Feature Personal Finance

GPs – Devising your retirement strategy

Part 3 of your retirement strategy

Ronan McGrath of Oakwood Financial Advisors, in the final of his three-part series of articles, concludes his advice to general practitioners on a key fundamental question relating to retirement

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In my previous November and December articles (available on the *IMT* website and at Oakwood Financial Advisors website) I spoke about a key fundamental question relating to your retirement — will you have enough money to sustain your quality of life? Or will you outlive your money?

A changing world

Globally there is a huge level of uncertainty ranging from political change, trade tariffs, Brexit and now the novel coronavirus. The road ahead has never looked less certain, but if we look back through the last 40 years this has always been the case.

Financial Plan specific to GPs

I spoke previously about being prudent and putting the building blocks in place for a sound retirement plan regardless of global uncertainties. In this article we focus on outlining a financial plan tailored to GPs. Within it we focus on simple steps towards financial security, maximising tax reliefs and the potential return from your practice.

Setting and meeting your goals

The creation of a Financial Plan can apply at any stage in your working career. Do not make the mistake of putting it on the long finger. Alternatively, you might have to find ways to increase/extend your income, through saving more, working longer, or investing more aggressively.

Repayment of debt

Repayment of debt is a key requirement in order to achieve financial stability now and ensure that in retirement you will have certainty of income. Does it make sense to pay off borrowings? If so, prioritise the more expensive debt first i.e., credit cards and short-term loans.

State Pension eligibility

Ensuring that you qualify for a full State Pension is a priority. As a GP you qualify for a full State Pension if you have made a certain minimum number of "yearly average" weekly Pay Related Social Insurance (PRSI) contributions. Check your PRSI record to ensure you have the required number of payments. This is easily done with the Department of Social Welfare.

Maximising tax breaks

Most of the money that people save during their working lifetimes is intended to support them in retirement. This can be done through savings, shares portfolios/investments and property purchases. The most tax efficient way is still through your pension which offers a 40 per cent tax break.

Pension Tax Relief – Up to 40 per cent of €115,000 p.a.

Ronan McGrath, Oakwood Financial Advisors

Pension Lump Sum – €200,000 tax free with a further €300,000 taxed at 20 per cent.
Spouse's Pension – Scope to fund for additional pension benefits for your spouse.
Retirement Relief* – Potential to take up to €750,000 as a tax-free lump sum from age 55.
Entrepreneur Relief* – Up to €1 million taxed at 10 per cent under certain conditions.
** Subject to certain conditions.*

Tax-free income*

Examples of where Retirement Relief and Entrepreneur Relief can apply for a GP are the sale of a practice and receiving a payment for Goodwill in the practice. The Goodwill of a practice is directly related to its earnings power. In a normal business situation Succession and Goodwill go hand in hand. Goodwill occurs when the retiring doctor receives money for the asset they are leaving behind i.e., practice patients as distinct from the practice premises.

Taxation reduction – pension

Income Tax is in the main the largest expense most GPs pay each year. For many, once income exceeds €100,000 Universal Social Charge (USC) of 11 per cent is applied which brings the total tax rate to 55 per cent on income above this amount. Income tax relief of up to 40 per cent is available on contributions made to a Personal Pension or through an Additional Voluntary Contribution (AVC) on a Personal Retirement Savings Account (PRSA) or through the General Medical Services (GMS).

Reduce your Preliminary Tax Bill

Funding a pension has the double benefit of reducing last year's tax liability while also reducing your Preliminary Tax Bill for the year ahead. If a GP wishes to diversify their funds away from the GMS they can do so by using a PRSA AVC which is a Revenue-approved pension plan held in the individual doctor's name. The principal reason why you may choose to do so is to offer diversification from the main GMS fund.

Spouse's Pension

Very often a spouse is an essential member of your medical practice but does not receive any financial reward. Where your spouse carries out work for you in your day-to-day role as a GP they are entitled to a salary and pension funding. The pension contributions are treated as a tax-deductible expense to the practice. A tax efficient opportunity to direct some of the taxable profits to a pension plan on their behalf.

Once they have a taxable income you can then pay pension contributions to them as an employer allowing them to build up a pension fund of their own.

Lifetime Cash Extraction Options

	Retirement Relief *	Entrepreneur Relief *	Pension Lump Sum
Maximum sum available	€750k	€1 million	€500k
Amount of tax liable	Nil	€100k	€60k

Sale or transfer of ownership of the practice

A GP practice is no different to any other professional occupation. In many cases, it can offer a long-term income stream comparable to, or better than, most other professions. In many cases, newly qualified GPs often underestimate the financial cost it has taken for many older GPs to build up their practice; as well as the ongoing investment that is required with regard to equipment and premises.

Misconception

In other professions i.e., solicitors, accountants, dentists, pharmacists; goodwill is the norm. However, there is a general perception with younger GPs now that they do not need to earn their way into a practice due to the possibility of picking up a GMS number that may become available from a retired GP.

In the past a retiring solicitor/accountant/dentist could be paid the equivalent of a year's gross salary by the existing partners and/or by the person buying into the practice. If structured correctly and it meets certain criteria then this goodwill payment may be claimed tax-free under Retirement Relief or Entrepreneur Relief.

Transition period

Another reason for goodwill not being pursued is that the ownership of a GPs patients is not as clear-cut as in other professions.

A GMS list can only transfer between individual GPs/partnerships when approved by the local Primary Care Reimbursement Service (PCRS). When a corporate agrees a buyout of a GP practice they need the existing GP on board for a period in order to transition the GMS list to a GP employed by the purchasing entity.

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Passing on your GMS list

When selling 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, if structured correctly, transition their list to an incoming GP.

Passing a GMS list to an incoming GP should be approached in a prudent and timely 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.

Smooth transition

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, under certain conditions, to hold on to the pension element of the capitation payment for a period. This can prove 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.

Building up a Pension Fund — Personal behaviour

There are multiple external factors that can impact on pensions and investments. However, one of the major factors which impacts on returns, is your own behaviour! In the main, investors do not like volatility and are averse in the extreme to multiple periods of negative returns.

Such investors require emotional comfort along the way. Part of our job as advisors is getting investors to stay the course through the inevitable ups and downs along the journey.

Reduce ups and downs

A diversified portfolio will contain equities, property, bonds and alternative investment types to reduce the ups and downs. Equities (shares) are the key part in growing your pensions and investments over time. The more equities in your portfolio, the more likelihood for volatility, however over time, equities = returns + growth! Having a disciplined investment strategy in place is key.

Have clear goals — Get input from your financial advisor

You should use your income as a tool to achieve your life goals. Your financial advisor can help you reach those goals. But only if you know what they are. Together you can define your goals clearly and identify the ways to achieve them.

For many investors, emotions tend to override investment decisions. That is why a financial plan (and advisor) is essential to protect you from making poor investment choices.

Your Financial Plan

The essence of retirement planning is estimating your income needs – both now and years from now.

A financial plan will allow you to calculate the exact level of capital required to maintain your desired lifestyle. You then have every chance of putting a realistic plan in place to reach both your financial and life goals. IMT

• Oakwood Financial Advisors are specialist financial advisors to the medical profession with a unique understanding of both the GMS Pension scheme and also the Health Service Executive pension benefits.

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