ACUITY PROFESSIONAL

Escaping the **Child Benefit** trap

Is Inflation **Deflating Your Retirement?**

*in*vested interests

SPRING 2024 ISSUE

Managing seasons of change

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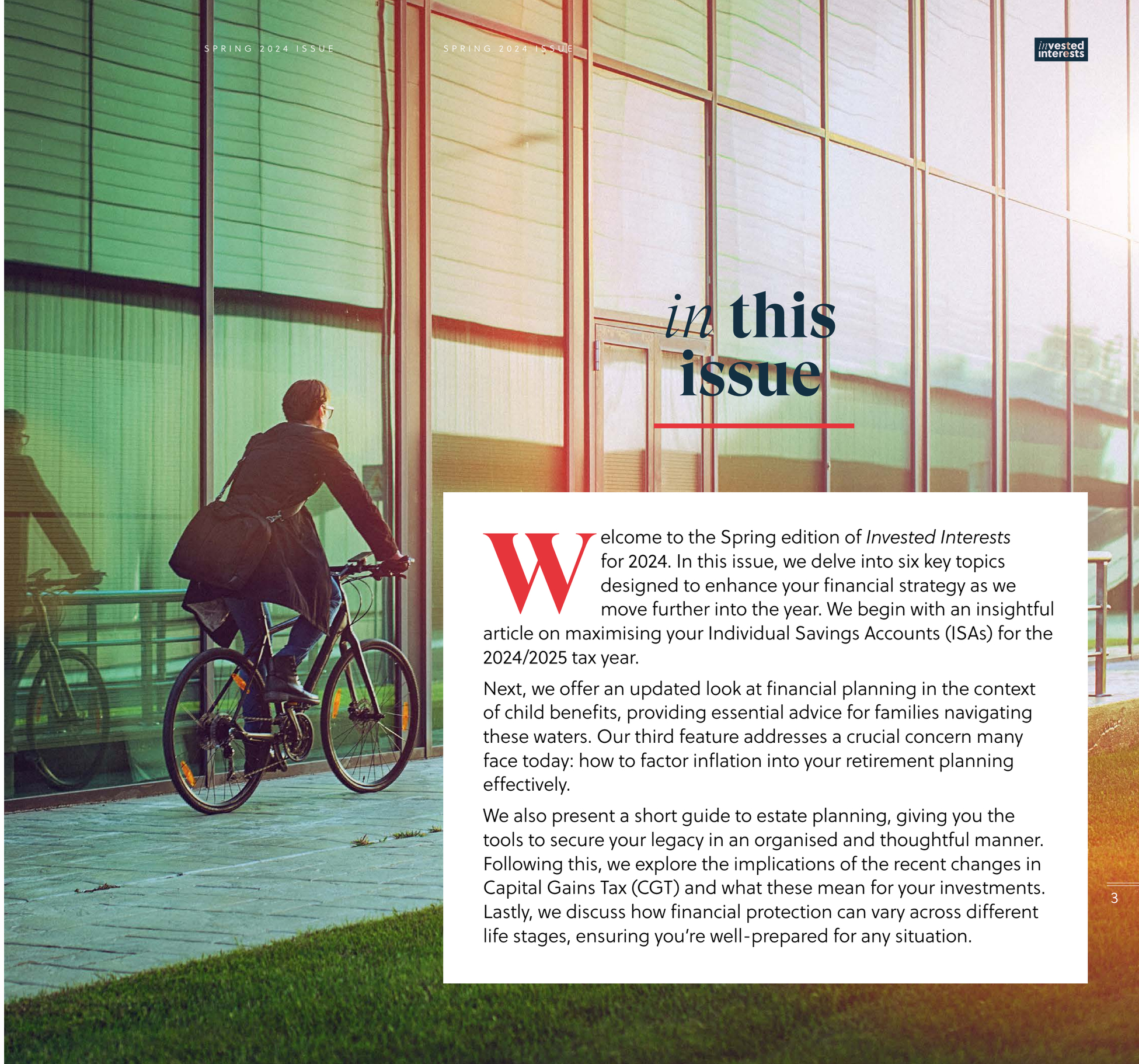

in this issue

Welcome to the Spring edition of *Invested Interests* for 2024. In this issue, we delve into six key topics designed to enhance your financial strategy as we move further into the year. We begin with an insightful article on maximising your Individual Savings Accounts (ISAs) for the 2024/2025 tax year.

Next, we offer an updated look at financial planning in the context of child benefits, providing essential advice for families navigating these waters. Our third feature addresses a crucial concern many face today: how to factor inflation into your retirement planning effectively.

