McCarthy & Associates

FINANCIAL CONSULTANTS LTD

Waterville House, Woodquay, Galway | Phone 091 566022
E-mail: info@financialconsultants.ie | Website: www.financialconsultants.ie

Newsletter

April 2010
Volume 8 Issue 1

Inside this issue we take a look at:

ANNOUNCEMENT

We are pleased to announce an extension of our client services through a formal arrangement with Coll & Co Chartered Accountants, who can provide you with comprehensive advice on Accounting and Taxation issues.

Coll & Co
Chartered Accountants

Coll & Co are a newly established firm of independent taxation advisors offering services to the PAYE individual, company directors and the self-employed. Coll & Co's unique blend of expertise allows them to offer integrated tax and accounting innovative solutions to their clients.

Services Provided

They provide a full personal and corporate tax service including compliance, planning and negotiating with the Revenue Commissioners on your behalf. If you can identify with any of the areas below, then contact us today for further details:

Individuals & Families:
- Property owner.
- PAYE taxpayer.
- Estate Planning.
- Retired.
- Marriage breakdown.
- Foreign Property Tax Implications.
- Redundancy advice.

Owner Managers & Self Employed
- New businesses.
- Business owner.
- Succession planning.

Please contact McCarthy & Associates for further details.

GALWAY Bay FM

MoneyTalk

Tune into the weekly financial debate called "MoneyTalk" every Thursday morning at 10:45am on Galway Bay FM with David McCarthy and Keith Finnegan. To have any financial questions answered during the debate you can telephone Galway Bay FM on 091 770077 or email your queries to info@galwaybay.ie

If you wish to receive this newsletter via e-mail, please e-mail us at: info@financialconsultants.ie with newsletter in the subject line and we will add your e-mail address to our mailing list.

If you need assistance with any of the articles covered in this issue we are here to help you.

Website

We would like to invite readers to check out our website www.financialconsultants.ie regularly for new updates. Tell your friends and colleagues about us. We are just a click away!

2010 Resolutions

We all like to make resolutions but few of us ever keep to them. We have outlined below some financial ones that you may like to consider and please be assured that we will do everything in our power to assist you in keeping to your "resolution"!

- Most people do not consider reviewing their Pensions on a regular basis. The general trend has been to leave longstanding Personal Pension Plans in place until Retirement without ever reviewing same or making alterations. In particular, we are referring to the ability that you have to move your Pension between various funds and also different institutions. Some older plans in particular are providing very poor returns, as they are invested in fund structures which are out of date. Others are invested in funds which are totally unsuitable for the clients needs as they may be exposed to a high degree of risk. **The key point to remember is that a Pension Plan is one of the most important investments you will ever make and as a result should be kept under regular review.**
- Conduct a comprehensive review of your personal finances. This may be something you have never considered before but can be beneficial in a number of ways, through making your financial structure more economical.

…"Conduct a comprehensive review of your personal finances…"

- Start a Regular Savings Deposit Account in order to benefit from the attractive deposit rates currently paid by banks on these types of plans.
- **If you have a longstanding Unit-Linked Regular Savings Plan, which may have continued after the expiry of your SSIA then it is essential that this Plan is reviewed in detail.** Since the completion of the SSIA Scheme, monies which have been left in these Plans have seen a considerable drop in value. In addition a lot of Policyholders have continued to save the same amount on a monthly basis. A possible option may be to encash the current Policy, reinvesting the lump sum and placing the regular savings amount in a Deposit Account. We would however urge that you should not make any rash decision in this regard until you have received advice.

Could your family suffer after your death because of a property investment?

For some people the very real possibility, due to the downturn in the property market of their estate being wiped out or substantially reduced on their death exists. You might ask yourself the question how could this happen?

As we are all well aware, during the property boom, a vast number of people invested in second or multiple properties. These investments were funded through substantial borrowings. It was the norm for banks not to require Life Cover in relation these borrowings, as they felt that they would always have the property to dispose of in the event of the borrower's death. We now see a situation where a lot of these properties, even though the repayments may be up to date, are in negative equity. If the borrower dies, these properties may have to be sold to satisfy the mortgage outstanding. This is where the issue of negative equity causes a problem. Just because the borrower is deceased does not mean that the bank in question will not take action to recoup the shortfall due on the loan. This could have serious consequences for an individual's estate where an institution could sue for the balance due to them.

This is a very serious issue which has major implications for your family after your death. The value of your estate, which most people will be relying on to provide for their loved ones, could either be wiped out or in some cases be dramatically reduced in value when a bank takes steps to recover the monies due to them. There is no doubt that in the coming years we will see a number of cases going through the courts where institutions are suing individual estates.

