The Orchard Practice

growing together

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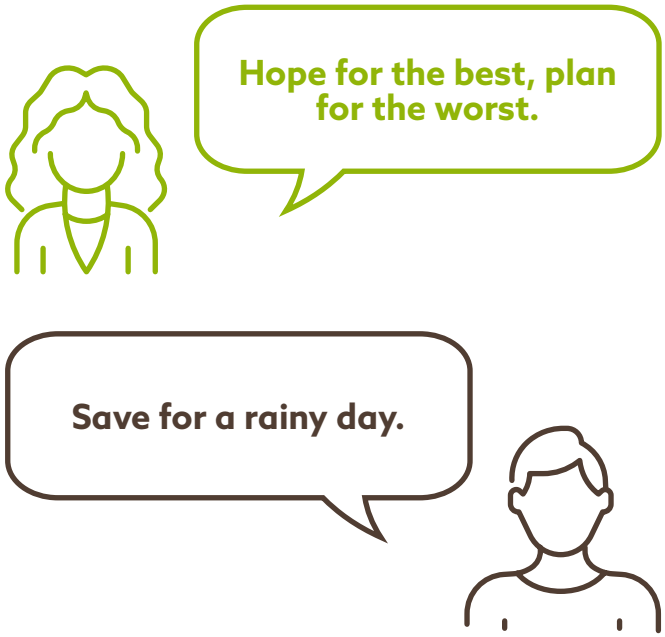
Your financial safety net: How to protect what matters most to you

020 8953 8687

info@topfs.co.uk







The English language is full of adages imploring us to use the good times in life to prepare for the more challenging ones.

Life can be plain sailing with everything going according to plan one minute, and then your world can be turned on its head the next.

Redundancy, illness, bereavement, and all manner of other events can come from nowhere and pose considerable challenges to your personal life, career, and finances.

And when the rains come, the best thing you can do is to have a storm shelter already prepared.

A financial safety net is a collection of savings, protection, and other buffers designed to shield your personal finances from life's unexpected twists and turns. Ensuring your safety net can support your lifestyle doesn't typically require lots of work or money. However, careful long-term planning is key.

In this handy guide, you will find out more about financial safety nets, including:

- What yours could include
- The role of cash savings
- Why you should consider protection, such as critical illness cover and life insurance
- Why your estate plan plays an important role
- How to fill your "protection gap"
- How we can help throughout the process.

Your financial safety net is not one-size-fits-all

Your safety net includes any financial arrangements you have in place to protect your finances from life's uncertainties.

Exactly what this comprises will differ from person to person, but a typical financial safety net might include:

- Cash savings
- Protection policies
- A broad collection of estate planning arrangements, including care plans, Lasting Powers of Attorney (LPAs), and an up-to-date will.

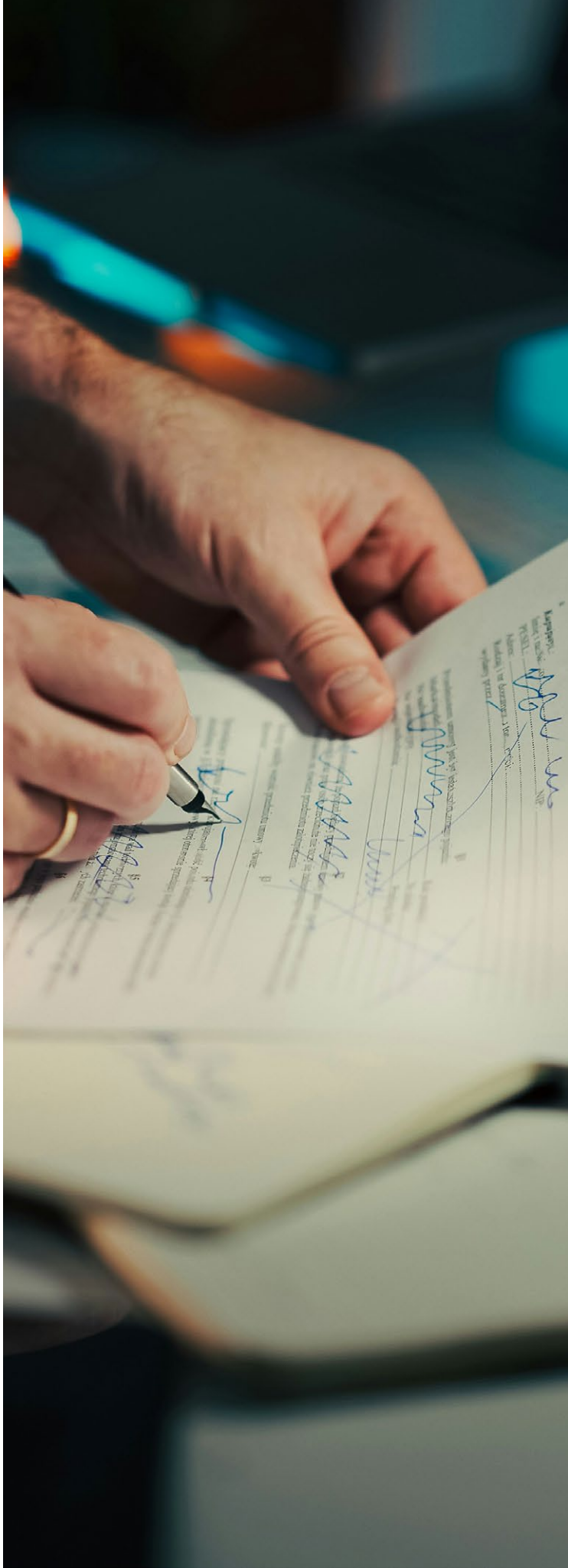
We will explore each of these components and the role they might play in your financial safety net in the following sections.