We also present a short guide to estate planning, giving you the tools to secure your legacy in an organised and thoughtful manner. Following this, we explore the implications of the recent changes in Capital Gains Tax (CGT) and what these mean for your investments. Lastly, we discuss how financial protection can vary across different life stages, ensuring you're well-prepared for any situation.

How to MAKE THE MOST *of Your* ISA IN 2024

Investing in an ISA every year is a great way to benefit from tax-free growth. You can use your ISA to save for future goals or even to boost your retirement pot.

You can contribute up to £20,000 per year to an ISA, and all growth and income are free of tax.

This guide looks at the types of ISA available and how you can make the most of the tax benefits.

Types of ISA

Two important types of ISA that you can choose include the Cash ISA and the Stocks and Shares ISA. You can even open and contribute to both.

If you select a Cash ISA, you don't have to worry about the value of your fund fluctuating. However, longer-term growth will be limited and may not keep pace with the cost of living. Interest rates have improved significantly since last year but are still below inflation.

A Cash ISA could be ideal if you are saving for a short-term goal or looking to build up an emergency fund. It's a good idea to compare interest for ISA and non-ISA cash accounts, as the tax-free option won't always pay the best rates. Remember, most investors will have savings allowances that they can use to offset tax on cash interest.

A Stocks and Shares ISA allows you to invest in shares, funds and many other investment types. As the money is invested in the market, it could go up or down. Depending on the investment, a Stocks and Shares ISA can offer the best chance of long-term growth, but there is also a chance that you could lose money.

ISAs are transferable, so if your requirements change, you can move your Cash ISA to a Stocks and Shares ISA or vice versa.

There are other types of ISA in addition to these two. A Lifetime ISA (LISA) can be invested in cash or stocks and shares, and could be the ideal option if you are saving for a first home.

You may also want to consider a Junior ISA for your children. There is also a "British ISA" planned for later this year. Further details about this option are expected in summer 2024.

Investment Options

If you choose a Stocks and Shares ISA, you have thousands of investment options to choose from, including shares, bonds, funds, investment trusts and managed portfolios.

You can invest in actively managed funds or passive trackers that aim to follow the market. You can make your own investment decisions or select a fund (or portfolio) where this is done for you.

When considering your investment options, you must first consider how much risk you can take. This should take into account:

- The level of return you need to achieve your goals.
- Your investment timescale.
- Your personal risk tolerance.
- How much volatility (and potential loss) you can sustain without financial hardship.

Once you have worked out the risk level, this can help you decide on asset allocation, i.e. how much to invest in each asset class. For example, you would probably invest more in equities at higher risk levels, while a more cautious investor might hold more in bonds and cash.

A diversified portfolio with a wide range of assets offers the best chance of long-term returns while smoothing some volatility.

It sounds complex, but most investment companies have tools on their website to help you navigate risk and asset allocation. Alternatively, a financial adviser can help you make sense of the options.

How Much to Contribute?

The amount you should contribute will depend on a number of factors.

In general, you should aim to build your emergency fund, clear expensive debt and fund any protection policies needed before you consider investing.

ISAs and pensions would be the next priority, as both offer significant tax relief. Pensions are more tax-efficient but also more restrictive (e.g. imposing age limits on withdrawals).

You should also consider what you need the money for. Using an investment calculator if you are saving for a particular goal may be a good idea.

In general, depending on affordability and other priorities, you should contribute as much as you can (up to the £20,000 contribution limit).

How Often Should You Contribute?

You can contribute to your ISA regularly or on an ad-hoc basis.

If you invest a lump sum at the start of every tax year, your investment will have longer to grow and benefit from tax relief.

But if you invest monthly, you can benefit from pound cost averaging. This means you buy into the market at both high and low points. If you don't have a lump sum to invest or are unsure about investing your money in one go, monthly contributions could be the answer.

Transferring Existing Investments

You can transfer your ISA between providers or consolidate multiple ISAs on a single platform. This can help you manage your finances more efficiently, access more investment options and possibly even reduce charges.

You can also transfer other investments, such as shares or funds, into your ISA. This can incur Capital Gains Tax if the investments realise a gain.

What Happens if You Die?

ISAs are included in your estate and may incur Inheritance Tax (IHT) if your estate is over the nil rate band.

There are ways to mitigate this, such as investing in Alternative Investment Market (AIM) shares. However, this can be high risk and may not be suitable for everyone.

ISAs can be passed to a spouse on death without losing any of the tax benefits. This works by granting an Additional Permitted Subscription, effectively increasing the survivor's ISA allowance by the value of any ISAs held by their spouse at their date of death.

