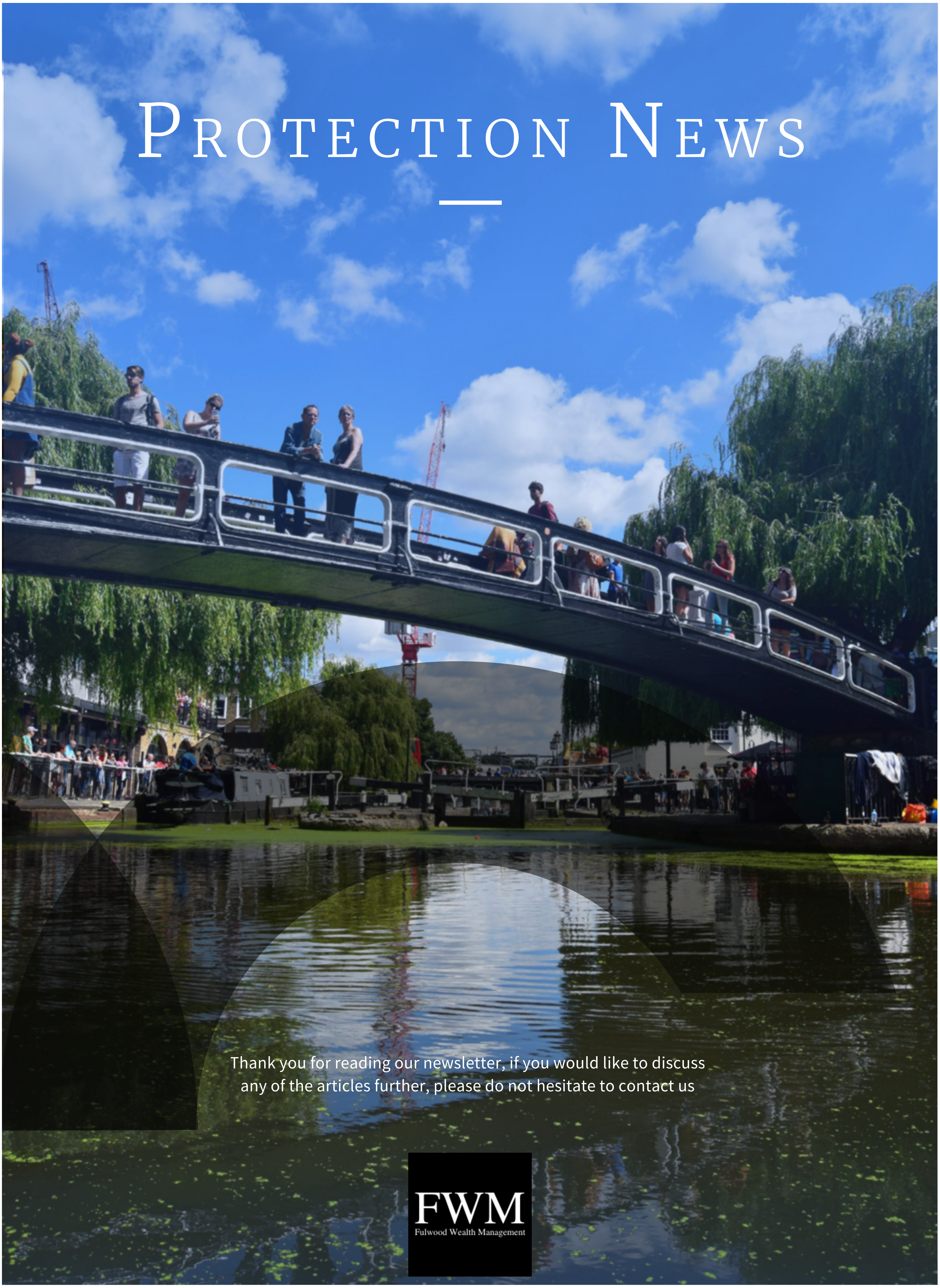
Protection News



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FWM
Fulwood Wealth Management

