

# Planning for your retirement: Part 2 of your retirement strategy

**Ronan McGrath** of Oakwood Financial Advisors, in his second of three articles, outlines key concerns for GPs in planning for retirement – the impact of inflation and one's own personal behaviour, on retirement income – and the importance of a financial plan to keep you on track

In my previous article in early November I spoke about a key fundamental concept of understanding your retirement – will you have enough money to sustain your quality of life. Or will you outlive your money?

You may not yet have any answers, but after reading the article you should now understand the issue and concept at hand. You are seeing retirement – financially – for what it really is. You must now begin to plan to prevent the danger of running out of money. I now outline the next stages in planning your retirement from General Practice.

## Having a financial plan

The critical issue in whether or not you accumulate enough capital in your working life, to sustain a three-decade retirement, is the presence or absence of a formal, written, financial accumulation plan. As Benjamin Franklin said: "If you fail to plan, you are planning to fail."

## We personalise your plan

With a financial plan, you have every chance of reaching your savings and investment goals. Without it, virtually none. As a client of Oakwood Financial Advisors we work with you to outline a plan specific to your financial needs and goals. You receive an outline draft of the income you will need to provide a comfortable retirement. We calculate how much capital you will need to produce the income (from your assets, pensions and investments) at a historically sustainable rate of withdrawal.

## Mapping your financial economy

Such a plan does not necessarily



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start a couple of years from retirement. This is something that should be set in place as soon as you begin working and saving. We calculate how much you will need to be investing with a suggested investment strategy – and at what projected rate of return this will grow – to get you from where you are now to that capital sum we believe you will need at retirement. Each year the plan is reviewed and tweaked with any changes and updates required.

We start with a Map of your Financial Economy (see Table 1). This map is based on your income, your past and current expenditure and how much is then available for saving for your future. These savings will include pensions (the most tax-efficient method), accumulation of property assets and also the build-up of savings and investments. A focus should be placed on the tax efficiency of the assets as a first step in planning.

The essence of retirement planning is estimating your income needs – not now, but perhaps years from now – capitalising that income requirement at a reasonable withdrawal rate, and beginning a disciplined journey

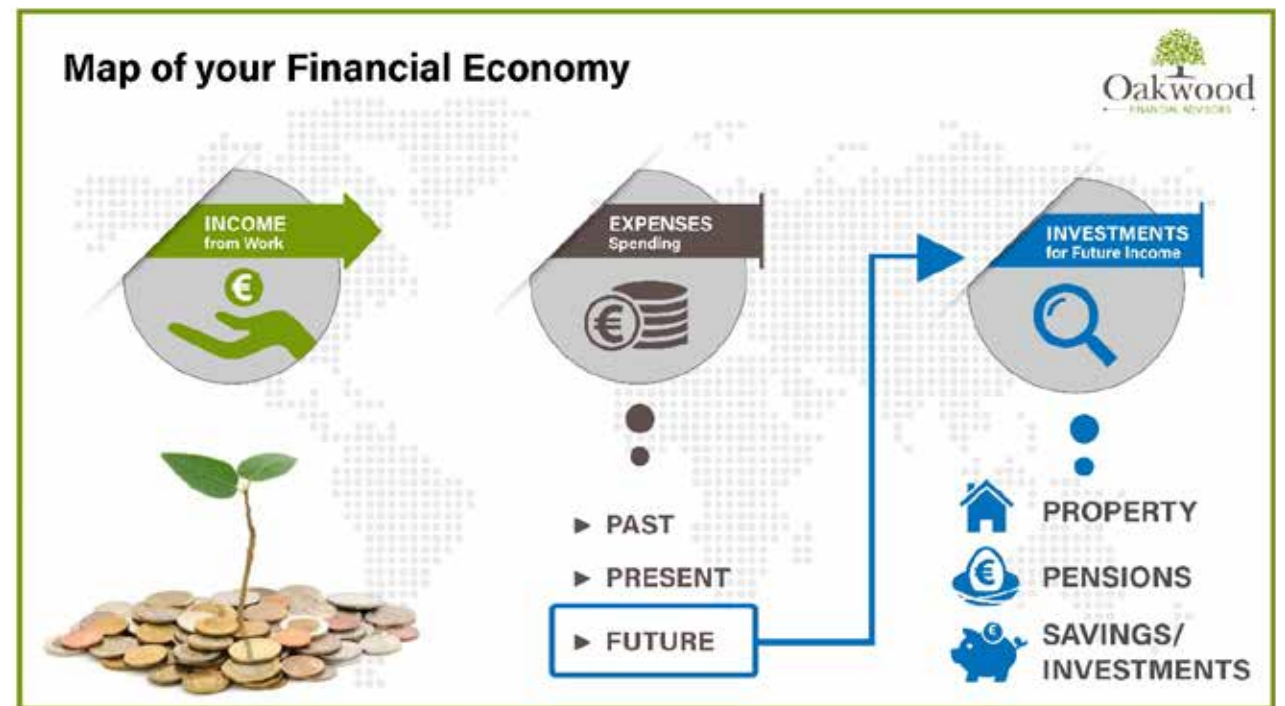


Table 1

from here to there. This, is part of our role as financial planners, and is the key part of our service.

