Integrity 365

THE IMPORTANCE OF FINANCIAL PROTECTION

Helping you protect yourself and your loved ones should the worst occur.

FINANCIAL PROTECTION: WHAT IS IT?

Financial protection, as the name suggests, provides a level of financial cover to protect you in the event of ill health, allowing you to live your life without further financial stress, and to protect your family in the event of your death.

When most people think of financial planning, pensions and savings will often be the core areas that come to mind. However, whilst often overlooked, protection should be a key part of your financial planning strategy as, without it, all of the other planning undertaken could be wasted should an unexpected event occur.

But what exactly is financial protection? The term refers to a range of insurance policies that pay out under certain circumstances. They aim to give you and your family peace of mind both now and in the future, by offering financial stability in those times of need.

In order to determine which individual protection products are right for you, your own unique circumstances and priorities must be taken into account. The most popular types of protection include:

- Life Insurance
- Critical Illness Cover
- Income Protection

In this helpful guide, we will not only explain the details of these different types of cover, but also how they can be applied and help in different situations.

POPULAR TYPES OF FINANCIAL PROTECTION

Ensuring you have the right cover starts with you. We will assess your individual circumstances and requirements to find the right type and level of cover that is best suited to your needs.

Life Insurance

Life Insurance pays out a lump sum on death and, in some cases, if you are diagnosed with a terminal illness. It can provide some financial relief for loved ones during a difficult time. With Life Insurance, you are able to set the level of cover required, for example, ensuring the lump sum will be enough to pay off your mortgage.

Critical Illness Cover

This policy would pay out a lump sum on the diagnosis of certain critical illnesses, such as specific types of cancer, heart attack or stroke (depending on the individual policy). The monies paid out can help you to come to terms with the diagnosis, repay debts or make adjustments to the home, if required.

Income Protection

If you are unable to work for an extended period of time due to ill health, for example, if you have been involved in an unfortunate accident, an Income Protection policy can help by providing a regular monthly income in order to meet your financial commitments. Often the payments will continue until you are able to go back to work, or retire, and will be paid out as a percentage of your salary.

FINANCIAL PROTECTION: DO I NEED IT?

What plans do you have in place to protect yourself and your family should the worst case scenario occur? How would your financial circumstances be impacted in the event of ill health or death?

Why is Financial Protection Important?

How would you cope if your income stopped or your circumstances changed? Although it is not something we typically like to dwell on day-to-day, you could be putting you and your family's financial security at risk by not considering life's 'worst case scenarios'. Death and illness are unfortunately a reality of life's unpredictable nature, and even the savviest of savers could find their plans altered by events outside of their control.

There are many benefits to financial protection on top of the physical amount paid, however, that can make a huge impact to you and your loved ones' lives.

For Peace of Mind

If you were unable to work due to illness, how long could you keep paying the bills without dipping into your hard-earned savings? The right financial protection can give you and your family peace of mind, knowing that you have something to fall back on if necessary.

Taking out an appropriate policy is a simple step that can ease fears for the future and let you focus on what is really important to you at that moment in time. Furthermore, if you die and your family are grieving, protection can help alleviate some of the stress that an added financial burden can bring at an already difficult and emotional time.

For When The Plan Changes

Even the best-laid plans can go off course and when something unexpected happens, it can leave you financially vulnerable. Whilst provisions such as an emergency fund are useful to call upon in your time of need, financial protection adds another level of security should the worst occur. If losing your income for an extended period of time means that you would struggle to keep up financially, protection could be the cash injection you need to cover the essentials, such as your mortgage or rent.

