Irish Business Owners: Financial Planning Workshop Webinar

23 May 2023

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Housekeeping

- **Questions** can be submitted during the Webinar by clicking on the Q&A Button and typing in your Question

- The Webinar will be **recorded** for anyone who would like to watch back after.

- The **slides** will also be made available after the Webinar

Disclaimer: None of the content in this Webinar constitutes financial advice. See Regulatory Disclaimers at end of Presentation

Agenda

1. Wealth Management Principles for Business Owners
2. Economic Overview
3. Financial Protection
4. Market Update
5. Investing / Portfolio Management
6. Cashflow Planning
7. Retirement Planning
8. Q&A

Wealth Management Principles.

8 Pillars of Holistic Wealth Management

Retirement Planning

Asset Allocation

Tax & Cost Efficiency

Succession Planning

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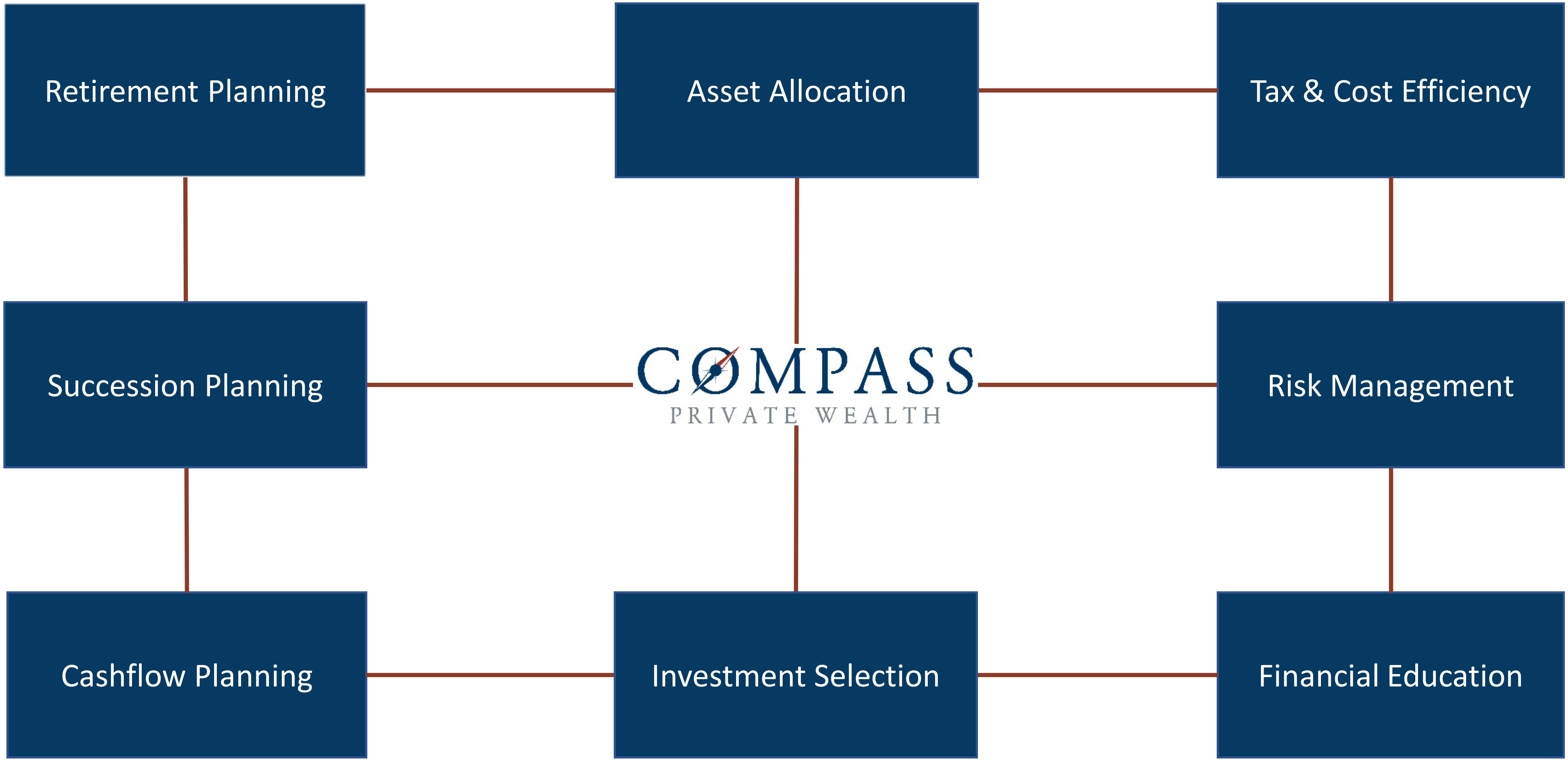
Risk Management

Cashflow Planning

Investment Selection

Financial Education

8 Pillars of Holistic Wealth Management



Business Owners v All Else: Differences

- Generally more risk to you and your livelihood
- Financial Uncertainty
  - Income Levels more unpredictable year to year.
  - Outgoings more uncertain
- Capital Allocation decisions on surpluses within the business
  1. Leave funds within the operational business
  2. Allocate funds to a holding company
  3. Pay surplus as an Employer contribution into your Pension
  4. Take as PAYE salary

Business Owners v All Else: Differences

- Need to be proactive on tax planning for your personal ownership & income
- Succession Planning for your business ownership is very important to ensure that your ‘value’ is monetised and / or capitalised upon
- Less Protection benefits than working for big firms

Economic Update (Peter Smith).

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Economic update

This document is for professional clients, institutional/qualified investors and advisors only.
It is not to be distributed to or relied on by retail clients.

We have a lot to think about?

