

MONEY

BUCKING THE TREND
WHY SINGER CHERYL
BAKER STILL PREFERS
PROPERTY P15

How to ride out the storm

With job losses and higher prices
in sight, sound financial tactics
are essential, writes Niall Brady

HOUSEHOLDS are being warned that the financial decisions they make now will determine how well they cope with falling house prices, increased bills and the prospect of job losses.

Research by Hibernian Life & Pensions has found that half of Irish people believe they are not prepared for recession.

Michael Gordon, executive manager for investments and funds at Hibernian, said: "Some 47% of people do not believe they have enough savings to cope with the unexpected. They should try to have about three months' salary in short-term, accessible savings, but this might not be enough for those whose jobs look shaky."

Dan McLaughlin, chief economist at Bank of Ireland, expects the jobless total to rise by 30,000 in 2009 — with 167,000 people out of work by the end of the year, more than 7% of the labour force. Some experts expect the figure to be even higher.

The good news, though, is that mortgage costs are set to tumble and homeowners can expect to see €1 billion knocked off their repayments in the coming year. The European central bank (ECB) cut rates by a half-point to 3.75% last month and, according to McLaughlin, they could drop as low as 2% by next summer.

Those who act now have plenty of ways to protect themselves and to grasp the opportunities on offer.

Sacrifice mortgage bonus cash

Falling interest rates give borrowers a great opportunity to beat their mortgages into shape. The ECB is expected to cut rates again this week, possibly by a half-point. Added to October's reduction, this means that mortgage rates could tumble by a full percentage point over a few weeks, provided lenders share the cuts with borrowers.

Instead of pocketing the savings, homeowners could put the money to work by making mortgage overpayments. Opting to pay more than the standard payment on a mortgage can save thousands of euros in interest over the life of the loan and help borrowers become mortgage-free years ahead of schedule.

Bank of Ireland's standard variable mortgage rate was 5.79% before the ECB began cutting rates. It will fall to 5.29% tomorrow and could drop to 4.79% by December if the ECB does deliver a half-point reduction this week.

Repayments for those with a €300,000 mortgage repayable over 25 years would drop from €1,894 to €1,717 a month — a saving of €177. If borrowers overpaid by keeping their repayments at €1,894 a month, they could save €39,953 in interest and clear the mortgage in under 21 years.

Borrowers should discuss their plans with their mortgage provider before making overpayments.

Karl Deeter, operations manager at Irish Mortgage Brokers, said: "Don't send in a cheque for the overpayment without instructing the bank about what you want to do with the money. Make sure you get a confirmation, too. Under the Consumer Credit Act, lenders can't penalise you for paying off a variable-rate mortgage early. If you're on a fixed rate, though, you can be penalised for making extra repayments, but this depends on the lender."

Know your employment rights

Those who have held their jobs for under two years are entitled to get paid only for an agreed notice period — anything from a week to three months. Those who have worked for the same employer for more than two years are entitled to statutory redundancy of two weeks' pay (up to €600 per week) for every year worked, plus one week's full pay.

Statutory redundancy is tax-free and employees who negotiate better severance packages can keep at least €10,160 of these ex-gratia payments out of the tax net, too. The tax-free amount is increased by €765 for each year of service. More tax relief is possible depending on personal circumstances.

Those made redundant may be able to resume working for a former employer, even after accepting a severance package and the related tax reliefs, but tax experts urge caution.

Cathal Maxwell, managing director of PayLessTax.ie, which provides online advice and calculators, said: "It's a potential minefield. You may be able to preserve your redundancy entitlements if you return to work in a different capacity, perhaps working part-time, or if there is a time gap between when you leave and when you return. There cannot be any commitment to re-employ you, however, so you're taking the chance that a former employer might never take you back."

Ian McCall, a tax director at accountant Deloitte, warns that when a job is made redundant, the Revenue expects it will be gone for good. "If it's a genuine redundancy, the person holding the position isn't supposed to be replaced," he said. "It may be possible to return as a consultant, though, after a reasonable amount of time has passed if, for example, you've set up your own business in the meantime and provide consultancy services for a number of clients."

Maximise your tax entitlements

Brian Lenihan, the finance minister, will put the squeeze on taxpayers next year, slapping a 1% levy on most incomes and 2% on earnings above €100,000, while curtailing allowances and reliefs.

Those earning more than €36,400 will be hit by the abolition of top-rate tax relief on medical expenses. They used to get a



McKillen will ask Trinity College to join the government's cycle-to-work scheme and hopes to get a new lightweight hybrid bicycle valued at about €500, plus accessories

tax break of €615, for example, on medical expenses of €1,500 a year. That will drop to €300.

