



PROTECTION OPPORTUNITIES FOR LANDLORDS

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PROTECTION OPPORTUNITIES FOR LANDLORDS

AGENDA

- Opportunity to sell protection in the Buy to Let Market
- Private Landlords
- Landlords set up as Companies
- Using a Trust
- Risks & Probability
- Marketing

PROTECTION OPPORTUNITIES FOR LANDLORDS

LEARNING OBJECTIVES

At the end of this session you will

- Have a good understanding of the angles and opportunities for the need for protection for Landlords
- Understand the value of using a Trust when setting up life cover for loan protection
- Understand the basic mechanics of protection solutions for businesses
- Be aware of the opportunities and limitations of Relevant Life cover
- Be able to access free marketing tools from Royal London to help you in this marketplace

BUY-TO-LET INVESTORS OPPORTUNITY TO SELL PROTECTION

Clients with a property portfolio don't feel the need for protection. They believe:

- If they get a critical illness, they can sell the property to release equity
- If they die prematurely, the family (spouse/partner or children) can continue to manage the portfolio until they need to release the equity

**In a perfect world this might be true
– but is the buy-to-let world 'perfect'?**

MONEY ON THE TABLE WHEN YOU NEED IT THE MOST!

- We know people die, suffer critical illnesses and lose income through sickness
- Protection plans provide **cash** (in the main)
- Key question – what **problems** do individuals and families face when a loved one suffers one of these 3 events?
- Which problems can be **fixed by cash**?
- Could they also benefit from support at such a time - emotional, medical, health, legal?



MONEY ON THE TABLE WHEN YOU NEED IT THE MOST!

- Would the problem be better served by an injection of regular **income** or one off **lump sum**?
- Which risks would they like to mitigate?



LANDLORDS PROTECTION HEALTH CHECK



You've built up a portfolio of BTL properties

What are your **financial objectives** – short and long term?

- What would you want for your family if you died or became ill?
- What would you want to happen financially?
- What are the risks?

ASKING THE RIGHT QUESTIONS

THE NEED FOR PROTECTION

- “Would your family want the stress of managing the portfolio if you were critically ill? Where should their focus be?”
- “Would your spouse have the knowledge, time or desire to manage the portfolio if you died?”
- “Selling the properties could have a major impact on your pension funding plans – or those of your widow(er).”
- “Using trusts could mean long-term opportunities for the family.”

You can help to put a tailored protection solution in place.



PRIVATE LANDLORDS
CASE STUDY 1

PROTECTION SALES OPPORTUNITIES FOR LANDLORDS

BTL Property Portfolio
In sole name

BTL Property Portfolio
In joint names

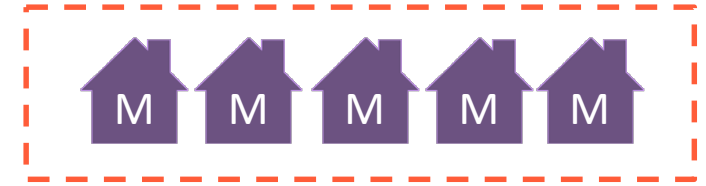
BTL Property Portfolio
Limited Company
Married Couple

BTL Property Portfolio
Limited Company
Business Partners



CASE STUDY 1 - BOB

BTL IN SOLE NAME



- Bob is 40 and married (Sue) with 2 children
- He has 5 properties in his BTL portfolio
- The portfolio is worth £750,000
- The mortgages total £550,000 and are in his name only

PORTFOLIO BREAKDOWN

CURRENT SITUATION

Portfolio details:	Totals
Five houses with average value of £150,000	£750,000
Five mortgages (75% of total portfolio)	£560,000
Rent at average of £750 =	£3,750 a month
Mortgages (interest only) =	£2,250 a month
Current 'surplus' of around	£1,500 a month
Also owns residential property jointly with wife worth £400,000 with an outstanding loan of £200,000 covered by life insurance	

CASE STUDY 1 - BOB

BTL IN SOLE NAME



- Bob is 40 and married (Sue) with 2 children
- He has 5 properties in his BTL portfolio
- The portfolio is worth £750,000
- The mortgages total £550,000 and are in his name only

Bob doesn't see the point in any further Protection on top of the Mortgage Protection he has on his main residential mortgage. He says there is value in the equity of this portfolio

If Bob dies suddenly, what are the issues his family will have to deal with?

