Personal Finance

In association with Oakwood Financial Advisors

Eliminating your risks in retirement

The key points on funding for a GP's retirement, are provided by **Ronan McGrath** of Oakwood Medscene, part of the Oakwood Financial Advisors Group

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For General Practitioners (GPs), and many like you, retirement is a journey, or a gradual transition, rather than a moment in time. As working patterns change, Oakwood Financial's clients need and value the flexibility we provide to choose how and when they access pension savings.

The right option

Since the introduction of the Approved Retirement Fund (ARF), the majority of clients are looking to access their pension savings using the income drawdown option, available through an ARF. An ARF is not always the right choice. You need to give careful consideration to all your retirement options. The challenge is to plan now for sustainability amid market uncertainty. An added factor is that of improved life expectancy, meaning that you will live longer.

We guide you expertly on your best plan. Our job as financial planners is to help clients manage their income and finances on their journey up to, and including, retirement.

Top tips

As a GP, prudent planning can go a long way towards preparing for retirement, this ensures that you have sufficient retirement assets and personal assets to provide ample income in your retirement;

— You should start planning an exit strategy at least five to 10 years before your preferred retirement date.

— Consider a phased retirement strategy. Many GPs choose to reduce working hours closer to retirement. This can also help to enhance your pension benefits if structured correctly.

— With regard to the General Medical Services (GMS) Pension Scheme, GPs need to be cognisant of the fact that, once older than 55, any switches out of the scheme's Main Fund to cash cannot be reversed. In the GMS Pension scheme, the smoothed investment strategy of the Main Fund helps cushion negative market movements in certain situations. However, this can impact negatively on your fund in a prolonged period of market dips depending on your retirement timing.

— Diversify your Additional Voluntary Contributions (AVCs) away from the GMS Scheme in to private AVCs, through a revenue-approved Personal Retirement Savings Account (PRSA). This will offer greater fund choice and diversification of your funds as overtime the majority of GPs build up a significant fund within the GMS Scheme, with little choice to diversify as there are only three fund choices (*see figure 1*):

- The Main Fund
- The Cash Fund
- The Bond Fund

— You need to prepare for the unexpected. An illness may occur, therefore you need to ensure that you have adequate cover and all options are reviewed. For instance, check the policy details on how long payments will be made in ill-health; work out ill-health early retirement value and, for a worst-case scenario, benefits on death.

— For younger GPs buying into a practice — initial financing may be a requirement. Options outside of a bank loan may include forgoing the GP's Health Service Executive (HSE) pension contributions to the GMS superannuation plan, and redirect these to the older GP who will fully retire in the next few years. This can help reduce the up-front financing /costs involved.

— **Tax efficiency** of the different types of investments also needs to be a key part of retirement planning. Assets with a higher growth potential should ideally be wrapped up within a pension/ARF in order to avail of the tax-free growth opportunity. Investments with lower growth potential can be looked at within a taxable environment where Exit Tax of 41 per cent, Deposit Interest Retenion Tax (DIRT) of 37 per cent or Capitals Gain Tax (CGT) of 33 per cent may be applicable.

Considerations for planning

Careful planning needs to take into account investment risk, inflation, the risk of expenditure such as long-term care, and mortality drag. Mortality drag refers to the need for income in retirement, and for a client's funds to work harder to produce sufficient income as they grow older. Annuities, as an option, can suit certain retirees who live longer than average — even though current annuity rates are at historic lows.

A large number of GPs and medical consultants still have legacy debts (mainly property-related) from back in the Celtic Tiger days. Trying to manage these debts and ensure that they are paid off, before — or close to — retirement should be a key objective.

Phasing in retirement

Everybody's different — with their own unique needs and priorities. In general, we are living longer and having more active lives in retirement. For clients looking to phase in their retirement, they should plan around reducing hours/moving to part-time work.

Unretirement

A growing trend for people who've retired is to 'unretire'. That is, to return to work in some capacity, usually for social or financial reasons (for a GP, this may entail working as a locum).

Income needs: several theories

Changing attitudes and needs in retirement mean that many clients need a high degree of flexibility in their retirement income. There are now several theories about the shape of income needs in retirement. These include:

1. The Retirement Smile: This states that income needs will decrease as clients become less active. But will increase again if they move to long-term care. This was probably the most widely-accepted theory until recently. (*see figure 2*)

2. The Downward Curve: This is similar to the retirement smile, but without an upward spike, as not everyone will need long-term care. The following data is based on recent research carried out by 'Age UK', but Ireland would have a similar profile:

— Only 16 per cent of people aged 85+ in the UK live in care homes*.

— The median period between admission to a care home and death is 462 days (or 15 months)*.

— Around 27 per cent of people live in care homes for more than three years*.

— People have a 55 per cent chance of living for the first year after a care-home admission, increasing to nearly 70 per cent for the second year and declining in subsequent years*.

— Approximately 30 per cent of people use some form of local authority-funded social care in the last year of life*.

— Nearly 1.4 million people aged 65 plus in England and Wales provide unpaid care for a partner or family member. (*see figure 3*)

3. The Retirement Wave: As unretirement becomes more popular — people working part-time and receiving inheritances — your income needs will vary considerably over the course of your retirement.

