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GUIDE TO
# PROTECTING YOUR FINANCIAL PLAN

SAFEGUARDING THE PEOPLE AND THINGS THAT MATTER MOST

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# WELCOME

*Safeguarding the people and things that matter most*

Welcome to our *Guide to Protecting Your Financial Plan*. The right professional financial advice can give you the freedom to live life on your terms, and key to this is safeguarding your financial security by making sure you have adequate protection in place to care for the people and things that matter.

**No life insurance cover**

So it's concerning to see that half (50%) of the UK's mortgage holders have no life insurance cover in place, meaning that 8.2 million[1] people are leaving themselves and their families financially exposed if the unforeseen were to happen.

Research also shows that only a fifth (20%) of the UK's mortgage holders have a critical illness policy, leaving many more millions at risk of financial hardship or losing their home if they were to become seriously ill.

**Unable to work**

A third (33%) admit that if they or their partner were unable to work for six months or longer due to ill health or personal injury, they'd be unable to live on a single income. And more than two fifths (43%) of those who couldn't cope with a single wage say they would resort to dipping into their savings in order to survive.

Yet 43% say their savings would last for no more than a couple of months, and 15% don't even know how much they have, meaning they could be relying on backup which doesn't actually exist.

**Mortgage arrears**

Just under a quarter (23%) could only afford to pay household bills for a maximum of three months if they or their partner were unable to work, and 23% could make a maximum of just three monthly mortgage payments. Another 15% admit they're not actually sure how long they'd be able to cope with their mortgage payments.

Welfare reforms make the case for financial protection all the more pressing. A quarter (25%) of mortgage holders who say they'd be unable to live on a single income if their partner was unable to work also admit that they'd rely on state benefits to ensure they could manage financially. Changes to Support for Mortgage Interest, which is the only safety net in place for many families if they were unable to pay their mortgage, mean that people now have to wait 39 weeks before receiving this benefit instead of the previous 13, which could be too late for many if they have no other protection in place.

**Are you putting you and your family at significant risk?**

None of us want to think about the worst, but these findings show that there are an alarming number of mortgage holders who are putting themselves at significant risk by failing to arrange cover for the unexpected. Many people believe that they'll be able to rely on the state if the unforeseen happens, but recent cuts to welfare benefits are exacerbating their vulnerability. To review your protection requirements, please contact us – don't leave it to chance.

Source data:

[1] Calculation: YouGov sample of 5,161 respondents, 1,682 of whom are mortgage holders, which equates to 32.6% of the population. Using ONS population data – 50.5 million adults in UK – 32.6% of 50.5 million is 16.46 million. 50% of UK adults don't have life insurance, and this equates to 8.23 million people.

Scottish Widows' protection research is based on a survey carried out online by YouGov who interviewed a total of 5,161 adults between 28 January and 4 February 2016.

This guide is for your general information and use only and is not intended to address your particular requirements. It should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

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*A third (33%) admit that if they or their partner were unable to work for six months or longer due to ill health or personal injury, they'd be unable to live on a single income.*

*The price you pay for a life insurance policy depends on a number of things. These include the amount of money you want to cover and the length of the policy, but also your age, your health, your lifestyle and whether you smoke.*

# LIFE INSURANCE

*Providing a financial safety net for your loved ones*

Getting the right life insurance policy means working out how much money you need to protect your dependants. This sum must take into account their living costs, as well as any outstanding debts such as a mortgage. It may be the case that not everyone needs life insurance (also known as 'life cover' and 'death cover'). But if your spouse and children, partner, or other relatives depend on your income to cover the mortgage or other living expenses, then the answer is 'yes'.

Life insurance makes sure they're taken care of financially if you die. So 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.

**Key events happen throughout your life**

The appropriate level of life insurance will enable your dependants to cope financially in the event of your premature death. When you take out life insurance, 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.

