

Penguin Bitesize Guides to Better Money Management

Guide #5



Five Tips on How to Protect Yourself and Your Loved Ones



Many people's relationship with financial protection and insurances is one of being forced to do the basic minimum required either by law, by contract or through emotional needs.

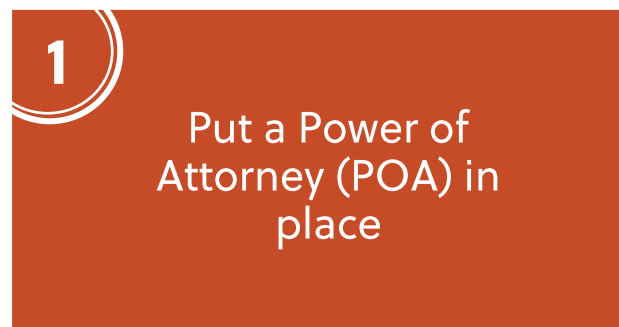
For example, having to take out car insurance so as not to become a criminal, needing house insurance to meet the requirement of a mortgage, or travel insurance because it will make you feel better about your holiday.

Research shows that some people will insure their pets before they insure themselves for the benefit of their children.

Not many of us think about the true value of comprehensive protection for all our financial and family interests.

Smart financial planning involves protecting everything you can, as much as you can.

Here's how to organise the most comprehensive protection arrangements for you and your family.



1 Put a Power of Attorney (POA) in place

This is number one on our list for a reason. The consequences for individuals without a POA who **lose capacity**, can be disastrous.

Losing capacity normally means not being able to take decisions, for example due to a serious illness or injury.

In these cases, someone else needs to take control and make decisions on their behalf, and this can cover both decisions about their health and care, and separately around their finances.

You may think that this gets automatically and easily sorted, but that is not the case. Not without the POA.

For example, accessing a bank account and paying bills cannot be done by someone else on your behalf, if you are incapacitated.

Reliable estimates put the number of people in the UK without capacity to make their own decisions, at around 2 million.

"I don't need a Power of Attorney because I have a Will" or "I don't need a Power of Attorney because my partner will pick up everything and deal with it for me" are common reactions to the idea that everyone should have a POA set up.

Wrong and wrong!

A Will (see point 2 below) is a document to direct what happens when you die. But do you know what would happen if you were incapacitated during your lifetime? If you do not have a POA organised, then there will be potential difficulties, obstructions, confusion, and your affairs could become very tricky to handle.



Your partner is unable to easily sort out your affairs with a POA, you may be married, you may have kids, you may have a business partner who you think can pick up the pieces, but it is very difficult for them to do so without the express instruction provided by the POA.

You need to act NOW. If you wait until you need someone to start managing your affairs for you, it will almost certainly be too late to get a POA in place, so you need to set up the instruction whilst you can.

Penguin's advice:

We have a simple position when it comes to arranging a Power of Attorney – everyone should have one. It is the most important lifetime protection document/safeguard you can arrange; it is straightforward to do if you use our help, and once done, it is there to protect you for the duration of your life.

2

Organise a Will/ Update your Will



It makes no sense NOT to have a Will, it really doesn't. Everyone will die, we don't know when, but it is a certainty.

A Will is the way to make sure your affairs on death are handled properly, and it makes everything so much easier for your loved ones.

By setting things out clearly, you can ensure your spouse, partner, children, friends, or others know your exact wishes. This may sound innocuous, but it is often the case that on death no-one is quite sure what to do. This can even include knowing whether you wanted to be cremated or buried.

A Will provides clarity around your finances, who you want to have your assets and possessions. In some cases, this may include sentimental items. It can include special bequests, maybe to a friend who has helped you through your life or to charities or good causes you want to support.

Essentially though a Will is first and foremost about making sure your property, everything you own, is divided up **as you want**. And to protect against unforeseen claims from other parties who you may wish to exclude. If you don't have a Will then the consequences for your family may be that sorting everything out becomes delayed, messy, and complex. Or there may be arguments about who gets what.

A well-constructed Will may help within tax planning, particularly to mitigate an Inheritance Tax liability. In this respect, it is very important to review and – if relevant – update a Will every few years.

Penguin's advice:

We always work with clients to tick the box of "completed" against Power of Attorneys and Wills. Our job is not done unless these boxes are ticked! You are not adequately protected against many financial risks unless you have both in place.



3

Use Trusts

Even though most people in the UK don't have a Will, there is a general acceptance that they are a sensible document to have in place. And most people understand what a Will is.

The same cannot be said for trusts. Far fewer people use trusts, and they are badly misunderstood. Using a trust is a wonderful way to protect wealth and assets from several threats, and they are easy and cost effective to put in place.

There are many types of trust, and they can have different aspects to them, which affects how and when you may use them. To think how trusts can help you or your family, consider them like a protective wrapper or cloak.

Then think about some of the things that would upset you in the future, such as a situation where you passed your wealth to one of your children, and they got divorced a little while after that, and half your wealth is lost to the ex-spouse of your child.