For Getting Back on Your Feet

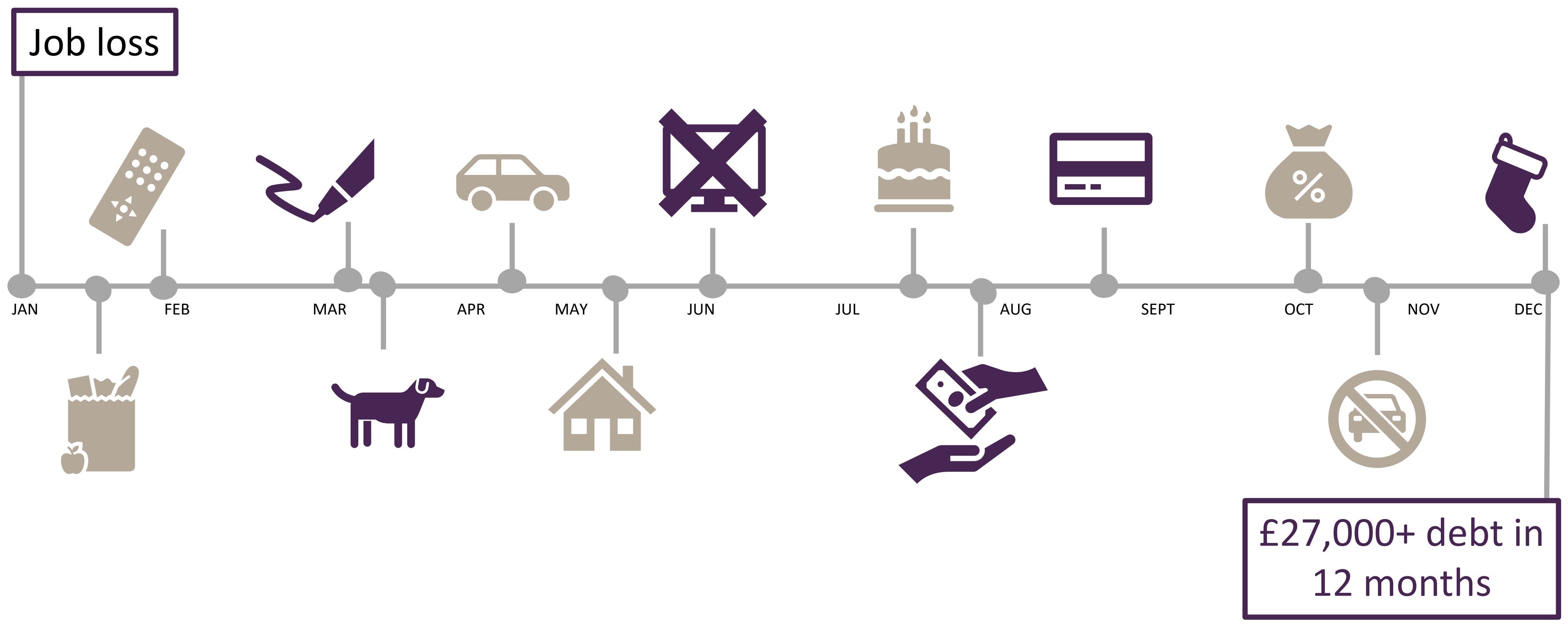
When your are ill, you may be anxious about taking time off from work for financial reasons. However, this may affect your recovery and if you are involved in an accident or are diagnosed with an illness with long-term impacts, your health should be your priority. Having a policy to fall back on means you do not have to rush into making a decision.

For Protecting What is Most Important to You

What are you most concerned about should something happen that affects your income? Your ability to keep up with mortgage payments if you were unable to work? Or perhaps it is what would happen to your family when you are no longer there to provide for them? Financial protection can provide confidence that, what is important to you will be protected in you and your family's time of need.

WHAT HAPPENS WHEN THINGS GO WRONG?

We have put together the below example to further illustrate the impact a job loss can have when you do not have protection in place to accommodate for your reduced level of income.



The average UK household expenditure is reported to be £2,907 pm*. If a household's main earner - on an annual salary of £45,000 for example - is unable to work, debt could soon build. Even with two months' employer sick pay and statutory sick pay, they could accumulate over £27,000 of debt within just twelve months.

The first three months could see an individual...

- Having to stop buying branded goods.
- Reducing their TV package.
- Applying for Universal Credit.

In months four to six they may need to...

- Cancel non-essential insurance policies.
- Miss their first car repayment .
- Contact their mortgage provider for help.

By months seven and nine they may...

- Cancel their TV package completely.
- Be unable to afford to give their child a birthday party.
- Have reached their credit card limit.
- Contacted Citizens Advice to discuss debt options.

Between months ten and twelve they may have...

- Had a very lean Christmas.
- Missed their first council tax repayment.
- Had their car repossessed.

Source: Office for National Statistics, 2022

WHAT HAPPENS WHEN YOU CAN NO LONGER WORK?

When you are ill, it is important that your health and well being takes priority. However, when faced with financial troubles and obligations you cannot meet, you may be tempted to return to work before you are ready.