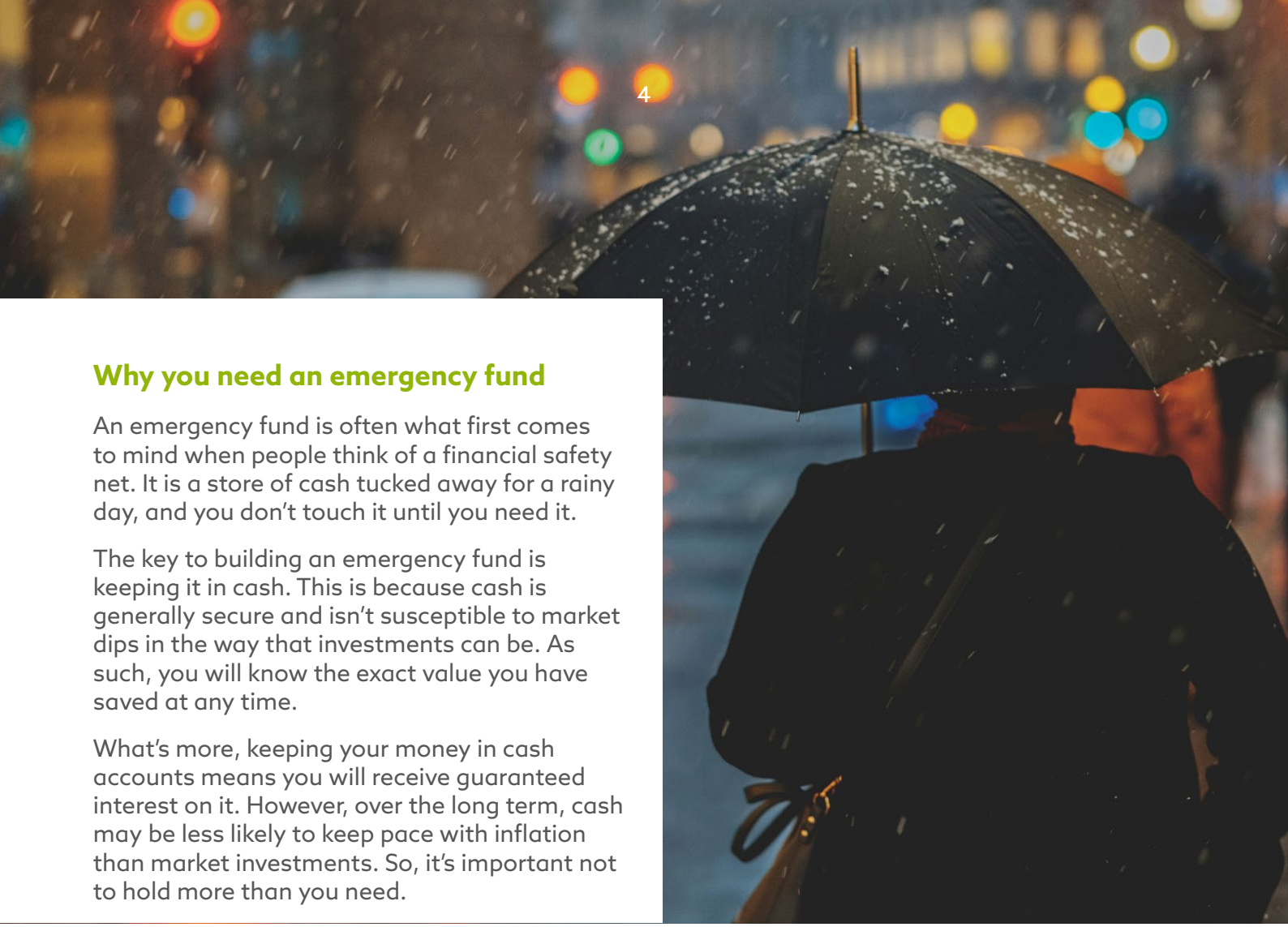
WHY IT'S IMPORTANT TO HAVE A FINANCIAL SAFETY NET IN PLACE

Life is unpredictable, and a safety net can be invaluable in the following circumstances:

