CHILTERN
CONSULTANCY
INDEPENDENT FINANCIAL ADVISERS

Finding the right cover

Life and Protection Insurance

The cost of insurance, particularly life insurance has fallen over recent years, whilst the quality of cover has in many cases increased. With this in mind, it makes sense to periodically review your cover with the help of a professional financial adviser.
This guide provides helpful information on the different types of protection product available.
The Financial Conduct Authority does not regulate Trusts.

Critical Illness Cover

Although Critical Illness cover is sold by life assurers, there is a big difference when compared with life insurance - you don't have to die to benefit from the Critical Illness insurance policy.
This type of cover is designed to pay out a (tax-free) lump sum in the event of you suffering from certain types of serious illness or if you have to undergo certain types of surgery.

The lump sum paid out by the Critical Illness insurance is to help with the extra costs incurred as a result of contracting a particular condition. It is important to note that the policy only pays out if you contract one of a defined list of illnesses specified in your policy. It is important to remember that if you contract an illness which is not covered by your policy you will not receive a pay-out.
These policies differ in what they cover, so you should always check the policy wording.

Unless you have substantial savings, some form of Critical Illness insurance may well make sense for you, particularly if you have any debt such as a mortgage. How much cover you should have depends on your circumstances. Consider the lump sums that you might need in the event of contracting a serious illness being able to pay off the mortgage or making modifications to your home, for example. If you're able to cover the necessary lump sums from your own or your partner's savings, then critical illness insurance may well be unnecessary and it may be more appropriate to look at covering your income instead.

The size of your insurance premium will depend on your age, health, occupation, whether or not you smoke, the type of cover you need, and how long you need it for. It is important to remember that premiums could also be more expensive if you have a history of a particular illness in your family.

Flexibility

Usually you'll pay a set premium, for instance, with a term assurance policy meaning both your cover and your premium will be set for a certain period of time, however there are whole of life policies that can include critical illness cover which offer more flexibility such as the option to increase your cover over time, which one we recommend will obviously depend on your personal circumstances.

Combined critical illness and life insurance policies

Some policies will offer critical illness combined with life insurance.
Again, care needs to be taken, as once the policy has paid out cover will no longer be available-in other words if the policy pays out for a critical illness then there will be no life cover remaining.
Furthermore, if the illness has been a serious one then it may be that replacement life insurance cannot be obtained due to health reasons.

If you do decide on one of these “bundled policies” make sure it covers both your critical illness and life insurance needs. Even though it may prove slightly more expensive, it may be worth considering separate policies for these different types of cover.

Total and permanent disability cover

Many Critical Illness insurance policies will also include cover for 'total and permanent disability'.
This pays out if you become unable to work due to permanent disability arising from any illness or injury (regardless of whether it is listed in the policy).
If such cover is included, it is important to establish whether the policy will cover “any occupation” or “own occupation” .
Generally cover is more expensive if the plan is written on an "own occupation" rather than "any occupation" basis.
Please ask for advice on this important aspect of these policies.

Whether or not it is a good idea to include this cover is debatable, as it may overlap with Permanent Health or income protection insurance. However there are differences, the greatest of which is that Critical Illness insurance pays a lump sum whereas income protection pays a regular income to meet your income needs.
In these circumstances people often prefer the lump sum so they have the flexibility to perhaps pay off debts. However, if finances allow there is nothing to prevent you having both forms of cover.
These types of plan will have no cash in value at any time, and will cease at the end of the term.
If premiums are not maintained, then cover will lapse.
As confirmed above, these types of policy may not cover all definitions of a critical illness.
For specific definitions please refer to the Key Features and Policy Documents.

Income Protection

Income Protection Insurance is designed to pay you a regular tax free monthly income but only if taken on an individual basis if you are incapacitated and unable to work due to illness or injury.
The amount of cover is based on a percentage of your gross earnings and is suitable for both employed and self-employed people. There is no limit on the number of claims you can make and if you are never able to work again it will be paid until your selected retirement age or for the term of the policy if earlier.

Who can benefit from taking out Income Protection cover?

