

Client name: Lighthouse Financial Advice

Date:

## Loan Repayment Fact Sheet

**For use when an investment plan is used to repay a loan, eg, an interest only mortgage**

A **low cost with-profit endowment** is a combination of life assurance and a regular savings plan. If the life assured dies before maturity the plan will pay the greater of the death benefit or the value of the fund. The fund pays Income Tax and Capital Gains Tax with the result that the fund is paid as a tax-free lump sum on maturity. The value of the plan is based on a sum assured plus the addition of regular bonuses, a terminal bonus may be added at maturity.

A **low cost unit linked endowment** is a combination of life assurance and a regular savings plan. If the life assured dies before maturity the plan will pay the greater of the death benefit or the value of the fund. The savings element will purchase units in one or more investment funds and it is the value of these units that will be paid out as a capital sum. The fund pays Income Tax and Capital Gains Tax with the result that the fund is paid as a tax-free lump sum on maturity.

**Unit trusts and Open Ended Investment Contracts (OEICs)** are pooled investment funds which have no limit to the number of units which may be issued. The price reflects the value of the underlying assets of the fund. There are no restrictions on the amounts that can be invested or number of investments held nor is there a maturity date. Unit Trusts & OEICs do not incorporate life assurance.

**Investment trusts** are companies that have a specific number of shares that may be issued. As a result the price reflects the demand for the shares and this may be more or less than the value of the underlying assets of the fund. There are no restrictions on the amounts that can be invested or number of investments held. Investment trusts may, in some circumstances, have a fixed winding-up date. Investment trusts do not incorporate life assurance.

**Taxation of Unit and Investment trusts & OEICs.** Distributions of income and dividends have tax deducted at source and there is no further liability to basic rate income tax. Higher rate taxpayers will be liable to further income tax. Investors who do not pay income tax will not be able to reclaim the tax that has been deducted **except** for fixed interest (F/I) funds. To qualify as an F/I fund, at least 60% must be invested in instruments such as Corporate Bonds or Gilts.

**Personal Equity Plans (PEPs)** invested in stocks and shares (including Unit trusts, OEICs and Investment trusts) within parameters laid down by HM Revenue & Customs. These funds grew almost free of taxes and the growth and income was tax free in the hands of the investor. From April 2008, all PEPs were converted to stocks and shares ISAs which replaced PEPs in 1999.

**Individual Savings Accounts (ISAs)** are a savings and investment product with a favourable tax status. They were introduced in April 1999 replacing PEPs and TESSAs (Tax Exempt Special Savings Accounts). Cash, stocks and shares (including Unit trusts, OEICs and Investment trusts) can be put into an ISA. With effect from 6 April 2012, the annual ISA allowance is £11280 and up to half of the relevant allowance can be saved in cash with one provider. The remainder of the £11280 can be invested in stocks and shares with either the same or a different provider. Savers will be able to invest in two separate ISAs each year, a cash ISA and a stocks and shares ISA. Money saved in cash ISAs can be transferred to a stocks and shares ISA, but not vice versa. Funds grow almost free of taxes and the growth and income is tax free in the hands of the investor. The Government has proposed that ISAs will continue to have tax free status and the limit will increase in line with inflation from 2011. ISAs cannot be held in joint names or placed in Trust. ISAs do not normally incorporate life assurance, however an ISA mortgage plan may include life assurance together with a combination of a number of the *optional features* listed below.

The tax-free cash element of a **Personal Pension Plan (PPP)** may, when the benefits of the PPP are taken, be utilised to repay the capital element of an interest only loan (see Personal Pension Plan Fact Sheet if appropriate).

**Optional features which may be available, possibly at additional cost:**

**Waiver of Premium** means that the plan provider, usually at extra cost, will pay the contributions if the plan holder is unable to work for medical reasons. There will be a "waiting period" between being certified as unfit to work by the doctor and the waiver being activated. This period is usually six months. Waiver can be written on 'Own' occupation – the clause will operate if the assured is unable to undertake his or her own job – or 'Any occupation' – the clause will operate only if the assured is unable to undertake any type of job whatsoever. The contributions will be paid until the earlier of the individual being pronounced medically fit and the maturity date of the plan. There may be a maximum age after which the waiver will not apply (normally 60 or 65).

**Low Start** means that the premium will increase by a fixed amount each year for a specified number of years until a level of premium is reached which will continue, subject to review, until the maturity of the plan. Typically, the premium will increase by twenty per cent simple, for each of the first five years.

