



CAMPBELL & McCONNACHIE

chartered financial planners

Protection for individuals

Insurance options to ensure your loved ones are looked after.

In modern-day society there's an insurance policy for virtually every scenario, but certain protection policies are essential to cater for your beneficiaries in the event of unforeseen circumstances.

Policies such as life insurance, critical illness cover and income protection can safeguard your income if concerns like death or serious illness weigh heavy on your mind.

Your health, whether you smoke and the level of cover needed will affect your premium, but your type of job also plays a big role in determining what you'll pay.

It is therefore vital to be honest when you complete your insurance application; otherwise you run the risk of your provider refusing to pay out if and when the time comes.

Preparation

Calculating how much you or your family may need should be the first place to start. Do you want your policy to cover lost income or mortgage repayments? What about school or university fees for your children or grandchildren? Do you need a regular income or a capital lump sum?

Before you begin searching for policies, draw up an out-of-work budget to help you work out how much you think you'll need should things take a turn for the worse.

If you are employed, you may be entitled to certain worker benefits (such as life insurance and statutory paid sick leave).

However, if you're self-employed these protection policies are not provided as the norm and you will need to factor this in before you start your research.

Research

Once you know roughly how much you'll need, it's time to do your research – but where do you start? You can do this yourself by searching the plethora of options online or you can come and talk to one of our expert advisers who can help you find a suitable policy for your needs and circumstances.

Whichever policy or policies appear to meet your needs, and however you research it, make sure you understand the terms and conditions to ensure it fully covers the needs of you and any beneficiaries.

Premiums are also a big factor when choosing a policy. It is important to not take prices at face value and remember not all premiums are fixed.

For instance, reviewable critical illness premiums are likely to increase over the term of your agreement.

Critical illness cover

Critical illness cover pays out a lump sum if you are diagnosed with a certain illness, although not all conditions are covered and policy will also state how serious the condition must be.

For new claims in 2016, the average critical illness payout stood at £67,773, according to the Association of British Insurers (ABI).

Examples of conditions which are usually contained in critical illness cover policies include:

- stroke
- heart attack
- various types and stages of cancer
- multiple sclerosis
- permanent disabilities as a result of injury or illness.





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Premiums on critical illness cover can be **guaranteed** or **reviewable**.

Guaranteed premiums are fixed for the duration of the policy. This is the more costly of the two options as you pay extra for the certainty of knowing the premium throughout.

Reviewable premiums are the cheaper option as the price of the premiums is typically fixed for the first five years, after which your provider will almost certainly increase your premium.

Life insurance

Life insurance offers financial support to your loved ones if you die unexpectedly.

Payouts provide financial security (ensuring things like mortgage repayments are met on time), usually in the form of a single lump sum.

Life insurance is split into two categories:

Whole of life insurance offers two types of cover – maximum and balanced. With maximum whole of life cover, your premiums are reviewable (usually after 10 years) and likely to increase the older you get. With balanced whole of life cover, as you get older the premiums remain the same.

Term life insurance pays out a lump sum to your beneficiary if you die within the term of your policy (typically 10 to 25 years). However, it will not pay out if you outlive the policy.

Term life insurance is split into three main types:

- **level term** cover and premiums remain fixed throughout the duration of the policy
- **decreasing term** protection is normally taken out to cover mortgages, other types of loan or certain gifts from an estate that decline over time
- **increasing term** cover increases during the term of the policy and can either be at set intervals or when a specific event takes place, such as a marriage or birth.

Be aware, life insurance policies count towards your estate and can incur an inheritance tax (IHT) liability if the policy takes your estate over the threshold (£325,000 in 2017/18).

IHT is due at 40% on any amount above this threshold, but you can mitigate this by writing your life insurance policy in trust.

On death, your provider will make the payment directly to the beneficiaries named in the policy.

Income protection

Consumer watchdog Which? believes the one protection policy you should consider having is the one most of us don't have – income protection.

This type of insurance pays out if you are unable to work due to illness or injury, which is equally beneficial for employees and the self-employed.

Policies can either be short-term (usually between two and five years) or long-term (until you either retire, die or the policy ends – whichever is sooner).

Whichever policies you go for, successful income protection claims pay out a monthly income if you're unable to work up to the age of 65.

Most forms of illness that leave you unable to work are included, depending on how your insurance provider defines inability to work.

Payouts are based on a percentage of your earnings (somewhere between 50% and 70% is the norm) and payments are tax-free once a pre-agreed period has passed, ranging from one to 12 months after you claim.

Most providers report paying high proportions of claims made to them, with the ABI claiming 85% of all new income protection claims were fully paid out in 2016.

Second opinion

Once you have a good idea of your budget and the protection policies you may like, it is essential to talk your plans through with a professional – that's where we come in.

Our expert team is on hand to offer you an objective second opinion.

We can help select a suitable policy for you and your family as well as ensuring you're not overestimating or underestimating the amount of insurance you think you'll need.

Contact us to discuss your protection options.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to change in the future.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation.

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