Anyone who does not get paid by their employer indefinitely when they are off sick from work should consider an Income Protection policy. Most people would not be able to maintain their standard of living if they had to rely on benefits from Statutory Sick Pay and Incapacity Benefit so Income Protection could form a key part of their financial protection needs. The need for Income Protection is not merely limited to those people who are employed. Self employed people for instance if off work due to illness or injury would not receive any benefits from their employer so in actual fact it could be argued that the need for Income Protection is greater for self-employed people.
This makes the need for private insurance provision much greater in order to maintain your lifestyle.
Anyone between the ages of 16 and 59 can apply for Income Protection cover, it is possible to obtain cover after age 60 from a limited number of providers.
As the criteria for state provision of Incapacity Benefit becomes more stringent, it is key that individuals consider this type of cover to maintain their standard of living should long term illness or injury occur.

In what way does it differ from Accident, Sickness and Unemployment cover?

Income Protection policies, and Accident, Sickness and Unemployment policies (ASU) are both designed to replace a person's income should they become incapacitated and therefore be unable to work. However, there are some major differences between the two types of cover.

Income Protection or Replacement policies are designed to provide the policyholder with a replacement income in the event of a long-term sickness or disability. Payments are usually made when the policyholder cannot undertake their own or any job due to illness or injury (it is also worth pointing out that in the majority of cases cover should be sought that protects your own occupation rather than any).

Accident Sickness and Unemployment policies will also protect a person's ability to make mortgage repayments in the event of illness or injury, but it also provides cover in the event of becoming unemployed. The cover can pay out for up to two years, rather than until retirement (as is the case with Income Protection). Some ASU policies will also allow you to choose whether you want to receive benefits for accident and sickness only, unemployment only, or all three.

Income Protection will pay out a guaranteed level of income every month for as long as your incapacity continues; if necessary until your 65th birthday or when you retire.
Normally, there is a maximum benefit payable from such a policy; this is usually 65% of a person's annual income, less any benefits that they are entitled to from their employer and the state, it is important to remember this benefit is paid tax free.

ASU benefits are usually payable for a maximum of 12 months. However, some policies will pay the benefit for up to two years, it all depends on the insurer. With ASU you are able to choose the amount of benefit you would like to receive (within certain limits). The premium will be calculated as a percentage of the amount of monthly benefit you would like to receive and hence the higher the amount of cover, the higher the associated premium costs.

So long as each claim is legitimate an Income Protection policy can pay out a number of times and the insurer cannot cancel the policy as long as premiums are maintained. Depending on the premium that you're prepared to pay, the monthly benefit payments can be linked to the Retail Prices Index (RPI). This means that they automatically keep pace with the official cost of living, a process known as 'inflation proofing'. ASU policies will only allow a single claim, at which point the policy will be cancelled, so you would need to re-apply to set up a new policy. You do not have the option of 'inflation proofing' such a policy. The benefit, once chosen, is fixed and if you wish to increase it then you must apply again for a new policy with a new benefit.

Should I consider this type of policy to cover my mortgage?

Accident, Sickness and Unemployment insurance (ASU) will cover you for 12 months with immediate effect from when you are off work due to an accident, becoming too sick to work or becoming unemployed. If you return to work the policy can end and the benefit will stop.
The insurer has the right to cancel the policy at any time and it is reviewable and also renewable on an annual basis. This means the insurer can cancel or increase the premium at the annual review date.

Please note: This Payment Protection Insurance is optional. There areother products designed to protect you against loss of income. For impartial information about insurance please visit the website at www.moneymadeclear.org.uk

It could also be argued that another drawback of ASU is that you can only cover a percentage of your mortgage monthly repayment plus some additional costs (which will vary from insurer to insurer). This means that while your mortgage payment is covered, you may not be able to cover all of your normal outgoings.

Income Protection has a much broader long term outlook regarding its protection of your mortgage repayment. The product is flexible, incorporating a deferment period from when the benefit will start to be paid. This enables people who have employer's benefits the option of a lower premium if they wait a while before the insurance company begins to pay.

The main advantage of the Income Protection over Accident, Sickness and Unemployment cover is the fact that it will pay out over a longer term, until the return to work or the designated retirement age. This will ensure that mortgages can be covered over the long term.

The maximum benefit that can be covered per month is usually 65% of gross income, less any state benefits that the policy holder may be entitled to. This enables policyholders to cover both the mortgage repayment and any other bills that they may have.
The Income Protection cover cannot be cancelled by the insurer, even after a claim has been made, meaning that some form of cover will always remain in place.

Income Protection has a much broader long term outlook regarding its protection of your income. The product is flexible; not everyone will recover within 12 months of becoming ill and be able to return to work and therefore Income Protection cover will help to ensure the maintenance of a standard of living similar to that of when working.

What about my occupation and the premiums to an Income Protection Plan?

