

# Don't press the pension panic button

There are plenty of investment options from New York to Tokyo to help reduce tax bills, says Mark Channing

MORE than 300,000 self-employed taxpayers are in danger of picking the wrong investment choices as they rush to make pension contributions to reduce their tax bills ahead of the pay-and-file deadline on October 31. Investing in a pension attracts 41% tax relief for those earning more than €32,800. The older you are, the more you can contribute. For example, a 40-year-old earning €100,000 can contribute up to 25% of net annual earnings, which would reduce their income tax bill by €10,250. PAYE workers get the benefit of pension tax relief in their pay cheques. The self-employed must claim it on their tax returns.

Experts warn that the self-employed tend to focus on making the pension contribution on time to get the tax relief, without giving enough thought to what to invest in. Joe Hanrahan, head of financial services with Investec bank, said: "People know they have to file their tax return and make their pension contribution, but many have little in the way of a coherent investment strategy." The



After years of economic stagnation, Japanese equities offer some of the best value available to Irish investors

## Multi-asset funds are key

Frank D'Arcy, 53, *inset left*, has already made his annual pension contribution ahead of the October 31 pay-and-file deadline but says tax relief is only one consideration in his planning for retirement. D'Arcy, who runs Personal Advisory Services, a financial planning firm in Dublin, has a well diversified pension that includes equities, bonds and property. "About 60% of my pension is in equities, 20% in bonds with the bulk of the remainder in property," he said. "I am looking to reduce my exposure to US equities. The US has been a good place to be invested but I think returns will start to slow. There is a solid growth story in emerging markets." D'Arcy's main investment decision over the past 18 months was to invest in Irish commercial property through Friends First. It looks a wise move as the fund is up 23% in the past 12 months. In D'Arcy's view, multi-asset funds are a good way of achieving a diversified mix of assets appropriate to an investor's appetite for risk. These funds aim to deliver steadier returns by investing in a spread of assets, as opposed to one single asset class. D'Arcy believes that professional advice is essential to maximise income in retirement. "If I had a problem with my car I wouldn't try and fix it myself. I would find someone with the right skill set to do it. Your pension is no different," he said.

MARK CHANNING

Professional Insurance Brokers Association (Piba) said self-assessed taxpayers should not leave pension decisions to the last minute. Diarmuid Kelly, chief executive of Piba, said: "You need to take time to consider your options and think about your retirement objectives. A good financial broker will do the

homework and help you determine your needs and recommend a pension." Choosing the wrong pension fund can have a dramatic impact on your income at retirement. According to Standard Life, an investment of €100,000 in its pension managed fund in 2004 would have been worth €204,194 by

longest bull runs in recent investment history. Experts say equities are still the place to be for long-term investors. Ian Quigley, director of investment strategy with Investec, said: "Valuations are close to their historical average. We would expect to see average annual returns of 5% or 6% after inflation." Kevin

Coughlan, head of JP Morgan's Irish business, said: "Our view is risk-takers will be rewarded, so we would agree with a strong position in equities and other risk assets." According to online advice portal Advisoryservices.ie, multi-asset funds offered by insurance companies are a good option for pension inves-

tors who want to spread risk across different asset classes. **AMERICA** US markets have been among the best performers over the past five years, with the S&P 500 Index up 190% since 2009. Quigley said US stocks are moderately overvalued but this does not mean they are about to

fall. "The classic indicators that suggest an end of a bull market are not there," he said. Coughlan agreed, but warned that expected changes in government policy could hurt valuations. "The direction of US interest rates is clearly upwards, while

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## Other countries show us way to cope with mortgage risk

Are limits to mortgage lending a price worth paying to prevent another disastrous credit bubble? The Central Bank of Ireland thinks so, proposing to exclude first-time buyers from the housing market when it believes they do not have enough skin in the game. Loan-to-value (LTV) ratios exceeded 80% on almost half of new mortgages in 2013. The Central Bank wants to reduce this to no more than 15% of new lending from next year. Restrictions are also proposed on the multiples of incomes that house buyers would be allowed to borrow but they are less onerous. Only 3% of mortgages would have fallen foul of this rule if it was in place last year. The problem with the planned LTV limits is that dashing the hopes of prospective buyers might not be worth the grief. If implemented in their current form, the restrictions would allow LTVs to exceed 80% on up to €1bn of lending a year by 2016, according to the Central Bank's own estimates. That's more than enough potential headaches for the banks if property prices were to falter. A measure that seems too harsh on borrowers could, ironically, be insufficient to curb bankers' weakness for risky lending. Mortgage restrictions are common in other countries, but its consultation paper does not consider how well they have worked. Sweden capped mortgage lending at an LTV of 85% in 2010 with no room for exceptions. The move has failed to halt soaring household indebtedness which, at 170% of disposable incomes, is not