**Needs of your family and dependants**

As you reach different stages in your life, the need for protection will inevitably change. How much life insurance you need really depends on your circumstances, for example, whether you've got a mortgage, you're single or you have children. Before you compare life insurance, it's worth bearing in mind that the amount of cover you need will very much depend on your own personal circumstances, such as the needs of your family and dependants.

There is no one-size-fits-all solution, and the amount of cover – as well as how long it lasts for – will vary from person to person.

**These are some events when you should consider reviewing your life insurance requirements:**

- Buying your first home with a partner
- Covering loans
- Getting married or entering into a registered 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

**Individual lifestyle factors determine the cost**
The price you pay for a life insurance policy depends on a number of things. These include the amount of money you want to cover and the length of the policy, but also your age, your health, your lifestyle and whether you smoke.

**Replacing at least some of your income**
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 insurance 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.

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

The cheapest, simplest form of life insurance is term life insurance. 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 insurance.

The other type of protection available is a whole-of-life insurance 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.

**Remove the burden of any debts**
Generally speaking, the amount of life insurance 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 insurance to protect. If you simply want to cover your mortgage, then an amount equal to the outstanding mortgage debt can achieve that.

**To prevent your family from being financially disadvantaged by your premature death, and to 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?

*'Single life' policies cover just one person. A 'joint life' policy covers two people, and when one person on the policy dies the money is paid out and the policy ends.*

# DIFFERENT TYPES OF LIFE INSURANCE

*Choosing the right type of cover*

'Single life' policies cover just one person. A 'joint life' policy covers two people, and when one person on the policy dies the money is paid out and the policy ends. You will need to decide whether the joint policy pays out on first or second death as this will determine when the policy ends.

**When choosing between these options, think about:**

- Affordability – a joint life policy is usually more affordable than two separate single policies
- Cover needs – do you both have the same life insurance needs, or would separate policies with different levels of cover be more appropriate?
- Work benefits – if one of you has work 'death in service' benefit, you might only need one plan
- Health – if your joint policy is with someone in poor health, this may increase your monthly payments

**What is not covered?**
Life insurance only covers death – if you can't provide for your family because of illness or disability, you won't be covered.

Most policies have some exclusions that are not covered. For example, they may not pay out if you die due to drug or alcohol abuse, and you normally have to pay extra to be covered when you take part in risky sports.

If you have a serious health problem when you take out the policy, your insurance may exclude any cause of death related to that illness.

Other insurance products are available to protect against these issues which cover total and permanent disability, long-term illness, or critical illness cover.

# TERM LIFE INSURANCE

*Protection for a specified fixed period of time*

With a term life insurance policy, you choose the amount you want to be insured for and the period for which you want cover. This is the most basic type of life insurance. If you die within the term, the policy pays out to your beneficiaries. If you don't die during the term, the policy doesn't pay out and the premiums you've paid are not returned to you.

There are two main types of term life insurance to consider: level-term and decreasing-term life insurance.

**Level-term life insurance policies**
A level-term policy pays out a lump sum if you die within the specified term. The amount you're covered for remains level throughout the term, hence the name. The monthly or annual premiums you pay usually stay the same too.

Level-term policies can be a good option for family protection, where you want to leave a lump sum that your family can invest to live on after you've gone. It can also be a good option if you need a specified amount of cover for a certain length of time, for example, to cover an interest-only mortgage that's not covered by an endowment policy.

**Decreasing-term life insurance policies**
With a decreasing-term policy, the amount you're covered for decreases over the term of the policy. These policies are often used to cover a debt that reduces over time, such as a repayment mortgage.

Premiums are usually cheaper than for level-term cover as the amount insured reduces as time goes on. Decreasing-term assurance policies can also be used for Inheritance Tax planning purposes.

**Family income benefit policies**
Family income benefit life assurance is a type of decreasing term policy. However, instead of a lump sum, it pays out a regular income to your beneficiaries until the policy's expiry date if you die.

