Edition 26

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Viewpoint

The value of protection advice

Protection should be considered as the foundation of all financial planning. After all, if things go awry and you suddenly find yourself in dire financial straits, who or what could you rely on to keep you and your family afloat?

Yet many of us are still reluctant to take out protection insurance, either because we think we can't afford it, or we believe "it won't happen to me". And if you're one of the millions of people living with a medical condition, you might think you've no chance of finding a policy that suits you.

The facts about ill health

4 million people in the UK are living with diabetes, 7 million with a heart condition and an estimated one in two people will be diagnosed with cancer during their lifetime, but the majority of people in all these cases won't have protection in place.

Even if you're in good health, a loss of income due to illness, injury or death could hit you hard – especially if you have loved ones who rely on you. So, if you don't have protection in place, the question is, do you believe the support you'd receive from the government and / or your employer would see you through the financial impact of lost income due to ill health or the death of a partner? Or perhaps you'll rely on your savings to pay the mortgage and bills and keep your fingers crossed you'll be back at work before you go into overdraft?

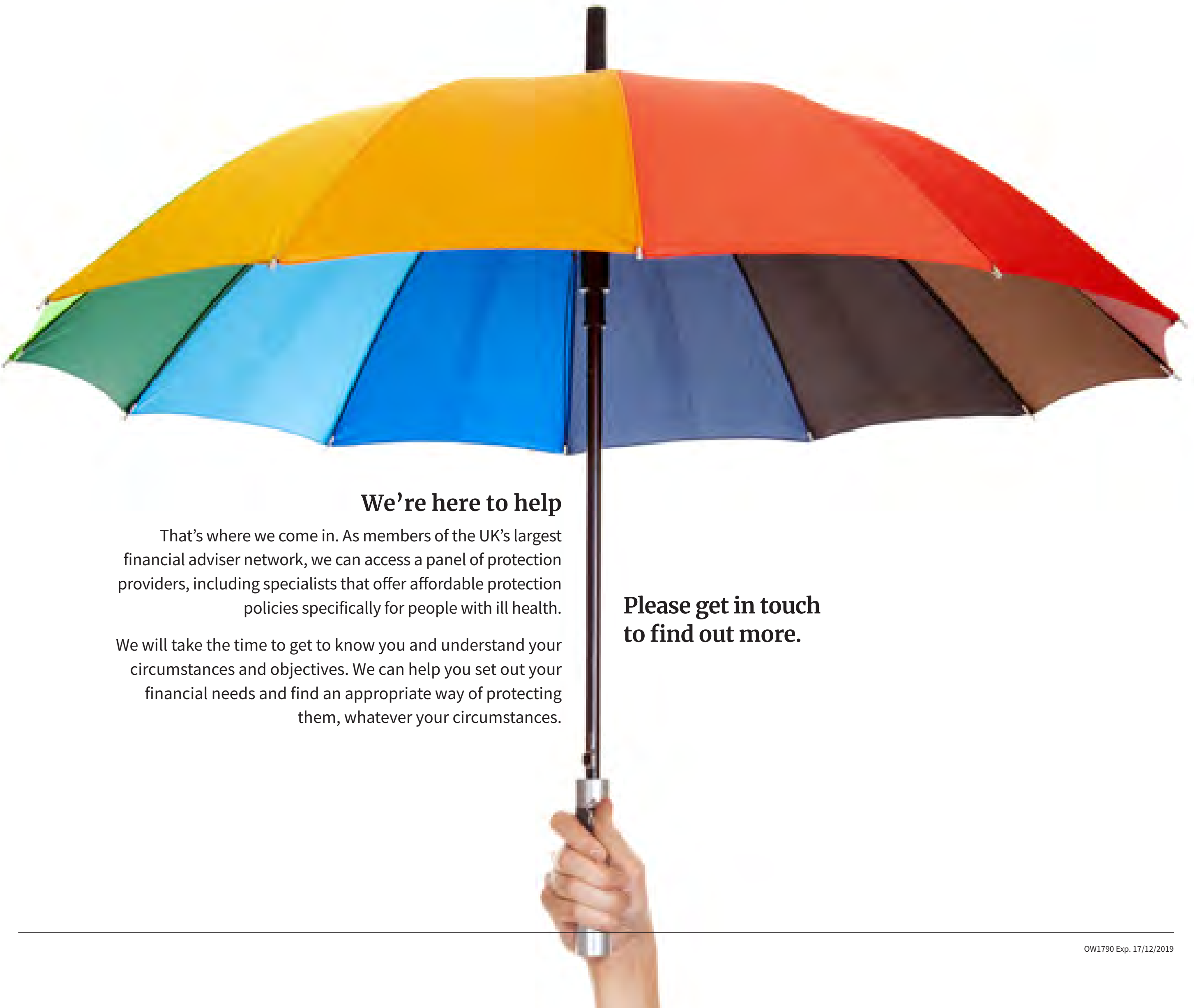
Unfortunately, the reality according to AVIVA's 'Protecting our families report' found that 76% of parents have no financial plan in the event of ill health, with slightly less (68%) unsure whether their family would cope financially with the death of either themselves or their partner. These are worrying numbers, especially when you consider these families will typically have insured their homes, pets and smart phones before thinking of insuring their most important asset - themselves.

