Putting protection on the wealth agenda

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Learning objectives

By the end of this session, you should…

1. Understand the importance of protection in holistic financial planning

2. Be able to profile the main protection risks faced by customers

3. Be able to explain how protection solutions can support clients in protecting their financial resilience

4. Be up to date with the consultation to apply Inheritance Tax on pensions

Why bother?

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Firms must act to deliver good outcomes for retail customers, including by avoiding foreseeable harm

- FCA Consumer Duty Final Non-Handbook Guidance, FG22/5

The UK protection gap

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	Homeowner (owned outright)	Homeowner (own with mortgage)	In rented accommodation
Life Insurance	36%	63%	29%
Critical illness cover	8%	33%	11%
Income protection	7%	20%	6%
None of these	60%	24%	61%

Source: Royal London tackling the gender pension and wealth gap research (October 2023)

Hierarchy of financial needs

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I	P	P	S	I
Income Protection	Protection	Pensions	Savings	Investments

The role of protection advice

The role of protection advice

Too unwell to work?	Income Protection			
Developed a serious illness?	Critical Illness Cover	Children's Critical Illness Cover	Family Income Benefit with Critical Illness	
Dying prematurely	Life Cover	Family Income Benefit	Relevant Life	
Estate planning	Whole of Life	Joint Life Second Death	Gift Inter Vivos	Equity Release
Business succession planning	Partnership and Shareholder Cover	Key Person Cover		
Business continuity planning	Loan Cover			
Wellbeing	Ancillary services			

The asset class quilt

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YEAR

	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
1	Property 8.6	Commodities 33.3	Global Stocks 14.0	Property 4.5	Global Stocks 22.6	Global Stocks 14.3	Commodities 28.3	Commodities 30.7	Global Stocks 16.0	Global Stocks 9.3
2	Global Stocks 4.4	Global Stocks 30.3	UK Stocks 13.1	Cash 0.6	UK Stocks 19.2	IL Gilts 11.0	Global Stocks 20.0	Cash 1.4	Global HY 11.9	Mixed Asset 4.4
3	Mixed Asset 3.2	IL Gilts 24.3	Property 8.5	Gilts 0.6	Mixed Asset 13.8	Gilts 8.3	UK Stocks 18.3	UK Stocks 0.3	Corp Bonds 8.6	UK Stocks 3.6
4	UK Stocks [illegible]	UK Stocks [illegible]	Mixed Asset [illegible]	IL Gilts [illegible]	Global HY [illegible]	Corp Bonds [illegible]	Mixed Asset [illegible]	Mixed Asset [illegible]	UK Stocks [illegible]	Commodities [illegible]
6	[illegible] 0.5	[illegible] 13.9	[illegible] 4.3	[illegible] -3.1	[illegible] 6.9	[illegible] 0.2	[illegible] 4.2	[illegible] -8.8	[illegible] 4.7	[illegible] 1.3
7	Cash 0.5	Corp Bonds 10.6	IL Gilts 2.3	Global HY -3.6	IL Gilts 6.4	Mixed Asset 0.2	Global HY 2.8	Global HY -12.6	Gilts 3.7	Corp Bonds 0.0
8	IL Gilts -1.0	Gilts 10.1	Gilts 1.8	Mixed Asset -4.3	Commodities 3.5	Property -4.4	Cash 0.1	Corp Bonds -17.7	IL Gilts 0.9	Property -0.9
9	Global HY -2.1	Cash 0.4	Cash 0.3	Commodities -5.7	Cash 0.7	Commodities -6.1	Corp Bonds -3.1	Gilts -23.8	Property -0.7	Gilts -1.6
10	Commodities -20.3	Property -0.9	Commodities -7.1	UK Stocks -9.5	Property -0.9	UK Stocks -9.8	Gilts -5.2	IL Gilts -33.6	Commodities -13.1	IL Gilts -1.8

What happens if we don’t include protection in a client’s portfolio?

Source: Lipper, Royal London, as at 31.03.2024. Other than YTD columns are full years. Past performance is not a guide to the future. Prices can go down as well as up. Investment returns may fluctuate and are not guaranteed so you could get back less than the amount paid in. Mixed Asset return = Governed Portfolio 5. Governed Portfolio returns are net of 1% Annual Management Charge.

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Risk management

Attitude to risk vs capacity for loss

	Attitude to risk	Capacity for loss
Investments	How comfortable is the client with market volatility and uncertainty?	How much can the client afford to lose without compromising their goals?
Protection	How concerned is the client about life events such as death, illness or injury?	How financially resilient is the client if the worst happens?

