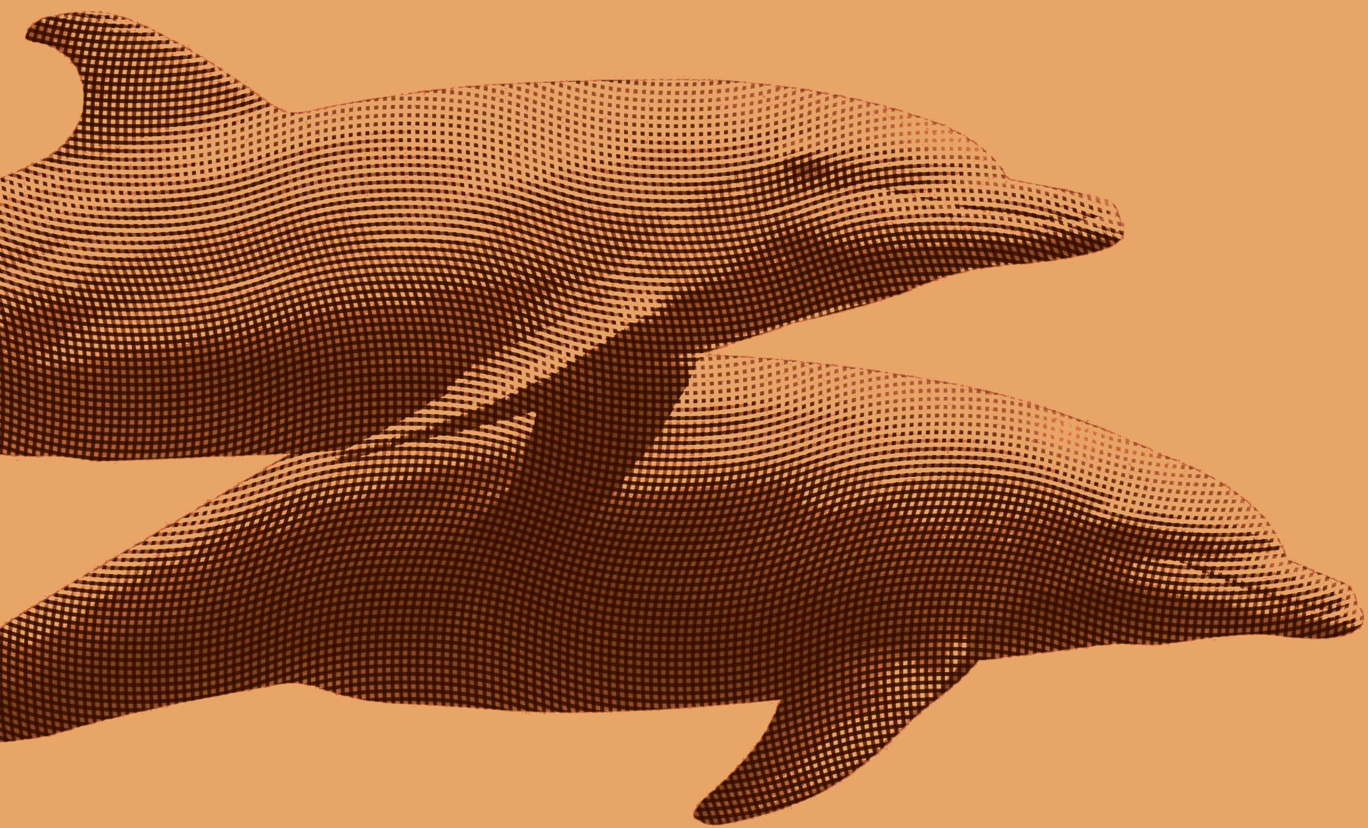
A GUIDE TO FAMILY & BUSINESS PROTECTION

2021

FINANCIAL ADVICE & WEALTH MANAGEMENT



ESTATE CAPITAL

Have confidence in your security and peace-of-mind to enjoy life now.

