



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?)

3. Buy an annuity to-day you crazy?

(The art of suspending judgment)

Introduction

Suspending judgment isn't to be confused with indecision. It's a luxury that can pay handsome dividends, inviting us to put on hold making binding decisions until it's necessary or beneficial or both.

A shining example is the "*piggy-in-the-middle*" situation in which to-day's retirees find themselves, especially those among us of a cautious disposition – entrapped by historically flooded *annuity rates* compared to where they have been and to where they will be again. It's probably a safe bet that few realise that the life-sentence meted-out by to-day's depressed interest rates can be commuted, i.e. that an escape route from to-day's annuity-trap is out there in a *suspend judgment* option! You can revisit the scene of the crime, even re-write the script!

The backdrop to all of this is not-so-much the minefield, rather the tangled web that envelops the retirement options arena – calling to attention the core message in theme-paper no. 1 – the urgency in all of this of *self-reliance*. No-one will take a keener interest in our affairs with anything approaching the self-interest that we owe ourselves.

You're in sight of retirement? Get involved the rest of your life depends on it, financially speaking at any rate.

Piggy-in-the-middle.

Retiring to-day and drawn, for whatever reason, into *annuity-purchase* is to find one's-self in the wrong place at the wrong time.

Not long ago (1980s) €100K of my fund would have yielded a lifelong annuity income in excess of €10,000 p.a. (See chart overleaf.)

And if somehow I'd find a way to revisit the well in say another 10 years, chances are something not dissimilar will be on offer (I'll be 10 years older for a start.)

To-day it stands at €4,500 p.a. (more than 55% fall-off!) and, in the nature of annuity-purchase, it's a life-sentence.

An *Approved Retirement Fund (ARF)* – see theme-paper 1 – opportunely, can revisit the annuity arena to good effect, at any point.

A fly-in-the-ointment that had obstructed "*ARFs for All*" is now agreeably removed in a 2013 *Finance Act* realignment, clearing the way that allows a potentially life-changing agenda unfold.

21st. Century Retirement

Who could have foreseen a world-wide situation where a deferral of pension age or a delaying of pension draw-down presented as a key strategy in protecting retirement income into our advanced years?

Inasmuch as in Ireland we were ahead of the posse in affording *annuity-purchase* escape routes, by same token, given the besieged current state-of-play, we are again to be envied as regards options that allow for a revisit to the annuity-well (on the part of risk-averse individuals) at a future time when a starkly contrasting landscape will present.

In the U.S., for example, the catch-phrase is "*claim more tomorrow*" – but this implies putting things on hold.

What's special in our jurisdiction is that we can do so (i.e. claim more tomorrow) without making any immediate or interim sacrifice!

Claim more tomorrow?

In say 10 years' time; all being well, I'll be 10 years older.

In the event I went down the annuity route to-day, the deal is done; retiring at say 65 my joint-life annuity delivers an uninviting 4.4% per annum = **€8,800 p.a.** on a **€200K.** purchasing kitty.

In the event, however, I parked my fund in a safe-haven ARF setting - earning say 3% p.a. despite regulated 5% p.a. "imputed distribution" (i.e. compulsory drawdown); firstly I'll have an enhanced gross income stream commencing @ €10,000 yr. 1.

A price-tag is to be paid for this draw-down level having regard to returns in the offing in safe terrain - and so in the event a pattern emerged where I had drawn-down say 2% p.a. more than the fund had earned, 10 years hence a depleted kitty of **€166K** is what awaits. (Of course a less risk-averse individual would seek to keep the fund intact.)

And the pay off? The combination of age advancement, an inevitable inflation-fuelled hike in interest rates, and developments in fixed-term domestic bond instruments (*Sovereign Annuities*) will serve to present an option to revisit the annuity arena when a reasonable expectation suggests a conversion rate at the time in excess 8% p.a. (inflation may drive it above 9% p.a.) but of course in respect of a depleted capital sum, by dint of our cautious protective demeanour. (Invested less cautiously, core opening value may be sustained?)

€166K buying into an 8% p.a. annuity delivers a gross income of **€13,280 p.a.** = 50% enhancement from then on - measured against the unfortunate retiree locked into the life-sentence meted out earlier.

And there's even an escape route for the ultra-cautious individual who wouldn't venture out of the secure environment on offer in a guaranteed annuity setting; a *hybrid ARF/Annuity product*; a bit more expensive given it's catch-all options menu - affording the lifelong income guarantee common to annuities and, as well, the "revisit the well" option common to ARFs - posing the question: *Buy an annuity to-day . . . you crazy?*

Remember in the U.S. "claim more tomorrow" model, it is necessary to forego income in the intervening period; not in our version of things; is it any wonder in this regard, that Irish eyes are smiling.

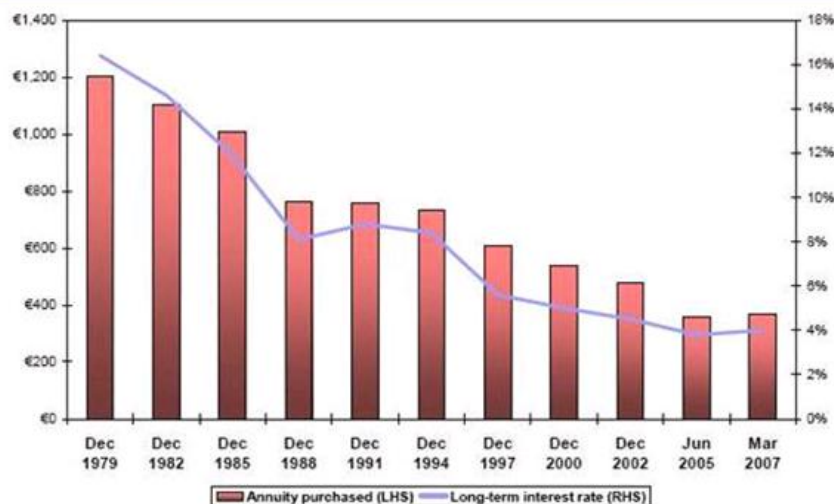


Suspend judgment 1. Pull back from annuity purchase in current environment; enhanced options lie in store.

Suspend judgment 2. Postpone triggering retirement benefits until State Pension kicks in; such as to side-step AMRF requirement (in the event optimum income is what's needed.)

Suspend judgment 3. Await developments in the IAB (*Sovereign Annuity*) arena?

Annuity Costs and Long-term Interest Rates, 1979-2007




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About Retirement.ie / Moneywise:

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