- Redundancy
- A loss of business
- Illness
- Relationship breakdown
- Caring responsibilities
- Damage to your home or other property that isn't covered by insurance.

The Financial Conduct Authority does not regulate estate planning, Lasting Powers of Attorney, or will writing.





Why you need an emergency fund

An emergency fund is often what first comes to mind when people think of a financial safety net. It is a store of cash tucked away for a rainy day, and you don't touch it until you need it.

The key to building an emergency fund is keeping it in cash. This is because cash is generally secure and isn't susceptible to market dips in the way that investments can be. As such, you will know the exact value you have saved at any time.

What's more, keeping your money in cash accounts means you will receive guaranteed interest on it. However, over the long term, cash may be less likely to keep pace with inflation than market investments. So, it's important not to hold more than you need.

DID YOU KNOW

The Financial Services Compensation Scheme (FSCS) protects your money up to £120,000 per person per institution if the financial firm fails.

HOW BIG SHOULD YOUR EMERGENCY CASH FUND BE?

A commonly cited recommendation is to have **three to six months** of expenditure saved to cover everything you would need to spend in that time, though your needs may be different depending on your situation.

Please note: HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Tax concessions are not guaranteed and may change in the future. Tax-free means the investor pays no tax.

An ISA is a medium- to long-term investment, which aims to increase the value of the money you invest for growth or income or both. The value of your investments and any income from them can fall as well as rise. You may not get back the amount you invested.

Taxation Planning is not regulated by the Financial Conduct Authority.



The main options for saving cash

Easy access savings accounts offer guaranteed interest and can be accessed at any time.

Fixed-term savings accounts provide guaranteed interest, often at a higher rate than easy access accounts. However, they can only be accessed after a certain amount of time has elapsed, and withdrawing early could incur a charge.

Cash ISAs can be either easy access or fixed-term accounts, but any interest you earn in them is free from Income Tax, Capital Gains Tax, and Dividend Tax. In 2026/27, you can put up to £20,000 across all your ISAs in a single tax year.

Premium Bonds aren't technically cash accounts, but they are a secure way to keep your money and are backed by the government. They are quick and easy to withdraw money from, and the value cannot dip. Instead of earning interest, your bonds are entered into monthly prize draws, with prizes ranging from £25 to £1 million. However, there is also a chance you will win nothing, so other savings options may be preferable.

Each option has pros and cons, and your emergency fund may contain a mixture of the above options. That said, it's a good idea to use your ISA allowance, if possible, as the interest will remain tax-free.

Any interest you earn above a certain threshold in non-ISA accounts is taxable. That threshold is known as your Personal Savings Allowance (PSA), and in 2026/27 the allowances are:

- £1,000 for basic-rate taxpayers
- £500 for higher-rate taxpayers
- £0 for additional-rate taxpayers

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What to do if you can't work

If you are unable to work for a significant period due to illness, your employer may cover your salary for a while, or you might assume you can rely on benefit payments.

However, most employers won't cover you indefinitely and will likely move you onto Statutory Sick Pay (SSP) after a certain period, which is £123.25 a week (2026/27), and benefits are unlikely to replace your income.

There are two main types of protection to cover you if you can't work:



CRITICAL ILLNESS COVER

Critical illness cover is a protection policy that offers financial support if you are diagnosed with a condition included in the policy. It typically offers a one-off, tax-free payout.

The conditions covered by critical illness cover vary considerably between different insurers.

Medical definitions of what qualifies as a critical illness can also vary, but broadly include:

- An unstable condition in which a patient is seriously ill and may require care in an intensive care or critical care unit.
- An illness leading to a substantial, long-term change in a person's overall health and well-being.

Given the discrepancies between policies, it's important to ensure you understand exactly what is and isn't covered by yours before you opt for it.



INCOME PROTECTION INSURANCE

Income protection insurance offers regular payments to cover part of your income if you're unable to work due to illness or an accident.

While policies vary, they typically pay out between 50% and 65% of your income.