US/China relations

US regional banking

High Inflation

Global Recession

Tech layoffs

Interest Rates

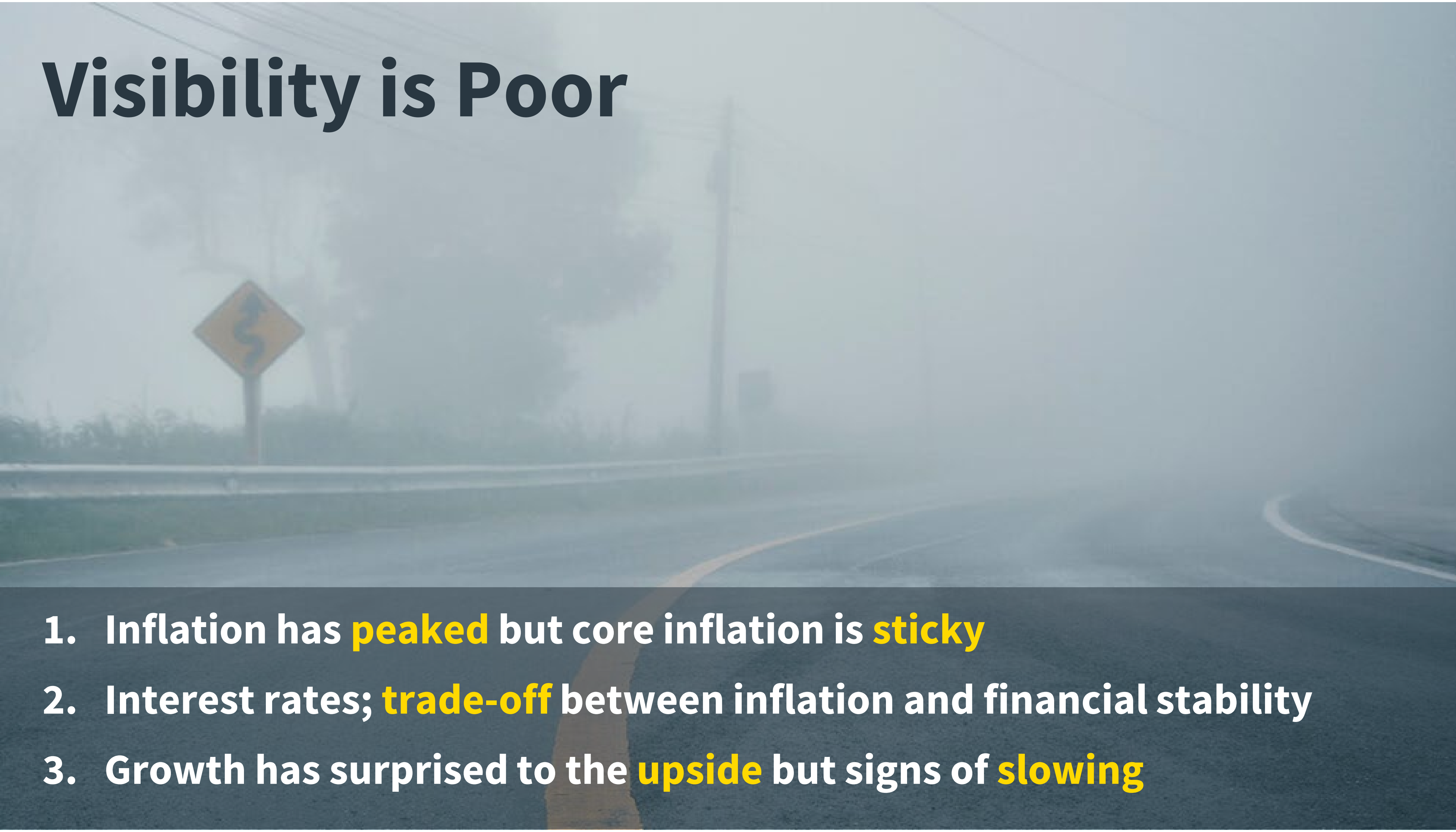
Russia/ Ukraine

US Debt Ceiling

Real Estate

Environment

Source; Aviva Investors as at May 2023

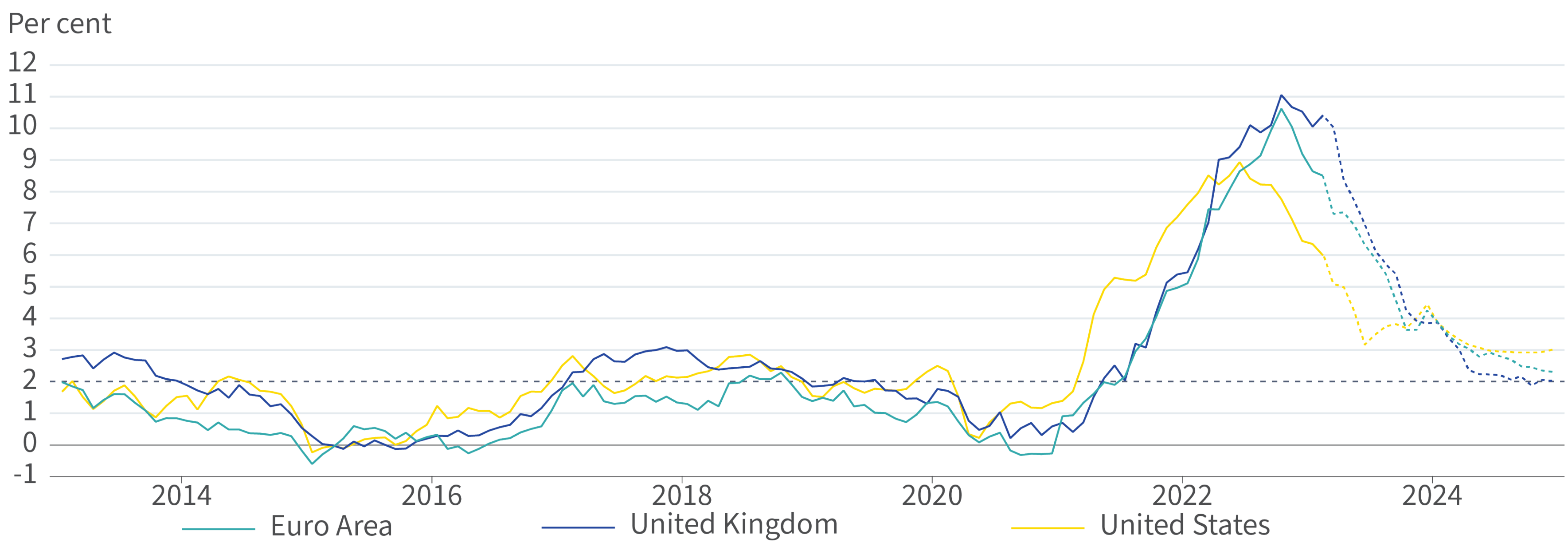


Visibility is Poor

1. Inflation has **peaked** but core inflation is **sticky**
2. Interest rates; **trade-off** between inflation and financial stability
3. Growth has surprised to the **upside** but signs of **slowing**

