MONEY

VALUE OF NEW HOUSEHOLD TERM DEPOSITS IN AUGUST
€1.4bn
20% INCREASE ON LAST YEAR

INCREASE IN CONSUMER PRICES OVER 12 MONTHS TO END OF SEPTEMBER
2.7%
HIGHEST NUMBER SINCE MARCH 2024

SOURCE: CENTRAL BANK OF IRELAND, CSO

ALAMY

Pensioners get smoothest ride over past five budgets

Niamh Hennessy examines how five different demographics have fared financially from taxes and benefits since 2021

The past five years have brought a real mix of budgets. In that time, amid huge economic upheaval, ministers have delivered an election budget, a build-up to an election budget and a post-Covid recovery budget.

We have seen constant increases announced for the state pension and child benefit payments and a variety of other nuggets, such as a very welcome raft of energy credits amounting to more than €2,000 cumulatively for every bill payer, not to mention the free school books scheme in the 2023 budget.

Last year the budget "delivered" for a variety of constituencies as the Fianna Fail-Fine Gael coalition geared up for a winter election. This year, after both parties returned to government with the support of a group of independents, things were more restrained with less of a giveaway bonanza, as the priority shifted to infrastructure over personal income.

But over time most households have seen their financial position improve. Here we look at five scenarios to determine how people have fared over the past five years.

Michael Rooney, tax partner at EY Ireland, said that in four of the five cases, individuals would notice a drop in their net income in 2026 compared with this year.

"Though there have been slight yearly increases in PRSI rates, starting on October 1, 2024, the main reason behind these decreases is down to the absence of one-off cost of living supports that boosted incomes last year," he said.

"In budget 2025, the government provided energy credits and double child benefit payments to help families cope with inflation. Budget 2026, however, has taken a more restrained approach. While it includes modest increases to welfare payments, it omits the broad cost of living package seen last year."

However, over the past five years, who has lucked out the most and seen their net income increase by the most following the various budget changes? Rooney and his team have crunched the numbers on the budgets from 2021 to next year to see who has fared the best.

Retirees have had the best of it from the government compared with the likes of single earners — rather like Randolph (Ralph Bellamy), left, and Mortimer Duke (Don Ameche) compared with Billy Ray Valentine (Eddie Murphy) in the 1983 comedy Trading Places

> **Budget 2026 has taken a more restrained approach**

MARRIED COUPLE WITH THREE CHILDREN AND A MORTGAGE

Ted and Kate have three children, aged one, four and eight, and are living in Dublin. Their youngest is in full-time childcare and the other two children are in school. Ted and Kate both work full-time; Ted earns €120,000 a year and Kate earns €50,000. They have a mortgage that costs €1,600 a month.

Ted and Kate have a combined salary of €170,000 and in 2021 they had a net income of €114,126, rising to €126,285 in 2025, but next year following the latest budget their net income will be down to €125,096.

Over the past five years they have benefited from higher child benefit payments, energy credits and an increase in the national childcare scheme subsidy (NCSS) thanks to various budget measures.

They have also profited from tax credit increases over the years such as married persons tax credit, employee tax credit and mortgage interest tax credit. For 2025 these credits totalled €9,250, up from €6,600 in 2021. Their USC payments have also come down over the years, from €8,003 in 2021 to €6,689 this year. Next year they will pay €6,597 in USC.

They have also benefited from improved NCSS payments, which were just €1,170 in 2021 compared with €5,008 this year.

Overall: 9.6 per cent increase in net income over five years

MARRIED COUPLE WITH A MORTGAGE BUT NO CHILDREN

Shane and Louise are married, have no children and live in Cork. Shane earns €80,000 a year, Louise earns €65,000. They have a mortgage that costs €1,800 a month.

Shane and Louise have a combined income of €145,000. Their net income in 2021 was €96,441, rising to €104,178 this year, an increase of €7,737. Next year their net income will be down to €103,858.

