# Are you ready for the financial future?

Recent events have transformed the Irish savings landscape, with the need for a secure rainy-day fund now more pressing than ever – and with banks competing for savers' money, the customer holds all the cards, writes **Caroline Madden**

FOR YEARS, the savings market was defined by apathy and inertia as consumers took little interest in managing their cash, preferring instead to focus their efforts on flashier asset classes such as property and shares. However, as a result of the banking and economic crisis, the savings landscape has changed completely. Not only has the ongoing volatility driven home the importance of building up a rainy-day fund, but it has also sparked an unprecedented interest in the security of financial institutions, and the deposits within those institutions.

Harry Slowey, a director at irishdeposits.ie, says he has never seen such activity in the savings market. People are "more cautious in the context of what's happened in the last five years", he says, and as a result are more likely to stay in cash rather than move into other riskier assets.

There is also a huge appetite for information. "People want to be more informed than ever," Slowey says. Deciding on a home for your savings is no longer a one-dimensional decision, he says, determined solely by the rates of interest on offer. "People want to be informed on all the dimensions. Cash has been the undermanaged asset in the last few years. There's a lot more to cash than people first believe."

Return of capital, rather than return on capital, has become the most pressing concern for most savers. Under the Irish deposit guarantee scheme, the first €100,000 of a saver's deposit with any of the six main Irish institutions (AIB, Bank of Ireland, EBS, ICS, Irish Life & Permanent and Irish Nationwide) is guaranteed by the State. If your deposit is over €100,000, the remainder is covered by the Eligible Liabilities Guarantee (ELG) scheme which will run until the end of June 2011, and may be extended until the end of 2011.

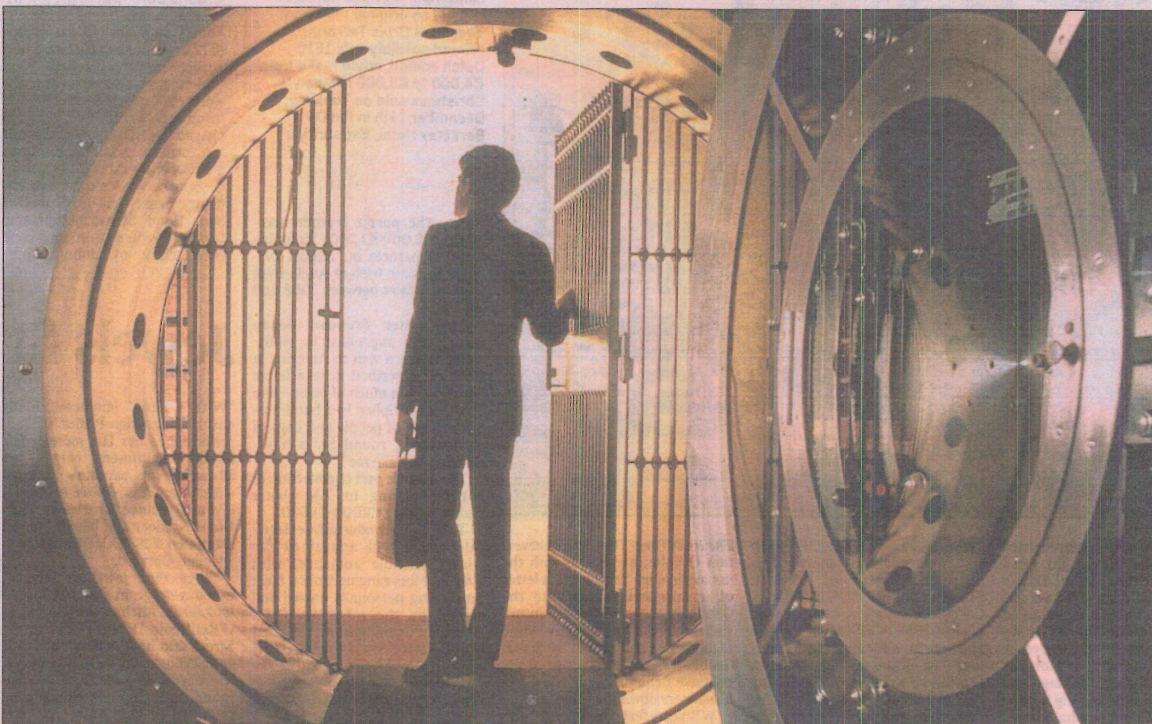
John Lowe of moneydoctor.ie says that there would have to be "total and utter anarchy" before savers would be in danger of not getting their money under the Government guarantee. However, where once people were satisfied to keep all of their cash in one bank, diversification has become the buzzword of the savings world, with many people splitting their cash across Irish – and indeed non-Irish – institutions in an effort to reduce their risk.

