FINANCIAL GUIDE

A GUIDE TO

Protection planning

Helping to protect your family's lifestyle if your income suddenly changes due to death or illness

Welcome

Welcome to our 'Guide to Protection Planning'. Bad news can impact on any one of us at any time, in the form of an illness, or sudden death. We don't like to think about it, but we do have to plan for it. So having the correct protection strategy in place will enable you to protect your family's lifestyle if your income suddenly changes due to premature death or illness. But choosing the right options can be difficult without obtaining professional advice to ensure you protect your family from financial hardship.

This guide considers many of the different protection options and the structures into which you could transfer your assets, which will have lasting consequences for you and your family, and sets out why it is crucial that you make the correct choices. We can ensure that you find the right solutions to protect your assets and offer you and your family and your business lasting benefits.

Obtaining professional advice is essential to making an informed decision about the most suitable sum assured, premium, term and payment provisions. We work with our clients to create tailored protection strategies that meet their financial goals and needs and we're committed to ensuring that our clients enjoy the best financial planning service available.

As part of our service we also take the time to understand our client's unique needs and circumstances, so that we can provide them with the most suitable protection solutions in the most cost-effective way. If you would like to discuss the range of protection services we offer, please contact us for further information. ■

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Life assurance

Providing a financial safety net for your loved ones

Whether you're looking to provide a financial safety net for your loved ones, moving house or a first time buyer looking to arrange your mortgage life insurance - or simply wanting to add some cover to what you've already got - you'll want to make sure you choose the right type of cover. That's why obtaining the right advice and knowing which products to choose – including the most suitable sum assured, premium, terms and payment provisions – is essential.

Life assurance helps your dependants to cope financially in the event of your premature death. When you take out life assurance, you set the amount you want the policy to pay out should you die – this is called the 'sum assured'. Even if you consider that currently you have sufficient life assurance, you'll probably need more later on if your circumstances change. If you don't update your policy as key events happen throughout your life, you may risk being seriously under-insured.

As you reach different stages in your life, the need for protection will inevitably change. These are typical events when you should review your life assurance requirements:

- Buying your first home with a partner
- Having other debts and dependants
- Getting married or entering into a civil partnership
- Starting a family
- Becoming a stay-at-home parent
- Having more children
- Moving to a bigger property
- Salary increases
- Changing your job
- Reaching retirement
- Relying on someone else to support you
- Personal guarantee for business loans

Your life assurance premiums will vary according to a number of different factors, including the sum assured and the length of your policy (its 'term'), plus individual lifestyle factors such as your age, occupation, gender, state of health and whether or not you smoke.

If you have a spouse, partner or children, you should have sufficient protection to pay off your mortgage and any other liabilities. After that, you may need life assurance to replace at least some of your income. How much money a family needs will vary from household to household so, ultimately, it's up to you to decide how much money you would like to leave your family that would enable them to maintain their current standard of living.

There are two basic types of life assurance, 'term' and 'whole-of-life', but within those categories there are different variations.

The cheapest, simplest form of life assurance is term assurance. It is straightforward protection, there is no investment element and it pays out a lump sum if you die within a specified period. There are several types of term assurance.

The other type of protection available is a whole-of-life assurance policy designed to provide you with cover throughout your entire lifetime. The policy only pays out once the policyholder dies, providing the policyholder's dependants with a lump sum, usually tax-free. Depending on the individual policy, policyholders may have to continue contributing right up until they die, or they may be able to stop paying in once they reach a stated age, even though the cover continues until they die.

Tax matters

Although the proceeds from a life assurance policy are tax-free, they could form part of your estate and become liable to IHT (IHT). The simple way to avoid IHT on the proceeds is to place your policy into an appropriate trust, which enables any payout to be made directly to your dependants. Certain kinds of trust allow you to control what happens to your payout after death and this could speed up a payment. However, they cannot be used for life assurance policies that are assigned to (earmarked for) your mortgage lender.

Generally speaking, the amount of life assurance you may need should provide a lump sum that is sufficient to remove the burden of any debts and, ideally, leave enough over to invest in order to provide an income to support your dependants for the required period of time.

The first consideration is to clarify what you want the life assurance to protect. If you simply want to cover your mortgage, then an amount equal to the outstanding mortgage debt can achieve that.

However, if you want to prevent your family from being financially disadvantaged by your premature death and provide enough financial support to maintain their current lifestyle, there are a few more variables you should consider.

- What are your family expenses and how would they change if you died?
- How much would the family expenditure increase on requirements such as childcare if you were to die?
- How much would your family income drop if you were to die?
- How much cover do you receive from your employer or company pension scheme and for how long?
- What existing policies do you have already and how far do they go to meeting your needs?
- How long would your existing savings last?
- What state benefits are there that could provide extra support to meet your family's needs?
- How would the return of inflation to the economy affect the amount of your cover over time?

> “Your life assurance premiums will vary according to a number of different factors, including the sum assured and the length of your policy (its ‘term’), plus individual lifestyle factors such as your age, occupation, gender, state of health and whether or not you smoke.”

Term assurance

You can't rely on always being there for those who depend on you

It's essential to have the right sort of life assurance in place. You can't rely on always being there for those who depend on you. There are various ways of providing for your family in the event of your premature death, but term assurance policies are the simplest and cheapest form of cover. The plans have no cash-in value or payments on survival as their design is limited to protecting your family. However, you could also use term assurance in relation to estate planning and for the payment of mortgages or other debts.

Term assurance provides cover for a fixed term, with the sum assured payable only on death. You can choose how long you're covered for, for example, 10, 15 or 20 years (the term). Premiums are based primarily on the age and health of the life assured, the sum assured and the policy term. The older the life assured or the longer the policy term, the higher the premium will generally be.

Term assurance policies can be written on a single life, joint life (first or second death) or on a life-of-another basis. You must have a financial interest in the person that you are insuring when taking out any life-of-another policy and the provider may require proof of this before cover is given.

There are several types of term assurance:

Level term - this offers the same payout throughout the life of the policy, so your dependants would receive the same amount whether you died on the first day after taking the policy out or the day before it expired. This tends to be used in conjunction with an interest-only mortgage, where the debt has to be paid off only on the last day of the mortgage term. With level term assurance, premiums are fixed for the duration of the term and a payment will be made only if a death occurs during the period of cover. A level term assurance policy is taken out for a fixed term. This type of term assurance policy can also be useful for providing security to dependants up to a certain age.