Taking Money Out

You can withdraw money from your ISA without paying tax. Most ISAs do not have any restrictions or penalties for making withdrawals.

You can replace money withdrawn without using up your ISA allowance, provided this is done in the same tax year.

Please don't hesitate to contact a member of the team to learn how to maximise your ISA for 2024.

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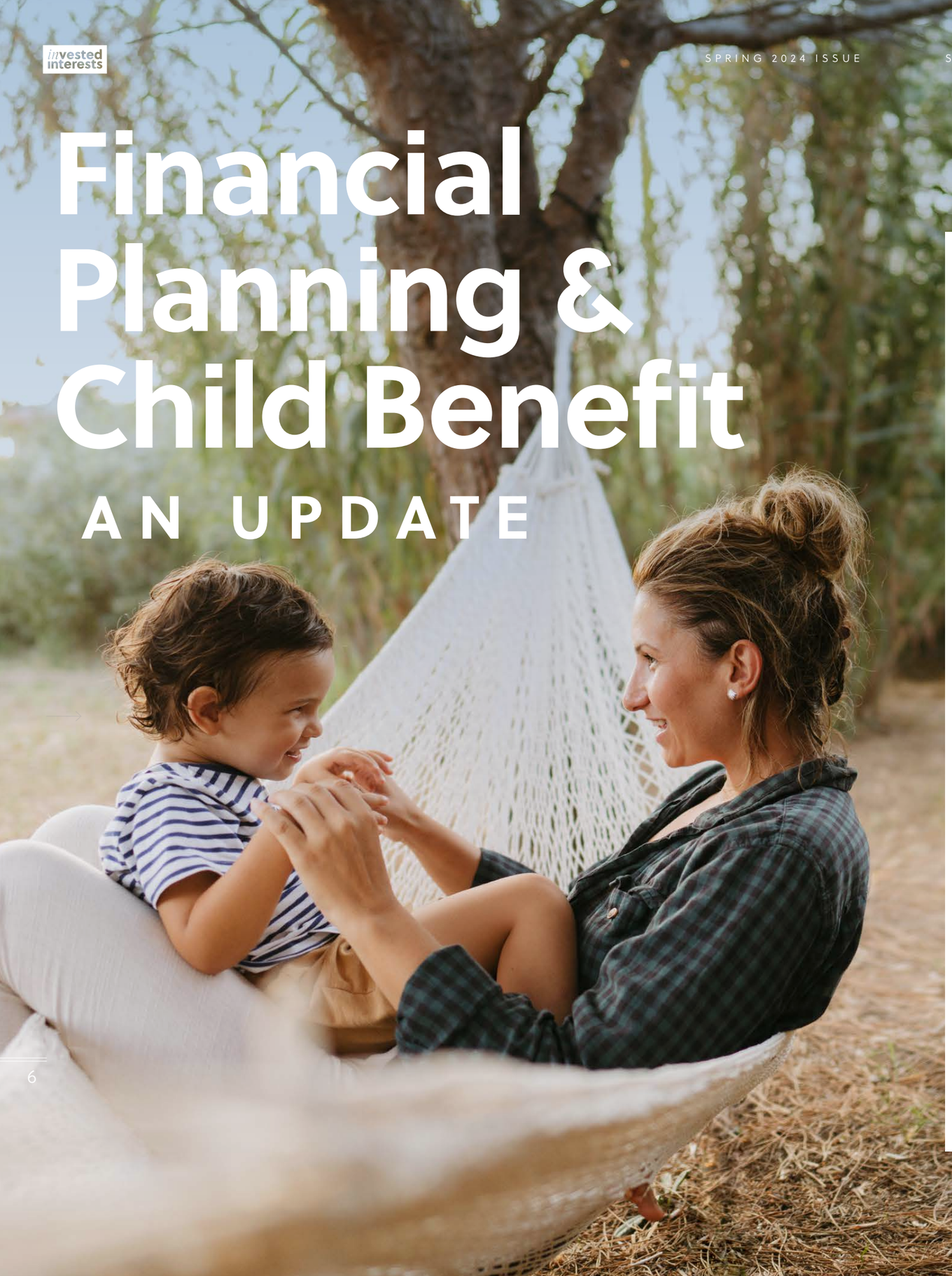
Financial Planning & Child Benefit

AN UPDATE



Child benefit or family allowance, as it's sometimes called, gives you extra financial support if you're responsible for bringing up children. In the 2024/25 tax year, as a parent or guardian you will get:

- £25.60 a week for the eldest or only child
- £16.95 a week for any other children

You can claim if your children are under the age of 16 or under the age of 20 if they are in certain types of education or training. There's no limit as to how many children you can claim for.