Profiling attitude to protection risk

Very adventurous

Adventurous

Moderately adventurous

Balanced

Moderately cautious

Cautious

Very cautious

Beth and Rob are both aged 34 and planning to retire at 68

They have an outstanding mortgage of £310,000

Earnings - Beth £80,000 p.a. Rob £95,000 p.a.

Both have been max funding ISA’s

Both members of workplace pension schemes

They have **no** protection in place

Visualising the risk

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How many of your clients might die before their retirement age of 68?

3% or 3 in every 100

Source: The Institute and Faculty of Actuaries' Continuous Mortality Investigation insured lives incidence rates. Incidence rates for the entire population may be different to those lives that take out insurance products.

Visualising the risk

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How many of your clients might develop a serious illness before their retirement age of 68?

18% or 18 in every 100

Source: The Institute and Faculty of Actuaries' Continuous Mortality Investigation insured lives incidence rates. Incidence rates for the entire population may be different to those lives that take out insurance products.

Visualising the risk

How many of your clients might be off work for two or more months before their retirement age of 68?

40% or 40 in every 100

Source: The Institute and Faculty of Actuaries' Continuous Mortality Investigation insured lives incidence rates. Incidence rates for the entire population may be different to those lives that take out insurance products.

Visualising the risk

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How many of your clients might face any of these risks before their retirement age of 68?

52% or 52 in every 100

Source: The Institute and Faculty of Actuaries' Continuous Mortality Investigation insured lives incidence rates. Incidence rates for the entire population may be different to those lives that take out insurance products.

Does ignoring these risks help or hinder avoiding future foreseeable harm?

Regulation and potential future changes in legislation

The regulators view

Consumer Duty

The FCAs Consumer Duty came into effect in July 2023 and required firms to deliver good outcomes for clients across four key areas.

1. Products and Services
2. Price and Value
3. Consumer Understanding
4. Consumer Support

Relevance to protection advice?

Advisers must ensure clients financial plans are resilient.

If protection is not considered, advisors could be failing to act in the client's best interest.

Poor client outcomes could lead to enforced action.

FCA Principles for Business

Under PRIN 2.1 (Principles for Business) firms must ensure suitability of advice.

COBS 9.2 (Conduct of Business Sourcebook) states that suitability assessments must consider the client's entire financial position.

Relevance to protection advice?

If a client's financial plan does not include protection, it may fail the suitability test.

Advisers must consider a client’s ability to withstand financial shocks, such as serious illness, loss of income or death.

Inheritance tax and pensions

IHT proposal highlights

Following the October budget

IHT to apply to pensions from 6 April 2027

Consultation period ended 22 January

IHT plus income tax could apply

Very little out of scope – charity LSDB and dependants scheme pension

Still need clarity on what is in scope – DIS, annuity

Scheme administrators will deduct any IHT before paying out benefits

Questions

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Should I think about gifting now?

Will JLSD become more popular?

What about death benefits payable to a trust?

Will the payment of death benefits be delayed?

Will the order of taking benefits change?

Will the consultation change anything?

What exemptions are appropriate?

What should my clients be doing now?

Will Whole of Life become more popular?

What about death in service?

Objections

Overcoming client objections

“I have enough assets to self-insure”	Why should clients have to use their own capital?
“Work already covers me”	Most employer policies are limited in amount and time
“It won’t happen to me”	Use real-life stats to highlight the risk
“I don’t want to think about illness or death”	Shift from fear to reassurance

Overcoming your objections

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Financial planning is about growing and protecting wealth	“I focus solely on investments and pensions”
It’s not their job to ask, it’s your job to flag the risks they haven't thought of yet	“Clients aren’t asking for protection”
So is breaking bad news without a safety net	“It’s a hard conversation”
Consider partnering with a protection specialist or upskill	“It’s not my area of expertise”

Opportunity

What do the FCA say?

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5.27 Firms should identify the potential for harm that might arise if their products and services change or their understanding about the impact on customers changes and take appropriate action to mitigate the risk of actual or foreseeable harm.

5.28 The regular reviews we require of firms provide an opportunity to identify any new or emerging harms. Firms will also become aware of sources of harms (for example through consumer complaints, management information (MI), press reporting, and FCA supervisory focus and communications such as 'Dear CEO' letters).

