MONEY

INCREASE IN HOUSEHOLD DEPOSITS IN YEAR TO THE END OF JANUARY 2025
€9bn
MOST OF INCREASE IN TERM ACCOUNTS

INCREASE IN AVERAGE WEEKLY EARNINGS LAST YEAR
5.6%
BENCHMARK REACHES €979.71

SOURCE: CENTRAL BANK, CSO

Financial survival tips to face future without fear

Pay, pensions, insurance, succession planning — *Niamh Hennessy* looks at what business owners must bear in mind when building their nest eggs

Often business owners can be so consumed with ensuring their company is doing well they forget about themselves.

For entrepreneurs it is vital to put in place a solid plan to ensure a secure financial future. This will take time and consideration. It can be complex but the effort will pay off in the long term.

HITTING PAY DIRT

The first consideration is pay. How much an owner pays themselves depends in the first instance on the interaction between two variables: the company's performance and the owner's personal requirements for cash.

"For businesses that are in a high-growth mode, owners will often make a decision to leave surplus profits in the company to fund future growth, rather than taking additional salary," Alison McHugh, head of private client services at EY, says.

But there are other factors to consider, too. The pay a business owner takes will affect not only their tax liability but their potential retirement income as well. Any salary will be subject to PRSI, which secures future eligibility for the state contributory pension after retirement. This is why many advisers recommend taking at least some form of salary.

"What is essential is that a business owner does cashflow modelling as this will strike the right balance between what they take as income and what is left in the company to ensure its long-term success," Barry Graham, senior financial planner at NFP Ireland, says.

"The more you take out now, the more tax that is likely to be paid and there may be better ways of extracting wealth out of the company."

TOPPING UP YOUR PENSION

Pension contributions are perhaps one of greatest tools to extract money from a company in a tax-efficient manner, according to Graham. Because payments into a pension pot represent deferred income, they are given tax relief on the way in and can grow on a tax-free basis until drawdown upon retirement, when the state allows a large untaxed lump sum to be extracted.

At present up to €2 million can be contributed to a pension fund before attracting penalty taxes, but this threshold is going up incrementally to €2.8 million by 2029, making pensions an enduringly attractive way for entrepreneurs to take income.

Pensions can be funded either by way of employer contributions or by making personal pension payments out of regular salary, or an annual voluntary contribution.

"Generally, employer pension contributions are more tax efficient as they are fully exempt from tax whereas personal pension payments qualify for relief from income tax but not from USC or PRSI," McHugh says.

Dividends are a potential alternative to basic pay, but the mechanics are different.

"Dividends don't reduce a business's corporation tax burden at the end of the financial year; the cost of paying a salary does and dividends tend not to be favoured by business owners as a result," David Moran of PwC says.

There is no particular tax advantage to dividend income either as income tax, PRSI and USC apply, and dividends above €100,000 attract an even higher rate of USC at 11 per cent.

GET THE RIGHT INSURANCE

After pay and pensions, insurance is the next key element in the entrepreneur's financial toolkit. Having the right policies in place is especially important for business owners, who face a range of risks.

"In Ireland, we are seeing businesses grappling with challenges including inflation, supply chain issues and the cost of materials," Laura Vickers, managing director of commercial lines at Gallagher in Ireland, says. "Through the purchase of adequate insurance cover, SMEs can grow their business through removing risks from their balance sheet."

Businesses typically need key person insurance — to cover the owner, business partners and other essential personnel — and employers' liability insurance, although this is not a legal requirement in Ireland. Other policies that should be considered include public liability, professional indemnity, business interruption and cyber insurance.

"In today's economic climate, business owners may be tempted to opt for the cheapest insurance but this may mean that their policy does not cover them in the event that something goes wrong," Vickers says.

While it's not pleasant to contemplate, the death of a business partner could have financial implications in addition to the obvious emotional impact.

"Without proper insurance, you could find the partners' legal representatives being brought into the company and making business decisions," Barry Graham says. "This will likely add complexity to the situation and can be detrimental to the growth of the company."