They have, like many others, benefited from energy credits in the budgets, which have totalled €2,100 over the past five years. A small dent, however, some might say in the overall cost of energy in those years. They have also seen their USC payments drop by 30 per cent over the past five years. They will also benefit next year from the extended mortgage interest relief payments but will miss the energy credits enjoyed over the past few years.

Overall: 7.6 per cent increase in net income over five years

SINGLE EARNER, RENTING

David is 27, single and renting a property in Dublin. He is saving for a mortgage. Rent costs him €1,300 a month. He is on a salary of €58,000.

His net income over the past five years has increased from €40,927 in 2021 to €45,171 this year. Next year his net income will be €44,896.

He has benefited from rent credits of €2,500 over the past three years and the single person's tax credit has also increased from €1,650 in 2021 to €2,000 last year. The amount of USC he is paying has also dropped, from €1,912 in 2021 to €1,286 this year and down to €1,272 next year.

Overall: 9.6 per cent increase in net income over five years

RETIRED COUPLE WITH NO MORTGAGE

Patrick and Helen are retired. Patrick has a private and state pension while Helen has only a state pension. They have three grown-up children. Their mortgage is paid off. Patrick receives €20,000 in private pension payments a year.

Their gross pay in 2021 was €46,320, rising to €51,726 next year, thanks to increases in their pension payments. In 2021, Helen received state pension payments of €13,160 and next year this will rise to €15,863. Patrick, meanwhile, has seen his pension income rise from €33,160 in 2021 to €35,863 this year.

They have also benefited from energy credits of just over €2,000. Their net income in 2021 was €40,626, rising to €45,050 this year. It will be up slightly next year to €45,650.

Overall: 12.3 per cent increase in net income over five years

SINGLE PARENT, ONE CHILD, RENTING

Megan is a single parent living in Carlow with her son, Harry, who is four. She pays for a crèche, which costs €800 a month. She has a salary of €45,000. She is renting, which costs her €600 a month.

Megan has benefited from an increase in the rate of various tax credits over the past five years. She is entitled to tax credits such as the single person's tax credit, employee credit, single person child carer credit and rent credit. This year her total credits amounted to €6,900, up from €5,070 in 2021.

Her net income was €38,362 in 2021 and it rose to €42,357 this year. It will be €41,790 next year. The amount of child benefit she received in 2021 was €1,680 and this jumped to €1,960 this year, an increase of 16 per cent. She also benefited from energy credits over the years, and the amount of USC she is paying has dropped significantly too from €1,094 in 2021 to €528 this year.

Overall: 9 per cent increase in net income over five years

€? QUESTION OF MONEY

I'm getting my first mortgage at 35. At €500,000, it's substantial so, to keep monthly payments affordable, I would like to take the loan out over the longest possible term. What's the longest term I could get? If the mortgage runs into my seventies, would the terms and conditions let me overpay or clear it entirely nearer retirement if I can afford it?
Anon

When people get a first mortgage, they can worry about the monthly payments. A longer term can boost affordability by keeping monthly payments down and helping meet lender affordability requirements. That's because your debt is spread over a longer period. However, the longer the term, the more you will pay in total interest on the loan.

Lenders will have a maximum age up to which they will let you borrow, and a maximum mortgage term. Most lenders restrict loans to mature at 65 to 68 years old, but some will allow borrowing beyond retirement age up to 75 or 80, contingent on repayment ability, such as evidence of a pension fund. Similarly, while most lenders offer mortgage terms only up to 30 or 35 years, some offer up to 40 years. So, if your priority is to take out a mortgage over as long a term as possible, shop around or get a broker to help you.

If you take out a mortgage at 35 for a term of more than 30 years, it could easily follow you into retirement when your income is likely to be lower, which could affect your ability to repay it. It's always prudent to clear debt as early as you can, and ideally before you retire. It would be worth getting impartial financial advice before any decision, particularly if you wish to retire in your mid-sixties.