Importantly, it also gives you national insurance credits.

What are the changes in Child Benefit?

As of 6 April 2024, the threshold to start paying back child benefit increased from £50,000 to £60,000. And the higher limit, when the benefit is removed completely, moved from £60,000 to £80,000.

Child benefit has traditionally been based on the income of the highest earner in the household meaning single-parent or sole/main breadwinner families are unfairly penalised.

A household with two parents each earning £60,000, earning a total of £120,000 would get the full amount of child benefit, whereas a household with one parent earning £60,000 would get their child benefit reduced and cut altogether once they earned £80,0000.

To address this, Jeremy Hunt announced a consultation in his Spring Budget 24 to allow HMRC to collect information about all the adults in a child's house. This will mean that from April 2026, child benefit claims will be based on total household income instead of the highest earner's wage.

How does the high-income benefit charge work?

If you and/or your partner each earn less than £60,000 a year, you can claim for the full amount of child benefit.

But if either of you earns more than this, you'll have to repay some or all of the benefit back through the high-income child benefit charge (HICBC):

- You pay back 1% of your child benefit for every £200 earned over £60,000
- This means at £70,000 you'll pay back 50% of the payments
- Once you or your partner earn £80,000 or over, the charge cancels out all the child benefit

You can choose to claim the benefit and repay it in full at the end of each year through your self-assessment form or register for it but not claim it. You'll need to do this even if you are employed and earning through PAYE.

How does child benefit affect National Insurance credits?

You automatically get National Insurance (NI) credits, which count towards your state pension, if you claim child benefit for a child under the age of 12.

These credits are important as they can fill any gaps in your NI record. Perhaps there were periods where you didn't work so that you could bring up your family or where you didn't earn enough to pay NI contributions.

This can have implications later on as missing years in your national insurance record mean your state pension could be reduced.

That's why it's advisable to fill in the child benefit claim form and get the NI credits, even if you opt out of getting payments. And it also means your child will automatically get an NI number when they turn 16.

What action to take?

If you earn less than £12,570 a year, you should claim child benefit in your name because you don't make national insurance contributions below this threshold.

If you or your partner's income is above the £60,000 threshold for full child benefit, you can choose to:

- Receive the benefit and repay any charge at the end of each year through your self-assessment tax return, or
- Sign up for child benefit but opt out of receiving it, and not pay the tax charge

If you or your partner earn above £80,000, you can:

- Receive the benefit and repay it in full at the end of each year through your self-assessment tax return, or
- Formally opt out but if the other one in the partnership earns too little to pay national insurance, make sure this is registered with HMRC so they keep their national insurance credits

How to avoid the high-income child benefit charge

Don't get caught in the child benefit trap. Make sure you're not earning more than you thought. Remember, even if your salary is less than £60,000 you could be

Financial Planning & Child Benefit
AN UPDATE

earning more than the threshold when you add work benefits such as private medical insurance.

It's important to do some proactive financial planning. You could take steps to reduce your taxable income by paying more in pension contributions, making cash gifts to charity under Gift Aid or leasing a car through your company's salary sacrifice scheme if they run one.

Pension contributions

If pension contributions made through a PAYE scheme bring you under the threshold, you won't need to complete a tax return.

However, if you make personal pension contributions and charity donations that reduce your income below £60,000 you will need to complete a tax return. HMRC wouldn't be aware of these so would base its calculations on the higher figure submitted by your employer.

Penalties

Make sure you tell HMRC if your circumstances change and you become liable for the high-income child benefit charge. Things that could tip you over the threshold could include a pay rise, a work bonus, a new job or a new live-in partner.

Be aware you could face a fine of 10%-30% of the tax owed plus interest if you don't notify HMRC or submit an inaccurate tax return.

Claiming even if over the threshold

It's worth claiming child benefit if you or your partner earns more than £60,000 threshold, even if you have to give all the money back - or worth at least registering for it. This gives the low-earning or non-earning parent the opportunity to build up their national insurance contributions. And that way protects their eligibility for the full state pension.

Please do get in touch with one of the team if you'd like to discuss your financial planning in relation to the child benefit thresholds.

HOW TO FACTOR INFLATION INTO RETIREMENT PLANNING

Following two years of rising prices and a cost-of-living crisis, inflation rates are finally returning to more manageable levels.

However, this doesn't mean that prices are reducing, only that they are increasing more slowly. Households and businesses have faced significant financial pressures due to high inflation and this may continue for some time yet.

But inflation in itself is not a bad thing. Steady, moderate inflation is a sign of a prosperous economy. We should not only expect it, but we should also plan for it.

