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Money

SNAP HAPPY
Elite camera was Eamonn Quinn's picture-perfect present | p13

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Starting at zero you've nothing to lose

With interest rates at record lows, it's time for homeowners, investors and savers to get smart, writes **Mark Channing**

JUSTIN FARRELLY

O'Connor has turned to the stock market and believes that consistent regular investing over time will do better than leaving your money sitting in a deposit account

IF SECURITY IS NUMBER ONE, YOU HAVE TO ACCEPT THE CURRENT RATES

HOUSEHOLDS are being urged to review their savings, investments and mortgages as interest rates fall to historic lows. This should be good news for borrowers but experts warn that only homeowners lucky enough to have tracker mortgages will benefit from the rate cut.

The European Central Bank (ECB) entered uncharted territory by slashing interest rates from 0.25% to a record low of 0.15%. It is the latest in a series of rate cuts aimed at stimulating the European economy and warding off the threat of deflation.

There are about 400,000 trackers in Ireland and repayments on these loans will fall as a result of the cut. Variable rate mortgage holders are not so lucky as banks don't have to pass on ECB cuts to these customers. The rate cut is bad news for savers who will see interest paid on deposits fall.

With interest rates set to stay close to zero for a protracted period, we get advice for borrowers, savers and investors.

BORROWERS

Someone with a €300,000 tracker mortgage will save about €20 a month from the new cut in rates, the latest in a series of payment reductions.

Liam Ferguson of Ferguson & Associates, a mortgage broker, said: "In 2008 someone with a €300,000 mortgage over 25 years would have been paying €1,798 per month. Following this latest cut the repayment is €1,144 per month — more than €650 less."

Lenders are telling tracker customers to take advantage of the rate cuts to overpay their mortgages. This should allow them to become mortgage-free ahead of schedule. The banks' advice is self-serving because they would benefit by getting trackers off their books as quickly as possible because these mortgages are loss markets or only marginally profitable for lenders.

Overpaying does not make sense for homeowners with spare cash, however, if it would earn more on deposit than the interest charged on a tracker mortgage.

David Quinn, managing director of Investwise, a fee-based adviser, said: "If you choose the best deposit account, your after-tax return should be higher than the interest on your tracker, so you are better off setting the money aside than overpaying the mortgage."

Permanent TSB, for example, pays 2.25% for deposits of at least €5,000 fixed for terms of 16-24 months, or 1.3% after deposit interest retention tax (Dirt). This compares with rates of 0.65%-0.9% charged on the best tracker mortgages.

Overpayments would be a bad move for those planning to borrow more to move house. Permanent TSB, Bank of Ireland and Ulster Bank allow movers to take trackers to their next house but additional borrowing must be at a higher variable rate of interest. It is in movers' interest to keep as much of the overall debt as possible on tracker terms.

Colm Kelly of Cregan Kelly O'Brien, a financial adviser in Swords, Co Dublin, said: "It's better for movers to have the money in savings and borrow as little as possible at the variable rate."

Overpayments can make sense in some circumstances. "If you're in negative equity there is some merit in overpaying," said Kelly. "Psychologically it can make a big difference to people to pay down their debts as quickly as possible."

Frances O'Hanlon of FOH Financial, an adviser in Clonmel, Co Tipperary, agreed. "If you overpay now, you have made considerable inroads on your mortgage by the time interest rates go up again," she said. "Just be mindful that, when you pay it into your mortgage, you're not going to get it back out again."

The question for homeowners on variable rates is whether to switch to a fixed rate. These are generally more expensive but would pay off if interest rates rise while the rate is fixed. Rachel Doyle of the Professional Insurance Brokers Association said predicting the direction of interest rates "is fraught with uncertainty", although she believes it is reasonable to expect rates to increase over the next few years.

Ferguson said fixing could be worthwhile if you do not plan to move and are unlikely to overpay your mortgage.

"In some instances, you can fix for a couple of years at the same interest rate as the standard variable," he said.

"Given that it's unlikely that variable rates are going to come down any time soon, fixing could be worth considering."

Allied Irish Banks has a two-year fix at 4.75% and a three-year fix at 4.95% compared with a standard variable rate of 4.4%. Bank of Ireland charges 4.69% fixed for two years and 4.89% fixed for three years for existing customers, compared with a variable rate of 4.5%.

SAVERS

Savers have seen returns dwindle, with 2.25% the most they can hope to earn. They have also been punished by higher taxes, with Dirt at 41% and those earning more than €3,174 a year in interest paying 4% pay related social insurance.

Experts say rates are likely to fall even more. Shane McInerney of Deloitte Pensions & Investments said: "Interest rates have been falling consistently now at a rate of about 25 basis points a month and I imagine you are going to see them drop further."

Savers unwilling or unable to assume investment risk must make the best of what is available. "If security is the number one thing, you have to accept the current rates for deposits," said Quinn.

