Virtue Money

A Guide to Saving & Investment

MONEY AND FAMILIES

Introduction

Importance of money to families

Many Britons consider that having an Internet connection and mobile phone is a greater financial priority than protecting their mortgage and income, according to new research. The economic downturn in previous years, low interest rates, job uncertainty and government cuts appear to have taken their toll on some people's protection priorities.

The latest Scottish Widows Protection Report revealed that only 39% considered providing financial security for their family in the event of their premature death as essential – which has dropped from more than half in four years.

FINANCIAL EDUCATION

Understanding your own finances per household is so important to ensure you and your family are covered for expenses.

On the back of this, it is also extremely important, as parents to understand and educate children on finance and how it will affect them in the future. This book aims to help provide you with information to consider when looking at finances as well as tips for how to educate your family on the importance of financial awareness.

Contents

Family Finances

When was the last time you discussed the family's finances?

The unexpected death of a spouse can lead to considerable financial problems if the surviving partner is not fully aware of the state of the family's finances. All too often, couples do not fully discuss the implications of the death of a spouse or partner, and this can create additional stress that could easily have been avoided. So it's worth taking some time out to consider the following areas of your family's finances.

Inheritance Tax (IHT)

If you own your home on a joint tenancy basis and are married, there will be no tax liability on the first death, because anything left to a spouse or registered civil partner is not subject to IHT. The same applies when you each own half the home as tenants in common and each of you leaves your share in your Will to the surviving spouse. However, a surviving spouse must be UK domiciled for an unlimited amount to be IHT-free, otherwise a reduced amount is IHT-free.

But IHT could be a problem once the second spouse or registered civil partner dies, in terms for your children. Under the IHT rules for the 2018/19 tax year, once a chargeable estate is worth more than £325,000, the excess becomes subject to IHT at a flat rate of 40%.

If an IHT bill looks likely, it is more sensible to make some provision to meet it, otherwise your heirs may be forced to sell the family home or other assets simply to raise enough money to pay the tax bill. A popular solution is the purchase of a **whole-of-life insurance policy** written in an appropriate trust and designed to pay out when the surviving spouse dies.

Pension provision

You also need to consider what death benefits will apply if you die before drawing your pension benefits under your current and any earlier pension arrangements. Will a lump sum death benefit be payable? Will provision be made for a pension to be payable to a surviving spouse, registered civil partner or dependents?

If a lump sum is payable to any one or more of a range of potential beneficiaries at the discretion of the trustees of your scheme, establish that your desired beneficiaries fall within the eligible group of beneficiaries and notify the trustees of who you would like them to consider when making any lump sum payment. Schemes typically have a benefit nomination form for this purpose.

Investments

Provided you say so in your Will, investments (such as unit trusts), investment trusts and shares can revert to your spouse or registered civil partner when you die, although in some instances the tax advantages of certain investments may be lost. If you have a substantial investment portfolio, it may be advisable to bequeath some of the investments in your Will directly to your children or grandchildren to make use of the IHT nil rate threshold, provided you leave enough for your surviving spouse or registered civil partner to live on. If a discretionary trust is used with your surviving spouse or registered civil partner named as a beneficiary, the trustees can pay capital or income or make interest-free loans to that spouse.

Wills

Don’t assume everything will automatically go to your spouse or registered civil partner when you die. Ensure that you have a properly drawn-up Will. Ask someone else as well as your spouse or registered civil partner to be an executor, and, finally, don’t forget to tell them and other family members where they can find a copy.

Investment

What is Investment?

This is the process of taking a lump sum of money and putting it into a financial product that is designed to reach an investment goal. The financial product that the specific investor wishes to invest in depends on the amount of risk they are willing to take and what their financial goals are.

It's easy to find people with investing ideas—your hairdresser, your neighbour, or an "inside tip" from a someone "in the know". But these kinds of well-meaning but not necessarily informed suggestions aren't a replacement for a real investment strategy.

Your portfolio needs a regular check-up. You should check your asset allocation at least once a year or any time your financial circumstances change significantly—things like losing you job or getting a big bonus. This is also a good time to review your existing assets and risk strategy to see if it still meets your current situation and future plans.

Types of investment

Cash (savings accounts)

Fixed-term accounts are saving accounts that pay interest, however they do not let you withdraw the money from it within a given time frame (usually between 1-5 years).

A regular saver account pays interest, but at the lowest amount. Typically, a customer will set up regular payments to the savers account from the account they receive their earnings from.

Notice accounts pay interest also, however a liable for loss of interest if you are to withdraw money without giving your bank enough notice (usually between 30-90 days).

Bonds

These are issued by the government and companies in order to raise money. The investor lends their money to the cause and in return the bond issuer will pay back the investor and interest. However, if the business that the bond is held with goes out of business, the investor will no longer receive interest payments and may be liable to non-payments of their original investment.

Shares

This is another method used by companies to raise money. When you purchase a share within a company you become a 'part owner' of the company, thus a shareholder. The more shares you buy with a company, the more you own of such company. Shares usually pay out income every 6 months (this is known as a dividend) and hope that over time the share price will increase. However, if the company make a loss, they will be unable to pay a dividend and subsequently the share prices will fall.