As saving for your retirement is a long-term prospect, it's worth thinking about how inflation could impact on your retirement goals.

Make Realistic Assumptions

The first step in creating your retirement plan is to decide on the assumptions you should use. This includes:

- The rate at which your earnings are likely to rise,
- How your spending is expected to increase over time,
- The investment return you can achieve.

Inflation will factor into all of these assumptions.

In terms of earnings, some people receive an inflationary pay rise each year. It's usually better to err on the conservative side and assume an increase rate slightly below historic inflation.

Most people don't increase their spending at a fixed rate every year. Over a short period, controlling

your budget can help to counteract the effects of inflation. But it would be a mistake to assume that your expenditure won't increase at all. Over a 30 or 40 year retirement plan, building in a small annual increase in your retirement spending will give you greater flexibility later on.

Investment assumptions are also important for combatting inflation. In average economic conditions, if the headline return on your investments is 4%, this could mean that after charges and inflation, your funds are only just holding their value. If you want your money to grow in real terms, you will need to seek a higher level of return, and take a corresponding amount of risk.

Manage Risk

To allow your investments to keep pace with, and even exceed inflation, you will need to take some investment risk. There is no such thing as a no-risk portfolio. As well as the possibility of fluctuating investments, inflation is another risk that needs to be managed.

Based on a modest inflation rate of 2%, your money will lose around 10% of its purchasing power every 5 years. Compound this over a lifetime of retirement planning, and it's clear that leaving cash in the bank is not a sensible option.

Inflation has the greatest impact over the long-term. The good news is that investing for the long-term means that your funds are more likely to beat inflation. While short term fluctuations mean that investments can lose money over short periods, historic data shows us that values do tend to rise over longer timescales.

Diversify Your Investments

The main asset classes are:

- Cash
- Fixed Interest Securities
- Property
- Equities (shares)

These can be further subdivided by geographical location and sector.

Assets can be affected differently by economic factors, of which inflation is one. Equities are most likely to exceed inflation over the longer term, but are also more sensitive to market volatility.

While we have a good idea of how market forces affect the different asset classes, we cannot predict how and when this will occur, or how long a recovery might take. At any given time, there are multiple things going on in the world that could affect your portfolio. Attempting to judge and time the market is usually futile.

The key is to hold a wide range of assets that do not all behave in the same way at the same time. This is known as diversification.

Properly diversifying your retirement portfolio can be a daunting task. Fortunately, there are several options available that mean you don't need to choose the assets yourself, from multi-asset funds to bespoke discretionary managed portfolios.

Increase Contributions

The easiest way to boost your retirement fund is to increase your contributions every year. Many people do this automatically if they are members of a workplace pension scheme and receive an annual pay rise.

But what if you were to increase your contributions at a higher rate, for example 5% or 10%? There is a good chance that you would not even notice. Remember, your pension contributions benefit from tax relief, so contributions of £100 will only cost you £80 (subject to certain limits). Higher and additional rate taxpayers can claim further tax relief, meaning that a contribution of £100 can cost as little as £60 or £55 from net income.

Compounded over time, these annual increases can significantly increase your retirement pot.

Plan Your Income

Planning doesn't stop when you reach retirement. Inflation will continue to affect your investments, and should be taken into account when planning your income.

If you have a defined benefits pension, your income will most likely increase every year, as will the State Pension.

You can also use your pension to buy an annuity with index-linking. This provides a guaranteed, rising income every year. However, many retirees do not want to be tied into an annuity that they cannot change later, or control how any death benefits are paid out.

Most people will be reliant on invested funds to cover their retirement expenditure, either alone, or to supplement other pensions.

The following can help to protect your retirement pot from inflation:

- Make a cashflow plan to determine how much you can spend.
- Plan withdrawals so that you do not need to sell investments when the market is low.
- Keep an adequate cash buffer.
- Stick to your budget and try not to increase your spending every year.
- Review your plans regularly, and adjust as needed.

Please don't hesitate to contact a member of the team to find out more about retirement planning.

A Short Guide to ESTATE PLANNING

A strong estate plan can help to reduce tax, protect your legacy, and ensure that more of your money passes to your loved ones. The decisions can be difficult, but once in place, your estate plan will make things easier for you and your family later in life.

This guide looks at the main features of an estate plan and how it can benefit you.

Wills

Writing a Will should be a high priority within your estate plan. This will allow you to direct your representatives (or executors) as to how you would like your assets distributed on your death.

Your Will could be very simple, for example, you may want your spouse to inherit everything, followed by your children.

Alternatively, you might wish to make multiple gifts, arrange charitable donations, and set up trusts.