PROBLEMS TO DEAL WITH? IT MAY NOT ALWAYS BE STRAIGHTFORWARD

- Will the lender simply transfer the loan to the beneficiaries?
- If not, where is the money going to come from to repay the mortgage debt?
- Would there be enough equity in the portfolio to refinance?
- Would the rental income be enough to satisfy the lender's criteria at the time of refinancing if interest rates rise?
- What about the costs of refinancing – would beneficiaries have the cash available?
- Does the grieving spouse have any desire to manage this property portfolio?
- How easy would it be to sell the properties quickly for a good price?
- What if the properties are let out?
- How much would it cost to bring in a managing agent?
- How would this affect the net monthly rental income?
- Did he have a Will?

LANDLORD (OWNER) DIES HAS HE DONE THE RIGHT THING?

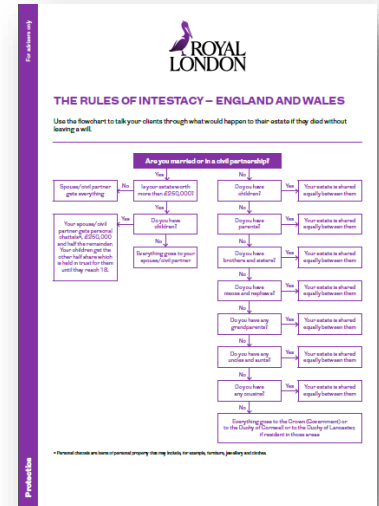
- At least he has a will

All to wife



Then children

- Residential property now owned outright by wife – the outstanding loan repaid by life cover.
- She now owns the BTL portfolio



If there is no will,
see the rules of
intestacy



ORDER OF PROBATE

WHAT MUST HAPPEN

Personal reps must:

1. Repay all debts (including IHT)
2. Fulfil any legacies (in our example there are none)
3. Distribute residue.

WIFE INHERITS THE PORTFOLIO WHAT CAN SHE DO NOW?

- Repay mortgages – but where's the money coming from?
- Stress of trying to manage or sell properties

Full Market
value?

Agency/legal
fees

Stress/dealing
with executors

Distressed
sales?

Empty periods (tenants have been given notice to make it easier to sell the property with vacant possession)

- A reduced rental income if she's has to sell some to release capital
- Employing management agents at a percentage of the rental income (even more income lost)

HE DIES WHAT HAPPENS?

- Good news – Bob had a Will - All BTL's to wife according to his will
- She couldn't rearrange new loans so she sells x4 properties to retain x1 unencumbered – income has dropped to £750 a month
- She owns the main residence outright
- She dies 10 years later – assuming a 20% increase in property values her estate looks like this...

WHEN SHE DIES... HER ESTATE LOOKS LIKE THIS

Estate breakdown	Totals
Main Residence	£480,000
One remaining rental property	£180,000
	total £660,000
Less Main Residence nrb (x2)	£300,000
Less nil rate band (x2)	£650,000
Taxable estate	£0
Tax due	£0

WHEN SHE DIES... HER ESTATE LOOKS LIKE THIS

Estate breakdown	Totals
Main Residence	£480,000
One remaining rental property	£180,000
	total £660,000

Net value to children	£660,000
Plus ongoing rental income of	£750 per month



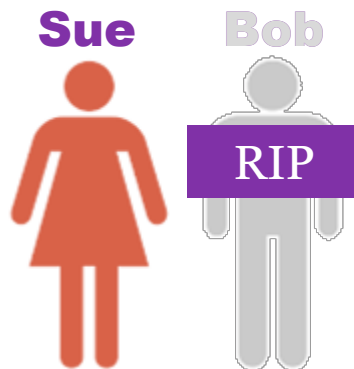
SIMPLE PROTECTION
SOPHISTICATED SOLUTION