5.29 Where harm was not foreseeable at the outset but became apparent later, we would expect firms to take appropriate action to mitigate the risk of actual or foreseeable harm. They could do this by updating or amending the design or distribution strategy of a product or service, providing additional support or updating information or advice. For example, if a debt management or advice firm providing an ongoing service to a customer identifies a change in the customer's circumstances that means the previous advice may no longer be appropriate, the firm should update its advice to the customer, and where appropriate adapt their debt management plan.

FG22/5 Final non-Handbook Guidance for firms on Consumer Duty (July 2022), FCA

Protection through the generations

Starting out	Building & growing	To & through retirement	Later life
First job/home Career progression Marriage Starting a family	Career progression Marriage/divorce Starting/growing family Moving home/upsizing	Managing income Ageing parents Preparing to retire Sale of a business	Gifting Bereavement/death Living alone Later life care

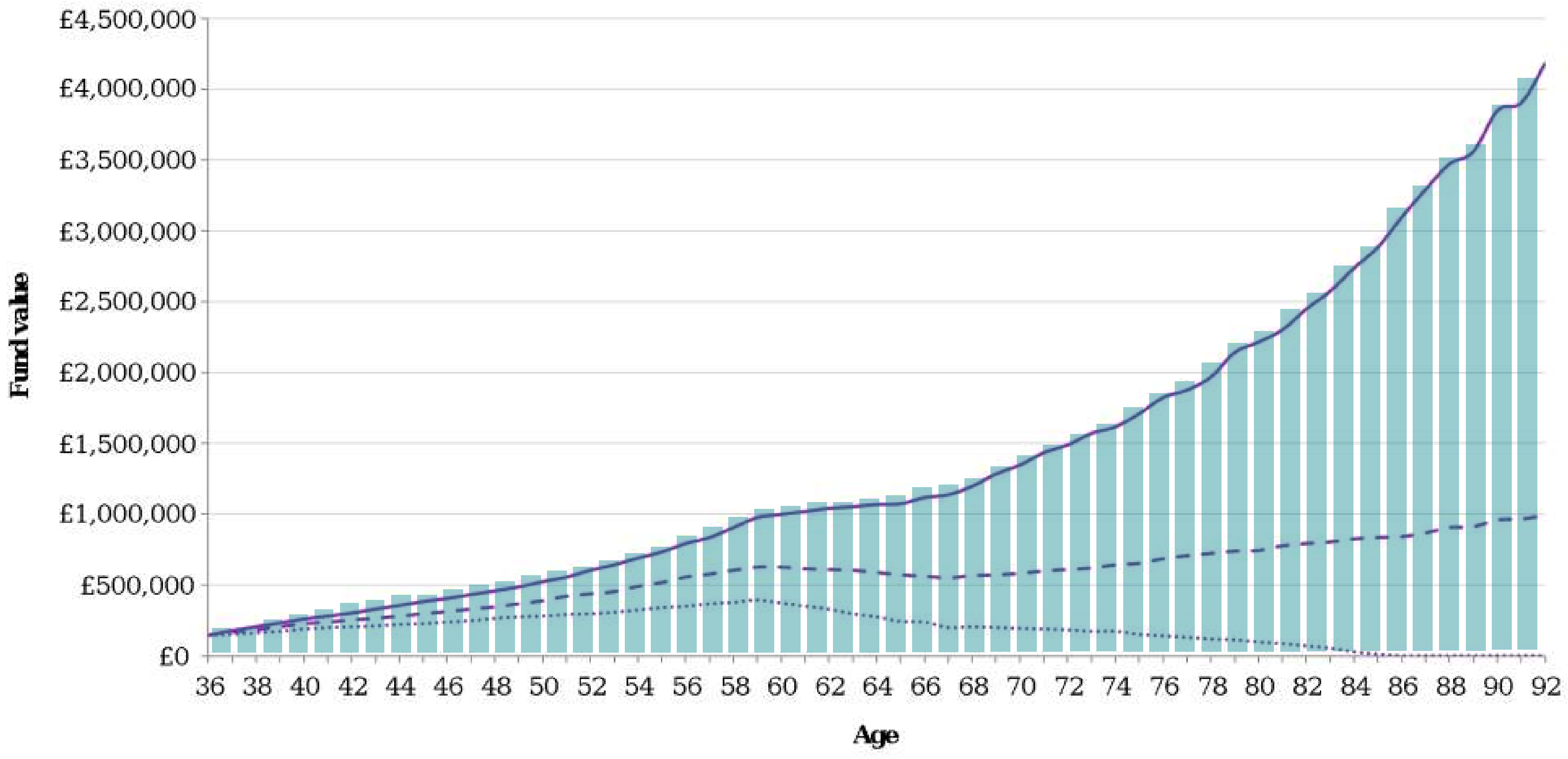
What protection products might suit the needs of customers at each stage of life?

