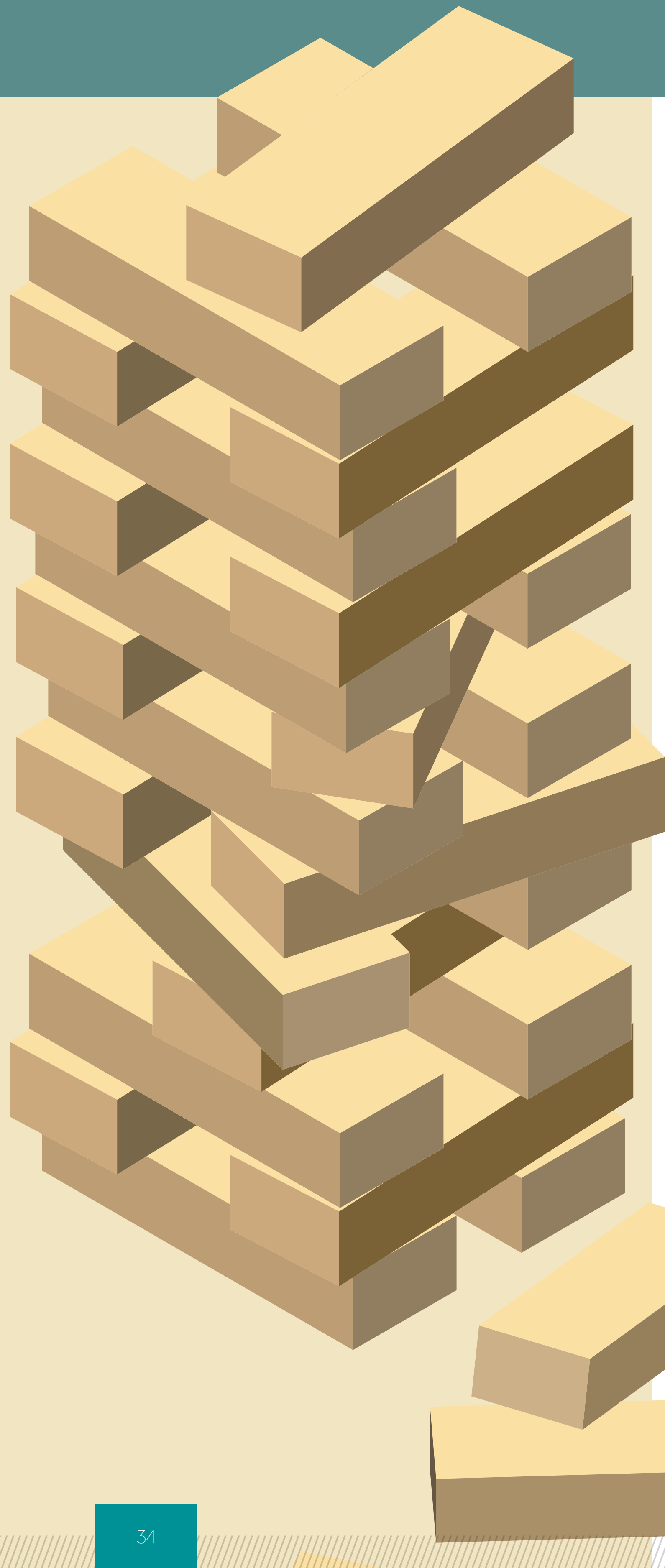
It's time to talk about... living longer, investment risk and your ARF



Up until 2014, once you took your 25 per cent lump sum from your General Medial Scheme (GMS) superannuation plan, you had no choice but to purchase an annuity with the balance of your fund. An annuity is where you purchase a guaranteed income for life, a guaranteed pension. In 2014, a new option was introduced whereby, you now have the option to invest in an Approved Minimum Retirement Fund (AMRF)/Approved Retirement Fund (ARF). This option is now being chosen by most retiring general practitioners (GPs). As an Approved Retirment Fund is not a guaranteed pension for life, coupled with life expectancy increasing, Mary Goodman, MGM Financial Services, examines the correlation between the two

Living longer

In Ireland, as in most developed countries, life expectancy has improved significantly over the last 100 years.