far behind that of Ireland's over-borrowed consumers. The suspicion is that much of the money Swedes dress up as mortgage deposits is in fact borrowed from elsewhere. Canada and Finland have taken a different tack, requiring banks to buy insurance to protect themselves against the risk of bad debts on all mortgages above a certain LTV level. The insurance covers the shortfall where a mortgage in default is worth more than the underlying property, within certain limits. The protection allows banks to reduce the amount of capital that must be set aside for risky loans, freeing up funds for lending to other borrowers. The cost of the protection is passed on to borrowers, with the riskiest mortgages paying the most. Based on the UK's experience of mortgage insurance, an LTV of 90%-95% would add 0.9% to the amount borrowed to cover the cost of cover - €2,250 on a mortgage of €250,000. A less risky LTV of 80%-85% would add 0.28% to the amount borrowed. For consumers it is a price worth paying if the alternative means being locked out of the property market until they have scraped together a 20% deposit. For lenders,

mortgage insurance is a more subtle way of managing the risks of lending at high LTV. Because mortgage insurers are in the firing line when loans turn bad, it is in their interests to keep a close eye on the bankers, inspecting their credit standards, performing spot checks on mortgage approvals and having a say on borderline applications. This type of restraint is probably more effective, and certainly less blunt, than what the Central Bank has in mind. The regulator says it may consider exempting insured mortgages from its proposed restrictions but only "at a later stage". Its lack of enthusiasm for a control mechanism that has been shown to work in other countries is difficult to fathom. **Variable success** First-time house buyers who manage to scrape through the Central Bank's proposed lending restrictions can look forward to paying a variable mortgage rate of about 4.5% - far higher than in other eurozone countries, where rates average 2.56% for new mortgages. The discrepancy was addressed by Patrick Honohan, the governor of the Central Bank, when

he spoke to students at University College Dublin last week. He said lenders that sold mortgages too cheaply during the boom were now guilty of overcharging, but added there was nothing he could do to stop them. "If the local banks are charging unnecessarily high interest rates, that will be an inducement for new entry into lending here, and that would be very welcome and would have the effect of bringing both pricing and the quality of banking services to a much better place," he said. Hoping market forces will solve the problem is wishful thinking. There are good reasons why foreign lenders are not rushing in to take on Ireland's mortgage cartel, as Bank of Scotland did in 1999. The market is too small - at about €3bn this year, mortgage lending is roughly 10% of what it was in 2006 - and cannot grow until bottlenecks in the supply of houses are tackled. Foreign lenders will also be discouraged by the Central Bank's proposed lending restrictions. Homeowners with variable rate mortgages would be better pinning their hopes on a High Court victory by Dublin couple Kenneth and Donna Millar. The court has ordered the Financial Services Ombudsman to reconsider their complaint against Danske Bank after concluding their mortgage contract was ambiguous about the circumstances in which mortgage rates could be increased. The decision, which may be appealed to the Supreme Court, could open a can of worms, calling into question the ability of all lenders to increase variable rates at will without a similar move in wholesale interest rates.



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FAME & FORTUNE  
DONAL SKEHAN TALKS TO LINDA DALY

# Money is not main ingredient for me

As the TV chef saves for his wedding, he says the small pleasures in life are most valuable

HE COMES across on television as a happy-go-lucky food enthusiast but off-screen chef Donal Skehan is cooking up a storm in business.

He set up a company, Homecooked Productions, last year to deal with his media work, while working on Skoff Pies, launched with his parents earlier this year.

It's a big change in direction for the Dubliner, who abandoned his media studies course in 2006 to join a boy band. Hopes of international stardom were dashed in 2008 when he was beaten by Dustin the Turkey to represent Ireland at the Eurovision song contest. He swapped show business for a career in food the following year.

The industry was in his blood. His grandfather owned a shop on Dorset Street in Dublin, and his parents, Liz and Dermot, have been involved in food production for three decades. They own Freshcut Food Services, a fruit and vegetable wholesaler. Earlier this year, Skehan became the face of their new offering, Skoff Pies.