PROTECTION SOLUTION? **SIMPLE LIFE COVER**



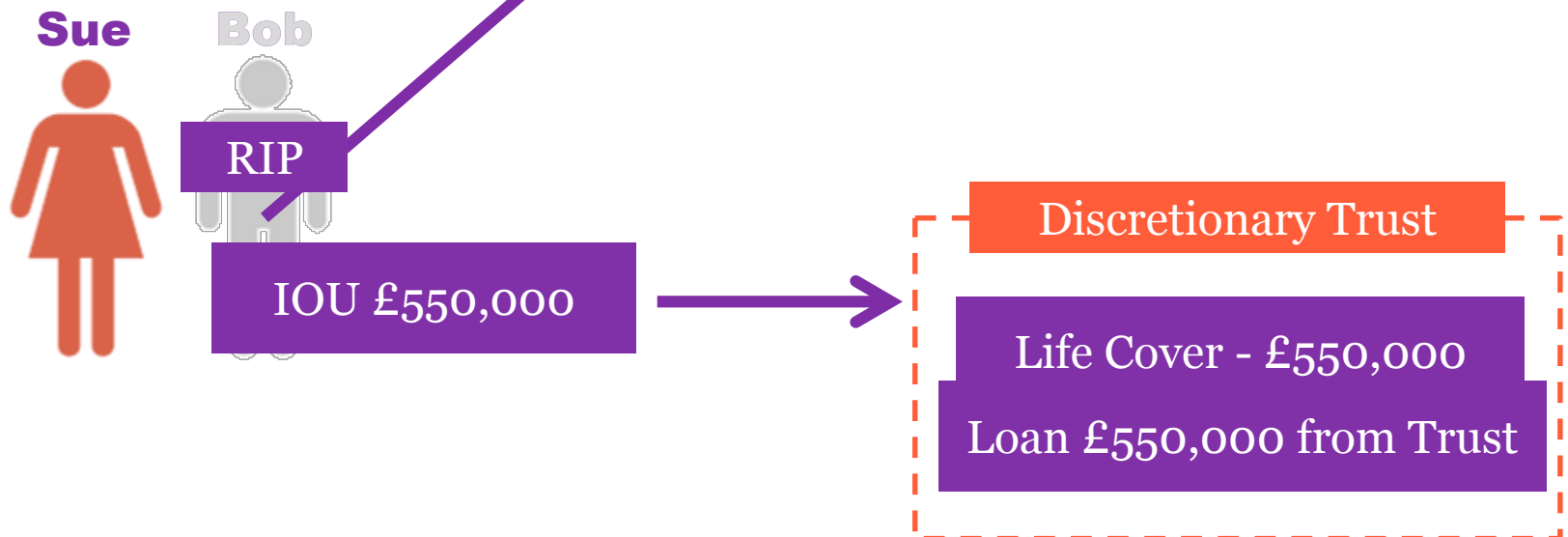
Mortgages - £550,000

Life Cover - £550,000



Discretionary Trust

PROTECTION SOLUTION? SIMPLE LIFE COVER



PROTECTION SOLUTION? **SIMPLE LIFE COVER**

- Residential property owned outright
- Five houses worth £750,000 – owned outright
- No mortgages to worry about
- Rental income = £3,750 a month
- Debt is in the trust



SIMPLE PROTECTION **SOPHISTICATED SOLUTION**

- Sue (wife) has the full rental income coming in from the portfolio (£3,750 pm)
- That sizeable income would probably cover care fees if needed, meaning the family home wouldn't have to be sold to cover care costs
- She can easily afford to pay a management company if she wants to

Let's say Sue dies in 10 year time – assuming a 20% increase in property values...

