Budgeting is a family affair

To launch a seven-part series on protecting your finances, **Niall Brady** offers 10 tips for parents with young children

MONEY WORKOUT

Part 1
FAMILY FINANCES

FAMILIES are failing to protect their finances from catastrophes such as illness or death as they rush to tighten their belts. Life assurance and other forms of protection are being overlooked or cancelled because of penny-pinching, exposing families to the risk of financial ruin.

Research by Irish Life found that almost 500,000 Irish parents had no life assurance other than mortgage protection cover. This cover would clear the debt on their homes but leave no income for their families if they died prematurely.

Gerry Hassett, the chief executive of Irish Life, said: "Over the past five years we have paid more than €500m in death claims, many to customers with young families."

Here is our 10-point action plan to help families with young children.

LIFE ASSURANCE

Parents need to insure their lives until the children are financially independent, but calculating the level of cover required can be tricky.

John Geraghty of LA Brokers,

EMERGENCY FUNDS

Families need a cash reserve to deal with emergencies, but it is difficult to know how much is enough. Brendan Burgess of Askaboutmoney.com, a consumer finance site, said: "I used to advise that emergency funds be kept to a minimum because deposit rates were low. Now you can earn about 3% with easy access, so your emergency fund can be as big as you like. It might turn out to be your best investment."

Fixed-term deposits pay the best rates and some let you access your savings early. KBC Bank pays 6% for 18 months with a minimum balance of €10,000 and the freedom to make a withdrawal of up to 25% of your money before maturity.

Burgess said surplus funds should be used to pay off debt, instead of lying on deposit, especially if you have an expensive variable-rate mortgage.

MAKE A WILL

If a parent dies with no will, two-thirds of the estate goes to the surviving spouse and the rest to the children. This includes the family home if it was owned by the late parent.

Sonya Lanigan, of John Lanigan & Nolan solicitors in Kilkenny, said: "This can be awkward if the children are young because the property will be in a legal limbo until they are 18. By making a will, you can ensure your spouse inherits all of your estate. It's also important to appoint

FERGAL PHILLIPS

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John Geraghty of LA Brokers, which sells discounted cover online, said: "For most families, it comes down to what they can afford. They might be advised that they need cover of €500,000 but they'll have to settle for less if they can't afford the premiums."

Irish Life quoted €75.71 a month to insure the life of a 40-year-old man for €500,000 for 20 years. Were he to reduce the cover to €300,000, the premium would drop to €43.01 a month — saving €392 a year.

Dual life assurance provides separate cover for each parent, while joint cover pays out only when one of the parents dies. "Dual life is usually best because it could potentially pay out twice, and it might not cost much more than joint life," said Geraghty.

also important to appoint guardians in case both parents die before the children are 18."

Lanigan is one of more than 100 solicitors in Ireland who will help you make a will for just €50 a client in October 17-21. They will encourage you to leave something in your will to one or more of the 60 charities belonging to the My Legacy campaign (see mylegacy.ie).

STAY-AT-HOME SPOUSES

Make sure to transfer unused tax allowances to your spouse if you give up a job to care for the children. Individuals pay tax at the top rate on earnings over €32,800 in 2011. This rises to €41,800 if they have a stay-at-home spouse — a tax saving of up to €1,890. You can also claim the home carer tax credit of €810 if the household earns less than €41,800.

John O'Connor of Red Oak Tax Refunds said: "If you got the home carer's tax credit in one year, you may still be able to claim it the following year even if you go back to work."

MEDICAL EXPENSES

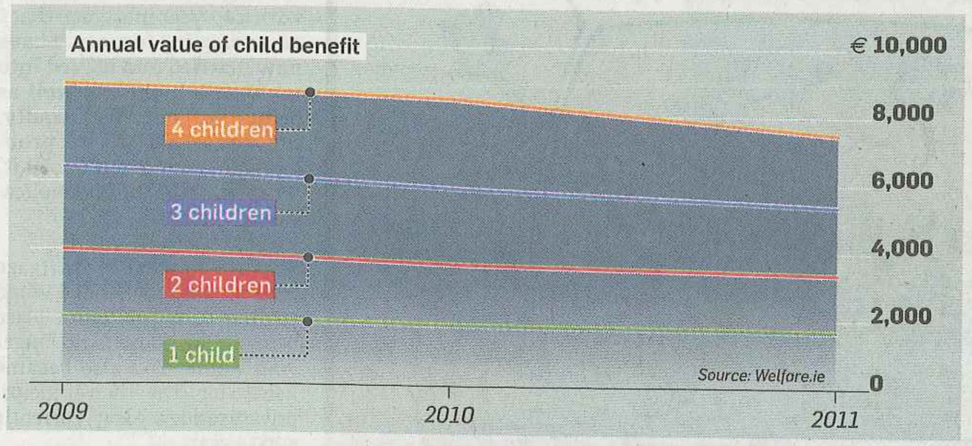
Many health insurance policies for young families provide some cover for doctors' visits. Costs not covered by insurance can be claimed as a tax deduction, eligible for relief at 20% of the amount involved.

