MONEY

NUMBER OF HOMES BOUGHT WITH FIRST HOME SHARED EQUITY SCHEME

1,517

FROM JULY 2022 TO END MARCH 2024

ANNUAL RISE IN HOMES BOUGHT USING THE SCHEME IN FIRST QUARTER 2024

118%

262 HOMES BOUGHT IN THE PERIOD

SOURCE: FIRST HOME SCHEME

Tackle your budget to earn a career time out

Taking a break should broaden your horizons and boost wellbeing, but make sure you can balance the books, writes *Eithne Dunne*

Taking a timeout from the rat race can be hugely beneficial, especially if your employer plays ball

People take career breaks to pursue all sorts of activities, but when Anne-Marie Macken took her unpaid stint away from the day job, it was for one reason and one reason only: to see the world. The founder and director of Money Coaching Ireland took an 18-month break early on in her professional life so that she and her boyfriend (now husband) could follow their travel dreams.

Although she initially had trouble getting her employer – Bank of Ireland – to grant the leave, she eventually got the approval and was subsequently glad she hadn't resigned (which she says she was willing to do).

That's because, by the time she returned, the banking industry had begun to implode. "It would have been challenging, if not impossible, to secure a role on similar terms," she says.

DOING THE SUMS

If you don't already have a budget, now is the time to draw one up; use an app or one of the many free online templates such as the Money Advice and Budgeting Service's offering (mabs.ie).

"Knowing your budget is crucial," Karen Goodliffe, managing director of SurePlan Financial, says. "Go through your bank and credit card statements to work out your monthly expenses, and factor in additional expenses while on your break – for example, if you plan to travel, or are having a baby."

If you are leaving your job (rather than taking unpaid leave), Goodliffe says to also budget for the time it might take to find a job afterwards. "If you have another source of income, such as rent, factor this in to reduce the funds you will need."

If you fall short, you could either postpone your break, take a shorter period, or reduce some of your outgoings.

Macken had to fund flights, accommodation, food and activities while backpacking around South America, New Zealand, Australia and southeast Asia. She and her boyfriend used a combination of savings and working full-time for a couple of months in Australia to fund their travels.

"Remember to check what work you can and can't do under the terms of your break," she says. "My agreement, for example, precluded me from working with direct competitors of Bank of Ireland."

Her budget was €20,000. She had accumulated €20,000 worth of Bank of Ireland shares and a €20,000 SSIA (government-sponsored savings scheme) before she took her break.

"As I would have had to pay capital gains tax if I encashed my shares, and naively believing they would continue to appreciate, I decided to use my SSIA," Macken says. "Nobody could have predicted that my shares would be almost completely wiped out within the next two years."

In hindsight, she says, a more sensible option would have been to use €10,000 from each.

Advisers are adamant that you should never dip into your emergency fund. The recommendation is to always have three to six months' worth of expenses in a cash account. "Just because you've stopped working doesn't mean financial emergencies will be put on hold," Goodliffe says.

So when saving for your career break, it's a good idea to do so with a separate account to your emergency cash. "Then, when on the break, 'pay' yourself each month by moving money from your savings to your current account," she says.

MORTGAGE

You may be able to take a break or "moratorium" from your mortgage repayments while off work. For example, AIB allows up to six months of zero payments, or 12 months of interest-only.

However, remember that your repayments will be higher afterwards – for your mortgage to be paid off within the same term. As long as you agree any break in advance, it will not negatively impact your credit history.

Macken owned a home with two siblings when she took her break; however, they arranged things so they were able to let it out for the duration. "The rent more than covered the mortgage and we had the most wonderful tenants," she says.

Her advice to anyone remaining at home is to consider taking in a tenant under the rent-a-room scheme, and consider a mortgage moratorium for a time.

PENSION

Taking a year off work – and earnings – means you will not be contributing to your pension nor paying PRSI (which counts towards your state pension). However, as Goodliffe notes, you may be able to make additional voluntary contributions (AVCs) either in the run-up to your career break or on your return.

As for the state pension, the dearth of PRSI contributions during your break can affect your entitlement. However, you can make voluntary contributions to make up the shortfall. You don't have to do this in a hurry; since 2017, you have had up to five years to decide whether you wish to make voluntary contributions.

