Should I place lump sum in real estate investment fund?

Eoghan Gavigan
Highfield Financial Planning

Q I HAVE €150,000 which I want to invest for between 10 and 15 years — with a view to using it to fund my retirement in the future. I'm 50 years old. I am interested in property investment and had considered using the lump sum to buy a property outright. But I was burned during the recent property crash and am now reluctant to invest directly in property. I also don't want to take on the responsibilities of being a landlord. I am considering putting my lump sum into real estate investment funds or real estate investment trusts instead. Would this be a good idea and is there anything I should be aware of before committing to such investments? Barry, Co Cork

VERY often when an investor loses money — or is disappointed at how an investment has performed — it is because they came at the task exactly as you have outlined in your question: by trying to make as much return as possible from one type of investment, with little regard for risk or return.

If you have €150,000 to invest and the purpose of the investment is to fund your retirement, you have limited capacity for loss — as a reduction in the value of your investment would be catastrophic for your quality of life in retirement. To allocate all your investment to a single asset class in these circumstances is not investing; it is gambling. In asking me if this is a good idea, you are really asking me if your suggested investment is the optimum for your circumstances. Given all the factors involved in doing this correctly, I can safely say that the answer is no.

Property may indeed form part of the solution, but if your primary focus is on successful investing, you need to approach this from another direction.

Some thought must be given to the choice of investment vehicle — and this may depend on the level of access (if any) required to the funds. You state that these funds are earmarked for your retirement. Depending on your circumstances, it may be possible to make the investment through a more tax-efficient pension vehicle. The downside of this, however, is that you may not be able to access the funds until your retirement, so you would need to ensure that you have an adequate emergency fund in place if you pursue this approach.

Asset allocation — essentially where you decide on the mix of investments you have in your investment portfolio — must also be addressed.

You must address several issues when deciding on asset allocation, such as the term of your investment, your risk profile, the returns you would like to make and the tax implications (which may be affected by the investment vehicle you use). Furthermore, if you are considering investing in property, you need to be aware of liquidity risk — that is, how easy it is to convert an investment into cash. Property is an illiquid asset and this can increase the risk of investing in it because if a large number of investors seek to exit from a property fund at once, they may be prevented from pulling out of the fund.

This, however, shouldn't be as much of an issue in a well-diversified investment portfolio (a portfolio which contains a variety of different investments).

Some of the above may seem straightforward and not worthy of further examination. However, you mentioned a 10- to 15-year investment term. If you are currently aged 50 and you intend to retire at age 65, then you don't necessarily need full access to the entire investment at that age.

A closer examination of this aspect alone could result in you deciding on a longer investment term for some or all of the investment, with perhaps some form of partial de-risking (where you reduce the level of risk in a portion of your investment) in the lead-up to your planned retirement date. This longer-term investment horizon could further reduce the level of risk.

The optimum investment for you will very likely involve allocating your funds to a range of different investments in a way which is designed to result in the achievement of the desired return, while limiting risk to an acceptable level.

My advice to you would be to work with an adviser to determine your required return; decide your asset allocation based on this and the level of risk you are willing and able to bear; and have a plan in place to ensure that your investment isn't derailed by knee-jerk reactions during times of market volatility. Anything else is a recipe for sleepless nights.

Pension transfer choice

Q I'VE been self-employed for a number of years and recently set up a personal retirement savings account (PRSA). I have a pension benefit built up with a previous employer — through a defined contribution scheme — which I am considering transferring to my PRSA. Could I face charges when transferring the benefit, how high might those charges be — and would I be better just leaving the old pension benefit where it is instead of transferring it into my PRSA? Aisling, Co Galway

GENERALLY speaking, for visibility, ease of management and access to a broader range of funds, I favour moving legacy defined contribution pensions out to a product under your own control. You would need to check with the administrator of your previous scheme but in most cases, you are unlikely to face exit charges. In your case, your options are to move it to your PRSA or to a personal retirement bond (PRB — a portable pension pot which you own and have control over and which is sometimes referred to as a buyout bond). The first step is to determine whether you are eligible to move your pension benefit to a PRSA.

If you are eligible to move the pension benefit to your PRSA, there are a number of issues which you need to address, including when you will be able to draw your pension, and the different options you have for maturing your pension — and how these could differ if you choose to move to a PRSA or to a PRB. For example, if you move your pension benefit to a PRSA, you will lose the ability to calculate your retirement lump sum based on your salary and years of service. You will instead be permitted to take 25pc of the accumulated fund.

Another consideration could be the investment choice available in your new pension product. In some circumstances, a PRSA may not have access to all of the funds which a PRB has access to.

You also need to take charges into account. If you choose a standard PRSA, the maximum annual management charge will be 1pc. There is more flexibility around charging structures for PRBs. As with all financial decisions, your personal circumstances are relevant, so you should seek the advice of an appropriately qualified adviser before taking any action.

Due to the unavoidable conflict of interest caused by the payment of large initial commissions for single premium pension transfers, you should seek out a fee-based adviser — as decisions of this nature are normally irreversible.

Eoghan Gavigan is a certified financial planner and the owner of Highfield Financial Planning (email: eoghan@hfp.ie; website: hfp.ie)

Email your questions to lmcbride@independent.ie or write to 'Your Questions, Sunday Independent Business, 27-32 Talbot Street, Dublin 1'.

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