While you might not be able to afford to overpay your mortgage in the early years of your loan, your financial situation is likely to improve as your career progresses and your pay prospects improve. Overpaying will reduce the outstanding loan balance more quickly, which means you could own your home outright sooner. Furthermore, overpaying will reduce the total interest you'll pay over the life of the loan, saving you a considerable amount of money.

You can typically overpay your mortgage by lump sum or by raising your monthly repayments. However, this will depend on the lender and the type of mortgage you have.

While overpaying offers several advantages, it's essential to consider individual financial circumstances, including interest rates, other debts and long-term financial goals. Seek impartial advice from a mortgage adviser to make sure you are in a secure financial position and that you won't face early repayment penalties.

Olga Brindley is head of underwriting at mortgage provider Nua Money

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

Eoghan Gavigan

Secret of good investing is different for each individual

The rep for one of the companies I deal with recently invited me to a high-performance coaching session. It was full of mental toughness and resilience, with some sporting analogies and a bit of bad language thrown in for extra grit. I have often thought that some extreme feats display not only mental toughness, but perhaps a little bit of madness. I didn't get much out of it and, to be honest, if he knew me better I think the rep would have invited me to a session on how to relax, rather than how to perform. Anyway, his intentions were good.

The world optimises for performance. We were built this way, as it spurs on evolution. It may not be universally the case but I think that most of the people we meet, at least those who get up early in the morning, are striving to perform. I think that individuals should optimise for happiness, though.

It's especially relevant when planning one's finances. The life objectives we are funding – education, housing, family, lifestyle and retirement – depend in whole or in part on selling our time in exchange for money, which we accumulate not to make us happy, but to give us the freedom, or time, to be able to do what will make us happy. There's an obvious paradox here.

People want to know the right way to manage their money, and indeed there are some advisers who believe that everyone should invest the same way and then do nothing. Until recently the recommendation might have been to allocate to the S&P 500. Concentration risk in that index means that many now favour a diversified basket of global equities, the majority of which would at any rate be allocated to US equities.

If an investor invested in the S&P 500 at any point in the last, say, 30 to 50 years, and did nothing since, they would have achieved an average annual return of 10 to 12 per cent before inflation. But when was the last time you heard someone claim to have achieved that return consistently? Probably never. The reason for this is that history has shown that investors aren't robots; they don't "do nothing", as attested to by the fact that investors achieve an average annual return of nearer to 4 per cent a year.

> **Some are careful on spending their money and some are like a child in a fairground**

According to Carl Richards, the financial planner and New York Times columnist, the difference between investment returns and investors' returns is referred to as the "behaviour gap". A large part of an adviser's job is to close that gap – essentially to keep people in their seat. Within the last half-century there have been extended periods of volatility. You got the desired return only if you stayed in your seat. Most didn't, quite simply because it is not as easy as it seems.

Morgan Housel, a financial influencer, posits that there is no right way to manage your money, simply because everyone is playing a different money game. For one person, buying a car that costs as much as a small house might be their optimal result. Personally, I am happy with my five-year-old Volvo and an extra holiday each year. Some people give careful consideration to how they spend their money and others are like a child in a fairground, and that's OK, because we each ultimately carry the can. If you want candy floss every day, have at it. Whatever makes you happy.

In a similar vein, all investors are not the same. Some have a natural ability to endure volatility and some don't. Some people have enough risk in their personal lives already and don't need to layer financial risk on top of that. Coupled with this is the fact that we live in a different time to the investor of 50 years ago. Recent world events which seemed unthinkable only a short time ago, alongside an American stock market that looks frothy and concentrated, give pause for thought.

It will be interesting to see how investors behave when investment markets correct, as they must surely do at some point. Think about that behaviour gap and, if you don't think you're able to see out the ride, now might be the time to adjust your portfolio. Strap in, because once the rollercoaster starts to move, the only way to be safe will be to stay in your seat.

Eoghan Gavigan is a certified financial planner and the owner of Highfield Financial Planning; hfp.ie