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CATHEDRAL
Financial Consultants Limited

Feature Article

Welcome to the latest edition of our newsletter!

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In our first article, we look at pensions and set out the benefits of them, beyond the generous tax breaks that they attract. We then set out a few thoughts about the importance of ensuring the advice you are getting in relation to your personal finances is independent and impartial.

Finally, there is our usual mix of content that we found on the web that we think will be of interest to you.

Best wishes!

Main Articles

Are pensions only good for tax breaks?

I think it's true to say at this stage that most people are aware at some level of the significant tax benefits of pension planning. However, apart from obviously securing your lifestyle in retirement, are the tax benefits the only reason that pensions are good for you, or are there other reasons to start or continue your pension planning?

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Quick recap of the tax benefits

The tax benefits of pension planning are significant and except for high earners, have been left relatively untouched. The main benefits (within certain limits) are;

- Full tax relief available at your marginal rate on contributions
- Your fund grows free of tax (no DIRT, CGT etc.)
- A portion of your fund can be taken tax free at retirement
- A structure can be put in place at retirement (Approved Retirement Fund – ARF), which enables tax efficient wealth transfer to your estate on death with any remaining fund.

However there are many other factors that make pension planning very attractive. Here are a few factors that increase the need for pensions, followed by an opportunity that is available to many self-employed individuals and company directors that passes some people by.

Life expectancy

Life expectancy has been increasing steadily in Ireland and is now 78 years for males and 82 for females. While this is undoubtedly good news, unfortunately it means that we will all need a bigger nest egg to see us through our golden years. More and more people will now be retired for 25-30 years. What size pension fund would you need to maintain your lifestyle for that period? Many people seriously under-estimate the size of their required fund to maintain a chosen lifestyle over such a long period of time.

State pension rates not increasing

Unfortunately long gone are the days when the annual budget heralded an increase in the state contributory pension rates. In fact since 2009, the maximum state contributory pension rate has increased by the princely sum of €3 per week only, an increase of just over 1% in 7 years! Indeed in recent budgets, we saw a further whittling away of benefits enjoyed by pensioners, with more restricted access to medical cards and the removal of the phone allowance etc. This basically devalues the pension every year, making it even more important for people to carry out their own retirement planning.

Waiting longer for the State pension

One of the other cutbacks in recent years, which received little attention, was the pushing out of the State pension age from 65 to 68, in instalments. The first cut happened in January 2014 - since then individuals have to be aged at least 66 to qualify for the Pension. From now on it increases in instalments to 68, depending on when you were born. The bottom line is that if you were born after 1960, the changes in comparison to pre-2014 mean that you have lost out on 3 years State Pension (say about €36,000 in today's terms) or 2 years (say about €24,000) if you're self employed. So if you are still planning on retiring at age 65 or before, you will have to fund for this lack of state benefits for these years yourself. A pension plan is probably the most appropriate and tax efficient way to do so.

And now for that opportunity!

Employing your spouse and gaining valuable tax and pension benefits

If you work for yourself but your spouse currently doesn't work in the business, it may make financial sense for him or her to get involved in the business. There are a number of tax and pension planning advantages in your spouse working in your business in return for a taxable income:

- As a married couple with two incomes, up to €67,600 of taxable income is subject to standard rate tax, but the limit for a married couple with one income is just €42,800. This means more of your total income is taxed at a lower rate if you are both working.
- If you're in a partnership or your business is a company, your spouse's employment by your business may be insurable for PRSI purposes, which means he or she may qualify for a State Pension, or for a higher pension, in their own right in respect to these additional PRSI contributions.
- The business may be able to set up an employer pension arrangement for him or her, and any contributions the business pays into it will be tax deductible as a business expense, within certain limits, without causing a Benefit in Kind for your spouse. Some or all of this retirement fund could be taken tax free by your spouse when he or she retires, subject to certain restrictions.

The Need for Advice

These are just a few thoughts on the value of pensions, over and above the much heralded tax benefits. Pensions are a very complex area, unnecessarily so in our opinion! As a result, it is our job as an adviser to clarify and find the right solution for clients. Please give us a call to help us find the right pension solution for you.