Inflation persistence

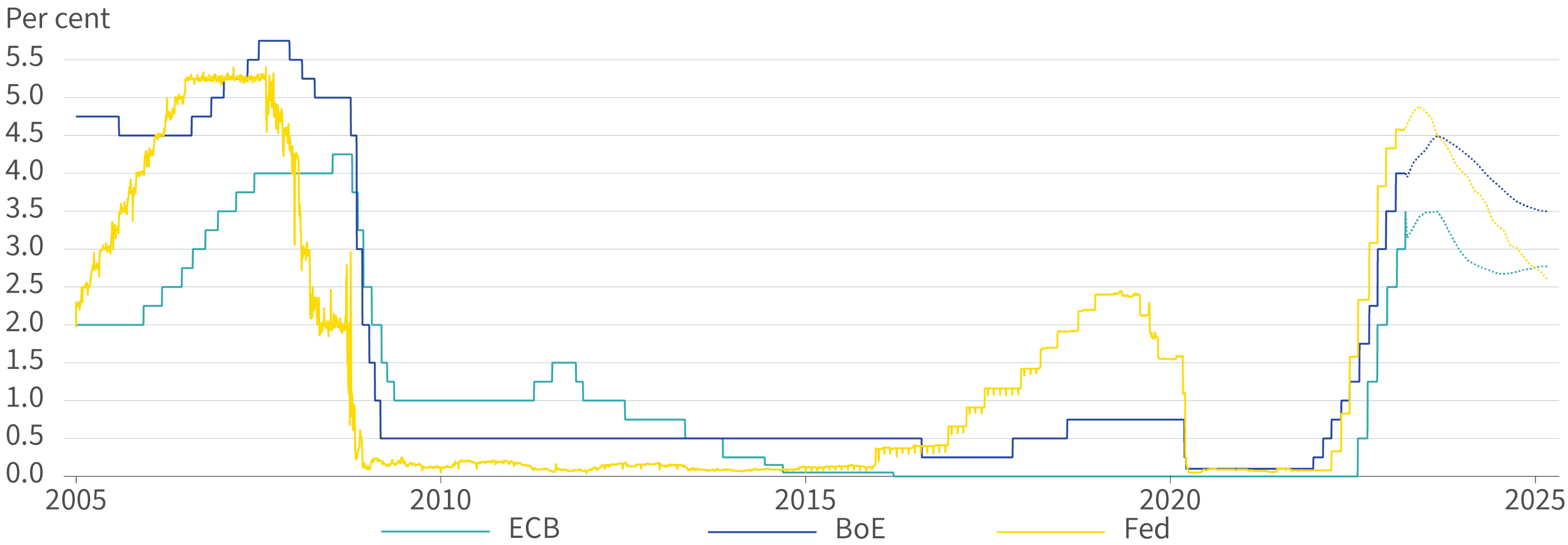
We expect headline inflation to fall back materially through 2023, but still above central bank targets



Source: Aviva Investors, Macrobond as at Q1 2023

Higher interest rates

The highest borrowing rates since the global financial crisis



Source: Aviva Investors, Macrobond as at Q1 2023

The US Debt Ceiling

3 possible outcomes in advance of the "x-date"

1. Do a deal in time

- Limited market reaction
- Positive for equities
- Bond yields to fall

50%

2. Do a late deal

- Very negative reaction
- Negative for equities
- Bond yields to rise

30%

3. No agreement

- Deep recession
- Very negative for equities
- Bond yields to rise

20%

Source: Aviva Investors May 2023

Financial Protection.

Financial Risks that Require Protection

Asset Allocation / Capital Risks:

1. Your business is most likely over-exposed to one particular sector / geography / customer type / trend
2. Too high a percentage of your capital is committed to the Business
3. Too much of your Pension / Personal funds invested (generally) or in any one particular strategy
4. Too little invested in non-Cash, non-Business assets: Inflation Risk

Financial Risks that Require Protection

Cashflow Risk:

5. Your business income, and therefore your income, ceases or suffers due to illness or sickness
6. Your personal Outgoings exceed your Net Income i.e. you spend too much relative to your after-tax income from the business
7. Liquidity Risk: Too much capital locked up in illiquid asset(s) i.e. your business or property
8. Longevity Risk: You retire too early, and live a long healthy life – but your cashflow runs out

Financial Risks that Require Protection

Legacy Risk

9. Financial Dependents aren't sufficiently financially catered for in the case of early death i.e. the value of your business isn't monetised
10. A mess of an Estate is left behind for children
11. For co-ownership businesses, nothing in place to buy out remaining shareholders in the event of death

Other Risks….

12. Own bias Risk
13. External Risks: Economics, Market & Political

Mitigating Asset Allocation Risk

- **Diversify your asset base** as much as possible
- Take a **Holistic View** with your assets
- **Discipline**: Stableford golf, rather than Strokeplay
- Avoid **concentrated** stock positions unless it's your own business
- **Phase** into the market when investing
- **Compartmentalise capital** for the long-term, enabling you to take risk with that element of your capital

Mitigating Cashflow Risk

- Have **Income Protection** in place for **Earned** (Employment) **Income**
- **Regular Budgeting** (see **Cashflow** section)
- Be mindful of **unnecessary debt**
- **Live within** your means & cut your cloth to measure if necessary
- When considering **helping Children** financially, ensure you have **sufficient capital** for yourself in retirement
- **Build** your own **Private Pension** to fund retirement

Mitigating Legacy Risk

- Have **Life Insurance** in place: The amount of cover depends on your financial circumstances
- Have a **Will** in place
- Consider an **Enduring Power of Attorney** when > 70
- **Discuss Assets** with children / beneficiaries
- Have **Executors** decided upon and discuss with them
- **Carry out** as much **planning** as possible for your business ownership