WHEN SHE DIES... HER ESTATE LOOKS LIKE THIS

Estate breakdown	Totals
Main Residence owned outright	£480,000
Owens 5x rental properties outright	£900,000
Less debt to the Trust	-£550,000

total **£830,000**

WHEN SHE DIES... HER ESTATE LOOKS LIKE THIS

Estate breakdown	Totals
Net value of estate	£830,000
Less Main Residence nrb (x2)	£300,000
Less nil rate band (x2)	£650,000
Taxable estate	£0
Tax due	£0

BETTER MEMORIES WITH LIFE COVER

HOW IT COULD HAVE BEEN DIFFERENT

- Assume Bob is 40 next birthday, non smoker costs £72.82 for £650,000 level life cover x 35 years
- Plan written into trust – If Bob dies, value of plan payable
- Proceeds go to trust and £575,000 loaned interest free to wife to pay off all BTL mortgages & cover other expenses
- Care regarding s176 Finance Act 2013
- Balance kept to pay any possible future ‘periodic charge’ on the trust
- Income each month now £3,750 – she is £36,000 a year better off
- Over 30 years (assuming he dies age 70) the total cost of cover will have been less than her increase in rental income in one year.



LIMITED COMPANIES BTL
CASE STUDY 2

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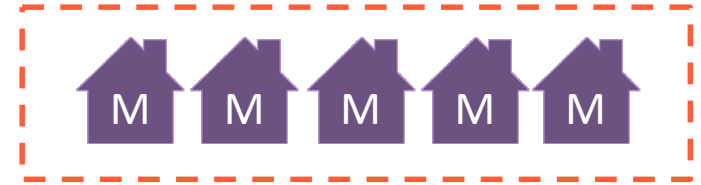
BTL Property Portfolio
Limited Company
Married Couple

BTL Property Portfolio
Limited Company
Business Partners



CASE STUDY 2

LIMITED COMPANIES



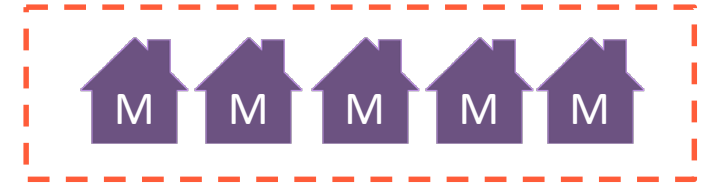
- Tom, Steve & Barry have set up a BTL property business together – they are not related
- Tom is a qualified electrician, whilst Steve is a plumber and Barry is a builder
- They have 5 properties in their portfolio
- The portfolio is worth £750,000
- The mortgages total £550,000

The trio have never even thought about the idea of insurance. They know they have equity in the portfolio and they expect this to increase over the coming years when they add more properties

If one of them dies suddenly, what are the issues for the business and the family to deal with?

CASE STUDY 2

LIMITED COMPANIES



- If one of them dies or becomes sick; would this affect their ability to continue running the business?
- Would repaying some or all of these mortgages help at such a time?
- All 3 business owners appear to be key people
- What about business continuity?

KEY PERSON ISSUES? **PEOPLE WITH SPECIALIST SKILLS**

- It's likely that all 3 business partners in this scenario could be considered 'key persons'
- What happens when one of them falls ill or dies?
- How would that affect their business?
- How much would it cost to find a replacement?

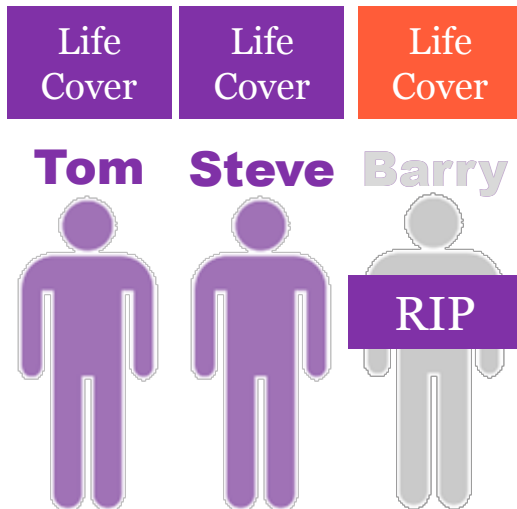
Is there a simple solution?