Decreasing term - the cash payout reduces by a fixed amount each year, ending up at zero by the end of the term. Because the level of cover falls during the term, your premiums on this type of policy are lower than on level policies. This cover is often bought to run alongside repayment mortgages, where the debt reduces during the mortgage term. This type of term assurance is less expensive than level term assurance.

Increasing term - the potential payout increases by a small amount each year. This can be a useful way of protecting your initial sum assured during periods of rising inflation. Index-linked term - some insurers provide you with the option for the premium to be increased each year in relation to the Retail Price Index.

Convertible term - you have the option to convert in the future to another type of life assurance, such as a 'whole of life' or endowment policy, without having to submit any further medical evidence. This conversion option allows you to adapt your plan if your circumstances change. You can convert (usually within certain limits) part or all of your life assurance cover at any time during the term. And, importantly, you won't be asked any health questions at the date of conversion.

If the level of cover you selected at the start remains the same, then the premiums will too. If you survive the policy term without any conversion of the plan, there will be no pay out. As this type of policy provides cover only in the event of death (plus the option to convert), there is no surrender value. So if you stop paying the premiums at any time, your cover would cease immediately and you would not receive any money back.

Renewable term - some term assurances are 'renewable' in that, on the expiry date, there is an option for you to take out a further term assurance at ordinary rates without providing evidence of your health status, as long as the expiry date is not beyond a set age, often 65. Each subsequent policy will have the same option, provided the expiry date is not beyond the limit set by the life office.

Family income benefit - instead of paying a lump sum, this offers your dependants a regular income from the date of your premature death until the end of the policy term. This is one of the least expensive forms of cover and differs from most other types in that it is designed to pay the benefit as an income rather than a lump sum. In the event of a claim, income can be paid monthly, quarterly or annually and under current rules the income is tax-free. To ensure that income payments keep pace with inflation, you can usually have them increased as inflation rises. It's also possible to take a cash sum instead of the income option upon death.

Family income benefit can also include critical illness cover, which is designed to pay the selected income if you are diagnosed with a critical illness within the chosen term. It is a fixed term and you won't be able to increase your cover or extend the term. If you become ill towards the end of the term (duration of your policy), you might not be able to obtain further cover. ■

> Term assurance policies can be written on a single life, joint life (first or second death) or on a life-of-another basis. You must have a financial interest in the person that you are insuring when taking out any life-of-another policy and the provider may require proof of this before cover is given.

Whole-of-life assurance

Providing financial protection with cover that lasts for the rest of your life

Whole-of-life assurance policies provide financial security for people who depend on you financially. As the name suggests, whole-of-life assurance helps you protect your loved ones financially with cover that lasts for the rest of your life. This means the insurance company will have to pay out in almost every case and premiums are therefore higher than those charged on term assurance policies.

There are different types of whole-of-life assurance policy – some offer a set payout from the outset, others are linked to investments, and the payout will depend on performance. Investment-linked policies are either unit-linked policies, linked to funds, or with-profits policies, which offer bonuses.

Whole-of-life assurance policies pay a lump sum to your estate when you die. This could be used by your family in whatever way suits them best, such as providing for an inheritance, paying for funeral costs and even forming part of an IHT planning strategy.

Some whole-of-life assurance policies require that premiums are paid all the way up to your death. Others become paid-up at a certain age and waive premiums from that point onwards.

Whole-of-life assurance policies can seem attractive because most (but not all) have an investment element and therefore a surrender value. If, however, you cancel the policy and cash it in, you will lose your cover. Where there is an investment element, your premiums are usually reviewed after ten years and then every five years.

Whole-of-life assurance policies are also available without an investment element and with guaranteed or investment-linked premiums from some providers.

Reviews

The level of protection selected will normally be guaranteed for the first ten years, at which point it will be reviewed to see how much protection can be provided in the future. If the review shows that the same level of protection can be carried on, it will be guaranteed to the next review date.

If the review reveals that the same level of protection can't continue, you'll have two choices:

- Increase your payments
- Keep your payments the same and reduce your level of protection

Maximum cover

Maximum cover offers a high initial level of cover for a lower premium, until the first plan review, which is normally after ten years. The low premium is achieved because very little of your premium is kept back for investment, as most of it is used to pay for the life assurance.

After a review you may have to increase your premiums significantly to keep the same level of cover, as this depends on how well the cash in the investment reserve (underlying fund) has performed.

Standard cover

This cover balances the level of life assurance with adequate investment to support the policy in later years. This maintains the original premium throughout the life of the policy. However, it relies on the value of units invested in the underlying fund growing at a certain level each year. Increased charges or poor performance of the fund could mean you'll have to increase your monthly premium to keep the same level of cover. ■

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Critical illness cover

Choosing the right cover can help ease your financial pressures

You really need to find the right peace of mind when faced with the difficulty of dealing with a critical illness. Critical illness cover is a long-term insurance policy designed to pay you a tax-free lump sum on the diagnosis of certain specified life-threatening or debilitating (but not necessarily fatal) conditions, such as a heart attack, stroke, certain types/stages of cancer and multiple sclerosis. A more comprehensive policy will cover many more serious conditions, including loss of sight, permanent loss of hearing and a total and permanent disability that stops you from working. Some policies also provide cover against the loss of limbs.

It's almost impossible to predict certain events that may occur within our lives, so taking out critical illness cover for you and your family, or if you run a business or company, offers protection when you may need it more than anything else. But not all conditions are necessarily covered, which is why you should always obtain professional advice.

If you are single with no dependants, critical illness cover can be used to pay off your mortgage, which means that you would have fewer bills or a lump sum to use if you became very unwell. And if you are part of a couple, it can provide much-needed financial support at a time of emotional stress.

The illnesses covered are specified in the policy along with any exclusions and limitations, which may differ between insurers. Critical illness policies usually only pay out once, so are not a replacement for income. Some policies offer combined life and critical illness cover. These pay out if you are diagnosed with a critical illness, or you die, whichever happens first.

If you already have an existing critical illness policy, you might find that by replacing a policy you would lose some of the benefits if you have developed any illnesses since you took out the first policy. It is important to seek professional advice before considering replacing or switching your policy, as pre-existing conditions may not be covered under a new policy.

Some policies allow you to increase your cover, particularly after lifestyle changes such as marriage, moving home or having children. If you cannot increase the cover under your existing policy, you could consider taking out a new policy just to 'top up' your existing cover.

A policy will provide cover only for conditions defined in the policy document. For a condition to be covered, your condition must meet the policy definition exactly. This can mean that some conditions, such as some forms of cancer, won't be covered if deemed insufficiently severe.
Similarly, some conditions will not be covered if you suffer from them after reaching a certain age, for example, many policies will not cover Alzheimer's disease if diagnosed after the age of 60.