Financial Protection

A **life insurance policy** is an insurance contract. In exchange for regular premiums, the contract offers to pay an agreed lump sum of money on joint life policies if one of the lives covered dies during the term of the policy. Generally, the younger and healthier you are the cheaper this type of insurance is and when your family is young this insurance can give you the “biggest bang for your buck”.

You may already have a plan that covers the outstanding mortgage on your home but what about not only the day to day costs but the future costs your family might encounter – university, weddings and help getting children on the property ladder.

Some of the things that you might like to consider are “how much cover do I think you need” and “how long do you need the cover for”? As with any other financial decision you make, the product has to fit your needs.

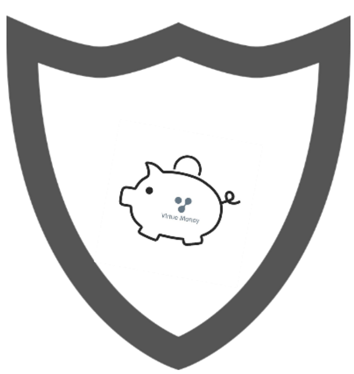
What is Term Life Insurance and what does it mean?

- You have to die for it to be paid out
- It only covers a set period of time at the end of which it expires

If the person or persons insured live longer than the term of the insurance policy, then no cash value is payable under a term life insurance plan. Level term life insurance provides cover of a set amount of cover for a set period of time.

There are different types of life insurance, level (premium and cover remain the same), increasing (premium and cover increase in line with the contract) and decreasing (cover decrease and premium generally remains the same).

You can add **critical illness** cover for an extra cost when you take out your policy. It could pay out a cash lump sum if you are diagnosed with one of the specified critical illnesses that your plan covers during the length of the policy, such as heart attack, cancer or stroke. You can also add Terminal Illness cover, again for an additional cost, which pays out a cash sum if you are diagnosed with a terminal illness from which you are expected to die within 12 months of the diagnosis.



How to Teach Young People about Finances

Here is a step-by-step guide to how parents can teach children about money.

Ages 3-10 years

Step 1: Introduce an allowance but teach them they must earn the money through doing household chores.

Step 2: Allow the child to spend their allowance on whatever they wish, therefore they will understand the concept of not wasting their money. Also, try and refrain from purchasing goods for them when they "want them" to allow them to understand the concept of earning.

Step 3: Create a chart that allows the child to see how much they need to save in order to purchase something they want. Once the child has earned their money, they can tick it off the chart and save.

Ages 11-16 years

Step 1: Start encouraging the child to research and compare prices of items. This can be done easily even with weekly food shopping.

Step 2: Start to explain what interest is and how money will grow over time with the more they save

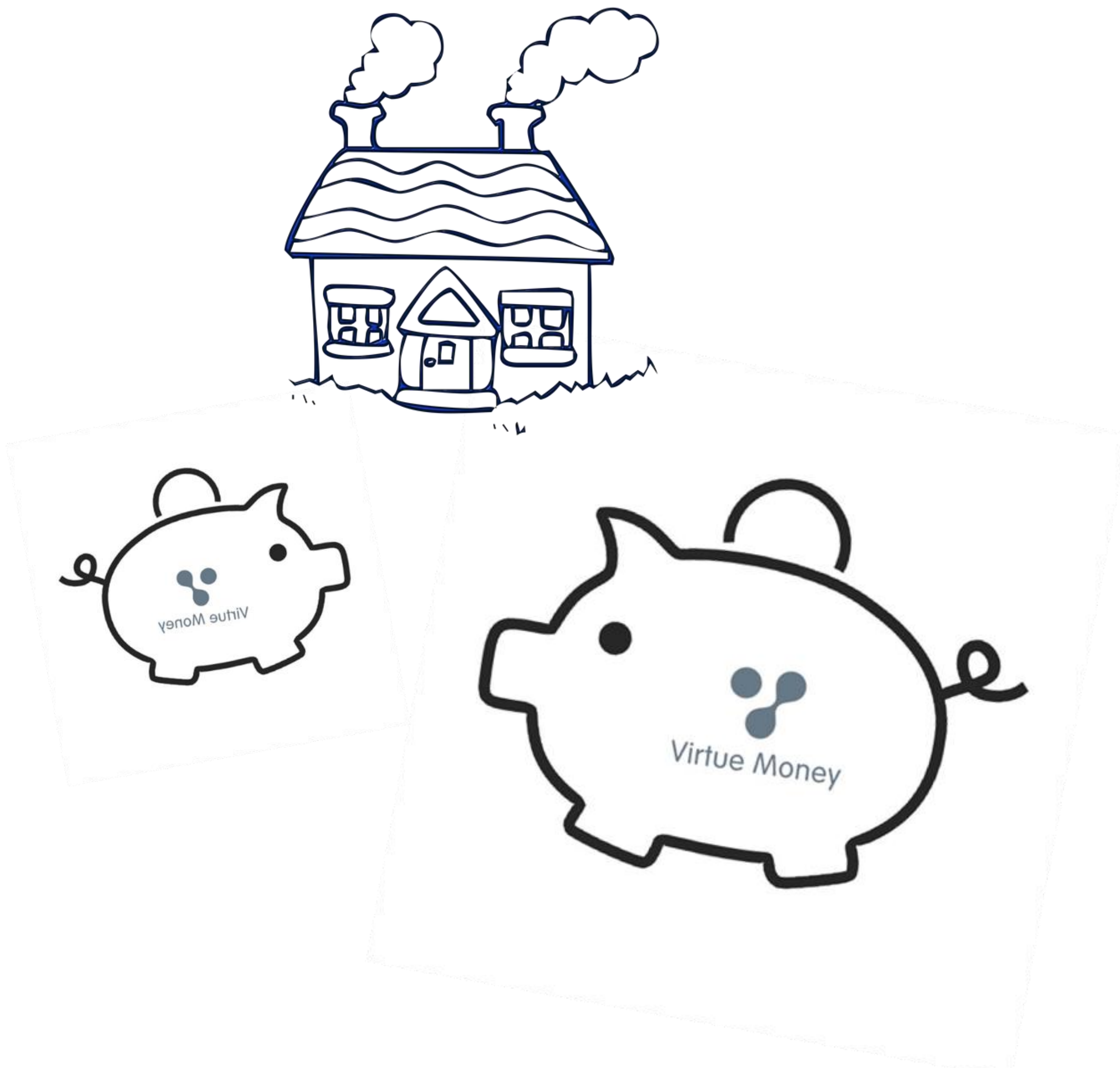
Step 3: Give your child 3 piggy banks (one for spending money, one for short-term savings and one for long-term saving).

