Protection Guide

'Protection' is a term used to describe different types of policies that can help keep you and your family protected, should the worst happen.

In our protection guide, we will explain how you can benefit from a protection review, why it is important and what each policies means

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What is protection?

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Quite often you hear ‘it could never happen to me’ or ‘I’ll sort it out later’. Well the old maxim of “failing to plan, is planning to fail”, is no better suited to the ignoring of crucial decisions on protection.

Family is important; that’s why its best to get expert advice to help protect what matters, when it matters.

Its important to note, that as you go through life, your protection needs will change.

Perhaps you’ll move home, start a new job or expand your growing family. With this in mind, it’s important to review your protection needs regularly - when you take out a new mortgage is the ideal time for this.

As one would imagine, there are many types of Protection policies to choose from. We are here to help you find one the provides adequate cover and the right protection for you.

What are the types of insurance?

here are the different types of protection you should consider:

- Life insurance
- Income protection
- Critical illness cover
- Family income cover

Life Insurance

Life insurance provides a cash lump sum in the event of your death.

By paying a monthly premium or a lump sum to your insurer for life cover, you can safeguard your loved ones from financial hardship if you die. The money can be put towards funeral costs, payment of a mortgage, debts, or your family's living expenses.

Your age, health, lifestyle and how much cover you need, as well as the type of policy you have, can all determine how much you pay.

If you die within the term, the policy pays out to your beneficiaries, also known as death benefit. If you don't die during the term, the policy doesn't pay out and the premiums you've paid aren't returned.

What are the different types of life insurance?

There are three main types to consider – level-term, decreasing-term and increasing-term insurance. Depending on your circumstances, it could be that taking out more than one type of policy (for example, a combination of level and decreasing term cover) works best for your situation.

Level term

With level term insurance, the payout remains level throughout the term of the policy. No matter what year you pass away, your beneficiaries will receive the same payout from your insurer.

For example, you might take out a level term policy for a £100,000 payout over a 40-year term. Whether you die in year one or year 39, your family will receive that £100,000 payout.

Decreasing term

As the name suggests, the payout your family would receive with decreasing term insurance gets smaller over the term of the policy.

This tends to be a popular option with those who have a large debt to pay off, such as a mortgage, as the payout falls in line with the money needed to clear the outstanding loan.

Increasing term

With increasing term insurance, the size of the payout increases as the term of your policy continues. In other words, the later into the term that you pass away, the bigger the payout your family will receive.

The idea here is to combat inflation - as the cost of goods becomes more expensive, each pound in cover that you have needs to stretch that little bit further. But with increasing term insurance, you know that the cover your loved ones are entitled to will increase too.

Do you need life insurance?

Having some form of life insurance in place is important in a variety of situations:

- If you have people who are financially dependent on you, such as children or a partner with whom you own a property, who would be left worse off if you passed away.

- If your loved one wouldn't be able to meet your monthly mortgage repayment and the other household bills without your income.

Should I have a joint life insurance or separate policies?

Couples can buy joint policies that cover them both or each person can have one policy each. Joint-life policies will usually pay out on the first partner's death,

Joint policies are often used to provide a lump sum for your family if you or your partner dies to cover mortgage repayments.

However, if you're looking for cover for you and your partner for additional life insurance, two single-life policies may offer much better value than a joint-life one.

The combined premium for two policies may be very similar to the premium for a joint policy, but in the event of a tragic accident that killed both of you would result in two payouts instead of one.

And not all couples stay together, so separate life insurance polices can be continued in the event of a split. Remember, the younger you are when you buy life insurance the cheaper it is, so having to buy a new policy after a relationship breakdown will be more expensive.

Critical Illness Insurance

Critical illness cover is designed to look after you financially should you be unable to work due to diagnosis of a critical illness.

Your specific illness needs to be covered under your policy in order to receive the tax-free lump sum that could be used to pay off your mortgage.

There are various reasons as to why you would like to have cover in place:

- Your mortgage balance is cleared.
- Other existing debts are paid.
- Your household bills are covered.
- Any new medical treatment costs are accounted for.
- You can not work for several months or years during a period of convalescence.

What illnesses are covered by critical illness insurance?

The exact conditions covered by critical illness policies vary between providers. However, certain illnesses are covered as standard by most insurers. These include:

- Cancer
- Heart attack
- Stroke
- Organ failure
- Multiple Sclerosis
- Alzheimer's disease
- Parkinson's disease.

What isn’t usually covered by critical illness insurance?

Its important to note that some critical illness policies may only offer protection once your illness hits a certain level of severity.

Different insurance companies don't cover different things. Policies may not pay out for things such as:

- Being diagnosed with an illness outside of your policy term
- If you pass away during the term
- If you die within a certain number of days of receiving the diagnosis
- If you are diagnosed with a critical illness not covered by the insurer
- Not all cancers will be included, for example. While to make a claim for other illnesses, you may need to have permanent symptoms.