Savers have also grown more reluctant to lock away their cash for the longer-term. "People are more interested in shorter-term liquidity," says Slowey. In terms of fixed-term deposit accounts, there is demand for terms of one year, or perhaps 18 months, he says, but people are not keen on committing their money for longer time-frames at the moment, because of the climate of uncertainty.

In recognition of this, Bank of Ireland has just launched a new nine-month account, which is the latest addition to its "Reward" suite of fixed-term deposit accounts. It offers a rate of 3.4 per cent AER (annual equivalent rate) on new funds between €10,000 and €500,000. "This new term option is geared for customers looking for a strong fixed-rate offer, without tying up cash for any significant period of time," says Mark Kelly, deposit product manager at Bank of Ireland.

Also fresh on the market is EBS Building Society's new five-month fixed-term savings account for new funds ranging from €20,000 up to €500,000. This carries an AER of 3.64 per cent, or a gross rate of 1.5 per cent over five months.

When choosing a savings product, Kelly advises people to keep in mind three "core fundamentals". Firstly savers should look at the type of interest rate the account will attract. Will it be fixed or variable? Is it dependent on meeting certain conditions? They should review the access terms that apply to the account. For instance, a penalty may apply if they withdraw their money before the end of the term. It's also important to establish whether you will be able to make lodgements or withdrawals in a bank branch, or online only.



Safety first: Return of capital, rather than return on capital, has become the pressing concern for most savers. Above right: Mark Kelly, deposit product manager at Bank of Ireland

> The ongoing volatility has sparked an unprecedented interest in the security of financial institutions

Savers will be pleased to know that the Irish market is quite competitive and is likely to remain so for some time, as banks are under pressure to increase their deposit levels, and so have little choice but to continue offering relatively attractive interest rates.

However, Lowe singles out An Post, once considered a little staid, as offering some of the most attractive savings products on the market. He points out that An Post savings bonds, which are a three-year investment, offer a return of 10 per cent tax-free, the equivalent of a net annual rate of 3.23 per cent. Meanwhile, An Post savings certificates, which run for a term of five years and six months, offer 21 per cent tax-free return. "If you're prepared to wait, it's the best rate of the lot," says Lowe.

The fact that the Deposit Interest Retention Tax (Dirt) rate on ordinary deposit accounts was increased in the Budget by 2 per cent to 27 per cent, and on longer-term deposit accounts by 2 per cent to 30 per cent, means An Post's tax-free offerings are even more attractive.

Building up a nest egg to cushion yourself and your dependents against the eventuality of redundancy, falling ill or other emergencies makes sound financial sense, but it's equally important to take a longer-term savings view in order to make adequate provision for your retirement. Maura Howe of the Pensions Board says that if the current State pension of €230 a week would not be enough to meet your needs in retirement, then you need to look at supplementing it, and one method of doing so is through a pension.

A number of changes to the pension tax regime were announced in Budget 2011, including the abolition of PRSI and Health Levy relief on employee pension contributions, and the reduction of the annual earnings cap for tax-relievable pension contributions. While these changes undoubtedly reduce the attractiveness of pensions as a long-term savings vehicle, making adequate provision for your old age – through a pension or otherwise – remains a necessity.

Howe advises people to get into the habit of saving for their retirement as soon as they start their first job. "Pensions are a compounding product, so the earlier, and the more consistently, you're saving, the less it will cost you in the long-term," she explains. It's also important to take responsibility for your retirement pot and ensure that you're happy with how it is being invested. "The downturn has brought pensions more to light, which is actually a good thing," says Howe. "The problem was that people were saving into a pension, patting themselves on the back and walking away and not thinking about it again. But like any money you invest, you need to keep an eye on it – it's your money."