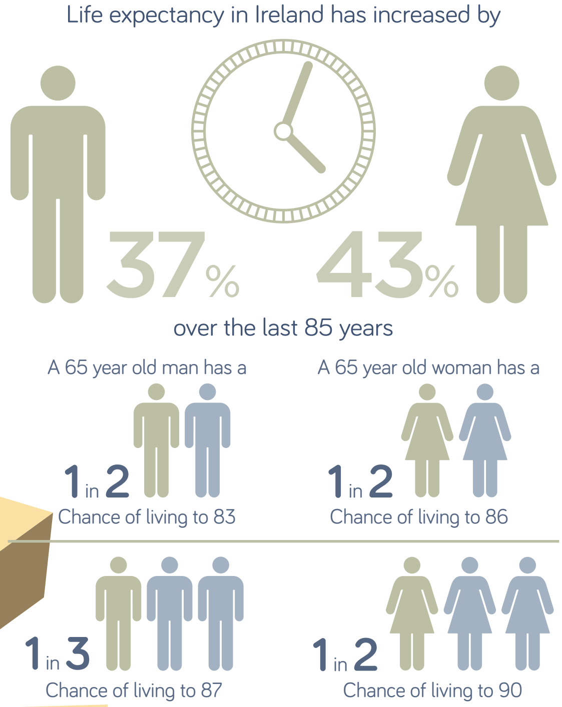
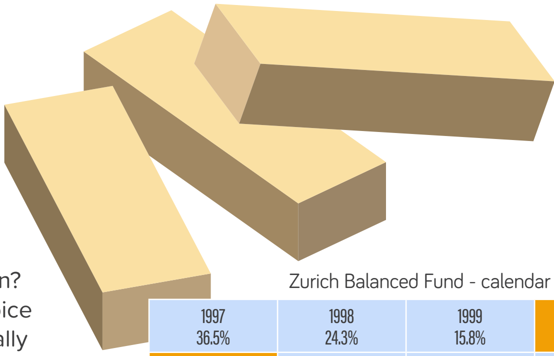


Figure 1: Life expectancy in Ireland.
Source: Central Statistics Office, 2011. Irish Life Tables No. 16.



Should living longer influence your retirement decision? In a word, yes. At retirement, you are faced with a choice of how to provide an income for yourself – this is usually between taking a guaranteed income from an annuity or a more flexible approach through an ARF. Your life expectancy should be a key consideration for you:

- If you choose an annuity and die young, your income stops and your beneficiaries may receive nothing (spouses pension attached to a GMS superannuation plan).
- However, if you live much longer than expected, the income from the annuity continues and you'll see the benefit.

If you choose an ARF and die young, the balance of your fund passes to your beneficiaries. However, if you live much longer than expected, you run the risk of exhausting your fund before you die.

Zurich Balanced Fund - calendar year returns

1997 36.5%	1998 24.3%	1999 15.8%	2000 -2.6%	2001 -5.1
2002 -16.5	2003 12.0%	2004 12.0%	2005 23.5%	2006 14.4%
2007 0.8%	2008 -30.4%	2009 22.3%	2010 11.0%	2011 -2.0%
2012 13.1%	2013 16.1%	2014 15.3%	2015 10.0%	2016 6.7%
2017 6.4%	2018 -4.4%			

Note: Annual management charges (AMC) apply. The fund returns shown are net of the AMC deducted by Zurich Life in our unit prices. The fund returns are based on an investment in the funds and do not represent the returns achieved by individual policies linked to the funds. These fund returns may be before the full AMC is applied to a policy. The actual returns on policies linked to the specified fund will be lower because of the effects of charges and in some cases a higher management charge

Figure 3: Zurich Balanced Fund

Life expectancy and your ARF

When choosing an ARF or an AMRF, your money is invested into your choice of investment funds and you decide the level of income you want to withdraw each year (subject to the revenue rules). As your money is invested, it is important to discuss investment risk with your financial adviser. Your ARF may be used to provide your retirement income and careful consideration needs to be made when choosing funds to ensure you don't diminish the value too quickly. Therefore, the funds you choose to invest in are very important. Choose funds that are too low risk and you run the chance that your withdrawals will erode the value of your ARF too quickly. Choose funds that are too high risk and you run the chance that stock market falls will erode the value of your ARF.

