How to protect yourself from the unexpected

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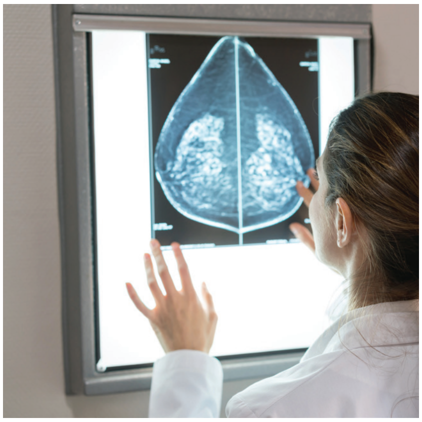

"Each year one million people buy life cover and half a million buy critical illness cover. Only 100,000 buy income protection, yet income protection could be considered the one most people need."

The Times, January 2019

Best Practises

It's good to make sure you have your mortgage and any other debt covered before establishing how much additional cover is needed for your survivors for the 5 years or so after death

Always understand the benefits provided by your employer and particularly how long your income is protected for should you be off ill

What will the benefits be on death payable from your pension provision...... and has this been structured correctly?

We recommend 10x the higher salary is the level of cover needed by most families

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Falling ill or having an accident doesn't have to become a financial burden on you or your family. Planning your financial future isn't only about savings and investments. Of equal importance is putting protection in place for you and your family for when you die or if you become ill. Here's our guide to what's available, who should buy it and who benefits.

Term Assurance

This is the simplest and cheapest form of life insurance. It pays a lump sum to your dependants or into a trust on your death. The cover lasts for a set period during which you pay regular premiums. The cost of the premium is determined by the sum assured, the term length and factors such as your age and health. Joint policies may pay out on the death of either partner. The sum assured can stay the same or decrease over time. A decreasing term assurance is commonly used to cover the outstanding balance on a repayment mortgage where the loan reduces over time.

Family Income Benefit

This variation on Term Assurance is designed to cover regular monthly expenses for your family if you die. It guarantees a regular tax-free monthly income for the remaining term. If you buy a 25-year policy, choosing an annual income of £30,000, and die in the tenth year, your family will receive £30,000 a year for 15 years. If you have children or other dependants, you may want insurance to cover the cost of childcare, school fees or other living expenses.

Critical Illness

This plan pays you a lump sum if you are diagnosed with a serious illness. Cancer, heart attacks and strokes are the most common reasons for claims. Mental illness is not covered. Serious illness can happen to anyone and can cause financial hardship at a time of emotional stress. Critical Illness cover could ensure that your mortgage and other financial commitments are paid.

Whole-of-life

This lasts for the rest of your life, guaranteeing that your dependants will receive the sum assured when you die. It pays a tax-free guaranteed sum to a beneficiary or trust and can be under one or two names. As it is open-ended, the premiums are usually higher than for term assurance and increase every ten years, then more frequently in later life. This type of protection is often used to cover an inheritance tax liability, forming part of a bigger plan for an estate. Unlike term assurance there can be an investment element to these policies and a surrender value for cashing the policy in early.

Income Protection Insurance

This pays out an agreed percentage of your salary, if you are unable to work because of illness or injury. If you have dependants this is probably the most important type of cover to have. The chances of being signed off work due to illness or injury are much higher than those of death and state benefits are unlikely to cover your monthly essential living expenses

Cover is limited from 50% to 65% of your gross earnings and may be linked to inflation. Full policies pay out until you return to work or retire, which could be many years. Short-term policies cost less but pay for a set period of time, perhaps one or two years. There is an agreed period before the income starts, typically about three months. When deciding on its length you should consider any existing benefits offered by your employer — the longer the waiting period, the lower the premium.

The biggest question is how a policy defines being unable to work. The best insurers will assess if you are unable to do your normal job. Some are based on a list of general activities, which are harder to claim under.