A PERSONAL FINANCE GUIDE

JILL KERBY
&
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talking money

Sponsored by Irish Life

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introduction

When we first approached RTE about presenting a short, weekly personal finance slot, our only pre-condition for **Talking Money** was that our topics would cover 'big ticket items', rather than smaller value ones.

We figured that anyone who hadn't worked out the merits of shopping around for a better motor insurance quote, or a low interest rate credit card by this stage, or who had never been inside one of the discount grocery chains was either incorrigibly feckless or had so much money that nothing we would say was going to catch their attention.

The big-ticket money issues, we figured, were the ones that we all struggle with. They're the ones that have the greatest consequences on long term wealth – far more than not securing the lowest cost motor insurance.

The essential building blocks of financial security

How to become a lifelong saver and investor; how to always protect your life, income, health and valuables from unexpected events; how to make the right investment decisions or tackle long-term retirement planning...these are the essential building blocks of financial security and wealth creation.

It's all very well to set significant financial priorities and goals, but we also know that life never quite happens in a straight line.

Everyone's path, from childhood to retirement, is interrupted with speed-bumps, switchbacks and a few cul-de-sacs. That's why information, education and impartial advice help you map and fuel the journey.

Our Talking Money slots have included everyday, but important money topics that we all need to address at various life stages – like home ownership; how to fund education costs for our children (from crèche to college); funding cars and weddings and even residential care in old age. These are some of the 'take out a pencil and paper' moments that we've also replicated in this Guide.

Information, education & impartial advice

We hope the **Talking Money Guide** will give you plenty of useful information and suggestions to help you make your own choices and decisions about how to save, invest, spend and ultimately grow your money into genuine, sustainable wealth.

How about, the sooner you start this process, the sooner you can secure the most common and achievable goal of all... financial security and peace of mind.

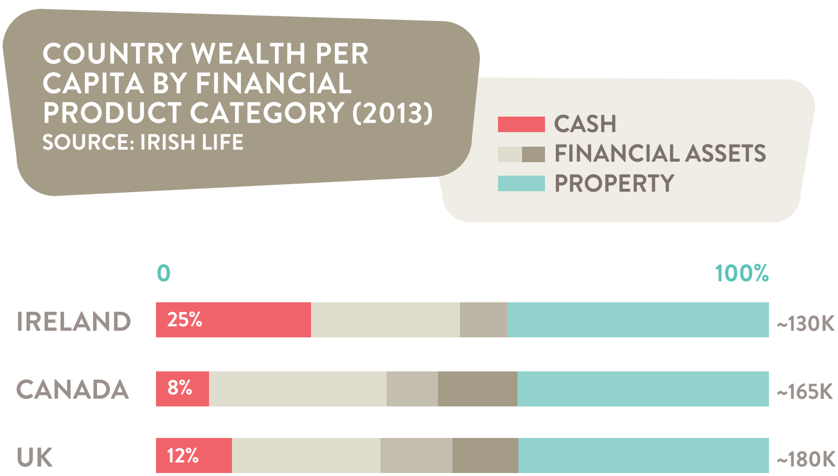
Jill Kerby
Karl Deeter

talking savings

Talking Savings

We spend a lot of our Talking Money radio time discussing savings and investments for a very good reason – they're key building blocks if you want to create genuine wealth and enjoy a life that isn't burdened by endless financial struggles.

And while everyone should have healthy savings accounts, compared to the British and Canadians we Irish can be over-cautious, with a disproportionately high amount of our wealth tied up in low yielding deposit accounts and far less in higher yielding investments like stocks and shares.



The relentless driving down of interest rates and bond yields by the monetary policy of central banks everywhere means that prudent and cautious savers in Ireland – especially older ones who favour the traditional security of fixed interest accounts – are lucky if they don't lose money every year once 41% deposit interest retention tax is deducted and their personal inflation rate eats away at the spending power of their cash.*

*You can check your personal inflation rate here: www.inflation.ie

There's nothing wrong with cash. Everyone should have savings...but in Ireland we have 25% of our per capita net worth in cash and it's a very poor asset value right now.

JILL

The treatment of children's savings in Ireland is particularly unfair; not only are their tiny savings liable for DIRT, but they have no claim to a personal, annual tax-free allowance.

A savings strategy

There are so many calls on our income that it's very common to hear people say that they simply have no extra money at the end of the month to save, and certainly not to invest.

This is certainly the case for people struggling on low incomes or with too much debt, but we think there's another reason for ending up with "too much month and not enough money".

Too many of us just don't have a clear handle on our income and outgoings and we've no savings strategy.

A savings pot comes from surplus earnings, so a proper budget has to be your starting point. From there you need to make sure that you're paying the right amount of tax and claiming all your deductions and not overpaying for everything else: mortgage and groceries, utilities and insurance, banking and debt servicing.

An obvious way to increase your savings is to earn more, but wages have been in decline or static and are only rising in tiny increments, if at all.

So we suggest you also consider if your passions and hobbies...gardening, music, computers, baking, painting, mathematics, old cars...could generate some extra cash. (Karl has a second, part-time career as a guitar and double bass player!)

The local car boot sale, eBay or Buy & Sell, farmer's markets and corner shops are all potential marketplaces for your goods and services and your neighbourhood is full of potential customers for music lessons, maths grinds and baked goods.

The more you earn and save, the less tempted you'll be to borrow and spend.

First you save...then you invest

Knowing the difference between wants and needs, between an asset and liability is a virtue best learned from an early age – as a regular saver.

Most of us know at least one legendary First Communicant who still has their old pounds or new euro tucked away in its original Post Office account.

There's an entire generation of prudent savers in Ireland, usually our older friends and relatives who've been debt-free for decades. Thriftiness and prudence was ingrained into that earlier, poorer Ireland where few had any access to credit, let alone 'easy' credit.

Today, it's easy to dismiss the old adage, 'watch the pennies/cents and the pounds/euro will watch themselves' but it's also part of another concept that isn't well understood: **pay yourself first.**

If you don't consciously allocate a part of your income for your needs, it shouldn't come as a surprise if your money promptly disappears...to satisfy the needs of others.

Also, if you have income, buy goods and services, receive a capital gain or inheritance...you're going to pay tax, lots of tax. The more tax you pay, the more of your money the government gets and the harder it is to create long-term wealth.

Pay less tax

Hundreds of millions of euro in refundable taxes is left behind in the Revenue Commissioner's' coffers every year by taxpayers who don't bother to claim their tax credits or allowances or whose taxes are incorrectly assessed.

Many tax credits – for mortgage interest relief, health insurance and on pension scheme contributions – are deducted at source and your pay slip is adjusted.

But some credits and allowances have to be directly claimed by the individual: qualifying medical and dental expenses, home carer's credits, third level fees, rental property expenses, business expenses if you are a sole trader, your own or someone else's nursing home or nursing care expenses.

SOME THINGS YOU CAN CLAIM TAX RELIEF ON:

- MEDICAL EXPENSES
- DENTAL EXPENSES
- PENSION CONTRIBUTIONS
- COLLEGE FEES

A family can easily build up €1,000 worth of medical or dental bills a year (especially when children need their teeth straightened). Bills not already covered by private health insurance can claim a standard rate credit of 20%.

The home carer's credit is worth €810 to a one income couple if one partner is taking care of dependents (children or adults). Credits for nursing home expenses can still be claimed at the 40% marginal income tax rate.

Discretionary taxes

We spend billions on alcohol and tobacco in Ireland every year, using income that has already been subjected to income tax, USC and PRSI.

Excise and VAT makes up about 82% of every pack of cigarettes, 55% of the cost of every €9 bottle of wine, 71% of the cost of a litre of diesel and over 82% of a litre of petrol.

Sources: Revenue.ie and The AA

Shop around

We may complain about high prices and not having any disposable income at the end of the month, but we only have ourselves to blame sometimes.

A survey by the Competition and Consumer Protection Commission in 2014 found that just four out of 10 people bother shopping around and switching providers every year, for example, to secure lower utility contracts. The most consistent switchers (25%) do so for their motor insurance.

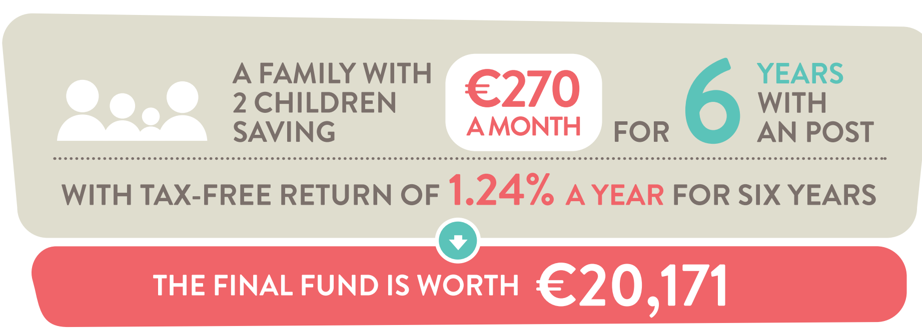
Only about 17% of us switch our electricity suppliers every year, 10% our mobile phones, and 13% our broadband. Yet those who did said they saved €21, €24 and €13 a month respectively. That's nearly €700 a year worth of savings **from just three household bills**.

Child benefit payments

New parents who can afford to save their tax-free monthly child benefit payment will be tempted to tick the box on the Department of Social Protection form that pays the monthly benefit (currently €135 per child) directly to the six-year Childcare Plus State Savings account from An Post.

This is an arms-length option from day one and over the six year term of the product and the €135 a month payment will grow tax-free to €10,085. A two child family with €270 to save will end up with a tax-free fund worth €20,171 after six years.

Few private deposit institutions could ever beat the tax-free savings opportunity that only the state can offer. But that shouldn't stop anyone from regularly reviewing their returns on this universal family benefit or a regular investment plan for a potentially higher return.



Rainy days

Now that you have some savings – generated by extra income, vigilant budgeting, tax refund/credits or child benefit payments – it needs to be properly allocated.

Start with a contingency or emergency savings account of your choice. (A bank, credit union, post office).

Ideally aim to accumulate three to six months worth of household spending that represents your mortgage or rent, groceries, utility and insurance bills. This could be a sizeable figure and it will take time to build this amount of savings, but it is vital because we all experience a domestic emergency – no matter how small – at some stage.

A boiler can give up during a cold spell; a washing machine is not a luxury you can do without. Could you afford to attend a close family funeral abroad without some cash in the bank? How would you pay your rent or groceries if you lost your job, even temporarily, and it took weeks before unemployment benefits came through?

That few thousand euro set aside is the financial lifeline that will keep your family budget afloat until the emergency passes.

Nest eggs

Discretionary spending that isn't kept under tight control can also unravel your finances very quickly.

Your household income should be able to cover modest discretionary purchases once all the essential spending on the mortgage or rent, food and clothing, utilities, insurance, transport, school books and uniforms are taken into account.

More expensive discretionary purchases are another matter. You should always have a separate saving account into which you can feed income as well as a bonus, commission or overtime payments. It can then be used towards an

> *The €12,000 Rent-a-Room Scheme is a massive tax-free giveaway.*
> **KARL**

annual holiday, Christmas, school fees; to replace a car, a wedding celebration or even a down payment on a new home.

With interest rates so low, conventional savings nests will be extremely slow builders, so a combination of demand and short notice, regular or lump sum fixed term accounts are the best way to try and squeeze out the optimum, post-DIRT yields* and ideally a regular investment plan.

*Only pensioners earning below the tax-free threshold and people with long-term needs are exempt from 41% deposit interest retention tax.

Rent a room

We think it's worth reminding you that there's still an amazing short-cut to a healthy savings balance, if you're in the lucky position to have a spare room(s) that you can rent out in your family home.

The Rent a Room Scheme lets you earn rent up to €12,000 a year entirely tax-free, the equivalent of earning the annual state pension without having to be age 66. This is the equivalent of earning about €24,000 from employment income for anyone who pays higher, marginal income tax.

Talking Savings Action List

- ***Set down your income*** and essential outgoings - this budget is the foundation block for building your savings.
- ***Use surplus income,*** tax refunds, child benefit payments and any supplementary income to steadily build your family emergency and nest egg accounts.
- ***Shop around for the best savings accounts*** and terms. Keep abreast of rate changes through on-line deposit rate websites like www.bonkers.ie, www.consumerhelp.ie and www.irishdeposits.ie
- ***Be prepared to move*** your funds to achieve the best return, but be mindful of interest penalties if you withdraw money early.
- ***Children should be encouraged*** to save a portion of their weekly allowance, money, birthday cash gifts or casual earnings, first into a piggy bank and then into a children's savings account at the local credit union or post office.
- ***In this low-interest,*** high-tax saving environment, cautious savers are at a huge disadvantage as DIRT and inflation eats away at the spending value of your deposit. It's why you should avoid leaving all your wealth in cash. Take a look at a good, low cost regular investment plan.
- ***Never leave more than*** €100,000 in any single financial institution; this is the limit of savings covered by the Bank Deposit Guarantee Scheme.