This has nothing to do with forecasting the economy or timing the markets, both of which can only distract from your long-term accumulation plan. The plan is paramount and the portfolio is simply a servant of this.

## Three-decade retirement

Once we have determined your accumulation goal and stepped across the Rubicon of retirement, the third guideline will dictate whether you will outlive your money or it outlives you. We amend the plan to predict that the latter is achieved. A three-decade retirement is as much about maintaining purchasing power as it is the protection of principal.

If you deal with the second challenge (accumulation stage) with the seriousness it deserves, then you may have a good possibility of entering retirement with the assets accumulated capable of generating a lifestyle sustaining income – but for how long?

## Long-term erosion

If you go the annuity route you are getting certainty of income but at a fixed rate. In an environment of historically low interest rates the timing is not ideal. You give up your capital for a fixed income for your remaining days which may leave you exposed to the long-term erosion of your purchasing power. Put simply, a fixed-income annuity strategy may give an income stream, but it may not sustain you through a long-retired life of rising living costs. In certain circumstances an Approved Retirement Fund (ARF) may be the more prudent approach or possibly a combination of both an ARF and Annuity.

## Inflation fluctuations

We know that the cost of living has gone up in just about every year of our lives with some exceptions. Indeed, the Consumer Price Index has been compounding at close to three per cent for the last 40 years in Ireland. We peaked at more than 23 per cent in 1981 and have experienced a negligible rate since the crash in 2008 with a current rate of 0.70 per cent in 2018. However with prudent planning we need to plan on the basis of a 2.5 per cent to 3 per cent increase in costs during our three decades of retirement. On that basis we could expect to see our living costs more than double. (See Table 2)

## Be ahead of the curve

Our review of your required income in retirement can reasonably foresee the curve of your living costs breaking out over the curve of your anticipated income. This provides the basis for some decisions to be made. It is far better to make them at the very beginning of retirement rather than years into it, when you are already feeling the pinch of rising costs and choices are limited.

## So many confusing options

Many of us, when we investigate this topic, are bombarded by a tsunami of information about markets, the economy, manager ratings, and the past performance of a fund or strategy. What this usually does is create a sea of confusion and overlooks the fundamental and practical principles.

## Solid and disciplined

Planning for retirement should be based around a solid and disciplined financial plan. Then an investment strategy can follow. You may have many confusing strategies from which to choose. It can be difficult to know which is the correct approach. We identify the fundamentals you need to adhere to and sit down with our clients each year to ensure they stay on track.

## Personal behaviour

There are multiple external factors that can impact on investments. However, 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. Such investors require emotional comfort along the way. Emotion is to be controlled, not pandered to, according to the theorists.

By betting against human fallibility, the traditional approach to investing is setting investors up for expensive failure.

A more sensible approach embraces our own emotional fallibility and plans for it. Part of our job as advisors is getting investors to stay the course through the inevitable ups and downs along the journey. Having a disciplined investment strategy in place is key.

## A GP-specific plan

As outlined earlier, this and my previous article are about putting prudent building blocks in place and addressing the main issues by assembling a sound financial plan.

Our next article in January will be focused on outlining a plan specific to GPs. We will concentrate on maximising tax reliefs, a target savings rate and also some guidelines on how to maximise the potential return from the transfer on of a practice/General Medical Services list at retirement. [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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Since 1989 (30-year investment period)	
Irish Consumer Price Index (inflation)	S&P 500 Share Index * increased
2x	8x
€1,000 invested in 1989 in the S&P 500 * would be worth today €11,834 allowing for share growth and dividend reinvestment each year. A 9 per cent p.a. compounded return.	
A basket of goods and services that cost €1,000 in 1989 would today cost €1,905. **	
Conclusion: Mainstream equities are an extremely effective way for the long-term investor to build and protect their wealth and purchasing power both while building up their pension funds and in retirement.	
* The S&P 500 is the stock market index that tracks the stocks of the top 500 large cap US companies by reporting the risks and the returns.	
** Source CSO Website	

Table 2