Is Independent Advice all it is cracked up to be?

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You hear a lot in the media when they discuss personal finance issues, about the importance of getting independent financial advice. Is it so important that the advice you get is ***independent***? We believe it is…

To give you a sense of why it is so important, it's probably useful to briefly cover what we mean by independent advice. This is advice that is given to a client on the basis that any product recommendations that may emerge, will deliver the very best product available in the market ***for the client***. Independent advice is delivered by professionals, with access to products right across the market. These are usually financial advisers such as ourselves!

Non-independent advice is typically delivered by banks and direct sales forces from life assurance companies who only sell the products of a single company, irrespective of whether that is the best product in the market or not.

So why is your relationship with your independent financial adviser so important?

We're here for the long haul

This is what we do; we provide independent financial advice. Our expertise is helping you manage your finances, grow your wealth, plan for your retirement and provide financial security for your family. We want to build up a professional, trusted relationship with you now and for many years to come, helping you achieve your financial goals. If we can help you do that, we'll be successful too!

We don't lend money, we don't give out credit cards and we don't hold your money on deposit. Banks are (supposed to be) good at that, as that is their role in your financial affairs. However are you going to build up the same trusted relationship with them as the provider of financial advice to you, where the person you deal with potentially changes from one meeting to the next?

Our advice is based on you

The critical requirement of financial advice is that it is based on your specific needs. Your current financial situation, your financial objectives, your attitude to risk. We spend a lot of time at the outset building up our understanding of you, as the time invested here reaps rewards as we progress. You see understanding your needs is the cornerstone of any recommendations we might make. Once we clarify these needs, then we can go out to the market to find the very best product for your specific circumstances, giving you the best chance of achieving your financial objectives.

The product provider is secondary

Of course the provider of your financial product is important, maybe that is a life assurance policy, a pension plan or an investment fund. But where you are getting independent advice, the provider is secondary. Because we ultimately have access to products across the market, we don't have to start with a particular product and try to "force fit" your circumstances to make them suitable for the product. We're not biased towards one provider, instead our product choice process starts with you. We identify your particular need and identify the right product in the market for you.

Of course underpinning this is the due diligence that we carry out on the products in the market, ensuring that they are all that they are supposed to be. As a result we recommend products based on a wide range of factors including;

- Provider security
- Price and charges
- Product features
- Investment range and methodology
- Investment performance
- Claims payment record
- Customer service levels

And similar to everything else in the world, this landscape constantly changes. So we are constantly updating our knowledge of providers and their products and refining our recommendations as a result.

We do the legwork

Managing your financial affairs properly is a complex business. Gathering all your personal information and keeping this up to date, making sense of your assets & liabilities and your income & expenditure, getting all the information in relation to any existing financial products and turning all of this into a financial plan takes time. And then you need to stay on top of this, and keep it updated every year to ensure that your plan stays on track and that your financial objectives remain within reach.

You can try to do this yourself, however in our humble opinion we are probably more skilled and quicker at doing this for you, as this is what we do, day in and day out. We are qualified professionals who have trained for many years to provide this advice to our clients. All carried out with the aim of finding the right solutions for you.

We are your trusted adviser

At the end of the day, you want to ensure that you have an adviser with your best interests at heart, free from any bias. When you're sick, you go to the doctor, if you need legal advice, you go to a solicitor. When you need financial advice, you should visit an expert financial professional. That person is your independent financial adviser.

Around the Web

The number of young people with pensions has fallen dramatically since the recession

The number of young workers contributing to a pension has decreased rapidly over six years according to new data released today.

Would Donald Trump Crash the Stock Market?

Mark Cuban says a Donald Trump victory would cause a huge stock market correction.

5 Ways to Prevent Your 70-Year-Old Self from Hating You

How often do you think about your future self?

How do Negative Interest Rates Work?

Negative interest rate policies flip the rules of borrowing & lending on their heads.

8 Expenses You Should Never Cut

Some things are non-negotiable. There are necessities that are required for us to live decent, healthy, and satisfying lives. What are they?

4 Truths that could trip up your Retirement Plans

Reminders of some of the financial realities of retirement that have the potential to blindside new retirees who don't plan for them.

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