Personal and family protection

Life and protection insurance explained

This guide explains the types of life and protection insurance available and how they can offer you valuable peace of mind.

If you want to learn more and receive advice tailored to your personal circumstances, please get in touch.

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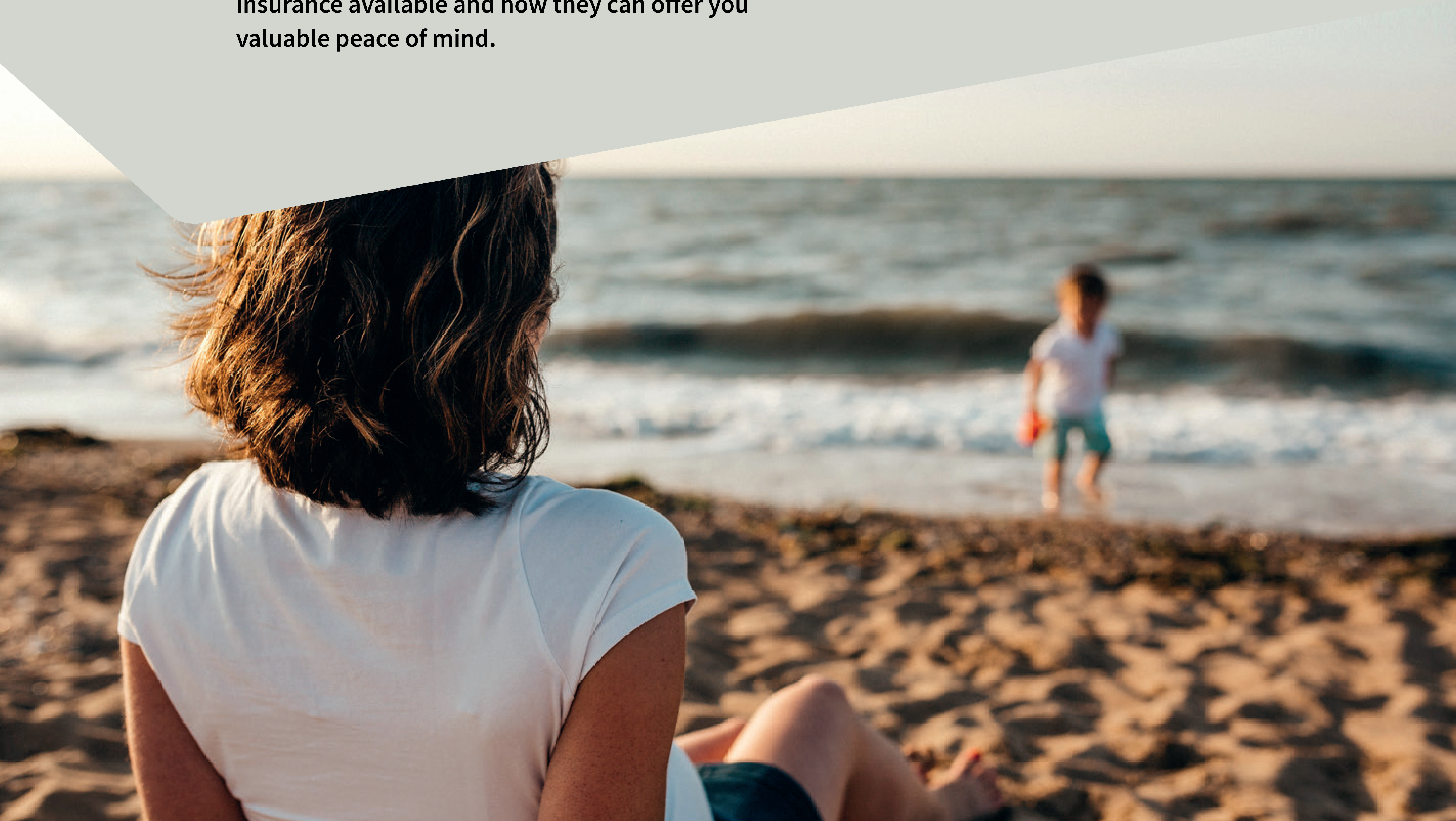

What is life and protection insurance and why is it important?

If you have a mortgage, people who depend on your income, or you want to protect your lifestyle in the event of illness, protection insurance could help you and your family avoid a financial disaster.

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What is life and protection insurance and why is it important?

Life and protection insurance can help you secure your financial future against the risk of an unexpected loss of income. Having this cover in place will help deal with the financial difficulties that could arise, such as not being able to afford the mortgage.

Similarly, if you died, would your loved ones be able to maintain their current lifestyle without your income? Life insurance would pay out a lump sum to allow your loved ones to continue their current way of life.