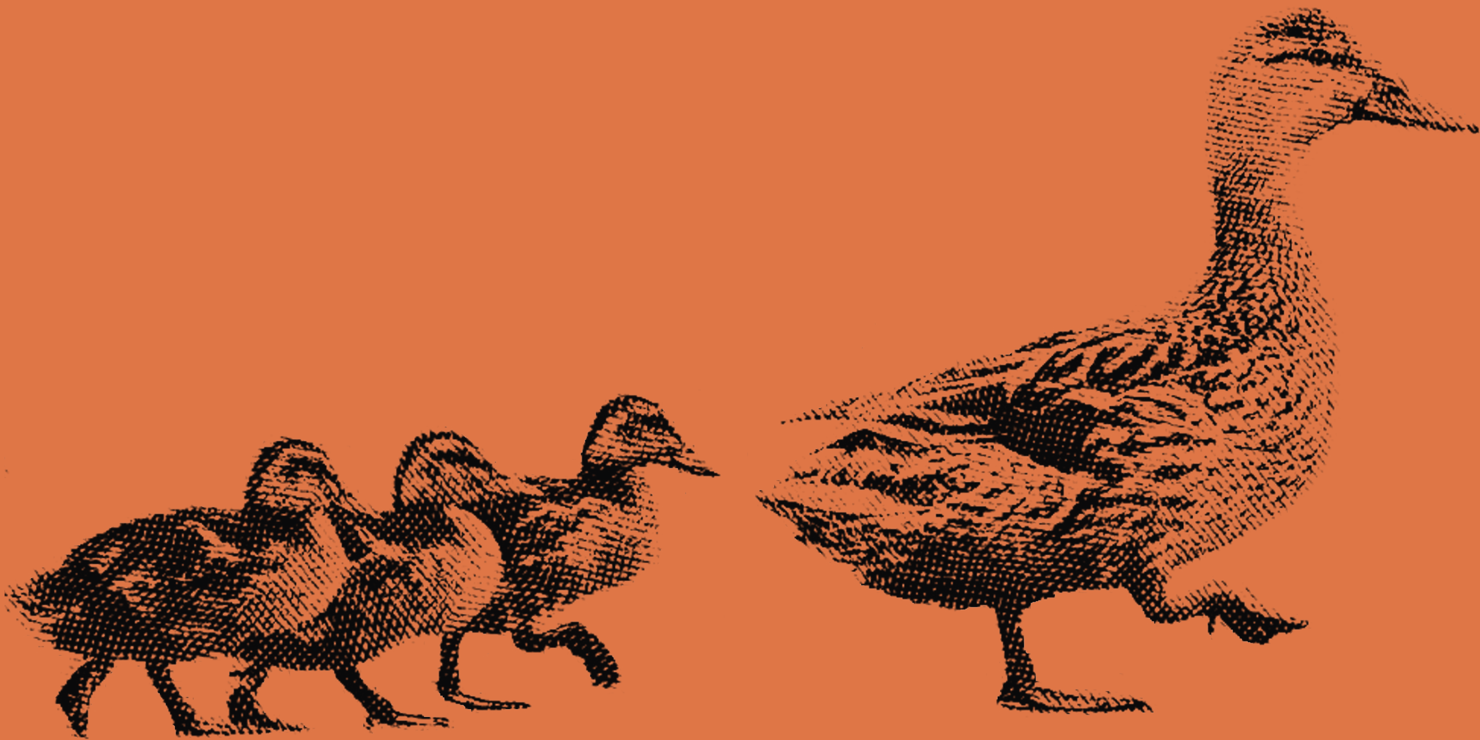
- *Chartered Financial Advisers*
- *33 years professional experience*
- *Trusted, established and well resourced*

Ensure your financial security for when you might need it most.

We know parents have many responsibilities including making sure all is well if the worst was to happen. One of the greatest risks any person faces is that of serious ill health and long term disability and the impact that has upon one's income and lifestyle. For a family, the death or incapacity of a parent can have a catastrophic impact on those left behind.

We understand from experience the financial worries that concern people. We have helped many individuals protect themselves in the event of serious illness and loss of income. We have helped families who, sadly, have lost loved ones, come to terms with their loss with the help of the financial security put in place for them.

Make better-informed financial decisions that are right for you.