Ages 17-21 years

Step 1: Explain the need to save for a mortgage and potentially look at investment into something such as an ISA to help. A good tip for training them to understand all of this would be helping them book a holiday with their friends (putting down a deposit, then instalments).

Step 2: To help your child avoid debt, explain what credit means and how they can use it smartly. An example of doing this could be purchasing a car. In this case, parents may be able to lend the money for the car, however the child has to pay back the debt and interest.

Step 3: Teaching them about credit could be done through them getting a credit card to pay for their phone bill for example, paying back the credit card each month. This will help them understand budgeting. You must also make them aware before getting a credit card of not paying the card back – a bad credit score.



Helpful Websites

New Model Business Academy provides free information regarding financial advice - http://www.nmba.info/

BBC news (more directly 'your money') gives you the latest news surrounding finances - https://www.bbc.co.uk/news/business/your_money

Citizens Advice provides free information regarding financial advice and tips about budgeting, pensions and tax- https://www.citizensadvice.org.uk/debt-and-money/getting-financial-advice/

HM Revenue and Customs provides free information regarding national insurance tax, child benefits and VAT - https://www.gov.uk/government/organisations/hm-revenue-customs

Yolt is a free App for both android and apple phones providing an outline to income and outgoings to help monitor and budget your finances - https://www.yolt.com/

About Virtue Money

Virtue Money is a family run Independent Financial Adviser firm based in Linlithgow. We help you to manage your financial goals, and really specialise in helping you with pensions or investments.

There is no crystal ball to tell you what your financial future will look like however with a bit a plan there is a way to give you a clearer picture of what retirement can look like for you.

At Virtue Money we believe that Cash Flow Modelling is an excellent way to start planning your retirement and help with your lifetime cash flow.

We input detailed information supplied by you into our software system and can build in various “what if” scenario’s like what if the children go to university, what if we pay off the mortgage early, what if we want to go on that once in a lifetime holiday to identify a course of action needed to ensure that your financial future isn’t just pie in the sky.

We factor in things that perhaps you wouldn’t necessarily think about – the effects of inflation and the growth rate of your investments as well as lifestyle changes like increasing or decreasing your working hours, getting a better paid job or a large bonus.

If you would like to find out more about Virtue Money, please contact us on 0345 034 3424 or email **info@virtuemoney.com** to arrange a free appointment with one of our advisers who will talk you through the process and the costs involved. **Our website also provides you with more information at https://virtuemoney.com/contact-us/**

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"Virtue Money have been our financial advisors for about three years. Right from the start we have enjoyed their professional, friendly and 'whole person' approach as epitomised by the pre-retirement workshop we were invited to shortly after our engagement with them. That workshop focused as much on issues of health and well-being for those approaching retirement as it did on financial matters and, thus, offered a good indication of the values which underpin the company. They have been very attentive to us as customers, communicating with us regularly and providing what is often quite complex information in ways that are easy to understand. They are thorough, quick to respond to any queries and we consider the service provided to be excellent. We really appreciate the relationship we have. Always taking an interest in us as people and our family as well as being very prepared for our meetings with relevant paperwork provided to us beforehand. The service has given us financial peace of mind." – A testimonial from a client