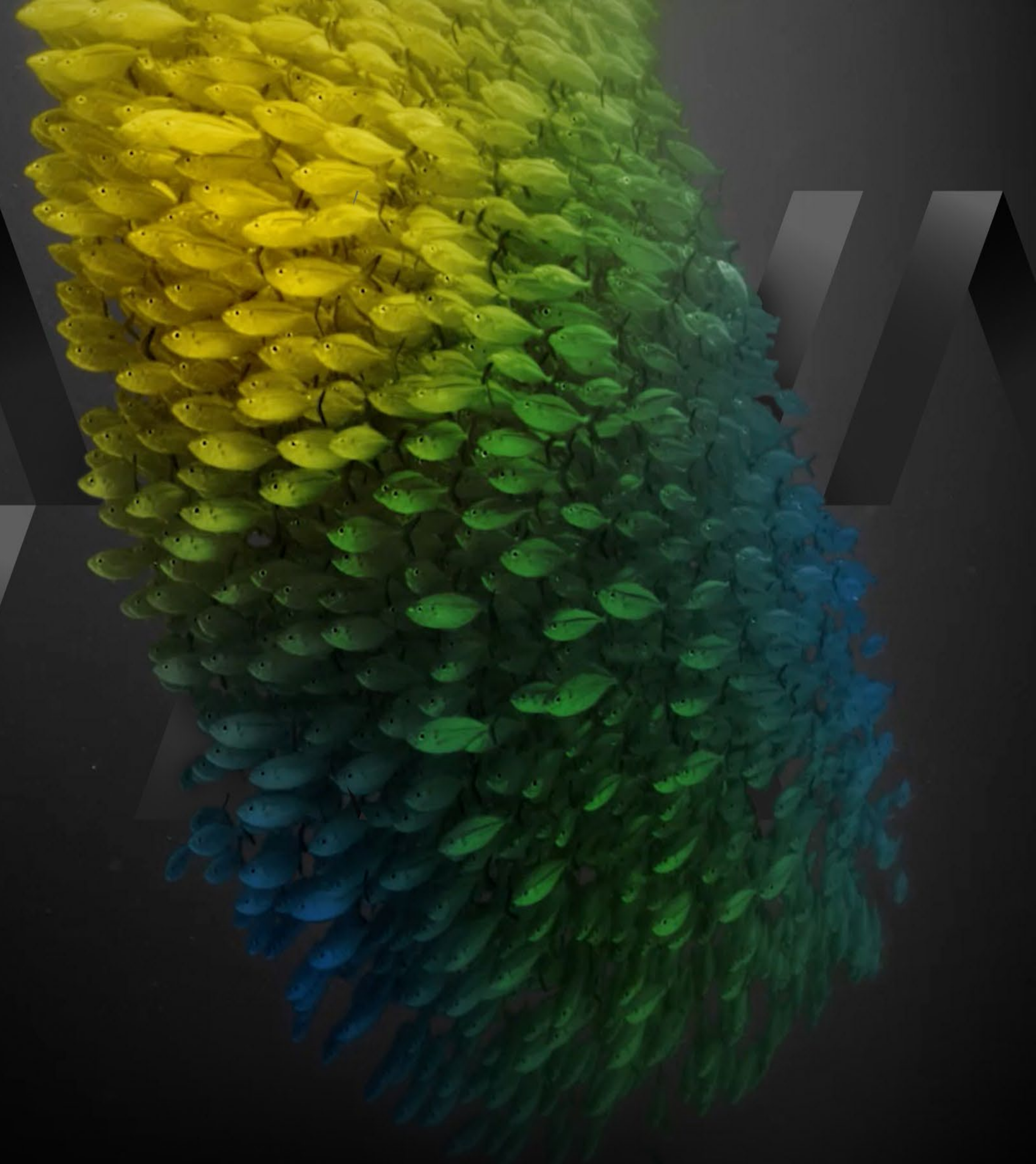
Mitigating Other Risks

There as just as many people under-spending as there are over-spending

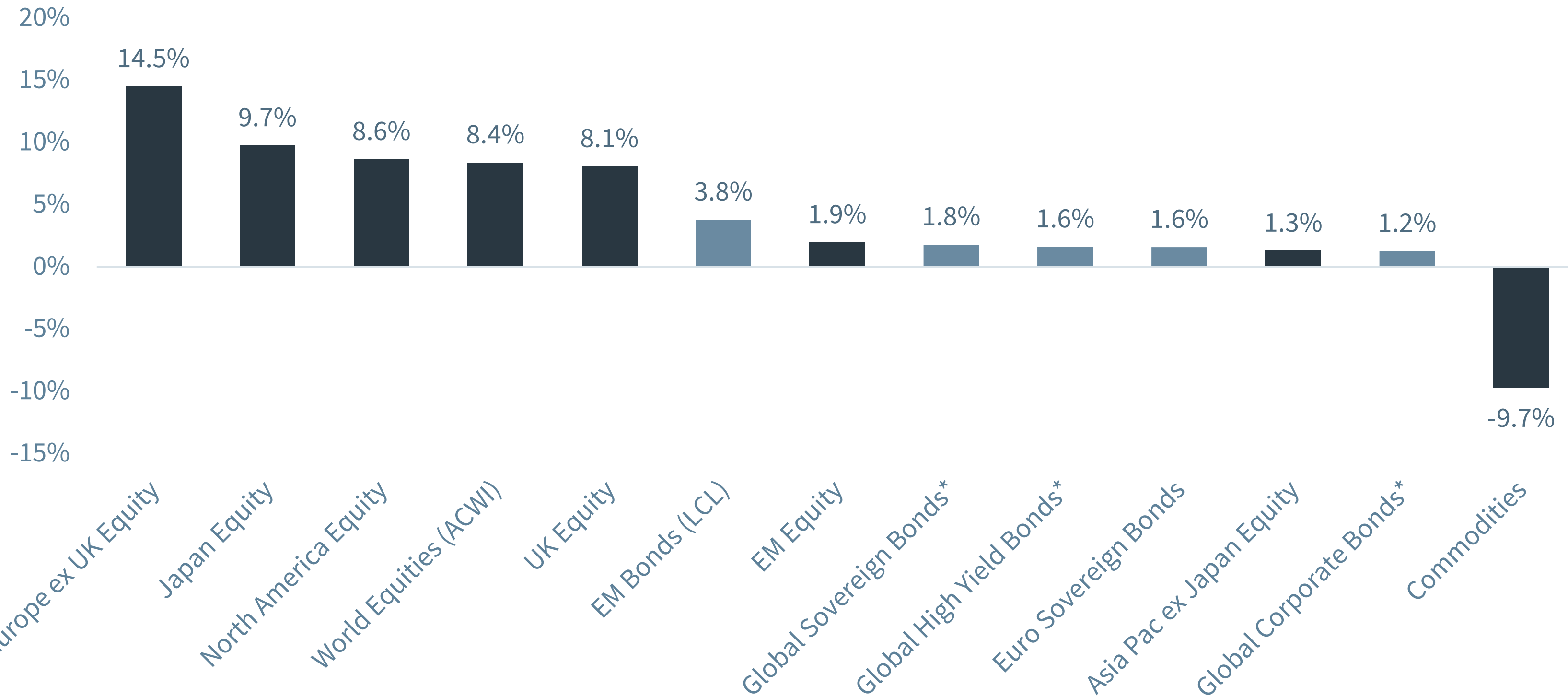
- Own Risk Bias: Never put your head in the sand; **take expert advice**, think long-term & make financial decisions with your head
- Understand what you **can or can't control** in the external economic / market & political environment

Market Update (Peter Smith).

