

Family income benefit for buy-to-let clients

Don't leave your buy-to-let investor unprotected.

Have your buy-to-let clients taken out protection insurance? They might think they can rely on the value of their property if they die or become seriously ill, but how much value will they really get out of it if they're forced to sell at the wrong time?

No one knows when death or illness might happen, and since the global credit crunch, there are no guarantees about what the housing market would be like when the time came either.

It would be left to your buy-to-let investor's spouse or partner to arrange the sale of their property portfolio before they could benefit financially, which could cause considerable stress and inconvenience at an already difficult time.

But recommending a small amount of family income benefit could mean that your client could keep their property portfolio

intact. Critical illness cover would provide an income that could help to buy time so that the client can make decisions about the properties when they feel ready to. Life cover would give their family the financial freedom to, for example, employ a property manager to maintain the portfolio until it was the right time to sell.

Why not ask your buy-to-let client:

- How would you feel if you were seriously ill, you needed care and support, and your partner had to focus on trying to sell or manage your properties?
- What would happen if your family were forced to sell at a time when the market dropped? Your pension pot could be severely reduced and you could be forced to go back to work to make ends meet.
- If you died, would your partner have expertise in managing the properties they've inherited to maintain the full value of the portfolio?



Source: Unbiased.co.uk, for the month of April 2011, June 2011.



A little protection can go a long way.

Let's look at an example to show how some Life or Critical Illness Cover family income benefit could cover the cost of managing your client's portfolio if anything happened to them.

Matthew is 35 and investing specifically to build up a pension pot. He has 3 properties that are worth £600,000 and he has mortgages outstanding totalling £405,000.

The properties generate around £800 a month each, so he collects £2,400 a month. The mortgage costs in total are currently £2,250. Matthew and his wife manage the properties themselves so they currently enjoy a profit of £150 a month.

If Matthew had to pay someone to fully manage the properties he would pay around 12% of the monthly rental – £3,456 a year.

As you can see in the table, even for the longest term, the cost only comes to 20% of the excess income. So why not recommend your client takes out a protection plan? Even just a little protection can help your client and their family make decisions that are right for them.

Source: Male, 35 next birthday, female, 33 next birthday, both non-smokers. £3,500 Life or Critical Illness Cover, level income on reviewable rates. Each term includes £2.60 plan charge. Bright Grey, June 2011.

Term of cover	Cost of Life or Critical Illness Cover to cover £3,500 management costs
30 years	£29.49
25 years	£23.83
20 years	£18.33

Objections? Overruled

If your client objects to the cost of protection, you could point out that by increasing the rental on each property by £10 a month, they could easily cover the cost. And if they already have buildings insurance for each property at say £30 a month – why not also insure the 'value' of each property at just £10 a month?

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