**Mortgage Interest Waiver** means that in the circumstances described under waiver of premium, and where the plan is mortgage related, the plan provider would, usually at extra cost, also make payments to cover mortgage interest. The maximum level of cover is selected at the outset. There may be a maximum age after which the waiver will not apply.

**Critical Illness cover** pays out if the life assured is diagnosed as having one of a specified range of serious medical conditions before the expiry of the plan. The payment may be instead of, or in addition, to life cover or part of the life cover within the plan.

**Terminal Illness cover** means that the death benefit will be paid out early if the life assured is diagnosed as being terminally ill. Typically, the plan must have more than eighteen months still to run at the time of diagnosis.

**Guaranteed Increase** means that, upon certain events such as a house move or the birth of a child, the level of cover can be increased within pre-determined limits, irrespective of health.

A **joint life, first death** plan will be written on two lives assured with the sum assured being paid in the event of the first death. The plan then ceases with no further benefits paid on the second death.

A **joint life, second death** plan will be written on two lives assured with the sum assured being paid in the event of the second death. No benefits are paid out on the first death.

**Other points to remember**

- Fund options:                   A **With-profit** fund (if available) is a mixed asset fund which invests mainly in UK and overseas shares, fixed interest investments and property. Returns to the investor are smoothed, so the peaks and troughs of securities markets are avoided. Returns are also affected by the financial strength of the provider and its expenses. Returns are declared in the form of bonuses which are usually made annually. In addition terminal bonus may also be declared. Early encashment or surrender in adverse market conditions could result in penalties or imposition of a market value reduction (which may be referred to as a market value adjuster or MVA).  
  A **Unit linked** fund is as described under unit trusts.
- The Key Features Document and Key Facts Illustration you have been given describe in full the features of your particular plan.
- It is prudent to arrange life assurance, irrespective of the type of loan, so that a sum is available to repay the outstanding borrowing if the borrower (or one of the borrowers) should die before the loan has been repaid.
- It is prudent to arrange life assurance which will either repay the loan or provide for regular repayments in the event of the borrower (or one of the borrowers) serious or long-term illness.
- It is prudent to arrange life assurance which will maintain the loan interest and related payments for a limited period, typically one year, in the event of the borrower (or one of the borrowers) redundancy or involuntary unemployment.
- The premiums quoted for waiver and any additional life cover (if applicable) assume acceptance on standard health terms.
- Medical underwriting (if appropriate) is carried out using, in the first instance, information supplied on the application form.
- If the plan is used in conjunction with property purchase:
  - The lender may require the plan to be assigned.
  - There is no guarantee of the maturity value of the investment or that the proceeds at maturity will be sufficient to repay the mortgage. The actual sum payable on maturity will be dependent upon market performance.
  - Any increase in the mortgage borrowing will mean that the investment proceeds at maturity will probably be insufficient to repay the mortgage.
  - It may be necessary to increase contributions payable (on the occasion of a regular premium review or at some other time) to achieve the required capital sum on maturity.
  - It is your responsibility to ensure that the contributions to any insurance plans used to protect the mortgage are maintained at the necessary level. If they are not there should be an alternative means of repaying the mortgage.
  - An investment plan is usually considered to be more suitable in situations where the mortgage term is greater than 15 years.
- Most companies will carry out a periodic review of the investment performance of the plan and forecast its value at maturity.
- It is not normally appropriate for a low cost endowment contract to commence in anticipation of arranging a mortgage at a later date.
- If the term of the plan you are taking out extends beyond your expected retirement age, consideration should be given to whether or not the commitment will be affordable in retirement bearing in mind your likely (reduced) income.
- The value of bonuses attaching to a with-profit investment can be reduced if it is encashed before maturity.
- Past fund performance is no guarantee of future performance.
- Investment fund unit prices can go down as well as up.
- These contracts are designed as medium to long-term investments and encashment, particularly in the early years, could result in you receiving less than the value of the original investment.
- Information has been given on the basis of our understanding of the current tax rules. These may change in the future.
- Savings are taken into consideration by the Department of Work & Pensions when assessing any potential claims for benefits. This may include a savings contract used in conjunction with mortgage borrowing, for example, ISAs.
- If used in conjunction with house purchase, **YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.**

Please also note

- Nominal returns                   - The income or capital growth generated by an investment.
- Real returns                       - The nominal return after taking account of inflation.
- The factors influencing: -
  - Inflation                           - How well the economy is performing, Government borrowing requirements, exchange rates and international economies.
  - Mortgage interest rates       - How well the economy is performing, Government borrowing requirements, inflation, exchange rates and international economies.
  - Growth rates                      - How well the economy is performing, Government borrowing requirements, inflation, interest rates, exchange rates and international economies.