



Are You Well Endowed?

Endowment Mortgage Advice from Louis Letourneau.
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If you are gay and bought a property in the 80s or 90s, chances are that you also hold an endowment, which is meant to repay your [mortgage](#) at the end of the term. At least this is what you think!

Have you received a letter recently from the life insurance company that was so confusing that you put it aside? *"I'll look into it on Sunday afternoon when there's nothing on TV! I've been paying, so everything should be alright. Anyway, I've got so much equity in the house that surely this doesn't matter?"* Think again. What if there is a property crash next year and you find yourself unable to meet your payments? Should you do something now?

Life insurance companies were asked by the industry regulator, the Financial Services Authority, to write to all their endowment policy customers to let them know if they remained on target to repay the mortgage at the end of the term. You were sent either a red, amber or green letter. If you got the green letter, great - you're one of the lucky ones. If you have received the red letter, or even the amber, you have a problem. But don't panic, there are things you can do.

The majority of the endowment plans taken out in the early 90s would have used growth assumptions that were too optimistic, usually 9 per cent per year. The problem is that the stock market has fallen so much over the last two years that these assumptions are now unrealistic. A growth rate of 7 per cent, or even 6 or 5 per cent per year would have been much more realistic. The cheaper the premium, the higher the growth rate needed to payoff the mortgage will be.

The early 90s was a time when one would get an [endowment mortgage](#) without even looking at the other options, such as a repayment mortgage - a more straightforward way of repaying the loan. Furthermore, most of these contracts would have been "with profit" policies. Now this creates another problem. "With profit" policies are supposed to smooth returns by declaring high bonuses when the stock market is good and lower bonuses when the stock market is poor, by aiming to keep the bonuses fairly stable.

This philosophy is now in jeopardy. All insurance companies have now cut their interim bonuses to around 4 per cent and many have cut their terminal bonuses by up to 20 per cent. (These bonuses are cut so frequently at the moment that if you have an endowment maturing in the next six months, it might be worth checking to see if you would get a better surrender value now instead of waiting until the end of the term.)

So what next? First, look at any letters you have received, and try to assess if the growth rate is achievable in the long term or not. Chances are that the further away the maturity date, the more likely it is that you may be able to hit the target. If the target seems unrealistic (more than, say, 7 per cent per year needed) then you should really do something. You can:

Increase the endowment premium (this is not very wise and should be done only once full independent advice has been sought).

Switch part or all of your mortgage to a repayment mortgage whilst keeping the endowment going. This has the advantage of improving your savings for the future whilst ensuring that your mortgage will definitely be repaid at the end of the term.

Cashing in the endowment would probably be a mistake, as most of the charges have been taken in the early days. Furthermore, the insurance company is likely to penalise you if you surrender a "with profit" plan, by applying a market value reduction penalty before maturity - this can be as high as 20 per cent (just look at Equitable Life!).

Save separately into another saving account such as a cash [ISA](#) or some equity ISA to top up the shortfall.

I would normally recommend saving into a separate account and switching some of the mortgage into a repayment mortgage (most lenders should allow you to mix the two).

By keeping the endowment, you ensure that the life cover attached to it remains. This is particularly important if you are a gay man, because of the [discrimination](#) that life insurance companies still practice against gay men. This way, you get the best of both worlds and will be able to sleep at night.

Whatever you do, don't panic. Many endowments have produced good returns in the past and although most of the press coverage 'recently has been negative, endowments are not necessarily a poor investment. The most important thing is to [seek advice](#).

Louis Letourneau , MA is an experienced independent financial adviser (IFA), specialist in financial planning and wealth management. He founded Rainbow Finance in 1995 and has consistently challenged financial companies and Government on their attitudes to gays, lesbians and same sex couples and was instrumental in the Inland Revenue to changing its guidance notes to recognise unmarried couples in pension benefits. His work has also resulted in life insurance companies starting to relax the discriminatory underwriting criteria toward gay men and people leaving with HIV. He was a founder of the Rainbow Research Project which surveys and educates private pension schemes in how they recognise unmarried couples on death benefits. He was also a founder member of the Stonewall Immigration Group (which campaigned for Immigration rights for same-sex couples, achieving a significant victory in April 1997) and helped set up the gaypartners.org initiative with gay.com in early 2001, campaigning for same-sex partnership rights. He speaks regularly on national and local radio.

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