It's vital that you read policy documents thoroughly so that you understand what is and what isn't covered. Many insurers will insist on having the illness verified by a UK doctor or specialist.

Can children have critical illness cover?

Most critical illness providers allow you to add your children onto the policy for a small cost. They will usually limit the claim to a percentage of your cover or £25,000. This will vary dependant on the provider.

How much does critical illness cover cost?

When you apply for critical illness insurance, you will have to provide details of your medical history for the insurer to quote a cost.

If you're in good health, it should be quick and easy to get an idea of the cost of critical illness cover. The eventual price you pay for your cover will vary, based on a range of factors including your age, health, and lifestyle including whether you smoke, as well as how much cover you require.

When does critical illness insurance pay out?

When you make a successful claim on your policy, the money is paid out in a single lump sum.

The exact time taken to make the payment will vary between providers – though processing a claim can take months.

Contact your insurer as soon as you receive the diagnosis so that it can talk you through the claims process and how long it's likely to take before you receive the money.

Do I need critical illness cover?

While some state benefits are available to help people who fall ill, they are unlikely to stretch very far – at best you may be able to claim around £110 a week.

It's also worth considering critical illness cover if your employer does not offer much to help employees who develop long-term health issues.

Many employers offer sick pay entitlement but this can end after six months, at which point a critical illness cover payout may be helpful.

Taking out critical illness cover can also help cover expenses in your day-to-day life. Rather than eating into your savings, a payout from insurance may help with costs including rent payments, a repayment mortgage and energy bills.

Income Protection

Income protection is a policy that pays out if you're unable to work because of injury or illness.

It's there to help you pay your household bills, mortgage payments, credit card and everyday costs that you can no longer cover.

Income protection usually pays out until retirement, death or your return to work, although short-term income protection policies, which last for one or two years, are also available at a lower cost.

What does income protection not cover?

Neither income protection nor short-term income protection pay out if you're made redundant.

But they will often provide 'back to work' help if you're off sick, which makes buying income protection insurance worth it if you can afford it.

Income protection is different from critical illness insurance, which pays out a lump sum if you fall seriously ill, or life insurance, which pays out if you die.

Why do you need income protection insurance?

Only a minority of employers support their staff for long periods if they're off sick from work.

Some may provide as much a year on full pay; other employers will provide six months on full pay and then a period on half pay before reducing sick pay to the statutory minimum.

But many employers provide significantly less time off on full pay. Given the low level of state benefits available, everyone of working age should consider income protection if they can afford it.

How much does income protection insurance cost?

Your health, whether you smoke and level of cover needed will weigh into your premium, but your type of job also plays a major part in determining what you'll pay.

Many insurers group jobs into four categories of risk, though some have more. For example, jobs may be divided into the following groups:

- **Class 1:** Professional; managers; administrative staff; staff with limited business mileage; admin clerk; computer programmer; secretary.
- **Class 2:** Some workers with high business mileage; skilled manual work; engineer; florist; shop assistant.
- **Class 3:** Skilled manual workers and some semi-skilled workers; care worker; plumber; teacher.
- **Class 4:** Heavy manual workers and some unskilled workers; bar person; construction worker; mechanic.

The riskier the type of job you have, the more likely it is that you may need to make a claim. Therefore, those in the riskiest occupations tend to pay higher premiums.

How much does it pay out?

Income protection payouts are usually based on a percentage of your earnings: 50% to 60% is the norm.

The good news is that payments from income protection policies are tax free.

How does the provider define your inability to work?

There are three methods insurers use which we’ve explained below:

Activities of daily living:

Some income protection policies use a method called 'activities of daily living'

These tasks are generally very basic - for example showering, getting dressed, using the toilet, brushing your teeth, or walking, climbing stairs etc.

If you were unable to do, for example, three of these things, the policy will pay out.

‘Suited occupation’:

If an income protection policy is bought on a 'suited' basis, this means that your insurer accepts you can't do your job anymore, but may not pay out when you make a claim if it believes you can do something similar to which you are suited.

For example, you may have a senior role managing a team of people, which you can no longer do because of stress.

With a suited policy, the insurer might deem that you go down a level, where you're doing a similar role but no longer managing a team, and therefore refuse to pay out.

Own Occupation:

'Own occupation' income protection policies do what they say on the tin - they pay out if you can't do the job you currently hold at the point of making a claim.

An insurer will not make an assessment that you could take a different, similar job, and therefore refuse to pay, like a 'suited occupation' policy.

This type of income protection provides the highest level of protection should you get ill and be unable to do your job.

When does the insurance provider pay out?

Income protection policies pay out only once a pre-agreed period has passed, generally ranging from one to 12 months after you were taken ill. (this is known as the deferred period)

The longer the 'deferral' period you choose, the lower your premiums. The default deferral period tends to be 13 or 26 weeks, but it can be as low as four weeks.

How long can you be on income protection?