Perhaps your family situation is complex, and you have a second marriage or blended family to consider.

Maybe you have relatives that you are not in contact with and wish to ensure that they do not inherit anything.

If you die intestate (without a Will), you will not have any control over these decisions. Your assets will be distributed according to a strict order of priority. This will depend on the value of your assets and where you live in the UK.

The intestacy rules are particularly severe when it comes to unmarried partners. Common law marriage is not recognised in the UK and only a legal spouse or civil partner has an automatic right to inherit.

Similarly, carers, stepchildren, or close friends would also be excluded, while estranged relatives could take priority.

Writing a Will is a relatively simple and inexpensive process. It's easy to put this off, but remember your Will can be easily changed. An imperfect Will that is regularly reviewed is better than no Will at all.

Powers of Attorney

A Power of Attorney (POA) is used to appoint a trusted relative, friend or carer to make important decisions for you if you lose capacity.

The two types of POA are:

- Property and Financial (covering bills, investments, and property maintenance)
- Health and Welfare (care, medical treatment, and end of life decisions)

Your POA must be created while you still have full mental capacity. It also needs to be registered with the Office of the Public Guardian.

If you lose capacity and don't have a POA in place, the court will need to appoint someone to make these decisions for you. This can result in delays, distress, and choices being taken out of your hands.

A POA is simple to set up and register, and can normally be created at the same time as your Will.

Trusts

A trust allows you to gift assets without giving up full control. You can set up a trust during your lifetime, or to take effect on your death. You will need to appoint trustees to be responsible for managing and distributing the money. You can be a trustee yourself, although it is sensible to appoint at least one other person.

The main types of trust are:

- Discretionary, where the trustees have discretion over how, when, and why to distribute the trust's assets.
- Bare/Absolute, which is similar to an outright gift, although without giving the beneficiaries full control at outset. This type of trust might be used for a minor child.

You may want to set up a trust to:

- Reduce the value of your estate for Inheritance Tax (IHT) purposes.
- Set aside funds for a particular person or category of beneficiary, separate from your own assets.
- To ring-fence the money from the beneficiary's own assets. This can be useful if the beneficiary gets divorced, is declared bankrupt, loses capacity, or makes poor financial decisions.
- Direct who should receive income from, or be allowed to use the trust assets, while holding the capital for someone else at a later date.
- To receive life policy benefits outside your estate.

It is worth seeking advice on the most suitable type of trust. There will be considerations around tax, risks, and charges that you will need to take into account.

Lifetime Gifts

The simplest way to create a legacy is to make gifts during your lifetime. Not only does this give you the satisfaction of seeing your loved ones benefit from the money, but it can also be tax efficient.

Lifetime gifts are treated as follows:

- You can give away up to £3,000 per year, which is immediately outside your estate. This can be carried forward by up to one tax year. There are a few other exemptions available, which are explained **here.**
- Any gifts over and above your exemptions remain within your estate for seven years. If the value is over £325,000, the Inheritance Tax payable on death will reduce by 20% per year from the end of year three onwards.
- Any gifts into trust may be immediately chargeable. The rate of tax is 20% of the value over £325,000. If you die within seven years, a further 20% is payable, although this reduces between years three and seven.

It's worth considering gifts on an annual basis, as this can reduce your estate, allow you to pass more money on to your beneficiaries, and ensure that you don't leave yourself short later in life.

How Your Pension Fits In

Pensions are treated differently from other assets when it comes to estate planning. For example:

- If you die before age 75, your pension can be passed on to your nominated beneficiaries free of tax.
- After age 75, your beneficiaries can still receive your pension fund, but will pay tax at their usual rate. However, they will have flexibility over how and when they draw the money, and can even pass it on to their own children if they prefer.

It can be worth preserving your pension and using other assets, which are included within your estate, to fund your lifestyle.

Inheritance Tax (IHT)

Some other ways of mitigating your IHT bill are:

- Setting up a life policy to pay the tax.
- Investing in business assets (such as smaller company shares or Enterprise Investment Schemes) which qualify for business relief and are exempt from IHT after two years.
- Spending more money over your lifetime, which can include regular gifts and charitable donations.

The most effective estate plan will depend on your family circumstances, assets, and what you would like to achieve.

Please don't hesitate to contact a member of the team if you would like to find out more about estate planning.

Recent Capital Gains Tax Changes:

What you need to know

In line with the 2022 Autumn Statement announcements, changes in Capital Gains Tax (CGT) have now come into force.

The first reduction in the 2023/24 tax year took the annual exempt amount (AEA) down to £6000 for individuals and £3000 for most trustees. This has been further reduced in 2024/25 to £3000 for individuals and £1,500 for most trustees. It will remain fixed permanently at these levels for future years.