Very few policies will pay out as soon as you receive diagnosis of any of the conditions listed in the policy and most pay out only after a 'survival period', which is typically 28 days. This means that if you die within 28 days of meeting the definition of the critical illness given in the policy, the cover would not pay out.

How much you pay for critical illness cover will depend on a range of factors including what sort of policy you have chosen, your age, the amount you want the policy to pay out and whether or not you smoke.

Permanent, total disability is usually included in the policy. Some insurers define 'permanent total disability' as being unable to work as you normally would as a result of sickness, while others see it as being unable to independently perform three or more 'Activities of Daily Living' as a result of sickness or accident.

Activities of daily living include:

- Bathing
- Dressing and undressing
- Eating
- Transferring from bed to chair and back again

The good news is that medical advances mean more people than ever are surviving conditions that might have killed earlier generations. Critical illness cover can provide cash to allow you to pursue a less stressful lifestyle while you recover from illness, or you can use it for any other purpose. Don't leave it to chance – make sure you're fully covered. ■

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Income protection insurance

How would you pay the bills if you were sick or injured and couldn't work?

Protecting your income should be taken very seriously, given the limited government support available. How would you pay the bills if you were sick or injured and couldn't work? Income protection insurance, formerly known as 'permanent health insurance', is a financial safety net designed to help protect you, your family and your lifestyle in the event that you cannot work and cope financially due to an illness or accidental injury preventing you from working. Most of us need to work to pay the bills.

Without a regular income, you may find it a struggle financially, even if you were ill for only a short period, and you could end up using your savings to pay the bills. In the event that you suffered from a serious illness, medical condition or accident, you could even find that you are never able to return to work. Few of us could cope financially if we were off work for more than six to nine months. Income protection insurance provides a tax-free monthly income for as long as required, up to retirement age, should you be unable to work due to long-term sickness or injury.

By law, your employer must pay most employees statutory sick pay for up to 28 weeks. This will almost certainly be a lot less than your full earnings. Few employers pay for longer periods. If you find yourself in a situation where you are unable to return to work, your employer could even stop paying you altogether and terminate your employment. After that, you would probably have to rely on state benefits. Some employers arrange group income protection insurance for their employees, which can pay out an income after the statutory sick period.

Income protection insurance aims to put you back to the position you were in before you were unable to work. It does not allow you to make a profit out of your misfortune. So the maximum amount of income you can replace through insurance is broadly the after-tax earnings you have lost, less an adjustment for state benefits you can claim. This is usually translated into a maximum of 50 per cent to 65 per cent of your before-tax earnings.

If you are self-employed, then no work is also likely to mean no income. However, depending on what you do, you may have income coming in from earlier work, even if you are ill for several months. The self-employed can take out individual policies rather than business ones, but you need to ascertain on what basis the insurer will pay out. A typical basis for payment is your pre-tax share of the gross profit, after deduction of trading expenses, in the 12 months immediately prior to the date of your incapacity. Some policies operate an average over the last three years, as they understand that self-employed people often have a fluctuating income.

The cost of your cover will depend on your gender, occupation, age, state of health and whether or not you smoke.

The 'occupation class' is used by insurers to decide whether a policyholder is able to return to work. If a policy will pay out only if a policyholder is unable to work in 'any occupation', it might not pay benefits for long – or indeed at all. The most comprehensive definitions are 'Own Occupation' or 'Suited Occupation'. 'Own Occupation' means you can make a claim if you are unable to perform your own job; however, being covered under 'Any Occupation' means that you have to be unable to perform any job, with equivalent earnings to the job you were doing before not taken into account.

You can also usually choose for your cover to remain the same (level cover) or increase in line with inflation (inflation-linked cover):

Level cover - with this cover, if you made a claim the monthly income would be fixed at the start of your plan and does not change in the future. You should remember that this means, if inflation eventually starts to rise, that the buying power of your monthly income payments may be reduced over time.

Inflation-linked cover - with this cover, if you made a claim the monthly income would go up in line with the Retail Prices Index (RPI).

When you take out cover, you usually have the choice of:

Guaranteed premiums - the premiums remain the same all the way throughout the term of your plan. If you have chosen inflation-linked cover, your premiums and cover will automatically go up each year in line with RPI.

Reviewable premiums - this means the premiums you pay can increase or decrease in the future. The premiums will not typically increase or decrease for the first five years of your plan but they may do so at any time after that. If your premiums do go up, or down, they will not change again for the next 12 months.

How long you have to wait after making a claim will depend on the waiting period. You can usually choose from between 1, 2, 3, 6, 12 or 24 months. The longer the waiting period you choose, the lower the premium for your cover will be, but you'll have to wait longer after you become unable to work before the payments from the policy are paid to you. Premiums must be paid for the entire term of the plan, including the waiting period.

Depending on your circumstances, it is possible that the payments from the plan may affect any state benefits due to you. This will depend on your individual situation and what state benefits you are claiming or intending to claim. If you are unsure whether any state benefits you are receiving will be affected, you should seek professional advice. ■

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Planning for the care and support that you may need in later life

Whilst for many of us an increase in life expectancy may seem like good news, it has to be recognised that there are financial implications for those who live longer.

Few people take the time to plan for how they would meet the cost of paying for care should the need arise.

Care and support that you may need in later life

Long-term care is the care and support that you may need in later life due to frailty or disability. This care helps you carry out those normal daily activities which you may have difficulty with such as helping you get out of bed, get dressed or go shopping.

You can receive long-term care in your own home or in residential or nursing homes. Regardless of where you receive care, paying for care in old age is a growing issue for many people. As life expectancy continues to increase, more of us can expect to need some form of long-term care.

The average cost of care

The average cost of care in a residential home in the UK is in the region of £25,000 a year. In a nursing home, if nursing care is also required, this cost may rise to nearly £39,000 a year. These are average costs and in many care homes the cost can be more than double these amounts [1].

Even receiving long-term care in your own home can be expensive. Every week around 300,000 households receive nearly four million hours of home help, and people in England spend an estimated £420 million a year on privately paid home care services. [2]

Some state assistance to help

The government does provide some state assistance to help with the costs of long-term care. However this assistance is means-tested and you will be assessed on what personal savings, property and other assets you may own. Once this assessment is done, you will be told whether or not you qualify for state support. In many cases, people do not qualify for enough support to cover the full cost of the care they need.

Research shows that more than 40 per cent of people going into a residential care home will have to pay all or most of the cost themselves. In England, if the total value of your assets is less than £14,250, the government must ensure that your assessed care needs are paid for [3].

