

Planning for the unforeseen

As economic events have dramatically shown recently, things in life do not always go to plan. Even for those who manage their finances well day-to-day, an unexpected event like the loss of a job, or the break-up of a relationship can quickly lead to financial difficulty. According to a recent YouGov survey for MoneyBasics¹, almost a fifth (18 per cent) of those questioned about insurance, savings, wills and income protection said they have no cover in place whatsoever. But with the cost of living rising and job security dwindling, it pays to plan for the unforeseen.

This guide takes a look at the financial products and services you may like to consider to help protect you and your family. It also provides advice on where to look for assistance if things go wrong.



Loss of income

The unexpected loss of income from a job can be devastating. Whether you are dismissed, made redundant, or unable to work due to a long-term illness, the effects on you and your family would be huge, so it is important to consider what cover you have in place in case of a loss of income.

- Savings: many choose to invest their money in high-interest savings accounts in case of a 'rainy day'. Popular options include:
 - Short-term savings – these are accounts which can be accessed easily and at short notice in case of emergency. Although interest rates may not be as high as some others, an instant or quick access account may be a better bet if you are saving your money for emergencies.
 - Long-term savings – longer term savings options are better kept for planned events, like retirement or university fees for your children. Savings accounts like the tax-free Individual Savings Account (ISA), can be an excellent option for the long-term saver, allowing you to invest up to £7,200 a year, of which £3,600 may be in the form of cash deposits (i.e. in a bank or building society account).

There are a huge number of savings accounts available on the high street, so it is good to shop around. The Financial Services Authority provides comparative tables on savings accounts so have a look online to compare prices and products (see useful contacts on page 3).



¹ The survey was conducted by YouGov, which interviewed a total of 3,145 adults in May 2008.

- Insurance: there are a number of insurance products available to cover you against loss of income.

These include:

- Personal accident and sickness insurance – where the insurance company pays the difference between the state benefit and what you would have earned at work. Some employers offer staff company-organised or discounted income protection, so check the terms and conditions of your contract, or speak to your employer to find out your entitlement.
- Payment Protection Insurance (PPI) – this is a form of insurance which is often offered when you take out a mortgage, loan or credit card. This insurance covers the regular payments of your mortgage or other financial commitments if you are unable to do so due to illness or the loss of a job. PPI is offered on a wide variety of financial products. But, as it can be expensive in the long term, it is important to think very carefully before taking out PPI. If you do not think it is in your best interests, or want to know more before taking a decision, more information is available from the Financial Services Authority (see useful contacts on page 3).

Separation or divorce

When a relationship breaks down, it can be very difficult to separate the finances, especially if there are children involved. However difficult it may be to think of things going wrong, couples may wish to consider:

- Debts and assets: if you have both signed a credit agreement or are both named on legal documents like a mortgage, you will be jointly liable for your debts. As a couple it is important to ensure you have agreed the debts you are jointly responsible for, and that you protect your rights to any jointly-held assets.
- Child support: child support is assessed by the government's Child Support Agency on the non-resident parent, examining the number of children involved, the non-resident parent's income and circumstances and any other children living with the non-resident parent. There is a basic rate of 15 per cent of net income for one qualifying child, 20 per cent for two and 25 per cent for three or more children. To find out how this might affect you in the event of a separation or divorce, visit the Child Support Agency website (see useful contacts on page 3).
- Divorce and pension rights: in many families affected by a divorce, one partner will be the main earner in the household. To ensure assets are divided fairly, the main earner's pension may be taken into account. For example, the wife may keep the house and the husband is allowed to keep the pension fund. Equally a divorce court may order the division of a pension fund between two parties. If you are facing a divorce and are concerned about your entitlements, you should seek specialist advice from a solicitor.

