The 21st Century Income Revolution - a trilogy.

1. The art of self-reliance

(What are you doing the rest of your life?)

2. The art of spending capital

(Investing for income in a low interest environment.)

3. The art of suspending judgment

(Buy an annuity to-day ..... you crazy?)

1. What are you doing the rest of your life?

The art of self-reliance

Introduction

Revolution is about change; initially in how we think, and, in time, in how we behave. The after-effects are life-changing, invariably, inevitably.

Recent events invitingly challenge us to revisit the way we perceive and handle the money side of retirement.

And the single most potent lesson that's out there for us to embrace is an urgency with which we'd pursue *self-reliance* above all else.

The need has never been greater, nor the backdrop more opportune.

For example: you can now own, control and bequeath your pension fund, come retirement-age *("ARFs for All")*; you can to all intents buy into an *annuity* to-day and yet revisit the well later; situations unimagined a few short years ago; and soon it's expected you'll be able to buy into a *Government Bond* that distributes capital as income; potentially life-changing propositions, all.

Insofar as no-one will demonstrate an interest in your financial well-being to match your own, let *self-reliance* be the driving force.

Presented by *Retirement.ie* the fee-based *Moneywise* arm, focused on the enhancement of lifestyle finance in the hands of individuals facing retirement.

Target audience:

A beleaguered aging population where, in money terms, *caution* on the one hand, and *lifestyle income requirement* on the other, can pull in conflicting directions.

The Master's Voice

Take a leaf from *Warren Buffet's* book: don't buy into something you don't understand.

Approved Retirement Funds (ARFs) **are pension funds in retirement affording ownership, access and having legacy potential, in sharp contrast to annuities. In order that the Exchequer duly acquires its piece of the cake (as it would in the case of annuities), a 5% p.a. PAYE taxable *imputed distribution* is triggered, without any regard to investment considerations.**

ARFs for All

It all happened so simply – Finance Minister Charlie McCreevy, in 1990, decided that certain privileged categories of retirees could escape the annuity trap; they could access their pension pot and if they were mindful of things, residual funds could hand down to the next generation in a legacy; a sea-change.

Although it was mooted at that time that the concession would extend pretty-well universally, it took all of 21 years for legislation to see the light of day – ***2011 ARFs for all*** legislation paving the way.

But if it did, it didn't come easy. For a time the way was blocked by cumbersome "*AMRF baggage*" now considerably lightened by 2013 realignment legislation that brings credence or meaning to *ARFs for All.*

A feature in all of this, apparent only to a trained eye, is that where, self-evidently, this ownership idea in the hands of a risk-tolerant investor, can enable him/her do all the things that streetwise investors do, ARFs also serve the risk-averse retiree in a special way - in affording an escape route from current depressed annuity rates, all the while affording an annuity revisit option at a future date.

How you'd structure an ARF portfolio?

In theme-paper no. 2 a "personal assessment" risk-tolerance barometer offers risk classifications on scale 1 to 7 – very cautious to very adventurous. Research suggests that a self-assessment exercise is likely to find us more cautious than the external measuring device.

For the purpose of this exercise we plan to focus on a *middle-of-the-road* respondent. At either extreme are to be found (a) the ultra-cautious, fearful ever to venture out of Category 1 – pretty-well everything ring-fenced and (b) the highly-adventurous – such as the savvy investor who'll handpick a basket of shares; taking the rough with the smooth. The ultra-cautious individual is largely catered-for in theme-paper no. 3 inasmuch as he/she will likely revert to the ideal safe-haven pension-type terrain but not until such time as enticing annuity-yields are on offer – and they will be, nothing surer.

Note: ARFs in themselves enjoy "*gross roll-up*" – i.e., tax-exemption within the fund in respect of income and growth. However all monies drawn-down are taxed as income under PAYE. In control of this PAYE collection is a pre-requisite *Qualifying Fund Manager* (QFM.)

Our case-study retiree here comes in as a number 3 on risk barometer.

And now a dedicated measuring process facilitates the structuring of a portfolio of ARF funds spanning a wide spectrum in terms of *Provider*, in terms of *Asset-mix,* in terms of *risk-exposure*, in terms of *Geographical spread*. For the purposes of this essay it's not important what goes to make up the basket in any or all categories; it's risk-tolerance and comfort-zones that are more important as the building-block for actual fund nomination/selection.

The model below, in addition to serving as a "*what if?*" planning tool, also serves as regards year-on-year review.

In the example given our Category 3 investor – given year-on-year draw down (@ 5% p.a. imputed distribution) - witnesses a fall-off in capital value at end of year 10 of c 6% (c. €25K.) in that projected investment growth didn't quite match up. No big deal we'd say; nor would we seek to entice our case-study individual into a higher risk classification simply to seek to conserve capital for the sake of it

Escaping the annuity trap

Theme-paper no. 3 references to-day's annuity-buyer as *"piggy-in-the-middle"* – annuity rates so paltry compared to where they have been and to where they will be in time.

So even an ARF investor who'd reverse into an annuity at an older age, will have escaped the current annuity trap. In order to go down the ARF route, in tandem it's required that you're either in receipt of a pension income of €12,700 p.a. else that you'd park €63,500 in an AMRF – an *Approved Minimum Retirement Fund.* Energetic lobbying on the part of *Moneywise*, among others, witnessed a restoration of this minimum level, where, for a period, it had jumped to €120K. queering the pitch no end.

The €63,500 AMRF instrument doesn't distribute income in that this base value has to be preserved until age 75. Any investment growth above this base may be drawn.

Crucial in the 2013 realignment of €12,700 p.a. income-base is that it's close-on the *Contributory State Pension* value – and so as and when *State Pension* kicks in, a modest top-up annuity can be bought-into in preference to AMRF constraints.

A risk-category 3 portfolio mix: 5% p.a. draw-down erodes capital base by c. 6% over 10 yrs. conceivably.

	€400,000									
	Higher Risk		Mid- Risk		Lower-risk		Safe			
split	15.00%		25.00%		30.00%		30.00%		100%	
	Value	Income	Value	Income	Value	Income	Value	Income	resource	Income
growth?	6.00%	5.00%	5.00%	5.00%	4.00%	5.00%	3.00%	5.00%		5.00%
1	€60,000	€3,000	€100,000	€5,000	€120,000	€6,000	€120,000	€6,000	€400,000	€20,000
3	€61,206	€3,060	€100,000	€5,000	€117,612	€5,881	€115,248	€5,762	€394,066	€19,703
5	€62,436	€3,122	€100,000	€5,000	€115,272	€5,764	€110,684	€5,534	€388,392	€19,420
7	€63,691	€3,185	€100,000	€5,000	€112,978	€5,649	€106,301	€5,315	€382,970	€19,148
9	€64,971	€3,249	€100,000	€5,000	€110,729	€5,536	€102,092	€5,105	€377,792	€18,890
10	€65,621	€3,281	€100,000	€5,000	€109,622	€5,481	€100,050	€5,002	€375,293	€18,765
	Retirement.ie		*Feb 2013*							€193,636

Warning: These figures are estimates only. They are not a reliable guide to the future performance of this investment.

Warning: The value of your investment may go down as well as up.
Warning: The income you get from this investment may go down as well as up.

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