MONEY

JOY AND PAIN
CORMAC Ó HEADHRA'S LUNCH BUDGET IN PARIS STRETCHED TO A PLAIN BAGUETTE
SUNDAY PAGE 5

Protecting yourself is a healthy option

Critical illness cover may seem like a luxury — but nobody knows when that medical emergency will hit their earnings, says *Eithne Dunne*

Your physical health may be in good hands with the ER doctors, but you need income protection insurance to safeguard your financial health

When Tracey Gillick took out her serious illness cover 17 years ago, she hoped she would never need it; in the following years, she often thought of getting rid of the policy to save money. After she was diagnosed with breast cancer in 2014, however, she was hugely relieved that she had kept the policy.

When Gillick's cancer was first diagnosed, her youngest child was 18 months old and the family had just moved into a new home. Money was tight, but she received a payment from her insurer Irish Life six weeks after she found out she was sick.

While she had good health cover and friends and family helped with childcare, the payout covered the shortfall on Gillick's drugs costs and enabled the family to pay someone to help with the children's homework once a week. When she went into remission, she was able to take several members of her family to New York to say thank you for their support.

Gillick said she was tempted to cancel her illness cover several times and save the €180 a month she was spending on her premium. Yet something a former colleague once said had stuck in her mind: "She told me about someone she knew who had critical illness cover, cancelled it, and then got sick. I decided that was something I wouldn't do."

Gillick previously worked outside the home and had income protection cover. Once she stopped earning a salary, however, she knew she would be covered by her serious illness policy. Financial advisers recommend that anyone earning an income should have income protection insurance and, if they can afford it, consider serious illness cover after that.

Income protection insurance will replace part of your salary if you become too ill to work, paying up to 75% of your normal salary including any state payments. Serious illness cover – sometimes also called specified or critical illness cover – will pay you a tax-free sum on the diagnosis of specific illnesses.

Income protection is more all-encompassing in what it covers. For example, it will cover you if you cannot work due to mental illness or a bad back, whereas a serious illness policy will not pay out for these. In fact, figures from Friends First show the most common reasons for income protection claims last year were orthopaedic (25%) followed by psychological (21%) and cancer (20%).

A serious illness payment, meanwhile, can make a difference where someone's illness means they need to adapt their home. It will also usually allow you a limited payout – typically €15,000 – if one of your children becomes seriously ill.

Do I need income protection?
Nick McGowan of McGowan Insurances and lion.ie, said taking out income protection was a no-brainer.

"If you had a machine sitting in your kitchen that printed your pay cheque, would you spend a few quid to insure it against breakage? Of course you would. You are that money machine."

He said workers should look at getting income protection before doing anything about serious illness cover, pensions or investments. "Your income pays for all other financial products. If it stops, you won't have anything to save, invest or pass on to the next generation."

> **If a machine in your kitchen printed your pay cheque, would you spend a few quid to insure it? You are that money machine**

Workers receive a maximum of €198 a week via the state illness benefit if they are unable to work. That is a large drop from the average weekly wage of €660, and would leave people with a large shortfall on what they need to cover their expenses, said McGowan.

Niall Rooney, business development manager at financial planning firm City Life Galway, said some people had a false sense of security because they had mortgage protection or life cover.

"That will cover your mortgage if you die, but what happens if you become seriously ill? I have seen more serious illness and income protection claims than death claims in my 30 years in business."

Do I need serious illness cover too?
If you have a decent emergency fund and income protection, you can probably forgo serious illness cover. Otherwise, even with most of your salary coming in, you may not be able to pay for everything you need if you get sick.

"Stroke is one of the main reasons for a critical illness claim," said McGowan. "If you have a stroke, it's likely you will need to modify your home. A critical illness policy will ensure you have the immediate funds in place."

If taking out serious illness cover, McGowan recommends aiming for a lump sum of twice your net income. However, he cautions that some people have far too much serious illness cover and no income protection.

"They would be better off taking out comprehensive income protection and using any leftover budget for serious illness cover," he said.

What factors influence cost?
With income protection, the main factors are your level of income, how long you want cover for, and the "deferred period" you choose. This refers to how long you are prepared to wait after getting sick to start getting paid – usually four, 13, 26 or 52 weeks. Some employers will cover sick leave for a certain period, after which your cover could kick in.

After that, factors such as age, medical history and job type all play a role in determining cost. For example, an accountant will get cover cheaper than a plumber, as the job is deemed less risky.

Some companies have income protection group schemes in place, which are usually cheaper than buying independently. With serious illness cover, cost is determined by how much of a lump sum you would like to receive, as well as age, medical history and other factors.

With income protection, note that you get marginal tax relief on your premiums, so €100 worth of cover will cost €60 for a higher earner.

Working without a salary
For the many people who work in the home, it is possible to get a limited form of income protection that will pay out up to €15,000 a year. Given that it is estimated homemakers should be paid €42,000 a year for their work, however, those who can afford it should consider serious illness cover.

"A homemaker struck down by a serious illness may be incapacitated for at least 12 months, so should have at least €30,000 in serious illness cover to pay for someone to take over their duties," said McGowan. "Otherwise their spouse will have to take time off or quit working. That's not a situation you want to be in."

A gender divide?
According to research by Irish Life, fewer than half of women in Ireland (45%) have some form of financial protection such as life insurance, serious illness cover or income protection, compared with two-thirds of men.

Cancer was the main cause among women (77%), with breast cancer responsible for the largest proportion of claims (39%), followed by colon and ovarian cancer. Sarah Kelly, senior manager for protection in Irish Life Retail, said financial protection can be forgotten about "in the hustle and bustle of everyday life".