Bereavement

The loss of a partner is a difficult enough time, even without worries over finances to consider. To protect your loved ones against additional stresses, there are several options available:

- Life assurance: the basic cover here – 'whole life' is for a lump sum to be paid on your death to your dependants. There are also options like term policies, which cover a set period (such as the duration of a mortgage) so that the beneficiary is covered should the main earner die. Whole life policies have higher premiums than 'term' insurance, because the insurer is guaranteed to pay at some point. You should think carefully about which option is best for your circumstances, and shop around for the best deal for you. Remember that some policies require medical tests or may only be open to people under a certain age.
- Wills: according to the MoneyBasics / YouGov survey, a third (33 per cent) of over 65s do not have a will. With a will, you can pass on your wealth without dispute. This is a simple process and it is never too soon to make a start. Look for advice from organisations such as Age Concern or Help the Aged or speak to a solicitor to prepare your will. To draw-up a simple will, the cost is likely to be in the region of £70 – £100.
- Bereavement payments and allowances: these are government benefits available to those who have recently lost a spouse. You may be eligible for a one-off Bereavement Payment (of £2,000) or a weekly payment (standard rate of £90.70) in Bereavement Allowance or a Widowed Payment Allowance. You can find out if you are eligible for these benefits, or for help towards funeral expenses, from Jobcentre Plus.



Other insurance options

There are a range of other insurance products to guard against financial loss. As with all insurance, it is important to read the small print before signing up to any policy, and to shop around to ensure you get the right deal for you. Speak to insurance companies directly and try price comparison websites for the best deals:

- **Building and contents insurance:** it is a condition of a mortgage that you must have buildings insurance in place and it is wise to insure the building against fire, flood and damage, however it is important to remember contents insurance too. If you rent your home, and for student accommodation, there are special home contents insurance products available so choose the right product for your circumstances.
- **Car insurance:** a minimum of third party car insurance is compulsory by law. This covers the damage you may do to another vehicle or its occupants in an accident where you are responsible but it does not provide any cover against damage to your own car. The best option to protect yourself against all circumstances is comprehensive insurance, which protects the value of your car against loss by theft and damage by fire or accident. Car insurance premiums are generally cheaper if you have held a continuous policy and not made a claim.
- **Travel insurance:** travel insurance policies generally provide cover for your possessions, protection against cancellation or changes to your trip, and cover for any legal and medical expenses you may incur whilst travelling. It may be cheaper to take out an annual multi-trip policy if you travel regularly, or to consider a joint policy with your partner. However, remember that certain trips and items, for example winter sports trips or items like golf clubs, require special cover.
- **Health insurance:** this provides cover for medical treatment in private hospitals or for other private medical treatment, for example dental or optical care.
- **Pet insurance:** this provides cover against medical expenses for your pets.
- **Protection against fraud:** there are some policies to protect you against theft of your financial details. However, think carefully about whether you need these. If you are the innocent victim of fraud, your bank or building society will fully refund any losses you suffer, as stipulated in The Banking Code.



Dealing with debt

If things do go wrong, remember that there is advice available to you and that the worst thing you can do is ignore the problem and hope it goes away. If you are in financial difficulty then it is vital that you speak to your bank or building society as soon as possible so that they understand the situation and can try and work with you to improve the situation. You should also get help from a charitable groups such as Credit Action or the Consumer Credit Counselling Service (CCCS) who can provide completely free and independent information, advice and support.

Useful contacts

MoneyBasics – www.moneybasics.co.uk

FSA – www.fsa.gov.uk

Child Support Agency – www.csa.gov.uk

Age Concern – www.ageconcern.org.uk

Help the Aged – www.helptheaged.org.uk

Jobcentre Plus – www.jobcentreplus.gov.uk

Credit Action – www.creditaction.org.uk

Consumer Credit Counselling Service – www.cccs.co.uk

Association Of British Insurers – www.abi.org.uk

NB: Unless otherwise stated, all figures quoted apply to the 2008/2009 tax year. This document is intended to act as a guide only. It is recommended that professional financial advice is taken from the relevant authorities and bodies.