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> **Many people are working longer due to rising life expectancy and the cost of living.**
>
> **Others are transitioning gradually into retirement by dropping a few days at a time.**
>
> **Many are opting for a career change later in life, perhaps choosing a lower paid (and lower stress) job or monetising a hobby.**

Let's look at how the changes could affect your financial position and explore ways to mitigate their impact.

But first, a quick recap on some of the rules around CGT.

What is Capital Gains Tax?

You pay CGT on the profit you make when selling or disposing of an asset that has increased in value. It's important to note you only pay the tax on the gain, not the whole amount of money you receive.

So, if all your gains in any one year are under your tax-free allowance you don't need to pay any CGT.

However, you can't carry forward any unused allowances from one year to the next - it's a case of 'use it' or 'lose it'.

And remember, 'disposing' of an asset is not just selling it. It can also include giving it away as a gift, transferring it to someone else, swapping it for something else and getting compensation for something.

What assets do you pay CGT on?

You need to pay CGT on the following items, known as 'chargeable assets':

- Personal possessions like art, jewellery and antiques worth £6000 or more (excluding your car)
- Property that's not your main home
- Your main home if you've let it out, used it for business or it's very large
- Any shares that are not in an ISA or PEP
- Business assets

But you don't pay it on any gains from:

- ISAs or PEPs
- UK government gilts and Premium bonds
- betting, lottery or pools winnings

You must report by 31 December in the tax year after you made your gain and pay by 31 January. For example, if you made a gain in the 2024 to 2025 tax year, you need to report it by 31 December 2025 and pay by 31 January 2026.

CGT rates

The rate of CGT you pay depends on your total taxable income for the tax year. As of 2024/25, the CGT rates for higher or additional rate taxpayers are 24% on gains from residential property and 20% on other assets.

And if you're a basic rate taxpayer, CGT on any gains falling within the basic rate Income Tax band is 18% for residential property and 10% on other assets.

Private Residence Relief (PRR) continues to apply on disposals of main residences, but you may be liable for CGT on other residential property gains such as buy-to-let properties, business premises, land or inherited property.

Who does it apply to?

Any individual, trustee or personal representative who has realised a gain is liable for CGT. What you pay will depend on your overall gains above your allowances.

The AEA is separate from your Personal Allowance (£12,750) which is your tax-free allowance for income, salary or rental income.

What about if you're married?

If you're married, have a partner or own assets with another person, you can combine your exemptions. This means, between you, you could have double the amount of tax-free gains.

You also do not pay CGT on any assets you give to your husband, wife or civil partner. But, the exemption doesn't count if you've separated and did not live together in that tax year.

Plus, it does have to be a genuine gift. You can't have given them goods to their business to sell on.

Also be aware that if your spouse or civil partner later disposes of the asset, they may have to pay tax on any gain. This is why it's important to keep careful records as their gain will be calculated on the difference in value between when you first owned the asset and when they disposed of it.

How can you mitigate the impact of the changes?

The 2024/25 reduction to the CGT allowance to £3000 for individuals (£1500 for trustees) means proactive tax planning is more critical than ever. Consider the following steps:

- Make full use of your £3000 AEA. While it may be less generous than in previous years, you can't carry it forward, so make the most of it.
- Plan the sale of your assets carefully over different tax years to maximise your allowance and reduce the overall liability.
- Consider transferring assets to a spouse or civil partner so you can spread or reduce the CGT burden.
- Offset losses from previous years as these can be brought forward, provided you report them to HMRC within four years from the end of the tax year in which the asset was disposed of.
- Take advantage of tax-efficient wrappers like ISAs. These will not only give you tax-free gains and withdrawals but also enable you to consider a number of investment options in line with your risk profile and financial objectives.
- Keep contributing to your pension as another way of getting tax relief and reducing your income tax bill while potentially lowering your future CGT liabilities.

Keeping records

Maintain a detailed record of what you paid for an asset, the original purchase cost, additional expenses, legal fees and the selling price. This enables you to follow a clear trail if you need to calculate the exact gain later.

Next steps

Navigating CGT can be complex, especially with the recent changes in the allowances. It's worth seeking professional advice to make sure you're taking full advantage of the reliefs and exemptions available.

Please don't hesitate to contact a member of the team if you'd like to find out more about proactive tax planning.

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HOW DOES **FINANCIAL PROTECTION** CHANGE FOR DIFFERENT LIFE STAGES?

While financial protection products are not particularly complicated, the range of options available can sometimes be a little daunting.