You can arrange for the same amount of your take-home income to be paid out to your family if you die.

# WHOLE-OF-LIFE INSURANCE

*Guaranteed financial protection that lasts for the rest of your life*

A whole-of-life insurance policy is designed to give you a specified amount of cover for the whole of your life and pays out when you die, whenever that is. Because it's guaranteed that you'll die at some point (and therefore that the policy will have to pay out), these policies are more expensive than term insurance policies which only pay out if you die within a certain timeframe.

**Paying Inheritance Tax**

Whole-of-life insurance policies can be a useful way to cover a future Inheritance Tax bill. If you think your estate will have to pay Inheritance Tax when you die, you could set up a whole-of-life insurance policy to cover the tax due, meaning that more is passed to your beneficiaries. To ensure the proceeds of the life insurance policy are not included in your estate though, it is vital that the policy be written in an appropriate trust. This is a very complicated area of estate planning, and you should obtain professional advice.

A whole-of-life insurance policy, written in trust, has a double benefit: not only are the proceeds of the policy outside your estate for Inheritance Tax purposes, but the premium paid for the policy will reduce the value of your estate while you're alive, further reducing your estate's future Inheritance Tax bill.

**Different types of policy**

There are different types of whole-of-life insurance 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.

Some whole-of-life 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.

Some whole-of-life policies (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 (sometimes yearly for older lives assured).

Whole-of-life 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 insurance.

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 insurance with adequate investment to support the policy in later years, with the aim of maintaining the original premium throughout the life of the 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.

# CRITICAL ILLNESS COVER

*If the worst does happen, it's important to make sure you're financially protected*

We never think a critical illness is going to happen to us, especially when we feel fit and healthy, but it can and does. If the worst does happen, it's important to make sure you're financially protected against the impact a critical illness could have on you and your family.

Critical illness cover could help to minimise the financial impact on you and your loved ones. For example, if you needed to give up work to recover, or if you passed away during the length of the policy, the money could be used to help fund the mortgage or rent, everyday bills, or even simple things like the weekly food shop – giving you and/or your family some peace of mind when you need it most.

**Surviving financial hardship**

After surviving a critical illness, sufferers may not be able to return to work straight away (or ever) or may need home modifications or private therapeutic care. It is sad to contemplate a situation where someone survives a serious illness but fails to survive the ensuing financial hardship. Preparing for the worst is not something we want to think about when feeling fit and healthy, but you never know what life is going to throw at you next.

**Tax-free lump sum**

Critical illness cover, either on its own or as part of a life assurance policy, is 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. But not all conditions are necessarily covered, which is why you should always obtain professional advice.

**Much-needed financial support**

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.

**Exclusions and limitations**

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.

**Pre-existing conditions**

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.

**Lifestyle changes**

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.

**Policy definition**

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 may 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.

**Survival period**
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 means that if you die within this period – even if you meet the definition of the critical illness given in the policy – the cover would not pay out.

**Range of factors**
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

**Make sure you're fully covered**
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.

*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.*

# INCOME PROTECTION INSURANCE

*No one is immune to the risk of illness and accidents*

No one likes to think that something bad will happen to them. But, if you couldn't work due to a serious illness, how would you manage financially? Could you survive on savings or sick pay from work? If not, you may need some other way to keep paying the bills – and you might want to consider income protection insurance.

You might think this may not happen to you – and of course we hope it doesn't – but it's important to recognise that no one is immune to the risk of illness and accidents.

No one can guarantee that they will not be the victim of an unfortunate accident or be diagnosed with a serious illness. The bills won't stop arriving or the mortgage payments from being deducted from your bank account, so going without income protection insurance could be tempting fate.

**Providing monthly payments**
Income protection insurance is a long-term insurance policy that provides a monthly payment if you can't work because you're ill or injured, and typically pays out until you can start working again, or until you retire, die or the end of the policy term – whichever is sooner.