Other top-rate tax reliefs survived the budget cuts. Pensions still qualify for 41% relief for those in the top tax bracket. So do the flat-rate expense allowances that can be claimed by many PAYE workers, including teachers, nurses and many professional grades in the public service.

Commuters can get top-rate tax relief if they use public transport, cutting the net cost of an annual Dublin Bus travel pass

from €1,190 to €559. Those pedalling to work will qualify for a similar tax break from 2009, allowing them to get tax-free bikes and accessories worth up to €1,000 once every five years. Under the new scheme, employers can give bikes to their workers, who will not be taxed on the benefit.

Workers can also ask their bosses to buy bikes on their behalf, deducting the cost from their wages over a maximum of 12 months. This 'salary sacrifice' arrangement means employees will buy their bikes from pre-tax income.

Make sure your savings are liquid

Those who fear for their jobs should establish a cash buffer to cover themselves if they are made redundant or suffer a fall in earnings. Banks and building societies are still paying top rates for deposits, even though interest rates are falling. Savers will have to pay more tax on these returns in 2009, however, when deposit interest retention tax (Dirt) increases from 20% to 23%.

Harry Slowey, of IrishSavings.ie, a deposit comparison website, said: "Banks have an overriding need for liquidity, which means we've seen only minor reductions in deposit rates so far. You can still get 6%, although those rates won't last much longer if the ECB cuts interest again this week."

Banks require savers to lock up their cash for up to 12 months to get the best rates — a turnoff for those who need an easy-access emergency fund. Irish Nationwide, though, pays 6% on a six-month fix, although its minimum deposit is €20,000. Leeds Building Society pays 5.1% fixed for a year on amounts over €2,500, and savers can withdraw up to 50% of their cash before maturity.

Gear up with a budget-backed bike

Mike McKillen has cycled to work for 38 years and he intends to make the most of the new tax breaks on offer

THE budget had nothing to offer most taxpayers but Mike McKillen, 65, could be €410 better off next year because of new tax breaks for cyclists. An academic scientist at Trinity College, he plans to ask his employers to participate in the cycle-to-work scheme, designed to encourage people to abandon their cars.

"I've been commuting by bike for 38 years, so it's nice that the government is finally providing a financial incentive," he said. "Cycling means my journey time is absolutely predictable. When I leave my home in Donnybrook in the morning, I know I'll be turning the key to my office 20 minutes later. How many car drivers, or even bus users, could say that?"

McKillen spent about €450 on his current bike but, after five years on the road, the time has come for a replacement. "My handlebars snapped recently when I was cycling in heavy traffic," he said. "It was caused by metal fatigue. The lifespan of a bike that's

ridden every day is about five years."

McKillen will ask Trinity to buy him a lightweight hybrid bike costing about €500 as a replacement. Cycling accessories also qualify for tax relief under the scheme and he hopes to kit himself out with a breathable, watertight jacket costing about €250, over-trousers costing €120 and a helmet for €90.

The scheme allows cyclists to get tax relief on bikes and accessories up to a value of €1,000 once every five years. The relief comes in one of two ways. Employers can buy the bikes for their workers, who will not have to pay tax on the benefit-in-kind. Alternatively, cyclists can pay for their bikes by salary sacrifice, which means the cost is paid from their pre-tax earnings.

McKillen believes that cycling can help solve more than traffic congestion. "It's free exercise — if you put enough effort into cycling, you'll never need a gym," he said. "Childhood obesity would not be the problem it has become if more of our children cycled to school, rather than being driven in cars."

Niall Brady

MAKE THE MOST OF RATE CUTS

Mortgage	Overpayment per month ¹	Potential interest saving	Time taken off mortgage ²
€100,000	€59	€13,197	4 years, 1 month
€200,000	€118	€26,395	4 years, 1 month
€300,000	€177	€39,592	4 years, 1 month
€400,000	€236	€52,790	4 years, 1 month
€500,000	€296	€65,987	4 years, 1 month

¹Assumes savings from rate cut from 5.79% to 4.79% are used to overpay the mortgage
²Assumes original mortgage term of 25 years
Source: Bank of Ireland

Safety net is not much use if you've already crashed and burnt

NIALL
BRADY
COMMENT

It's time to get really worried when pundits hark back to the Wall Street crash of 1929 for parallels with the current crisis on world stock markets. Investors seem to have lost their heads, dumping stock indiscriminately even though valuations are already on the floor. There is no doubt that all businesses are headed for rocky times as recession begins to bite. That is no reason, though, to drop everything and rush for the exits.

