NEWSLETTER

February 2015

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–Financial Planning Specialists–

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Welcome to the First Edition of KP Financial Services Newsletter.
KP Financial Services is here to support your Protection, Investment, Savings, Pension & Mortgage Business every step of the way.

This month's newsletter covers the following:

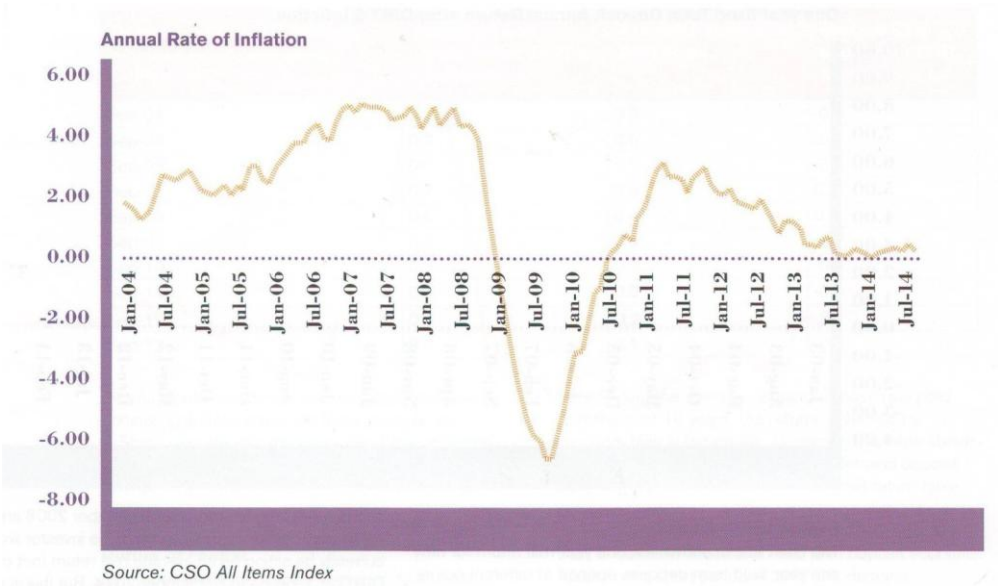
- Are deposits a good long term investment?
- Pension Plans – Frequently asked questions.
- What is Income Protection & How much do I need?

Are deposits a good long – term investment?

With deposit rates heading lower and lower, investors can be forgiven for wondering if deposits are a good long term investment. The glory days in terms of high nominal deposit rates were in the 2008/09 period when the average annual fixed term rate reached about 4.5% in September 2008. Since about January 2012 rates have been on a steady downward path, particularly for fixed term and notice accounts.

DIRT and inflation

However, the return which matters most to the individual investor is the return after DIRT and inflation i.e. the real return. The DIRT rate has increased significantly from 2009 onwards. In December 2008 the DIRT rate was 20%, but today it is double that at 41%.



Therefore since about January 2012 depositors have been hit with the double whammy of falling deposit rates and increasing DIRT rates. Since 2003 there has been periods of inflation and deflation (falling prices) so the inflation picture was not all bad for depositors over that period. There was significant deflation, ie. falling prices, in the January 2009 – July 2010 period, which was good for depositors as the "real value" (in terms of purchasing power) of their capital grew over that period even if they got no interest return.

Real return after DIRT and inflation

I took the average fixed term deposit rate for new investments, as recorded by the Central Bank, and assumed investment at that rate for one year; then took off DIRT which would have been applied at maturity, i.e. one year later; and treated the inflation over that year as a negative return (positive if there was deflation).

One year fixed term deposit returns to September 2014

One Yr fixed rate deposit first opened, and then rolled over up to September 2014	Average Gross return, before DIRT & inflation % pa	Average Return, after DIRT % pa	Average Real return after DIRT & inflation % pa
Sep-04	2.2	1.7	0.3
Sep-05	2.3	1.7	0.5
Sep-06	2.3	1.8	0.9
Sep-07	2.3	1.7	1.3
Sep-08	2.0	1.4	1.7
Sep-09	1.5	1.1	0.0
Sep-10	1.6	1.1	-0.1
Sep-11	1.6	1.1	0.4
Sep-12	1.2	0.8	0.5
Sep-13	0.8	0.5	0.1

source – January 2015 issue of LIA's quarterly journal, *The Financial Professional*

Pension Plans – Frequently asked questions.

What is a pension (retirement plan)?

A savings plan with tax relief.

What rate of tax relief is available on pensions?

Marginal rate tax i.e. whatever rate of tax you are currently paying whether it's 20% or 40%. Relief for every Euro you put into a pension.

How much can I put into a pension and get tax relief on?

It depends on what age you are e.g. 30 – 40 year olds can contribute 20% of "net relevant earnings" etc.

Will tax be deducted within the pension plan itself?

No – there is no tax deducted within any pension plan.

What else is tax free in relation to pensions?

You will be entitled to tax free cash of either 25% or up to 1.5 times salary subject to rules at retirement depending on the type of pension contract in place.

When I draw down my pension will I pay tax?

Yes you may be elegible to pay income tax, usc etc on any income taken from a pension at retirement i.e. all income is subject to tax in Ireland.

Why should I save for retirement i.e. in a pension plan?
A pension is used to supplement your income at retirement to help bridge the gap between earnings from employment & the state pension.

When should I start a pension plan?
As soon as practival provided it's affordable.