If you are taking a break to care for an incapacitated adult, or a child under 12, the homemaker's scheme allows you to receive your normal state pension without making voluntary payments. For details, see welfare.ie.

> **When on a break, 'pay' yourself each month by moving money from your savings to your current account**

HEALTH INSURANCE

If your employer normally pays your health insurance premium on your behalf, you can keep the same plan but will need to cover your own premium for the duration of your career break. If this proves too expensive for your career-break budget, you can take out a lower-cost policy instead.

Check with your employer as to whether you would have to serve waiting periods for pre-existing conditions when you return to work and take up the corporate cover again. Whenever you upgrade health insurance there is a two-year waiting period for pre-existing illnesses.

If you're lucky, though, this may not apply. According to Dermot Goode of totalhealthcover.ie, part of the Lockton group, "some employer schemes may have the upgrade rule waived, but you would need to check this with your employer".

If you intend to spend more than six months travelling abroad during your break, a regular domestic health policy will not suffice. "In that case we would refer you to Vhi International," Goode says.

"You can transfer from your current policy on to an international policy and when you return, you can switch back to a domestic policy [with any insurer]."

INCOME PROTECTION

If you have income protection and decide to take a year unpaid, there is nothing for the policy to protect and therefore no point paying for it. You can cancel your policy and take out serious illness cover to plug the gap.

The downside, however, says Nick McGowan of lion.ie, is that you would have to apply all over again at the end of your break and disclose any new health conditions that may have arisen.

Some insurers allow you to reduce your cover to €15,000 – with correspondingly lower premiums. "This is on what's called a 'work tasks' basis," McGowan says.

In other words, the insurer will pay a benefit if you are unable to perform at least three work-relevant tasks such as walking, rising/sitting or lifting/carrying.

"You have to be in pretty bad shape to claim, but the real benefit is that you can increase back to the original benefit and premium, without underwriting, within 12 months," McGowan adds.

TAXES

Depending on the time of year you finish work, you may be eligible for a tax rebate. "Tax credits and reliefs are spread throughout the year, but if you do not work a full calendar year you may be entitled to tax back," Goodliffe says.

To see whether you overpaid income tax or USC in a particular year, you can check your "statement of liability" for that year – and claim – via Revenue's MyAccount. You have up to four years to do so.

IS IT WORTH IT?

For Macken, the time out of the workforce helped her to regain her physical health, having struggled for years with ulcerative colitis, a chronic inflammatory bowel condition. It also opened her eyes to the "immense beauty of the world".

"How can you put a price on that?" she says.

QUESTION OF MONEY

I have an executive pension with a life insurance company. My pension fund is currently worth about €300,000. I've been advised that due to new pension rules, I need to move my pension into either an executive master trust pension or a personal retirement savings account (PRSA). Which should I transfer to?

BMcD, Co Louth

While master trusts have become very popular among employers since the new pension rules, which are part of the EU's IORP II directive, kicked in, it is important that you weigh up the pros and cons of each option as PRSAs could be more attractive depending on your circumstances.

A master trust is essentially a large group pension scheme that allows individual members to join from a wide variety of employers. A PRSA is a type of personal pension plan.

Since January 1 last year, as a result of changes introduced under the Finance Act 2022, it has become much easier to build up a reasonable pension pot with PRSAs. This is because, apart from affordability, the only limit on large employer contributions to PRSAs now is the €2 million standard fund threshold, the ceiling on the total capital value of pension benefits that an individual can draw from tax-relieved pension arrangements. By comparison, there are funding limits — linked to one's salary and service — on the extent to which a master trust pension can be funded in a given year.

There are other features to PRSAs which could make them more appealing than a master trust. For example, there is no lump sum limit on death-in-service benefit in a PRSA. However, a master trust is limited to a lump sum of four times' your annual salary at the date of your death. Another advantage of opting for the PRSA route arises from the ability to hold more than one PRSA, allowing for phased retirement.

As master trusts are governed by the IORP II directive, the pension must predominantly invest in regulated markets and be fully diversified. By comparison, property can be bought through a non-standard PRSA and, if required, one can even borrow within a PRSA to buy property. However, it is important that you get independent advice before doing so — and be sure to adhere to the Revenue rules so that you get the tax advantages.