ZUMAPRESS.COM/MEGA

Most entrepreneurs can't afford to take a daredevil approach to life, like the TV adventurer Bear Grylls

> **The more you take out now, the more tax that is likely — there may be better ways of extracting wealth**

Some owners might be tempted to take loans out of the company, but careful consideration is required as this can give rise to adverse tax implications.

Munro O'Dwyer, a partner at PwC Private, says that directors' loans tend not to be very effective because a 13.5 per cent benefit-in-kind rate can apply, which gets treated as notional pay and subject to payroll tax. The business will be liable for corporation tax on any loan that is not repaid within a specified period as well.

PLANNING FOR SUCCESSION

Thinking about the future of the business is also key. Eoin Tobin, a partner in the tax team at RDJ solicitors, says that it can be crucial for a business owner to have a succession plan in place and get their ducks in a row to ensure they have done what is needed to be able to avail of relief down the line.

When it is time for the company owner to move on, how they exit the business is one of the biggest financial decisions they will ever make.

"We are finding that business owners are increasingly conscious of the fact that they need to give this matter attention sooner rather than later to ensure that on a sale or a transfer of a business to the next generation all parties are happy with the result," Tobin says.

The company may be wound up or it may continue. If the latter, there are different reliefs available such as entrepreneur relief and retirement relief. It could be the case that the business owner will need to take actions such as last-minute pension contributions to ensure they have a sufficient retirement plan in place.

When it comes to succession planning, potential routes for business succession include transferring to the next generation, or a trade or private equity sale.

"With any of the above options, it is important to plan in advance to ensure there is certainty for those around you, be it family, employees or management, and also to optimise the tax treatment. At the same time there needs to be a level of flexibility to cater for unexpected scenarios," Marie Flynn, chairwoman of the Irish ProShare Association, says.

"Business owners should review and consider how their interests are held and whether there is merit in making transfers now to the next generation. For example, growth shares are a very popular way of transferring future value to the next generation."

The provision of shares or share options tends not to be part of how a business owner would draw remuneration. However, Flynn adds they can offer valuable tools to be used to reward employees or key executives and to share a stake in the business success.

She says an employee ownership trust is a new idea that is yet to be legislated for here. This is when a business is transferred into the ownership of a trust for employees and avoids the need to sell the business to a third party or transfer to the next generation.

QUESTION OF MONEY

My car was badly damaged when my neighbour's garden furniture was swept by storm winds into my driveway. I'm reluctant to claim for it on my car insurance for fear of losing my no-claims bonus. If my neighbour has home insurance, would it cover the damage? Also, given the ferocity of the storm and the likelihood of more weather like this in future, how can I ensure my home insurance is up to scratch?
JL, Galway

Storm damage often raises queries about liability. If your neighbour didn't secure their garden furniture despite storm warnings, they may be deemed negligent for the damage to your car. If they have home insurance, their policy may include liability cover, which could compensate you. You should talk to your neighbour, politely explain the situation and ask them to contact their home insurer to see if their policy covers the damage.

If your neighbour is unwilling to assist or their insurance won't cover the damage, you may need to claim on your car policy. Comprehensive car insurance would typically cover storm-related damage, but you may face an excess charge and have to pay the first part of a claim, and your no-claims bonus could be hit unless you have protected no-claims cover.

As with any claim, you should gather evidence, such as photos of the garden furniture, the damage to your car, and weather reports to show the extreme conditions. You should also document communication with your neighbour, including any offers or refusals of assistance.

In terms of your home insurance, apart from reading the terms and conditions thoroughly, a key step is to ensure your home isn't underinsured, when your home is covered for less than the full cost of rebuilding it or the contents for less than the cost of replacing them. This could leave you with only a fraction of any payout you were expecting.

You should also keep your insurer up to date on any refurbishment or additions to your property as these may have increased the rebuild cost of your home, so the buildings sum insured on your policy would need to be adjusted. If you have a flat roof, ensure your home insurer is aware and that you meet the conditions in your policy for flat roofs.

