A Guide To Life Insurance and Protection

DALES
Independent Financial Advisers

DALES
Independent Mortgage Advisers

P N DALES LTD, are an Independent Financial Advisers, experts in protection & life insurance. We help our clients find the most suitable cover for their needs, after researching the whole of the market. Our independence means we work for you, we will get you the best products for you and not just sell you what we've got. Each client has different requirements, so we will tell you which products fits you and your family best, and help with what features may be of benefit to your circumstances.

Our principal Philip Dales has been advising clients on their financial planning needs for nearly 20 years. Our service is tailored to each client, so whether you are in the Armed Forces and find yourself away from home frequently or you're round the corner from one of our offices, while your application is being processed we will communicate with you in a way that works for you.

About the guide

This guide is only meant to be a general short guide and while you are reading though it you may have many question that have not been covered, maybe you want to understand the difference between Income Protection and critical illness or you want to know how to work out how much cover you need, feel free to email **advice@pndales.co.uk** or call our **0333 772 0501** (local rate even from a mobile) and we will endeavour to help.

A Guide To Life Insurance and Protection

Do you need life insurance?

As you are reading this guide, you are already thinking about it, so the answer is probably a YES!

There are a few exceptions, you may not need life insurance if:

- You are young and single with no dependants and have some money in the bank.
- You have raised your family and now live on your own, and have some money in the bank, after what you need to live on.
- You are independently wealthy and have ALL the financial resources to support your family, after you are gone.

If you have anyone dependent upon your income (partner, children, siblings, aging parents) and you are not independently wealthy, you **WILL NEED** life insurance at some point.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP PAYMENTS ON YOUR MORTGAGE?

How do you propose that your family stop this from happening if you die or suffer a serious illness?

Only 45% of people with a mortgage have any type of life cover in place.

Typically people think about protecting their income or insuring their life, when they buy a new home, as they are taking on a new commitment but life insurance is not just to pay off a debt.

Life cover is there to provide a lump sum or income after you have passed way. When you start to think about the "what if " scenarios, there are many instances where Life cover can ease the burden.

It's not all about mortgages: Why we need Life cover

Most of us recognise the need to protect ourselves against death or serious illness if we have a mortgage, ensuring that the mortgage is paid off should the worse happen, but not about providing enough for the day to day expenses like bills, food & travel that allow us and our families to live life.

The value of parents: The average value of the unpaid domestic work that a non-working parent carries out is £34,562. Interestingly parents in full time employment are contributing just under £24,000 worth of unpaid domestic work around the home in addition to their wages.

Not surprisingly, nearly three quarters of parents said that their top priority was to ensure that their children are looked after financially should they be unable to provide for them due to death or illness.

Yet more worryingly is that only 54% had any form of life cover, 29% critical illness and only 12% had Family Income Benefit.

In addition only 35% had regularly reviewed their cover. By not reviewing your cover, you may find that the level of cover you have in place is no longer sufficient to meet your family's financial needs.

Alternatives to life cover

Many people think that if they or their partner died or were unable to work, the help they would get from the Government would be sufficient to look after them financially.

However, in these uncertain times with austerity measures being introduced, these benefits are being eroded. In a recent survey 81% think the Government should be responsible for looking after them. When the same survey asked which benefit those same people would be entitled to most did not know which benefits they would get if any.

Life Insurance or Life Assurance?

Just to confuse us all you'll often find Life cover referred to as Life Assurance which is it; 'Life insurance or life assurance?'.
It is actually both, but they refer to different things.
Life Insurance pays out IF something happens to you; so cover is for a FIXED term and there may never be a claim.
Life Assurance pays out WHEN it actually does happen; so cover will be for the whole of your life and there will always be a pay-out.

Sum Assured

The "sum assured" is the amount of cover that you want or need, at Dales IFA we will advise you and work out how much life cover you should have, it is important that all factors are taken into consideration, such as; other debts, car loans and if you want your surviving partner or family to have an additional lump sum or income, after clearing debts and mortgage.

Types Of Life Insurance

Term Insurance is designed to meet temporary or unexpected needs, for example: It may be for the duration of your mortgage or maybe until your children have left home or finished studying and are no longer dependent. Most terms are for between 10 and 25 years, but you can specify how long you want the term to be.

We will advise and recommend on the types of term insurance too:

Level Term Insurance is for the same amount of cover, for the whole term; so you would get the same pay-out at the beginning of the policy, as at the end, this will be more expensive.

Decreasing Term Insurance does just that, if you have a repayment mortgage or your debts will be reducing, then so can your level of cover.

Increasing Term Insurance, increases in line with inflation, so as your costs of living go up, you get a higher pay out to cater for this.

A typical example of where you might use term assurance is to pay off a mortgage. Usually if your mortgage is on a repayment basis, a Decreasing term assurance in the names of those on the mortgage, for the number of years left on the mortgage is appropriate.

Whole Of Life Assurance (WOL) is life cover designed to last for your whole lifetime, it is guaranteed to pay out when you die. You will usually need to pay the premiums until you die. However there are some unusual variations to Whole of Life, such as a one off premium or policies that stop taking premiums at 85 years of age, but the cover remains in place.

As a pay-out is guaranteed, dependent upon the cover amount these can be expensive policies, they are sometimes used as part of more complex financial and tax planning.

Sometimes a Whole of life may be advised or purchased as part of a packaged product, a funeral plan is a good example of where a whole of life policy is used within a packaged product.

Joint or Single Cover?

We often hear "we want to cover his/ her life, because they earn the money, but there is no point in covering me, because I'm at home with the children".

Many people do not consider the cost of loosing the partner who is at home, how much do you think a full time nanny, cleaner and social secretary, working 24/7 might cost to hire?