The likelihood of accident or illness varies depending on what occupation you do and premiums will vary to reflect this. For example, a roofer may pay a higher premium than an office clerk due to the higher risk nature of the job. However there are specialist providers who do not charge you more for having a higher risk occupation, and therefore they may be more suitable for you.

What are Deferred Periods?

A deferred period could also be called a waiting period. It is the period of time that you need to be off work due to illness or accident before your Income Protection Policy begins to pay out.
This time period is selected by each individual and is normally dictated by the sickness benefits that your employer provides. Thus if you are Self Employed or receive no sickness benefits from your employer, then you will usually require a very short deferment period. Deferment periods can range between 1 day and anything up to 24 months dependent on an individual’s circumstances, it is important to bear in mind that the shorter the deferment period the more effect it willhave on increasing premiums.

What affects the premium I pay?

There a number of things which can affect the premium you may pay these are such things as:-
Age, health, occupation, deferment period, benefit required and indexation.
These types of plan will have no cash in value at any time, and will cease at the end of the term.
If premiums are not maintained, then cover will lapse.

Level Term Assurance

The name says it all. It's term assurance, as you only get a payout within the set 'term' e.g. 18 years. It's level, because the payout you get is fixed from the start of the term until the end. Level term assurance thus guarantees a known lump sum payout upon death within a fixed time e.g. £150,000 if you die within the next 18 years.

How Much Cover Do I Need?

The cover and ensuing cost depends on three things.

The higher the cover the more it costs.

The amount of cover should take into account any outstanding debts and allow your dependents to maintain a reasonable standard of living. Do check though whether your employer provides a "death in service" benefit as this may provide a certain amount of cover already and may therefore reduce the overall amount required. If it does, deduct the amount it pays out from the total cover you need. Cover may also be needed for a non-working spouse or partner,
especially when children are young, as if the spouse or partner died, the main earner may need to stop working. Level term is important protection for those who have children or a spouse or partner who would suffer financial loss if you died, but affordability also counts, so if the appropriate cover is too costly, it's better to have some than none if it's relevant.

How long should cover last.

A policy intended to provide for children should last until they finish full time education, or for a partner until the earner reaches pensionable age. Don't feel obliged to cover a round number of years e.g. policies may be for 17 years.

Your lifestyle can make the cost of cover cheaper.

The amount paid increases with the likelihood of death within the term – age, health, being a smoker and having a risky occupation, can increase the price. Couples can have joint or separate cover.
As noted, Couples can choose either separate policies or joint policies which pay out on the first death. However a joint policy would only be suitable if you needed the policy to pay out on the first person to die, as the cover would end at that point.
Even if a joint policy does look suitable, it's worth getting quotes for standalone policies anyway, as it may be cheaper.
If you die the life assurance payment will form part of your estate, which means that the value of your estate could be liable to Inheritance Tax.
In many cases you can avoid this by writing the policy in trust – which means the payment(s) goes direct to your dependents, avoiding inheritance tax.
This is relatively easy to do as most insurance policies include the option (and papers)
for writing in trust directly, at no extra charge.
These types of plan will have no cash in value at any time, and will cease at the end of the term.
If premiums are not maintained, then cover will lapse.

Mortgage Life Assurance

Mortgage Life Assurance is designed to pay off the remaining mortgage debt on repayment mortgages if you die within a set period. It ensures your dependents needn't worry about repaying the mortgage if you die.

Is it worth having?

Most lenders strongly recommend you get a policy when you take out a mortgage.
It is useful protection and, if done correctly, should not be too expensive. It should be remembered that Mortgage Life Assurance does decrease in line with the mortgage debt therefore should you wish to maintain a certain level of life assurance then Level Term Assurance may be more appropriate for you.

How Much Does It Cost?

Mortgage Life Insurance has no investment element as the payment covers the balance of the mortgage. So it's usually a simple case of the cheaper the better.

Costs depend on you

Policy costs increase with mortgage size and length as well as the likeliness of your death during the term. This means age, sex and whether you smoke are big factors. For those who've quit smoking, once you're clean for a year, it is worth a re-quote as the price may have reduced substantially.

Again if you already have a policy and you have stopped smoking ask us for a re-quote, we may be able to reduce your premiums. Some Mortgage Life Insurance policies also factor in health, occupation and participation in risky sports. So a 21 year old, non smoking office worker, who enjoys organic food and regularly visits the gym, will probably find their policy pretty cheap.