Amid the panic and uncertainty, it is reassuring to see that some things never

change — even if it is the naivety that bedevils most armchair investors.

Thousands of us have learnt the hard way that the surest way to lose money is to pile in when stock markets are booming and jump ship when the going gets tough. That has not stopped us repeating the mistakes of the past, however.

Irish investment managers are careful about the statistics they release for public consumption, so we may never know how many of us gave up on unit-linked funds and other collective investments in

recent months, took our losses on the chin, and headed for the safety of deposits.

Figures published last week by Life Strategies, a firm of actuarial consultants, however, suggest a stampede to safety. They reveal that lump-sum investment in the funds run by insurance companies have fallen off a cliff — down 47% since 2007, itself a difficult year. Hibernian Life & Pensions, the investment partner of AIB, reported a 27% drop in business in the first nine months of the year.

Does this mean we no longer believe that the way to make money is to sell when others are greedy and buy when others are fearful. It's a strategy that has helped Warren Buffett to become one of the world's richest men. Buffett says now is the time to buy, but few seem willing to listen.

Those brave enough to part with their cash in the current environment will only do so in exchange for capital guarantees. The flight to safety was underlined last week when RaboDirect, an internet bank that allows investors a flutter on Russian oil wells or Latin American equities, launched its first protected fund, guaranteeing at least 80% of investors' capital.

Why investors believe they need this safety net when valuations are on the floor is a mystery. Wouldn't it have made

a lot more sense if they had protected their downside when they were piling into equities at the top of the boom?

NIB's track record is variable

National Irish Bank revealed losses of €49m on Tuesday for the first nine months of the year, but claims to be in a much stronger position than other lenders, especially the ones that gave away 100% mortgages at the height of the housing market bubble.

NIB's average mortgage is 55% of the value of the underlying property. This gives it one of the safest loan books in Ireland, according to chief executive Andrew Healy, although the margin of safety is being eroded with each fall in house prices.

When other lenders chased first-time buyers, telling them they did not need a deposit to get on the property ladder, NIB courted the other end of the market — those with plenty of equity in their homes. Homeowners who fell for its charms are now counting their good fortune, paying NIB mortgages that track the base rate of interest set by the European Central Bank (ECB) by margins as tight as a half percentage point. At current ECB rates, that works out at 4.25% — way less than the average standard variable mortgage rate of 5.4%. This is worth a saving of €1,134 a year on a

€150,000 mortgage paid over 20 years.

NIB's tracker was too good to last, though. It held out longer than most competitors, but eventually its mortgage range fell victim to the credit crunch. Instead of trackers, NIB now offers new customers a variable mortgage deal, although the rate is still tied to the amount of equity they have in their homes.

The trouble is that NIB is free to vary these rates whenever it wishes, irrespective of whether the ECB increases interest rates, drops rates or leaves them on hold. Trackers, on the other hand, do not allow lenders to hoodwink customers because rates are pegged to the ECB rate by a fixed margin for life.

Even as they currently stand, NIB's loan-to-value variable rates are not very good. Those with more than 40% equity pay 5.15% interest, those with 20%-40% equity pay 5.4%.

Borrowers can do better elsewhere. Halifax has a standard variable rate of 4.9%, while AIB charges 5%. These rates are theoretically open to anybody with a 10% deposit, although all lenders are picky about which borrowers they will take on their books in the current environment.

NIB used to reward borrowers for the equity in their homes, and the payback for it is one of the least risky mortgage

books in the business. Unless it sweetens its current offer, though, homeowners should take their equity elsewhere.

Research meets reality

Many factors contribute to the looming pensions timebomb, but a shortage of market research or opinion surveys is not one of them. The latest feedback from the streets comes from Zurich, as Eagle Star is now known.

The headline finding is that 60% of 24-34 year olds do not have pensions. Nothing new there — government regularly measures what proportion of the workforce has made no financial provision for retirement, and the result is stuck stubbornly about 50%. The real detail in Zurich's research is buried in the middle. Those surveyed see 29 as the magic age for settling down in permanent relationships and starting a family. They are also worried about their jobs — almost half expect to work somewhere else within the next two years, while two-thirds have considered emigration.

This begs an obvious question: if you are thinking about buying a house, starting a family, afraid of losing your job, or planning to move to Australia, why would you lock up your cash in a pension that you will not be able to touch for another 30 years?