

Pension Season...

The period from October through to the middle of November is colloquially known as “the pensions season” because at this time all working people have a final opportunity to use a pension contribution to reduce their 2009 tax bill.

For PAYE workers who have already paid their 2009 tax as they earned the money, there is the opportunity to make a pension contribution now and get a refund of tax and PRSI from the Revenue. For the self employed, sole traders and professionals who are settling their 2009 tax affairs, a pension contribution can be used to reduce their 2009 tax bill and their 2010 preliminary tax bill.

Of course – the reason for making pension contributions goes beyond tax relief. The

State Pension is designed to provide just a basic income level – currently circa €200 per week. Any further pension will need to be provided by you and/or your employer. At the end of the day there is no magic formula – if you don't put money aside when you are working then you won't have any money when you stop working. So making a pension contribution makes sense – the fact that you can get tax relief at your top rate certainly makes it more attractive !



For a FREE REVIEW of your scope, your options and any existing arrangements you may have, contact Olivia or Patrick in HC Financial Services Group on 091 788000.

Time to Retire is now! But continue working... How?

Read on!

As we approach the upcoming budget there is a great degree of uncertainty about what will happen and how it will impact on our lives and our livelihoods. One certainty that many people seem to be ignoring is the impending changes to the pensions environment and the impact that these will have.

At HC Financial Services we are recommending that all people aged over 60 who are in a position to do so should consider taking their pension benefits now.

The reasons are simple :

- 1) It has been clearly flagged that tax free cash (gratuity) rules on pension plans are going to be changed in the budget.
- 2) Approved Retirement Fund rules are also flagged as changing radically in 2011
- 3) If you are over 60 you may be able to access your pension benefits WITHOUT LEAVING YOUR JOB

The Minister for Finance has on a number of occasions indicated that tax free cash limits will be adjusted in this coming budget. It would appear likely that any tax free cash entitlements in excess of €200,000 are likely to be taxed in some shape or form. The most likely approach will be a regime whereby all tax free cash payments received from a pension plan after a certain date (budget day? Jan 1st 2011?) will be accumulated and once the accumulated value hits €200,000 you will start being taxed. Therefore if you can take some of your pension fund tax free before the start of the new regime then it makes a lot of sense to do so. There are also changes mooted to the Approved Retirement Fund

(ARF) regime which, whilst on the face of things they will make ARF's available to all, the proposed income restrictions will mean the opposite.

For a lot of people confusion reigns on how you can access pension benefits. This often comes from the fact that they are considered “retirement savings” and therefore there is an assumption that you need to “Retire” in order to access them. This is not the case. If you are over age 60 you are allowed access your benefits (in accordance with the normal Revenue and plan rules and regulations) and you can continue on working. This applies to employees, self employed AND to directors and company owners. The key point is that you must be aged 60 or over.

You can also continue funding your “retirement” and continue to get tax relief on contributions you make to a pension plan EVEN AFTER you have taken benefits from your pension plan. There are (of course) some rules and you should get independent expert advice but it is quite straightforward. The tax deadline (end of October) is always a good time to review your pensions. At HC Financial Services, we are recommending that everyone take the time this year to review where they are at and what options are available to them. If you are over age 60 one of those options may be to take your benefits and avoid some of the pain coming in the budget.

The difference between “Pensions” & “Investments”

Every year thousands of people (and column inches) are focussed on the poor performance of pensions - of course what they actually mean is the poor performance of investments.

Unfortunately the poor old pension plan gets the blame when the reality is that it's not its fault ! A Pension plan should be seen as simply a structure. It is a mechanism through which you can save for your retirement. It has some added advantages – tax relief on the money you put into it, no tax paid on money put into it by your employer, tax exempt returns (no DIRT or Income tax or Capital Gains tax) from pension investments and finally at retirement you can take some of the benefits tax free. With all these tax advantages there are obviously some limits – there are limits to what you can put in, limits to what you can invest in and limits to what you can take out. At the end of the day though – the pension is just the structure.

Where you invest the money is up to you. For years people invested in “balanced managed funds” which in hindsight were neither balanced or managed particularly well. These days you can put your pension into a deposit account, into a stockbroking account, into government bonds, into commodities. Although there are some restrictions, you can pretty much choose what to invest in. If you are prepared to take risk then there are a number of options open to you. Most people are somewhat risk averse and therefore the investments that are best suited to them carry some element of risk management or risk control. There are a number of possible options outlined within this newsletter which may be worthy of consideration.



Absolutely Fabulous!