60%
of obese people

60%
of type 2 diabetes sufferers

66%
of cancer sufferers

have no protection insurance in place.



We're here to help

That's where we come in. As members of the UK's largest financial adviser network, we can access a panel of protection providers, including specialists that offer affordable protection policies specifically for people with ill health.

We will take the time to get to know you and understand your circumstances and objectives. We can help you set out your financial needs and find an appropriate way of protecting them, whatever your circumstances.

Please get in touch to find out more.

OW1790 Exp. 17/12/2019

Confused about pension planning?

With more UK employees saving for their retirement than ever you could argue that Automatic Enrolment has been a success since its launch six years ago. However, research from the Office for National Statistics (ONS) has revealed that many people contributing to their workplace scheme don't even realise they're saving for retirement.

Auto enrolment emerged from the Pensions Commission back in 2005. It took effect in 2012, when it was made compulsory for employers to enrol their staff into a workplace pension scheme, and rolled out in phases. Figures suggest that just over nine million individuals are now newly saving or saving more for their retirement.

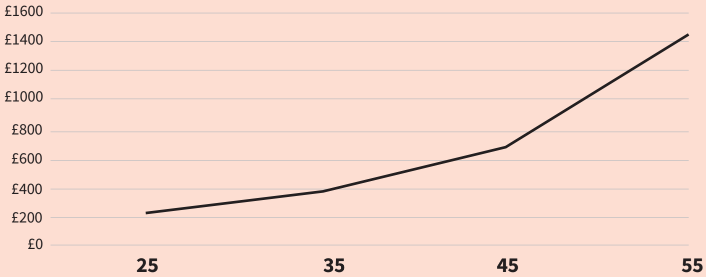
This is clearly a positive outcome of auto enrolment, but the ONS research has raised concerns that the 37% of those surveyed who didn't realise they were contributing to their workplace pension scheme could opt out - a risk which might be greater when the minimum contribution level for employees increases from 3% to 5% in April 2019.

So, do you know if you are saving in to a workplace pension? Even if you are, are you saving enough? Industry estimates for a comfortable retirement tend to range between £23,000 and £27,000 a year. A 25 year old employee earning £30,000 a year would need to save just under £300 a month to achieve the lower figure and you can see what effect age has on the amount you need to save in the graph below.

