Edition 26

Eureka Financial Solutions Ltd

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Financial 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.

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)

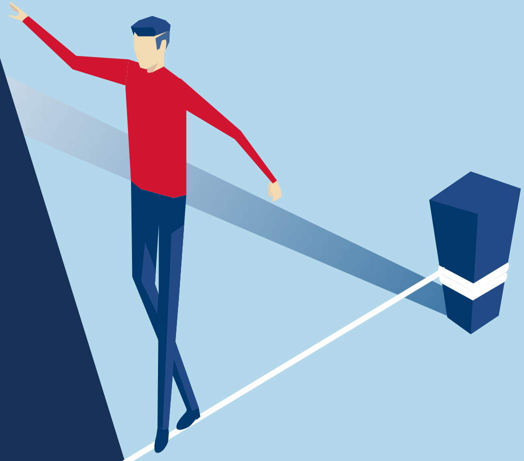
AIPs are offered by many lenders as a conditional offer of acceptance. If you have this in place in advance of your purchase it will give confidence to the seller and their estate agent that the sale will complete.

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

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.

Standard Variable Rate

The average homeowner moving from a specific mortgage deal onto their mortgage provider's Standard Variable Rate (SVR) could save more than £2,500 a year in interest payments simply by remortgaging.

SVR is the type of mortgage you're most likely to revert to at the end of an introductory, fixed rate, discount or tracker deal. The rate you pay on SVR is set by your mortgage lender and doesn't track the Bank of England Base Rate, which means you might not benefit from interest rate cuts and you could be exposed to interest rate rises. SVRs don't come with the security of a fixed rate deal and your mortgage lender could choose to increase your rate at any time.

SVRs can also be quite expensive; on average those on SVRs pay an extra £211 a month compared to homeowners on a mortgage deal. This rises to as much as £727 a month in London, where house prices are significantly higher than the average.

On the plus side, SVRs can represent good value when interest rates are low and there are no exit fees. Even so, with a potentially sizeable saving to be made by remortgaging, it's a wonder that around two million borrowers seem happy to stick with their SVR. Why?

Time to remortgage?

It's important to regularly review your mortgage, as it can often make sense to transfer to a new deal - or even a different lender. Your decision to transfer will of course depend on your individual circumstances and the current rate you are paying. If your lender plans to increase its SVR, moving onto a new mortgage deal could save you money.

To discuss your remortgaging options, please get in touch.

"I can't be bothered with the hassle of looking for a new deal"

Fair enough, but that's the point of a mortgage adviser. We're here to help take the effort out of finding the right deal that could free up money for you to spend on more pleasurable things.

"I hadn't realised my mortgage deal was ending"

OK… but your lender should have notified you. If we arrange your mortgage that's something you could rely on us to do. Alternatively, remember to add the end date into your calendar when you've taken a new mortgage deal.

We know that not all lenders go in for Plain English but it pays to pick up the phone if they're writing to you with something as important as your mortgage.

Helping you to save

Help to Save is a government savings account aimed at an estimated 3.5m people on low incomes. The scheme pays a bonus of 50p for every pound saved over four years, representing better value compared to the 1 - 2 per cent returns on savings bonds offered by high street banks.

Eligible savers can open an account using their 'government gateway' ID and pay in up to £50 each month over the four-year term. Once the four years are up, or the account is closed (if earlier) there's no opportunity to use the scheme again.

Savings and bonuses

You could receive two tax-free bonuses over four years of the account being open; at the end of years two and four. The first bonus is based on the amount saved in the first two years, the second bonus will be calculated from the additional savings added during years three and four. The most you can save is £50 per calendar month, meaning over the four-year term the maximum savings pot is £2,400 attracting a total bonus of £1,200.

You can withdraw money from your account at any time and this will be paid into your bank account. However, depending on when and how much you withdraw you could lose your final bonus.

Eligibility for an account

To be eligible for an account, you must either:

— *Be entitled to Working Tax Credit and receiving Working Tax Credit or Child Tax Credit payments; or*

— *claiming Universal Credit and your household income in your last monthly assessment period was £542.88 or more*

You can apply for an account if you live abroad providing you are either a:

— *Crown servant or their spouse or civil partner; or*

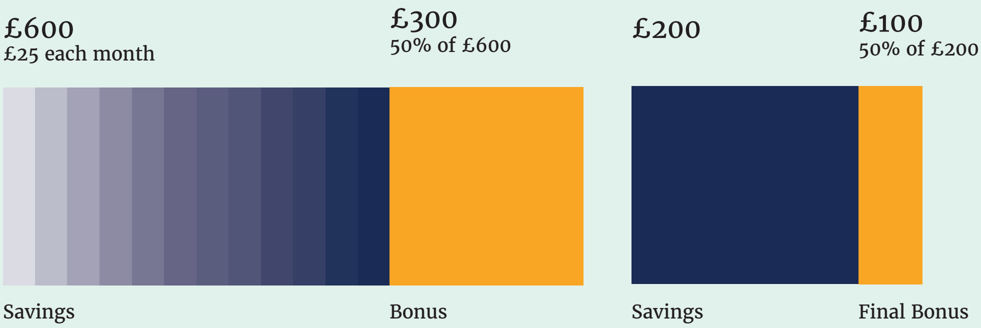
— *a member of the British armed forces or their spouse or civil partner*

For information and advice on a range of savings and investments that suit your circumstances, please get in touch.

Example:

Year 1 and 2

Year 3 and 4*



*you can withdraw money in year 4 without affecting your bonus

You pay in £25 every calendar month for two years. You don't withdraw any money, which means your balance halfway through the plan is £600. Your first bonus paid after two years is £300 (50% of £600).

Over years three and four you save an extra £200 to increase your balance to £800. You withdrew some money in year four but this doesn't affect your final bonus which is £100 (50% of £200), paid at the end of the term.

Your savings plan closes with a final balance of £1,200 - you having paid in £800.

Graph for illustration purposes

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.

BECOME A SUPERHERO

IN THE EYES OF YOUR FAMILY

When he was younger one of my son's favourite questions was; *"if you could have any super power, what would it be?"* He loved the idea of being a Superhero.

I think, deep down, we all like the idea of being a Superhero. Being able to do things others can't; amazing things to help those around you.

Now I can't grant you any super powers (sorry) but I can help you do something amazing to help those you love. Best of all there's no need to be bitten by a radioactive spider, hit by a strange space mist, or hail from a different planet.

And there's no need to be a heroic billionaire looking to save the city with an arsenal of high-tech gadgets. No, your new super powers are just going to need a little money.

How do these powers sound to you?

- If you die unexpectedly for any reason your family has the mortgage paid off, or there's a lump sum available to help them out
- If you are stuck down with a serious illness and need to take time off work, someone else pays the bills - and maybe they clear the mortgage too
- If you have an accident and break a bone (maybe whilst fighting crime?) someone pays money into your bank account to help ease the financial pain a little

Now, I know it's not like you can stop a bullet, or run faster than the speed of sound, but they're still pretty useful powers for your family.

Best of all, there's no need to pay for them in one go. You can rent your super powers for just a little each month. In fact, you might be surprised how little it could cost to become a superhero.

To find out more about how our range of personal and family protection insurance, please get in touch.

Please note - we can't guarantee any form of comic book franchise off the back of your new powers, nor can we promise your new powers will make you "cool" with your kids. We'd also not recommend actually trying to fight crime.

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