Consider writing in trust

If you die the life assurance payment will then form part of your estate.
This may make the value of your estate liable to Inheritance Tax.
In many cases you can avoid this by writing the policy in trust – which means the payment goes direct to your dependents, avoiding inheritance tax.
This is relatively easy to do as with most insurance policies they include the option (and papers) for writing in trust directly, at no extra charge.
These types of plan will have no cash in value at any time, and will cease at the end of the term.
If premiums are not maintained, then cover will lapse.

Inheritance tax planning and trusts are not regulated by the Financial Conduct Authority.

Whole of Life Assurance

Whole of Life insurance guarantees to pay out in the event of death, whenever it occurs. For a given premium, cover is provided for your whole life. The premium you pay can either be purely for cover in which case it is guaranteed or it could also include an investment element which could provide a cash-in value should the cover no longer be needed in future.

How the Insurance Benefits are Paid For:

A premium is charged based on the cost of providing the cover, the clients age and health situation. There are various types of whole of life insurance:

Whole of life With Profits - the premium includes an investment element which participates in the insurer's with profits fund. The investment element helps the policy to keep pace with inflation, and whilst the bonus rate cannot be guaranteed, once added to the plan the bonus cannot be removed. The cover is suitable for those who wish to provide a tax free lump sum on death, or those who have a potential inheritance tax liability. The cost of the cover is set based on the client's age and health, and takes into account the insurers expectations of investment performance and expenses.

Unit Linked whole of life policies - the premium is split between providing for the cost of the insurance cover, and investing into the insurer's funds in order to subsidise the cost of cover in later years. The value of the investments and income from them may go down.
You may not get back the original amount invested.
There is a choice over the level of death cover - Maximum, Minimum or Balanced.
This can be changed as required, throughout the life of the policy. Each monthly premium is used to buy units in a selected fund, then sufficient units are cancelled to pay for the cost of the life cover.
The remaining units are invested depending on the level of cover chosen.
Maximum cover provides the cheapest cost of the insurance but includes only a minimal investment element. Minimum cover is the opposite, with greater emphasis on investment and little life cover. Balanced cover falls between the two with the ratio of sum assured to premium being designed to sit at a given growth rate sufficient to maintain the level of cover throughout the life of the policy. The premiums on a unit linked whole of life policy are generally reviewed after the first ten years, and more frequently thereafter.
This is because the cost of providing life cover is more expensive as you get older. The aim of the premium review is to ensure that the fund value built up is sufficient to enable the life cover to continue at the same level, otherwise the premium would have to increase, or the level of cover would be reduced. It will be appreciated that it is therefore possible to pay a premium within a wide range for a given sum assured.
If cover throughout life is needed with some assurance of the level of the premium, then balanced cover would be chosen. If the highest sum assured is required for the lowest premium, maximum cover (minimum investment) would be chosen. If a low sum assured but a high savings element is needed, minimum cover (maximum investment) would be chosen.

At the end of an initial period (between 7 and 10 years) the insurance company will review the premium to sum assured ratio. Where maximum cover is selected, either the premium will increase significantly or the sum assured will reduce. Where balanced cover is selected the review will still take place, but only if the insurance company has failed to meet its target rate of growth will it be necessary to alter the premium or sum assured. Further reviews then take place, usually every 3-5 years. Flexible Whole of Life Assurance plans usually have other features that may allow the sum assured and/or premium to be index linked, or otherwise increased, in pre-determined stages.

Plans can be written on a single life or joint lives, where the sum assured is payable on the first death (or diagnosis of a critical illness) or on the second (usually used for inheritance tax (IHT) planning providing that the policy is written under trust).

As these plans have an element of savings, insurance companies can market them as a means to provide future funds. The charging structure of such plans, however, means that they may be poor value savings vehicles and they may be best used to provide cost effective protection against death or illness. Where a significant fund is established, however, it is possible to use this to pay future premiums, so a plan could be made “paid up” with all future premiums being paid from the accumulated fund until this runs out. When the insurance is no longer required, one simply ceases to pay the premium. A surrender value may then be payable.
The value of investments and income from them may go down.
You may not get back the original amount invested.

Beginner's Guide to Protecting your Future

It is a sad fact that whilst most of us are quite happy to insure our car, our house and our travel arrangements to their full value, few of us take quite as much care over our health and loved ones.

This guide is designed to highlight the issues which may concern you and introduce you to the different types of cover available which can 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 the number enclosed.