The most needed form of financial protection is life insurance. A life insurance policy will pay out a defined sum of money on the death of the life assured. The policy may run for a set number of years to coincide, for example, with the length of time over which a breadwinner has financial responsibilities to dependent children or the term of a mortgage. This form of life insurance is called Term Assurance.

Term Assurance

No one takes out a life insurance plan for their own benefit but for the ones they care for, usually a family member who will suffer financially on the death of a spouse or parent.

Placing a life insurance policy in trust for a wife, husband or child will ensure that the right person receives the death benefits quickly and without the need for probate.

A life insurance plan can be written on the life of another. This allows a husband to insure his wife and vice versa. On the death of the spouse, the life insurance pays out to the plan holder being the surviving spouse. This is an alternative to placing the policy in trust. The plan benefits are paid out to the plan holder avoiding the delays of probate.

A term assurance policy with a level sum assured varies in cost depending upon the level of cover required, the term of the insurance, the health, lifestyle and age of the applicant.

A term assurance policy can be set up on a single life or joint life basis. For a joint life plan to be accepted there has to be an insurable interest between the two applicants for example, marriage, civil partnership or joint liabilities.

Underwriting

All life insurance applications are initially offered on standard life premiums. These initial terms are subject to full medical underwriting. This process may include medical checks with the applicant's GP surgery and a medical examination. The outcome of the underwriting is one of the following: the plan is accepted on standard terms, the cost of the premium offered is increased to cover an additional risk, or/and there is an exclusion added to the terms or the plan declined. Once the terms offered are accepted, the plan is placed in force and the life insurance goes 'live'.

Full Disclosure

When completing a life insurance application, it is important to disclose all aspects of one's health history and lifestyle. Non-disclosure can invalidate or restrict a claim. One example could be gaining a life insurance on non-smoker rates when the life assured is a smoker.

Guaranteed Premiums

Guaranteed premiums mean that the initial premium cost is guaranteed throughout the term of the plan or the whole of life. If indexation is chosen then the premium will increase but only as a result of the yearly retail price index increase.

Reviewable Premiums

Reviewable premiums will be reviewed usually every five years; at each review the premiums may change. This review assesses if the predictions used in calculating the original premiums actually then occurred. Issues that affect premium calculations include advances in medical science, outbreak of epidemics, health and longevity data, regulation, costs and taxation.

Ensure your financial security for when you might need it most.

Plan Benefits

Once the life insurance goes on risk, the life insurer is contracted to pay the sum assured. As part of a plan's benefits, many modern life insurance plans include terminal illness cover, which allows a sum assured to be paid out during life time, in the event of a terminal illness diagnosis and the predicted longevity of 12 months or less.

Life insurance plans will payout on suicide so long as the life insured did not take their own life within twelve months of the plan going on risk.

A life insurer is released from the contract if the plan lapses due to non-payment of premiums.

Indexed Benefits

If a married couple took out a level term assurance over 21 years to protect the financial needs of their newborn, then the sum assured today will have much less purchasing power in 21 years' time. Therefore, life insurance plans can include index-linked benefits where both the sum assured and the monthly premium will rise in line with the Retail Price Index (RPI) each year for the duration of the plan.

Waiver Of Premium

Waiver of premium is an optional benefit that would pay the monthly premium after a deferred period of usually 3 or 6 months while the life assured is unable to work due to sickness or accident. Waiver of premium benefits cease when the life assured returns to work.

Have confidence in your security and peace-of-mind to enjoy life now.

Repay your mortgage at a time you may need to most.

Mortgage And Loan Protection

There is a great sense of price and fulfilment in buying a first home or moving into a new one. The sense of security is also matched by the feeling of responsibility. The responsibility of having a mortgage brings with it the obligation of repaying the loan.

One of the risks that a mortgage holder faces is that of serious ill health and long term disability and the impact this has on one's income and ability to meet financial commitments. For a family or business the death or incapacity of a parent or business owner can have a catastrophic impact on those left behind particularly if loans are outstanding.

A common way to protect an outstanding mortgage is through a Mortgage Protection Plan. The majority of UK home loans are arranged on a capital repayment basis, usually over 25 years. The profile of the capital repayment means that the mortgage will be fully repaid at the end of the agreed term. Therefore as the amount of outstanding debt reduces every year so does the life insurance sum assured. This form of term assurance is decreasing in nature.