Market Update



Market returns have been positive in 2023



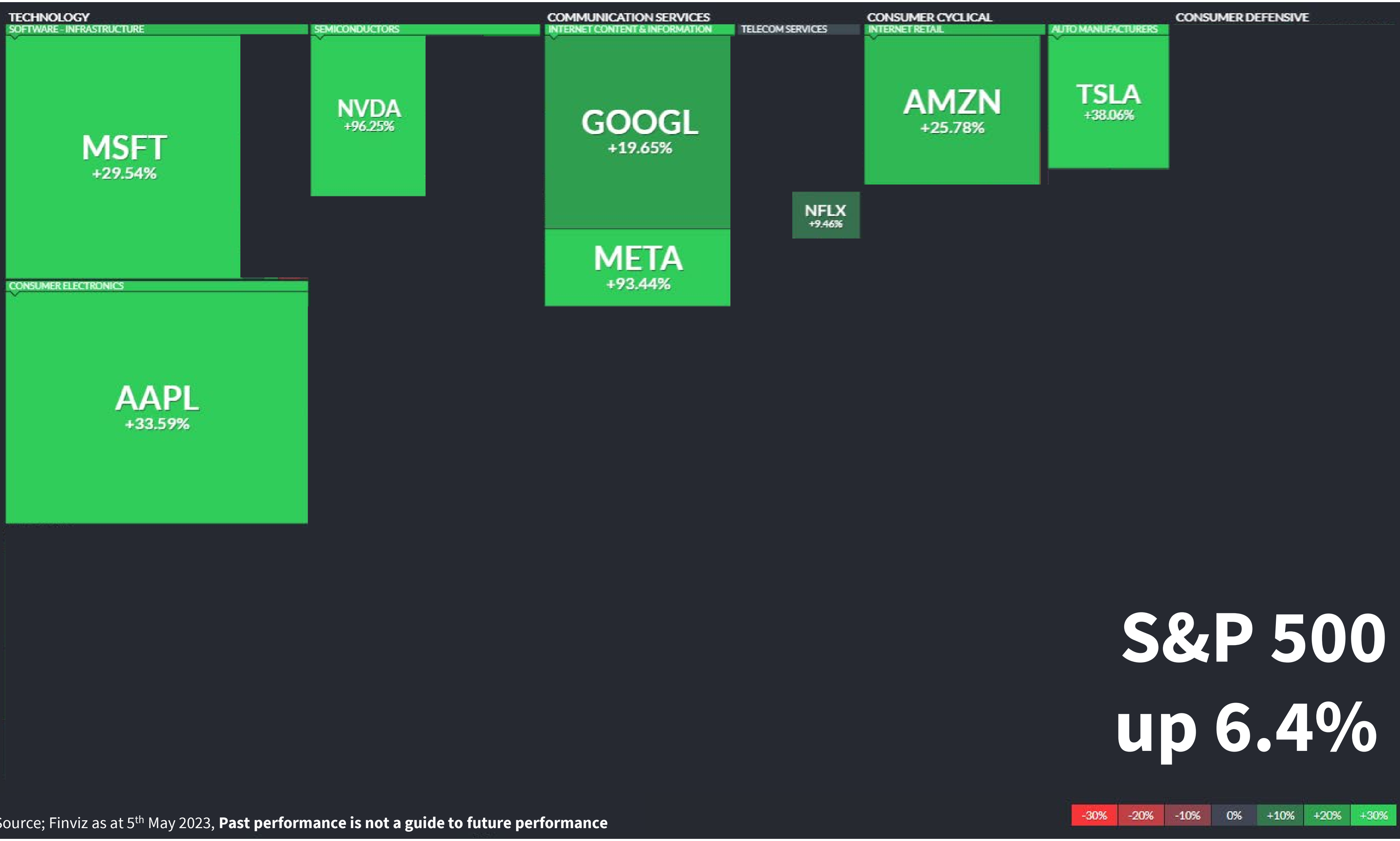
Source; Aviva investors as at 19th May 2023

Past performance is not a guide to future performance

S&P 500 up 7.7%

Source; Finviz as at 5th May 2023, **Past performance is not a guide to future performance**

AVIVA INVESTORS



Source; Finviz as at 5th May 2023, **Past performance is not a guide to future performance**

Latest views

1 EQUITY

US Equities
EU Equities

Why?

- Less-restrictive monetary policy
- Better than expected growth data
- Robust earnings
- Mega caps with access to financing won't be as affected by credit tightening – large % of index

2 FIXED INCOME

US Treasuries
UK Gilts

Why?

- Equity-bond correlation changing
- From Inflation/monetary policy to growth/recession driven
- Equity-bond = Compliment one another again in multi-asset
- Credit availability = less tightening

3 CYCLICAL EQUITY

Energy
Basic Resources

Why?

- Well-positioned for the energy transition
- Electrification and decarbonisation
- Supply-demand imbalances remain supportive after decades of cautious investment

Long term equity market returns

At a 7.5% p.a. rate of return, your money doubles in value every 10 years!

