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INSIGHT

ISSUE 11

YOU DO THE BUSINESS AND WE TAKE CARE OF YOUR BUSINESS

LOOKING BEYOND THE HORIZON

The potential impact of local and global disruption

PLANNING IN ADVANCE

Protecting and growing your capital

RETIRING TO THE SUN

Are you saving enough to achieve your goals?

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BUCKLEYKIELY
WEALTH MANAGEMENT
Independent Financial Advisors

WELCOME

Welcome to the latest issue of Insight from Buckley Kiely Wealth Management, featuring articles written to help you make the most of your hard-earned money and achieve your long-term financial security.

It seems that more than ever, organisations in Ireland are looking beyond their horizons at opportunities and risks that may have a profound effect on the way they conduct their business. From global factors such as Brexit and volatility in Chinese markets, to local issues such as the availability of talent and rising labour costs, Irish businesses are less positive about the prospects for the global and national economy. They are confident, however, about increasing revenues and profits in their own businesses. Find out more on page 06.

A pension is not merely a retirement planning tool – it can be the cornerstone of a family's wealth planning strategy. However, its biggest competitive advantage requires time in order to manifest itself. Considering a pension in simple terms demystifies the structure and illustrates that competitive advantage relative to other forms of investment. If an investor is willing to put €60 aside, the State will effectively lend him or her €40 on an interest-free basis, allowing €100 to be invested on a tax-free basis for a prolonged period of time. The full article can be found on page 03.

A recent survey commissioned by Standard Life of 1,000 respondents has revealed that 49% (or almost half) of Irish people would like a home in the sun or by the sea when they retire. A home in the sun is more sought after than one by the sea or in the country. The single biggest preference (at 29%) was for individuals to stay in their current home. The second most popular choice was to have a home in Ireland combined with a home in the sun. We look further into the survey's findings on page 08.

The full list of the articles featured in this issue appears opposite.

We hope you enjoy reading this issue and find it informative. To discuss any of the articles featured, please contact us.

Kind Regards,

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PLANNING IN ADVANCE

Protecting and growing your capital

A pension is not merely a retirement planning tool – it can be the cornerstone of a family's wealth planning strategy. However, its biggest competitive advantage requires time in order to manifest itself.

Considering a pension in simple terms demystifies the structure and illustrates that competitive advantage relative to other forms of investment. If an investor is willing to put €60 aside, the State will effectively lend him or her €40 on an interest-free basis, allowing €100 to be invested on a tax-free basis for a prolonged period of time.

This latter point is crucial. It is through the power of tax-free compounding that a pension truly becomes a powerful wealth planning tool. In order for the compounding to have a material effect, the planning (both structural and investment) must be long-term in nature. The 'loan' referred to above is repayable in the form of taxation when the pension fund is drawn-down, but the salient point is that the investor has had the use of the underlying monies for a prolonged period of time with a view to generating a larger retirement fund. Nevertheless, the power of compounding is a moot point unless the individual has a robust and coherent investment strategy.

SUCCESSION PLANNING

On the surface, it can seem preposterous to refer to a €3,000 exemption in the context of a family's overall wealth. Nonetheless, the Small Gift Exemption can be a useful tool for families seeking to maximise their wealth. An obvious example would be grandparents who transfer a total of €30,000 per annum to their son, daughter-in-law and three grandchildren. Assuming that the respective €310,000, €16,250, and €32,500 tax-free thresholds of the son, daughter-in-law and each grandchild will be utilised in the future, such planning saves approximately €10,000 per annum based on the current 33% rate of Capital Acquisitions Tax. However, it is vital to note that the Small Gift Exemption is a 'per annum' amount. Once a calendar year has passed, the ability to transfer €3,000 for that year is lost.

When it comes to maximising the benefit of the Small Gift Exemption, the importance of long-term planning is key. The underlying funds require prudent investment management and stewardship, but more importantly it is vital that the parents and grandparents ensure that they have sufficient wealth to fund their retirement years.