A Decreasing Term Assurance can be taken out on a single or joint life basis, the joint liability being the insurable interest.

Family Income Benefit

We have a great instinct to protect our children particularly when they are wholly dependent. This is especially true when it comes to protecting them financially if you are no longer around to do so.

The loss of a bread winner's income due to death is a real threat to a family. A low cost way to protect against this is a Family Income Benefit Insurance. This form of life cover is similar to a decreasing term assurance in that it runs for an agreed term usually the years that children remain financially dependent. The overall sum assured falls each year as the remaining term reduces.

A Family Income Benefit plan provides a monthly tax free income for a fixed term on the death of the life assured. The plan can be set up on a joint life basis between the parents where the survivor receives the monthly income or can be set up on a life of another basis where the plan holder receives the monthly income.

Once set up, the monthly income is either fixed or index-linked meaning the purchasing power of the sum assured remains unchanged over the years.

Income tax is not applicable to the benefits of a privately owned life insurance plan, so the benefits would be paid free from tax.

Ensure your financial security for when you might need it most.

Critical Illness Insurance

There was a time when a cancer diagnosis, a stroke or a heart attack were all expected to have a fatal outcome. Advances in medical science now mean this is often not the case.

It is now far more common for people to live with serious conditions, also referred to as critical illnesses. British people are now more likely to fully recover from what was once known as life threatening illnesses than ever before. However, having suffered such an illness you may prefer to take life a little easier and reduce responsibilities and obligations.

Critical Illness insurance provides a lump sum or income if the live assured were to suffer from a range of defined critical conditions. Such a claim would cover illnesses such as cancer, strokes, heart attacks or specific surgery.

The British Medical Association (BMA) and the Association of British Insurers (ABI) have agreed a range and definition of each included medical condition to give clarity and certainty to any potential claim. The ABI statement of best practice sets out model definitions for each critical illness and exclusions. Life insurers offer cover for 43 such conditions, with some covering even more.

Critical illness cover is often added to a level or decreasing term assurance to provide comprehensive cover for families and mortgage debts.

Children's Cover

Many life insurers now offer critical illness cover to the children of a policy holder as an additional benefit. A child, whose medical condition meets any of the definitions of critical illness, can receive a lump sum benefit of either £25,000 or 50% of the sum assured. This additional feature is in recognition of the financial impact a child's illness can have upon parents.

Benefits from a privately owned critical illness plan are paid tax-free.

Help your children inherit more and give them the best future possible.

Whole Of Life Insurance

All of the life and critical illness insurances previously covered run for fixed terms. At the end of that term the policy benefits end. If no death or critical illness occurred during the cover period, the insurance offered only peace of mind.

As the cost of life cover generally increases with age and changes in health it is worth considering a whole of life plan that guarantees lifelong insurance and a certain pay out.

The application and underwriting process are the same as with term assurance. Whole of life insurance can offer guaranteed premiums as well as reviewable. Once on risk, the plan offers lifelong guaranteed insurance so long as the premiums are maintained.

Inheritance Tax

Whole of life insurance is often used to protect families from events that may occur later in life when insurance becomes more expensive and/or difficult to obtain due to advanced age or state of health.

Whole of life insurance can be placed in trust so that children can benefit from the policy on the death of their parents. This principle is commonly used to provide the means for children to pay the Inheritance Tax liability due on their late parents' estate. As the plan is written in trust, the children will receive the sum assured directly and outside the parents' estate, giving them the means to settle with HMRC and then receive their inheritance without the estate having to be sold.

Gift Inter Vivos

A gift inter vivos life insurance policy pays out a lump sum if the life assured dies during a specific term. The term usually coincides with the seven year potential exempt transfer taper relief for gifts.

This is a special form of life insurance protection where the amount of cover reduces over the seven year term in line with the taper relief steps. The cover is design to provide protection against the possible inheritance tax liability associated with a gift.

Income tax is not applicable to the benefits of a privately owned income protection plan.

Inheritance Tax is potentially the largest tax demand your children will ever face.