**If you are unable to work, income protection insurance:**
- Replaces part of your income if you become ill or disabled
- Pays out until you can start working again, or until you retire, die or the end of the policy term – whichever is sooner
- Covers most illnesses that leave you unable to work, either in the short or long term (depending on the type of policy and its definition of incapacity)

There's a waiting period before the payments start, so you generally set payments to start after your sick pay ends or after any other insurance stops covering you. The longer you wait, the lower the monthly payments. You can claim as many times as you need to while the policy is in force.

**Generous sickness benefits**
Some people receive generous sickness benefits through their workplace, and these can extend right up until the date upon which they had intended to retire. However, some employees with long-term health problems could, on the other hand, find themselves having to rely on the state, which is likely to prove hard.

**Tax-free monthly income**
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.

**Profiting from misfortune**
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 typically translated into a percentage of your salary before tax, but the actual amount will depend on the company that provides your cover.

**Self-employment**
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.

**Cost of cover**

The cost of your cover will depend on your, 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

**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, 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.

*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.*

**Making a claim**

How long you have to wait after making a claim will depend on the waiting period. You can typically 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.

**Innovative new products**

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. This market is subject to constant change in terms of the innovative new products that are being launched. If you are unsure whether any state benefits you are receiving will be affected, you should seek professional advice.

# MAKING A WILL

*An essential part of your financial planning*

Your will lets you decide what happens to your money, property and possessions after your death. If you make a will, you can also make sure you don't pay more Inheritance Tax than you need to. It's 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. Without one, the state directs who inherits, so your loved ones, relatives, friends and favourite charities may get nothing.

**Same-sex partners**
It is particularly important to make a will if you are not married or are not in a registered civil partnership (a legal arrangement that gives same-sex partners the same status as a married couple). This is because the law does not automatically recognise cohabitants (partners who live together) as having the same rights as husbands, wives and civil partners. As a result, even if you've lived together for many years, your cohabitant may be left with nothing if you have not made a will.

A will is also vital if you have children or dependants who may not be able to care for themselves. Without a will, there could be uncertainty about who will look after or provide for them if you die.

**Peace of mind**
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 registered civil partner, there'll be no Inheritance Tax 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 reasons why you need 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 Inheritance Tax than necessary
- Several people could make a claim on your estate when you die because they depend on you financially
- You want to include a trust in your will (perhaps to provide for young children or a disabled person, save tax, or simply protect your assets in some way after you die)
- Your permanent home is not in the UK or you are not a British citizen
- You live here but you have overseas property
- You own all or part of a business

Before you write a 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

**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.

**Review your will**
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.

*If you leave everything to your spouse or registered civil partner, there'll be no Inheritance Tax to pay because they are classed as an exempt beneficiary.*

# POWER OF ATTORNEY

*Permitting someone to act on your behalf when you are no longer mentally capable of making decisions*

A Power of Attorney is a legal document that allows you to give someone else the legal authority to act on your behalf. There are several different types of Power of Attorney. A Lasting Power of Attorney (LPA) – previously called an 'Enduring Power of Attorney' – allows your attorneys to make decisions for you when you no longer wish to, or when you lack the mental capacity to do so.

When making an LPA, you are permitting someone to act on your behalf when you are no longer mentally capable of making decisions on your behalf.

**There are two different types of LPA:**

- Health and welfare
- Property and financial affairs

**Making decisions**

A property and financial affairs LPA allows your attorneys to make decisions regarding your finances. This could include decisions about paying bills, operating your bank accounts or even selling your home.

A health and welfare LPA allows your attorneys to make decisions for things such as medical treatment, accepting or refusing types of health care, and whether or not you continue to live in your own home. You can also give your attorneys the power to make decisions about life-sustaining treatment for you. Your attorneys can be the same as those appointed under the property and financial affairs LPA.