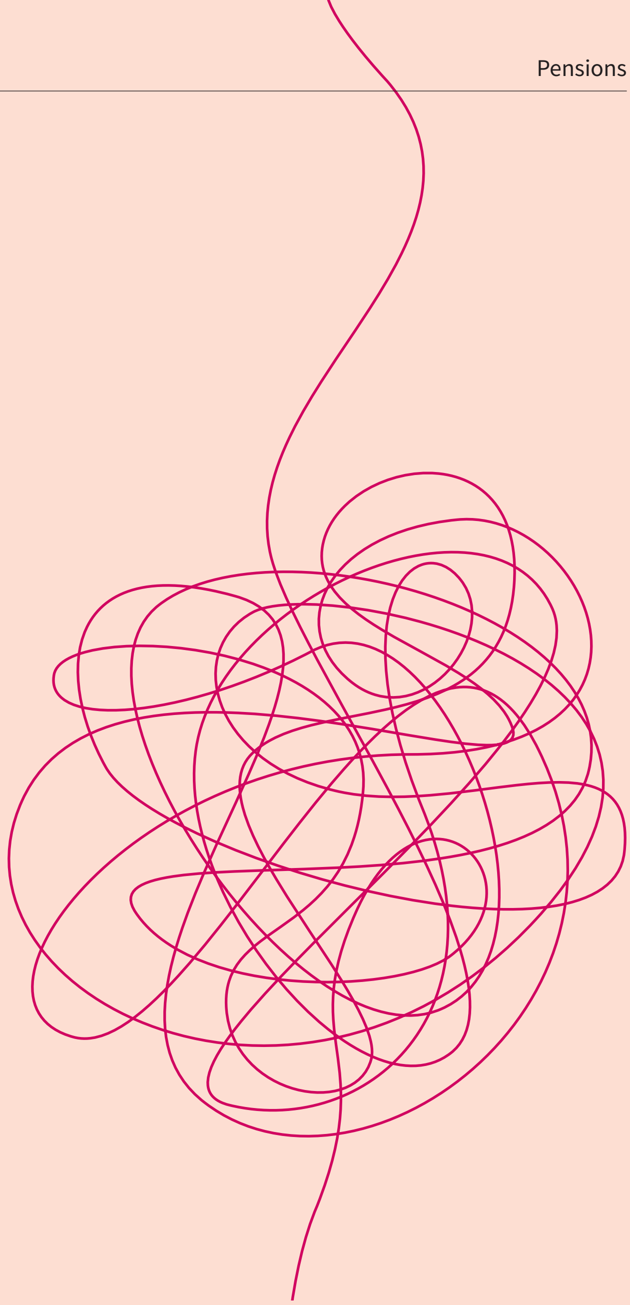
The simple fact is that the more you save and the earlier you start saving the better position you are likely to be in, subject to investment performance of course. The first thing to do if you're concerned about your pension planning is get advice.

Please give us a call and we'll help you get a clear picture and straightforward plan to put you on track.

What an individual would need to contribute each month to achieve an annual retirement income of £23,000



Age at which you start saving into a pension



According to the ONS

27% don't think they can afford to save for retirement

13% are put off because they think they don't know enough about pensions

7% think it's too early to start saving for retirement and 3% think it's too late

Those aged between 16 and 24 feel the least equipped when it comes to making decisions about their pension.

Deadline to Breadline

For its latest 'Deadline to Breadline' report, Legal and General surveyed 2,000 full and part-time workers to assess how long they could survive on savings if their income stopped due to serious, or long-term illness, or death. The rather worrying answer was 32 days.

The research also revealed that just over a quarter wouldn't have enough savings to last them a week and 30% of UK workers have no financial back-up plans whatsoever - despite the average household debt standing at around £4,600. This lack of preparedness would result in potentially serious financial exposure if things went awry.

UK Protection gap

L&G's research is important because it highlights just how many people could be gambling with their homes and their family's wellbeing, by not having a back-up plan. And when you consider that the average UK gross annual salary is £28,677, the support you could expect from the State is not sufficient to provide a reasonable safety net, especially if you are the sole breadwinner.

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Statutory Sick Pay can be paid for up to 28 weeks @ £92.05 a week

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Employment and Support Allowance @ up to £73.10 a week for the first 13 weeks then up to £110.75 after that (for a single person)

For less than the cost of a daily cup of takeaway coffee you can help protect yourself and your family and be in a better position to deal with the consequences that could occur from illness, accident, unemployment or death. That's why, when we talk to clients about protection, we talk about value, rather than cost.