Trusts

Trusts have a major role to play with regard to life insurance. No one takes out a life insurance plan for their own benefit but for the ones they care for, usually a family member who will suffer financially on the death of a spouse or parent.

Placing a life insurance policy in trust for a wife, husband or child will ensure that the right person receives the death benefits quickly and without the need for probate.

The life assured would settle the policy into trust and ask others to act as trustees to oversee the payment of the benefits to the named beneficiaries.

A discretionary trust will offer the trustees a range of potential beneficiaries who may benefit from the policy sum assured. This range will include, spouse, children, grandchildren etc. but no one individual is specifically named so offering the trustees some discretion if need be. A discretionary trust is most commonly used for long term or whole of life insurances.

A bare trust differs in that it distributes the policy sum assured to specifically named individuals offering the trustees no discretion as to whom to pay out benefits.

A joint life plan does not need to be placed in trust as the surviving plan holder will automatically receive the benefits.

If a wife takes out a life insurance on her husband's life, where she is the plan holder and he the life assured, then a trust is not needed as the proceeds will go to the plan owner.

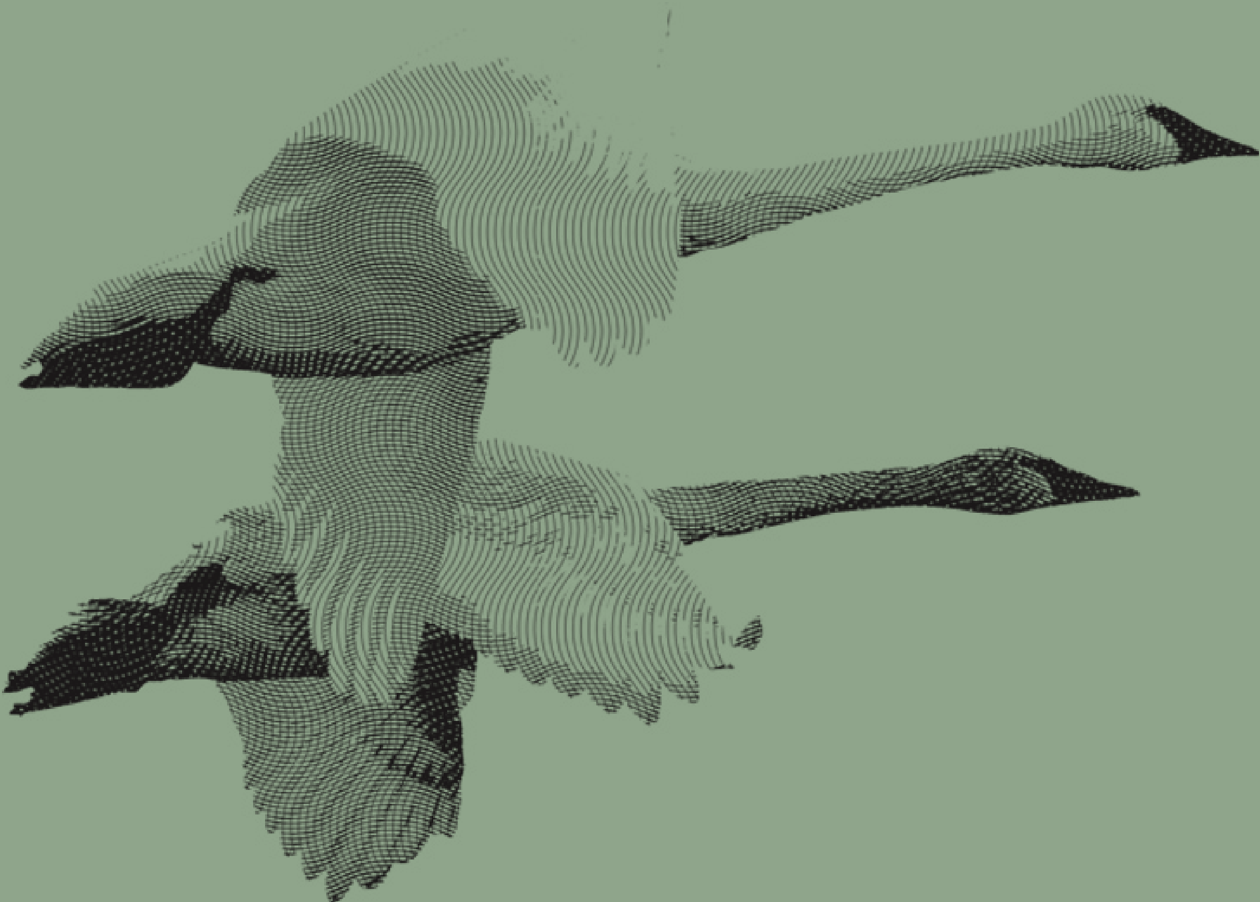
However for a single or joint life insurance where someone else is to benefit, such as children, a trust is recommended.