**Financial affairs**

If you decide not to make an LPA and subsequently lack the mental capacity to understand the nature and effect of the document, you may no longer be able to create an LPA. In those circumstances, if you are no longer mentally capable of dealing with your financial affairs, someone will have to make an application to the Court of Protection to be appointed as what is called your 'deputy'. This process applies even if the person incapacitated is your spouse or registered civil partner.

**To avoid the Court making decisions on your behalf, it is beneficial to create an LPA because it allows you to decide in advance:**

- The decisions you want to be made on your behalf if you lose the capacity to make them yourself
- The people you want to make these decisions
- How you want the people to make these decisions

# INHERITANCE TAX

*Securing more of your wealth for your loved ones*

Protecting your estate is ultimately about securing more of your wealth for your loved ones and planning for what will happen after your death to make the lives of your loved ones much easier.

**Peace of mind**

Making sure that you've made plans for after you're gone will give you peace of mind. It's not nice to think about, but it means that your loved ones can carry out your wishes and be protected from Inheritance Tax.

You don't have to be wealthy for your estate to be liable for Inheritance Tax, and it isn't something that is paid only on death: it may also have to be paid on gifts made during someone's lifetime. Your estate will be liable if it is valued over the current IHT threshold on your death. The Inheritance Tax threshold, or 'Nil Rate Band' (NRB), is fixed until 2020/21 at £325,000.

Your estate includes any gifts you may have made within seven years of your death. Anything under the Inheritance Tax threshold is not taxed (the Nil Rate Band), and everything above it is taxed, currently at 40%. Where a person dies and leaves at least 10% of their net estate to a qualifying charity, a reduced rate of 36% Inheritance Tax can be payable.

Any unused proportion of the NRB belonging to the first spouse or registered civil partner to die can be passed to the surviving spouse or registered civil partner.

**Additional Nil Rate Band**

From 6 April 2017, the Government will be introducing an Residence Nil Rate Band (RNRB). This will start at £100,000 and increase by £25,000 each tax year until it reaches £175,000 in 2020/21, when it will increase each tax year by the Consumer Price Index (CPI).

The RNRB will be available when you pass your house to your children, grandchildren or great-grandchildren. It will also be available if you downsize or cease to own a home, as long as the replacement is passed to your children, grandchildren or great-grandchildren. It will start to reduce if your net estate is more than £2m and will reduce by £1 for ever £2 it is over. As with the NRB, the ANRB is transferable between spouses and registered civil partnerships if unused on first death.

**Exemptions**

Moving ownership of assets to your spouse or registered civil partner may help reduce the Inheritance Tax liability on your estate. However, don't forget that this can cause an increased Inheritance Tax liability when they die. There are also exemptions if you make a donation to a charity.

**Making gifts**

If you can afford to make gifts during your lifetime, this will also reduce the value of your estate, and so your ultimate Inheritance Tax liability. You can make a gift of up to £3,000 a year without any Inheritance Tax liability, and if you don't use this whole allowance it can be carried forward to the next tax year. You can also give gifts of up to £250 a year to any number of people with no IHT liability.

There are two types of gift which currently have tax implications. The first is Chargeable Lifetime Transfers (CLTs). The most common chargeable transfers are lifetime gifts into Discretionary Trusts. A transfer will be charged (together with any chargeable transfers made in the previous seven years) if it exceeds the Inheritance Tax NRB (currently £325,000). Tax is paid at 20% on excess over the NRB.

The other type of gift to be aware of is Potentially Exempt Transfers (PETs). Gifts between individuals or into a bare trust arrangement are examples of PETs. These gifts are free from Inheritance Tax, provided you survive more than seven years beyond the date of the gift. The other area to be aware of is if you are making a gift but try to reserve any of the benefit for yourself, for example, retaining dividend income from shares you have gifted or living rent-free in a property you have.