Your insurer could refuse to cover damage caused to or by a flat roof, particularly if it is over a certain size or age, made of certain materials or not regularly maintained. Cover may lapse if a flat roof of torched-on felt is over ten years old, or only five years if made of any other felt. Equally, you may need to keep your flat roof maintained by a qualified roofer or builder at least every five years.

Dominic Lumsden is spokesman for Peopl Insurance

Send your personal finance or consumer-related questions to money@sunday-times.ie

Eoghan Gavigan

Comparison may be the thief of joy but nostalgia is the tar trap of investment

I was in the car a few days ago when *Valerie* by Steve Winwood came on the radio. It's one of those songs that causes me to look back with nostalgia on the Eighties. Carefree schooldays, cars and girls — it's easy to get lost in the nostalgia. The only problem is, I didn't particularly enjoy the Eighties, and I was glad to see the back of it.

Now you may wonder why a financial planner is writing about misplaced nostalgia but it's a concept which is important, maybe critical, for investors in the stock market today. This isn't something that only just occurred to me — I've been conscious of it for a few years. There is a mismatch between the actual past and how we think about the past, and it causes problems with how we think about life and about investing.

I recently came across an article by Morgan Housel, titled A Message from the Past, that tackles the issue. His thoughts on this may be useful for investors or indeed for anyone thinking about how satisfied they are with life.

Housel describes talking fondly to his wife about their early twenties in Seattle, only for her to ask what he was talking about, as it was in her view a period in which he was "more anxious, scared and probably depressed" than he had ever been. On deeper reflection he agreed that this was definitely the case. So how could he misremember it so badly?

According to Housel, when we recall a past period in life we may remember it with fondness, even if we weren't at all happy during the period in question. This is because we know what eventually transpired, which most of the time is that it worked out fine. This makes it difficult, almost impossible, for us to recall how we felt at the time. Instead "we remember how we think we should have felt, given what we know today".

When investing there are multiple factors that can cause us to process information incorrectly and which can cause us to act in ways that will hurt rather than help our investments. As Benjamin Graham, the economist, said:

> **In order to be a successful investor, you have to be an optimist**

"The investor's chief problem, and even his worst enemy, is likely to be himself." These flaws in the human thought process are called behavioural biases.

I once heard someone say that in order to be a successful investor you have to be an optimist. When you think about misplaced nostalgia, you can see how this could be the case.

A person who has been invested in a passive global equity fund or indeed the S&P 500 index for the past 15 years has made a lot of money, and it feels like it was easy. When they compare that easy run to what may be ahead, they may be starting to feel like this is a good time to get out of the market.

So was it really an easy run? If the investor examined the situation more closely, they would realise that nothing could be further from the truth.

During the early years of his investment, we had the European sovereign debt crisis. In 2010 we had the flash crash with one of the most turbulent days in the history of the stock market. In 2011 the S&P 500 entered a bear market between May and October, declining by 22 per cent. We had huge uncertainty caused by the Brexit vote in 2016. The S&P fell by almost 20 per cent in late 2018 and by 34 per cent in 2020 at the start of the global pandemic. In the first six months of 2022 the S&P declined by almost 21 per cent. We had the global supply chain crisis from 2021 to 2023 and the inflation spike from mid-2021 to mid-2022.

The investor has largely forgotten all the events that caused sleepless nights in the past but looking forward they are thinking about the Russian invasion of Ukraine, unrest in the Middle East, the huge US debt pile, concentration risk caused by the march of the so-called Magnificent Seven tech stocks, and a potentially damaging world trade war — and that's only the known unknowns.

A client of mine considering a large investment recently asked me whether it was a wise move, given the gains in the stock market since its nadir in March 2009. It's a common sentiment.

My response was to quote Housel, who said: "The past wasn't as good as you remember. The present isn't as bad as you think. The future will be better than you anticipate."

Eoghan Gavigan is a certified financial planner and owner of Highfield Financial Planning; hfp.ie