Protection, the trojan horse

Discuss a feature	Making a claim	Starting a family	Marriage / civil partnership	Divorce / dissolution
Child moving out	Change in employment	Change in income	Re-mortgage	Property purchase/sale
Market update	Assign existing policy to trust	Trust review service	Reviewing beneficiaries	Starting a business
Exit planning	Retirement planning	Will writing	Gifting	Cash flow modelling

Cash Flow Modelling

Where protection fits in?



Show how the forecast could fall short if a client died prematurely to support your **life cover** recommendation.

Show how your clients could preserve their assets during a health crisis by discussing **critical illness cover**

Highlight income shortfalls in the event of long-term sickness or disability to open a discussion about **income protection**

Protecting gifts

Reliefs and exemptions

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Nil Rate Band (NRB)

Residence Nil Rate Band (RNRB)

Unlimited exemptions[1]

Normal expenditure out of income

Annual £3,000 exemption[2]

Gifts on marriage or civil partnership

Gifts to charities or political parties for national benefit

Outright gifts to individuals and trusts[3]

Business property and agricultural property

[1] Where gifts between UK domiciled spouses / civil partners. Exemption limited to Nil Rate Band for gifts to non-domiciled spouse
[2] Plus small gifts exemption
[3] Potentially Exempt Transfers and Chargeable Lifetime Transfers

Reliefs and exemptions

Normal expenditure out of income

To benefit from this exemption:

1. Gifts need to be made from income (dividends, interest from investments)
2. Gifts need to be made regularly, for example annually
3. Gifts must not affect your usual standard of living
4. No maximum limit on value of gift
5. Amount can only be worked out on death and may still be classed as being within the estate for IHT purposes.

Potentially Exempt Transfers (PETs)

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What is a PET?

A gift made during a person's lifetime that could become exempt from IHT if the donor survives for at least seven years after making the gift.

Key rules

1. Immediate exemption
2. Tapered taxation
3. No immediate IHT liability

Who pays the tax?

If a PET becomes taxable, the recipient of the gift (not the estate) is responsible for the IHT.

Potentially Exempt Transfers (PETs)

Taper Relief

Years after gift	Reduction in Tax Due
0 – 3 years	0%
3 – 4 years	20%
4 – 5 years	40%
4 – 6 years	60%
6 – 7 years	80%
7+ years	100%

It is important to understand that taper relief applies to the amount of tax payable, not the value of the gift

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Case study

Andrea, a 70-year-old retiree, wants to help her granddaughter, Emily, with a deposit for her first home. She decides to gift her £150,000.

She has already used up her £325,000 Nil Rate Band having made a gift into trust.

Case study

Since Andrea's Nil Rate Band is fully used, the entire £150,000 gift could be subject to Inheritance Tax if she dies within 7-years.

Years after gift	Reduction in tax	Taxable amount	IHT due
0 – 3 years	0%	£150,000	£60,000
3 – 4 years	20%	£150,000	£48,000
4 – 5 years	40%	£150,000	£36,000
4 – 6 years	60%	£150,000	£24,000
6 – 7 years	80%	£150,000	£12,000
7+ years	100%	£150,000	£0 (fully exempt)

Case study

If Andrea dies within 3 years, Emily will owe £60,000 in IHT on the gift.

She may need to sell investments, borrow money or use savings to cover the tax.

The solution?

The solution

Gift Inter Vivos

A Gift Inter Vivos plan via a series of term assurance policies for the tax liability. This could be a standalone GIV product or a multi-cover policy.

Years after gift	Reduction in tax	Taxable amount	IHT due	Cover amount	Term
0 – 3 years	0%	£150,000	£60,000	£12,000	3
3 – 4 years	20%	£150,000	£48,000	£12,000	4
4 – 5 years	40%	£150,000	£36,000	£12,000	5
4 – 6 years	60%	£150,000	£24,000	£12,000	6
6 – 7 years	80%	£150,000	£12,000	£12,000	7
7+ years	100%	£150,000	£0 (fully exempt)		

If a Potentially Exempt Transfer (PET) tax charge fails, it will use up the individual's £325,000 Nil Rate Band (NRB), making it unavailable for their estate.

Signposting

What do the FCA say?