"If it's short-term money for a deposit on a house, for example, get the best rate you can." Permanent TSB and KBC Bank pay 2% for easy-access deposits. Fixed rate accounts, where you lock your money away, pay slightly more. PTSB pays 2.25% interest on its 18, 16 and 24-month accounts.

Regular savers can earn up to 4% with Nationwide UK (Ireland) on monthly savings of up to €1,000. "You can get slightly higher rates for regular savers' accounts but rates tend to drop as money accumulates in these accounts," said McInerney.

State Savings are another option. Returns are tax-free so you earn slightly more interest than what banks are currently paying.

The downside is you have to lock your money away for longer periods, increasing the risk that the value of your cash will be eaten away by inflation.

The National Solidarity Bond pays 6% tax-free after four years, or an annual rate of 1.47%. The 10-year bond pays 30% or 2.66% annually.

INVESTORS

McInerney reported a change in savers' mindset after the last budget when Dirt was increased to 41%. "It was like someone flicked a switch. Once Dirt increased along with the falling interest rates, a lot of clients realised they had to start looking elsewhere," he said.

Would-be investors need to assess their attitude to risk before deciding what kind of investment suits them.

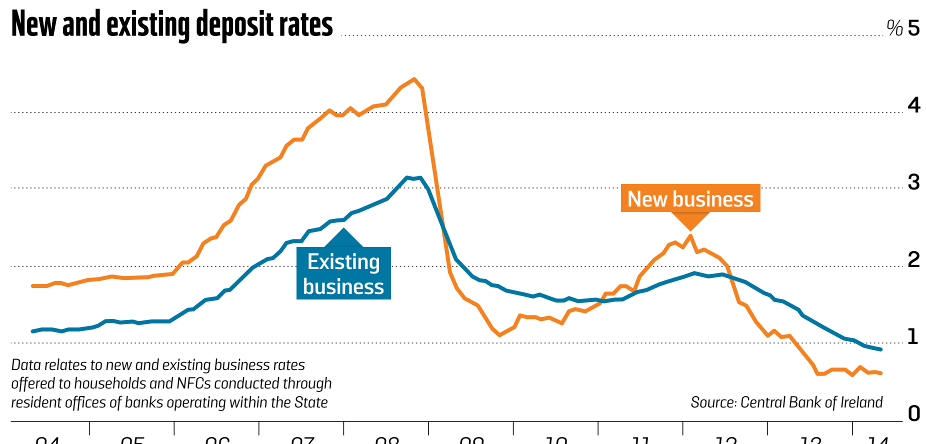
"If you're happy to take on an element of risk, you have to look towards stock markets and the equity-based funds, but you must take a minimum of a five-year view," said O'Hanlon. She advised investment of small amounts regularly, rather than a lump sum all at once, to minimise the impact of volatility.

Experts urge caution over structured products such as tracker bonds, which provide capital protection but tie you into a minimum investment period and can have charges which may not be obvious. A low-risk multi-asset fund that holds a portion of equities, bonds and cash could be a better bet, although your capital would not be protected

Kelly said there could be tax advantages from investing in funds. Gains are subject to an exit tax of 41%, the same as Dirt. However, unlike Dirt, which is deducted annually, the exit tax is payable only on encashment or after eight years, by which time the government may have cut the tax. "You will get hit with the tax but only at the rate that applies on encashment or after eight years, so there is an eight-year window for the tax to be reduced," he said.

Mark O'Byrne of metal brokers GoldCore said gold is a worthwhile investment when interest rates are low, although it has lost about a third of its value since peaking at $1,921 an ounce in September 2011. "Gold has always been criticised due to its lack of yield, unlike stocks, bonds and deposits," said Byrne. "However, given the ECB's historic rate cut and the continuation of ultra loose monetary policies, many investors and depositors will now rightly see non-yielding gold as an increasingly attractive diversification."

New and existing deposit rates



Data relates to new and existing business rates offered to households and NFCs conducted through resident offices of banks operating within the State

Source: Central Bank of Ireland

Stock market gives me more bang for my buck

LOW returns and high taxes have led Cormac O'Connor to seek an alternative to bank deposits.

He decided to take control of his money by investing in the stock market.

"I had money on deposit which was earning fairly decent interest, but every couple of months the rate was being cut. Then Dirt increased and I realised that I had to be more proactive if I was to get any sort of decent return," said O'Connor.

He attended a one-day investment seminar run by independent financial advisory firm GillenMarkets.

He also subscribed to GillenMarkets's weekly investment newsletter which gives him up-to-date analysis of stocks and markets.

In O'Connor's view, consistent regular investing over time will do better than leaving your money sitting in a deposit account. "Based on historic returns the odds are stacked in your favour to beat the returns paid in deposits," he said.