KEY PERSON & LOAN
SOLUTIONS

PROTECTION SOLUTIONS? KEY PERSON & LOANS

As all 3 business partners are key persons; ABC Homes Ltd takes out 3 separate life cover plans on each key person.



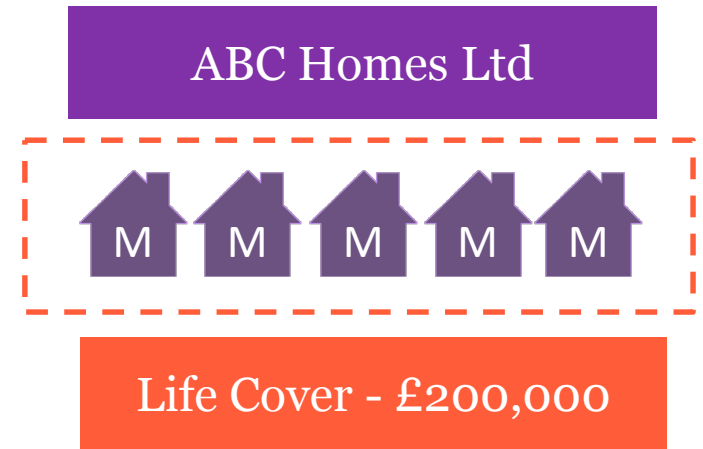
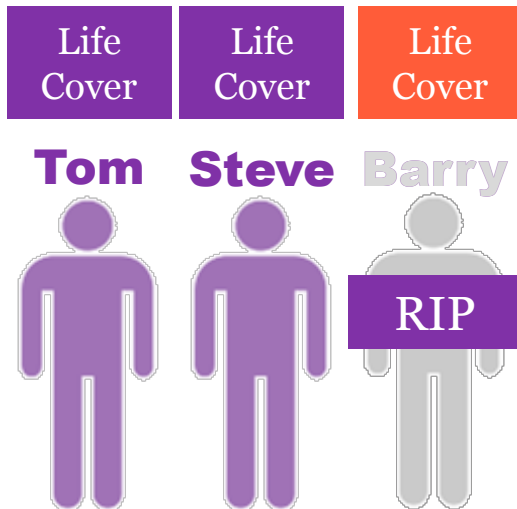
Life Cover - £200,000

Barry, the Builder, dies suddenly

The key person life cover is paid out to the company

PROTECTION SOLUTIONS? KEY PERSON & LOANS

As all 3 business partners are key persons; ABC Homes Ltd takes out 3 separate life cover plans on each key person.



Tom and Steve now have the funds in place to bring someone into the business to perform the job which Barry used to do.

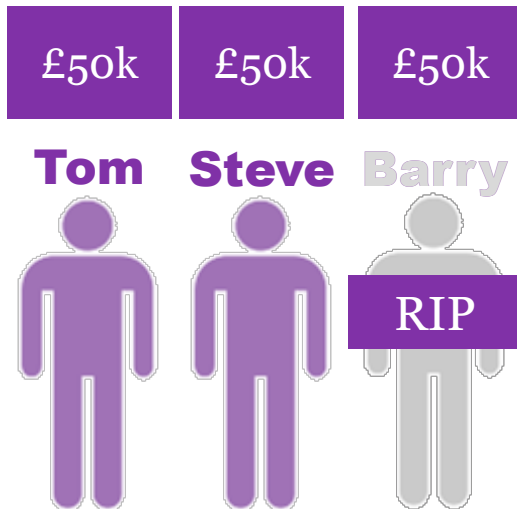
Or, they can choose to use the funds to repay some or all of the mortgage debts.

Personal Guarantees?