9 Brooklands Avenue, Fulwood, Lancashire, PR2 9SU

Pension allowance breaches surge

Data from HMRC has revealed a **significant increase** in the total value of pension contributions exceeding the Annual Allowance. It seems an increasing number of **people are falling foul of the overly complex rules and regulations.**

The most recent personal pension statistics, covering the 2017-18 tax year, show an astonishing 26,550 people reported contributions exceeding the £40,000 Annual Allowance in their self-assessment tax return, with combined total contributions amounting to £812m. That represents an average of £30,584 per person. Furthermore, over the past decade, the number of individuals reporting such a breach has risen dramatically, from £578 million in 2016-17 and £143 million in 2015-16. In addition, just 230 people faced similar tax charges in 2007-08 when the Annual Allowance was £225,000.

Pension complexity confounds the problem

The sharp rise in breaches can be primarily attributed to the sizable reduction in the Annual Allowance in 2011 and the introduction of the tapered Annual Allowance in 2016, which added greater complexity to the pension landscape. For higher earners, an additional taper brings the allowance down further to just £10,000 for individuals with total earnings of £210,000 or more.

Unless the government heeds industry advice and significantly simplifies allowance rules, the next few years are likely to see even more people caught out by this complex regime.

Change on the horizon

In its manifesto, the Conservative Party promised a review of the problem 'within the first 30 days'. In the Budget on 11 March, the newly appointed Chancellor Rishi Sunak, addressed the tapered Annual Allowance issue, which has caused problems for many key services, particularly impacting some senior high-earning NHS clinicians who are facing substantial tax bills if they and their employer pay into a pension above the tapered Annual Allowance. This has resulted in some key workers selecting to decline overtime to avoid a pension tax charge.

To support the delivery of public services, particularly in the NHS, the two tapered Annual Allowance thresholds for pensions have been raised by £90,000. The threshold income is £200,000, meaning individuals with income below this will not be affected by the tapered Annual Allowance and the Annual Allowance will only begin to taper down for individuals who also have an adjusted income above £240,000.

For very high earners the minimum level to which the Annual Allowance can taper down has reduced from £10,000 to £4,000 from April 2020. This reduction will only affect individuals with total income over £300,000.

Here to help

As many more people are discovering, a breach of allowances can be extremely costly. It is therefore vital to seek professional advice if you are unsure how pension allowances impact on you.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation

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It’s time to think about life insurance

If you have dependents – people who rely on you financially – then you should have life insurance. In fact, if you have dependents and don’t have life insurance, you are exposing them to grave financial risk. And who would want to do that?

Life insurance tends not to feature on ‘to do’ lists because it makes us confront uncomfortable questions, such as what would happen to our loved ones if we were to die unexpectedly in the next few years.

However, we all carry a deep responsibility to ensure those we leave behind at least have sufficient funds to carry on with life if we’re no longer around. That means putting plans in place to address unpleasant possibilities.

Types of life insurance

There are two main types of life insurance. The one most people need is ‘term’ insurance. This pays out if the policyholder dies within a stated period – the ‘term’.

The other type – ‘whole of life’ insurance – pays out on your death, whenever that occurs. This is more of an investment vehicle than a financial protection plan and is typically used for estate planning.

Dealing with debt

Term insurance pays out money that can be used to clear debts such as a mortgage, lifting a huge financial burden and enabling your loved ones to stay in the family home.

It can also provide for day-to-day living expenses – everything from groceries to utility bills, and from school and university fees to family holidays.

Key points

GET ENOUGH COVER
Buy sufficient insurance to take care of your family until the youngest is financially self-sufficient.

YOU BOTH NEED IT
If you’re in a couple, you both need cover, even if one of you stays at home. The proceeds can pay for services such as childcare and keeping up the house.

BUY SEPARATE POLICIES
Joint life insurance covers you both under one policy, but separate policies are more flexible and provide greater protection, although they cost a bit more.

WORK COVER ISN’T ENOUGH
Many firms offer ‘death in service’ life insurance. However, once you’ve worked out how much cover you need, you’ll probably realise this isn’t enough and you’ll need a policy of your own.