Joint policies are usually cheaper than two separate ones, but the policy will only pay out once, so the surviving person will be left without insurance.

We will help you to determine the level of cover you need and the options, so that there is not a shortfall.

Additional Features and Considerations

First Life

This is where a joint policy pays out on the death of the first person, usually on a policy used to cover debts or a mortgage, so that the surviving party is not left with these debts to pay.

Second Life

This is where a policy pays out on the death of the second assured person, usually used in inheritance tax planning circumstances, ie both insured people have gone and a lump sum is provided by the policy for the family to pay inheritance tax bills etc.

Family Income Benefit

This type of policy pays out an annual or monthly tax free income rather than a large lump sum. A lump sum is all good and well, but after the immediate debts or commitments are cleared, the remaining lump sum will need managing, to provide an income. We often consider making sure we repay our mortgage but few of us consider making sure our families have sufficient income to pay for everyday living expenses. This type of term assurance is a cost efficient way of providing a regular income for your dependents. To ensure that the income they receive stays relevant you can tailor the sum assured to increase each year to keep pace with the cost of living increases.

The biggest disadvantage to this type of product is that it is for a fixed term only, such as 25 years, so if you die 2 years before the end of the policy, the income that goes to your family will stop after two years, at the end of the term. It can be worth looking at a combination of lump sum and income benefits. This can be beneficial because it makes the policy more affordable, and the term is driven by how long dependents would need the money.

The Importance Of Trusts

No one wants to hand money over to the tax man, if they can avoid it.

If your policy is written 'in trust' the money is outside of your estate when you die and therefore won't be liable for inheritance tax.

Your family will receive the money quicker, because it sits outside your estate. This means there is no need for probate to have been granted, for your dependents to get access to the insurance funds.

There are other practical reasons a policy might be written into trust, I simple example is to consider what an 18 year old son or daughter might do with £250,000 or more on the 18th birthday. A trust can protect them from the big red shiny car that is calling to them from the show room. That's not to say the money is not theirs, it just means people you trust are there to guide them and stop them from blowing the lot.

We will ensure that your policy is written in trust, if appropriate, when you take it out.

Guaranteed or Reviewable Rates

Generally speaking we tend to recommend guaranteed rates. This means that once the policy has been underwritten, the premium cannot increase. They are guaranteed to stay the same for the whole term of the policy. Selecting this option tends to increase the premium slightly, but it can save you a lot in the long term. If you choose reviewable rates, then the premiums may be lower to begin with, but can be reviewed after a specified time, usually 5 years, and may be increased. There is no way, at outset, to know if your policy will increase, as increases are applied by the life assurance company based on overall claims, so this type of premium will potentially go up and may cost much more over the term of the policy.

Critical Illness

You can have this in addition to your life cover.
Statistically one in five men and one in six women, will have a critical illness at some stage in their life.

So you haven't died, but perhaps you cannot work, either in the short term, possibly in the long term, so your lump sum life insurance won't pay out.

Critical illness cover gives you a tax free, one-off lump sum, to spend on whatever you wish. You may need to consider; conversions to your home, paying for a convalescent holiday or paying off your mortgage.

Not all critical illness policies are equal, some are more equal than others…. Some policies are cut-down, low cost cover, typically 30-40 conditions, Others cover up to 160, most cover core conditions such as; cancer, stroke, heart attack, or if you are incapacitated following an accident. In recent years some companies have started to add severity ratings to key critical illnesses, such as cancer. This means that with some lower cost policies it won't pay out if your cancer is not considered severe enough, the cancers typically affected by this are breast cancer and bowel cancer, there may be other conditions effected by this style of clause.

We will advise you carefully with respect to the detail in these policies, as it is all about the level of cover that the policy provides, at a price you can afford.

Although not covered by this guide, an alternative to this type of cover is Income protection, or Permanent Health Insurance (PHI). This type of policy works in a slightly different way, in that it provides a regular income rather than a lump sum, and it has no list of conditions covered. The key criteria for a claim is your inability to work, this could be because you have cancer, or if you've broken your leg. Whenever we advise on your protection, we will consider your personal circumstances and make a recommendation tailored to you, therefore we will consider whether Income protection is something that could be right for you.

Waiver of Premium

If you are unable to work due to an illness, you still need to pay your premiums to keep you life cover. You can opt to insure these premiums, so payments are made either until the end of the policy term, until you have reached a specific age or until you're able to return to work.

Honesty is the best policy

There are things that will make your life cover more or less expensive, yes we are talking about our lifestyle choices here, your premiums will be cheaper if you don't smoke or drink to excess and if you are fit, with ideal BMI.

Since the gender directive in December 2012, women no longer benefit from cheaper policies than men.

Insurers will look at your age, health and occupation. You may have a very dangerous or physical job, which will increase your premium, more than if you have a desk job.

Similarly if you have always been in the peak of health, your life expectancy is considered longer and your premiums may be lower, than if you have suffered from a serious medical condition at some point in the past.

You will pay less if you are a non-smoker, but do be aware that you need to have given up for at least 12 months for it to make a difference, this includes any nicotine replacement therapy or e-cigarettes, if you do give up once you have you policy in place you maybe able to reduce your premiums by speaking to your adviser.

We are all not perfect, but you should not be economical with the truth, if you do make a claim on your policy and it materialises that questions were answered incorrectly, then the insurer could refuse to pay out. Non disclosure is one of the most common reasons that insurance companies refuse a claim.

Did you know, we also offer advice on:

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- Pensions
- Retirement
- Flexi Access
- Mortgages
- Equity Release
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Why not call use today to arrange your free initial consultation **01636 870 069**

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