How can you protect yourself?

If you have a mortgage or people who rely on your income it's important to take steps now to understand what would happen if your income suddenly stopped. If you have any existing insurance policies, check the details to make sure they reflect your current circumstances and would still meet your needs if you needed to make a claim.

If you don't have cover in place we can talk to you about a range of different types of protection insurance that would help to pay the mortgage and provide a financial lifeline for your family if you were temporarily, or permanently, unable to provide for them. This includes cover for serious and critical illness and income protection, which pays out a regular tax-free income if you're unable to work. We can also advise on a range of life insurance plans, including:

Term insurance - normally taken out to cover mortgage payments, these plans are the simplest form of life insurance and can be tailored to suit your budget.

Family income benefit – pays out a regular income as an ongoing lifeline for dependants.

Whole of life insurance - lasts as long as you do (or until you stop paying the premiums) and provides a lump sum on death.

With some types of life cover it's also important to consider writing the plan in trust. This is a legal document that allows you to determine what happens to the money after your death and can ringfence the pay out from inheritance tax.

Whatever your situation, advice is important to make sure you get the most value from your protection insurance. Please get in touch to find out more.

First-time buyers: Boost your mortgage chances

Applying for a mortgage and the admin that comes with it may seem like a stressful process but these few tips can help make the process easier.

To discuss your mortgage needs, please get in touch.

You've decided to take the plunge and get onto the property ladder, having swapped fun and frivolity for fastidious frugalness to save the deposit. But what can you do to boost your chances of getting your first mortgage?

Check and correct

The three main credit reference agencies, Equifax, Experian and Callcredit, will all use data to score you differently. Lenders will use one or more of these agencies to decide whether to offer you credit.

The general rule is, the higher your credit score the better, so if after checking you feel your score is low you can do things to improve it. For instance, if there are errors on your file you can write to the credit reference agency and ask them to add a notice of correction to your file. You should also check you're not linked financially to anyone, eg. an ex-partner or old flatmate. Their credit history could affect yours so make sure you've organised a 'disassociation' with the credit agency.

Address your address

Make sure all your bank accounts, any credit cards and loans are registered against your correct current address. Contact any financial institutions that hold incorrect information to update the details and take the opportunity to ask them to close any old and unused accounts.

You should also check you're on the electoral roll as lenders will use this as part of their identity checks on you. You can register for free at www.gov.uk/register-to-vote

Manage your money

As the proverb goes "look after the pennies and the pounds will look after themselves" and this is particularly true when thinking about applying for a mortgage. Lenders will look at your credit record and spending habits, so in the months leading up to your application make sure you pay all bills on time - set up a direct debit if this makes it easier to manage. Cut back on spending from any current accounts and on any credit cards. Try and stay out of your overdraft and don't apply for any new credit in the run up to your mortgage application.