Investment risk and reward

Investing over 20 years – balancing risk and return

Investors should be aware that markets can have a bad week, month or bad years. However, history suggests that those who stay the course will find they are more likely to benefit as opposed to those who don't.
Figure 3 shows the wide spectrum of yearly returns from a longstanding fund, the Zurich Balanced Fund.

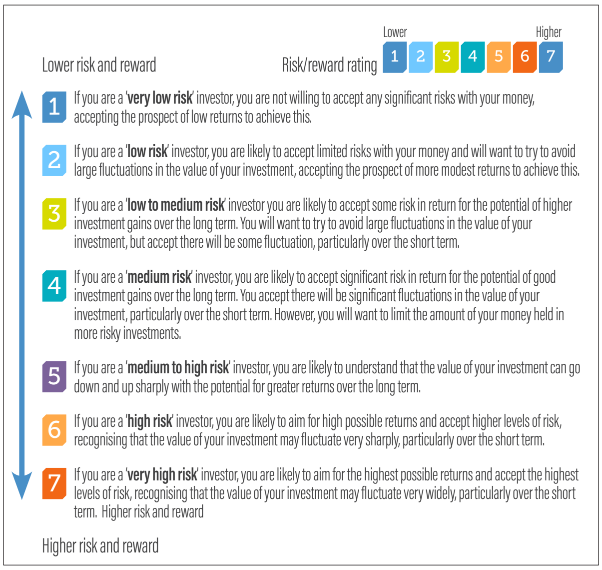
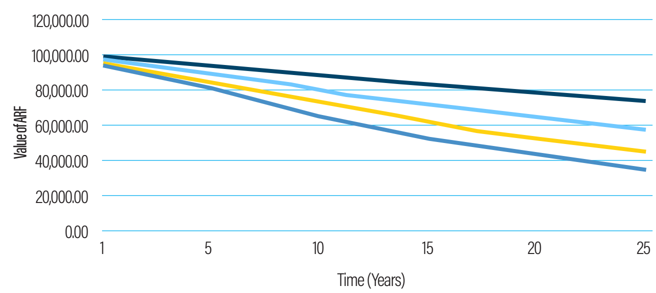


Figure 2: Low risk and high risk scale.

The impact of withdrawals on your ARF

If you are over 60, Revenue rules require you to make annual income withdrawals from your ARF, regardless of whether you need the income or not. These are known as imputed distributions and require you to take a minimum 4 per cent or 5 per cent withdrawal (depending on your age) or 6 per cent if the value of your ARF is over €2 million. With this in mind, you should consider how withdrawals will impact the value of your ARF, particularly if your investment funds don't grow at a sufficient rate. As you can see from Figure 4, the higher the return you make from your investment funds, the less the impact withdrawals have on your value of your ARF over the longer term.



Note: The above graph is for illustration purposes only and it does not represent a return received by an actual policy. The above graph assumes that there are no surrender penalties and 1 per cent annual management charges applies. It assumes an imputed distribution of 4 per cent per annum on November 30.

Figure 4: Impact of withdrawals on ARF value.

What can you do?

- Seek advice to understand what levels of risk you feel comfortable with.
- Assess the type of income that you realistically need to be generated from your ARF.
- Now you can make an informed choice as to the type of investment you should hold within your ARF.

Contact MGM Financial Services directly to find out more about the options available to you.
Phone: 01 293 9333
Email: info@mgmfs.ie
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