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5.40 Where a firm declines to provide a customer with a particular product or service, the firm should still consider whether there is information or support it could provide to help the customer pursue their financial objectives. For example, a firm could signpost a customer to a third party that provides reliable and relevant information to such consumers. An example of information or support that may be appropriate to provide a customer that has been declined credit is the 'Money Helper' guide.

5.41 Travel insurance firms are required to signpost customers with pre-existing medical conditions to a directory of specialist insurers in certain circumstances. This approach is consistent with our expectations under the Duty, as firms signpost declined customers to a reliable source of information that can help them to achieve their financial objectives. Firms in other markets should consider a similar approach when they decline customers.

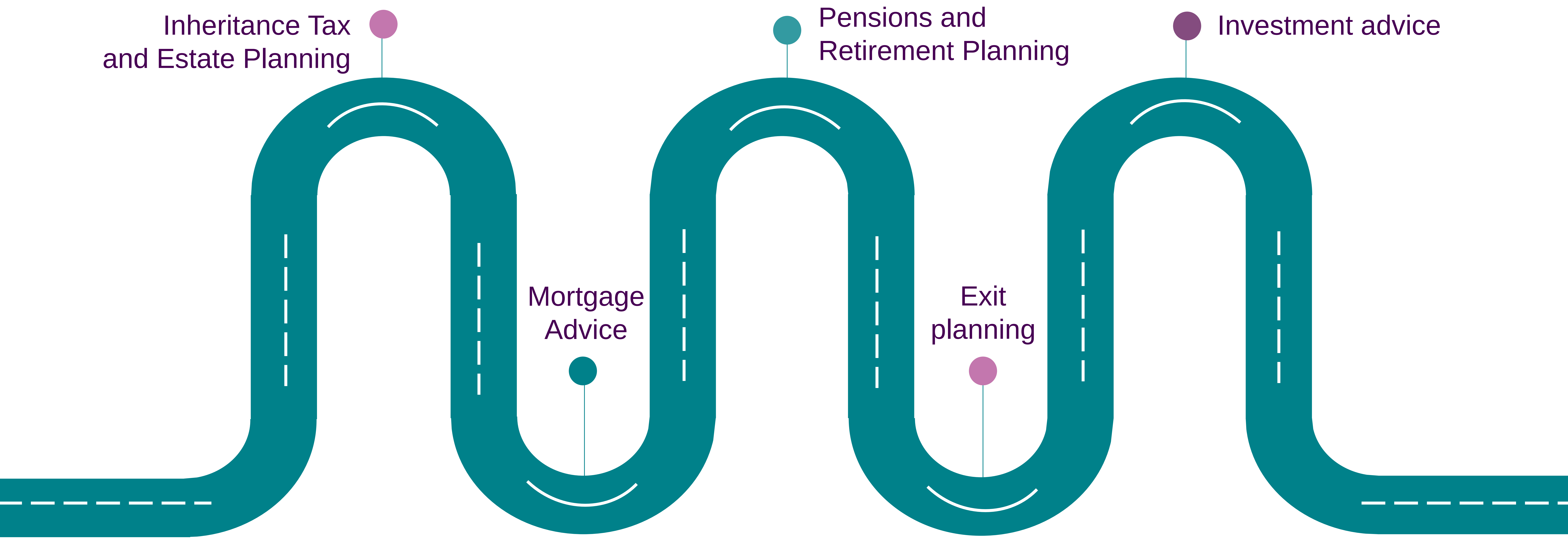
FG22/5 Final non-Handbook Guidance for firms on Consumer Duty (July 2022), FCA

Signposting protection

Write it	Make sure your clients are aware that protection will be discussed during your meeting or later.
Refer it	Signposting clients to other services such as mortgages, protection, pension, wealth planning, will writing or even solicitor services can ensure clients receive **holistic advice.**
Don’t ignore it	The **British Insurer Broker Association (BIBA)** can help find a firm that specialises in clients with health conditions.

Recap

Making protection part of the process



Remember the benefits

Increased revenue and profitability	Protection policies provide upfront commission and recurring income.
Stronger client retention and engagement	Offering protection enhances your firm's credibility as a holistic financial planner.
Compliance and risk management	Discussing protection needs could lower exposure to client complaints if financial hardship occurs due to lack of cover.

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Learning outcomes

You should now…

1. Understand the importance of protection in holistic financial planning

2. Be able to profile the main protection risks faced by customers

3. Be able to explain how protection solutions can support clients in protecting their financial resilience

4. Be up to date with the consultation to apply Inheritance Tax on pensions

adviser.royallondon.com/protection

Important Information

PR 4 WNAR 0015