



PARSONAGE

Introduction

Beverley's situation is one I encounter quite a lot, many clients like her appreciate the female perspective from their financial planner.

Warning! If Beverley were my client, I would ask for a lot more information from her before finalising my recommendation, so this solution should not be relied upon without further research. I would also expect to have detailed discussions about Beverley's willingness to accept risk and which risks concern her most. If you are unsure, always seek advice.

Overview and Objectives

Beverley's balance sheet looks quite strong with an affordable mortgage and no debts. Even so, she is right to be concerned about her long-term prospects as she must rely on herself for financial security, as well as being the main provider for Henry and Isabel now.

I would add my own concern that the family would really struggle if Beverley were to die or become too ill to work. She may also want to think about medical insurance to pay for fast medical treatment, because she would get very little help with her income now that she is self-employed.

I am also concerned about how she will repay the "interest only" half of her mortgage in nine years time. I would want to put in place a programme to pay off that debt by the end of the term. Even if the debt isn't worrying her, I believe financial security starts with freedom from debt.

Beverley should also try to increase her emergency cash. The One Account mortgage would provide cash within a few days, but it would need to be repaid.

The Mortgage

The flexible mortgage Beverley has looks very suitable for her – she can overpay and make lump sum reductions on the mortgage when it suits her, if her self-employed income fluctuates.

Beverley has to find £35,000 in nine years to repay the interest-only part of her mortgage. She would need to increase her payments by (about) £300 per month to pay that off, which won't leave much money to make other long-term savings.

It looks as though Beverley plans to retire at 62. If Virgin agrees to a mortgage extension until age 62, the extra seven years might help Beverley, because the extra payment needed reduces to about £175 per month.

She could also use her pension lump sum to repay the mortgage, if she values *tax-efficiency* over simple *debt-reduction*.... and if she is happy with the risk (that the lump sum won't be enough). For example, her existing pension "may" produce enough to repay the £35,000 interest only part of the mortgage, but obviously she can't enjoy the lump sum for any other purpose if it is earmarked to reduce debt. She would still have to increase the mortgage term, and keep paying the interest, to make the mortgage repayment date coincide with her retirement date.

Liabilities

Beverley doesn't list this among her concerns, and it is a difficult topic to embrace, but as a financial planner it is my job to identify such risks. Beverley needs to know that

- She could secure an inflation-proofed income for her family of £2,000 per month until Isabel is sixteen at a monthly cost of £9.09.
- £42.04pm would insure her mortgage for *sixteen* years – to be paid off if she died or contracted a (qualifying) serious illness – or only £10.77 per month if she decided to do without the “serious illness” cover.
- £36.98 pm would buy insurance to provide £2,000 per month (inflation-proofed) if she became too ill to work for six months or more. That cover should last until Beverley retires, age 62 would match her pension policy.

Long-Term Savings/Pension

I wouldn't suggest allocating **all** Beverley's spare money at reducing the mortgage, because it won't provide her with an income during retirement. She needs to divide her resources.

The Axa and Prudential policies need to be reviewed, to make sure they still represent good value for money.

Beverley should make long-term savings into a pension if she values the 40% tax-relief and accepts its constraints. She could consider an ISA instead if Beverley may need access to the whole fund at some time, but doesn't need the tax-relief.

As a “long-term” bet, shares are definitely worth considering – even more so in current market conditions, when they may be cheap because they are unpopular.

Budget: £500

Insurance to cover risk = £88.11

Long-term savings = £210

Mortgage reduction = variable to £200

Assumptions

- **Parsonage is an appointed representative of Sense Network Limited, which is authorised and regulated by the Financial Services Authority.**
- **Your home may be repossessed if you do not keep up repayments on your mortgage.**
- Beverley doesn't smoke, doesn't have any medical conditions and is accepted at standard rates for all insurance
- The income protection insurance has a *reviewable* premium, so the insurance company can increase it. All other insurance premiums are quoted *guaranteed*.
- 40% tax relief on pension contributions is available throughout the term
- The pension fund achieves 7% per annum net growth
- Annuity rates are unchanged from today for a 62 year old woman, and the annuity is just for Beverley and doesn't increase or continue at all after her death
- Repayment/interest only split on the mortgage is 50/50
- Fixed expenditure is about £2,000 per month
- There would be no payment from the ex if Beverley died
- Insurance costs have are open market rates that any IFA or retail customer could access. Commissions have not been modified from “default” settings.
- Mortgage maths: $(£35,000/9)/12 = £325$, rounded to £300 as there would be a compound interest saving. And $(£35,000/16)/12 = £183$, rounded to £175pm.

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