Regardless of where you might fit on an income-needs graph or curve, it is important that:

- The vehicle chosen to facilitate for your retirement income (ARF/Annuity) should be flexible enough to adapt to your changing needs and tax circumstances.
- The options chosen should offer death benefits and beneficiaries drawdown — to give clients maximum flexibility around the access to pension assets on death.
- The recommended investment funds in an ARF should offer a balance of volatility control and equity exposure, at an acceptable cost, covering advice over a lengthy period.
- For peace of mind, you should only place your ARF funds with a provider that has a solid reputation and a commitment to the market (this also applies to annuities as the **income is only guaranteed** as long as the **provider/fund stays solvent**). (*see figure 4*)

Figure 1: Current asset allocation of the Main Fund within the GMS Superannuation Scheme

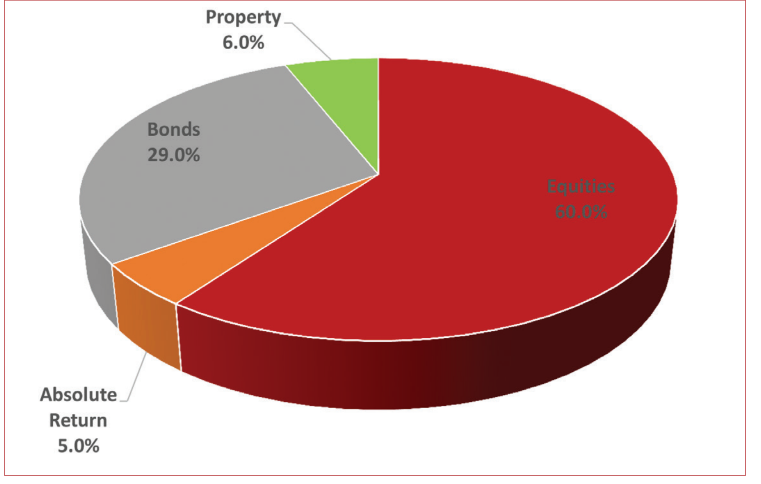
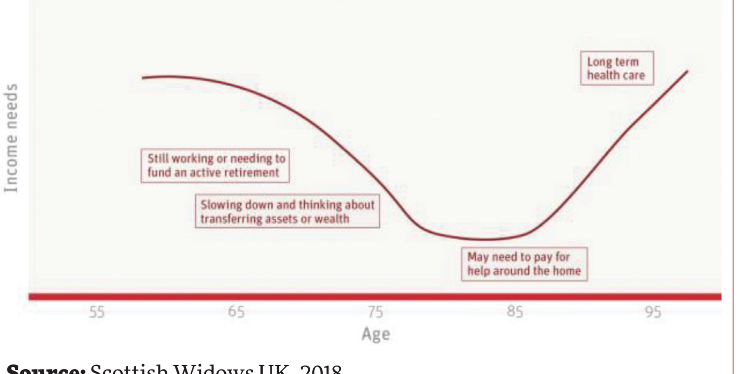
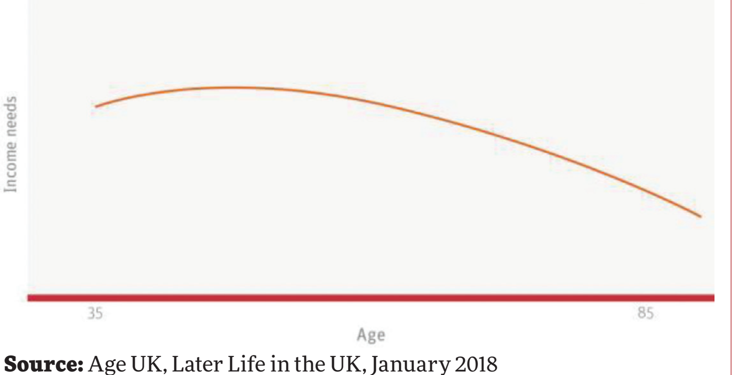


Figure 2: The Retirement Smile



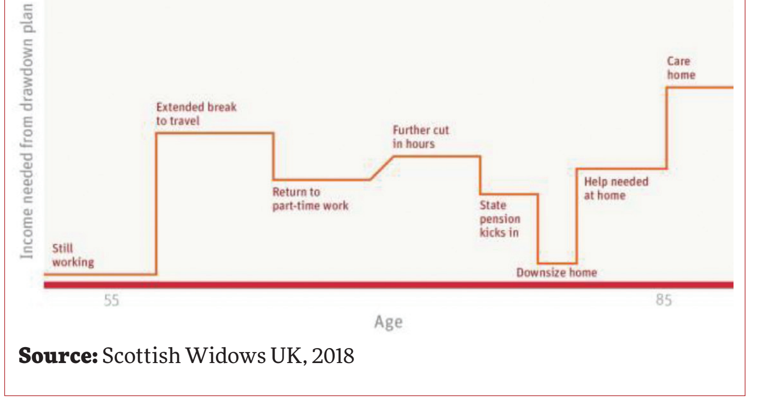
Source: Scottish Widows UK, 2018

Figure 3: The Downward Curve



Source: Age UK, Later Life in the UK, January 2018

Figure 4: The Retirement Wave



Source: Scottish Widows UK, 2018

Ageing and decision-making

Another feature of ageing is its tendency towards cognitive decline. This can affect people's abilities both to make decisions and to seek help with making correct decisions. And that includes financial decisions. Yet, despite their cognitive decline, people's tendency to be confident in their decision-making can remain. This is an important but difficult subject to bring up with clients.

Cognitive decline, dementia and Alzheimer's disease will affect more people as longevity increases. It is an issue which is going to arise more often causing difficulty for clients, their families and their advisors. This is where, having a timely and provident financial plan in place, helps family members to identify the previous decisions that were made, and their reasoning.

Expert advice and guidance is essential

Retirement planning is a complex matter. You need expert guidance on all of these factors to help you reach your income needs, with a focus on transparency, simplicity, suitability, appetite for risk and positive outcomes.

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