PROTECTION SOLUTIONS? KEY PERSON & LOANS

Let's say Tom, Steve & Barry all put some of their own funds into the business to get it started and purchase the properties

ABC Homes Ltd

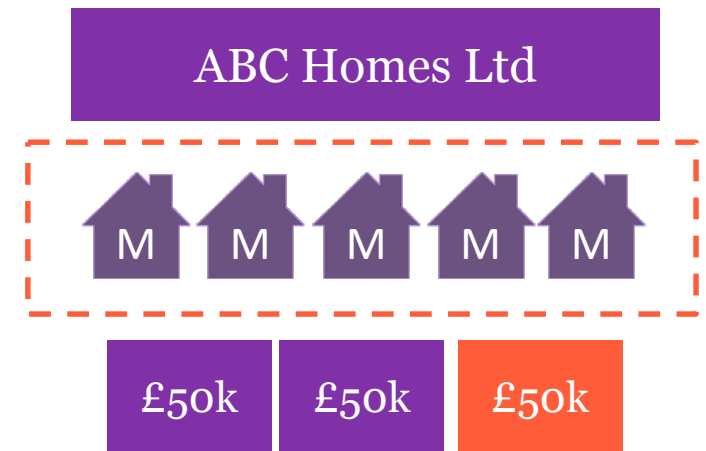


They also needed mortgage funding to purchase their portfolio of properties

What happens when one of them dies?

PROTECTION SOLUTIONS? KEY PERSON & LOANS

Let's say Tom, Steve & Barry all put some of their own funds into the business to get it started and purchase the properties



The £50k in this example is owed back to Barry's estate. This is a Directors Loan

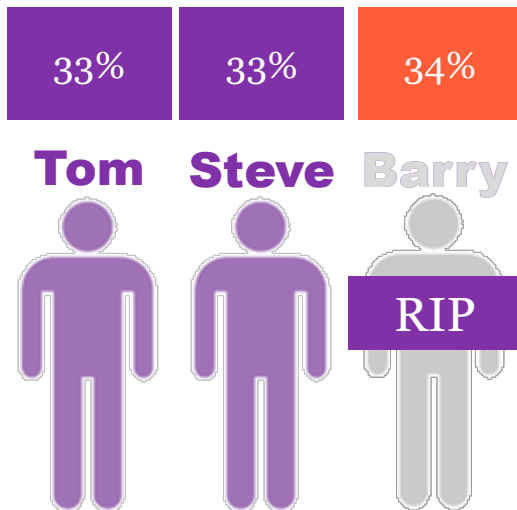
And it's repayable straight away! – so the question is whether this is possible? Does the business have access to these funds? How quickly can they raise the funds?



**BUSINESS
PROTECTION**

PROTECTION SOLUTIONS? BUSINESS PROTECTION

Lets say all 3 business partners have a 33/33/34% share in the business.



Another key question is what would happen to the business if anything happened to one of them?

Let's say this share is worth £100,000 and is owed to Barry's estate

What are Tom and Steve's concerns at this point?

PROTECTION SOLUTIONS?

PROTECTING THE BUSINESS

- Do they have enough liquid funds within the business to buy Barry's share of the business
- Would they have to sell a property or two?
- Barry was a slight majority shareholder
- Did Barry give any personal guarantees to secure any of the mortgages?
- How would they feel about someone in Barry's family coming into the business to work with them?
- What if they have no helpful skills?
- Would they prefer to run things themselves?
- Would they like to stay in control of their own destiny?

PROTECTION SOLUTIONS? **BUSINESS PROTECTION**

The solution to all these concerns is a simple business protection solution

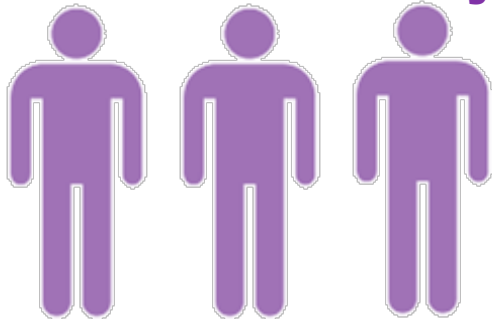
ABC Homes Ltd



Cross option agreement



Tom Steve Barry



Each business partner takes out a life assurance policy to the value of their share of the business.