What if I cannot afford to pay large sums of money into a pension?
Then you should save what you can afford and at retirement every Euro of income counts.

How do I go about setting up a pension plan?
Contact us today to get independent advice as to whether you should set up a pension plan or not.

What is the minimum amount I can contribute to a pension plan?
On PRSA's it's €10 per month but the minimum on other plans may be higher.

How will I know if the pension I'm paying into has too many charges?
Seek independent advice from a Financial Broker (such as our firm) who will confirm this for you.

I'm contributing to a company pension already but I want to supplement it, so how can I do this?
By contributing to an AVC (if employee) or by increasing the contributions if self-employed.

I'm contributing to a pension already, does that mean I'm ok?
Not necessarily because the amount you are saving currently may not be sufficient for the amount of a pension income you wish to have at retirement.

How can I contribute to a pension plan without taking too much risk?
Your Financial Broker will be able to offer you numerous options of funds with lower risk therefore lower volatility.

What happens to my pension fund if I die?
The value of the pension fund will go into your estate.

What happens to my pension if I change jobs?
You can take the pension fund with you to your new employment but there are other options as well.

When can I draw down my pension?
Generally between 60 – 70 for employees and 60 – 75 for self-employed with some exceptions.

To sum up: You get tax relief on every Euro you put into a pension, the pension plan grows completely tax free and you get either 25% or 1.5 times your salary as tax free cash when you retire.

What other financial product would give you an instant 20% or 40% return via tax relief on your pension savings regardless, as well as tax free growth within the pension plan i.e. no DIRT / exit tax as well as tax free lump sum at retirement? Answer: None

For further information, click on the following link to open our Guide to Personal Pension Plans

A guide to Personal Pensions

What is Income Protection & How much do I need?

What is Income Protection?

Income protection provides you with a regular income, which is paid out if you cannot work due to medium or long-term illness or injury. It is designed to supplement some of your earned income if, due to illness or injury, you cannot earn an income yourself.

Do I need Income Protection?

The first question you should ask yourself when considering an Income Protection policy is what would happen to you if you're unable to work due to illness or injury? Will you be able to pay your mortgage and other household bills? Will you be able to maintain your lifestyle – holidays or eating out – things that we usually take for granted.

How much benefit do I need?

Ideally, we would like to protect as much of our salary as possible, but if cost is an issue, remember that some cover is better than none at all. Personal Income Protection is flexible, allowing you to select your benefit level from a minimum of €12,000 per annum up to a maximum of 75% of your current earnings.

When should my benefit start from and how long will it continue?

You can usually choose from a range of possible deferred periods, which means you can choose when you would like your policy to start paying out. You will probably wish to match this to your personal circumstances so that, for instance, if your employer will pay you for a set period such as six months, and if your claim is accepted, the benefit from your Personal Income Protection policy will start after this time. You can choose for your benefit to start from as early as 4 weeks* after falling ill. Your benefit will be paid to you monthly in arrears, from the end of your deferred period until you no longer satisfy your definition of disability, you recover, your policy ends, you retire or you die (whichever comes first).

How long should my cover last?

Cover is available up to age 55, 60 or 65. Most people will choose the end date of their cover to coincide with their normal retirement date; in any case, your cover will automatically cease on the earlier of your normal retirement date, the policy cessation date or upon your death.

If you are an employee

Some employers may pay you a reduced salary whereas others may be more generous. You should check to see what sick pay arrangements your employer has in place for you.

State benefits

You may be entitled to the state illness benefit, which is currently €188 per week* and is only payable for a limited period. So ask yourself – could you maintain your lifestyle on €188 per week? Or even pay most basic bills?

If you are self-employed

Although your business may continue to generate income in the short term your long-term earnings are likely to be affected. However self-employed individuals or Company Directors are not eligible to claim unemployment benefit.

Savings and investments

In the short term, your savings may be able to provide you with replacement income, but how long will these last?

Income Protection - Consider your outgoings

Housing costs
Most people will have either mortgage or rent payments to make.

Ongoing bills
Most people will have usual household bills such as gas, electricity, telephone and food, but also personal expenses such as credit card or loan repayments. These will still need repaying should you be unable to work.

New costs
Some expenses will increase, or you will find yourself having to pay for something for the first time. Have you considered how you will pay the cost for heating your home all day if you are not at work? The higher cost of food if you have been using a subsidised staff canteen? And the cost of medicine, Doctor's visits and possible nursing care?

Lifestyle costs
You can reduce some expenses, by cutting back on holidays and entertainment, but do you really want to economise on these?

For further information, click on the following link to open our Guide to Income Protection.

A guide to Income Protection

About Us

KP Financial Celebrates 10th Anniversary

On Monday 15th September 2014, KP Financial Services celebrated their 10 years in business with a celebration in the Carraig Hotel, Carrick-on-Suir. To read more & see some photos taken on the night, click on the link below.

KP Financial Services - 10th Anniversary

We are Financial Brokers who offer Professional Advice in plain English to suit your needs without any pressure to purchase products. We are Trustworthy Advisers who are Qualified and have extensive experience in the Financial Services Industry.

We can help you plan your finances to maintain your lifestyle. - Options explained before recommendations are given.

Free consultation without obligation & evening appointments arranged if needed.

Kathleen Power t/a KP Financial Services is regulated by the Central Bank of Ireland.

Click on the following links to have a look at our Website or Facebook Page.

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