FINAL THOUGHTS

"The best way to avoid going through life living from paycheque to paycheque is to always 'pay yourself first'. Instilling good savings habits in the very young is the way to produce a nation of adults with good savings habits."

Jill

"Cash may still be king in Ireland with over €110 billion tied up in between bank, credit union and state savings, but it's hardly a prince worth kissing when you see how much tax you'll have to pay."

Karl

If you have low yielding savings, but no pension, consider starting a good, low-cost tax efficient retirement fund.

KARL

talking protection

Talking Protection

Have you ever wondered how is it that some people manage to get through life's financial trials and tribulations pretty much intact and others don't?

We wondered about this too, and in our radio discussions we came to the conclusion that one of the things that set some people apart is because they often have the foresight to insure their income, health, home and possessions, and of course, their lives.

When an emergency strikes, and it happens to all of us at some time, whether it's as minor an event as a crushed fender, a burst water pipe or something more serious like an illness that leaves you unable to work, being able to rely on the insurance contract means that you can do whatever repairs are necessary, concentrate on restoring your health and getting back to work. Where a life is lost, the insurance provides financial security to your loved ones.

> *In financial planning there's a hierarchy or 'order' and it starts with protection.*
> **KARL**

A lifetime's worth of insurance is a big outlay for most people, depending on how soon you buy your first car, buy a home, marry and start a family and need to insure your health, income and life.

The insurance industry has put the average annual cost at about €1,800 per person for individual 'protection' cover and €560 per person for non-life protection contracts, say for cars, homes and contents, travel, pets, etc.

Some insurance is mandatory: We have no choice but to insure our cars, mortgages and the buildings of a mortgaged home. In our litigious society, a lot of small business people, professionals and self-employed have to buy expensive public indemnity insurance.

*I've seen too many cases of families that were financially devastated by the early death of a parent. A lot of dreams and plans went unfulfilled. Relative to other things, life insurance is **not** expensive.*

JILL

In the course of a 30-40 year working lifetime, even at a lower estimated spend of €2,000 a year on all this insurance, your total spend can add up to the cost of a holiday home!

Life insurance means...peace of mind

The two biggest wealth killers are death and debt, so we believe that at the top of everyone's insurance priority list has to be term life insurance and income protection cover.

Both of these insurance policies are absolutely essential if you have young children or other dependents – they'll replace your lost income and help meet the family's expenses until the breadwinner can get back to work, or, if the worst happens, until the children are grown and educated.

The best thing about life insurance is that it's really affordable, the younger and healthier you are when you buy it (smokers can pay as much as twice the premium charged to non-smokers) and it can be very flexible.

It's why we even recommend that young, newly married couples who don't even have children yet should buy life insurance, arranged on each other's lives. You can always top up this policy with another one for even more protection cover if you start having children.

LIFE INSURANCE EXAMPLE

YOUNG COUPLE AGED 26, NON-SMOKERS IN GOOD HEALTH €200,000 COVER FOR 20 YEARS WITH DUAL COVER	
LEVEL TERM	€20.42 a month
CONVERTIBLE TERM	€21.82 a month

This quote assumes cover does not increase in line with inflation.
Source: Irish Life 2015

Life insurance is designed to be flexible, because our life circumstances keep changing. For just a small extra payment, for example, you can – and should – buy 'convertible' life cover that lets you buy a new policy when the previous one matures without having a medical examination. This is really valuable because if you've developed any kind of medical condition in the meantime, you could find your premiums being loaded – increased – or be refused cover altogether, while you still have a young family.

Consumer price inflation is going to eat away at the long-term value of your insurance cover, so we also suggest you look into the idea of indexing the amount of cover you take out to keep pace with the cost of living. But this also means your annual premium will go up and you'll need to budget for this extra outlay each year. (Most policies will let you suspend the indexing).

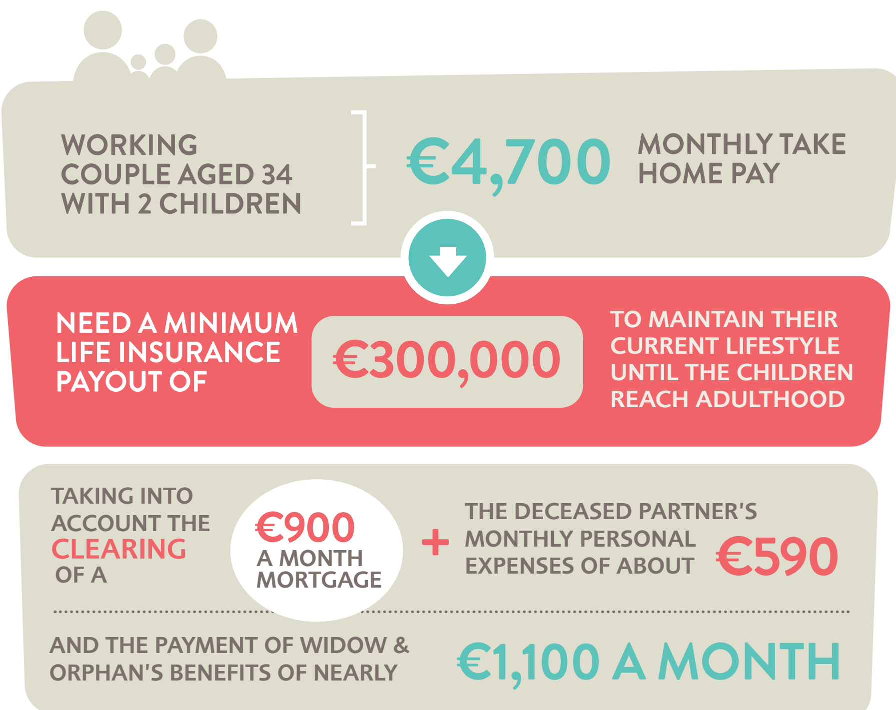
How much do I need...?

We get asked this all the time. The honest answer is, 'It depends'...

Ideally, you want to be able to replace the monthly earnings of the spouse/ parent, less the paid off mortgage (via the compulsory mortgage protection policy) and state benefits for the surviving spouse and children for as long as the last child takes to complete their education.

Exactly how much cover this amounts to varies and can even rise and fall, depending on how many children you have and how soon they reach maturity. It will also depend on how important it is for the surviving parent to preserve their income generation: they may need lots of (expensive) support at home, a full-time nanny or housekeeper to replace the unpaid domestic duties that the other parent provided.

We estimated that a working couple with a joint income, equally divided of €70,000 per annum and two small children, would still need a minimum life insurance payout of nearly €300,000 to maintain their current lifestyle until the children reached adulthood. That's taking into account the clearing of a €900 a month mortgage by their mortgage protection policy, the deceased partner's monthly personal expenses of about €590 and the payment of widow and orphan's benefits of nearly €1,100 a month.



Life insurance is sometimes offered as an occupational benefit by employers along with membership of the company pension scheme. If you're self-employed, linking your life cover to your pension is cost beneficial because the insurance premiums can, within certain limits, be tax deductible.

Company 'death in service' insurance can only amount to a maximum multiple of four times your gross salary, and while it's a valuable benefit and should be factored into any calculation about how much life insurance you need, you certainly don't want to count on it as the only life insurance protection you have, since it's unlikely to be enough to meet the kind of expenditure we've discussed. Also, if you change jobs or become unemployed, the cover ends too.

A good life insurance broker or financial adviser is the best person to help you work out how much life cover you need and can undertake periodic reviews for you too.

Insure your income

If life insurance is an essential purchase for anyone with children or dependents who need to be protected against your untimely death, then the need to protect your income, while you're alive, has to come a close second.

So when a real emergency strikes – an illness or injury that puts you out of work for more than just a few weeks or months – it's income protection insurance that you want, either as a company benefit or a policy that you've bought yourself.

Anyone in full-time work or self-employment can apply to take out income protection insurance to replace a portion of their income (less any state benefits) and these payments continue until they go back to work, or turn 65.

The cost of cover is based on your age, state of health and the type of job you do and how soon you claim the benefit, standard 26 or 52 weeks. The monthly premiums are tax deductible at your marginal rate of tax up to a maximum of 10% of your salary, the payments are treated as normal income and will be taxed.

Once again, you're probably going to need the help of a good broker or adviser to help you work out how much cover you need and how much you can afford.

INCOME PROTECTION EXAMPLE:

Income cover for a 34 year old couple, non smokers in good health working in office jobs earning €35,000 each = €55.28 a month each

This quote assumes cover does not increase in line with inflation and is based on a reviewable premium plan with a 26 week deferred period.
Source Irish: Life 2015

Serious illness cover

Another way to protect your income and family while you are being treated or in recovery, is to buy a Specified Illness Protection policy, also known as serious illness cover.

However prudent and comprehensive we believe an income protection contract to be – we've both had this insurance – replacing a sizeable portion of your income until retirement age is no small achievement (up to a maximum income of €250,000).

But today, with early diagnosis, advanced technology, surgery and drug treatments, people recover, sometimes very quickly, from serious medical conditions and events like cancer, heart attacks and strokes. These are the most common reasons for claims for medical events that were once nearly always fatal or left the person permanently impaired or disabled.

A tax-free cash lump sum can go some way to helping with recovery and recuperation and these policies are especially useful for a stay-at-home spouse or parent who has no independent full-time or self-employed income and therefore cannot buy a conventional income protection policy.

The cost of a specified illness policy will vary depending on your age and health (smokers beware!) but is inevitably cheaper the younger you are when you take it out.

Whatever you do, make sure you fill out all the life insurance questionnaires and application forms accurately and honestly. Non-disclosure of previous medical conditions or family history can be grounds for the insurance company denying a claim.

SAMPLE SPECIFIED ILLNESS COVER CLAIMS

AVERAGE AGE OF CLAIMANTS: **53 YEARS**

AVERAGE AMOUNT PAID OUT: **€62,615**

BIGGEST CAUSES FOR CLAIMS:

MALIGNANT CANCER

HEART RELATED CLAIMS

STROKE (WITH PERMANENT SYMPTOMS)

BIGGEST CAUSES MALIGNANT CANCER CLAIMS MALES V FEMALES:

WOMEN: BREAST, COLON, LUNG

MEN: PROSTATE, LEUKAEMIA, TESTICULAR

Source: Irish Life Claims 2014

People will say, I can't pay the mortgage because I don't have the money... But in the same way you shouldn't risk driving an uninsured car, you shouldn't own an uninsured, mortgaged house.

JILL

Insure your mortgage

If you've bought a family home with a mortgage loan, you've no choice but to also take out a mortgage protection life insurance policy to ensure that the lender is repaid the capital sum if you or your spouse should die before the loan is repaid.

You can also add some 'specified illness' cover to your mortgage protection policy, that will pay a tax-free lump sum to the value of the decreasing mortgage balance if you (or your spouse, separately, or together) ever developed one of the listed, specified illnesses or conditions.

You don't have to accept the mortgage protection policy that your lender will inevitably offer when you arrange the mortgage. A good broker or financial adviser can shop around on your behalf and will explain to you the merits of opting for either a level term policy or a decreasing term one. The latter will be cheaper as it is designed with the aim of the cover decreasing in tandem with the amount of your outstanding mortgage. But the level term one will always pay out the original capital sum, no matter whether it is early or late in the life of the mortgage.

The only mortgaged properties that don't automatically require a mortgage protection policy are investment or buy-to-let properties.

MORTGAGE PROTECTION EXAMPLE

€250,000 cover for 25 years for joint owners, both aged 34 and non-smokers in good health	
LEVEL TERM	€26.04 a month
CONVERTIBLE TERM	€28.12 a month

This quote assumes cover does not increase in line with inflation.
Source: Irish Life 2015

Finally, a word of warning to anyone who had stopped paying their mortgage protection policy. As many as 27,000 homeowners have fallen behind in paying their mortgages by more than two years, and many of them have also stopped paying the mortgage protection policy.

Not only will repayment arrears put the family home at risk of repossession, but if the owner dies prematurely, their estate will be pursued to pay the mortgage shortfall once the lender forces the sale of the property.