If you or your family faced a situation where you lose your regular income, a protection policy could help to:

- **Pay off your mortgage**
- **Maintain you or your family's lifestyle**
- **Pay for replacement childcare**
- **Cover school or university fees**
- **Pay for specialist nursing support**

You may already have life and protection insurance in place, but it's still worthwhile reviewing your current cover levels. Personal circumstances can change regularly so it's important to ensure your level of cover is appropriate, for example if you move home or have children.

Life insurance

There are different types of life insurance – the most appropriate type for you will depend on your personal circumstances.

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Life insurance

What it does

Life insurance (sometimes known as life assurance) will pay out either a single lump sum (sum insured) or a regular income when you die. It can help provide financial security for people who depend on you, if the worst happens.

Why you might need it

Although money can't replace a loved one, it can help those left behind to weather the financial storm. For example, it could pay off the mortgage or provide an income to help cover regular household expenditure.

1 Term insurance

This is the simplest type of life insurance. You choose how long you're covered for, eg. 20 years (the term), and the policy pays out if you die within the agreed term. You can also take out term cover as a couple, with the policy paying out on the first death only during the term. There are several different types of policy:

- **Level:** The amount of cover and premiums remain the same
- **Increasing (or index-linked):** The amount of cover and premiums gradually rise in line with inflation
- **Decreasing:** The amount of cover gradually reduces. Generally used to protect a repayment mortgage where the amount of the loan outstanding reduces each year
- **Renewable:** You can extend the original term of the policy
- **Convertible:** Lets you convert the policy to whole of life insurance

2 Family income benefit insurance

This is essentially the same as term insurance, but instead of paying a lump sum when you die, it will pay out a regular income instead. This type of payment may be more suitable where the main purpose of the policy is to provide ongoing financial support to dependants.

3 Whole of life insurance

Whole of life insurance pays out a lump sum when you die, whenever that is, as long as you are still paying the premiums.

Serious and critical illness insurance

This type of insurance pays out a tax-free lump sum on the diagnosis of certain life-threatening conditions.

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Serious and critical illness insurance

What it does

Serious illness and critical illness insurance plans pay out a tax-free lump sum on the diagnosis of a range of serious (but not fatal) conditions. These conditions include things like heart attack, stroke, cancer, major organ transplants and many others. The conditions covered will vary depending on the insurer.

Serious and critical illness insurance often comes as an optional addition to a life insurance policy, but can also be purchased on its own. There are some policies that will pay out a partial amount of your sum assured, and others which will usually only pay out once, so they don't necessarily replace your regular income, but you can use the money towards medical treatment, your mortgage or anything else you choose.

Why you might need it

Many people buy serious and critical illness insurance when they take on a major commitment, like a mortgage, or start a family. However, since we'd all like to have our financial commitments lightened if we were to suffer a serious illness or injury, the cover is relevant for most of us at any time.

Replacing an existing critical illness policy

If you already have critical illness insurance you should think carefully before you cancel your existing policy and take out a new one.

For example, if you've developed any illnesses since you first took out the policy, you may lose some of the benefits when you replace it. That's because pre-existing medical conditions may not be covered by the new policy.

Recent advances in the treatment of certain conditions, such as cancer, may also have an effect, as a new policy might be more restrictive than an older one when it comes to paying claims for certain conditions.

We will be able to quickly identify the issues and help you make the right decision about your critical illness insurance.

Income protection insurance

This type of cover pays out a regular tax-free income if you're unable to work because of accident or sickness.

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Income protection insurance

What it does

Income protection insurance pays out a regular tax-free income if you become unable to work because of illness, injury or – with certain policies – compulsory redundancy. It could help you keep up with your mortgage repayments or rent, and other day-to-day living costs until you are able to return to work.

You can buy cover that will pay you a monthly income either until your planned retirement age, return to work or death, whichever happens first, or for a limited amount of time (which will result in a cheaper premium). Income protection policies also have a waiting period (sometimes known as a deferred period) before they pay out, which begins when you become unable to work.

The premium you'll pay will vary depending on these factors and others such as your age, health, the nature of your job and, of course, the level of income you wish to protect.

Why you might need it

If you become ill or suffer an injury during your working life, an income protection policy can help protect against possible loss of income.