There is however a solution to this major problem through the provision of Life Cover. In order to put in place an appropriate structure, each individual's financial situation needs to be looked at closely and the appropriate measures put in place. In the case of self-employed borrowers, it is possible to arrange Life Cover which is tax deductible.

…" There is however a solution to this major problem through the provision of Life Cover..."

We cannot over emphasise the potentially serious consequences that could exist for your family, after your death, if you are not prudent and look at how this issue could affect you.

AVC Options on Retirement

For tax reasons, the appetite for Additional Voluntary Contributions (AVC), has been considerable in recent years. In particular, considerable numbers of PAYE earners have availed of AVC's. As a result the average size of an AVC on retirement has grown considerably.

If you were considering retirement this year, you should be aware that you have considerable options with regard to investing your AVC post your departure from employment. Your account can be invested in an Approved Retirement Fund (ARF), which gives the individual a lot of choices as to what to do with their monies.

There is an incorrect perception that an AVC needs to be invested through the options provided by the trustees of the scheme. This is not the case and you should ensure that you receive independent advice on what your options are.

We can assist you with regards to any AVC decision you may have to make, if you are in the situation where retirement is on the horizon for you.

Budget 2010

Last Decembers budget did not contain any material changes to the current income tax bands etc. This was not surprising, as we are all aware, the two previous budgets more than dealt with this issue. We have outlined below some of the less publicised issues which were introduced in the budget - see a more detailed outline on our website www.financialconsultants.ie

Mortgage Relief
A welcome respite to hard pressed homeowners is the extension of mortgage relief up until 2017.

Credit Review System
The Minister addressed the problem experienced by businesses in obtaining credit from the major banks. Following the introduction of NAMA, the banks are expected to be in a position to provide more credit than in 2009.

Government Bond
The minister announced the introduction in 2010 of a National Solidarity Bond. Essentially this is a mechanism for the government to raise monies directly from the public of capital projects.

New Taxes
An unwelcome announcement was the outline of a new property tax that can be expected in the next budget. The details of how this will be implemented are to be worked on throughout the year. In particular property investors will see this as another disincentive to enter the market. Of more importance will be the level of tax that will be levied on owner occupiers.

In addition he has also signalled the introduction of water rates by the end of this year. The intention is to ensure that each house in the country is metered.

Government Introduces Radical New Pension Proposals

Recently the government announced a radical set of proposals which will affect us all at retirement. The changes are a dramatic overhaul of the existing retirement structure both in relation to the State Pension and also the way we fund our own Pension Plans. It is important to remember however that the vast majority of the proposals outlined are not effective until 2014 and are likely to change in the intervening period when the government begins to review the finer detail of these measures.

The main features of this announcement were as follows:

State Pension
The retirement age for the State Contribution Pension for those retiring after 2014 will change as follows:
2014 - 66 years
2021 - 67 years
2028 - 68 years

The government has given a commitment to maintain the State Contributory Pension at 35% of average weekly earnings.

There will also be a change with regard to qualification for the State Pension. To quality for the minimum Pension an individual must have at least 10 years PRSI contributions. In order to qualify for the maximum Pension an individual must have 30 years contributions. Carers working in the home can qualify for up to 10 years social insurance credits towards their State Contributory Pension.

Mandatory Scheme (2014)
In order to ensure that we all provide adequately for our retirement, the government intends to bring in a Mandatory Pension Scheme from 2014. The main features of this new scheme are as follows:

- The following mandatory contributions, as % of salary, will apply:
  Employee – 4%
  Employer – 2%
  State – 2%
- Certain conditions will apply with regard to the ability for employees to opt out of the scheme and these are likely to be reviewed further as we get closer to the introduction date.
- No clarification has been provided as to how these contributions will be invested. It is the intention that the NTMA will look after the management of the scheme, but there are a lot of unanswered questions yet as to what type of structure will be in place.

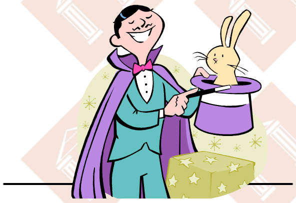
New Tax Relief Rates for Pension Contributions
It is intended to apply Tax Relief on all Pension Contributions at a single rate of 33%. For those on the current standard rate of 20%, this will obviously be of considerable benefit. The opposite is true for those on 41%, who will experience a negative impact on the relief which they currently receive.