How terrible would it be if your family lost everything because you didn't keep the mortgage protection policy going?
KARL

Talking Protection Action List – Life Insurance

- ***Getting married? Starting a family? Buying a house?*** Make an appointment with a good insurance broker or financial adviser to discuss how much life or mortgage protection insurance you need. Don't delay. The later you leave buying life cover, the more expensive it becomes.

- ***Ask the financial broker or adviser to explain*** and compare the costs, merits and downsides of level term, level convertible term and decreasing terms insurance. If your employer doesn't provide income protection, how much will it cost, after tax relief.

- ***Discuss the cost and merits*** of a specified illness policy, especially for a stay-at-home spouse or parent. How affordable would it be to add some cover to your mortgage protection or life insurance policy?

- ***Read the protection policy*** applications very carefully and make sure to make a full and honest disclosure of any previous illnesses, events and your family's medical history.

- ***Keep your insurance documents*** together with other important papers and contracts, like house deeds, wills, birth/marriage certificates, passports, share certificates, etc in a safe place like an accordion folder, sturdy box or drawer. Make back-up hard copies and consider scanning them onto a computer hard-drive. Inform your next of kin exactly where they are kept.

Protect your health

It's been described as a 'self-imposed' tax, one that over two million of us voluntarily pay in addition to the taxes we pay to the state to fund our national health service.

A lifetime's worth of health insurance – easily €40,000 – €50,000 for an individual just entering the system now and based on average annual premiums – when added to your tax contributions, amounts to the equivalent asking price of a family home. Overcrowded hospitals and long waiting lists for diagnostic and hospital treatment are why we choose, at such a great additional cost, to add health insurance to our personal budget.

This is no frivolous purchase, especially given that the annual bill has doubled since 2008, though may now be slowing down with the advent of Lifetime Community Rating in May 2015.

Health insurance is a huge cost. We think the Lifetime Community Rating will help keep prices from continuing to soar.
KARL

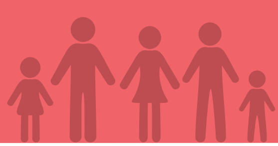
Anyone over the age of 34 after May 2015, who has never had private health insurance previously, has to pay an additional 2% premium for every year of age over 34 when they do sign up for a policy. This is a permanent loading.

Six years, or 12%-worth of higher premiums may be tolerable if you wait until you turn 40 to buy health insurance, but paying 52% more for the same insurance plan at 60 (26 years x 2%) may be completely unaffordable.

There are only four private health insurers in the Irish market – Aviva, GloHealth, Laya and VHI offering hundreds of different plans. We're huge advocates of private health insurance, but affordability is essential and with so much choice, you need to carefully assess your risk factors.

Ask yourself these questions before you buy:

- How healthy am I, or my family? Smoking, drinking too much, being overweight and a family history of related conditions suggest you may have a real need for private health cover.
- Am I overpaying? Have I shopped around for the best cover – even amongst the competitively priced corporate plans that everyone can buy?
- Have I contacted a specialist health insurance broker who is up-to-date on all the latest offers?
- Have I read the contract carefully? Am I aware of any excess payments or co-payments that I will have to make? Do I know exactly what treatments/benefits/private hospitals are not covered?



HOW CAN YOU PAY FOR HEALTH COVER?

SAVINGS? | **HEALTH INSURANCE?** | **HEALTH CASH PLAN?**

Statistically, the younger you are the less likely you are to need hospitalisation. Theoretically not having private health insurance before age 34 represents significant savings. But out-patient costs can eat away into your budget and if you can't afford a private hospital insurance plan, then you should either start saving for health contingencies or take out an annual health cash plan that pays a tax-free cash benefit for a range of medical events and conditions for every member of the family. These include GP and consultant visits, dental and optical treatment, physiotherapy, as well as for hospital and maternity stays. (See www.hsf.ie)

Protect your stuff

Some insurance is mandatory - like motor, home and mortgage protection insurance. This makes sense given the amount of damage a car can inflict on other humans and property or how insuring a building (or a mortgage) until the loan is fully repaid protects the financial interests of both the lender and owner.

With no choice in the matter, you just need to factor in the cost of insurance every year as a pre-condition of being a driver or mortgaged home owner and it is entirely in your interest to buy the correct amount and the most comprehensive cover you can afford.

Since the terms and conditions, excesses and exemptions can be complicated, we suggest you use a good general insurance broker to do the hard lifting for you - even if the cost is a little higher than calling all the insurers or arranging the policy over the internet.

The broker is also the person you can turn to if you have to make a claim or if it's disputed.

There's no legal requirement to insure the contents of your home, but most home insurance policies include the option to have automatic contents cover. It might not be enough and some valuables need to be listed separately; depending on their value, they may even have to be kept in a home safe or an outside safe deposit facility.

Hiring a risk assessor to determine how easy it is for a burglar to break into your home might be worth their fee, especially if you don't insure your contents. Decent door and window locks will not only reduce the risk of a break-in but will ensure a healthy discount on your home insurance premium.

Some renters may find it difficult to separately insure their goods (the landlord will insure his own property and contents). Again, this is where the services of a good general insurance broker comes in who can help you properly value your contents and help you select the right policy.

> *A lot of us experience break-ins – it's happened to both of us. About 25% of all reported home break-ins happen over the Christmas/New Year period.*
>
> **KARL**

Practically anything can be insured...and we spend millions on travel, pet, mobile phone and other electronic goods insurance. Too many people in the past – mostly to their detriment – have insured their credit card balances, bank loans and hire purchases with Payment Protection Insurance (PPI).

We are not fond of PPI: if you have a contingency savings fund with three to six months worth of household spending in place and/or income, specified illness or health insurance policies, you should be able to keep paying your loans until you find a new job or recover from whatever illness has stopped you from working.

Talking Protection Action List – Health/General

- ***Use a good specialist health insurance*** or general broker for private health insurance policies, health cash plan and your other insurance needs.
- ***Don't risk underinsuring*** your property – you could be hit with an 'averaging' clause that will only pay a proportion of your claim.
- ***Make sure you fully disclose*** any previous accidents or claims when you fill out your insurance application. Non-disclosure is one of the most common reasons for insurance companies denying claims.
- ***Avoid if you can,*** payment protection, gadget or 'warranty' insurance. They only represent good value to the seller.
- ***Speak to your vet*** about the merits of pet insurance. Pedigrees tend to have more medical issues than ordinary mutts or moggies but read the small print and excess clauses very carefully.

FINAL THOUGHTS

"Nearly €9 billion a year* is paid out by life assurance companies, yet I see clients all the time who are seriously underinsured. Some think insuring their phone or credit card bill is more important than insuring their income or lives."

Karl

*Source: Insurance Ireland

"To make sure that I'm properly insured – the Goldilocks approach – not too much, not too little, just right – I tend to use a good life insurance and non-life broker. Budgets only stretch so far, and a financial broker or adviser can not only get the best price, but they know what's covered and what isn't."

Jill

Going through life with a firm handle on your personal finances is the best way I suggest to slowly but surely grow some genuine wealth and avoid falling into debt.

JILL

talking lifestyle

Talking Lifestyle

Going through life with a firm handle on your personal finances is just about the best way we can suggest to slowly but surely grow some genuine wealth and avoid falling into untenable debt.

Always saving some surplus income, having a good budget to keep track of your spending and not overpaying your taxes are essential steps, along with having proper insurance in place.

Add some investments as wealth creation and long-term financial security is achievable. You certainly won't get there by borrowing and spending.

We think that wasting money is nearly as bad as blindly falling into ruinous debt and can be easily avoided with a bit of effort and cop-on. That includes ignoring the slick sales talk urging you to indulge in minor or extravagant overspending "because you're worth it."

Since **Talking Money** is all about big-ticket financial issues, we've included a number of common high cost spending and lifestyle events that we think deserve a closer look.

Cars offer great freedom and are essential for many people and families. But be careful about buying a second hand car. Use a good dealer or make sure to bring a good mechanic with you.
KARL

So let's start with...

Car ownership

The AA estimates that it costs about €12,000 a year to run a medium-sized family saloon when running costs like tax, licence, the NCT, insurance, petrol, maintenance and repairs, city parking, tolls, depreciation and interest on capital and AA membership are all taken into account.

Every driver is paying a big price to the Government not just for owning a car, but for being a driver, in the form of motor tax, the driver's license, compulsory NCT tests and motor fuel.

KARL

Not everyone pays for an expensive city parking place so you can knock about €4,000 off that price, but a €7,000 - €9,000 running cost isn't unrealistic given how depreciation accounts for nearly a third of those costs.

Car ownership is expensive relative to just about everybody's income. You pay a premium for the convenience and comfort of a warm, dry vehicle at your beck and call. But what if you avoided the worst of the depreciation cost, estimated by the AA to be as high as 40% in the first year or 60% by year three, by never, ever buying a brand-new car?

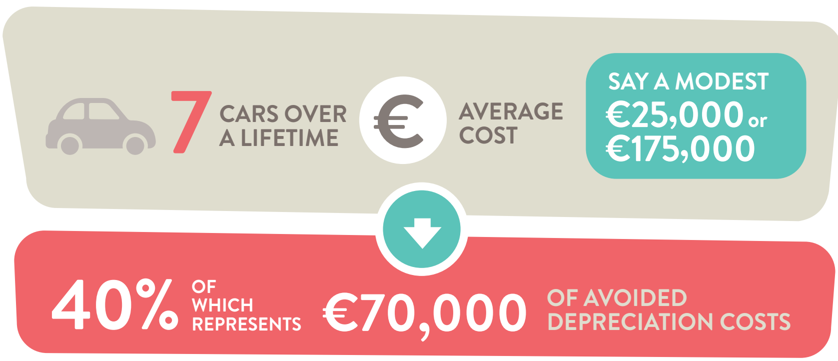
Don't get us wrong.

We think brand new cars are great: they drive so smoothly and quietly. They look and smell wonderful and we love being passengers in them. But neither of us have ever owned one for the same reason that we've never bought a house that was guaranteed to lose 40% of its resale value the moment we crossed its threshold.

A car ownership survey in 2014 showed that the average car on the road in Ireland is over nine years old and will have up to three owners in its lifetime, with the average driver owning about seven cars in their lifetime.

The motor industry correctly blames the weak economy for these figures even though 90,000 new cars were bought in 2014. It says we buck the trend in other countries like the US and UK where the national car fleets are nearly always younger and turnover of car ownership is more frequent.

We're not so sure that buying and driving an older safe car is such a bad thing as this illustration shows:



Just think what you could do with an extra €10,000 – the first years' worth of depreciation on a €25,000 new car? Buying the same one or two year old model at the reduced price also means lower interest repayments if you take out a bank loan.

A second hand car isn't the only way to cut your personal transport costs and save a lot of money.

Holidays…from heaven

We take our summer holiday very seriously in Ireland – for good reason. We live much of the year with cool, damp weather and grey skies. Unfortunately, the last few years have been particularly tough on families who just haven't been able to afford a week or two in the sun, as they once did.

A friend of mine who has a small four berth sailboat in Kinsale has swapped their house AND boat with a family in France.
JILL

The Irish travel industry estimates that the cost of a typical two week European beach holiday is about €1,000 per person, or €4,000 for a family of four. Multiplied by 15 or 20 years and the accumulated cost of flights, accommodation and all the other spending, and a typical family could spend between €60,000 - €80,000, the price today of many Irish holiday homes.

One way to permanently reduce your holiday costs is to become a member of a house exchange agency.

The companies we've joined claim that members can save up to 60% – or €2,500 – of an annual two week holiday by avoiding accommodation costs plus car rental if the other owner is willing also hand over their car keys. (Many do.)

Over 15 years you could potentially save €36,000.

Aside from your annual membership fee, which can range from about €130 to €350 for access to high-end properties on 'exclusive' websites, the main expenses you'll have are the usual ones: flights/ferry, travel/health insurance, food and sightseeing costs. You may also have to provide a refundable damage deposit.

Successful house-swaps are based on a desire to save money, but they work best if you invest mutual respect, trust and lots of two-way communication.

Talking Lifestyle Action List

CARS

- ***Join a Car Club.*** A modest annual membership fee gives you access to cars and vans that you use as-you-go. (See www.gocar.ie)
- ***Set up a taxi account.*** You'd need to make a huge number of taxi trips – to work, the shops, chauffeuring children – to match the cost of running a car.
- ***Consider joining a city-bike scheme*** if there's one in your town or community or investigate whether your company participates in the tax efficient Cycle to Work Scheme. (See www.biketowork.ie)
- ***Always shop around*** for best insurance, repairs and petrol costs. (See www.theaa.ie for fuel efficient driving tips).