If you are ill and need to take time off from work, your employer may offer sick pay. However, even if they do this will not last forever. The most generous of sick pay policies tend to offer 6 months full pay and then 6 months half pay, whilst many offer considerably less. If you do not have sick pay, you will need to rely on statutory sick pay, universal credit, employment and support allowances or dip into your own savings to cover your bills in this time.

In the event of being unable to pay your monthly bills due to ill health, you can contact your local council who might be able to help you pay for things like energy and water bills, food, or essential items such as clothes or household appliances. This is known as 'welfare assistance' or the 'Household Support Fund'. Each council runs their own scheme, therefore the help they can offer and eligibility can vary.

Relying on these limited resources can create financial distress when you need to focus on you health. Income Protection can be put in place to plan for this scenario. This will allow you to pay your bills with a regular income in the event of you being unable to work due to a long term health condition, and instead of worrying about where the money is coming from, you will know that this is in place for you to call upon when you need it most.

WHO WILL PAY THE MORTGAGE WHEN YOU ARE GONE?

Protection cannot only help you whilst you are sick, but can also provide assistance to your family when you are no longer here to do so, ensuring they still have a roof over their head.

When a mortgage holder dies, the debt does not also die with them. Instead, it must be paid back by the executor out of the deceased's estate before any savings are passed on to the family, or any other named beneficiaries.

If it is a joint mortgage, the surviving partner will inherit the other person's share of the property, but will also inherit the mortgage debt in full as well. This then leaves many people with the added mortgage debt of a parent, spouse or loved one who has died, which may cause further financial problems and stress.

By ensuring there is a life cover policy in place, which could pay out and be used to cover the mortgage, it means that you can ensure that people left behind will not have the additional financial burden of repaying debt during the already difficult time of grief.

WHO PAYS THE BILLS IF YOU FALL ILL?

At Integrity365 we understand that each client is an individual, and we take time to build relationships to learn more about your circumstances in order to offer the best financial advice for you, especially with more complex situations.

Case Study: Samantha and Family

Our client, Samantha, and her husband, James, have two young children together. Unfortunately, at the age of 36, Samantha was diagnosed with Multiple Sclerosis.

Luckily, Samantha and James had the foresight to ensure they were well protected in the event of ill health or death. Therefore, when the diagnosis came they did not have to worry about their finances on top of everything else. As part of their financial plans, they had a Critical Illness policy which paid out and allowed them to pay off their mortgage in full.

Samantha also has Income Protection which, 3 months after she was diagnosed, began to provide a monthly income and will continue to do so until she either becomes well enough to return to work, or she reaches retirement age. The average duration for an Income Protection claim is over 6 years, and would generally cover you for any reason, so if the GP signs you off as unable to work, you could claim.

As the Income Protection policy was set up to include an inflation-proofed income, it will also increase each year in line with the Retail Prices Index, meaning she will still be able to afford the bills in a time of high inflation.

Samantha may decide to go back to work on a part-time basis, depending on how she feels, and if so, her income protection will continue to be paid at a lower level, considering her reduced income.

If these policies had not been in place, the family would have had to seriously reduce their monthly expenditure to accommodate for the reduced level of income. Instead, Samantha was able to focus on her health and the family did not have to stress about their finances at this difficult time.

CAN PROTECTION HELP WITH AN INHERITANCE TAX LIABILITY?

You must pay Inheritance Tax (IHT) by the end of the sixth month period following an individual's death. For example, if the person died in January, you must pay Inheritance Tax by the 31st of July.

Normally, IHT needs to be paid before probate can be issued. However, where property is concerned, HMRC might accept staged payments until the property is sold. Alternatively, a bank might release money if it is paid direct to HMRC to cover an IHT bill. A delay in payment can result in HMRC charging penalties and interest on the amount of Inheritance Tax due.

Taking out a Life Insurance policy to pay for an Inheritance Tax bill, can help make things easier on your family when it comes to managing your estate upon your death. This policy can help protect your home and other assets from being sold to pay an IHT bill. This gives you the peace of mind that you are not leaving your family and friends with a hefty tax bill to pay when you die.

Most Life Insurance policies will count as part of the estate, unless your policy is written 'in trust', which can often be done at no extra cost when taking out your policy. This means that any money paid out goes to your beneficiaries and not to your legal estate, meaning this would not count towards your threshold and, therefore, would not be subject to IHT. This would avoid a lengthy probate process, so your beneficiaries will get their money much more quickly.