Tax relief at 20% can also be claimed on the cost of prescription medicines up to €120 a month. Any excess should be covered by the state through the drugs payment scheme.

MEDICAL CARDS

Families do not have to worry about doctors' bills if they qualify for a medical card. They also pay less tax because the maximum universal social charge (USC) is 4% for medical card holders, while other taxpayers pay 7% USC on earnings over €16,016.

To qualify for a medical card, the income limit is €17,810 for families with two children under 16. Higher earners may still qualify because the means test takes account of what they spend on childcare, mortgages, rent and travelling to work. Savings are means-tested too, however, when couples have more than €72,000 in the bank.



CHILDCARE

Child benefit, worth €5,364 tax-free in 2011 for families with three children, is a key part of most household budgets. The payment has been reduced for the past two years (see chart), and more cuts are expected in the budget in December. If child benefit is not reduced, it is likely to be means-tested or taxed.

Families with preschool children should make sure to make use of the early childhood education scheme, which provides a free year at playschool or in day care. To qualify for enrolment next September, your child must have been born between February 2, 2008 and June 30, 2009.

PARENT CARE

In addition to childcare, young families may have to help grandparents with medical and other bills. Deeds of covenant allow them to do this tax efficiently.

Suppose your mother needs €2,000 to supplement her pension. To give her the money, you would need to earn €3,390 before tax, assuming you are in the top tax bracket.

You could save €525 in tax, and your mother could claim a tax refund of €500, if you gave her €2,000 under a deed of covenant, which is a legally binding agreement to pay an agreed amount to another individual without receiving any benefit in return.

SPECIFIED ILLNESS INSURANCE

Insurance salesmen will often try to persuade you to buy specified or critical illness cover when selling life assurance. This pays a tax-free lump sum if you succumb to a condition specified in the policy, which typically covers heart attacks, cancer and strokes.

Claims will be rejected, though, unless your condition is serious enough to satisfy the strict conditions set out in the policy.

Geraghty said: "You should consider this insurance only if you have spare cash and all other aspects of your finances are in order, including life assurance. To claim for cancer, for example, it must be in the way described by the policy. I'd question how long people survive after making a claim."

INCOME PROTECTION

This insurance pays your family an income if you are unable to work, irrespective of the cause. Premiums qualify for top-rate tax relief, one of the few items that still get a 41% tax break.

If you are an employee you will need less cover than those who are self-employed because you may be entitled to a social welfare illness benefit of €10,192. The income paid by this insurance, together with the social welfare payment, cannot exceed 75% of your salary before you became ill.

Geraghty said: "You must have income protection if you're self-employed because you don't qualify for the state illness benefit."

Protection for the family

SIMON SHEAHAN and his wife, Deirdre, both 34, organised life assurance after the birth of their first child, Amie, on September 19. The couple, from Baldoyle, Co Dublin, took advantage of a promotion by Irish Life, which is offering €10,000 of free cover for one year to 20,000 parents with children under 13. They arranged cover through David Walsh, of Challenge Insurance Brokers in Baldoyle, Dublin 13.

"David emailed me about the free insurance about a week after Amie was born," said Sheahan. "His timing was perfect because, as a new dad, I wanted to start protecting the family. I would probably have put life assurance on the long finger, though, if it wasn't free."

The couple already have a mortgage protection policy on their home, costing €80-€90 a month. This would clear their mortgage if either parent died, but would not replace the earnings that would disappear if this were to happen. The Sheahans are a two-income family: Simon works as a self-employed insurance administrator and Deirdre is a nurse.

Irish Life's free insurance is a first step towards protecting their earnings, although Sheahan recognises it is not enough on its own. "The free cover will lapse after 12 months but it's enough to get the ball rolling," he said. "I'll give it more attention in a year's time by increasing the amount of cover or taking out a new policy."

As a young couple with no health problems, the Sheahans found that insurance was hassle-free to put in place. "We were underwritten straight away," he said. "There was a medical questionnaire to be filled out and, luckily, we were able to tick all of the right boxes."

To qualify for free cover, Irish Life requires that parents are under 55, do not suffer from serious medical conditions and have not been admitted to hospital in the past year, except for child birth.

Niall Brady