HOLIDAYS

- ***Choose your exchange agency carefully.*** Some websites are easier to surf than others and membership fees vary.
- ***Always check that your house and car*** insurance permit the house-swap.
- ***Swap off-season*** and you can enjoy even greater savings on flights.

Higher education...at any cost?

There are a lot of worried parents in Ireland today. What with all their other bills and debts, they're asking how they're ever going to be able to afford to educate their kids all the way through to university.

Better financial outcomes are predictable depending on the degree you do – for example, computer science versus drama studies – and can last for the person's entire working life.
KARL

It's been estimated that raising an Irish child from infancy to third level graduation can cost over €100,000 – which isn't really an unreasonable sum when you divide that figure by 21 or 22 years.

Parents who commit themselves to paying for accommodation away from home will end up with a much larger bill: the Union of Students in Ireland (USI) estimate that such a student will need €11,000 in 2015 alone.

Repaying four €11,000 student loans over, say, seven year terms at a typical personal loan APR rate of 9.7% will amount to total capital and interest repayments of about €60,000.

Every young person with a passion for something should follow that dream if they can. Whether they can make a living from it is another matter.
JILL

While bank and insurance company surveys repeatedly show that a majority of Irish parents want their children to go to university, up to a quarter have no funding plan and as many as half believe it will be unaffordable.

We wouldn't wish any young person to end up with a big bank debt upon graduation. But a sign of our times is that a lot of them who do not achieve degrees in higher paying sectors like finance, medicine, IT, law, engineering and other sciences, are ending up in jobs that have little or nothing to do with their area of study.

That doesn't mean that their education has been a failure but it does suggest that there's an increasing disconnect between the amount of time and money invested and their job and earnings outcomes.

We think an important, but difficult question every parent of young children should be asking, is whether a third level education is, in itself, worth pursuing at any cost. If the answer is yes, then the ideal way to pay for such an education is from long-term savings and investing.

As always, we recommend that you speak to an impartial financial broker or adviser who can explain the pros and cons of both options. Even if you start later, they can always project how a combination of income, savings, investing and student loans can help keep a lid on total funding costs.

SAVING FOR EDUCATION

IN ORDER TO END UP WITH **€44,000** A PARENT WOULD HAVE TO SAVE ABOUT

€182 A MONTH FOR **18 YEARS** TO ACHIEVE A TAX-FREE RETURN FROM STATE SAVINGS

THAT RETURNED AN ANNUAL YIELD OF **1.24%** (the current rate) IF THE SAME **€182** A MONTH WAS INVESTED

AND A GROSS ANNUAL RETURN OF **6%** WAS ACHIEVED

THAT **€44,000** COULD BE RAISED IN ABOUT **15 YEARS** ASSUMING TAX RATE (DIRT) OF **41%**

Talking Lifestyle Action List – Education

- **Do a realistic budget.** The USI is always a good source of student expenses and costs in any given year.
- **If you can afford to,** start saving or investing the annual Child Benefit payment (currently €1,620 tax free) for third level education.
- **Student loans often require** parental guarantees, but if your child defaults, you pay.
- **Parents shouldn't feel obliged to** forego their own retirement funding to pay for their children's third level education unless you're confident they'll support you in your old age.
- **Third level fees** (not the registration charge) are tax deductible at the standard rate.
- **Make sure your kids are stakeholders** in their own education. By their teens, and certainly by the time they enter college, they should have a good work ethic and savings habit.

Happy marriage...with benefits

A happy marriage is worth its weight in gold...unless you don't bother to take advantage of all the financial benefits that come with being legally hitched.

We admit that examining marriage in this light may not be very romantic, but it seems only right that if you're going to commit to live with someone 'til death do you part' and 'for richer or poorer' that you also pay some attention to the financial side of your union.

Big fat weddings

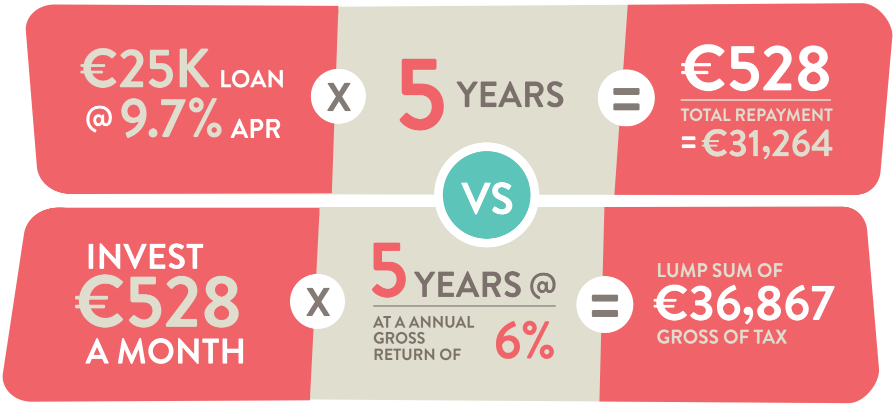
> *A pre-marriage review gives couples a great opportunity to discuss their wider views about money, what their goals are, or goals they should consider.*
> **KARL**

Our views diverge when it comes to the emotional merits and financial value of a big, lavish wedding celebration. (Jill can't bear them; Karl really enjoyed his own wedding bash).

The end of the Celtic Tiger bubble economy in 2008 thankfully took with it (says Jill) the Bridezilla Wedding with the three stag and hen parties, the Paris couture wedding dresses, the 200-plus guest list, and the no-costs-spared honeymoon in the Maldives.

Bad enough as all of this was (says Jill), so many of these OTT nuptials were funded with big bank and credit union loans and the envelopes of cash that guests were "invited" to substitute for a conventional gift.

Enjoy your big white wedding, says Karl, who "had a brilliant time and loved ever minute" of his own. You'll enjoy it even more, says Jill, "if you avoid paying for it with expensive personal loans, overdrafts and credit cards."



Wedding budgets haven't quite crept back up to the eye-watering €40,000 peaks that were commonplace before 2008. But even a €25,000 wedding loan translates into a five year repayment of just under €530 a month and a final interest payment of just over €6,200.

Money like this could build up a healthy savings fund, pay for a new qualification, furnish a new house or even reward you with some very nice holidays.

Good communications...good marriage

It's been our experience that crazy wedding spending sometimes reflects a lack of both financial knowledge and good communications between engaged couples.

Arguing over money is one of the biggest reasons for marital disharmony, which is why it's a very good idea to have an intimate knowledge of each other's financial position...before you walk down the aisle.

Not only should you know how much you both earn and how much tax you each pay, but also other deductions, like for a pension or health insurance. You should also know how much the other spends (and on what), saves and the amount of debt you carry.

If you're intending to live with someone for the rest of your lives it's not a bad idea for each of you to start putting money away right from the start into tax deductible pension funds. Most couples I meet want to retire early.

KARL

We think refusing to disclose this information suggests the other person hasn't got a clue themselves...or might have something to hide.

Married couples immediately enjoy tax advantages that single people or cohabiting couples don't.

A TAX REFUND IN YOUR YEAR OF MARRIAGE AS YOUR ENHANCED TAX CREDITS KICK IN;

A HIGHER JOINT STANDARD RATE INCOME TAX THRESHOLD OF **€67,700**;

TAX-FREE CAPITAL TRANSFERS AND INHERITANCES;

STATE PENSION RIGHTS IN WIDOWHOOD AND OTHER BENEFITS SUCH AS THE QUALIFIED **ADULT DEPENDENT PAYMENT**

Married couples are also able to name each other as beneficiaries of their pension or approved retirement fund (ARF) beneficiaries as a matter of course and are automatic beneficiaries for state benefits when widowed.

Talking Lifestyle Action List – Marriage

- ***Think long and hard about*** whether you can really afford a lavish wedding. Consider the 'lost opportunity' costs and budget accordingly.
- ***Aside from financing the wedding*** and honeymoon, make sure you have a clear picture of your fiancé's finances as well as your own.
- ***Write new wills in each other's favour*** (any previous will is nullified upon marriage) and take out life insurance on 'the life of the other'.
- ***Start pensions*** if you haven't already.
- ***Get some good tax advice*** on how best to take full advantage of being jointly assessed.
- ***Decide how to pay your bills*** and whether to have joint or separate bank accounts.
- ***Discuss early on how you can*** financially prepare yourselves if you want to start a family – especially if it involves taking career breaks or paying professional child-care costs.

Long Term Care

'Good health and long life' is a popular toast (not just in our own language), and many older Irish people enjoy both.

By 2034, there will be over twice as many over 65s as there are now, with exactly the same expectation.

But will their finances keep up? This is a question of national importance that needs addressing sooner than later, and not just by older people if retirement and advanced old age is to be the positive experience we all hope for.

Pension funding and membership is already a big problem. Only about half the working population has a private pension fund and both the size of contributions and the value of retiree's funds are woefully inadequate. Half of all pensioners today rely entirely on the State Pension.

High costs

The cost of a public or private institutional nursing home now costs between €1,000 and €1,200 per week.

The State's "Fair Deal" scheme is clinically based and only once the applicant is accepted are their means assessed: the elderly person has to contribute 80% of their annual assessable income (from pensions, deposit interest, etc.) plus 7.5% per annum of the value of their assets, capped at three years. For a single person, the first €36,000 worth of assets is exempt and €72,000 for a married couple.

We're a long way from Scandinavian cradle-to-grave care here.
KARL

Based on this funding formula, the elderly person with, for example, total assets of €250,000 and an annual accommodation costs of €52,000 for six years, could end up paying 40% of the total €312,000 bill and the State, 60%.

Yet because much of the residents' contribution is derived from their income, a large portion of their assets (which are capped) will remain untouched and their remaining estate can be left, perhaps tax-free, to their heirs.

We don't think the Fair Deal numbers are sustainable, not while the State struggles to meet its current annual bill of €1 billion and the number of over 65s keeps growing at a rate of 20,000 a year.

"Fair Deal" needs urgent short and long term reform, but in the meantime, families and their elderly loved ones struggle with long waiting lists and a shortage of appropriate residential places.

Talking Lifestyle Action List – Long Term Care

- ***Get an accurate picture*** of the financial resources available to support the family member needing long term care.
- ***Engage a good,*** impartial financial/tax adviser if you need help finding funding solutions.
- ***Remember that all qualifying nursing*** home and long-term care expenses are tax deductible up to the marginal (40%) income tax rate and can be claimed by whomever is paying the bill.
- ***Make sure that Wills*** or final care instructions are up to date.
- ***Consider obtaining*** an Enduring Power of Attorney in order to avoid the risk of the elderly person becoming a Ward of Court if they become mentally incapacitated.
- ***If you're a younger person,*** start building long term wealth, like a pension; if you're middle aged, aim to be debt-free by retirement.
- ***Lobby your political representative*** to urgently find solutions that prioritise retirement and long-term care funding including insurance-based solutions that exist in other countries.

FINAL THOUGHTS

"No one is compelled to buy a car. We've always bought second hand ones. I've only had three cars. The current one is 11 years old!."

Karl

"Home exchanges are not just an inexpensive way to holiday, but really flexible too"

Jill

"Be careful what you wish for. There is no state student loan scheme in Ireland, but in England, where fees were introduced in 2012, borrowers graduate with "typical" loans of £40,000 (€57,200)."

Jill

"Finding affordable, appropriate long term/ nursing care for a frail, sick or elderly loved one is one of the most stressful things that will ever happen to a family…the cost is huge and growing."

Jill

"Marriage, as many gay and straight advocates claim, is a special relationship and it's hugely more beneficial financially than just living together."

Karl

Learn to respect money. It's just a tool so keep it in good working order. Buy things of value, not junk.

KARL

talking investments

Talking Investments

Saving money is about providing yourself with a liquid asset – cash – that can be accessed easily and can protect your surplus income against losses.

It's why we encourage children to put their spare coins into a piggy bank and their notes into a bank or Post Office account where it will earn a little interest. Older folk assume that their bank savings will at least keep pace with inflation.

That's not necessarily happening anymore. Demand and notice deposit interest rates, after deposit interest tax of 41% is deducted, effectively mean a zero return. Aside from fixed term State Savings products there is no equivalent of an ISA here in Ireland, the UK's tax-free annual individual savings or investment account.

The official inflation rate may be hovering around 1%, but it seldom reflects your personal rate: just check your motor and health insurance premiums, the price you pay at the petrol pump and grocery store or to keep your house heated. (Check your inflation rate here: www.inflation.ie)

This is why we keep **Talking Money** about the importance of investments, rather than just savings.