8%

MSCI World Index NR annualised return % over 20 Years

7.5%

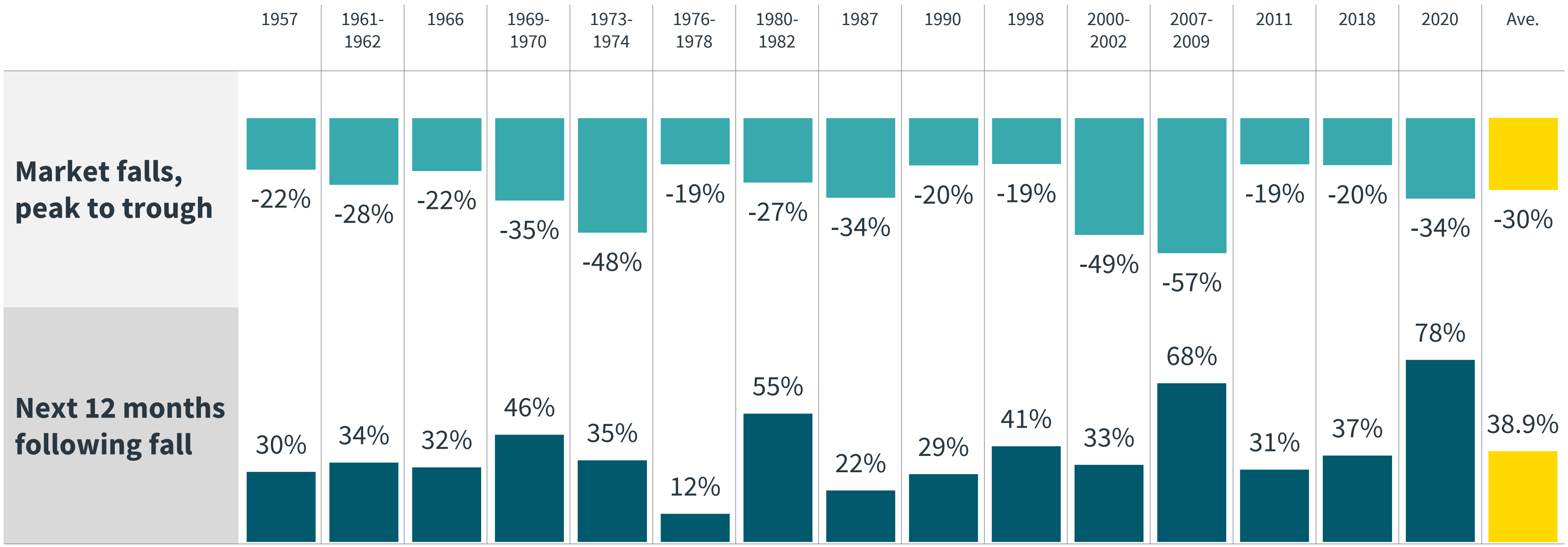
MSCI World Index NR annualised return % over 30 Years

7.9%

MSCI World Index NR annualised return % over 50 Years

Markets recover from crises

Crisis and recovery: how the S&P 500 index has performed during and after historic events



Past performance is not a guide to future performance

Source: Aviva Investors, Lipper, a Thomson Reuters company, as at 31 December 2022. Data used S&P 500 TR USD

Invest for long term gains!

Buy a Starbucks Coffee every day

Spends: €3.50/day

Spends: €106/month

Spends: €1,278/year

Spends €25,550 over 20 years

Loss: -€25,550

Buy Starbucks Stock every day

TM

Invest: €3.50/day

Invest: €106/month

Invest: €1,278/year

Invest €25,550 over 20 years

Gain: +€212,271

Past performance is not a guide to future performance

Source: Aviva Investors, Bloomberg, Refinitiv, as at 31 January 2022

Investing / Portfolio Management.

Asset Classes: Least Worst Option?

There are **6** main **Asset Classes** where Capital can be 'parked' or allocated:

1. **Cash / An Post:** Preservation of (Nominal) Capital
2. **Bonds:** Government or Corporate; Direct or Collective
3. **Equities / Shares**
4. **Property**: Residential or Commercial; Active or Passive
5. **Private Equity**: Your Business and any other business interests you have
6. **Alternatives:** All assets outside of the above

Important Points:

- Currently, **none** of the **6 asset classes** jump out as being a '**no-brainer**' and this is the difficulty with the current investment environment.
- Unique to the **current** environment is that **all** have been **underperforming** consistently at the same time.

Investment Strategy: Key Principles for 2023

Diversification	**Spread your Risk** Minimise your downside
Transparency	**Understand** your Investments
Holistic View	Consider **all of your assets**, regardless of the structure
Inertia	Do not fall into the **inertia trap**. Make **changes** where necessary
Clear Mandate	Ensure that you and any Advisors **are clear** as to your **Risk & Objectives**
Conflicts of Interest	**Trust your advisor** that they have your best interests at heart

Investment Strategy: Why Invest

Why Invest your Capital?

- To generate **growth** in Capital (or Income) **in excess of** the Risk-Free rate of return.
- To **avoid** the **real value** of your money being **eroded** due to **Inflation**
- To **fund** your **Retirement** Years
- As a **Succession Plan** for the **next generation**

When should you not Invest?

- If your **financial** circumstances or **personal** preferences mean that you have a low:
  - **Tolerance** for Risk
  - **Appetite** to Risk
  - **Capacity** for Risk
- If you do not have a **medium to long term** investment **time horizon**

Investment Strategy: Diversification

Investment Strategies can be split (diversified) in terms of:

- Asset Class
- Geography
- Investment Type
- Custodian / Provider
- Sector
- Liquid v Illiquid
- Growth v Income focused

Why Diversify your exposure?

Risk Reduction	More Smoothed out returns

Cashflow Planning.