THE SOONER THE BETTER
The older you are, the more expensive life insurance is, so bite the bullet and buy young.

PUT YOUR POLICY ‘IN TRUST’
Doing so places the proceeds outside your estate so it can be paid to your beneficiaries without any delay associated with probate. It also keeps the money from the clutches of the tax man.

REVIEW REGULARLY
Monitor your life insurance coverage to make sure it keeps pace with your circumstances. Events such as marriage, the birth of children and moving home might prompt you to increase the amount of insurance you have.

It is important to take professional advice before making any decision relating to your personal finances.

Protect yourself and your family in 2020

While most of us don't go through life expecting something bad to happen, the truth is that we never know what's around the corner. Why not make 2020 the year you put plans in place to safeguard yourself, your family and your home, so that you know you're protected against life's unexpected events?

When to take out protection cover

Most people look into buying a Life Insurance, Critical Illness or Income Protection policy following a significant life event: buying a home, getting married or having children.

Before taking out a policy, however, be sure to check if any protection cover is included in your workplace benefits, as your employer may already be providing cover.

Review your policies regularly

If you don't review and update your policies on a regular basis, you could find yourself underinsured. If you upsize and your mortgage increases, for example, your current policy might not pay out enough to cover your new monthly repayment. In fact, a huge 73% of people aren't sure they have the right level of protection cover. By ensuring you regularly review your cover, you can make sure you're not in this situation.

Reduce stress, both now and in the future

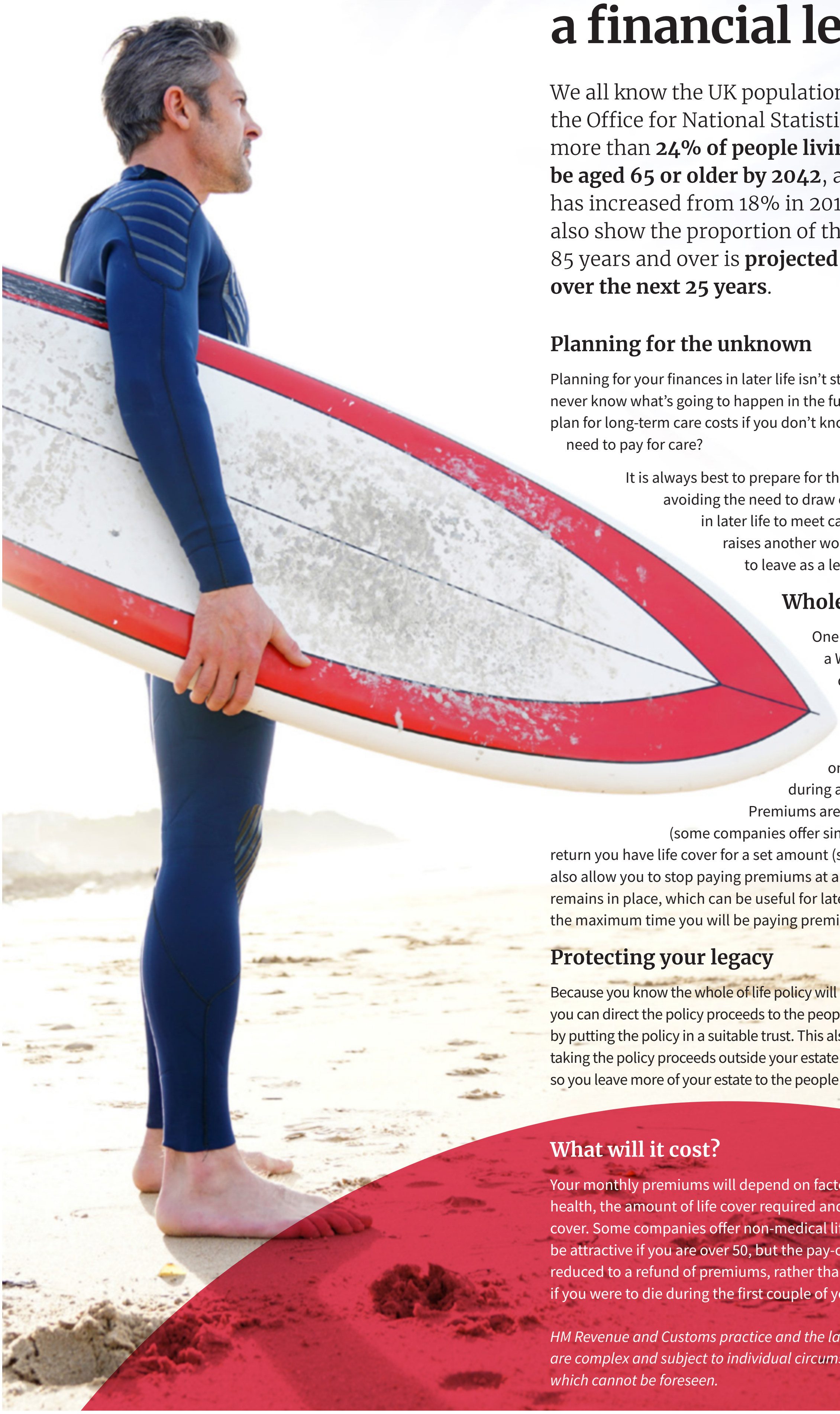
Do you worry about your income and how you and your family would cope if anything happened to you? Are you ever concerned that you might struggle to keep a roof over your head? One way to rid yourself of these niggling worries is to take out protection cover. With only 44% of 18 to 35-year-olds saying they could cope for more than three months on their savings if they lost their income due to illness or injury, it's more essential than ever to plan for these eventualities.