Investments take your surplus income or savings and buy assets that have the potential to grow at a greater and faster rate than a tiny guaranteed savings rate.

You buy investments to meet expensive long-term goals like retirement, a big mortgage downpayment, a child's third level education. We know parents who save to give their offspring a big white wedding...or just to leave them a big inheritance some day.

No single asset always outperforms the others. But some tax treatments, especially for pensions and property can be very favourable.
KARL

Fearing a loss

There's a lot of confusion, suspicion and fear about investing and that's unfortunate, but understandable given how badly burned many people became by the collapse of the property bubble and the economic downturn after 2007. Their own properties halved in value, pension funds dropped and a lot of personal fortunes disappeared altogether when bank shares became worthless.

We call this the **broken egg syndrome**.

Financial nest eggs, whether in the form of shorter-term savings or longer-term investments are a very good thing, but leaving all your eggs in a single basket is not very wise.

We've noticed that quite a few people finish their working careers with very little to show by way of financial assets or wealth. This happens not just because they don't save very much and never invest but also because they also have bad spending habits. They put off making even cautious financial decisions (like buying income and life insurance) and blame everyone else when financial contracts that they never bothered to read turn out differently than they say they expected them to.

When they do invest, they follow the herd. Property has historically been the Irish financial drug of choice, with cheap credit the downfall of everyone from the biggest, most experienced property developers, to modest PAYE workers and the self-employed.

Meanwhile, they often mistake gambling with investing, betting the house (sometimes literally) on a small number of shares, perhaps even with borrowed money.

Property and shares should form an important part of your personal financial portfolio, but only in the right proportion…and at the right price.

With these kinds of historic losses, and the urban myths that have grown up around them, it's no wonder that so many people here say they're gun-shy of stock market investing in particular and prefer to put their spare cash in the bank or post office, where it's guaranteed to be eaten away by DIRT tax and inflation.

We think understanding the importance of investing is worth making the effort, because time and money are essential ingredients if you want to achieve real wealth. You don't want to run out of either of them.

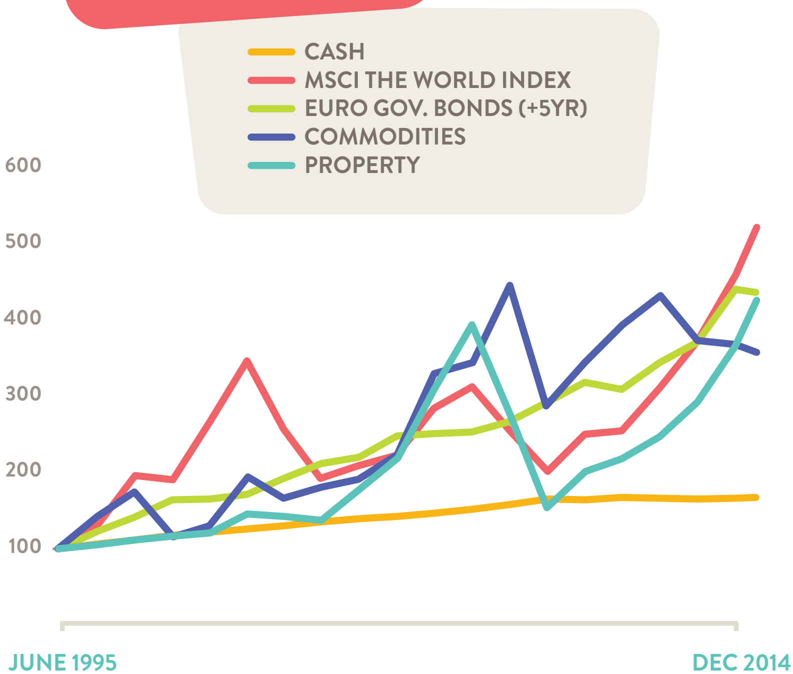
Investing needs a plan

Saving is comparatively easy; you deposit your spare income or cash into an interest bearing account and you track its growth.

Investing needs more effort. You choose the assets you believe have growth potential. You can buy them separately or in the form of pooled managed funds (often from a life assurance company or investment company) or as low cost ETFs, (exchange traded funds that trade as a single share on a stock market). Ideally, you get some help from an experienced, impartial broker or financial adviser.

You then decide what proportion of your money goes into each asset class – publicly listed stocks and shares, also known as 'equities'; property, bonds and cash (known as 'fixed interest' assets) and commodities. These are the conventional list of investible assets, but there are others like privately listed companies, hedge funds, art and antiques, rare wine, bloodstock.

PERFORMANCE OF MAIN ASSETS OVER 20 YEARS
SOURCE: FACTSET



The investor also looks out for high fees, charges and taxes since these will negatively impact on the ongoing value of your fund. Then you hope you've made the right choices and that the considered risks you've taken will meet your financial goals...without you losing any sleep.

Money, time, knowledge, patience and the ability to keep your nerve when markets are volatile or when there's a correction (these can happen pretty regularly over a lifetime) are the essential ingredients for any successful investment.

Impartial advice

We can't emphasise enough how important the help of an experienced financial adviser or broker can be if you decide to start investing for the long term.

There are literally tens of thousands of pooled investment funds and ETFs on the markets and hundreds of thousands of individual global stocks, bonds and properties from which to choose.

They all come with their own particular features, prices, performance records and costs.

What's entirely missing is a crystal ball to show you how they will perform in the future, so you face a stark choice: pick and choose the individual asset winners (or the individual winning fund manager) yourself, or use a diversified, balanced portfolio of asset funds that spreads your financial risk as widely as possible. Some people may want to combine both.

This is where a good, impartial financial adviser or broker comes in. They know what options and choices are available, which ones offer the best value costs and fund management charges, and which asset mix will suit your risk profile best.

Different fund managers adopt different styles, so a good adviser can also explain the merits and downsides of active or passive fund management, the latter leaning towards index and consensus funds that try to always match the average market return.

(We're as split on this issue as the investment community: Jill is firmly in the passive camp with a widely diversified, low-cost passive fund; Karl prefers a hybrid investment fund that actively aims to balance or 'hedge' his investment losses and gains within the different asset categories).

Diversification and advice are the two key things that help you manage the risk necessary to get higher returns.
KARL

Ideally, where company pensions are concerned, hopefully an experienced pension specialist will also be advising your employer or the scheme's trustees about what types of assets and funds should be included and how they should be weighted.

It's never too late

While it's never too late to adopt good financial habits – like investing in addition to saving your money, you have to be realistic about investment returns.

Historically, equities produce greater returns over longer time periods than any other asset class, but they can be volatile over short terms.

If you know you have to pay expensive college fees in a couple of years, an investment fund is not the right option as the volatility risk and underlying costs will be too great to ensure you will meet that bill. You need a good – and here we mean a high – yielding savings account.

Nor should you kid yourself that you'll produce a two-thirds final salary pension fund at 65 if you've only starting investing in one in your late 50s (not even with all the tax advantages).

You need to start investing young to be confident that your pension fund will replace a large chunk of your final working income.

We certainly don't understand why anyone wouldn't join a tax-deductible, tax efficient pension scheme at their workplace, or, if there's no company scheme to join, that they don't take out a PRSA or private pension plan.

Some people – we think naively – tell us that they're counting on the State Pension plus their savings, maybe their own family home or an inheritance to see them through their retirement. See our Talking Pensions chapter for more on planning for your retirement.

> *Stop listening to people who say they have had bad investing experiences. Just because someone else lost money, doesn't mean you should never invest.*
>
> **JILL**

QUICK GUIDE TO TAX AND INVESTMENTS

No matter what your investment plan, you need to know exactly how different assets work. But having an idea of how they are taxed might also inform the choices you make.

CASH: Deposit interest retention tax is 41%. Exemptions include certain people with disabilities, over 65s whose gross annual income doesn't exceed €18k (€36k for a married couple). Deposit holders with total unearned annual income in excess of €3,174 will also be liable to 4% PRSI on deposit interest.

EQUITIES: 1% stamp duty on individual shares. Dividends are taxed at income tax rates (plus USC and PRSI) and may be liable for withholding tax. Profits are subject to capital gains tax of 33%, less the annual capital gains tax (CGT) allowance of €1,270.

UNITISED INVESTMENT FUNDS: 1% life assurance levy on contributions. Gains in a fund are subject to exit tax of 41%. You pay this at every 8th anniversary from the start of your investment and is taken into account when the final exit tax falls due. The annual CGT allowance does not apply.

ETFS: No stamp duty. 41% tax on all dividend gains and when an Irish or EU domiciled ETF is sold. US-domiciled ETF dividends are subject to Irish income tax, USC, PRSI. Capital gains tax applies if the ETF is sold.

QUICK GUIDE TO TAX AND INVESTMENTS

PROPERTY: 1% stamp duty up to €1 million value, 2% over €1 million. Annual local property tax of 0.18% of assessed value. There is no capital gains tax liability on the sale of your family home. There is no capital acquisition tax inheritance (CAT) between spouses. CAT exemptions apply in certain circumstances where the family home is inherited or gifted to a co-habitee of the owner for a period of at least three years before the inheritance or gift.
(See www.revenue.ie for details).

INVESTMENT PROPERTY: 2% stamp duty; 0.18% local property tax (LPT); income tax/USC/PRSI on rental income; partial (75%) tax relief on rental expenses; local authority rates and 33% CGT on any gain when sold/transferred.

REITS: Like other shares that trade on a stock market, real estate investment trusts dividends are subject to 1% stamp duty and income tax/USC/PRSI and CGT when the shares are sold.

BONDS: Irish government bonds are tax-free at maturity. Gains earned on bonds that are traded before maturity are subject to income tax, USC and PRSI.

COLLECTIBLES: You may have to pay VAT on the purchase of 'collectibles' like art, antiques, fine wine, bloodstock and CGT on any gains at disposal, including precious metals like gold and silver.

Talking Investments Action List

- ***Don't just save your money,*** invest it.
- ***Diversify your risk*** by spreading your money around the various asset classes and by buying pooled funds rather than individual shares, bonds, property, etc.
- ***Avoid becoming 'overweight'*** in a single asset – never leave all your financial eggs in one basket.
- ***Weigh up the pros and cons*** of passive versus actively managed funds.
- ***Be aware of*** the impact of costs, fees, commissions and management charges.
- ***Always seek out*** impartial, expert, financial advice.
- ***Never buy a financial product*** that you don't fully understand.
- ***Learn patience.*** Investing is for the longer term.
- ***Don't panic.*** One of the guaranteed ways to lose money is to sell low and buy high.
- ***Always understand the tax*** implications of your investment; not all losses can be offset by capital gains.
- ***Gambling and speculating*** require deep pockets and nerves of steel. Investing is about informed decisions and weighing risks and rewards.

FINAL THOUGHTS

"Inertia is just another excuse not to start saving and investing. Some people end up living from pay cheque to pay cheque their entire lives because they never bothered to set financial goals or a plan to meet them."

Jill

"Understand inflation. It kills wealth by eating away at the spending value of your assets – your income, the return from rent, dividends. You have to keep track of your wealth or it could disappear from the impact of rising prices, taxes, government charges and levies."

Karl

talking property

Talking Property

The largest market in the world isn't the stock market, the bond market or any other financial market; it's the property market. Property is also the largest form of household wealth in the world – including in Ireland.

You'd imagine that after our massive crash, residential property would be on most people's investment black list. But the reverse is happening and it's as popular as ever.

So what are the financial implications of what will be the largest purchase most of us will ever make?

> *There will always be a premium price to pay on a home in a desirable area.*
> KARL

The family home

A family home, unlike a buy-to-let property, isn't strictly an investment. In the early years of a mortgage it can be a serious financial liability – except in the sense that you've invested in a place of security and comfort for your family (assuming you can keep up the repayments).

Perhaps the most overlooked aspect of buying a home is that it provides 'utility value' – the use of the property. The difference between an owner and renter however, is that every time you make a monthly payment, you build equity and wealth.

Eventually the person who steadily makes those repayments will eventually own the entire property. We call this 'forced savings', but it's not done with the reluctance that we see otherwise. People who want a home, and the chance of owning outright a valuable asset some day, intuitively understand the importance and value of making their payments every month.

Property prices can – and do – fall. We've all seen how long negative equity can last, but eventually that tide also turns and eventually, the property is yours, not the lenders'.

But with all the assorted set up costs, broker's fees, hefty down payments, taxes, insurance and periodic maintenance and repairs, property ownership can get costly fast.

So how much does it really cost

What frequently worries Karl as a professional mortgage broker is that while people of all walks of life and income want to buy a home, too many of them really don't have a clear idea of the scale of the financial implications that come with home ownership.