Paying for the full cost of long-term care

However, you will still be expected to contribute all of your available income, less a small amount for personal expenses, towards the cost of long-term care. If your personal assets are more than £23,250, you will normally be expected to pay for the full cost of long-term care yourself, although you may still be entitled to some state benefits that are not means-tested [4].

What insurance solutions are available to help you cover the costs of long-term care?

If you don't qualify for state support, there are a range of financial products and solutions that could help you fund your long-term care needs [5].

It is difficult to assess how long you will need care for and therefore difficult to understand how much money will be needed. The national average stay in a residential care home is two years but research has shown that people who self-fund can live an average of four years in a care home. One in ten residents live over 8 years in care [6]. It is important to note that paying for care can be expensive and in some cases people run out of money while still needing care. In this case the government will take over your long-term care needs although your situation may change due to the constraints of government funding for care. For example you may have to be moved to another residential or nursing home.

The following insurance products give an idea of the alternative options for funding long-term care that are available. Before you decide, you should seek professional advice to get more information.

For people in care or needing care now

Immediate Care Plans – pay a guaranteed income for life to help cover the cost of your care fees in exchange for a one-off lump sum payment. These plans give you and your family peace of mind. You can use whatever money or assets you may have left over after taking out the immediate care plan for any purpose – for example, you may want to leave it to your family.

Equity Release Plans – if you own your home, you can secure a loan against your property to release some of its value. The loan can then be used to help pay for care – either for yourself or for a relative needing care. The amount you can borrow will depend on your age and the value of the property. Interest is added to the loan on a monthly basis, and the outstanding balance is repaid when the property is sold or when the person in care passes away.

Using Equity Release Plans with Immediate Care Plans – some insurers will allow you to fund Immediate Care Plans through home equity if you don't have enough cash immediately available. This means money will be loaned from your insurer and used to purchase the Immediate Care Plan. Like an Equity Release plan, the loan plus interest is repayable when the property is sold or when the person in care passes away.

For retired people not yet needing care

Taking advice – if you are retired or nearing retirement, it makes good sense to take professional advice about ensuring your affairs are in order - for example, your will, and perhaps arranging a power of attorney. It also makes sense to insure your savings, investments and other assets take into account the possibility that you or your partner may need long-term care in the future.

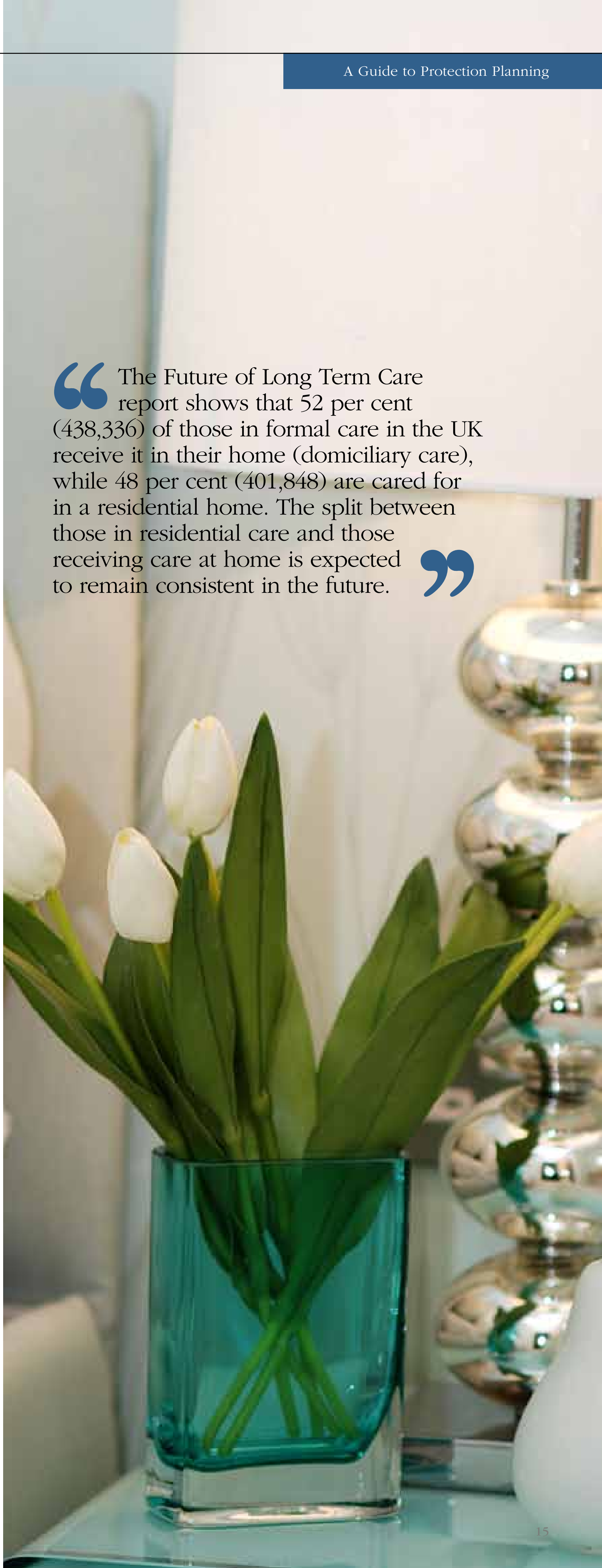
For working people

Savings & Investments – if you are of working age you are in the best position to plan for your future care needs. Remember, one in three people will require care so the chances of you needing long-term care are very high, even if it seems a long way off. If you want to plan for meeting the costs of long-term care in later life, one option that is available to you is to save as much as you can, while you are earning, through investment plans, savings plans such as deposit accounts, Individual Savings Accounts and Nationals Savings accounts, and your pension. Money from these financial products can all be used to help pay for the cost of long-term care. ■

WITH PEOPLE LIVING LONGER THAN EVER BEFORE, THERE ARE NOW GREATER FINANCIAL IMPLICATIONS ON INDIVIDUALS HOPING TO SECURE THE BEST LONG-TERM CARE PROVISION. THE COST OF CARE COULD REDUCE YOUR PERSONAL WEALTH SIGNIFICANTLY AND ALTER ANY PLANS YOU MIGHT HAVE TO LEAVE AN INHERITANCE TO YOUR LOVED ONES. PLEASE CONTACT US FOR MORE INFORMATION, DON'T LEAVE IT TO CHANCE.

[1] Association of British Insurers.
[2] Association of British Insurers.
[3] Association of British Insurers.
[4] Please note that different upper and lower capital limits apply in Scotland, Wales and Northern Ireland.
[5] Not all long-term care insurance products are the same and you will be assessed on the size and nature of your assets.
[6] Association of British Insurers.

