FINANCIAL FOCUS
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Financially exposed

Do you have a financial plan in place to help protect your home?

Taking out a mortgage is the biggest financial commitment many of us will ever make, and having a financial plan in place will help protect your home in the event that you can't work due to illness or ill health, or even your premature death.

NO LIFE COVER

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

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

UNABLE TO WORK

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

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

MORTGAGE ARREARS

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

Welfare reforms make the case for financial protection all the more pressing. A quarter (25%) of mortgage holders who say they'd be unable to live on a single income if their partner was unable to work also admit that they'd rely on state benefits to ensure they could manage financially.

Changes to Support for Mortgage Interest, which is the only safety net in place for many families if they were unable to pay their mortgage, mean that people now have to wait 39 weeks before receiving this benefit instead of the previous 13 weeks, which could be too late for many if they have no other protection in place. ■

ARE YOU PUTTING YOURSELF AND YOUR FAMILY AT SIGNIFICANT RISK?

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

Source data:

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

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

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Savvy investors

Time to get wrapped up? How to shelter income and capital gains

For long-term investors, Individual Savings Accounts (ISAs) are a very tax-efficient wrapper that can hold cash savings as well as investments in stocks and shares. Savvy investors are also able to shelter income and capital gains.

ISA FLEXIBILITY

You can contribute up to £15,240 to an ISA in the 2016/17 tax year. Cash that you withdraw from a flexible ISA can be replaced during the same tax year without counting towards your annual ISA allowance, which is known as 'ISA flexibility'. What sets ISAs apart from other savings and investment accounts is that any interest on cash savings, gains from investments or income from dividends are tax-efficient, although tax-efficiency may now be achievable for some outside an ISA if the income or gains are covered by a dividend allowance, personal savings allowance and Capital Gains Tax (CGT) allowance. You don't have to declare ISAs on your tax return.

ADDED ADVANTAGE

Because of their tax benefits, ISAs can help your savings and investments grow faster over time. Investing your ISA in stocks and shares has the added advantage of helping safeguard you from a potential Capital Gains Tax (CGT) bill in the future. CGT is a tax on the gain you make when you sell or dispose of assets such as investments. It is currently charged at 20% for higher-rate taxpayers on gains made that exceed the yearly tax-free allowance. Currently, the CGT allowance is £11,100.

ADDITIONAL ALLOWANCE

Rules on ISA death benefits introduced in April 2015 allow for the transfer of an extra ISA allowance to the deceased's spouse if they passed away on or after 3 December 2014. If applicable, the surviving spouse can use an additional one-off allowance, which is equal to the value of their partner's ISA savings, as well as enjoying their own usual yearly allowance. An additional permitted subscription (APS) can be used in certain situations.

INHERITANCE TAX

You qualify for the additional allowance whether or not you inherit the actual assets of the ISA. The deceased's ISA assets are distributed according to the terms of the will or intestacy rules, and any Inheritance Tax liability will remain in the usual way (except ISAs qualifying for Business Property Relief, for example, Alternative Investment Market [AIM] ISAs). No actual funds are transferred, and the extra allowance can be made up from your own assets. Also, as well as being married or in a registered civil partnership with the ISA holder, you need to have been living together – if you were separated, either under a court order, Deed of Separation or any other situation that was likely to become permanent, you can't use the additional allowance.

COMPOUNDING EFFECT

Long-term investors who can afford to invest at the start of the tax year rather than at the last minute not only gain a year's performance, but these extra gains will be reinvested in the market until they need the money. Over time, the effect of compounding can be significant. The more you invest, the greater the potential impact of early investing. Likewise, the longer you are investing for, the larger the compounding effect. Also, investing early in the tax year to benefit from compounding is most pertinent not only for those saving for retirement but also for parents investing for their children's future through dedicated Junior ISAs (JISAs). ■

BUILDING A LONG-TERM INVESTMENT STRATEGY

If you are unsure about the suitability of your investments, you should always obtain professional financial advice. For the effects of compounding to work, two things are required: the re-investment of earnings, and time. The more time you give your investments, the more you are able to accelerate the growth potential of your original investment, which takes the pressure off you. To discover how we can help you build a long-term strategy for your investments, please contact us – we look forward to hearing from you.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.