It isn't just the asking price, but all the other additional costs that determine the final cost of owning a home.

The list price of the house might be €250,000, but you must then add the legal fees, typically 1% or €2,500 and at least another €1,000 to cover the various valuations and building surveys for an older house. The mortgage protection and buildings insurance is an on-going expense and could cost another €1,000 a year.

So even without a lick of paint or stick of furniture we've found another €4,500 of additional purchase costs.

Then there's the matter of the deposit. If you earn €40,000 a year – or about €30,000 after tax – then saving a 20% deposit or €50,000 in order to buy a €250,000 property will take every penny you earn for 20 months. Unless you secure a fantastic rate of deposit interest or a helping hand from a generous benefactor, you'll need €67,000 worth of gross earnings to create a net €50,000 deposit.

Meanwhile the total repayable cost of that €200,000 mortgage over 30 years is €364,813, of which the 'cost of credit' is €164,813.

TOTAL COST OF BORROWING @ 4.5%

AMOUNT BORROWED	TOTAL COST OVER 20yrs	OVER 25yrs	OVER 30yrs
€100,000	€151,835	€166,749	€182,406
€200,000	€303,671	€333,499	€364,813
€300,000	€455,507	€500,249	€547,220

The good news is that most first-time homeowners never keep the loan for 30 years. As time passes and your income goes up or you earn lump sums from savings, inheritances or redundancies, the debt can be reduced faster and more interest can be avoided.

> *The bigger the downpayment...the better the interest rate you will be offered.*
> **KARL**

That doesn't mean you should make the decision to borrow such a large amount lightly; debt is the second biggest wealth destroyer after death (as Karl frequently reminds his clients) and hundreds of thousands of homeowners remain in negative equity and mortgage arrears.

Overpaying a mortgage

Getting debt free, especially from a huge homeloan, is a really powerful step towards long term financial health and wealth.

You might hear some well thought out reasons for not paying off your mortgage early. But we think owning the roof over your head as early as possible is a simple financial concept that everyone can appreciate.

Once you're debt free, and for as long as you still have a reliable income, you can always re-mortgage your home if you need a lump sum. Another advantage of not having a mortgage anymore is that the repayment saved can be invested in another asset, like a tax-efficient, potentially higher yielding pension fund.

Right now – the summer of 2015 – most depositors are earning less than 1% net on their savings, which is about the same as the best-tracker interest rate. **We can't emphasise enough: If the rate on your debt is higher than the rate you can earn on savings, then pay down debt. If the interest rate on savings is higher than the rate on mortgage debt, then borrowing at the lower rate makes a lot of sense.**

This is what happens when you overpay a 30 year mortgage based on a 4.5% standard variable interest rate:

LOAN	€100,000	€200,000	€300,000	€400,000
MONTHLY PAYMENT	€507	€1,013	€1,520	€2,027
OVERPAYMENT	€50	€150	€200	€300
TOTAL EXTRA PAYMENT	€14,950	€41,400	€56,600	€82,800
TERM REDUCED BY	5yrs	6yrs 11mths	6yrs 4mths	6yrs 11mths
SAVING (€)	€15,873	€43,204	€59,436	€86,408

To fix or not to fix

Tracker rate mortgages are so cost efficient right now that they are an unbeatable bargain. However, many people with high standard rate variable repayments wonder if they should consider switching to a fixed rate.

First, switching (or overpaying) a variable rate mortgage carries no negative consequences but breaking a fixed rate one, whether by making extra payments or by redeeming it altogether can result in a financial penalty.

> *My preference has always been to pay off a mortgage as soon as you can...whatever happens, you and your family always have a home and a real financial asset to fall back on in hard times.*
>
> **JILL**

Fixed rates are attractive because they offer security against rate increases, but they tend to be higher than the variable ones. Think of them as an insurance premium, security for knowing your repayment stays the same for a set number of years. However, today's market is a strange one, and many fixed rates are actually lower than variable ones. We don't expect this to last.

You should therefore also consider the possibility of switching to a better value mortgage lender. Someone with a €200,000 mortgage who switches to a 1% lower rate – assuming it was maintained – will enjoy savings of about €23,000 over the remaining term of their 30 year loan. That's the equivalent of a new car or a round the world cruise. So stop thinking of a switch as complicated or as 'hassle'. **Think of it as money in your pocket, not the lenders.**

Mortgage hoops

Before you even apply for a loan make sure your current outgoings are greater than the proposed repayment. 'Proof' will include your verifiable income, rent payments, a steady savings record and your ability to meet the Central Bank's 'loan to value' and 'loan to income' criteria.

The lender will then further stress-test the repayment (a Central Bank rule) by adding another 2% interest onto their offer rate of, say 4% to ensure the borrower can cope with a sudden rise in rates.

On a €200,000 loan you might just about be able to pay the €964 monthly repayment, but could you stretch to €1,211, another €247? That's nearly €3,000 extra a year.

A first time buyer can borrow 90% of a property value up to €220,000 but if the property costs more that this, then their loan to value is 80% and they will have to find a minimum 20% deposit. That's the 'loan to value' restriction.

The 'loan to income' rules means that your loan can't be more than 3.5 times a single income or joint income if a couple is making the purchase. A €40,000 income earner will only be able to borrow a maximum loan of €140,000.

Mortgage trouble

Ireland's post-crash mortgage scene remains an enduring mess with the number of long-term arrears of two years and over still growing.

Anyone who finds themselves in any kind of financial difficulty because of their mortgage should contact their lender straight away. Don't stick your head in the sand and hope the problem will go away. It won't.

Mortgage providers must acknowledge a concept known as 'pre-arrears' and treat your case with the same urgency and sensitivity that they would if you were you in actual arrears. Making early contact increases your chance of early resolution and the risk of your mortgage difficulty turning into something much more serious.

If you're already in arrears then you're probably familiar with the four stage MARP or 'Mortgage Arrears Resolution Process' that involves communications, information, assessment and resolution. There is a separate appeals process.

All four stages have to be adhered to in order to avoid unnecessary risk of repossession. This can happen, for example, where the borrower with arrears makes payments, but hasn't supplied any information to their lender about how or why they've fallen into arrears.

'Engagement' means always acknowledging and returning the bank's calls and letters and keeping a dialogue going.

I understand why Karl thinks only the kind of long term fixed rates that apply in the US and Canada are worth recommending, but the comfort in a fixed rate is knowing that your payment will never go up another cent for the entire fixed period.

JILL

Once you reach the final stage, you will hopefully be offered a 'forebearance' resolution. Unfortunately, while they all aim to keep the person in their home and away from a repossession Court, they all come with downsides.

RESOLUTIONS

1. Interest only payments

Interest only payments were originally mainly intended for investment properties because the interest was a fully offsetable business expense.

As a forbearance measure, the interest-only payment on the loan means that the person has a much lower amount to repay each month.

COMPARING THE INTEREST ONLY CALCULATION WITH A CAPITAL INTEREST ONE

30 YEAR €200,000 LOAN WITH A 4.5% STANDARD VARIABLE RATE

THE CAPITAL & INTEREST REPAYMENT WOULD HAVE BEEN €1,023

INTEREST ONLY: €200,000 x 0.045 = €9,000 ÷ 12 = €750 OR HALF OF THE ANNUAL REPAYMENT

An interest only repayment resolution is popular because it's a quick fix. But it does nothing to reduce the great weight of the debt which still has to be cleared. For that reason it shouldn't be considered as a long-term solution.

2. Capitalised arrears

This is where your arrears are added to the balance of the loan and the borrower now repays the total amount over the remaining life of the mortgage. The downside is that the monthly repayment will go up, but as before, it will be spread over the remaining term of the mortgage.

3. Term extension

The longer the period you have to repay a loan, the smaller the monthly repayments. That's all very well if it's a zero interest loan and the €1,000 you borrow over 10 months, for example, costs just €100. If the lender agreed to let you pay it off over 20 months your monthly payment reduces to just €50.

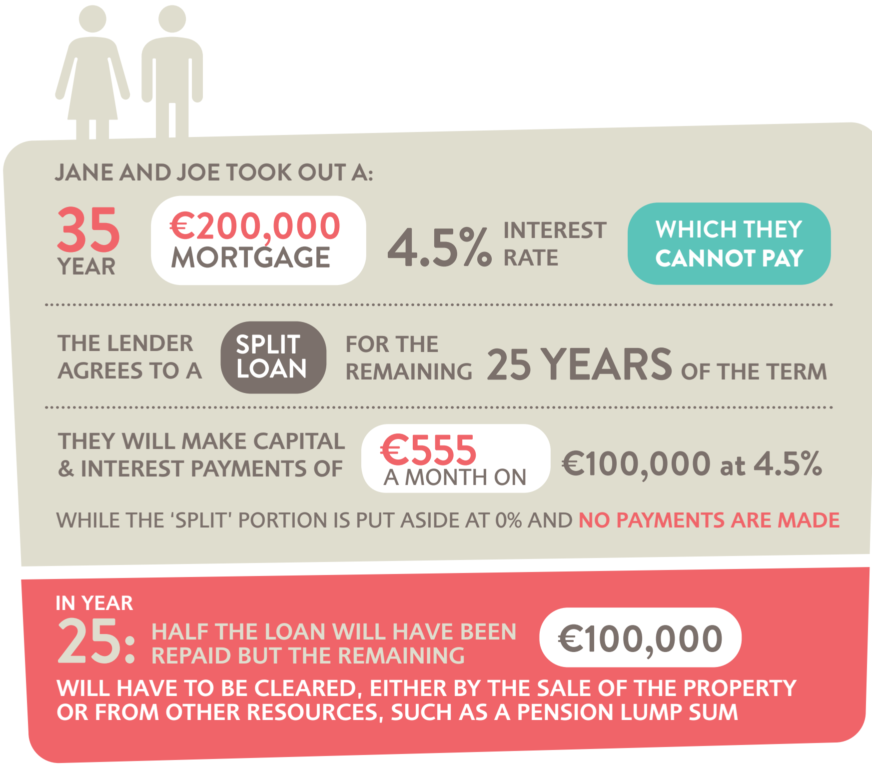
But the same principle applies with a long mortgage repayment and because mortgages carry an interest payment, the longer the period to repay the loan, the greater the compounding effect of the interest you have to repay. Even if the borrower doesn't have any arrears, extending their loan to lower the repayment will mean the total cost of the mortgage will be higher.

Lenders don't always allow an extension if it exceeds the borrower's retirement date. A 50 year old with 15 years left on their mortgage won't be offered an extension beyond age 65.

4. Split Mortgages

A split mortgage offer is on the assumption that one part, often but not always half of the loan, continues to be paid as usual. The other part of the payment is 'warehoused' on which the interest may or may not continue to accrue.

Split mortgages are reviewed but can last for the duration of the loan after which the split warehoused portion – the capital and possibly the accumulated interest as well – will have to be paid.



5. Reduced rate/part capital payments

These forebearance measures involve either a reduced or 'concessionary' interest rate for a period to improve affordability, or full interest repayments but only partial capital payments for a period. They should both have the same immediate effect.

The better, long term debt outcome comes with accepting the reduced interest rate option. The attraction of the reduced rate offer, however short term, is that your repayment difficulty – say a job or income loss – may only be temporary; so a little 'kicking the can down the road' might not be such a bad thing.

6. Payment moratorium

This is an exceptional forbearance measure where the lender allows the borrower, say a taxi driver whose vehicle was damaged, to not make any arrears or mortgage payments in order that he pay for the vehicle repairs. Without his taxi back on the road, the mortgage holder will be permanently unable to repay his loan.

> *As a mortgage broker I see people from all walks of life wanting to buy a home, but many don't have a clear idea of the scale of the financial implications that come with home ownership.*
>
> KARL

Talking Property Action List

- **Avoid over-paying** for a family home, no matter how desirable; try to keep your emotions in check.
- **Make sure** you are aware of all the initial and on-going costs of home ownership. They can be high.
- **Keep your finances and credit record** in good order if you want to qualify for a mortgage: missed credit card payments and a busy on-line betting account will do you no favours.
- **Pay off** your mortgage sooner than later, unless it's a super-low tracker.
- **Don't revert to even** a short term fixed loan if you think you might have to break it early.
- **Buy to let borrowers** are not obliged to take out mortgage protection insurance, but should. Without it, their families could be liable for any outstanding balance if the property is sold and there's a shortfall.
- **Always contact the lender** if you get into financial difficulties and look for a professional, impartial opinion from a MABS official or a financial adviser before agreeing to any mortgage arrears forbearance resolution. (See www.keepingyourhome.ie)

FINAL THOUGHTS

"I'm a huge advocate of home ownership because it's a wealth builder. But we need to accept that our view of property ownership at all costs is unhealthy. We need a more balanced view in Ireland that includes affordable renting, social housing and home ownership."

