

Property investment can add to retirement pot

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Many self-employed people rely on their dabblings in the property market to fund their retirement and sometimes completely shun the tax-efficiency of pensions.

But property investment should be viewed as an accompaniment to and not a substitute for pensions when it comes to providing for retirement, according to Mr Martin Haugh, managing director of HLD Actuarial Consultants.

"Having all one's eggs in the property basket may lead to problems at retirement if the property market is depressed," says Mr Haugh.

Instead, he advises that property

market aficionados spread their investment risk.

Many buy-to-let properties are backed with interest-only mortgages, meaning that the full amount of the capital will still have to be paid back when the house is sold, he notes.

And with rental yields falling, buy-to-let investments are no longer funding themselves. Investors will have to plough in extra money in order to meet the shortfall between rental income and mortgage repayments.

This effectively means they are funding their own retirement, but without the tax advantages that pension schemes offer, he points out.

According to Mr Haugh, to provide a

"relatively modest" inflation-linked pension of €20,000 per annum for life at age 60 (including a spouse's pension), a person would need to build up a fund of around €600,000.

Despite the recent boom, the average house prices in the Republic are around €300,000-€350,000, Mr Haugh says. Extracting equity of €600,000 from a property investment, once all loans, taxes and expenses have been paid, could prove difficult.

Mr Haugh is a fan of the tax advantages of pension schemes and says they should not be overlooked.

As full tax relief is available on contributions to pension funds (subject to high annual limits) and all gains made by the

pension fund are free from tax, people's pension funds start at a higher level and grow at an accelerated rate.

In addition, 25 per cent of the pension fund can be taken tax-free at retirement.

Using a pension scheme to pursue their affinity to property can help investors, however.

Those in a position to use a self-administered pension scheme to fund property purchases, and hence avail of the tax relief on pensions, can increase their returns by around 50 per cent, Mr Haugh says.

The exact rate of improvement over a straightforward property investment will depend on the investor's term to retirement.