It's not just about life insurance

Protection cover isn't just there to pay out to your family when you die. You can also take out serious or critical illness cover, as well as policies that pay out if you get injured or made redundant. With rent or a mortgage, household bills and other expenses, imagine how much stress could be alleviated if you have a steady income from an insurance policy while you're unable to work.

It won't happen to me...

This is an assumption many of us are guilty of making; however, latest government figures for 2018 show that one in twenty-five employed people had a spell of long-term sickness absence. It might not happen to you – but if it does, having cover could make the world of difference.



Using a Whole of Life policy to leave a financial legacy

We all know the UK population is ageing. In fact, the Office for National Statistics (ONS) projects more than **24% of people living in the UK will be aged 65 or older by 2042**, a projection that has increased from 18% in 2016. ONS statistics also show the proportion of the population aged 85 years and over is **projected to almost double over the next 25 years**.

Planning for the unknown

Planning for your finances in later life isn't straightforward, as you never know what's going to happen in the future. Is it a good idea to plan for long-term care costs if you don't know whether you will ever need to pay for care?

It is always best to prepare for the unexpected, for example, avoiding the need to draw on savings and investments in later life to meet care costs, which in turn raises another worry that there is less money to leave as a legacy.

Whole of Life

One solution is to take out a Whole of Life policy. This does exactly what it says, by providing life cover that lasts a lifetime, unlike term assurance which only pays out if you die during a set period of time. Premiums are normally paid each month (some companies offer single premium plans) and in return you have life cover for a set amount (sum assured). Some policies also allow you to stop paying premiums at a certain age, whilst cover remains in place, which can be useful for later life planning as you know the maximum time you will be paying premiums for.

Protecting your legacy

Because you know the whole of life policy will only pay out on death, you can direct the policy proceeds to the people you want to benefit, by putting the policy in a suitable trust. This also has the advantage of taking the policy proceeds outside your estate for Inheritance Tax purposes, so you leave more of your estate to the people who mean the most.

What will it cost?

Your monthly premiums will depend on factors inlduing; your age, health, the amount of life cover required and who provides the life cover. Some companies offer non-medical life insurance which can be attractive if you are over 50, but the pay-out will normally be reduced to a refund of premiums, rather than the full sum assured, if you were to die during the first couple of years.

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

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