Life Assurance

LIFE ASSURANCE IS A STAPLE FORM OF PROTECTION THAT MOST OF US NOT ONLY UNDERSTAND BUT ALSO SEE AS A NECESSITY.
The most common reason for investing in life assurance will be to cover a mortgage but it is also part of the review we all undertake, perhaps after getting married or, more likely, when we have children.
For a single person with no dependants, life assurance may not be necessary. If you have debts and no savings, then a small amount might be necessary to pay expenses and prevent someone else being landed with those debts. There is also an argument that you should cover a mortgage but in this case, 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 there is probably no need for it.

If you have dependants, however, you need to look at the consequences for them if your income ceased. How much do you earn? Do you have debts? How much is your mortgage or rent? Do you pay school fees? How long before your children will be working? Does your partner work? Could they continue to do so without your support? Even if you don't work, there can be a considerable cost involved in replacing your income, to look after children and/or the house. Finally, life assurance can be used in inheritence tax planning.

Income Protection Insurance

REGARDLESS OF WHETHER YOU ARE SINGLE OR HAVE 10 DEPENDANTS, IF YOU ARE SUDDENLY UNABLE TO WORK AND YOUR INCOME DISAPPEARS COMPLETELY – THIS HAS A DIRECT IMPACT ON YOU AS WELL AS ON THOSE AROUND YOU.
Income Protection Insurance is less well known than life assurance but potentially has more applications. What it does is replace your income in the event you are suddenly unable to work.

Typically, you can cover up to 65% of your gross income – less any state benefits for which you become eligible. This income is paid until the end of the policy term or until you are able to return to work, whichever is the earlier. Consequently, whilst you are recovering or coming to terms with changes in your life, your financial position is secure you are able to maintain a similar lifestyle.

This can be of particular benefit if you are self-employed and when your job does not come with any significant sick pay.

The cost of Income Protection varies depending on what deferment period you choose and your occupation. You can choose a longer deferred period to reduce the cost of cover.
The more savings you have, the longer you can fund yourself before a claim needs to start paying out – and therefore the cheaper the policy will be.

Critical Illness

THE OTHER MAIN TYPE OF COVER WHICH MANY OF US SHOULD CONSIDER IS CRITICAL ILLNESS COVER.
Critical illness policies pay out in the event that you are diagnosed with a specified critical illness.
Like life cover it pays out a lump sum, the objective of which is to help you fund changes which may need to be made to your lifestyle as a result of that illness.
For example, you may need to move house to be nearer relatives or friends.

You may need to make changes to your existing house to meet new mobility requirements, or you may wish to pay off your mortgage and reduce your outgoings.

Alternatively, you may simply want to give up worrying about money and make the most of your opportunities whilst you can. Like PHI, Critical Illness cover can be just as beneficial, maybe more so, for single people with no dependants as it could be the only source of ongoing financial support in the event of serious illness.

As confirmed above, these types of policy may not cover all definitions of a critical illness.
For specific definitions please refer to the Key Features and Policy Documents.
These types of plan will have no cash in value at any time, and will cease at the end of the term.
If premiums are not maintained, then cover will lapse.

Long Term Care

AS YOU WILL NO DOUBT BE AWARE FROM ALL THE TALK ABOUT PENSION FUNDING IN THE NEWS THESE DAYS, WE ARE ALL LIVING LONGER.
As a result, another issue has arisen which is causing as much financial insecurity and issues for the State as pension funding itself – the cost of long term care.

According to the Office of National Statistics (Winter 2009), the proportion of people over the age of 65 will total almost 23% of the population by 2031.

However, as we get older, we need more healthcare – and we are more likely to require 24 hour a day support than the rest of the population.

Long term care planning is a specialist area of financial planning which is designed to ensure you can pay the cost of medical expenses or care home fees if you are no longer able to live independently. There are many types of cover – from an immediate annuity, which pays an income to a care home in exchange for a lump sum, to a pre-funded insurance plan, where premiums are paid into a policy now, which will pay your fees in future – should they ever be required.

Long term care cover is relatively expensive – but this is because the fees in care homes are expensive and continue to rise.
Those who have equity in their houses or substantial savings may be happy to utilise those assets to help pay for any future requirements.
However, this could jeopardise the chance of handing over your assets to children or other beneficiaries. Also with no guarantee of how long care fees will need to be funded, a non-insurance approach can prove a bit of a lottery as to whether there will be enough money available.

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PLEASE NOTE:
The information contained within this brochure is intended to provide a general appreciation of the topic and it is not advice.