Karl

"I've been lucky as a homeowner (twice). But it's not my natural inclination...I don't like the expensive repairs, maintenance, tax obligations or how tied down you become when you own a property."

Jill

talking pensions

Talking Pensions

Retirement, just like mortality, is the easiest thing in the world to ignore...until you're suddenly in your late 40s and wondering where the last 20 years have gone.

Our **Talking Money** listeners on RTE's Drivetime tell us that it's often when their first child starts college and their savings accounts are being drained that they get the big wake-up call. In another blink-of-an-eye, it will be their turn to experience an anticipated but scary milestone – retirement.

They should be a little scared. With only about half the working population pensioned-up and of those who are not investing enough, we suggest that whatever your age, whatever your circumstances, you need to have a realistic, flexible, retirement plan in place.

Start saving early...really early

When it comes to pension fund growth, there's a magic ingredient to count on called compound interest, or the ability of invested money to steadily grow in value over time. Albert Einstein called it one of the 'eighth wonders of the world'.

Which is why we want to challenge a widely held view that you don't have to bother joining or taking out a private pension until you hit your 30s.

Nothing could be further than the truth. By your 30s you may already have other financial commitments like car loans, credit card balances, a first mortgage, perhaps even expensive childcare costs; so how are you going to afford pension contributions as well?

This probably explains why €80 million of potential employer pension contributions 'are left on the table every year' by young Irish workers who opt out of joining their company pension scheme, according to Mercer. That's 7 out of 10 young workers walking away from extra, deferred income for their retirement...what a waste!

> *Retirement doesn't mean you're put out to pasture. Many healthy people happily work into their 70s.*
>
> KARL

It's not difficult to understand the merits of a tax-efficient, tax exempt, invested, flexible private pension fund, even if their underlying rules, terms and conditions we concede are overly complicated.

A pension fund works like this:

A percentage of your gross income is diverted into a basket of assets that grows tax free - less fees and charges. Ideally, if you're a member of a company scheme your employer matches or exceeds the amount you agree to contribute. You both get tax relief.

Here's an example of how tax relief works if you were to contribute €100 a month into a pension for both a 20% or 40% tax payer.

TAX RELIEF — €100 INVESTED

TAX RATE:	INCOME TAX RELIEF:	YOU PAY:
20%	€20	€80
40%	€40	€60

When you reach retirement age a quarter of the pension fund can be taken as a tax-free lump sum if you are an employee, self-employed or a proprietary company director. If you are an employee depending on your length of service, you can take up to one and half times your final salary as a tax-free lump sum (to a maximum of €200,000). If there is anything left in the fund, that money can be converted (in a number of different ways) to produce an annual income.

Unfortunately, only half of Irish workers have a private pension and the average value of their fund is only about €100,000 by age 65, which at best probably won't generate much more than about €3,000 worth of income a year for the rest of your life.

Meanwhile, about half of pensioners in Ireland, who don't have a pension already rely exclusively on the €11,975 a year State Pension and whatever savings they may have. Yet surveys also show that while most believe that an 'acceptable' retirement pension income would be near enough to the average Irish industrial wage of about €36,000, the average pension fund member only invests about €140 a month.

Even if you deduct the €11,975 State Pension from that €36,000 you'd still need a pension fund worth nearly €750,000 by age 66 to produce an income of €22,000 a year. Even with tax relief, low costs and superb investment growth, a fund that size is simply unachievable with such a tiny level of funding.

The good news is that a pension fund of €750,000 is entirely feasible if a young person with a modest to good income starts investing early and consistently.

You may think that retirement – four decades away – is the last thing you need to consider in your early 20s. You couldn't be more wrong.

The sooner you join your employer's pension scheme (if they have one) or start a private one of your own, the quicker your lifestyle costs will adjust to the new bottom line on your payslip.

Not having enough money set aside for retirement by middle age is the ultimate wake-up call.
JILL

Paying into a pension at an early age and maintaining even a modest percentage contribution – say 10% – as your income rises, is also the easiest and steadiest way to grow your fund into a potentially large pot of money by your mid to late 60s. (Note that anyone born from 1961 onwards can only collect their State Pension at age 68).

2 SALARY EXAMPLES

SALARY	€24,000	€34,000
AGE	23	23
GROWS BY	3% a year	3% a year
INVESTS	10% of salary a year	10% of salary a year
TAX RELIEF	40% x 25 years	40% x 45 years
FUND GROWS	6% a year	6% a year
RETIREMENT AGE	68	68
STANDARD FUND CHARGES	5% on contributions 1% annual mgt	5% on contributions 1% annual mgt
FUND WORTH GROSS	**€603,629**	**€856,606**

Source: Irish Life 2015

We figure what you've never had to spend – say, 10% off the top of your first salary, or in this case, €283 a month that's automatically lodged in a pension fund – you won't miss.

The tax relief for our 23 year old who earns the higher €34,000 salary will also be substantial. For every €1,000 invested, there's a €400 marginal income tax credit or if you'd prefer, a 66.6% State subsidy. Even the 20% standard rate tax relief on lower initial earnings amounts to a 25% State subsidy, money that can be saved towards the purchase of a car, further education, a down payment on a first home or even a big white wedding.

We believe diverting 10% of a first salary into a pension fund and **always** making at least that percentage contribution every year, is one of the most important decisions a young person can make.

PRSAs

PRSAs are flexible, portable personal retirement savings accounts that employers must offer their workers if they don't operate an occupational scheme. PRSAs are ideal for the self-employed and proprietary company directors.

Maximum allowable contribution for tax relief

AGE	% OF EARNINGS*
Under 30 years	15%
30-39 years	20%
40-49 years	25%
50-54 years	30%
55-59 years	35%
60 and over	40%

*In the case of employees, "earnings" means gross pay for tax purposes. In the case of self-employed people, "earnings" are defined as "net relevant earnings". From 2011 the annual earnings limit is €115,000.

I'm not sure anyone can count on the same level of State pension in 25 years unless there is a lot more funding of it.
JILL

Fees and charges for 'standard' PRSAs are capped at 5% of all contributions and 1% for annual fund management, but 'non-standard' PRSAs can often be arranged with lower initial charges. You'll need an impartial adviser to help you set up a non-standard one and explain about fees and charges, including their own.

If you purchase an individual or group PRSA, your contributions can be deducted directly from your salary and your tax credits will be adjusted where your contributions are paid from net earnings. You'll also get an annual pension statement at your place of work, which you should be able to also check on-line.

It's never too late

Private pension coverage is worryingly low in Ireland for lots of reasons.

Incomes have fallen and taxes have gone up. Unemployment is still high and there's too much debt, especially mortgage debt. A lot of traditional Defined Benefit, final salary pension schemes have been wound up and haven't been replaced.

Unlike in Australia or New Zealand, where pension membership and contributions are mandatory for both workers and employers, Ireland operates an entirely voluntary system and too many people rely too much on the State Pension, into which they (and employers) are obliged to pay annual social insurance contributions of 4% and 10.75% respectively.

Throw in the fact that a lot more people now work part-time or on contract and experience more periods of self-employment, and it's understandable that it might be difficult to get into the rhythm of regular, steady contributions.

Despite this, we still think it's never too late to join an occupational scheme or to set up your own private pension as a sole trader, or especially if you're a director/owner of your own company; your pension and related insurance payments are an ideal way to reduce your company tax bill.

As the following illustrations show, even investing just 10% of your salary every year from age 43 means that you can still accumulate a sizeable pension fund over the next 25 years. The caveat is that you'll need to count on your income increasing by about 3% a year.

We accept this is a tough expectation today when wage growth is pretty stagnant, but the alternative – to sharply increase your salary contribution – is less realistic unless you can also slash your day to day spending.

PENSION FUNDED ONLY FROM AGE 43 INVESTING 10% OF SALARY A YEAR

1

AGE 43 → STARTING SALARY WAS **€24K** RISING BY 3% EVERY YEAR (20% STANDARD INCOME TAX TO €33,800, 40% MARGINAL >€33,800)

GROSS STANDARD PRSA PENSION FUND IS WORTH **€150,845** AT AGE **68** HAVING GROWN AN AVERAGE OF 6% A YEAR

2

AGE 43 → STARTING SALARY WAS **€34K** RISING BY 3% A YEAR

GROSS STANDARD PRSA PENSION FUND IS WORTH **€384,860** AT AGE **68** HAVING GROWN AN AVERAGE OF 6% A YEAR

Source: Irish Life 2015

How pensions work

Private pension membership may not be very high in Ireland, but neither is investment knowledge.

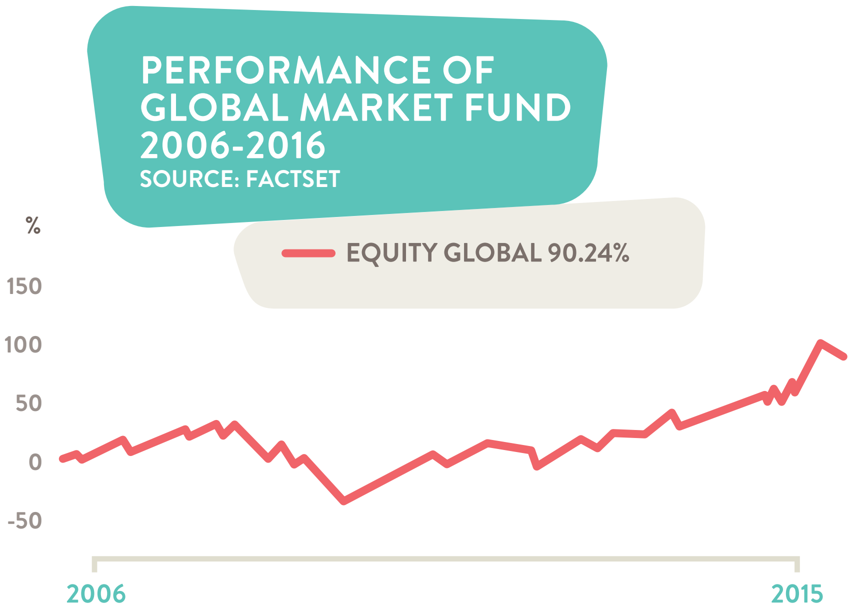
When we ask our listeners what pension assets or funds they've invested their money in, not one in 10 can tell us. Too many don't know what type of pension they belong to – a defined benefit or defined contribution one. They often have trouble defining an AVC or PRSA.

Even more worrying is that they often don't always know exactly how much of their earnings are being invested, or even what their fund is worth.

Fortunately, pension fund providers, trustees and employers all have a legal obligation to give members annual statements. They've made a lot of progress in delivering this information in the clearest, jargon-free manner, and most schemes let members have on-line, password-protected access to their accounts.

Pension fund details should be as accessible as your bank statements, but that doesn't necessarily solve the challenge of figuring out the right asset choice.

Investment experiences have not been very satisfactory ones for a great many people. They've typically bought (assets) high and sold low. The memory of the great market crash of 2007-9 is still pretty raw, despite the fact that the last six years have seen strong market and pension fund returns.



Fund management can be either active or passive. Actively managed funds are run by fund managers who pick and choose a selection of assets that they believe will produce better than average performance returns.

Some active fund managers often outperform the broad market and this outperformance is used to justify their higher fund charges. But no single fund manager beats the market every time; they move up and down the performance ranks. Which is why some investors (and their advisers) prefer the passive fund management model.

> *Pay attention to your asset mix. Don't go all stocks or all bonds, or all any one thing. A general rule of thumb is to have your age as a percentage in fixed income, so if you are age 25 you wouldn't have more than 25% of your fund in bonds and cash.*
>
> **KARL**

The most important thing for you or your company trustees if you belong to a company scheme, is that the fund manager includes all the key asset categories – equities, fixed income bonds and cash, property and commodities – and then correctly allocates what proportion of the pension fund's contributions will go into each of the categories. (Equities usually get the biggest allocation).

For the individual pension holder, the proportion should take into account their age, risk profile and how many years they have until they can take retirement.

No guarantees

It's impossible to guarantee that any investment fund will produce a 6% investment return year after year, but past performance tables show that despite some spectacular market 'corrections' in the last three decades, active and passively managed pension funds in Ireland have produced pretty steady annual returns (before charges) of about 8%.

Price inflation, the sneak thief of all savings and investment value, has been pretty muted over the last couple of decades, and most long term, diversified pension fund holders have enjoyed positive growth.