A trust can provide protection to stop this from happening. You can still pass your wealth to your child and their spouse, but the trust mechanism now applies a brake against the divorce threat.

Trusts have multiple benefits, beyond the protective wrapper described above. They can help reduce unwanted taxes in certain cases. They can help avoid a pay out of a life assurance on death without the need to wait for probate.



The important aspect is this – trusts are available to anyone to use, and they are not complex, but they are robust, as they work within the framework of laws established over centuries.

Penguin's advice:

Trusts are worth exploring. They are not complex and have many benefits that can help you protect many future risks to your wealth, that you may have believed were impossible to deal with. We can show you how a trust solution might work within your situation.

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Document and asset list

“The estimates for the total amount of unclaimed financial assets in the UK range from a conservative £15bn to an eye-popping £77bn, depending on which report you read.”

(Source: Royal London)

This emphasises the need for individuals to record their assets and holdings, not just to ensure wealth isn't lost because an account or an investment is missed after death, but also to make things easier for dependents.

It's not just on death either. If an individual loses capacity, for instance because of dementia, and a Power of Attorney becomes relevant and someone must take control of an individual's affairs, this can provide an invaluable reference point.

The scale of lost assets is just one aspect that makes the asset/document list a sensible measure. Another is that it helps to avoid untold hassle for those who must sort out all the financial and legal affairs of another.

Ask anyone who has had to do this where a detailed document/asset list is **NOT** in place. It can be an incredibly difficult process to go through, time consuming and complex.

What does such a list need to cover? Pretty much everything that an individual owns, including all bank accounts, savings, investments, and pensions. All legal documents should also be listed, such as who has the deeds to a property.

Against each item there should be an account number, an address of the company, if relevant, and notes to explain what the account is how and how it can be accessed. The document needs to be stored in a place, online or offline, and at least one trusted friend or relative aware of the location.

Penguin's advice:

Part of the protection plan must, of course, be to ensure there is enough money left for loved ones after death, or to insure yourself so you have enough funds in your lifetime, come what may. But making life easier for loved ones is also important and can make a big difference. Having accurate records, in the form of a document and asset list, recording what you own and all details of your financial and legal affairs, is an integral part of a good protection plan. We can help you put the list together and record everything.



5

Disaster Insurance

Disaster insurance is a net that is very circumstantial to an any individual's financial position. The way to think about this is to consider your own situation and to ask yourself what would be a financial disaster for you and your family? That answer will vary from person to person, family to family.

For example, if you contemplate this and you answer "running out of money in retirement" or "having to pay, over a prolonged period, for care" then you need to make sure you have insurance in place to cover this. It must be prioritised within your financial planning. In these cases, you may not be able to arrange a specific insurance plan, but that doesn't mean you ignore the need to take protective steps. If no insurance is available (for instance there is no obvious insurance policy to stop you running out of money in retirement) then you need to adjust your financial planning to create the *effect* of insuring against this disaster.

As a result, disaster insurance covers two aspects, one – making sure you have the right insurance policies in place. By 'right' we mean covering the risks you and your loved one's face, and at an adequate level of cover. Two – looking at those risks that can't be covered by an insurance policy and having a suitable projected fall back within your overall financial plan, that means these risks can be mitigated.

Mixing the two together provides for peace of mind and is a crucial plank within a successful financial plan.

Penguin's advice:

Work out what risks you face with your finances both short-term and long-term. These will include an untimely death, ill-health, needing care, losing employment, business or investment setbacks, divorces within the family and so on. In each case if the risk can be seen to seriously derail your finances, then you need to have an insurance policy arranged to pay-out or a clear idea of how your financial planning will adjust to cope. We can help you with all aspects of disaster insurance.



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Summary

One way to think whether you have provided comprehensive protection in your situation is to do so against a check list, and if you can complete this, with yes against each question, then you have everything you need to be fully protected.

- Up to date Power of Attorney in place? Yes/No
- Up to date Will in place? Yes/No
- Explored and considered trusts? Yes/No
- Asset and Document List in place? Yes/No
- Life Insurance in place at optimum level? Yes/No
- All health insurances in place at optimum levels? Yes/No
- Have you made a long-term financial plan that has measures in place to cater for those risk that you cannot insure? Yes/No

Penguin's advice:

If you have 'No' against any question, we will be able to help you change this to a 'Yes'.

About Penguin Wealth

We are a Cardiff-based Financial Planning firm formed in 2010 by a group of Financial Planners who share the same vision and love for what we do. Our processes, support team and the accreditation we have achieved all reflect our principles and prove that we are best placed to help you live the life you deserve with peace of mind.

Our Mission Statement

Helping People Live their Best Lives, by Making Smarter Financial Decisions.

Core Values

- At Penguin we Commit to our Words, Actions and Results
- Clients' Needs 1st – Always
- Communication is key
- Have Penguin Positivity

Providing the highest standard of advice is at the heart of what we do, and we are always extremely excited to see what we can help you to achieve in the future!

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