“The Future of Long Term Care report shows that 52 per cent (438,336) of those in formal care in the UK receive it in their home (domiciliary care), while 48 per cent (401,848) are cared for in a residential home. The split between those in residential care and those receiving care at home is expected to remain consistent in the future.”



Financial protection for you and your family

With the abundance of choice, how will you make the right decisions?

With so many different protection options available, making the right decision to protect your personal and financial situation can seem overwhelming. There is a plethora of protection solutions which could help ensure that a lump sum, or a replacement income, becomes available to you in the event that it is needed.

We can make sure that you are able to take the right decisions to deliver peace of mind for you and your family in the event of death, if you are too ill to work, require care or if you are diagnosed with a critical illness.

Protecting your financial plan

Whole-of-life

Provides a guaranteed lump sum paid to your estate in the event of your premature death. To avoid IHT and probate delays, policies should be set up under an appropriate trust.

Level term

Provides a lump sum for your beneficiaries in the event of your death over a specified term. You choose the sum insured and the policy term, which is guaranteed at the outset and remains unchanged throughout the term.

Family income benefit

Provides a replacement income for beneficiaries on your premature death. In the event of a claim, income can be paid monthly, quarterly or annually, and under current rules the income is tax-free.

Decreasing term

Provides a lump sum in the event of your premature death to cover a reducing liability for a fixed period, such as a repayment mortgage.

Critical illness

Provides a tax-free lump sum if you are diagnosed with suffering from one of a number of specified critical illnesses during the term. Some life assurance companies offer to cover you for both death and critical illness and will pay out the guaranteed benefit on the first event to occur.

Income Protection

Insurance that provides a percentage of your lost income caused by an illness, accident or disability. Rates vary according to the dangers associated with your occupation, age, state of health and gender.

Long-term care

Insurance can be either immediate care provided when you actually need care, or pre-funded care provided in advance in case you need care in the future.

All these protection options also apply to your spouse and to those who are in civil partnerships.

Choosing the right mix of financial protection for your particular situation is essential to ensure that your specific requirements are fully covered. ■

> We can make sure that you are able to take the right decisions to deliver peace of mind for you and your family in the event of death, if you are too ill to work, require care or if you are diagnosed with a critical illness.

Making a will

Providing peace of mind that your loved ones can cope financially without you

A will is an essential part of your financial planning. Not only does it set out your wishes, but, die without a will, and your estate will generally be divided according to the rules of intestacy, which may not reflect your wishes.

This can be particularly problematic for unmarried couples, as the surviving partner doesn't have any automatic rights to inherit, but it can also create problems for married couples and civil partners.

Married partners or civil partners inherit under the rules of intestacy only if they are actually married or in a registered civil partnership at the time of death. So if you are divorced or if your civil partnership has been legally ended, you can't inherit under the rules of intestacy. But partners who separated informally can still inherit under the rules of intestacy.

No one likes to think about it but death is the one certainty that we all face. Planning ahead can give you the peace of mind that your loved ones can cope financially without you and, at a difficult time, helps remove the stress that monetary worries can bring.

Planning your finances in advance should help you to ensure that, when you die, everything you own goes where you want it to. Making a will is the first step in ensuring that your estate is shared out exactly as you want it to be.

If you leave everything to your spouse or civil partner there'll be no IHT to pay, because they are classed as an exempt beneficiary. Or you may decide to use your tax-free allowance to give some of your estate to someone else or to a family trust. Scottish law on inheritance differs from English law.

Good reasons to make a will

A will sets out who is to benefit from your property and possessions (your estate) after your death. There are many good reasons to make a will:

- you can decide how your assets are shared – if you don't have a will, the law says who gets what
- if you're an unmarried couple (whether or not it's a same-sex relationship), you can make sure your partner is provided for
- if you're divorced, you can decide whether to leave anything to your former partner
- you can make sure you don't pay more IHT than necessary

Before you write your will, it's a good idea to think about what you want included in it. You should consider:

- how much money and what property and possessions you have
- who you want to benefit from your will
- who should look after any children under 18 years of age
- who is going to sort out your estate and carry out your wishes after your death (your executor)

Passing on your estate

An executor is the person responsible for passing on your estate. You can appoint an executor by naming them in your will. The courts can also appoint other people to be responsible for doing this job.

Once you've made your will, it is important to keep it in a safe place and tell your executor, close friend or relative where it is.

It is advisable to review your will every five years and after any major change in your life, such as getting separated, married or divorced, having a child or moving house. Any change must be by 'codicil' (an addition, amendment or supplement to a will) or by making a new will. ■

> “No one likes to think about it but death is the one certainty that we all face. Planning ahead can give you the peace of mind that your loved ones can cope financially without you and, at a difficult time, helps remove the stress that monetary worries can bring.”

Wealth protection

Without proper tax planning, could you end up leaving a huge tax liability?

In order to protect family and loved ones, it is essential to have provisions in place after you're gone. The easiest way to prevent unnecessary tax payments such as Inheritance Tax (IHT) is to organise your tax affairs by obtaining professional advice and having a valid will in place to ensure that your legacy does not involve just leaving a large IHT bill for your loved ones.

Effective IHT planning could save your beneficiaries thousands of pounds, maybe even hundreds of thousands depending on the size of your estate. At its simplest, IHT is the tax payable on your estate when you die if the value of your estate exceeds a certain amount. It's also sometimes payable on assets you may have given away during your lifetime, including property, possessions, money and investments.

IHT is currently paid on amounts above £325,000 (£650,000 for married couples and registered civil partnerships) for the current 2012/13 tax year, at a rate of 40 per cent. If the value of your estate, including your home and certain gifts made in the previous seven years, exceeds the IHT threshold, tax will be due on the balance at 40 per cent.

Without proper planning, many people could end up leaving a substantial tax liability on their death, considerably reducing the value of the estate passing to their chosen beneficiaries.

Your estate includes everything owned in your name, the share of anything owned jointly, gifts from which you keep back some benefit (such as a home given to a son or daughter but in which you still live) and assets held in some trusts from which you receive an income.

Against this total value is set everything that you owed, such as any outstanding mortgages or loans, unpaid bills and costs incurred during your lifetime for which bills have not been received, as well as funeral expenses.

Any amount of money given away outright to an individual is not counted for tax if the person making the gift survives for seven years. These gifts are called 'potentially exempt transfers' and are useful for tax planning.