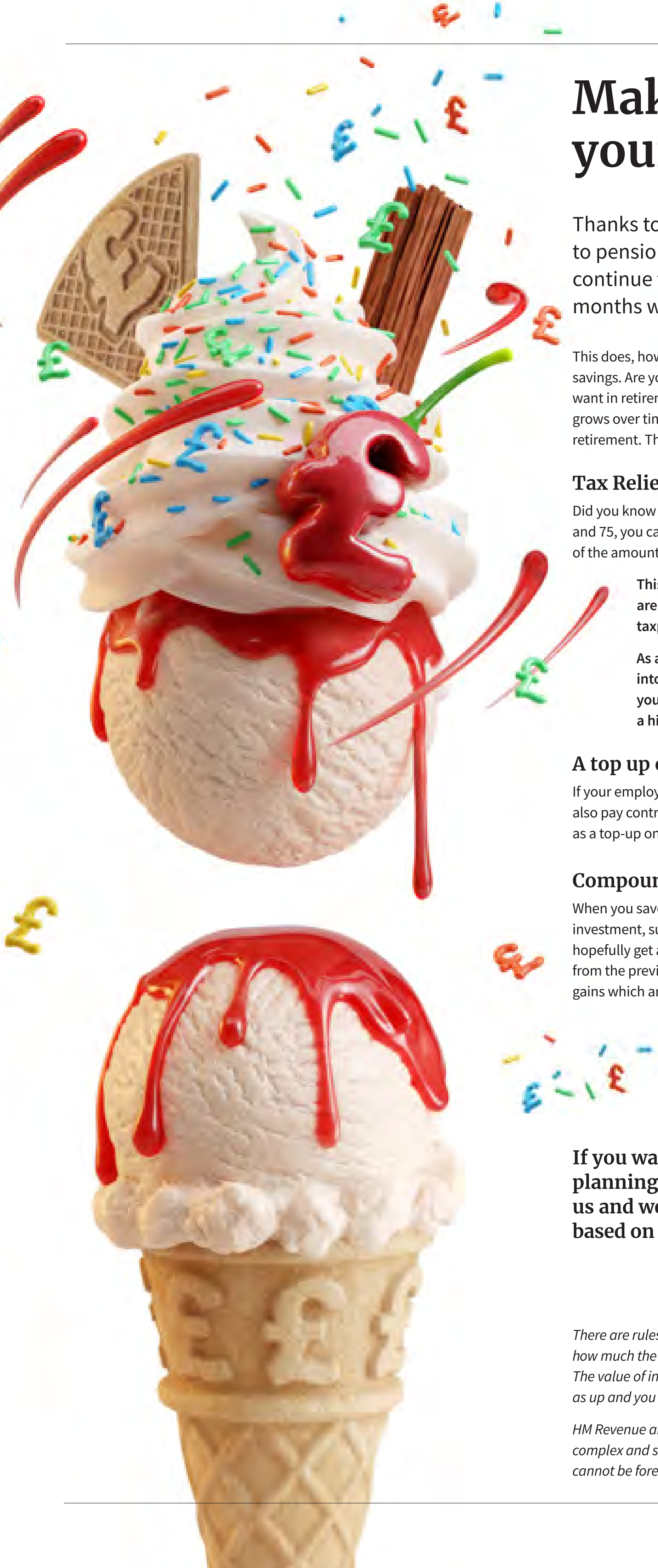
Have your paperwork ready

Your lender will ask for a range of documents, including three months' bank statements and payslips, ID documents, proof of address, proof of bonuses etc. Get these up together in advance to avoid unnecessary delays in the application process.

Arrange an Agreement in Principle (AIP)

AIPs are offered by many lenders as a conditional offer of acceptance. If you have this in place in advance of your purchase it will give confidence to the seller and their estate agent that the sale will complete.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTAGE



Making the most of your pension savings

Thanks to there being no major changes announced to pensions in the October 2018 Budget you can continue to pay into your pension over the next 12 months without any surprises to knock you off track.

This does, however, present a great time for you to review your pension savings. Are you confident you're saving enough to support the lifestyle you want in retirement? Put simply, a pension is a long-term savings plan which grows over time and provides you with an income to see you through your retirement. There are many benefits to paying into a pension plan:

Tax Relief

Did you know that if you're saving towards a pension between the ages of 18 and 75, you can receive significant contributions from the government on top of the amount you save?

This is because you receive tax relief on the contributions you are paying in: 20% for basic-rate taxpayers, 40% for higher-rate taxpayers and 45% for additional-rate taxpayers.

As an example, for a basic-rate taxpayer, for every £100 you pay into your pension, the government will top it up by £25 giving you a total contribution of £125. You can get even more if you're a higher-rate or additional-rate taxpayer.

A top up on your salary

If your employer has a pension plan set up as an employee benefit, they will also pay contributions to your pension plan (up to a certain level). Think of it as a top-up on your salary.

Compound interest

When you save money into your pension you'll hopefully make a return on the investment, subject to performance of course. The following year you'll hopefully get a return, not only on your initial investment but also on the return from the previous year, and so on. You're effectively earning money on previous gains which are all added into your pension pot.