Comparing the different costs, while also thinking about when you plan to retire, how much you are hoping to fund and when, and what you want to invest in, will all help you decide which pension product will suit you best.

Glenn Gaughran is head of business development with the Independent Trustee Company

Send your personal finance or consumer-related questions to money@sunday-times.ie

Suzie Berkery

Promises of big returns should offer stocks you can bank on

Since 2007 the stock market has significantly de-rated the banking sector, leaving eurozone banking stocks at relatively low valuations compared with the broader stock market. The banking sector is now one of the cheapest of the eurozone stock market.

Higher interest rates in recent years have significantly improved bank operating margins, and capital generation continues to be strong. The European Banking Authority (EBA) has reported that EU/EEA banks have reached record high capitalisation levels, with the weighted-average common-equity tier-1 (CET1) ratio at 15.9 per cent.

Banks can also offer growth opportunities. As the economy expands, demand for loans and other financial services typically increases, leading to potential growth in banks' revenue and profitability.

According to analysts at Barclays, eurozone banks are outperforming their American peers for the first time in more than a decade in return-on-equity terms.

Despite this, European banks trade at a steep discount to their American counterparts, which have grown faster and been more profitable since the financial crisis. To regain investor confidence, dented by dividend bans and windfall taxes implemented since the pandemic, European lenders have promised to return more than €120 billion to shareholders this year, through €74 billion of dividends and €47 billion of share repurchases. That is a 54 per cent increase on last year's capital returns and far higher than every year since at least 2007, according to figures compiled by UBS.

Last week AIB announced an extraordinary general meeting to hold a vote on a proposed contract for the off-market purchase of ordinary shares from the minister for finance for a total consideration of €999 million (€1 billion less expected costs). At the current price this will reduce the Irish government's holding to 32.27 per cent from 38.97 per cent as of March. AIB intends to cancel the ordinary shares purchased. UniCredit, whose shares have more than doubled over the past year, has promised to return €8.6 billion, its entire profit for 2023, to investors.

As core European banks return surplus capital and continue to show resilient earnings and cost discipline, we expect the valuations in the sector to improve. The sector's very low valuations, free-cashflow generation and excess capital provide some downside protection and rebound potential for the sector in future years.

The Euro Stoxx Banks index (SX7E), which tracks the performance of 25 of the largest eurozone bank stocks, has returned 37 per cent in the past 12 months and almost 19 per cent in the year to date. The strong performance coincided with impressive fourth-quarter results from UniCredit, Santander and Lloyds Banking Group. The notable uptick in share prices for the Italian banks UniCredit and Intesa Sanpaolo to multi-year highs underscores growing investor optimism towards the Italian banking sector.

This surge in share value suggests investors perceive these banks as well-positioned to navigate through economic uncertainties and capitalise on potential growth opportunities.

AIB and Bank of Ireland, both constituents of the Euro Stoxx Banks index, have seen gains of 24 per cent and 19 per cent respectively in the year to date. European banks are trading at about 75 per cent of their book values, and at a relatively low price-to-earnings ratio of about six times 2024 earnings estimates, on average.

The broader eurozone stock market currently trades at more than 13 times earnings and about 180 per cent of book value. Historically, European banks have traded at an average of 9.4 times estimated earnings per share since 2003.

Investing in the Euro Stoxx Banks index through the Euro Stoxx Banks UCITs ETF provides investors with exposure to a diversified portfolio of European banking stocks. Even after the latest steep gains, Europe's banks are still historically cheap. The sub-index trades at 7.3 times earnings expected 12 months from now, versus a multiple of 10 in the early part of 2022.

The trailing one-year yield of 4.72 per cent also makes it attractive to income-oriented investors seeking dividends. This yield represents the total dividends paid out by the ETF's holdings over the past year relative to its current price, and is paid out quarterly. A higher yield can be appealing, but investors should also consider factors such as the sustainability of dividends and the overall performance of the ETF over time.

Suzie Berkery is a senior stockbroker at Cantor Fitzgerald Ireland