A Whole of Life Insurance Policy is often used for this purpose, which remains in force until the policyholder's death, as long as you continue to pay the premiums.

It is important to remember that whilst debt and bills can cause issues in the event of death, Inheritance Tax (IHT) can also be extremely problematic and should be planned for in advance.

Case Study: Alan and Lynne

Married couple Alan and Lynne, aged 70 and 68, have two adult children. They own a property worth £800,000 and have savings and other assets worth £500,000.

In the event of the first death of the couple, everything would be left to their spouse as per their will, but on the second death, there could be a large IHT bill to pay.

Based on current legislation, Alan and Lynne's combined nil rate band and additional main residence nil rate bands total £1,000,000, meaning this amount would not be subject to IHT. However, the remaining £300,000 would be subject to 40% Inheritance Tax, totalling a tax bill of £120,000.

As you can imagine, neither of them were particularly keen on the idea of their children having to give up £120,000 of their inheritance upon their death. Therefore, they set up a Whole of Life policy in trust, meaning an amount of £120,000 would be paid in trust to their children on the second death, and would allow the IHT bill to be paid without dipping into the savings they had worked so hard to pass on to their family.

WHAT ARE MY OPTIONS IF I AM SELF-EMPLOYED?

At Integrity365 we understand that each client is an individual, and we take time to build relationships to learn more about their circumstances in order to offer the best financial advice, especially with more complex situations.

Financial protection is arguably more important for the self employed, as they will not have any sick pay or employee benefits to fall back on. Therefore, products such as Income Protection and Critical Illness Cover are crucial to protect from the unforeseen complications that can arise from a long term and/or serious illness.

Case Study: Taylor

Taylor was previously employed at a large utility company that offered a range of employee benefits, including generous sick pay. A few years into his employment, Taylor unfortunately suffered a back injury and had to take time off from work as a result.

In order to cover his monthly bills, Taylor was eligible for sick pay which gave him his normal salary. However, the cover only lasted for three months and Taylor was sick for a further two and therefore had to dip into his savings.

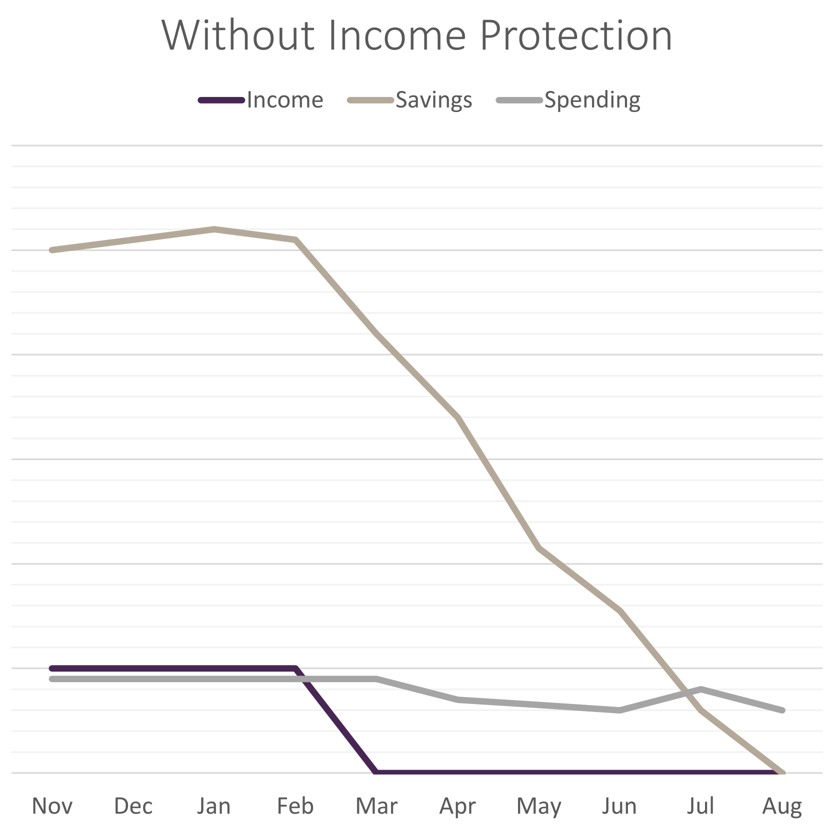
Further into his career, and since starting a family, Taylor went on to start his own business as a self-employed Heating Engineer and was looking for some advice on how to better protect himself should he ever fall ill again and need to stop working.