Income protection insurance will pay out for as long as you remain ill and unable to work, until you die or until the policy term comes to an end, whichever is sooner.

If you make a good recovery, income replacement insurance will often provide help in returning to work too.

Will income protection insurance affect my state benefits?

The UK's benefits system is designed to support people who cannot work through illness or disability, are looking for work, or have a low income.

If you have an income protection policy and are looking to claim universal credit, this will affect the level of state benefits you'll get. Income protection is treated as 'unearned income'.

This is taken into account when calculating how much universal credit payments you receive.

Family income Cover

Family income benefit life insurance is a way of securing a regular payout for your family when you die.

Generally, with life insurance, your loved ones will receive a lump sum payout from your policy when you die. It's then up to them to handle that money as they wish.

With family income benefit, your loved ones will instead be paid a regular income for a set period to replace the lost income.

How does family life insurance work?

When you take out a family income benefit policy, you stipulate what income you would need your loved ones to receive, and over what time period.

The insurer will work out what monthly premium you would need to pay in order to secure that cover.

Let's say that your family would need £2,000 a month for the next 30 years in order to be secure were you to die.

- If you died in the first year of the policy, the insurer would pay out that sum for the full 30 years of the policy

- If you died in year 25, they'd receive £2,000 a month for the final five years

- If you die after the term of the policy has finished, there will be no monthly payout to your loved ones

How much will family life insurance cost?

Family income benefit is generally seen as the most budget-friendly form of life insurance available.

This is because the insurer is less likely to have to pay out a significant sum, and even if they do they won't need to pay it all in one go.

However, the actual cost of a policy will vary based on issues including your health and lifestyle, your age and what size income you would want the policy to pay out.

How long does family income benefit pay out for?

You decide the term. If you die within that term, your family income policy will pay out from then until the end of the term.

Does family income benefit cover critical illness?

Critical illness cover can be added to a life insurance policy or be bought separately.

Who is family life insurance suitable for?

There are several advantages to getting a simple, regular income over a lump sum:

- You may need the money sooner to deal with new, additional costs such as childcare
- A regular sum can make it easier to handle budgets and bills at a difficult time
- You can set the income to last until you expect the children to be financially independent.

Trusts

Life insurance pays out a cash lump sum to your loved ones if you pass away during the term of your policy.

A trust is essentially a legal arrangement, where the trust takes ownership of certain assets including any outstanding debts. You appoint a trustee or trustees to oversee the trust, the job of the trustees is to ensure that the assets contained within the trust go to the named beneficiaries.

Perhaps the greatest advantage of writing life insurance in trusts is that your partner will get the money quickly and with less paperwork.

What happens if life insurance isn't in a trust?

The money goes to your estate and is distributed in line with your will. This involves what is called probate and it may take many weeks before the assets are distributed. If your estate is highly valuable it may be subject to inheritance tax.

What are the different types of trust I could use?

Trusts come in all shapes and sizes - and can range in complexity based on your wishes and what you want to use the trust for. What you use will depend on the types of life insurance products you hold and what you. want to use the trust for. It's best to seek professional advice if you have complex needs.

There are two main forms of trust: a bare trust and a discretionary trust.

- In a **bare trust**, the money is held by a trustee, and all of the proceeds should go to the person or people you nominate, when they turn 18
- A **discretionary trust** gives the trustee greater power to decide how much the beneficiaries get and how frequently they get the money, as well as any other conditions you put on it.

There are more options - such as a gift trust, split trusts and more.

Additional extras

There are a number of additional extras you can add to your policy, we have listed a few below which can usually be added for an extra cost:

Waiver of Premium

A waiver of premium is a type of add-on cover, also called a 'rider', that can be added to your life insurance policy. It can cover your monthly premiums if you can't work because you've been seriously injured or are critically ill.

Total Permanent Disability (TPD)

It's a benefit that pays out an agreed sum of money if you have an illness or injury that means you're permanently incapacitated.

Fracture Cover

Fracture Cover pays a one-off sum if your client suffers from 1 of 18 specified fractures during a 12 month period.

Global Treatment

Global Treatment could give your clients the power of choice and make overseas treatment possible at a time when they'll want to explore all the options.

Frequently asked questions

Can I have two life insurance policies?

Yes, you can have as many life insurance policies as you like.

What if I stop smoking for a certain time?

If you stop smoking for over 12 months, some providers will allow you to do a test to prove this and then will possibly reduce your premiums to a non-smoker rate.

Will I get cover if I take medication?

Yes, this all depends on what medication you take and the reasons why, however we have a panel of providers that we will always make enquiries with to ensure you have the best cover

Do I need to tell the providers about minor conditions or medication?

We will send you our medical questionnaire to complete which asks all about your medical history, this will need to be completed to the best of your knowledge with full disclosure of your medical history.

What happens if I stop my payments?

If you stop your payments, you will no longer be covered by the provider.

Will they ask for my height and weight?

Yes, the providers will ask for this and they will potentially increase your premium due to high BMI’s