being granted.
- HSE do run audits on change of doctor forms with patients – patients should be informed.

Your State Pension eligibility

GPs paying PRSI Class S* qualify for a full state pension once you have made a certain minimum number of "yearly average" weekly PRSI contributions. GPs who are employed as Medical Officers of District/Community Hospital with service prior to 1st April 1995 are classed as Class D PRSI contributions which has limited entitlements under the PRSI system including no access to the Old Age Pension. I would always recommend clarifying with your accountant that this is not an issue for you if you have worked in the roles outlined.

ARF v Annuity

Since the financial crash in 2008, we have had a period of low interest rates in order to try to stimulate economic activity. The negative impact of this has resulted in poor annuity rates for retirees. To counter this, the majority of clients on drawing down their pension benefits have reverted to Approved Retirement Funds.

The positive returns in the equity markets, over the past several years, turned out well for most retirees if they had some equity exposure in their portfolios. However, some individuals opted for ultra-safe portfolios offering very little returns. As a result, after withdrawing their regular income each year, their capital is deprecating at an alarming rate. They run the risk of exhausting their ARF funds within 10 to 15 years.

We are now entering an era of low returns after eight positive years. The future is likely to offer lower and potentially bumpier returns placing even more importance on a balanced investment strategy and the right advice.

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