Household Cashflow Planning

Knowing your current **Cashflow** Position (what comes in vs what goes out) is extremely **important**

Regardless of your **Financial Position**, you (& your Partner / Family) need to sit down to:

- **Calculate ALL** Current Income & Outgoings
- **Predict** your Cashflow position over the next 1 Year & 5 Years
- **Consider** any one-off changes to your Cashflow situation

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Calculating Income & Outgoings

- Totting up your **Gross Income** is easy… Everyone knows (roughly) what they currently earn in terms of Earned (Employment) or Passive Income

- Calculating **Outgoings** is a lot more difficult

IF Gross Income > [Tax + All Outgoings] **THEN** you have an annual **CASHFLOW SURPLUS**

IF Gross Income < All Outgoings **THEN** you have an annual **CASHFLOW DEFICIT**

Categorise your Outgoings

You Need to look at **ALL** of your Expenses and categorise them as:

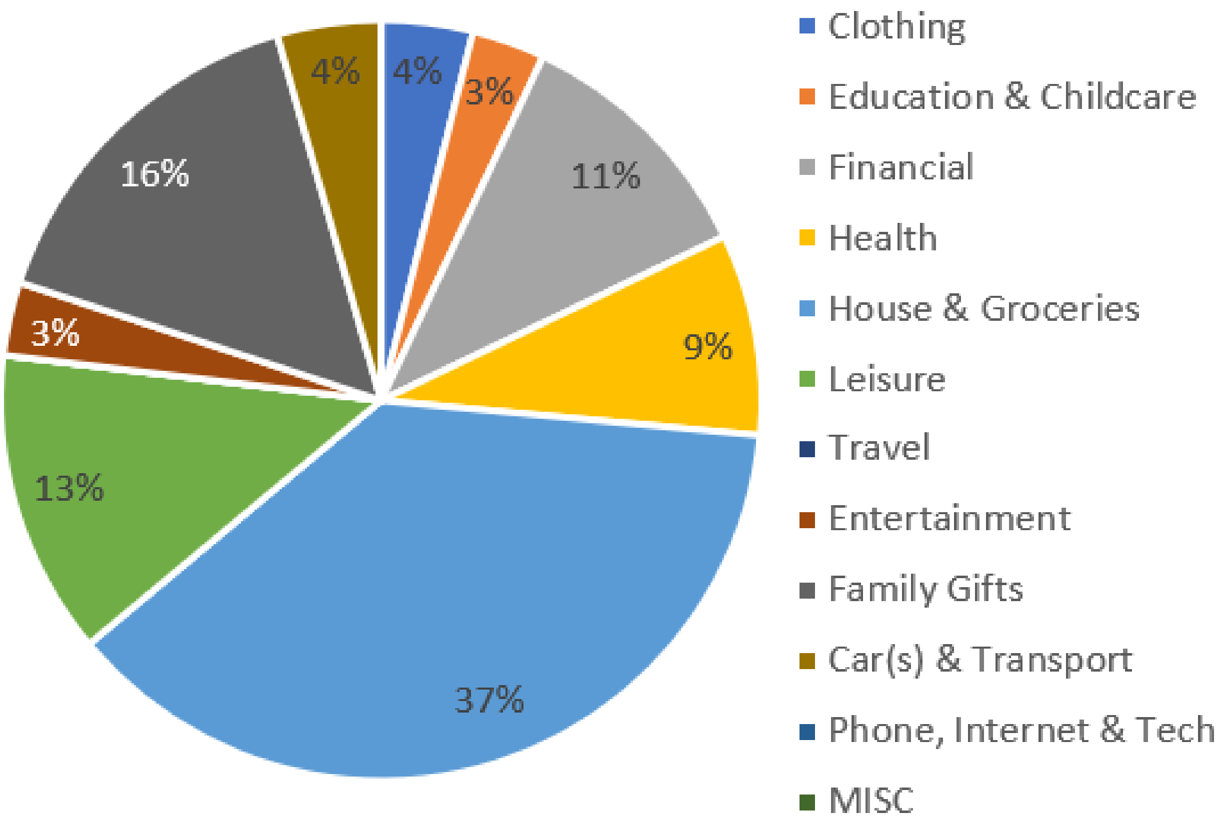
- **Essentials** e.g. Mortgage, Utility Bills, Transport to work etc.
- **Discretionary** e.g. Foreign Holidays, having that extra Car, Gym membership that's not being used
- **Non-Essential Discretionary** i.e. anything between Essential & Outgoings

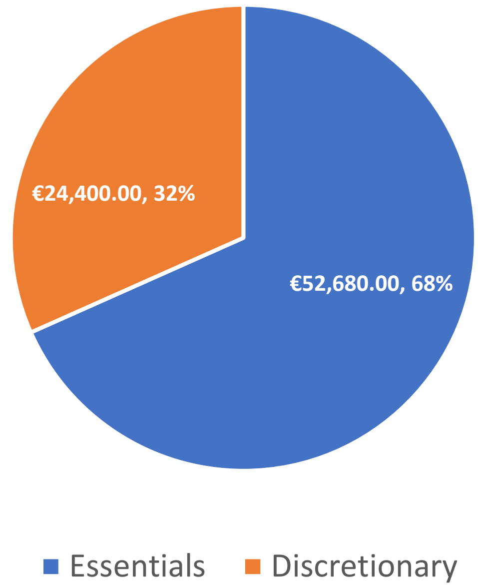
Note: What is Essential for one person, may not be Essential for another. Equally, what is Discretionary for some is Essential for others. ***So you need to understand what is Essential & Discretionary for YOU and YOUR FAMILY***

Outgoing Analysis in Retirement: SAMPLE

Outgoing	*Amount*	*Frequency p.a.*	*Total Annual*	Category	Essentials v Discretionary
Gas & Electricity	€200.00	12	€2,400.00	House & Groceries	Essentials
Bins / Refuse Collection	€40.00	12	€480.00	House & Groceries	Essentials
Clothes & Foorwear	€250.00	12	€3,000.00	Clothing	Essentials
Meals Out	€200.00	12	€2,400.00	Entertainment	Discretionary
Educational Fees	€400.00	6	€2,400.00	Education & Childcare	Essentials
Food / Groceries	€1,500.00	12	€18,000.00	House & Groceries	Essentials
Garden Maintenance	€100.00	2	€200.00	House & Groceries	Essentials
Hair & Beauty	€200.00	6	€1,200.00	Health	Essentials
Holidays	€10,000.00	1	€10,000.00	Leisure	Discretionary
Housekeeping	€150.00	52	€7,800.00	House & Groceries	Essentials
Health Insurance	€150.00	12	€1,800.00	Health	Essentials
Loan Repayments	€500.00	12	€6,000.00	Financial	Essentials
Gifts to kids	€6,000.00	2	€12,000.00	Family Gifts	Discretionary
Insurance	€200.00	12	€2,400.00	Financial	Essentials
Cars: Tax	€500.00	1	€500.00	Car(s) & Transport	Essentials
Cars: Wear & Tear	€200.00	12	€2,400.00	Car(s) & Transport	Essentials
Car Insurance	€500.00	1	€500.00	Car(s) & Transport	Essentials
Medical Bills	€300.00	12	€3,600.00	Health	Essentials
		Total	**€77,080.00**		