Policies often include a pre-agreed waiting period before the payments start, which tend to range from four weeks to a year. The longer you wait, the lower the monthly premiums.

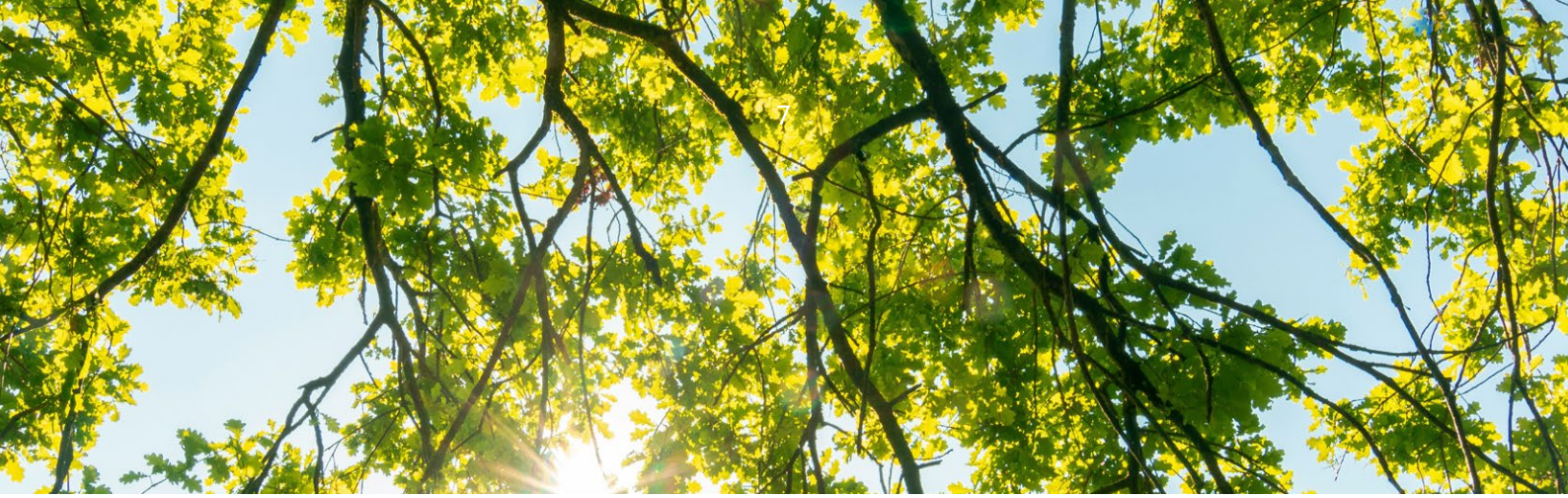
The policy will generally pay out until you:

- Can start working again
- Retire
- Die
- Reach the end of the policy term

Income protection insurance will usually cover illnesses that leave you unable to work, either in the short or long term.

Please note: These plans have no cash in value at any time and will cease at the end of the term. If premiums are not maintained, then cover will lapse.

Plans may not cover all the definitions of a critical illness. The definitions vary between product providers and will be described in the key features and policy document, if you go ahead with the plan.



Life insurance can offer vital support to your family after you're gone

Life insurance is a protection policy that may pay out a lump sum to your family and loved ones when you die.

It is designed to help ensure the security of those who financially depend on you and can be used to cover living costs, mortgage repayments, an Inheritance Tax (IHT) bill, or anything else they may need support with.

There are two main types of life insurance policies:

Term Life Insurance: This covers you for a specific period of time. If you die within this period, your policy pays out. If you outlive it, the policy ends, and there is no payout.

Whole-of-Life Insurance: This covers you for the rest of your life, no matter when you die. These policies are usually more expensive than Term Life Insurance. They are sometimes called "Life Assurance".

When you take out a policy, you make regular monthly or annual payments to the provider. Then, when you die, the provider pays out a specific amount to your beneficiaries, provided you pass away during the policy term.

Please note: Taxation planning and estate planning are not regulated by the Financial Conduct Authority.

DID YOU KNOW



The vast majority of life insurance policies pay out.

The ABI (29 June 2026) reports that 96.7% of Term Life Insurance and 100% of Whole-of-Life policies paid out in 2025.

The few that don't usually fail to pay out due to misrepresentation, so it's important to be honest when taking out a policy.

LIFE INSURANCE PAYOUTS MAY BE LIABLE FOR INHERITANCE TAX UNLESS IT IS WRITTEN INTO TRUST

When you take out life insurance, it's important that you put it in trust. This helps ensure the payout is not liable for IHT and that your beneficiaries receive it in full.

