



# NEWSLETTER

LILAC FINANCIAL LTD

---

If any of these articles pique your interest and you want to discuss more, please get in touch.

PART OF

THE  
**Openwork**  
PARTNERSHIP

22 Corby Business Centre, Eismann Way, Northamptonshire NN17 5ZB  
info@lilacfinancial.co.uk | www.lilacfinancial.co.uk | 01536357806



# How might rising interest rates affect your mortgage?

The Bank of England has raised interest rates and warned further hikes are likely in the coming months.

This will mean bigger bills for some homeowners.

On 3 November 2022, the Bank of England raised interest rates from 2.25% to 3% - the eighth hike since December 2021 - in a bid to combat soaring inflation. And, the Bank's Governor, Andrew Bailey, has warned people to expect further rises in the coming months.

It is now widely anticipated that rates will rise to over 5% by Spring next year. This has had a huge impact on the mortgage market - with some lenders pulling deals altogether and others replacing their offerings with more expensive alternatives.

## What does a rise in interest rates mean for your mortgage?

If you don't have a fixed-rate mortgage, you're likely to see your borrowing costs rise, although how they are affected will depend on the type of product you have. Your adviser can help you assess your mortgage deal and figure out ways to make savings.

- Only borrowers with a mortgage that moves up or down with the base rate will be immediately affected by the interest rate change.
- This includes tracker mortgages and standard variable rate mortgages (which you revert to when a mortgage deal ends).

## Fixed-rate mortgages

If you're on a fixed-rate mortgage deal, you won't see any change in your monthly payments. This is because the interest rate you pay stays the same for the length of your mortgage deal.

But with further interest rate rises expected, if you're close to the end of your current term, it may make sense to look for a new deal sooner rather than later. You can generally lock in a new mortgage deal three to six months before an existing deal comes to an end.

If you've got more than six months to the end of your current deal, you'll either need to wait for a while or pay the early exit fee (A fee you may have to pay your current lender if you end your mortgage deal prior to the 'official end date') We can advise you on the best way forward.

## Standard variable rate mortgages

You end up on a standard variable rate (SVR) when a tracker or fixed-rate mortgage deal ends, and you don't remortgage.

If you're currently on your lender's SVR, you may well see your monthly payments increase following the rise in the base rate. You may not be hit with the full increase though, as these rates go up at a lender's discretion.

## Tracker mortgages

Tracker mortgages follow the Bank of England's interest rate. So, payments on your tracker mortgage will rise as a direct result of any increase in the base rate. Exactly when this happens will depend on your lender.

As a rule, tracker mortgages do not exactly match the base rate but are set at a level just above it. For example, if your lender's rate is the base rate +1%, the interest you'll pay in total on your loan will be 3.25 % (based on the base rate of 2.25% - 5 October 2022).

Whatever type of mortgage you have, we can advise you about how the interest rate rise might affect you and address any questions or concerns you have.

## How to save on your mortgage costs

The best thing you can do is to speak to your financial adviser. If you're on a tracker mortgage, they'll be able to advise whether changing to a fixed-rate deal to protect yourself from any further rises is a good idea. They'll also let you know about the fees involved when making changes to your mortgage. If you're on an SVR, the interest rate you will switch to when your initial mortgage deal ends, you can switch to a new mortgage deal at any time. With interest rates rising, your adviser can help you look at available fixed-rate deals.

If you're already on a fixed-rate deal, your mortgage payments won't increase until your current term ends. With many lenders letting you lock into a new deal six months before your existing one finishes, it's a good idea to plan ahead.

*Whether you're looking to remortgage or are a first-time buyer, we can help you find the most suitable deal for your circumstances and help keep your costs down.*

**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS  
ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT**



# Feel more secure with income protection

When it comes to insurance, we're more likely to protect our pets than our income. Here's why it's important to have some income protection in place.

## What is income protection?

Income protection pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. It gives you a buffer between finding yourself without an income, paying the bills and protecting your family's security. Building an emergency fund (which covers around three months' worth of bills and essentials) is a good start to give you some financial back-up, but income protection insurance can also provide peace of mind.

## How does income protection work?

Income protection is an insurance policy, so you pay a monthly or annual premium for it like any other type of insurance. If you can't work because of sickness, disability or other reasons (depending on your policy criteria), you will receive a regular income until you either return to paid work, retire, pass away or the policy term comes to an end. We can help you determine how much coverage you'll need.

## How much does income protection pay?

It could be anything from 60% to 65% of your pre-tax income, and the regular payments (which are tax free) will start after a pre-agreed waiting period, which could be weeks or months. You'll pay more in premiums if the waiting period is shorter and the percentage of your income is larger. This type of protection is different to life insurance or critical illness cover, both of which do not pay regular amounts but instead provide one-off lump sums in the event of your death or the diagnosis of a critical illness.

## Do you need income protection?

With the rise in the cost of living and cost of borrowing right now, many people are worried about paying the bills should anything happen that leaves them unable to work. Recent surveys have shown that the average UK family doesn't have enough in savings to be financially secure for long if they're no longer receiving an income.