Families sometimes lose sight of the primary purpose of accumulated wealth with a view to shoehorning themselves into a position where they can avail of tax reliefs. Such wealth exists primarily to provide for a comfortable retirement and any other eventualities (for example, healthcare). Parents and grandparents should not prejudice their own positions by gifting excessively – only surplus monies should be distributed, and only when the effect that such monies might have on the next generation has been considered. Parents who are open to the idea of long-term Inheritance Tax (IHT) planning should also consider taking out an insurance policy, the proceeds of which may be used to mitigate their children's IHT liability. The advantage of such a policy is that its proceeds do not constitute a taxable inheritance in their own right. The policy would be especially useful in circumstances where there are significant assets within a family, but a lack of liquid assets.

PITFALLS TO BE AVOIDED

Long-term planning can help to maximise a family's wealth, both in terms of cheaper premia from the outset and a reduction in Capital Acquisitions Tax in the longer term. Retirement relief from Capital Gains Tax is another area where long-term planning is key. The advent of 'single-member companies' has been welcome, but it brings with it pitfalls to be avoided. As many people are aware, it is possible in certain circumstances for a company owner to extract up to €750,000 tax-free on his or her exit as a shareholder. Where couples operate the underlying business together, it is possible to obtain two tranches of €750,000 tax-free. There is also an additional pension funding opportunity and scope for an additional termination payment on exit. However, if the relevant spouse or partner has no shareholding in the company, and his or her contribution to the business is not recognised by way of a paid employment or directorship, these opportunities do not exist. For retirement relief in particular, the 'ten-year share ownership and working director/five-year full-time working director' conditions can be hugely problematic. In circumstances where one must satisfy a ten-year condition, it is clear that long-term planning is an absolute necessity. ■

TIME TO TALK TO BUCKLEY KIELY?

At Buckley Kiely, we have been helping make our clients' financial lives easier through the delivery of robust, high-quality investment and financial planning solutions for many years. If you would like to discuss our approach in greater detail and explore how we could be of assistance to you and to your family, please do not hesitate to contact us.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION MAY BE SUBJECT TO CHANGE, AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.

MARKET COMMENTARY

Both external and domestic demand still growing

Momentum in the world economy picked up in the final quarter of 2016 amid broad-based gains in developed economies and emerging markets. Data so far in 2017 suggest that faster world economic growth could be here to stay.

We have seen healthy figures from both the US and eurozone despite an uncertain political backdrop. China has also produced some better-than-expected numbers in the early months of the year. However, the recovery in global trade is subject to one of the biggest risks to world growth, namely a rise in protectionism.

On 29 March, Britain triggered Article 50 to leave the EU, but one can still only speculate as to how Brexit will impact Ireland in the coming months and years. This is likely to be a long, drawn-out process and will take longer than the two years currently envisaged. The UK is the second largest single country for Ireland's goods and the largest for its services. At the same time, Ireland imports 30% of its goods from the UK. While the UK might only account for 16–17% of Ireland's total exports, 30% of all employment is in sectors which are heavily related to UK exports.

Going forward, SMEs (particularly agri-food and tourism) will likely be more affected than larger companies by any introduction of tariffs and barriers to trade.

At this juncture, however, the Irish economy appears to be holding up very well, even though export growth has slowed. Domestic demand, particularly in relation to the building and construction industry, remains strong. However, we do expect that Brexit worries will intensify as the divorce talks start in earnest, leading to lower overall GDP growth this year. Still, Ireland managed to head the EU growth league table again in 2016 and, even with slower growth this year, won't be far off the top performer once more in 2017.

Personal spending growth slowed in 2016 and is expected to slow further in 2017 on an uncertain global backdrop, but still remain positive. We are forecasting an increase of 2.7%, down from 3.0% in 2016.

For 2016 as a whole, the external trade surplus was a record-high €46,430m – €4,134m greater than the previous record surplus of €42,296m in 2015. The trade outlook for 2017 and beyond remains clouded in uncertainty, but we are still anticipating another solid performance this year. Indeed, based on the very positive start to the year, another record surplus now looks on the cards of around €47–48bn.