The concept of an absolute return fund is a reasonably new arrival in Ireland but it is a tried and trusted way to manage investment funds across the globe and has been used by some of the oldest families to manage their investments over the decades. The concept is simple – the fund manager is tasked with making a positive return irrespective of what is happening in the markets at that time. At its simplest a deposit account is an “absolute return” investment – your money earns interest every year and therefore at the end of the period you get back more than you put in originally. The problem with that is that the return from deposit accounts has tended to be less than inflation so in the long term your purchasing power is eroded. So from a pension perspective you want an absolute return fund that will take on board some degree of risk (and by extension deliver some degree of return) but at the same time is designed to deliver a positive return on an ongoing basis.

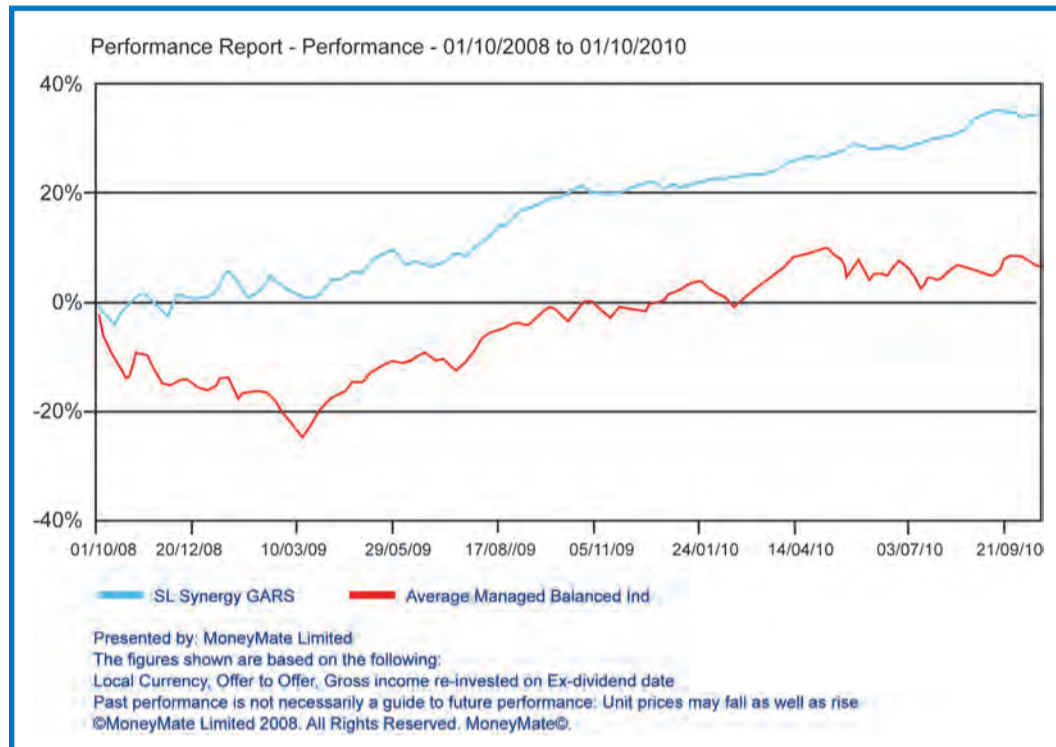
The most popular such fund in Ireland is the Standard Life Global Absolute Return Strategies Fund – known as GARS. The chart below shows how GARS has performed over the past 2 years compared to the average “balanced managed fund”.

There are some points to remember – GARS is not a guaranteed fund.

It is designed to deliver a positive return in all markets and has an objective of a return of cash returns (6 month Euribor) PLUS 5% p.a. on a rolling 3 year basis. It can go down in value.

It does not always achieve its objective. However we at HC Financial Services have monitored and reviewed the

operation of this fund for some time now and believe it is well positioned to deliver a reasonable return with a commensurate level of risk. There are a number of other funds in the market that can be combined with GARS to reduce the risk of over-exposure to one manager.



For a FREE REVIEW and to discuss whether GARS or other Absolute Return Funds are suitable for you contact Gerry Cuddy or Brian Molloy in HC Financial Services Group on 091 788000.

All in one Combination Product...

Capital security, Absolute Returns, access to some capital plus enhanced deposits – all in one !

For many clients a single element is not enough. They want a combination of capital security with some access to capital, an enhanced deposit rate AND some participation in an absolute return fund – an ALL- IN-ONE product. HC Financial Services Group can provide exactly that product – the Diversified Alpha Split Deposit Bond III.

This product provides 2 key elements – an enhanced deposit and a longer term investment linked to an Absolute Return index. Both elements are 100% CAPITAL GUARANTEED ! 30% of your investment is placed in the deposit account. At the end of each of the first 3 years we return 1/3rd of that (i.e. 10% of the total amount invested is returned at the end of years 1,2 and 3) along with interest earned on the account at an enhanced rate of 6% p.a. This means that you get access to some of your investment as early as 12 months into the investment and again at the end of the second and third year.