Indeed, a report from Insurance Business (13 August 2025) found that up to £346 million may have been paid in IHT in 2022/23 due to life insurance policies not being held in trust.

A financial planner can help you determine which trust structure would be appropriate for your life insurance policy.



Your estate plan can protect your wishes and the future of your loved ones

While it may not seem obvious, your estate plan is another component of your financial safety net. Making financial provisions can protect both your wishes and your loved ones when you die or come to rely on social care.

For instance, you may have an up-to-date will, but if you suddenly require around-the-clock care, your estate may be slowly depleted to pay for your needs.

Moreover, if your condition means that you don't have the mental capacity to change your will or wider estate plan, your beneficiaries may be limited in what they can do to restructure your finances to support you and your wishes.

Therefore, it's important to consider multiple strategies when building your estate plan, including:

- Writing a will that you review either every five years or after every significant life event
- Registering an LPA so that someone you trust can make key financial or health decisions on your behalf if you are unable to do so
- Setting out clear nominations for your pensions
- Putting certain assets in trust to help shield them from IHT
- Developing a gifting strategy that reduces the value of your estate while also providing for your loved ones.

THE RULES AROUND PENSIONS AND INHERITANCE TAX ARE CHANGING IN 2027



Pensions have historically been exempt from IHT, so paying more into your pension used to be an effective way of mitigating tax on your estate.

However, from April 2027, pensions are set to be brought into the scope of IHT, which means the tax bill on your estate could significantly increase.

One way around this might be to use your pension to pay for life insurance held in trust. This helps ensure any surplus pension you have after you die goes directly to your beneficiaries IHT-free.

This is a complex strategy that involves many variables, so it's important to consult a financial planner before adopting it.

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How to build your safety net and identify your "protection gap"

The "protection gap" refers to the difference between what you need in your financial safety net to be fully protected and what you have.

The following questions can help you understand your protection gap:

- What is my monthly expenditure?
- How much cash do I have saved?
- How long would my current cash reserves last?
- What sick pay would I receive if I were off work for a sustained period?
- What protection policies do I have in place?
- Could my loved ones afford to live without my support?
- Do I have a plan in place for how my wealth can support my family if I'm no longer around or able to work?

In every instance, you want to work out what you have, what you need, and the gap between the two. For example:

- **You have:** £10,000 in your emergency fund.
- **You need:** £25,000 in cash savings to cover six months' expenditure in case you are unable to work.
- **The gap:** £15,000.

Going through each of the elements that make up a financial safety net (as laid out in this guide) can help you identify your protection gap.



THE KEY BENEFITS OF HAVING A FINANCIAL SAFETY NET THAT INCLUDES SAVINGS, PROTECTION, AND AN ESTATE PLAN

Greater peace of mind: Knowing you have enough money set aside and protection in place offers peace of mind during uncertain or difficult periods.

Protected long-term goals: Having a safety net can prevent you from dipping into your pensions or investments prematurely, which could jeopardise your long-term plans.

Reduced stress and anxiety: Being under financial pressure, especially if you are already sick, can be a considerable source of stress and anxiety. A safety net can help alleviate this.

Greater independence: A financial safety net can help ensure you aren't reliant on family, friends, or high-interest loans.

Confident decisions: A safety net can give you time and space to make careful choices about your future, rather than being rushed into quick decisions.

A financial planner can help you build a safety net that protects you and your family

A financial planner can work with you to identify your protection gap. They can recommend protection policies you may be missing or strategies you might want to adopt, such as putting assets into trust or developing a plan to make regular gifts to your loved ones.

Once you have determined your protection gap and explored the various options available to you, a financial planner can help you create a plan that gets you from where you are to where you need to be.

They can use cashflow modelling to show how your finances may be affected in different scenarios, and you can then build a plan to ensure you have enough cover to feel financially confident and secure, whatever may come your way.

A financial planner can also conduct regular reviews to ensure your safety net continues to reflect your circumstances and that you and your family are fully protected.

To speak to a financial planner, get in touch.

Please note: Cashflow planning is not regulated by the Financial Conduct Authority.

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Please note: This guide is for general information only and does not constitute advice. The information is aimed at individuals only.

All information is correct at the time of writing and is subject to change in the future.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

A pension is a long-term investment the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

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Tax concessions are not guaranteed and may change in the future. Tax-free means the investor pays no tax.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Past performance is not a reliable indicator of future performance and should not be relied upon.

Note that life insurance and financial protection plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.

Cover is subject to terms and conditions and may have exclusions. Definitions of illnesses vary from product provider and will be explained within the policy documentation.

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