If you want to discuss your pension planning in more detail then speak to us and we'll make a recommendation based on your individual circumstances.

There are rules regarding how much you can contribute to a pension and how much the government will add to your contributions through tax relief. The value of investments and any income from them can go down as well as up and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

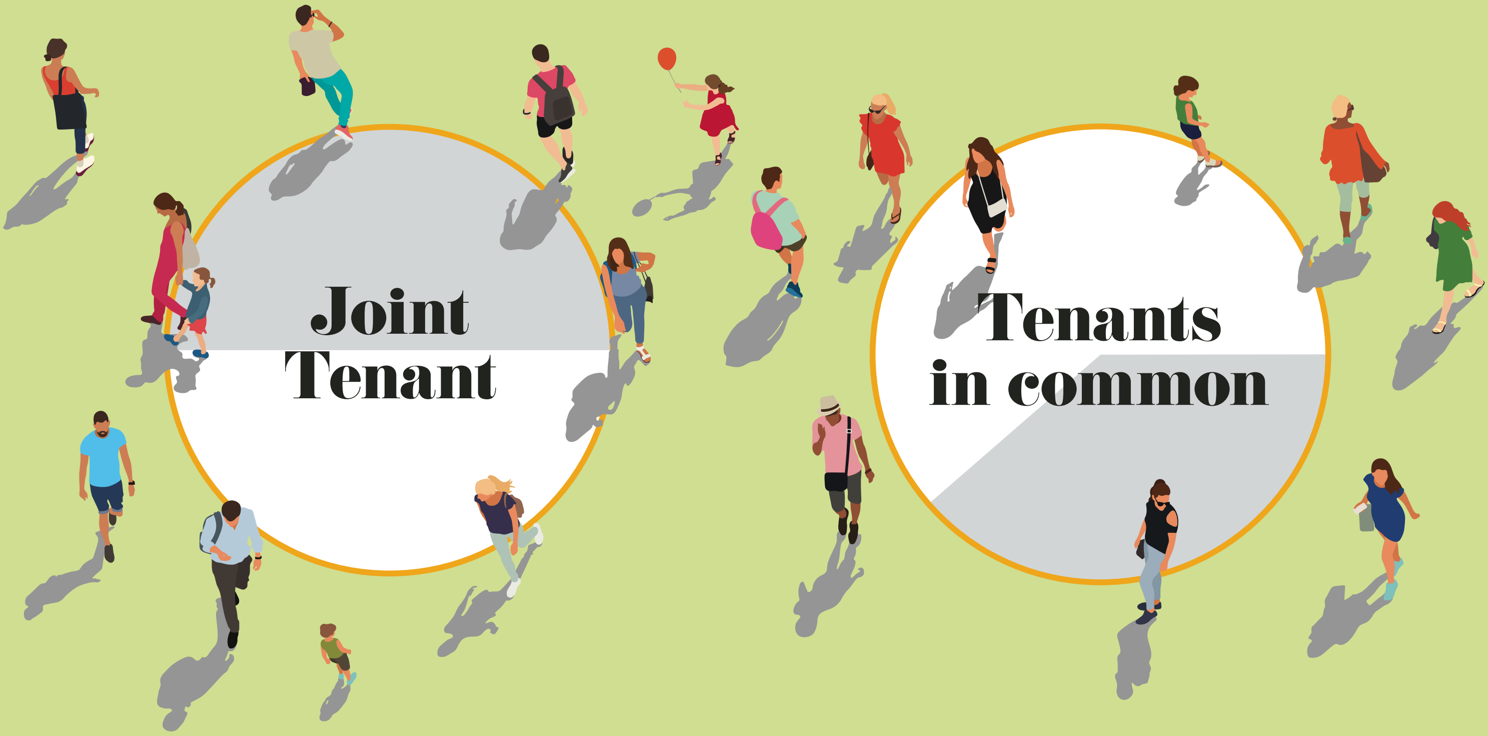
What life insurance is best for your joint mortgage?