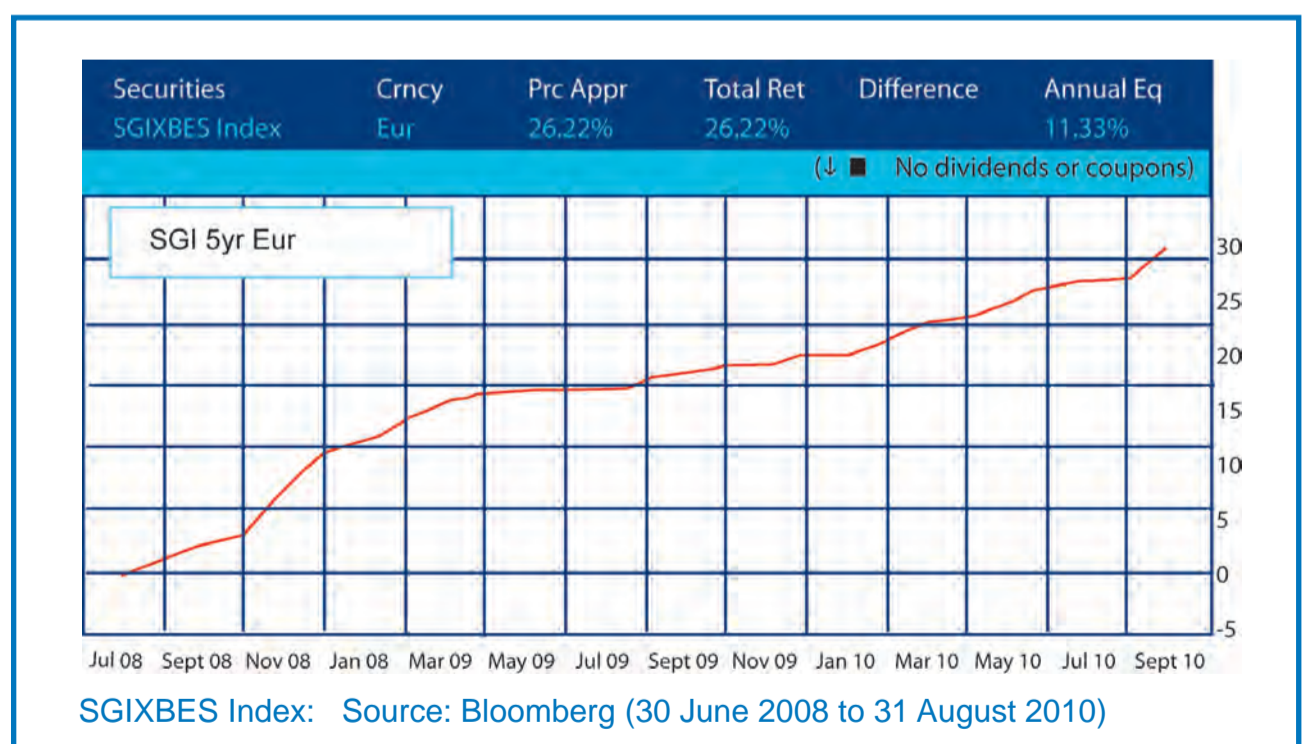
The remaining 70% of your investment is linked to the performance of an Absolute Return index. At the end of the 5 year six month period are GUARANTEED a return of your investment PLUS 100% of the growth in the underlying index over that 5 year 6 month period.

As mentioned this is a very strong combination product with 100% CAPITAL SECURITY. It is available for both pension and non-pension investment. If this product is of interest to you contact Olivia Rogers or Patrick O'Brien in HC Financial Services Group on 091 788000.

Interest rates... what goes down must go up !

Whilst there has been a lot of talk about the high cost that the Irish Government is having to pay for the National debt, this isn't the case in many other countries. Globally interest rates have been forced lower as countries try to stimulate their economies. Whilst this is likely to remain the position for the immediate term, we believe that in the longer term these very low interest rates are not sustainable.

Government Bond prices are directly linked to interest rates – as interest rates fall, Government Bond prices rise and vice versa. The chart below shows the performance of an index that performs in line with Euro Government Bond prices. As can be seen the index has risen by c.25% over the period from mid 2008 to mid 2010. As the interest rate environment returns to more “normal” levels



we believe that these Government Bond prices will fall back and so too will this index. We have therefore developed a product that gives an investment return to clients based on the fall in this index. The product provides investors with a GUARANTEED return of their capital PLUS 150% of the fall in the underlying index. This product is ideal for clients who are risk averse and who want to

participate in the potential returns from increases in interest rates in the coming years. It is also available for pension investors.

For further details on this product contact Brian Molloy or Gerry Cuddy in HC Financial Services Group on 091 788000.