Financial Planning Matters – Issues for Businesses

Investment market volatility

Two months on from the first identified case in Ireland, the Covid-19 pandemic continues to have a huge impact on businesses in Ireland. Investment portfolios have been significantly impacted and while there has been some upturn in the market since the investment lows of mid-March, the market continues to be extremely volatile. Clients are understandably concerned about the value of their pension and investment portfolios.

It is worth remembering that those investors who panicked and liquidated their investment portfolios during the global financial crisis of 2008, believing they could re-enter the stock market when “the dust had settled”, likely suffered substantial losses without the benefit of fully participating in the stock market recovery.

The key thing to remember during a period of extreme volatility such as the COVID-19 pandemic is that investing is a long-term commitment. Having a long-term outlook with long-term goals is the best way to reduce the impact of stock market fluctuations and see out periods of volatility. In years to come, we will likely look back at this time as an opportunity to buy back into the stock market.

Points to consider at this unprecedented time: -

- **Diversification:** Instead of simply liquidating your investment portfolio to limit losses, review your current asset allocation. You should ensure that it is properly balanced between the various asset classes (e.g. equity, property, bonds, and cash) that align with your financial goals, time horizon and ability to manage risk. While a diversified investment portfolio will not guarantee positive returns or protect against negative returns, it can greatly reduce the impact of volatility.

- **Euro-cost averaging:** This is a strategy to invest a specific amount of money into the stock market at regular intervals. If done correctly, it can protect against fluctuations and downside risk in the stock market. This strategy works especially well in an extended stock market downturn as you will keep buying at lower prices until the stock market recovers.

- **Passing wealth to children:** The market value of many investment portfolios has fallen. This may create an opportunity for parents to consider gifting such assets to their children. From a taxation perspective, a lower market value could create a capital loss for Capital Gains Tax purposes and a lower Capital Acquisitions Tax liability for the person benefiting from the gift. Also, the benefit of gifting allows wealth to accrue to the children directly and not form part of the parent’s estate on which Capital Acquisitions Tax would arise in the future.

- **Pension tax deadline:** Instead of waiting until the income tax deadline (i.e. 31st October or 12th November), consider making a personal pension contribution now and take advantage of the current fall in stock markets.

Managing cashflow

There is huge pressure on businesses to manage cashflow when many cannot open their doors to customers at this time, due to lockdown restrictions imposed by the Government.

The Central Bank wrote to all insurers recently to instruct them to implement measures to assist customers where they are in difficulty with payment of insurance premiums.

Pension providers are also now extending this to pension plans.

As a result, life companies and pension providers have now rolled out measures to allow individuals and businesses to put a temporary stop on the payment of risk premiums and pension contributions for a number of months.

Points to consider

At this present time, individuals and business owners should: -

- Review their existing pension arrangements (i.e. individual & group) to ensure that they are fit for purpose. A review will establish if the client is: -
    - invested in the right pension arrangement,
    - contributing at the right level to achieve target retirement benefits,
    - invested in the right investment strategy, and
    - paying the right price in relation to pension charges.

- Review their existing life policies to ensure that:
    - appropriate benefits are insured, and
    - premium cost is competitive in the market.

- For business owners with staff pension schemes and who wish to free up cash, they should contact their pension provider and explore the possibility of suspending employer contributions. However, this action needs careful planning to avoid disputes with relevant stakeholders (i.e. employees, trustees and the Revenue).

- For individuals with life policies, who wish to preserve cashflow, they should contact their product provider and seek to suspend premiums. Typically, most life companies will agree to a period of three months, whilst maintaining existing cover. Any deferred premiums would be collected over an agreed period (i.e. typically twelve months).

- For business owners wishing to crystallise pension benefits as part of the wind down or sale, it is important to have a tax efficient exit strategy in place.

Contact

If you would like to talk to us about your financial planning needs, please feel free to contact:

Conail Flynn QFA FLIA APA RPA AIIPM QPT FIMCA CMC
LHK Financial
Director
E: conail.flynn@lhkfinancial.ie
M: 087 829 6466
www.lhkinsurance.ie