New Retirement Options Available for PAYE Earners

For many years self-employed and company directors have been able to avail of Approved Retirement Funds (ARF), when they retire. This has not been the case for those in the PAYE Sector, who have been limited to the traditional retirement options which have always applied. From 2011, the PAYE Sector can now benefit from the same options. This is an important change and one which requires a considerable amount of financial advice, before a decision is made. Rather than going into the details in this Newsletter, of the impact that this will have on those approaching retirement who work in the PAYE Sector, we recommend that you contact us and we can provide you with further information.

IMPORTANT – If you are considering retirement within the next couple of years it is vital that you get financial advice and understand fully the options that are available to you.

"…It is vital that you get financial advice and understand fully the options that are available to you….."



Has all our wealth disappeared?

The current economic downturn, both domestically and worldwide, has led to a perception in this country that all the wealth, which has been created over the last 15 years, has suddenly disappeared. This impression has been further compounded by the “doomsayer” attitude of certain financial commentators, who seem to revel in giving the impression that all this wealth has suddenly been erased.

There is no doubt that each individual’s “wealth index” has been dramatically affected by the downturn in the property market, erosion of pension values, along with the decline in equity and investment markets. Considerable wealth still exists in Ireland, which will bolster and drive the economic recovery. As a nation, we became immune to the fact that markets operate in cycles. The most outstanding example of this has been our love affair with property, where our attitude seems to have been “if you can touch it, look at it and live in it”, then property can only increase in value. Unfortunately some people are finding out that kind of attitude has come at a cost.

So what action, if any, should you be taking with regard to your assets?
It is important to look realistically and sensibly at your different asset categories on a practical basis.

Property
For homeowners the idea of negative equity is a disturbing thought. However, if you are able to meet your mortgage repayments, then negative equity does not have a practical impact on you. It only becomes an issue if your circumstances dictate that you need to dispose of your house, or you fall into arrears with your mortgage. In another 10 years or so people will look back on this period of “negative equity”, and realise that it did not have a long-term impact on them.

Investment/Equity Markets
The drop in investment values has been particularly felt by individuals through savings policies, pensions, lump sum investments and equities. In many cases the fall has been quite dramatic. But in considering what action you should take it is important to remember a few relevant issues.

- The vast majority of lump sum investments have little exposure to the Irish Market. They are reliant on the performance of the international scene and this should be taken as a very positive factor, when looking for hope in respect of a recovery in values. Whilst predictions are a dangerous business, we feel that the international scene will be a very different place, in positive terms, over the next 2 years.
- The drop in investment values has been very painful, however no matter how extreme the situation has been, there is some element built into what has happened, which is cyclical. An improvement in the investment cycle should also help in seeing values recover.
- The final point investors need to seriously consider is the dramatic and co-ordinated intervention by the US and Western Governments in rectifying our economic problems.

So the best course of action for an individual to take with their current investment portfolio is to ride out the current situation until values recover.

So where has all the wealth gone?
Well obviously, our wealth has been adversely affected by the drop in the market values of the assets we have outlined above. But that is not the full picture. A substantial amount of funds have been moved onto deposit. It is true to say that the Banks are “awash” with customer deposits. This has been caused by the nervousness that people have felt about the general economic situation, along with the attractiveness, previously, of deposit rates.

What should Bank Depositors consider?
For the last 18 months or so returns on bank deposits have been exceptional. However, over the last 3 months this situation has changed dramatically. Two factors have brought this about. Firstly, the ECB rate has now dropped to 1%. Secondly, Irish Banks have been paying unusually high deposit rates due to the shortage of money supply in financial markets. There has been a radical improvement in this situation and as a result Banks do not need to pay retail depositors more than is absolutely necessary for their funds.

The situation has now arrived, whereby keeping money on deposit is something that you need to do for convenience, rather than as an investment decision. Interest rates are likely to remain low for the next couple of years in order to stimulate Western Economies. Any hope of an increase in deposit rates within this timeframe is virtually nil.

Don’t Forget
Visit Our Site
www.financialconsultants.ie

What should you do with monies held on deposit?

Over the last year we have continuously predicted that deposit rates would drop dramatically. We have now reached a point in time where this has come to pass and it is crucial for depositors to review their current position. Naturally you need to retain some funds on deposit, for everyday needs or the unexpected event. However you must remember that, with interest rates at current levels, retaining large sums on deposit is not a prudent investment decision. This point is borne out by the rates currently available (depending on the term), of between 2% to 3%.

If you wish to maximise the funds you hold on deposit then it would be necessary to consider moving these monies into a term investment over 3/4/5 years. A considerable number of options are available depending on your appetite for risk. For the cautious investor, there has never been a greater choice of capital guaranteed options.

If you are interested in reviewing monies you hold on deposit and looking at the term investment options available, then please contact us.