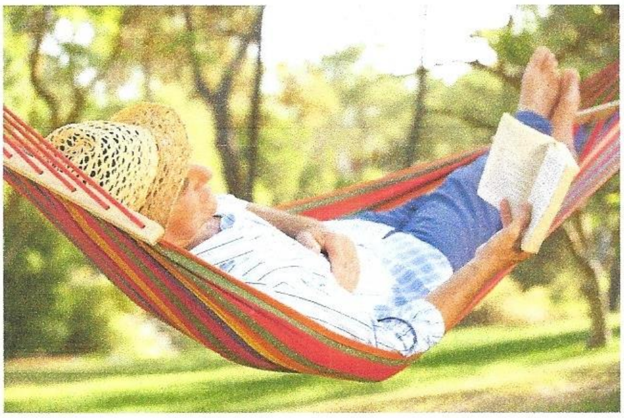
Premium

Cash in the bank: How to make your savings work for you

Long-term strategies and some sound advice will give you the best returns



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Sinead Ryan

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The lot of the saver is not a happy one. A dearth of spending during Covid and floor-battering interest rates sees about €125 billion in household savings languishing in banks, post offices and prize bonds.

The over 65s account for much of it, lump sums from retirement funds burning a hole on deposit. While more cautious than younger savers, some have looked outside Ireland for a return. But the recent collapse of German-based Dolphin Trust provided a cautionary tale. Some 1,800 Irish investors are nursing losses after the unregulated property entity went bust. Unregulated doesn't always mean bad; the problem is you can't be sure, and losses are not generally covered if you make a mistake. Even the Investor Compensation scheme only pays out €20,000 with regulated funds, so most brokers will only offer these as a result.

"Before engaging an advisor on unregulated products, check if she or he has extended personal indemnity insurance to cover them," advises Mike Knightson of KM Financial. "Advisors are not required to disclose commissions on the sale of these products, but must do so on regulated funds." He adds that opting for a multi-asset diversified portfolio is best done with independent financial advice and reputable, regulated entities.

Research shows 86pc of investors are afraid of losing money while just 23pc have confidence in their knowledge on investing.

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need nursing home care in later life, and a good private insurance plan. Preserving money for that is important as you age, and particularly if you're not in good health." Keep liquid cash for emergency purposes also. "Six to 12 months' spending," is ideal he says.

Another consideration is what he calls the SKI approach: "Spend kids' inheritance!" he says. He meets "too many" people who are overly cautious, wanting to preserve cash after their death instead of living life in retirement. "Once you've paid down remaining debt, many people have goals to buy a car and travel. They should be doing that. It's what I call the go-go years – go on holiday, go visit grandchildren."

While inter-generational transfers are important for many retirees, there's no need for much of it to be cautiously invested. Putting money by for a grandchild may leave it with 15 or more years to grow. "There's no need to keep that on deposit earning nothing," says Mr Walsh. "Most people would be happy with a deposit return of 2-3pc per annum but that's realistically not going to happen for the next decade," he says.

The third step is investment. "We have a risk scale of one to seven. Most older people are three or four, risk cautious but need a return."

Age plays a big factor.

"If you're only 65, you can look beyond five-to-seven years, investing towards your later life needs."

Mr Knightson agrees. "While the cardinal rule is the higher the potential return, the higher the potential loss, good investment strategy can spread risk over time. Risk tolerance is your emotional capacity to withstand losses without panicking; risk capacity is your ability to absorb loss without affecting your lifestyle. Any investment decision should take both into account."

Income v Capital

"If you require an annual income from investment, hold off drawing it for the first 12 months," says Mr Knightson. "It avoids paying fees and set up charges on immediate withdrawals." Many products carry early exit penalties in the first five years, so check that out, if you're not prepared to leave it alone.

Inflation

Ronald Reagan called inflation a "mugger, as frightening as an armed robber". Mr Walsh calls it the "silent thief".

"We often talk about the real rate of interest," he says. "What we mean by this is the interest rate, less inflation. So if you are receiving 3pc and inflation is 2pc, then your real rate of interest is merely 1pc. But 'your' inflation rate is what matters: how do you spend your money?

"You have to ensure your pot of money is growing at least faster than the cost of living."

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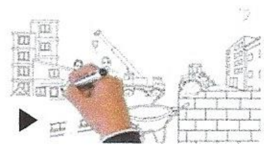

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Privacy

ordinary savers in Denmark. Although Bank of Ireland and AIB charge them, it is restricted to corporate or high net worth clients only... for now.

The twin evil would see €1,000,000 on deposit with a rate of -0.5pc and inflation of 2pc worth just €776,330 after 10 years.

Given time, the very best return is invariably equities, preferably in a mixed asset portfolio, says Mr Knightson. "A reasonable timeframe is minimum five-to-seven years. Lots of life companies offer a range of products, some with access options, no exit penalties and some capital security." He recommends independent, fee-based advice "not just for the couple of hours with you, but the ongoing service".

Bank of Ireland's 'Invested' webinar series aimed at savers is available online.

Shortcuts – Asset Classes

Cash: Money on deposit earns, at best, less than 1pc (NTMA 10 year solidarity bond, 0.96 pc CAR), and as little as 0pc. The Deposit Guarantee scheme protects up to €100,000 per person, per institution.

Bonds: A bond is a loan to a company or government, eg prize bonds. As the government can borrow elsewhere very cheaply, rates have collapsed. Low risk, but low return. Lending to a company may offer a return, but bondholders are not fully protected.

Property: Either 'bricks and mortar', property equity fund or Real Estate Investment Trusts (REIT). Looks to income and capital growth but illiquid asset, cannot easily be accessed. May be extremely volatile, or default on rent. Early exit moratorium/penalty common.

Equities: Publicly quoted stocks and shares. Capital growth and dividend income sought. Neither guaranteed, carries risk that value will be less than you invest in short term.

Alternatives: Commodities such as gold, oil, copper etc, or investment in wind, forestry, hedge funds. Rarely guaranteed and requires specialist advice.

Multi-asset funds: Diversified assets built into a fund. Flexibility in investment strategy, risk profile options. Can be structured through tracker bonds (tracking multiple classes with capital protection up to 95pc, eg BCP, Cantor Fitzgerald), or investment bonds (eg Zurich, Irish Life, Aviva, Standard Life etc). May have early exit penalties.

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