Outgoing Analysis: SAMPLE





Household Cashflow Planning

Sometimes in **Cashflow Planning**, certain expenses are categorised as Cashflow **Outgoings** but in fact they are adding to your Capital **Position**. The best **3 examples** of this are:

Paying down the **Principle** element of your mortgage (**Debt reduction** improves your Capital position)	**Personal Pension** Contributions and Additional Voluntary Contributions (**AVCs**)	**Monthly Savings** to a Cash or Investment account

There's nothing wrong with being '**Cashflow Neutral**' or even in **a Deficit if** your Capital position is **improving**

Income v Outgoings: Considerations

Understand the **time period** of Incomes & Outgoings:

Most incomes & outgoings will **only last** for a **finite** period

- '**Earned Income**' will **cease** on retirement
- **Pension Income** will **commence** on pension drawdown / a certain age
- **Mortgage repayments** will usually **end** in your 60s
- **Childcare costs** & 2nd / 3rd level education costs will **cease** at a certain period
- **Lots** more examples

Income v Outgoings: Considerations

- “**Don’t** sweat the small stuff”
- **Minimise** taxes / **Optimise** tax efficiencies e.g. Pension Contributions
- **Be aware** that most **living costs** are ‘**fixed**’ in nature. So a **20%** net increase in Income could have a **50%** increase in **Net** Cashflow
- **Factor** in **Inflation** to your **future** Cashflows
- An Individual / Family may need to:
  - **Pull in** the reins on spending & live within their budget **OR**
  - May actually have sufficient capital / income to spend more!

Retirement Planning.

Cashflow Planning for Retirement

Factors that determine your future Retirement Fund value

Current € Value of All Assets	Your **Starting Point** to get to your Target Retirement Capital Value at **Retirement Age**
Years to Retirement	**Target** Retirement Age - Current Age = Years to Retirement
Cashflow Surplus	Net Income **versus** All Outgoings in your **Working** Years: **Prioritise** Pension Contributions
Assumed Annual Return on All Assets	Annual Average **Performance** on Invested Assets **Remember:** Cash currently at zero (or negative)

Building a Capital Sum (for Income)

Building a **Retirement Pot** before Retiring…

[Cashflow Surplus × Years to Retirement] + Current Value of Assets + Assumed Asset Growth = Capital Sum at Retirement

Capital Sum at Retirement – Your Nest Egg & Gifts / Inheritances – Value of your Home = Capital Sum for Your Income

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Financial Planning in Retirement...

Financing Retirement...

Regular after-tax Income — Regular Outgoings — One Off Costs = Cashflow Surplus or Deficit

- State Pension
- ARF Income
- Investment Income

- House, Car(s), Health
- Leisure & Holidays

- **One off** Capital Costs
- **Gifts** to children / grandchildren
- **New** Car / House extension

HOWEVER, a **robust** plan must have

Capital Sum for Your Income Greater than [Cashflow Deficit × Years in Retirement] ✓

Financial Planning for Retirement

Q: **How much** of a *Capital Sum for* ***Income*** do a couple need to build up?

- This depends **firstly** on your **forecasted** Number of Years In Retirement i.e. the **younger** you retire, the **bigger** the Capital Pot you need
- **Rule of Thumb**: **Calculate** your **Gross** Annual Income Need & Multiply by 20x to '**Capitalise**' this in terms of the Capital Need.
- **So** if a **couple** in their **mid 60s** want to have €100k **Gross Income** in retirement, they **need** a €2m Capital Pot built up

How to **a) Avoid** running out of money in Retirement & **b) Enjoy** Retirement?

- **Maximise** Pension contributions while working
- Consider **delaying** Retirement
- **Ensure** your **spending** in Retirement is appropriate
- **Ensure** your Pensions & Investments are **risk-appropriate**

Financial Planning in Retirement…

We are now **living a lot longer** than **previous** generations, but our **target** retirement age may be the same as our Grandparents….!

Previously

WORKING								RETIRED		
25	30	35	40	45	50	55	60	65	70	75

Currently

WORKING								RETIRED					
25	30	35	40	45	50	55	60	65	70	75	80	85	90

We may have 20 – 25 years of **extra spending** in retirement & **no 'Earned Income'**

Costs of living can **increase** in retirement, mainly due to:

- Inflation & added Healthcare needs & having more time
- Helping out children financially

Lack of **State** Support:

- Full State Pension of c. €13,000 p.a. is far from sufficient
- Changing Demographics i.e. more 'retirees' in future years

Earned Income to Passive Income

*The **key** to **successful retirement** planning is **replacing** Earned Income with Passive Income*

When you retire from employment, your **Earned Income will reduce dramatically**

→

Passive Income must replace Earned Income to enjoy your Retirement

→

Building a **Capital Sum (Pensions & Other)** to create a Passive Income stream is key

The **Irish Government** incentivises workers to fund their **own** Private Pension by:

- €2m Standard Fund Threshold
- Tax Relief on Contributions
- Tax Free Growth
- Tax Efficient Drawdown

Financial Planning in Retirement...

3 PHASES of Retirement

1

Planning for (future) Retirement

*Between **1 & 10** Years pre-Retiring*

2

Transitioning to Retirement

***12 months** before & after Retirement*

3

Being in your Retirement Years

*Getting **used to** Retirement*

Key Principles

- Maximise Pension Contributions
- Be Flexible on Retirement Age
- Have a Cashflow v Capital Plan

Refer a Friend….?

A reminder to our loyal Client and Professional Advisor Base…

Compass Private Wealth are ***Open For business*** & are recruiting new clients between now & year end.

Virtual Coffee:

If you feel that any of your contacts would benefit from a conversation with Compass Private Wealth in relation to their Financial Planning affairs, then please do reach out and make the introduction…..

Q&A.

Markets: Questions

Why is there **so much** inflation ?

- Historically low interest rates since 2008 / 2009 after Global Financial Crisis
- Covid-19: Increased Money Supply to stimulate economies & subsequent hike in demand post lock-downs
- Russia – Ukraine Conflict

Are we heading for a **Recession** ?

- Very possible / probably: A Recession is 2 consecutive quarters of negative GDP which would seem likely in most economicies
- Growth of economies lagging inflation is technically ‘Stagflation’, but essentially this is the same effect of a Recession

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