Money put into a 'bare' trust (a trust where the beneficiary is entitled to the trust fund at age 18) counts as a potentially exempt transfer, so it is possible to put money into a trust to prevent grandchildren, for example, from having access to it until they are 18.

However, gifts to most other types of trust will be treated as chargeable lifetime transfers. Chargeable lifetime transfers up to the threshold are not subject to tax but amounts over this are taxed at 20 per cent, with a further 20 per cent payable if the person making the gift dies within seven years.

Some cash gifts are exempt from tax regardless of the seven-year rule. Regular gifts from after-tax income, such as a monthly payment to a family member, are also exempt as long as you still have sufficient income to maintain your standard of living.

Any gifts between husbands and wives, or registered civil partners, are exempt from IHT whether they were made while both partners were still alive or left to the survivor on the death of the first. Tax will be due eventually when the surviving spouse or civil partner dies if the value of their estate is more than the combined tax threshold, currently £650,000.

If gifts are made that affect the liability to IHT and the giver dies less than seven years later, a special relief known as 'taper relief' may be available. The relief reduces the amount of tax payable on a gift.

In most cases, IHT must be paid within six months from the end of the month in which the death occurs. If not, interest is charged on the unpaid amount. Tax on some assets, including land and buildings, can be deferred and paid in instalments over ten years. However, if the asset is sold before all the instalments have been paid, the outstanding amount must be paid. The IHT threshold in force at the time of death is used to calculate how much tax should be paid.

IHT can be a complicated area with a variety of solutions available and, without proper tax planning; many people could end up leaving a huge tax liability on their death, considerably reducing the value of the estate passing to chosen beneficiaries. So without IHT planning, your family could be faced with a large tax liability when you die. To ensure that your family benefits rather than the government, it pays to plan ahead. As with most financial planning, early consideration and planning is essential. ■

> Without proper planning, many people could end up leaving a substantial Inheritance Tax liability on their death, considerably reducing the value of the estate passing to their chosen beneficiaries.

Trust arrangements

Do you have control over what happens to your estate, both immediately after your death and for generations to come?

Following the changes introduced by the Finance Act 2006 trusts still remain an important estate planning mechanism. A trust arrangement can ensure that your wealth is properly managed and distributed after your death, so that it provides for the people who depend on you and is enjoyed by your heirs in the way you intend.

A trust is often the best way to achieve flexibility in the way you pass on your wealth to future generations. You may decide to use a trust to pass assets to beneficiaries, particularly those who aren't immediately able to look after their own affairs. If you do use a trust to give something away, this removes it from your estate provided you don't use it or get any benefit from it. But bear in mind that gifts into trust may be liable to Inheritance Tax (IHT).

Trusts offer a means of holding and managing money or property for people who may not be ready or able to manage it for themselves. Used in conjunction with a will, they can also help ensure that your assets are passed on in accordance with your wishes after you die. Here we take a look at the main types of UK family trust.

When writing a will, there are several kinds of trust that can be used to help minimise an IHT liability. On 22 March 2006 the government changed some of the rules regarding trusts and introduced some transitional rules for trusts set up before this date.

A trust might be created in various circumstances, for example:

- when someone is too young to handle their affairs
- when someone can't handle their affairs because they're incapacitated
- to pass on money or property while you're still alive
- under the terms of a will
- when someone dies without leaving a will (England and Wales only)

What is a trust?

A trust is an obligation binding a person called a trustee to deal with property in a particular way for the benefit of one or more 'beneficiaries'.

Settlor

The settlor creates the trust and puts property into it at the start, often adding more later. The settlor says in the trust deed how the trust's property and income should be used.

Trustee

Trustees are the 'legal owners' of the trust property and must deal with it in the way set out in the trust deed. They also administer the trust. There can be one or more trustees.

Beneficiary

This is anyone who benefits from the property held in the trust. The trust deed may name the beneficiaries individually or define a class of beneficiary, such as the settlor's family.

Trust property

This is the property (or 'capital') that is put into the trust by the settlor. It can be anything, including:

- land or buildings
- investments
- money
- antiques or other valuable property

The main types of private UK trust

Bare trust

In a bare trust, the property is held in the trustee's name but the beneficiary can take actual possession of both the income and trust property whenever they want. The beneficiaries are named and cannot be changed.

You can gift assets to a child via a bare trust while you are alive, which will be treated as a Potentially Exempt Transfer (PET) until the child reaches age 18 (the age of majority in England and Wales), when the child can legally demand his or her share of the trust fund from the trustees.

All income arising within a bare trust in excess of £100 per annum will be treated as belonging to the parents (assuming that the gift was made by the parents). But providing the settlor survives seven years from the date of placing the assets in the trust, the assets can pass IHT free to a child at age 18.

Life interest or interest in possession trust

In an interest in possession trust, the beneficiary has a legal right to all the trust's income (after tax and expenses) but not to the property of the trust.

These trusts are typically used to leave income arising from a trust to a second surviving spouse for the rest of their life.

On their death, the trust property reverts to other beneficiaries (known as the remaindermen), who are often the children from the first marriage.

You can, for example, set up an interest in possession trust in your will. You might then leave the income from the trust property to your spouse for life and the trust property itself to your children when your spouse dies.

With a life interest trust, the trustees often have a 'power of appointment', which means they can appoint capital to the beneficiaries (who can be from within a widely defined class, such as the settlor's extended family) when they see fit.

Where an interest in possession trust was in existence before 22 March 2006, the underlying capital is treated as belonging to the beneficiary or beneficiaries for IHT purposes, for example, it has to be included as part of their estate.

Transfers into interest in possession trusts after 22 March 2006 are taxable as follows:

- 20 per cent tax payable based on the amount gifted into the trust at the outset, which is in excess of the prevailing nil rate band
- Ten years after the trust was created, and on each subsequent ten-year anniversary, a periodic charge, currently 6 per cent, is applied to the portion of the trust assets that is in excess of the prevailing nil rate band
- The value of the available nil rate band on each ten-year anniversary may be reduced, for instance, by the initial amount of any new gifts put into the trust within seven years of its creation
- There is also an exit charge on any distribution of trust assets between each ten-year anniversary

Discretionary trust

The trustees of a discretionary trust decide how much income or capital, if any, to pay to each of the beneficiaries but none has an automatic right to either. The trust can have a widely defined class of beneficiaries, typically the settlor's extended family.

Discretionary trusts are a useful way to pass on property while the settlor is still alive and allows the settlor to keep some control over it through the terms of the trust deed.

Discretionary trusts are often used to gift assets to grandchildren, as the flexible nature of these trusts allows the settlor to wait and see how they turn out before making outright gifts.