Split Trusts

A life insurance policy may include both life and critical illness benefits. In this case it would be inappropriate to transfer the policy benefits paid out on a critical illness claim to someone other than the plan holder.

Critical illness insurance is a personally needed benefit, so it is appropriate that trusts allow the life insurance element to be placed in trust for others while the critical illness element remains self-owned. This form of trust is known as a split trust.

Protect your business from the consequences of death.



Business Assurance

It is not only families that are affected by the death or incapacity of a spouse or parent. That same person could also be a partner, shareholder or director of a business.

A business needs to be secure if an owner or key employee dies. Banks may want overdrafts repaid, debts may need to be cleared, new staff recruited, a drop in profits protected or the means to retain business ownership. For this reason, businesses seek to insure their owners and key staff in the event of death or serious illness.

Share Holders Protection

It is common for private limited companies or partnerships to be established by like-minded or trained individuals working together in a common interest.

A business may be owned, for example, by three people. Over time, the business and the management responsibilities grow. If one share holder were to die, a third of the business could be inherited by a spouse who has no relevant skills or business knowledge. The remaining two shareholders may wish to pay the deceased's family the cash value of the inherited shares and retain full control of the business. The deceased's family may want cash rather than shares, so all parties can benefit.

In order to facilitate this arrangement and the option to provide cash for shares, a shareholders' protection arrangement needs to be set up.

Cross Option Agreement

Each shareholder takes out a life insurance policy for their share of the business value. The term of the insurance usually ranges from 5 years to 'until retirement'. The level of cover should be reviewed every three years to ensure the sum assured reflects the value of the business. This insurance policy is written in trust to the other two shareholders so they benefit if the life assured dies.

Each shareholder then enters into a 'Cross Option Agreement' with each other. This agreement seeks to offer options over the purchase of the deceased's equity from the family by the remaining shareholders. If both parties agree the shares are bought using the proceeds of the life insurance plan. If one party declines then the shares are retained by the family and the cash remains with the company. Either option may occur. If a parent needs money to bring up a family then the shares may be sold. If the business is a generational family business where the spouse and children wish to retain their interest, then the shares may be kept.

Key Man Insurance

Certain people may play a vital role in the profitability of a business such as a managing director, technical director or sales director. The impact of a death or critical illness on such an employee may cause a significant impact on a business. It may impact a credit rating, a share value, future sales or overburdening responsibilities on remaining directors.

In order to reduce the financial impact such an event may have, a company or partnership can take out a life insurance or critical illness policy on the key members of staff. The insurance term could be between 5 years and retirement. The business would receive the payment upon any successful claim and use it to repay debt, aid recruitment or make investments etc. so the business can successfully carry on.

Relevant Life Insurance

Relevant Life Insurance is a type of death in service policy but for just one member. The employer takes out a life insurance policy on the life of the employee. Usually the employer pays the premiums but the benefits are not classed as taxable benefits so no income tax or national insurance is charged on the premiums. The sum assured is written in trust to the employees spouse or family so that they benefit and not the employer.

The plan sum assured can be no more than 20 times the life assured's income from employment. The plan can run up until the normal retirement age of the life assured.

Make better-informed insurance decisions that are right for you.

Protect your income during periods of ill health.

Income Protection

Ill health is a risk we all live with. Long-term illness, injury or incapacity can have a life changing impact, particularly, if ill health or disability affects one's ability to earn a living. This is especially true for the self-employed or business owners.