That's where income protection can give you some financial resilience, especially if your workplace does not provide statutory sick pay (or only starts to pay out after a period of several months). Your adviser can help you navigate the income protection policies that could best suit you and your needs, weighing up how much your premiums might be with the amount of cover you're after.

As with any insurance policy to do with your life and health, things like your age, health, occupation and other factors (like how much of your income you would like to receive, and how soon you would like payments to start) will be considered when your premium is calculated.

We can guide you through what type of policy works best for you, helping you find value for money as well as some peace of mind knowing your income is protected.

*Your adviser is best placed to help you find an income protection policy to suit your needs and provide some security for you and your family.*

## Peace of mind for the self-employed

Sarah is self-employed and she approached her financial adviser for some advice. As a single mum, she worried that her emergency savings fund wouldn't be enough to cover the rent or bills if she found herself unable to work. Sarah's financial adviser found her an income protection plan with an affordable monthly premium that covers 65% of her earnings.

# How to protect your mortgage

Strengthening your ability to keep up with mortgage payments is important and will give you some peace of mind if your circumstances change.

Life insurance is the form of protection most of us would name as one that could pay down or pay off a mortgage. Yet there are other situations (apart from death) that could mean it's very difficult or even impossible to keep up with mortgage payments for an extended period – without the help from other types of coverage.

Here are some protection policies you might want to have in place (alongside life insurance) to give your mortgage some security if you are unable to keep up with mortgage payments. Your adviser can help you work out the best option for your situation.

**Critical illness protection** pays out a one-off, lump sum if you're diagnosed with a critical condition or disability that is covered by your policy. It can be offered when you buy for life insurance, as extra coverage.

**Income protection** pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. Depending on the terms, you'll receive a regular income until you either return to paid work, retire, pass away or if the policy term comes to an end.

**Mortgage payment protection insurance (MPPI)** pays your monthly mortgage payments if you're unable to make them due to an accident or illness.

## What's the difference between income protection and MPPI?

Income protection insurance is seen as more comprehensive than MPPI as it covers a proportion of your income and not just your monthly mortgage payments. It could also help to cover monthly bills aside from your mortgage. The period you're protected with income protection tends to be longer than MPPI, too.

Your adviser will help you find a policy that works for you and your needs, in terms of the length of cover you want and how much the premium might be. MPPI premiums could be lower than those for income protection and more affordable.



*Our advisers are here to help if you're looking for ways to protect your mortgage.*



# What is critical illness cover?

Whether you need critical illness protection depends on your situation as well as any existing policies you might already have in place.

Critical illness insurance pays out a one-off, lump sum if you're diagnosed with a condition or disability that is covered by your policy. It can be offered when someone applies for life insurance – as extra coverage.

In a similar way to some life insurance plans, critical illness covers a set number of years. You can specify whether you want the payout to rise over the course of the term (so it keeps up with inflation) or the opposite – decreasing because your aim is to cover something specific like your mortgage.

If you're thinking about critical illness cover, it's important to speak to your financial adviser who can help you decide how much cover you'll need and how long the term should last.

## What does critical illness cover?

Products vary depending on the provider. Certain illnesses are covered as standard by most insurers, including, cancer, heart attack, stroke, organ failure, multiple sclerosis, loss of arms or legs and Alzheimer's and Parkinson's disease.

Some providers may allow you to add additional illnesses to your policy, which you'll pay more for. Your children could also be covered as part of your policy so it's worth asking your adviser about these options if it's something you're keen to have in place.

## What does critical illness not cover?

Although a diagnosis of a critical illness can mark the start of a claim in some policies, others may only begin to offer protection once your illness hits a certain level of severity. For example, if you are diagnosed with cancer, payments may only begin when permanent symptoms have been officially diagnosed. Additionally, not all types of cancer are necessarily covered by critical illness protection.

It's important to work with your financial adviser when reviewing a policy and all the small print before you commit to make sure you are sufficiently covered – and aware of areas not included.

## Pre-existing conditions

Just like the life insurance application process, critical illness protection requires you to disclose any pre-existing conditions. If you don't then your policy could be invalid.

Your adviser can search the market for a suitable plan, but you'll probably have to pay more in premiums and there will likely be some extra exclusions. The price you pay will vary, based on things like age, occupation, state of health, lifestyle and how much coverage you need and for how long.

## Do you need critical illness cover?

There are things to consider if you're worried about being diagnosed with a critical illness and the impact on your income and ability to keep up with bills (which would not be covered by state benefits when you're unable to work).

Your adviser will help you look at the following areas:

- Your employer's coverage – is there any paid leave for illness or disability and for how long?
- Do you have an existing life insurance policy and if so, does it have any illness coverage included?
- Could you consider income protection insurance as an alternative to critical illness?
- Do you have sufficient savings and investments you could use in place of critical illness cover?

If you want to proceed, it's important to work with your adviser to see how much protection you'll need. This means looking at your monthly outgoings and how much you and your family require to live comfortably. You might want to add in any potential costs from medical treatment you may need.

During these important decisions it's easy to lose track of the small details, which is why your adviser can help make the process easier for you and your family and give you some peace of mind.

*We can examine your needs and existing policies and then find you the right cover that protects your finances – and your family – should anything happen.*