The labour market continues to improve, with the most recent official figures from the Central Statistics Office showing that all fourteen economic sectors under review posted year-on-year gains in employment in the final quarter of 2016. But the outlook from this year on is more uncertain in light of Brexit. Increased labour market participation will also impact on the overall numbers.

UK

A prominent supporter of Leave, James Dyson started the month by opening his second 'tech campus' in the UK at Hullavington in Wiltshire, as he looked to double his UK workforce to around 7,000 and pronounced himself 'optimistic' about the country's future.

Vodafone also announced plans to create 2,100 service sector jobs, and UK unemployment was down to its lowest rate since 1975 as it fell to 4.7%. However, wage growth also slowed, falling from 2.6% to 2.3%.

One man who might now be worrying about unemployment is Chancellor of the Exchequer Philip Hammond, who delivered his Budget speech full of reassuring news and witty cracks at the expense of Her Majesty's Opposition. Unfortunately, Hammond was swiftly forced to backtrack on his decision to raise Class 4 National Insurance contributions.

The Bank of England's Monetary Policy Committee kept interest rates on hold at 0.25% – and at that level it is little wonder that the UK savings ratio (the proportion of income which households save) has fallen to its lowest level since the early 1960s.

UK inflation went in the other direction, pushed higher by rising fuel and food prices. It reached 2.3% (the highest level since September 2013), with the Bank of England expecting it to peak at 2.8% next year. It was confirmed that the UK economy grew by 0.7% in the final three months of 2016, with the Bank now expecting the economy to grow by 2% in the whole of 2017.

The FTSE 100 index of leading shares closed the month up 1% at 7,323, having reached a record high of 7,424.96 in mid-March.

EUROPE

It's important not to get fixated on Brexit: life in Europe went on perfectly well despite the UK's formal decision to leave the EU.

The Dutch election saw Prime Minister Mark Rutte's Liberal party comfortably win the most seats, pushing the far-right Freedom party into second place. It is also looking increasingly likely that Emmanuel Macron will defeat Marine Le Pen in the French Presidential race, so there will sighs of relief through Europe's corridors of power. Economists have been predicting that the euro will fall below the dollar if Le Pen wins.

There was more good news for Europe on the economic front with the influential Markit Purchasing Managers' Index rising to 56.7 and suggesting that growth in the eurozone was at its best level for nearly six years. The report's authors also said that job creation was 'at its best level for nearly a decade' – although obviously there remains a very long way to go, given the problems of youth unemployment in countries like Spain and Greece.

French carmaker PSA – maker of Peugeot and Citroen cars – reached a deal to buy Opel from General Motors. This also includes Vauxhall and its 4,500 staff in the UK, and there will inevitably be worries about job losses.

Boosted by the election result in Holland and the news about growth, it was a good month on Europe's stock markets: the German index was up by 4% to 12,313, while the French market rose by 5% to 5,123. Even the Athens market in Greece rose by 3% in March, though it closed at 666.

US

March opened with Chairman of the Federal Reserve, Janet Yellen, saying that 'interest rates may rise.' A week later, it was confirmed that the economy had added 235,000 jobs in February and the rate rise was all but certain: it duly arrived at the monthly meeting of the Federal Reserve policymaking committee, as the rate moved up by 0.25% to a range of 0.75% to 1% – only the third rate rise in a decade.

In company news, Intel made a $15bn bet on driverless cars as it bought Israeli company Mobileye. Working with BMW, they are planning to have 40 test vehicles on the road by the second half of this year.

No driverless cars for Uber – and plenty of problems for boss Travis Kalanick, who was filmed swearing at a driver who had complained that his income was falling. No doubt Mr Kalanick will console himself with the thought that the latest round of funding values Uber at $68bn – which makes the $24bn stock market debut of loss-making Snapchat (just the $516m in 2016) look positively pitiful.