Even employees working for large organisations may only benefit from one month or three months of sick pay. The loss of taxable earnings or net profits from a period of ill health can be protected.

An income protection or permanent health insurance (PHI) policy will protect the loss of up to 55% of one's total taxable earned income up to an upper limit of around £150,000 pa. The income protected has to be earned income but can include private company dividends (although not rent, which is classed as 'unearned income').

The payment of income benefits is usually deferred for a period of time. The deferral periods are commonly 1 month, 3 months, 6 months and 12 months. Clearly, if ill health has a major and early impact on earnings, a short deferment period is recommended, while longer periods may suit people with greater capacity for loss or other benefits to rely upon such as some sick pay from employment.

The selected income benefits are invariably index-linked so will rise each year in line with the Retail Price Index (RPI). The benefit term can run to age 55, 60, 65 or state pension age.

The payment of benefits can be based upon your own occupation so specifically for your trained career or any occupation where if you are able to return to work in any form of employment, you would be expected to do so. Some insurers offer a hybrid policy with a two-year claim period of being unable to perform your own occupation followed by any occupation.

For someone with a specialist career, who has been highly trained or educated to perform their role, own occupation benefits make sense. An income protection insurance claim can provide a significant amount of money as the plan holder is insuring 55% of their remaining career earnings.

Any claim is triggered by a GP signing the plan holder off work. The claim will last until the plan holder is fit again to resume work either full time or part time, dies or reaches the end of the policy term.

The plan is permanent in nature so several claims for periods of ill health can be made throughout the term of the plan.

For someone returning to work initially on a part time basis after a period of ill health, a proportionate benefit is paid until full time work resumes.

To allow an insurer to assess a potential claim they will require written medical evidence from your GP surgery or hospital consultant and evidence of financial loss of income.

Income tax is not applicable to the benefits of a privately owned income protection plan.

How much does life insurance cost?

Life insurance often costs less than people expect it to. The monthly premium is dependent upon the level of cover, age, health and lifestyle of the applicant. Once an application has been underwritten, then the final premium can be confirmed.

What would stop a policy claim from being paid out?

Life insurance, critical illness and income protection policies are all clearly defined contracts of insurance. If a policy holder fulfils the conditions of a claim then a pay-out will be made. A claim could be affected by any non-disclosure issues at the point of application.

What about an existing illness?

All pre conditions or existing conditions are taken into account during the underwriting process. A final premium offer will take these into account.

How much can I insure myself for?

If you wish to insure your life for the benefit of your wife or husband or family there is no upper limit.

How much can I insure my income for?

Income protection policies can insure up to 55% of your taxable earned income. This income can include salary and private company dividends or self-employed net profit. It will not cover investment derived income such as rent.

Should I put my life insurance in trust?

All single life insurances should be placed in trust to ensure that the person that the life cover is there to protect receives the policy benefits swiftly and without the complication of probate.

What is the best way to protect my family if I die?

This will depend upon your circumstances and needs. Firstly it would be important to clear any family liabilities such as a mortgage and a mortgage protection plan will achieve this objective.

However a mortgage is not the only family outgoing, so to cover the loss of an income, a family income benefit plan or term assurance should be considered.

Should I take out term assurance or whole of life insurance?

If the nature of your insurable interests such as a dependent child or mortgage liability has a term that will at some stage end, then a term assurance policy will provide the needed cover over the required term at lowest cost. If, however, you have lifelong insurance needs, then a whole of life policy is more appropriate.

What is the difference between own occupation and any occupation?

This difference particularly applies to income protection plans. The life assured can apply for protection against the loss of income from a specific occupation, one that is higher paid due to greater skill, education or training as compared to any occupation. An income protection plan will therefore pay out income if the plan holder cannot do the role that they are trained to do irrespective of if they can do any other.

Should I index link my life insurance benefits?

Life insurance is usually a long-term insurance and, as such, a sum assured will reduce in relative value over time due to inflation. Index-linked benefits will avoid this. With index-linked policies both the sum assured and premiums increase by the Retail Price Index (RPI) each year.

We take responsibility for people's life savings. A responsibility we take very seriously.

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