Discretionary trusts also allow for changes in circumstances, such as divorce, re-marriage and the arrival of children and stepchildren after the establishment of the trust.

When any discretionary trust is wound up, an exit charge is payable of up to 6 per cent of the value of the remaining assets in the trust, subject to the reliefs for business and agricultural property.

Accumulation and maintenance trust

An accumulation and maintenance trust is used to provide money to look after children during the age of minority. Any income that isn't spent is added to the trust property, all of which later passes to the children.

In England and Wales the beneficiaries become entitled to the trust property when they reach the age of 18. At that point the trust turns into an 'interest in possession' trust. The position is different in Scotland, as, once a beneficiary reaches the age of 16, they could require the trustees to hand over the trust property.

Accumulation and maintenance trusts that were already established before 22 March 2006, and where the child is not entitled to access the trust property until an age up to 25, could be liable to an IHT charge of up to 4.2 per cent of the value of the trust assets.

It has not been possible to create accumulation and maintenance trusts since 22 March 2006 for IHT purposes. Instead, they are taxed for IHT as discretionary trusts.

Mixed trust

A mixed trust may come about when one beneficiary of an accumulation and maintenance trust reaches 18 and others are still minors. Part of the trust then becomes an interest in possession trust.

Trusts for vulnerable persons

These are special trusts, often discretionary trusts, arranged for a beneficiary who is mentally or physically disabled. They do not suffer from the IHT rules applicable to standard discretionary trusts and can be used without affecting entitlement to state benefits; however, strict rules apply.

Tax on income from UK trusts

Trusts are taxed as entities in their own right. The beneficiaries pay tax separately on income they receive from the trust at their usual tax rates, after allowances.

Taxation of property settled on trusts

How a particular type of trust is charged to tax will depend upon the nature of that trust and how it falls within the taxing legislation. For example, a charge to IHT may arise when putting property into some trusts, and on other chargeable occasions – for instance, when further property is added to the trust, on distributions of capital from the trust or on the ten-yearly anniversary of the trust. ■

By using trusts, you have control over what happens to your estate, both immediately after your death and for generations to come.

Placing assets in trust also ensures that they will pass smoothly to your heirs without the delays, costs and publicity often associated with probate. That's because the assets in a trust are legally owned by the trustees, not the settlor.

Trusts are very complicated, and you may have to pay IHT and/or Capital Gains Tax when putting property into the trust. If you want to create a trust you should seek professional advice.

Business protection

Don't overlook your most important assets, the people who drive your business

Every business has key people who are driving it forward. Many businesses recognise the need to insure their company property, equipment and fixed assets. However, they continually overlook their most important assets, the people who drive the business – a key employee, director or shareholder.

Key person insurance is designed to compensate a business for the financial loss brought about by the death or critical illness of a key employee, such as a company director. It can provide a valuable cash injection to the business to aid a potential loss of turnover and provide funds to replace the key person.

Share and partnership protection provides an agreement between shareholding directors or partners in a business, supported by life assurance to ensure that there are sufficient funds for the survivor to purchase the shares. It is designed to ensure that the control of the business is retained by the remaining partners or directors but the value of the deceased's interest in the business is passed to their chosen beneficiaries in the most tax-efficient manner possible.

If a shareholding director or partner were to die, the implications for your business could be very serious indeed. Not only would you lose their experience and expertise, but consider, too, what might happen to their shares.

The shares might pass to someone who has no knowledge or interest in your business. Or you may discover that you can't afford to buy the shareholding. It's even possible that the person to whom the shares are passed then becomes a majority shareholder and so is in a position to sell the company.

The shareholding directors or partners in a business enter into an agreement that does not create a legally binding obligation on either party to buy or sell the shares but rather gives both parties an option to buy or sell, i.e. the survivor has the option to buy the shares of the deceased shareholder and the executors of the deceased shareholder have the option to sell those shares.

In either case it is the exercise of the option that creates a binding contract; there is no binding contract beforehand. This type of agreement is generally called a 'cross-option' agreement or a 'double option' agreement.

These are essential areas for partnerships or directors of private limited companies to explore.

Different forms of protection

Key person insurance - compensates your business up to a pre-agreed limit for the loss or unavoidable absence of crucial personnel, including the owner-manager. It is especially appropriate if your business depends on a few employees.

Critical illness cover - pays a sum of money to specific employees or the business owner in the event of a serious illness, such as a heart attack or stroke.

Income protection insurance - protects individuals by paying their salaries while they're unable to work.

Private health insurance - funds private healthcare for specific employees. As well as being an extra benefit of employment, it could help them to return to work more quickly after an illness by paying for rehabilitation treatment. ■

"If a shareholding director or partner were to die, the implications for your business could be very serious indeed. Not only would you lose their experience and expertise, but consider, too, what might happen to their shares."

Glossary

A guide to the jargon of protection

Assured
A person or persons who are insured under the terms of a protection policy.

Convertible Term Assurance
A term assurance plan that gives the owner the option to convert the policy to a whole-of-life contract or endowment, without the need for medical checks.

Critical Illness Cover
Critical Illness Cover is an insurance plan that pays out a guaranteed tax-free cash sum if you're diagnosed as suffering from a specified critical illness covered by the plan. There is no payment if you die. You can take out the plan on your own or with someone else. For joint policies the cash sum is normally payable only once, on the first claim.

Decreasing Term Assurance
A term assurance plan designed to reduce its cover each year, decreasing to nil at the end of term. Decreasing term assurance cover is most commonly used to cover a reducing debt or repayment mortgage.

Deferred Period
A period of delay prior to payment of benefits under a protection policy. Periods are normally 4, 13, 26 or 52 weeks – the longer the period the cheaper the premium.

Family Income Benefit
A term assurance policy that pays regular benefits on death to the end of the plan term.

Guaranteed Premiums
This means the premiums are guaranteed to remain the same for the duration of the plan, unless you increase the amount of cover via 'indexation'.

Income Protection
This insurance provides you with a regular tax-free income if, by reason of sickness or accident, you are unable to work, resulting in a loss of earnings. Income Protection is also known as Permanent Health Insurance (PHI).

Indexation
You can arrange for your insurance benefit and premiums to increase annually in line with inflation or at a fixed percentage. Premiums are normally increased in line with RPI (Retail Prices Index) or NAEI (National Average Earnings Index).

Insurable Interest
A legally recognised interest enabling a person to insure another. The insured must be financially worse off on the death of the life assured.

Joint Life Second Death
A policy that will pay out only when the last survivor of a joint life policy dies.