Ford confirmed its further commitment to the US with a pledge to invest $1.2bn in its Michigan plant. And the month ended with good news as growth for the fourth quarter of 2016 was revised upwards from 1.9% to 2.1%.

There was no upwards revision on Wall Street though, as the Dow Jones index fell back by 1% in the month to close at 20,663.

FAR EAST

It was a relatively quiet month in the Far East, both for news and for the region's stock markets.

Chinese Premier Li Keqiang announced that the country's growth target for this year would be 6.5%, down from last year's 6.7% – when the country's economy grew at its slowest pace for 26 years. Li said that the state would tackle 'zombie enterprises' – state enterprises which produce more coal and steel than the market needs which frequently leads to 'dumping' abroad – but in the past this has proved notoriously difficult to achieve.

In Japan, the beleaguered Toshiba Corporation continued to slide as it was given permission to delay announcing its earnings. The company is still struggling with huge cost overruns at Westinghouse, the US nuclear firm it bought in 2006.

There were struggles of a different kind for former South Korean leader Park Guen-hye, whose impeachment over a corruption scandal was upheld by the courts. Three people died in the ensuing protests.

On the region's stock markets, both China and Japan fell back by 1% in March, to 3,223 and 18,909 respectively. The Hong Kong market was up by 2% to 24,112, whilst the South Korean market ignored its former Prime Minister and rose 3% in the month, closing at 2,160. ■

LOOKING BEYOND THE HORIZON

The potential impact of local and global disruption

It seems that more than ever, organisations in Ireland are looking beyond their horizons at opportunities and risks that may have a profound effect on the way they conduct their business.

From global factors such as Brexit and volatility in Chinese markets, to local issues such as the availability of talent and rising labour costs, Irish businesses are less positive about the prospects for the global and national economy. They are confident, however, about increasing revenues and profits in their own businesses.

It is clear from recent findings in PwC Ireland's CEO Pulse Survey that business leaders today are placing a much greater focus on delivering business success and growth beyond profits and the bottom line.

CONFIDENCE IN GROWTH

Confidence remains high among Irish CEOs, although the level of confidence has fallen in recent times. The findings mirror the opinions of global CEOs and reflect international concerns over the impact of Brexit, local political uncertainties and other global issues such as over-regulation, cyberattacks and the speed of technological change.

Despite these external pressures, the survey finds that Irish business leaders intend to grow their operations in areas including investing in people and capital. In fact, plans to grow the workforce are at an 11-year high.

PERFORMANCE AND PERSISTENCE

Despite being less positive about the general prospects for their businesses in the year ahead, Irish business leaders expect to see growth in many of the key performance areas such as revenues, profits and employment.

Plans to grow workforces are at their highest since the first CEO Pulse survey was undertaken, with 62% of CEOs expecting to hire more staff. Capital investment growth plans are similar to 2016, and also at a high.

In spite of the external risks, Irish business leaders still feel that they can expand their businesses in key areas. They are actively looking to invest in people and in their capital base.

BREXIT AND BUSINESS DISRUPTION

The survey confirmed that Irish CEOs did not believe that an exit by the UK from the European Union would be good for Ireland. The survey revealed that 93% of Irish CEOs viewed Brexit as the top threat to future business growth. Nearly nine out of ten Irish business leaders believed it would have a negative impact on Ireland's economy. Only 3% said it would be positive.

The consequences of the vote and the length of time it will take to fully understand the shape of a new European trade landscape is unclear.

IRELAND AS AN INVESTMENT LOCATION

95% of Foreign Direct Investment (FDI) companies confirm their investment in Ireland is a success. Nine out of ten are planning on either increasing or maintaining their investment. Ireland remains competitive despite increased competition from other countries looking to attract inward investment. Direct access to the EU, a pro-business environment and a highly-skilled English speaking workforce make it an attractive FDI location.