How can you decide which type of cover you need, how much to insure for, and which optional extras to include?

Your protection needs will depend on several factors, such as:

- Your family situation
- Your debts and other commitments
- Your budget

While every situation is different, most people find that their requirements evolve over time. A young professional with no dependants has very different needs from a retired person who wants to pass on wealth to their family.

In this guide, we look at the various life stages and the types of protection that may be most suitable.

Starting Out

When you are starting out in your career, you probably don't have too many responsibilities. Most young professionals rent their homes, so they don't have a mortgage to worry about.

They probably don't have anyone depending on them financially. The average age for buying a property in the UK is 34 , and the average age for having a first child is 30.9 for mothers and 33.7 for fathers .

This doesn't mean that people in their twenties don't need financial protection. There are still bills to pay and a retirement to save for.

The main financial risk for a young professional is the possibility of becoming ill and unable to work. Fortunately, there are ways of addressing this risk.

Income Protection

Income protection provides a tax-free monthly income if you can't work for health reasons. A wide range of options is available, for example:

- **Cover amount:** You can choose your cover level, but it will be capped, usually at 50% to 75% of your gross salary.
- **Deferred period:** You can opt for a deferred period ranging from one month to one year. Shorter deferred periods make the plan more expensive. The optimal deferred period will depend on how long your employer would pay you if you were ill and how much you have in savings to cover any short unpaid periods of illness.
- **Term:** You can choose the plan's expiry date, which normally coincides with your planned retirement age.
- **Payment period:** A full-term plan pays a benefit either until you recover or until the plan expires. Shorter payment terms (usually from 1 to 5 years) are also available and are often cheaper.
- **Indexation:** You can choose for your cover (and premium) to increase with inflation.
- **Age rating:** You can select a plan that increases the premium every year with your age. This is normally cheaper at the outset but more expensive over the long term.
- Your plan may offer "increase options" so that you can update your cover amount if your salary increases in the future.

As income protection can be one of the more expensive insurances, it is worth setting this up as early as possible. Premiums will only rise as you get older, particularly if you develop any health issues.

While a full-term, indexed plan with maximum cover and guaranteed premiums provides the most comprehensive protection, budget should also be taken into account. A lower level of cover is better than no cover at all.

Protecting Your Mortgage

When you buy your first property, you will need to ensure that the mortgage can still be covered even if something happens to you.

Life Cover

A life insurance plan will pay out a lump sum in the event of your death.

Most mortgage protection plans decrease every year, on the assumption that the mortgage will also reduce.

Critical Illness

A critical illness plan will pay out a lump sum if you are diagnosed with a serious illness. The condition must be specifically covered by the policy.

Critical illness can be bought on its own, but it can be better value to include life cover as well.

Remember that most life with critical illness plans will pay out on the first event only. If you receive a lump sum in respect of a critical illness, no additional benefits can be paid if you subsequently die.

Time to Review

As your outgoings increase, it may also be worth checking that your income protection plan provides enough cover and that it offers the best value.

Supporting Your Family

If you have a family to take care of, it is unlikely that protecting your mortgage alone will be enough. You should also consider:

- Lost earnings
- Childcare and educational costs
- Additional help at home
- The possibility that your partner may not be able to work, or that their health may decline later in life.

Time to Review

When you have a family, it's often a good idea to substantially increase your life cover to ensure that your family will be financially comfortable if anything happens to you. It may also be worth reviewing your critical illness cover.

You should also consider placing your life cover in trust. This will ensure that any payout will be outside your estate and can be distributed to your beneficiaries more quickly.

Leaving a Legacy

As your mortgage is cleared and your children become more independent, financial protection may become less of a priority. But financial protection could still benefit you if:

- You would like to ring-fence an inheritance for your family, and are concerned that your own capital will be eroded by care costs. A whole of life plan placed in trust could serve this purpose. It is no longer possible to arrange insurance to pay care home fees. This means you will need to cover the costs personally if your assets are valued at over £23,250.
- You have a large Inheritance Tax liability and would like to make sure the money is available to pay it without reducing the value of your estate. Again, a whole of life plan could achieve this.
- You have recently made a large gift and would like to ensure that the Inheritance Tax can be covered if you die within seven years. A Gift Inter Vivos plan is a short-term life insurance policy designed to expire when the gift is completely out of your estate.

Time to Review

At retirement, you may find that you are paying for insurances you no longer need. You might also feel that a whole-of-life plan suits your requirements more than a soon-to-expire term assurance.

Retirement is an excellent time for a full financial review.

Please don't hesitate to contact a member of the team if you would like to find out more about your protection options.

Need help to see things more clearly?

Talk to one of the team today

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