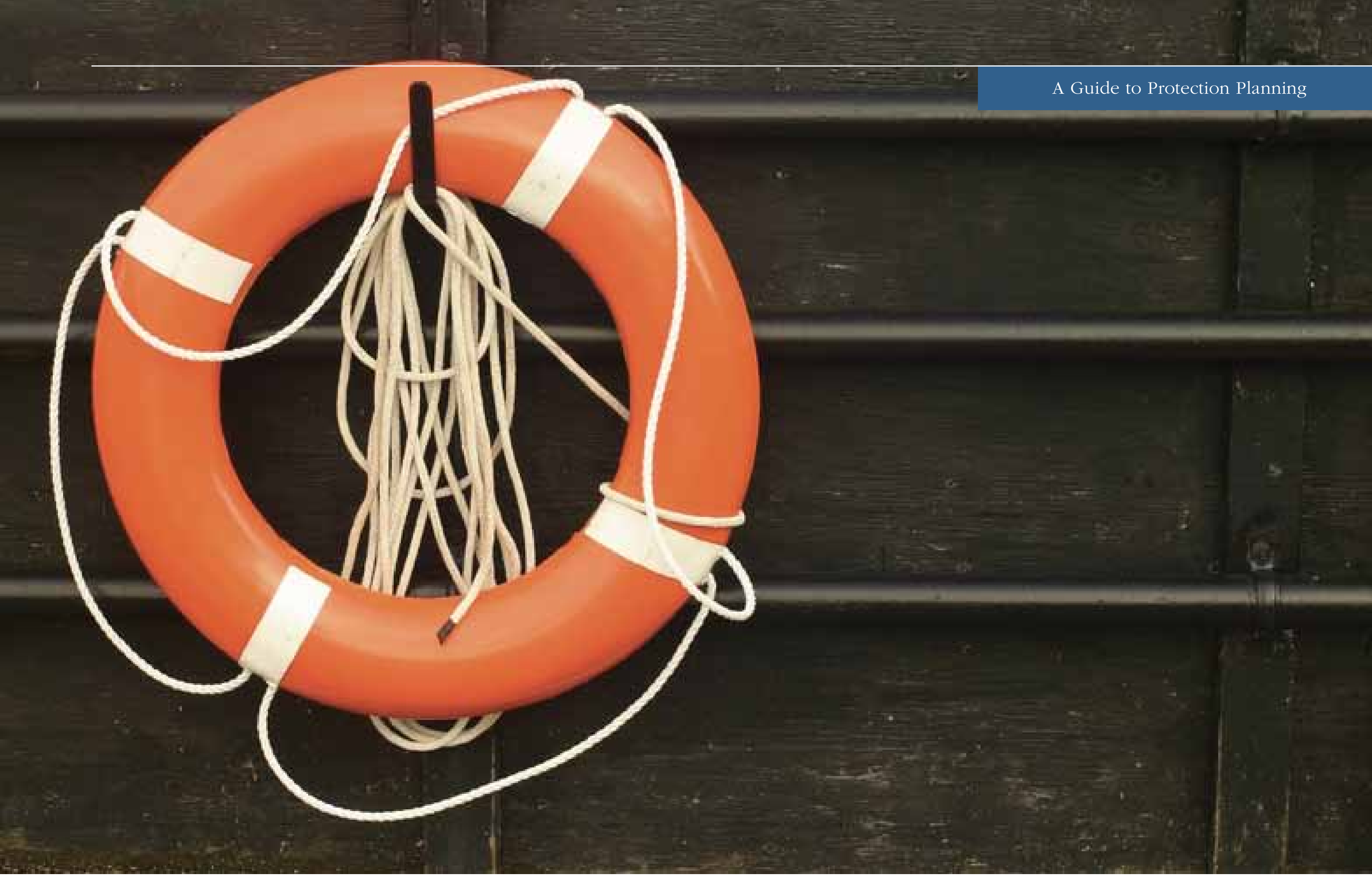
Key Person (Key Man) Insurance
Insurance against the death or disability of a person who is vital to the profitability of a business.

Level Term Assurance
A life assurance policy that pays out a fixed sum on the death of the life assured within the plan term. No surrender value is accumulated.

Life Assured
The person whose life is insured against death under the terms of a policy.

Life Insurance
An insurance plan that pays out a guaranteed cash sum if you die during the term of the plan. Some term assurance plans also pay out if you are diagnosed as suffering from a terminal illness. You can take out the plan on your own or with someone else. For joint life insurance policies the cash sum is normally payable only once, on the first claim.

Long-term Care
Insurance to cover the cost of caring for an individual who cannot perform a number of activities of daily living, such as dressing or washing.



Mortgage Protection
'Mortgage life assurance' or 'repayment mortgage protection' is an insurance plan to cover your whole repayment mortgage, or just part of it. The policy pays out a cash sum to meet the reducing liability of a repayment mortgage. You can take out the policy on your own or with someone else. For joint policies the cash sum is normally payable only once, on the first claim.

Paid-up Plan
A policy where contributions have ceased and any benefits accumulated are preserved.

Permanent Health Insurance
Cover that provides a regular income until retirement should you be unable to work due to illness or disability. Also known as Income Protection.

Renewable Term Assurance
An ordinary term assurance policy with the option to renew the plan at expiry without the need for further medical evidence.

Reviewable Premiums
Plans with reviewable premiums are usually cheaper initially; however, the premiums are reviewed regularly and can increase substantially.

Surrender Value
The value of a life policy if it is encashed before a claim due to death or maturity.

Sum Assured
The benefit payable under a life assurance policy.

Term Assurance
A life assurance policy that pays out a lump sum on the death of the life assured within the term of the plan.

Terminal Illness
Some life policies include this benefit free of charge and this means the life insurance benefit will be paid early if you suffer a terminal illness.

Total Permanent Disability Cover
Also known as Permanent Health Insurance or Income Protection and sometimes available as part of a life assurance policy, this pays out the benefit of a policy if you are unable to work due to illness or disability.

Trusts
Many insurance companies supply trust documents when arranging your policy. Placing your policy in an appropriate trust usually speeds up the payment of proceeds to your beneficiaries and may also assist with IHT mitigation.

Waiver of Premium
If you are unable to work through illness or accident for a number of months, this option ensures that your cover continues without you having to pay the policy premiums.

Whole-Of-Life
Unlike term assurance, whole-of-life policies provide life assurance protection for the life of the assured individual(s). Cover may either be provided for a fixed sum assured on premium terms established at the outset or flexible terms which permit increases in cover once the policy is in force, within certain pre-set limits, to reflect changing personal circumstances.

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