The next series of Skehan's TV show, Kitchen Hero, is due to air on RTE in November. He has worked with Jamie Oliver's FoodTube network since 2013 and is due to travel to Vietnam this month for a new series for the UK's Food Network.

Upon his return, Skehan will tour Ireland with his Spar Kitchen Hero live tour, which kicks off at the Town Hall Theatre in Galway on November 1.

Skehan, 28, lives in Howth, Co Dublin, with his Swedish fiancée, Sofie Larsson.

**How much money do you normally carry in your wallet?**

Between €20 and €50. I'm not great at carrying cash, which can get me into trouble sometimes.

**Are you a saver or a spender?**

At the moment I'm a saver because we have a wedding to pay for and potentially a house to buy. Sofie is keeping me under serious budget constraints.

**Are you under pressure to buy a house before prices rise further?**

No. We've been renting for the past four or five years and are lucky because the rent has stayed the same. The urge to buy is due to the stage we're at in life rather than what's happening in the market. We like living in Howth, so want to buy around here. We don't expect to buy in the near future but are saving with a view to doing it.

**Have you ever been really hard up or broke?**

When I moved out of my parents' home it was tough enough. I had the rent and bills

to pay. It was the first time I had to manage my own finances and balance income with outgoings. That was around the same time I started food blogging. You do not make money from food blogging.

**What was your first job, and how much were you paid?**

A summer job as a waiter in Beshoffs oyster bar in Howth. One day, a couple gave me a €20 tip, which they said I had to use to buy a book about neurolinguistic programming (NLP). I bought the book, which was all about forward planning and communicating with people, and I still use it.

**What is the most lucrative work you have done?**

One of the bands I was in, Industry, was lucrative. We had two number ones [in Ireland] and supported JLS and the Pussycat Dolls. It was very much fur coat and no knickers stuff. Someone is paying for you to have a stylist and personal trainer but you're not making much money, and living on eggs and tinned sardines.

My cookbooks have been lucrative. I enjoy doing them and, when they sell, they are profitable.

**What is the worst thing to have happened to you financially?**

Two years ago Sofie and I were in Thailand and our cards were blocked. It was chaos for three days while we sorted it. A few months ago I was in London and was a victim of card fraud. Money was taken from my account randomly. It took a while to get sorted.

**Have you ever seen people spend money in a way that shocked you?**

We're looking towards a wedding date for next year. I'm gobsmacked by how much money is spent on weddings. I know how much it costs to produce a meal – spending €90 a head is crazy. We're trying to do something different for our wedding, and hopefully won't spend too much money.

**What was your best investment?**

Cameras. I got my first camera for my 21st birthday and that's when I started shooting my own food. If everything else failed, I would still have work in food photography.

That camera was a Canon 400D; about three years later I got the Canon 5D, and in the last few weeks I've upgraded to a Canon 5D Mark III.

**What was your worst investment?**

Investing time in projects that never paid off. I left college to work with the band

Streetwize. I learned a lot from it but it was a drain on time. I should have been doing something else and maybe going out and getting experience in other things.

**Has youth hindered your career?**

At the start it was a hindrance. If I'd started working in food photography and writing now at 28, I wouldn't have received so much criticism. But I've learnt my trade in the past five years, and I can confidently present a TV show. If I hadn't had that opportunity when I was young, I wouldn't have the skills today.

**Are you freelance?**

Everyone assumes, once you're on RTE, you're employed by them. But I work for a production company, and am basically freelance. If I get an email at weekends, I will answer it. When you're self-employed you don't switch off.

**What's the most extravagant thing you've bought?**

I went into Louis Copeland a few years ago and bought a suit. I don't wear suits often but, when I put that one on, I wear it with pride.

**Do you manage your own financial affairs?**

Sofie looks after most of the accounts and financial stuff. That's our trade-off, so it keeps us working together well.

**Are you better off than your parents?**

I don't think so. They are very comfortable but that's not to say the company didn't have it tough during the recession. Through a lot of hard work, they've managed to keep the business going and have turned it around. Their work ethos is a big inspiration for me.

**What aspect of the tax system would you change if you could?**

The government should provide more tax breaks for start-up businesses. It killed us paying a huge chunk of tax when we were starting off.

If you could take that initial payment of tax and invest it in your company instead, the opportunities would be much greater.