THE EVOLUTION OF EXPECTATION

The survey suggests that successful businesses in the future will not be driven by profit alone but by a much wider range of priorities driven by what stakeholders expect. 85% of Irish CEOs believe that in five years' time, they expect successful organisations to prioritise long-term over short-term profitability. Half are of the view that creating value for the wider stakeholder base will help them to be profitable.

Changes in customer behaviours are set to disrupt businesses in all industries over the next five years. However, most company operations are not designed to deliver what customers value, whether it's now or three years from now. The survey found that only a quarter of CEOs are extremely confident that their operations will provide customer value and a distinctive experience.

THE IMPACT OF TECHNOLOGY ON BUSINESS STRATEGY

Using technology to deliver on wider stakeholder expectations is the area where most CEOs are making significant changes. 41% say this will be a part of their strategy.

Digital technology and the potential of data and analytics have put insights in the hands of CEOs in an unparalleled way in recent years. The challenge now for business leaders is to use it to drive results, increase profits and meet stakeholder expectations.

Technology also comes with its risks. Cyberattacks are becoming more common as businesses adapt and innovate using digital technology which exposes themselves to hacking.

RISING TO THE CHALLENGE OF THE CHANGING WORKPLACE

The demands on business leaders have reached new heights as they strive to meet the changing expectations of current and future employees.

To develop and retain their workforce, CEOs see that changing workplace culture and behaviour is essential. Incorporating effective performance management measures and changes to pay, incentives and benefits are seen as ways of keeping key staff in organisations.

The availability of key skills is the number one business concern for Irish CEOs, and the prevailing opinion is that having a skilled, educated and adaptable workforce is the most important priority for the Government.

TAX MATTERS

The majority of Irish CEOs agreed that tax is a business cost that must be managed efficiently. CEOs recognise that their approach to tax and tax transparency affects their reputation. Over a third of Irish businesses agree that BEPS and other international tax proposals are changing their approach to tax-risk management. This, coupled with increased global compliance and transparency requirements, places additional pressures on tax and finance functions. ■

Source: *PwC 2016 CEO Pulse Survey*

OBTAIN PROFESSIONAL FINANCIAL ADVICE

For further information, please contact Buckley Kiely Wealth Management on 021 4350777 or email wealth@buckleykiely.ie – we look forward to hearing from you.

RETIRING TO THE SUN

Are you saving enough to achieve your goals?

A recent survey commissioned by Standard Life of 1,000 respondents has revealed that 49% (or almost half) of Irish people would like a home in the sun or by the sea when they retire. A home in the sun is more sought after than one by the sea or in the country.

The single biggest preference (at 29%) was for individuals to stay in their current home. The second most popular choice was to have a home in Ireland combined with a home in the sun.

Just 13% of people would like to retire to the country. This choice is most popular with 22% of 25 to 34 year olds opting for a country life. For those over 65, their top choice is a home in Ireland and a home in the sun, with 56% choosing this option.

RETIREMENT INCOME

When asked, 'How much total income do you think you need to retire on to live comfortably?' the average income chosen by respondents was €31,230. The average person has saved a retirement income of €3,106 per annum, which represents just 10% of their desired €30k p.a. retirement income. This excludes the State Pension of up to €12,000 p.a. which not everyone is entitled to – nor is everyone entitled to the full amount necessarily. It should also be noted that the State Pension is expected to fall in real terms in the future, as its long-term affordability is in serious doubt. ■

Source: *Standard Life*

I want to stay in my current home	29%
I would like a home in the sun and a home in Ireland	24%
A home in the sun (Spain, Portugal, France, etc.)	14%
A home in the country	13%
A home near the sea	11%
I want to stay in the same area as my current home but in a smaller property	9%

HOW CAN WE HELP?

People have high expectations from their retirement and want to really enjoy it. An affordable home in the sun is achievable, but you need to save adequately for it. Calculate how much you need to buy your house in the sun and how much income you need to live on comfortably. At Buckley Kiely, we can help you work out how much you need to save between here and your retirement. For more information, please contact us.

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