Risk/Reward

Pension plans have such a long shelf-life that the temptation for a younger pension investor would be to take more investment risk, than an older person who is nearer to retirement, in exchange for a potentially higher reward.

And while it's true that a 23 or even 33 year old has more time to make up any early losses, the magic of compound interest from steady, modest returns means that you might get to the same value destination by not taking unnecessary risks.

There's certainly a place for exciting technology, biomedical or energy stocks or funds exposed to fast growing areas of the world's developing economies. Maybe just not exclusively in a pension plan that has to produce a very large amount of money for you to live on during the last 20 or 30 years of your life.

Fortunately PRSAs come with default investment strategy options and most company pension schemes and private pension plans include a 'life styling' feature that gradually reduces your investment risk as you approach retirement age. Even between us we don't necessarily agree that a passive, tortoise-like approach to investing is the better option for pension funding.

But we're adamant that getting professional, impartial and ongoing advice about what is invested in your pension fund, how those assets are divided by size in keeping with your age and how much risk you can stomach is critically important.

Pension investing may not be the easiest subject in the world, but pension funds are vastly more valuable than the latest, top-of-the-range tablet or mobile phone.

So shouldn't you at least spend as much time finding out how they work as you would the electronic gadget you can't live without?

> *Invest carefully and appropriately for your circumstances. Learn about pensions – there's a lot of money at stake.*
>
> JILL

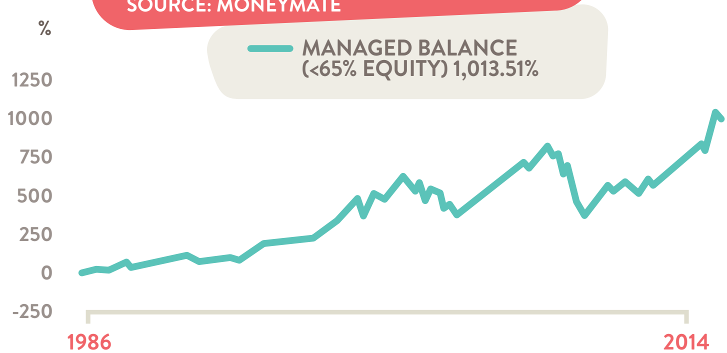
Missed the boat?

If none of the conventional, tax deductible, corporate or individual pension funding options we've mentioned are plausible, then you need to consider another route to providing some kind of retirement income.

Rather than repeat the error of the boom years by borrowing money to buy investment property or leveraged investment funds – both unreasonable risks that could impoverish you in retirement – you need to look at your wider financial position and how it might evolve. See our action list on the next page for details.

AVERAGE MANAGED BALANCED IRISH PENSION FUND OVER 30 YEARS

SOURCE: MONEYMATE



Talking Pensions Action List

- ***Don't panic or resort*** to 'heart attack investing' that involves taking crazy market risks. You probably don't have the time to make up catastrophic losses.
- ***Stop procrastinating.*** Get impartial advice from a specialist pension adviser who can do a comprehensive financial review for you.
- ***Keep your retirement spending expectations*** realistic. Yes, you may be left an inheritance or win the Lotto. But until then, protect your existing income with the correct life, income and health insurance contracts. Linked to a pension plan, the latter two carry generous tax relief.
- ***Eliminate debt and start*** adjusting your spending now so that you live within, or even below your means, before you retire.
- ***Could your hobbies or passions*** generate income now or in retirement?
- ***Are you sure you don't have a pension fund?*** You'd be surprised how many people who've moved from job to job (or country) have deferred pension benefits they could claim...if they could just remember where they left them.

Talking Pensions Action List

- ***If you have a family home*** with a spare room(s), you can generate up to €12,000 worth of tax-free rental income a year from the Rent-a-Room Scheme. This is the equivalent of a second State Pension or gross income generated by a €400,000 private pension fund!

- ***Do you have any assets you could sell*** - a plot of land, art, antiques that could supplement your income in retirement? You'll have to pay capital gains tax, but it can be offset by your annual CGT allowance of €1,270.

- ***Consider downsizing,*** if possible, to a less expensive home or place to live. Any residual cash from the tax-free sale of your family home can supplement your living expenses.

- ***Finally, keep working*** even if it's only a few hours a week. This is the most obvious way to avoid the consequences of having no formal pension fund.

Short service? Consider an AVC

Most employer-sponsored Defined Contribution pension schemes will at least match their workers' pension contributions and some will make even bigger payments to attract or recruit the best employees.

But what if you don't fit into that category and you only join the scheme in your 30s (or even 40s) and your years of service eventually fall short of the ideal goal of a pension fund that will produce two-thirds of your final salary, or even 50%?

Enhanced pension funding by most companies is usually reserved for senior staff or management, but you still have a way of topping up your pension fund value by retirement: a tax efficient Additional Voluntary Contribution or AVC.

Most people have to wait until retirement to get access to their pension funds, but until the end of March 2016, AVC-holders have a once-off chance to draw down up to 30% of their AVC, though you will have to pay marginal income tax and USC.

The downside of the early encashment is that it could have a negative impact on the long term value of your fund and ultimately on your retirement income.

Again, make sure to get some fund value projections before you make any decision.

DB to DC

The closure of Defined Benefit (DB) pension schemes continues, with the fate of many of them sealed by the relentless downward drive of interest rates and bond yields by Central Banks.

DB fund managers have to match the investment value of the company's pension fund with their liabilities – the cost of providing a final salary and service-related pension income to the scheme members. Pension fund managers claim that the €60 billion monthly Quantitative Easing programme from the ECB that began in March 2015 could be the final nail in the DB pension coffin.

If you're a DB pension scheme member...start paying more attention. If your scheme shuts down or benefits reduce, you may have to adjust your retirement plans.

KARL

Unfortunately when a DB scheme is closed or wound down, a decision is usually taken to transfer the pension fund money into a new Defined Contribution scheme.

The projected pension incomes are usually much smaller from DC schemes and the way for the projected shortfall to be made up is often to increase the contributions that both the worker and company make into the invested fund (which may not be possible) or adjust the investment strategy to get better returns. This may involve taking more risk or a combination of the two.

If your scheme is transitioning from a DB to DC model, you may want to investigate whether it will be appropriate for you to take out a tax-efficient AVC. When you retire, its value will be included in the valuation of your share of the company pension fund.

See www.irishlife.ie/pensions/products for further details on AVCs.

Options at retirement

Most company pension schemes have strict rules about when employees must retire, usually age 65, but if you're over 50 and are leaving your job, you might be able to take your pension benefits from that age and avail of post-retirement options.

Access to your pension fund comes with all sorts of terms, conditions and qualifications, depending on the sort of scheme to which you belong - Defined Benefit or Defined Contribution occupational schemes, a PRSA, executive or personal pension. Public sector pensions also come with very specific rules and regulations.

However, membership of defined contribution, or final value pension schemes allow you to choose from these options...

YOU CAN CHOOSE FROM:

- A fully taxable encashment at your highest rate of income tax/USC;
- Taking up to one and half times your final salary, or 25% of the value of the fund (if you are self-employed) tax-free, and buying an annuitised pension income with the remainder;
- Transferring all or part of the pension fund into an Approved/Minimum Retirement Fund (ARF/AMRF) so that it can remain invested.

We don't think qualified early encashment – say under limited circumstances from age 50 – is a very good idea unless your pension fund is substantial or you intend to keep working while claiming the pension, or because you're dropping out of the rat-race altogether on some cheap, sunny spot far from these high cost shores.

You certainly want to work out all the consequences of such a move...again, ideally with someone who can expertly and impartially assess the financial side of your retirement goal.

Annuity pensions

An annuity is what many people refer to as their pension income. By using your pension fund at retirement to buy an annuity income, you are guaranteed an annual income for the rest of your life.

The purchase price of the annuity can take into account the rise in the cost of living, or provide a pension for a surviving spouse or dependent child if you die prematurely (usually half of your pension value). Another option is to guarantee the payment amount for at least five years (even if you did not survive that long).

What you may not realise is that these options will reduce your income from the outset. With annuity prices – linked to bond yields – so low, these annuity add-ons may simply not be affordable.

Annuities haven't been a popular choice with the self employed or company directors for several years. Today, as annuity prices creep even lower, they've also lost their appeal with increasing numbers of defined contribution fund members too, who can resort to approved retirement funds (ARFs), to generate their retirement incomes.

The trade-off is that unlike an annuity, the ARF carries no income guarantee. Could you live with that risk?

ARFs/ AMRFs

Approved retirement funds (ARFs) and AMRFs, have become the more popular option at retirement, both with the self-employed and company directors and increasingly with some Defined Contribution scheme members.

The main attraction of an ARF/AMRF is that you don't have to commit your pension fund to a fixed income for life at a time when bond yields that establish the value of that income are historically low.

Instead, the money from your pension fund that is now invested in the ARF and/or AMRF* continues to grow tax-free and you can draw down income or income and capital from only the ARF as you need it.

The rules around ARFs are complicated and for a start the State will tax 4% of your ARF value whether you draw that amount down each year or not and 5% if you're over age 71.** This is called an 'imputed' distribution.

As with your original pension fund, you now have to come up with an investment strategy that includes asset allocation and how much risk you're willing to take. Your retirement nest egg is still exposed to the inevitable ups and downs of the financial markets. Can you keep your nerve?

If you were at all worried about it while you were still working, imagine how you're going to feel about leaving a lot of money exposed to investment markets when your working days are over.

ARFs and AMRFs are suitable income generating options for many people. They certainly offer better inheritance outcomes for the fund holder's surviving spouse or family than traditional annuities. But you have to make sure to get proper, professional and expert pre-retirement advice.

This is definitely not the time of your life to be making hasty or uninformed financial decisions.

*If you do not have a separate pension income worth €12,700 you are obliged to invest €63,500 of your pension fund into an approved minimum retirement fund from which only investment growth can be drawn down. The AMRF must then buy an annuity pension for you from age 75).

**6% if your ARFs or vested PRSAs are worth over €2 million.

Don't neglect pension contributions because you've bought a house in your late 20s or early 30s...that pension needs even more time to grow.
JILL

FINAL THOUGHTS

"It's never too early to start saving for retirement. The younger you are the easier it is to make relatively small percentage contributions that you keep making even as your income increases. You won't notice the deferred income but you will notice the magic of time and tax-free compound interest getting to work and how you will end up with a substantial pension fund, long before the official retirement age."

Jill

"Expecting everything to turn out fine is not a good financial plan if you hope to live for 20 or more years at 65 or 70 without an earned income. Try living without an income for six months. Also, no one should make the mistake of thinking your family home will be your pension. It can't be both. We're all living a lot longer than the pension systems were designed for."

Karl

final final thoughts

Final Final Thoughts

"With the airwaves still dominated by economic news, we Irish still pick apart the national and international 'financial crisis'...yet we often fail to do the same with our own finances.

The truth is that the actions that create wealth for the majority of us seldom make headlines but depend instead on some pretty ordinary but important financial choices.

So these are my final, unfashionable thoughts. The people I've met who you'd call genuinely "well-off" share a few common traits: money matters to them enough to treat it with respect; they tend to save more than they spend; they avoid being in unnecessary debt and they know the difference between 'wants' and 'needs'. Above all, they're nearly always clear about their financial goals."

Karl

Final Final Thoughts

"Everyone makes financial mistakes. Ideally, you make them when you're young and foolish so that you've plenty of time to write off your losses and get back on the right track.

I've made some, but in hindsight the ones I regret the most are my financial sins of omission, like not having saved more, not taking more informed investment risks when I was younger and not always seeking impartial, professional advice when I had to make big financial decisions.

One message we hope we've been able to get across in Talking Money is that while gaining control of your finances and steadily building wealth over your lifetime is worth pursuing, we think there's a far more important and timeless process to aim for – financial peace of mind."

Jill

JILL KERBY

Jill Kerby is one of Ireland's best known personal finance journalists. She has written columns for The Irish Times, The Sunday Times, has a weekly syndicated column, "MoneyTimes" in 13 regional newspapers, and is co-author of the best-selling 'TAB Guide on Money Pensions and Tax' and the 'TAB Guide to Property'.

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Karl Deeter is the Compliance Manager at Irish Mortgage Brokers, a company he co-founded in 2004. He is also the head of customer advice in Trinity Accountants & Financial Advisers and lectures in property investment at the Irish Institute of Financial Trading. He is a qualified Financial Adviser and a regular contributor to the national media on financial matters, including RTE, The Sun and The Sunday Business Post.