Written into a Business Trust with the other business owners as trustees (typically)

Another part of this protection solution is a cross option agreement

PROTECTION SOLUTIONS

BUSINESS PROTECTION

Cross option agreement

- The cross option agreement gives the surviving business owners control over how they want to run their business going forward.
- But it also protects the estate of the deceased too!
- The life policies provide the funding

- Sometimes known as ‘double option’ agreements, this wording provides the business with an ‘option’ to purchase the shares from the deceased business owners estate.
- If they choose this, the estate **MUST** sell the shares to the business
- This means the business owners keep control of their business.

PROTECTION SOLUTIONS

BUSINESS PROTECTION

Cross option agreement

- At the same time, the estate also have an option.
- If they choose to exercise their option, the business **MUST** buy the shares
- This means the estate and family of the deceased are not financially out of pocket.

PROTECTION SOLUTIONS

BUSINESS PROTECTION

Single option agreement

- For protection solutions which include Critical Illness Cover, there is also a 'Single Option Agreement' available
- As the name suggests, this time there is only 1x option.
- This is an option for the Critically ill business owner to choose whether they wish to stay within the business
- Or whether to sell their shareholding
- If the critically ill business owner chooses to exercise their option to sell, then the business **MUST** comply with this.



RELEVANT LIFE
PROTECTION

RELEVANT LIFE PROTECTION

- Level or decreasing life cover set up through a limited company, in Trust
- Very tax efficient – saves on employer/employee National Insurance and Income tax, plus corporation tax relief
- However - premiums may not be tax deductible for corporation tax if the company isn't a 'trading company' (could be an SPV?)
- This would reduce the tax benefits somewhat, but not entirely
- Whilst set up through a business, Relevant life is not business protection – it's personal protection like death in service



POSITIONING RISKS &
MARKETING

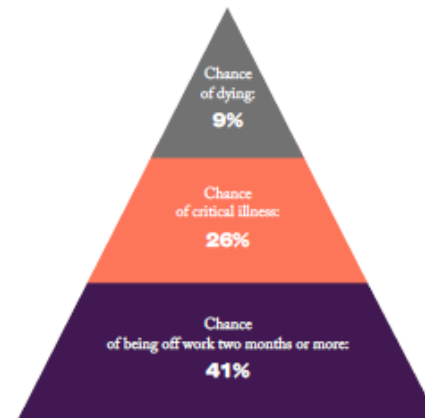
MARKETING STUDIO

RISK REPORTS – I DON'T THINK I NEED IT?

Risks faced by a male

- Bob
- aged 30
- Smoker
- Planned retirement age of 67

THE FACTS ABOUT THE RISKS YOU FACE



Bob, your chance that any of these could happen before your retirement age of 67 is:

60%

This is based on your age, gender and whether you smoke. Life insurance is more popular than critical illness cover or income protection – but there's a much bigger chance of being diagnosed with a critical illness and/or facing a long-term absence from work.

To find the best way to protect you and your family, talk to us today.

abc

FINANCIAL SERVICES

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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 lines that take out insurance products.



**ROYAL
LONDON**

MARKETING STUDIO

SALES AIDS AND POSTERS

STAY IN CONTROL OF YOUR BUSINESS



**Losing a business partner would be bad enough.
But without the funds to buy their shares,
you could find someone else in the driving seat.**

Shareholder protection could give your business the money it needs to buy shares back if a partner falls critically ill* or dies.

**So don't get stuck in a jam – protect your business
for whatever lies ahead.**

*Not all insurers cover the same illnesses, and definitions for illnesses may vary.

To find the best way to protect you and your business, talk to us today.

abc
FINANCIAL SERVICES

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ONE MORE REASON
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HELPING HAND IN EVERY PROTECTION PLAN



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- Medical Helpline
- Complimentary therapies
- Second medical opinion
- Arrange specialist support to help someone cope with cancer
- Cardiac rehabilitation support after heart attack
- Specialist speech and language therapy
- Counselling for a wide range of issues including coping with the loss of someone
- Practical help at home
- Help for carers
- Extra information such as medical factsheets
- Home visit from a healthcare specialist
- Living aids and mobility equipment
- Career helpline
- **Recruitment Specialist**
- **Independent legal advice**

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