Friends First's 2017 figures show that 59% of its income protection claimants were female. McGowan says his clients are split 50:50 between male and female.

MARKET MOVER DAMIEN MEADE

Damien Meade is a senior fund manager with Goodbody Asset Management in Dublin. He manages the Goodbody Global Leaders Fund, which is invested in leading global businesses. It is available to investors through New Ireland Assurance.

Fund philosophy
Meade says he and his team hold a portfolio of stakes in 40 companies at the forefront of their industries worldwide. "They became industry leaders due to a strong brand, patent, network or cost advantage that shield them from price competition," says Meade, *pictured*.

"These leaders set themselves apart through relentless innovation. Key to their longevity are regular, incremental improvements which copper-fasten leadership of their industry, making them even tougher competitors and rewarding them with a leading and growing share of industry profits."

Performance
The Global Leaders was the top performing fund from New Ireland last year and is a leading performer again this year. It has risen 34.5% since its launch in March 2016 to April 2018, compared to the MSCI World Index rise of 23.3%. This year, it is up almost 2.3% against a global equity market down 0.8%.

Buying and selling
Estée Lauder was one of the biggest single contributors to the fund's performance over the past 12 months, with the stock up 53%. The cosmetics group owns 23 of the best-known brands in the industry, including MAC and Bobbi Brown, and has a gross profit margin of 80%.

"Its success has come from its ability to innovate and anticipate changes in its market, and it continues to gain market share even after 70 years," says Meade. Nevertheless, in accordance with its strict sell discipline, the fund has started to reduce its position in Estée Lauder given the valuation of the stock after the recent performance.

The fund is also keen to invest in the high-growth technology sector. High valuations in the sector were a barrier to investment, so the company invested indirectly by buying shares in Prologis, a real-estate investment trust that owns warehouses used by ecommerce companies including Amazon.

"Ecommerce companies require high levels of stock to ensure timely deliveries. The rise of these companies is driving demand for specialised warehousing."

Following a strong performance (+20%) and expansion in valuation, the fund sold the position recently. It has invested in a Japanese company, Nidec, the world's largest precision motor manufacturer, which specialises in motors with reduced energy consumption.

Outlook
Meade says current market conditions are favourable for companies with strong pricing power. "With the return of inflation, they can be among the first to raise prices for their in-demand products or services. These businesses tend to generate strong cash flows and are among the least-indebted, hence are much less exposed to the risks from expected higher interest rates."

He says that, as the world economy continues its shift towards Asia, the fund is also invested in a number of global brands, networks and patents that are heavily sought-after in that region.

Bob Quinn

Bite back if you've had your fill of complex choices

On a recent trip to Boston, I stopped for lunch in a downtown deli. The variety of food on offer was overwhelming. With five types of bread and the same number of spreads to choose from, and that's before I got to the fillings, I walked out in a sweat with a sandwich I didn't want.

Had my wife, who is from California, been with me, she would have said "Bob, you don't like provolone, so don't get it".

Many of us end up with financial products or assets we don't need or want for the same reason: choosing one can be so complicated, the brain shuts down or makes a poor decision. It helps to have an outsider to remind us what we need, so here are five ways to make your financial life simpler.

Stocks and shares
People often feel they *should* have an investment portfolio of stocks and shares. The thing is, they can be very risky, particularly if they are in only one or a handful of companies. Think about it: you're putting a large amount of trust in a chief executive and board of directors you cannot influence.

Institutional failure is a real possibility, even in a bank. Just ask anyone who invested for their retirement or children's education in Anglo Irish Bank before the bust. The only way I'd recommend investing in shares is to buy into a globally diversified fund consisting of hundreds of companies in varied sectors in many countries. That's the only way to shield yourself against institutional, sectoral and national failure.

Pensions
How did you end up with four pensions? Perhaps you worked in a couple of companies and each had its own contributory pension. You may now be a company director with a director's pension. If you ever put a lump sum into a pension, you probably have another pension account for that. Any idea why?

It's because of the way the industry is set up. The seller of the pension – often a broker or a tied agent of the life company – earns a commission from every pension account opened, so it is in his or her interests that you keep starting new ones, rather than consolidate.

Aside from all the paperwork you're getting twice a year, you're paying annual management charges and other fees on each account. Rationalise them based on your circumstances and goals for retirement.

Life assurance
Here's another financial product that's sold on a commission basis. Brokers selling life assurance are paid up to 180% of your first year's premium by the insurance company for selling you the policy. If you have income protection, life assurance, serious illness cover and a death-in-service benefit, you may not need all of them.

Even if you have only life assurance, you could still be overinsured. The older you get, and the closer to independence your dependents get, the less your household needs in the event of your death. If you took out your life assurance more than 10 years ago, review it. You could be paying for more than you need.

Property
Do you own investment properties? Should you? Many people think investment properties provide a solid return, but when they work out the net yield – the yield after expenses such as interest, insurance, local property tax and maintenance, they find it's very modest, or negative.

Even if you're making money over and above the mortgage repayment on the property, the hassle of dealing with tenants can outweigh the financial gain. Work out the net yields for all of your properties and get rid of those that aren't worth the hassle. Look at investing the proceeds of your sales in other asset classes to ensure your portfolio is not overly exposed to property.

Too many cooks
Having too many advisers leads to complexity and confusion. This is how so many of us end up with bitty, messy finances. If you have an insurance guy, a bank guy and a pensions guy, how could you possibly be getting joined-up advice?

Even though they may call themselves advisers, many of these people are not. They earn a living by selling products, not by giving advice. Don't feel guilty about cutting them loose; you have paid them well in the past through the policies you're bought from them. If you do need a financial adviser to help you tease out what you want, look for an independent, fee-based one.

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