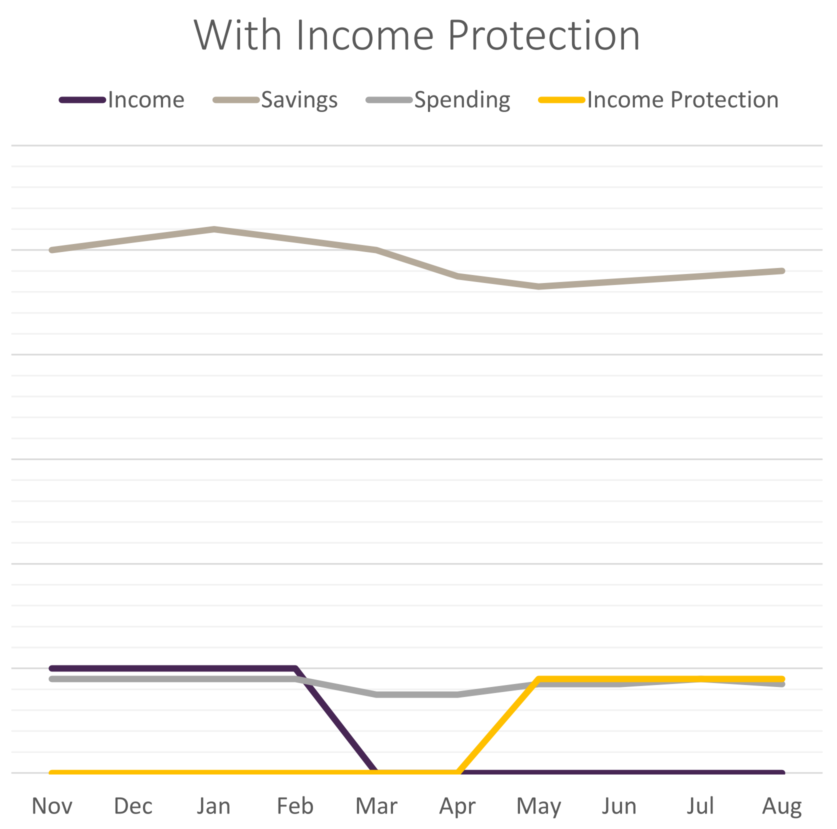
After realising he was now only eligible for statutory sick pay, currently at £99.35 per week - which is considerably less than what he could claim through his previous employer - it was decided that an Income Protection policy would be the best way to protect his income as a self-employed business owner.

Since then, Taylor had an accident and he broke his leg badly, meaning he had to take time off from his business. He was able to claim 60% of his gross profit based on the previous year's earnings which allowed him to meet his financial obligations and support his family, whilst concentrating on getting better before returning to work.

WITH AND WITHOUT FINANCIAL PROTECTION

Everyone's dreams and aspirations for the future are different, but we are here to support you through every step of the way. As well as offering solutions that can benefit you from implementation, our Independent Financial Advisers can also put together long term financial strategies.





Income protection is arguably the most important insurance someone of working age can buy. If your income ceases due to ill health, whether physical or mental, you may soon deplete your savings and be unable to cover your expenses, making income protection an indispensable lifeline.

The graphs on the previous page show just how quickly your hard earned savings could decrease if you had to dip into these. Whereas, with an Income Protection policy in place you could maintain your level of savings to be used for future holidays, house moves, tuition fees, and other unexpected bills that may arise.

When you need to take time off from work, the main focus is on your health and covering your day to day bills, however, this also illustrates how your future may be impacted by this period without income as well. Therefore, not only can income protection assist you in your time of need, but it could also ensure your future aspirations and family's lifestyle do not suffer as well as your health.

HOW DO I CHOOSE THE RIGHT COVER FOR ME?

The first step in understanding what cover is right for you is to speak with your Independent Financial Adviser to discuss your current plans and requirements. We will then search the whole of the market for a solution tailored to your individual needs.

All too many people choose 'off the shelf' protection products or visit comparison websites without getting proper advice first. It is crucial to ensure the right advice is sought, otherwise you could be paying for cover that will not be right for you.

It is also equally important to ensure that any plans you do have in place remain relevant to your individual circumstances, again to ensure that your requirements are met should you need to make a claim.

Get in touch today to discuss your circumstances and how we can help you plan for the future, whatever it may hold.

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