



A Guide to Protection

According to research published by the Nationwide in April 2011, almost half of parents in the UK are leaving their families at risk because they do not have any life cover in place and over three-quarters, have no protection against the impact of a critical illness. It is a sad fact that whilst most of us are quite happy to insure our car, our house, our travel arrangements – and even our mobile phones – to their full value, few of us take quite as much care over our health and loved ones.

This guide is therefore designed to highlight the issues which may concern you and introduce you to the different types of cover available to help secure your family's future.

We outline what the different types of insurance could provide and also try to give you a basic idea of how to calculate the amount of cover you might need.

If any of the enclosed information needs further explanation, or you need details on how your own situation might be best served, please do not hesitate to give us a **call on 01626 833225**.

**Source: Nationwide/Legal & General, April 2011*

Why would you Need Protection?

It is very true that not everyone needs cover. Life insurance, for example, pays out a lump sum on death. For a family with small children the need for this cover is obvious. Take away the family's main breadwinner, for example, and it would not take very long before the financial stability of the family was seriously affected. Remove the primary carer and a replacement needs to be found.

However, if you are single and have no financial dependents, you might consider it a waste of time leaving a lump sum which is unnecessary and just costs you money to fund.

Even for single people, though, there is still the consideration of what happens if you fall ill or have an accident and are unable to work. The State benefits available are intended to provide a safety blanket only. They will not help you keep up a lifestyle of holidays and eating out or make any inroads into repaying a mortgage.

So, before you make any decisions, you need to take a look at your own situation – and some of the following questions may help you to start thinking about what is most important:

- Do you have young children or others who are dependent on you financially?
- How old are your dependents?
- Will your dependents be heading to university?
- Do you pay school fees or nursing home fees for others?
- Will any current dependents become financially independent and if so, how soon will that be?
- Do you have debts (including a mortgage) which your beneficiaries could not manage, even if it were only for a short time?
- Do you have investments which might provide income if you were unable to work?
- Do you have any assets which could be sold if you were unable to work?
- Would you need to move house if you were less mobile?
- How do you travel about?
- How far are you from friends, relatives and local amenities?

As you can probably tell, this guide is not just about life cover. It is also about raising awareness of the impact of being unable to work, perhaps through accident or ill health, for the long term. The chances are small that any of these issues will affect any individual reading this guide – but they will affect some readers and we have no way of knowing who until after the event. It doesn't cost much to make sure that if it happens to you, you are fully prepared.

PROTECTION OPTIONS:

1. LIFE ASSURANCE

Life assurance is a staple form of protection which most of us understand and many see as a necessity.

The most common reason for buying a life assurance policy is to cover a mortgage but it should also form part of the review we undertake perhaps after getting married or, more likely, when we have children. Their financial future and emotional care needs to be secured just in case that the worst happens.

For a single person with no dependents, life assurance may be completely unnecessary.

If you have debts and no savings, however, then a small amount might be useful to pay expenses and prevent someone else being landed with those debts. There is also an argument that you should cover a mortgage but if you are happy to pass the property back to the bank, or if your beneficiaries are more than able to cover mortgage payments whilst the house is sold, then yes, there is probably no need for it.

If you have dependents, however, you need to look at the consequences for them if your income were removed. Your income pays for the mortgage or rent, for food, utilities, entertainment, holidays and maybe even school and university fees. Without you, the family would need to source an income from elsewhere – which might mean children losing their carer or going out to work rather than entering higher education.

Even if you don't work, **if the family were to lose you**, the support you give the children and household would still need to be done - and there could be a considerable cost involved in replacing that, particularly if your children are still very young.

In addition to supporting these fundamental requirements, however, life assurance can also be used to **reduce the financial impact of Inheritance Tax** – or rather, to protect financial assets which have sentimental value but might be vulnerable to being sold. If your estate is worth more than £325,000 (2011/12) then your assets become liable for

Inheritance Tax on death and, if beneficiaries are unable to meet that tax bill from other liquid assets, they may have to sell personal items – the family home, jewellery, antiques, etc – to meet the Treasury's demands.

