PEARSON MAY

CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISERS
Originated 1841

37 Great Pulteney Street, Bath BA2 4DA
T 01225 460491 **F** 01225 469775 **E** mail@pearsonmay.co.uk
www.pearsonmay.co.uk

Financial Planning

I have been quite astonished to read the results of two recent surveys which have been reported in fairly great detail on my firm's website www.pearsonmay.co.uk.

The first of these indicates that 52% of parents with dependent children have no financial plan in place. This would of course mean for most of them that their family would be exposed to very significant financial difficulties if issues such as serious ill-health or premature death unfortunately occur to that family. Only approximately half of parents have some type of life insurance cover, which in itself is deeply concerning.

Pure term life cover, for example, insuring £100,000 in the event of either of the joint lives, i.e. mother and father dying by the age of 60, for example, can be extremely cheap. Many life policies that are marketed include some form of investment element, but for the purposes of the protection of ones family that is unnecessary, and the key element is to ensure that there is sufficient life insurance to give the family a chance financially after the death of either parent. Hopefully each of these families will already have sufficient life cover to repay the mortgage in the event of the death of either parent, but I am referring to a sum which needs to be insured over and above that to provide some financial stability for the family, particularly should death be very premature and the surviving partner is left having to look after a young family and therefore unable to work full-time.

Cover to provide a payment if either parent is diagnosed with a defined critical illness can be added, but this can increase the premiums substantially.

Appropriate advice from an Independent Financial Adviser is required.

Another aspect of the same survey shows that only just over one-half of parents have any retirement financing plan in place. During periods of recession, it is understandable that there is huge pressure on the income of families which may lead to matters such as the payment of premiums into pension policies being considered to be a luxury. If that is the position taken by a family, it is vital that when matters pick up again, that additional contributions are paid into the appropriate pension scheme to begin to correct the shortfall.

The second survey which was almost as concerning, is one that shows that almost 60% of adults in the UK have not made a Will. A quarter of those without a Will said that they plan to make one when they get older. They have an accurate crystal ball presumably!

Rather worryingly, 10% of those without a Will believe that their estate will go the right people automatically, when the reality is that the complex rules of intestacy may well lead to matters being completely different to that which the individual would wish to apply. That is particularly the case for an unmarried couple. There are all sorts of scenarios where not having a Will can create significant problems for a family in the event that one of the partners dies, particularly if they die prematurely. Couples in second marriages with children from earlier marriages etc have complex Will needs, obviously.

Instructing a solicitor to draw up a Will need not be an expensive event, as for most people the Will will be a relatively simple affair. Beware cheap DIY Will kits, these are frequently totally inappropriate and may be worse than no Will at all. There is no substitute for appropriate professional advice.

One other aspect of all of this is that once one has organised a Will, it does need to be reviewed probably every five to ten years, as of course all of our circumstances change with time.

Returning to the theme of the life insurance policy which I mentioned above, one key element for most people, is the interaction of the life policy with one's Will which is normally dealt with by way of a Declaration of Trust attached to the life policy indicating to whom the proceeds of the life policy are to be paid in the event of the death of the life, or one of the lives assured. The Trust document is important from Inheritance Tax planning perspectives as well as the proceeds of the policy being available to the appropriate individual(s) as quickly as possible after the death of the deceased. Normally if a Declaration of Trust exists, it is the death certificate which enables the life company to pay out the proceeds, rather than the rather more lengthy process of probate. Probate will still have to be obtained, but the monies from the life policy are normally available at a much earlier date with a Declaration of Trust.

The above is for general guidance only and no action should be taken without obtaining specific advice ■