**Have you been personally affected by the recession?**

When I started out, work was more regular. But there has been a shift in recent months and, even though budgets aren't as big as they once were, work is steadier. Much of my work has moved to the UK, and I spend more time there now.

**What is the most important lesson you have learnt about money?**

Make enough money to keep the lifestyle you want but remember money doesn't equal happiness. You have to find enjoyment in the little things in life.

**What's your financial priority?**

The wedding and saving for a house.



Skehan is hoping to get his foot on the housing ladder. 'We don't expect to buy in the near future but are saving with a view to doing it'

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the Federal Reserve's policy of quantitative easing is due to end this month," he said. "There is quite of a bit of naval gazing as to how the US market will react."

### EUROPE

The Euro Stoxx 50 Index is up 70% from its low in 2009 but European stock markets have lagged those in the US.

Europe's recovery has stalled in recent months amid fears that it is slipping into a deflationary spiral.

Strong action by the European Central Bank (ECB) could however translate into higher European equity prices.

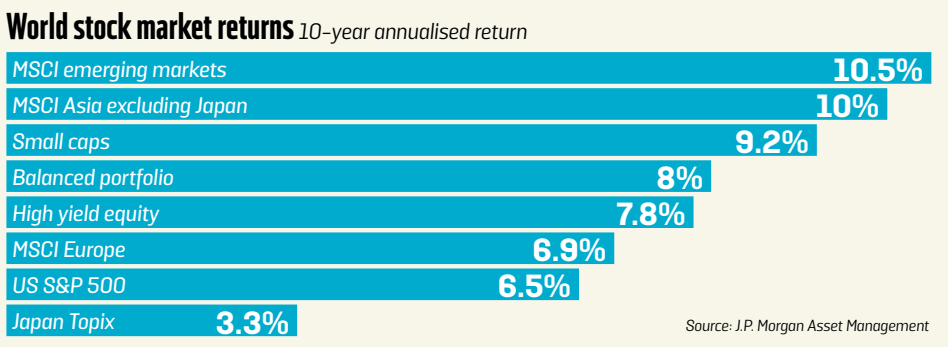
Quigley said: "European equities could deliver quite good returns provided the ECB does more to reflate the economy."

Frances Hudson, global thematic strategist with Standard Life, said: "We are neutral on Europe. Overall growth is very weak and the euro has been strong for some time, which has not helped exporters."

### EMERGING MARKETS

Emerging markets have been the best performing sector over the past 10 years, according to JP Morgan.

Experts warned against treating all emerging markets in the same way. "Commodity exporters such as Russia and Brazil will take longer to benefit from any upswing in markets than big commodity consumers such as China and



India," said Coughlan. Hudson advised those investing in emerging markets to choose an actively managed fund.

"If an investor was picking for themselves they would be looking for countries with good corporate governance and strong economic fundamentals," she said.

### JAPAN

According to Merrion Investment Managers, Japanese equities offer some of the best value available to investors. It said there was potential for a significant recovery in earnings from depressed levels.

Quigley agreed: "Valuations are attractive with very little in Japanese share prices to allow for a sustained economic recovery."

### PROPERTY

Investment experts say there is logic to investing in property in an environment of prolonged low interest rates.

"Historically Irish investors have put too much money in property."

Hudson favours UK commercial property and tipped peripheral European commercial real estate for future growth. "If you were going to take an active position, you would probably want to favour the periphery over some of the core areas," she said.

Pension savers can invest in Irish commercial property through Friends First, Irish Life and a real estate investment trust managed by Zurich Life, said Advisoryservices.ie. Other options include New Ireland's UK commercial property and European property funds.

### BONDS

Bonds perform better when interest rates are falling because this makes the fixed income they pay more valuable. With the ECB set to keep interest rates low for a sustained period, European government bonds are a better bet

than US and UK bonds, where interest rates are set to rise.

"European bonds aren't a problem for Irish investors because they're denominated in euro so there is no currency risk," said Hudson.

For investors in corporate bonds, Hudson said European corporate debt was more attractive than US company debt.

### COMMODITIES

Investors should be wary of investing their pensions in commodities, say experts.

"The long-term evidence suggests we should expect little return from commodity investing," said Quigley. "After a period of sustained commodity gains, we could be in for a period where commodities do relatively poorly."

According to Hudson, global economic growth is not strong enough to warrant investing in commodities.

"Pension investors should invest in assets that deliver income," she said.

## The Sum of its Parts

Simple solutions are built on complex perfection.

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