When you take out a mortgage we would always recommend you take out appropriate life insurance too, so that you know your monthly mortgage payments are covered if things go awry.

If you're buying on your own, a single life insurance plan will probably do the trick, but if you're going into joint property ownership, a joint plan may be more appropriate. So, which is best for you?

Property ownership

When it comes to joint ownership, there are two main types:



Where both individuals each own 50% of the property and have equal rights over it – no matter who contributed what in terms of a deposit. Married couples and those in civil partnerships would typically go into joint tenancy, as it means that if one person dies, their share automatically passes to the other – irrespective of the terms of any will in place.

Where each owns a separate and distinct share of the property (and not necessarily an equal share). This might be the best option for co-habiting (but not married) couples, parents buying for their child, or relatives or friends buying together. This set-up means that if one of the tenants in common dies, their share forms part of their estate, rather than automatically going to the other tenant.

Single or joint life insurance?

Given the differing types of property ownership, it's important to look at your individual situation before taking out life cover.

A policy taken out on a single life basis covers one person only and will pay out the sum assured if the policyholder dies within the term of the policy. A joint policy covers two lives and will normally pay out on a 'first death' basis, at which point the policy will end. There are pros and cons of both types of cover - and you should seek advice so you know you're getting the cover that's right for you.

Things to think about

Budget

One joint insurance life policy could be more affordable than two single life insurance policies.

Cover

Do you both have exactly the same life insurance need? Would two plans be more appropriate?

A joint life insurance policy only pays out once

The proceeds could go to the surviving partner (and would be tax-free) so that they could pay off the mortgage. However, they would be left without any life insurance and applying for cover later in life can be expensive.

Relationship break down

It's possible that the insurance provider would not be able to divide a joint life policy into two single policies. If you have two separate policies, neither will be affected in the event of a split with the joint owner.

If you need life insurance to protect your mortgage, please talk to us before you buy and we'll advise on cover that's tailored for your circumstances.

How a trust can help your financial planning

Writing a policy in Trust could be perceived as something that only the wealthy require, but the reality is Trusts can play an important part in financial planning for people from all walks of life.

When it comes to planning your family's financial future it makes sense to take all steps possible to help protect their current, and future, standard of living. As part of this, it's important to make sure any policies you have in place will pay out to those they are intended to benefit, and this could mean writing the policy in trust.

If you're thinking of putting a life policy in trust, please talk to us first. We can tell you which type of trust is most appropriate for your circumstances and help you put the trust in place.

Put simply, a trust is a legal arrangement that assets such as cash, investments and property can be transferred into, and a trustee or trustees appointed to look after on the policyholder's behalf. Trusts are usually straightforward to set up but it's important to select the right type of Trust and complete the documentation carefully.

The three most common types of Trust are:

Bare Trusts

Typically set up to pass assets to young people. When the beneficiary turns 18 (16 in Scotland), they can use the capital and income held in the trust in any way they choose. Bare Trusts are treated as Potentially Exempt Transfers (PETs) which means inheritance tax would be payable if the trust settler dies within seven years of setting up the trust.

Discretionary Trust

Here, trustees can make certain decisions about how the beneficiary uses the assets held in the trust. For instance, what gets paid out and to whom and how often payments are made. They can also impose certain conditions if, perhaps, they deem the beneficiary is not responsible or capable of dealing with the money themselves.

Interest in possession (IIP) Trust

Under this type of trust, a beneficiary is entitled to the income generated by the trust as it arises, which will be subject to income tax. They are unlikely to have any rights to the capital, which will pass to another beneficiary in the future. A common use of an IIP trust is for it to form part of the will of someone who remarries after divorce and wants their children from their first marriage to continue to receive financial support.

Despite the positive impact setting up a policy in trust can have on your financial planning, only 6% of life insurance policies in the UK are set up in trust, according to insurer Aegon.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. The Financial Conduct Authority does not regulate Trust Advice.

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