BreedElliott

happiness through sensitive financial planning

Newsletter: February 2019

Death planning for the younger generation

Not the cheeriest title, we'll grant you, but we couldn't think of anything more pithy!

In this newsletter, our aim is to provide some ideas for the younger generation (18-50 year olds ish) to ponder when considering the implications of dying prematurely. We doubt whether many of our well-matured readers fit into this age bracket (!) but you may want to pass some of the content or the newsletter itself onto a child or grandchild.

We thought that the simplest way to do this would be to follow a young adult, let's call her Jackie, through the early stages of her adult life.

Single – Net assets = £0 or less

Jackie leaves further education and heads out into the big wide world. She has little if anything in the way of assets but may have started to accrue liabilities such as student loans. In brief, her net asset value is not likely to be in positive territory.

What happens in the unfortunate scenario where Jackie dies prematurely? If there is a student loan outstanding, it will be written off. If there are any other debts, the lender may seek repayment of the loan from the next of kin, which is most likely to be the parents.

Looking from Jackie's point of view, there is little to worry about and, therefore, no real need to take any action.

Single – Net assets = More than £0

With the benefit of her smart mind and excellent education, Jackie invents a mobile phone App which starts to make her a significant amount of money.

She is concerned that the long and stressful working hours could lead to an early demise and starts to contemplate what might happen to her burgeoning wealth if she were to die.

If she dies intestate (without a Will) then, in the absence of a spouse or a civil partner or any children, the rules of intestacy specify that the assets would go to the parents (the rules of intestacy differ slightly in Scotland).

Is this what Jackie and her parents want? The parents may already have sufficient wealth and would prefer the assets to be distributed to Jackie's siblings. If this is the case, she will need to make a Will.

Other than making a Will to ensure her assets are distributed as she would wish, are there any other issues that Jackie should consider when contemplating the possibility of her early demise?

It is unlikely that any close family member's financial well-being will be adversely affected by her death so the answer in most situations is 'No'.

However, if Jackie is building a business, she may feel that her co-workers are an extended family and that she would like the business to continue if anything happened to them. In this event, she may be minded to take out some life cover as a form of business protection.

Married – Net assets = More than £0

Everything changes on marriage, not least the fact that marriage nullifies a Will.

It would be easy to assume that the rules of Intestacy (in Scotland as well as in the rest of the UK) provide for the surviving spouse by ensuring that they receive all of the deceased spouse's assets, but this is not the case. The surviving spouse only has full entitlement to a part of the estate.

Therefore, a key job on a couple's wedding checklist should be the writing of Wills.

As an aside, despite the deadening of the romance, marriage opens up the possibility of divorce. According to recent statistics, 42% of marriages in the UK end in divorce so, even if it is not very romantic, it would be sensible to plan for the possibility. We will look at pre-nuptial agreements ('pre-nups') in next month's newsletter.

What other steps should Jackie be taking at this stage to provide for her spouse in the event of her premature death? It is likely that, if she dies, the surviving spouse's life will return (after a suitable period of grieving) to the way it was before marriage, in which case no action really needs to be taken.

However, if Jackie is the main earner and there are liabilities such as a mortgage, she may wish to take out some life cover to ensure that her husband's future financial security is not put at risk as a result of her death.

Married – Net assets = More than £0 + CHILDREN!

Now the situation changes even further. All of a sudden, there is the patter of tiny feet.

As soon as the prospect of children raises its joyful head, the situation for the couple becomes critical. Waiting to hear the patter of tiny feet is likely to be waiting too long as the liability really begins as soon as Jackie becomes pregnant.

Now, in the event of Jackie's, it would be unlikely that her spouse's life could return to the way it was before the marriage.

The financial implications are significant. Will her widower need to or want to give up work? How much will it cost to have the necessary child-care? Will the mortgage still need repaying?

Life cover can be put in place which will provide Jackie's husband with either a lump sum, to help repay a mortgage for example, or a regular income, to ensure a decent standard of living.

Because life expectancy is constantly improving, the cost of life cover continues to reduce. Potentially, £5 per month will buy life cover of £100,000 for 25 years for a 25-year-old so it may well make sense to buy protection early and buy more than you need, both to provide inflation protection and to mitigate the need to buy more life cover in the future.

Divorced – Net worth = (£lots ÷ 2) + children

What happens in the event of death is unlikely to be an obvious priority as a couple navigate the divorce process. However, in many cases, it probably should be.

If maintenance payments are due from the main earner's income, then life cover needs to be put in place to ensure that this continues, come what may.

Future liabilities such as children's education costs should also be taken into account, ensuring that these can be met in the worst-case scenario.

Conclusion

When we are young, there is a tendency to think we are immortal.

Thankfully, the chances of dying prematurely are steadily becoming less as advances in medicine keep us alive.

However, it is prudent to plan for the eventuality, especially when the cost of life cover is so comparatively cheap. Jackie probably thinks very little of paying £300 per annum for her car insurance or mobile phone contract and she should probably think of paying at least this amount to protect her life from an early age.

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Market data

Market	Value at start of 2019	Current situation	Comments
Interest Rates (BOE base rate)	0.75%	0.75% at 31/01/19	The official bank rate is 0.75%.
House Prices (Nationwide)	House prices increased by 0.5% in 2018	House prices up by 0.5% at 31/01/19	Prices rose by 0.5% in January.
UK Share Prices (FTSE 100)	6728.13	7020.22 at the close on 31/01/19	The FTSE 100 started the year with a modest increase of 292 points.

Helping you to manage your money

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