**Life insurance policy**

Taking out a life insurance policy written under an appropriate trust could be used towards paying any Inheritance Tax liability. Under normal circumstances, the payout from a life insurance policy will form part of your legal estate and may therefore be subject to Inheritance Tax. By writing a life insurance policy in an appropriate trust, the proceeds from the policy can be paid directly to the beneficiaries rather than to your legal estate, and will therefore not be taken into account when Inheritance Tax is calculated. It also means payment to your beneficiaries will probably be quicker, as the money will not go through probate.

# SETTING UP A TRUST

*Choosing the right structures can protect assets and give your family lasting benefits*

The structures into which you can transfer your assets can have lasting consequences for you and your family, and it is crucial that you choose the right ones. The right structures can protect assets and give your family lasting benefits. A trust can be used to reduce how much Inheritance Tax your estate will have to pay on your death.

**Legal arrangement**
A trust, in principle, is a very simple concept. It is a legal arrangement where the ownership of someone's assets (such as property, shares or cash) is transferred to someone else (usually a small group of people or a trust company) to manage and use to benefit a third person (or group of people). An appropriate trust can be used to reduce how much Inheritance Tax your estate will have to pay on your death.

Broadly speaking, there are two types of trust to choose from: a discretionary trust and bare trust.

**Discretionary trusts**
A discretionary trust offers flexibility when it comes to deciding who you would like to be the beneficiaries. The appointer can appoint benefits to the beneficiaries of the discretionary trust. With a discretionary trust, there are possible tax liabilities to be aware of. On creation of the trust, Inheritance Tax might be payable. Inheritance Tax may also become payable if you die within seven years of the creation of the trust. Depending on the value of assets in the trust, there could be further charges to consider during the lifetime of the trust.

**Bare trusts**
A bare trust ensures that, once named, the beneficiaries cannot be changed or added to in the future. Once a beneficiary has reached the age of 18, they can ask for the trust to pay their share to them directly. The major advantage of bare trusts over discretionary trusts is that they are classed as potentially exempt transfers (PETs) with no immediate or ongoing Inheritance Tax charges, provided the creator of the trust survives more than seven years from the date of the transfer.

*A discretionary trust offers flexibility when it comes to deciding who you would like to be the beneficiaries. The appointer can appoint benefits to the beneficiaries of the discretionary trust.*

# GLOSSARY

*Protection jargon explained*

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

**Convertible Term Insurance Policy**
A term insurance policy 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 Policy**
Critical illness cover is an insurance policy that pays out a guaranteed tax-free cash sum if you're diagnosed as suffering from a specified critical illness covered by the policy. 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 Insurance Policy**
A term insurance policy is designed to reduce its cover each year, decreasing to nil at the end of term. Decreasing term insurance 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 insurance 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 Policy**
This insurance policy 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).

**Inheritance Tax**
Not everyone pays Inheritance Tax. It's only due if your estate – including any assets held in trust and gifts made within seven years of death – is valued over the current Inheritance Tax threshold (£325,000 in 2016/17). Married couples and registered civil partners can effectively increase the threshold on their estate when the second partner dies – to as much as £650,000. Inheritance Tax is payable at 40% on the amount over this threshold, or 36% if the estate qualifies for a reduced rate as a result of a charitable donation.

**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.

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

**Mortgage Protection Policy**
'Mortgage life insurance' or 'repayment mortgage protection' is an insurance policy 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 Policy**
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 Insurance Policy**
An ordinary term insurance 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 insurance policy.

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

**Terminal Illness**
Some life insurance 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 insurance 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 Inheritance Tax 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 Insurance Policy**
Unlike term insurance, whole-of-life insurance policies provide life insurance 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.

# ARE YOU PROTECTING WHAT MATTERS?

Protection planning should be at the bedrock of your financial plans. With our professional advice, you can be confident of making the right protection decisions to best meet your requirements.

**To review your situation, please contact us – we look forward to hearing from you.**

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