Once he has identified what shares to buy, O'Connor uses a range of strategies to reduce the risks.

These include investing small amounts regularly over a period of time, holding the shares over the medium to long term, and ensuring that his portfolio is well diversified. "I drip feed money in and take a long- term view. There are going to be months which aren't as good as others and that's where discipline is needed. You have to stick with the strategy even through a bit of turbulence," he said.

"It's important to get a low commission, execution-only broker. If you're investing every month, you don't want to be spending a lot on commissions and fees," added O'Connor.

He is not planning to save his money with the bank again in the near future, he said.

"I don't see the banks increasing their rates again for a long time."

MARK CHANNING

Revenue ready to signal end of the line for the gravy train

COMMENT

NIALL BRADY

Perusing Revenue's regular lists of tax defaulters is one of life's guilty pleasures, and busybodies got a special treat last week when Leinster House popped up among the named and shamed. The body that runs the Oireachtas made a tax settlement of nearly €333,500 after civil servants were caught abusing taxi and meal allowances.

Whatever the curiosity value, this episode provides more evidence of Revenue's hard-line approach with expenses and allowances. Civil servants have a legitimate expectation that their transport and sustenance will be paid for when working late to facilitate the Dail's nocturnal debates. Revenue discovered some had pushed their luck, taking taxis home at taxpayers' expense after a normal working day or for running personal errands. Having failed to clamp down on these abuses, Leinster House should have taxed them as benefits in kind (BIK), Revenue ruled.

Expenses are a grey area, and taxpayers may discover what is a legitimate deduction only after falling foul of Revenue. For example, it spelled out its position on travel and subsistence expenses only after commencing audits of hundreds of engineers and IT professionals who have set up companies to trade as independent contractors. The clarification has consequences for many with flexible working arrangements: home offices are generally not their normal places of work, according to Revenue, so they cannot claim travel expenses when visiting head office.

Companies operating van fleets could be next on Revenue's hit list. Employees who drive these vehicles are not liable for BIK provided the van is only for commercial use. Is Revenue satisfied that BIK is being paid on all company vans parked overnight in the driveways of private homes?

Businesses could also feel the heat when they pay subscriptions to professional bodies on behalf of accountants, solicitors and other professionals on their payrolls. Unless the accountants or solicitors are in public practice, where membership of a professional body is mandatory, can their employers legitimately claim that the subscriptions were incurred "wholly, exclusively and necessarily" for the purpose of their businesses?

Bleary-eyed civil servants can take comfort that the net is also tightening for those to blame for the late nights — politicians — who are finding that the days of unvouched and untaxed expenses are largely over.

Rent a dilemma

Buy-to-let was back in the news last week when the Private Residential Tenancies Board (PRTB), which regulates more than 260,000 rental contracts, disclosed that rents rose by 8.4% in Dublin in the past year and by only 0.8% outside the capital. The disparity is reflected in average rents — €1,227 a month for a house in Dublin compared with €637 outside the capital.

Away from the headlines, information on the PRTB's website helps put the raw data in context, revealing the paradox at the heart of the rental market. A sizeable chunk of the population — 29% of all households — lives in rented accommodation. With house prices, especially in Dublin, on the increase, the proportion of renters is unlikely to decrease.

Yet their rights as tenants are rooted in another era, when renting was a temporary arrangement for a transient population of young people. Landlords can give notice to quit if they want to sell or upgrade a rental property, or if they decide to move into the property for their own use or that of a family member. Rents can be increased annually by giving a month's notice.

These rules might not trouble footloose tenants if they are given enough time to make alternative arrangements. However, they are totally inadequate for families hoping to put down roots. How can they hope to settle in an area if their landlord can ask them so leave so easily?

The casual nature of buy-to-let is underscored by the paucity of unfurnished accommodation available to rent. This is not a symptom of tenants' preference for cheap disposable furniture, neutral paint schemes and cash-offs from their landlords' homes. It reflects the expectation that they will not be staying long enough to bother furnishing the accommodation themselves.

Cracks in nest eggs

Pension funds have recovered from the stock market crash, but the shadow of 2008 and 2009 still haunts how some invest their retirement nest eggs.

The value of pension savings hit a record €91.5bn at the end of last year, according to the Irish Association of Pension Funds (IAPF), having fallen as low as €63.5bn in 2008. Most of the recovery came from investment growth rather than new money flowing into pension funds.

The rebound seems to have gone unnoticed by some of the 500,000 workers in defined contribution (DC) schemes, who largely call the shots over how their pensions are invested. When faced with investment decisions, it seems many of us take the safe option, with more than 17% of DC savings held in cash, according to the IAPF. Cash was a good place to be when all asset classes — equities, property, commodities — crashed simultaneously during the financial crisis. Those who lingered on deposit too long, however, have missed out on the subsequent recovery.