LIFE ASSURANCE COMES IN THREE MAIN FORMS:

- **Level term assurance:** in return for a fixed monthly premium, a fixed amount of cover is provided which will become payable to your beneficiaries if you die within a set period of time.
- **Decreasing term assurance:** also provides a pre-agreed level of cover which becomes payable if you die within a set period, but in this case, that level of cover decreases over the term. This makes it particularly suitable – and more cost effective than level term – for covering reducing liabilities such as repayment mortgages or loans.
- **Whole of life:** as the name implies, this covers you for a fixed amount of cover for the rest of your life – but, as the payout is in this case guaranteed (i.e.: there is zero chance you will outlive the policy itself unless you stop paying the premiums) it can be more expensive and may even come with reviewable premiums. This is particularly useful for IHT planning, however, where the liability is definite, will not change and, when written in trust, can ensure that money is put in the right hands well in advance of any bill needing to be paid.

2. PERMANENT HEALTH INSURANCE

Regardless of whether you are single or have several financial dependents, if you are suddenly unable to work, your income will disappear completely – and this will have a direct impact on both you and those around you.

Permanent Health Insurance (PHI) is less well known than life assurance but is just as important. In the event that you have an accident or contract a serious illness and are unable to work, PHI is designed to replace the income you lose. This is typically, up to three quarters of your gross income (i.e.: approximately your net take-home pay), minus any state benefits for which your situation might mean you become eligible.

This income is paid until retirement age, until the end of the policy term or until you are able to return to work, whichever comes first. Consequently, whilst you are rehabilitating or coming to terms with changes in your life, you can be reassured that your financial position will be unaffected and that the bills will continue to be paid.

This type of policy can be of particular benefit if you are self-employed, i.e.: when your job does not come with any sick pay or group pension & protection scheme benefits (of which this form of cover can sometimes be a part).

PHI has a reputation for being expensive; however, it comes with a choice of deferral periods and the longer that deferral, the lower the risk. Therefore, if cost is an issue, simply extend that deferral period beyond 1 month to perhaps 3, 6 or even 12 months, and the costs come down significantly. If you receive minimum sick pay from work or savings which can get you through the short term, this cover can be very cost-effective.

3. CRITICAL ILLNESS

The third main type of protection which we are all encouraged to consider is **Critical Illness cover**. As the name suggests, this pays out an agreed amount if you become incapacitated or contract a serious illness.

Critical Illness pays out a lump sum when that serious illness is diagnosed. The objective is that you can then fund your rehabilitation, pay for changes you need to make to your lifestyle or help you adapt your living environment.

For example, you may need to move house to be nearer your relatives or friends. Or, you may need to make changes to your house to add new facilities or accommodate new mobility requirements. Alternatively, you may simply want to give up worrying about work and money and make the most of your opportunities whilst you still can.

Like PHI, Critical Illness can be just as beneficial, maybe more so, for single people with no dependents as for those with a family. For those on their own, the benefits from such a policy may be all they have to fall back on in the event of such problems.

Note: Critical Illness comes in many forms with many different definitions of what constitutes 'critical' (i.e.: under what circumstances the benefits will be paid). Make sure when you discuss the options for cover with your adviser that you understand fully what you are getting for your money – and most importantly what is excluded. **Simply looking for 'cheaper' in this particular scenario, might leave you bereft if you do not read all the small print.**

SOME FACTS & FIGURES:

- **According to Liverpool Victoria, the cost of raising a child to the age of 21 is now over £210,000 – or £27.50 per day.**

Source: Annual Cost of a Child Report, Feb 2011

- **Total UK personal debt at the end of February 2011 stood at £1,454bn.**
- **The average UK household owes more than £8,416 (excluding mortgages) and £57,635 (including mortgages).**

Source: Credit Action as at February 2011

- **Over 2 million people have been claiming incapacity benefit (or its equivalent) for 12 months or more.**

Source: Dept of Work & Pensions statement, April 2011

- **One in three of us will develop cancer in our lifetime.**

Source: Cancer Research, Cancer in the UK, April 2011

Contact Us

If you wish to make a positive difference to your finances, please feel to **call us** on **01626 833225** to find out more.

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