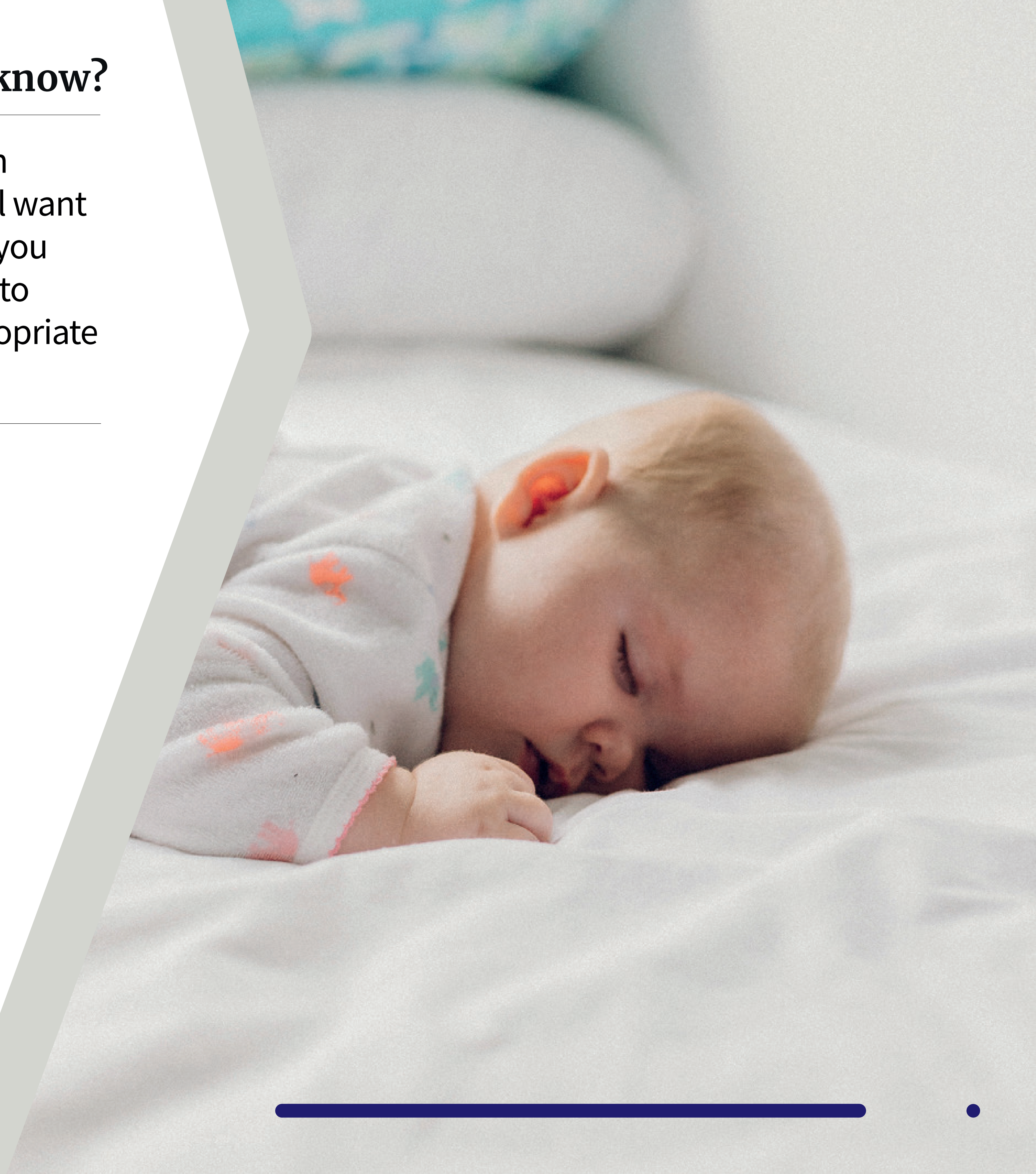
Other types of income protection insurance

Payment protection insurance and short term income protection insurance (along with mortgage payment protection insurance and accident, sickness and unemployment insurance) can provide a monthly income if you can't work due to an accident, illness / injury or, often as an optional extra, unemployment.

There are important differences between these products and income protection insurance, the most obvious being that they will only pay a percentage of your income for a limited period of time – usually between 12 and 24 months. In contrast, income protection insurance will pay out for as long as you are unable to work (up to the policy expiry). Shorter payment periods are available from some insurance companies, which reduces the cost of these plans.

What else do you need to know?

It’s not just the type of protection insurance that’s important. You’ll want to know the likely cost, whether you need a trust document and how to make sure your cover stays appropriate for your circumstances.



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What else do you need to know?

What cover will you need and how much will it cost?

This will depend on your own personal circumstances, but we can quickly help you calculate an appropriate level of cover by considering things like:

- Your mortgage and/or any other outstanding loans
- Your current income and your household
- Any likely childcare needs if you or your partner were to die or suffer serious illness or injury

Clearly, the higher the level of cover you decide you need, the more it will cost. Your age, medical history and occupation are among the other factors that will also have an effect. However, premiums remain extremely good value and many people are surprised at how affordable putting cover in place can be.

Keeping your cover up-to-date

You should always review your level of protection insurance whenever there are significant changes in your life. Getting married or moving in with a partner, buying a home, having children or changing your job can all have an impact on your financial obligations.

Even if your circumstances don't change significantly, it can be worth reviewing your arrangements to see if you can find a more suitable policy. Having said that, it's important to ensure the cover of any new policy meets your needs, and that you're aware of any benefits you may lose compared to your existing policy.

The Financial Conduct Authority does not regulate Trust Advice.
HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Writing your life insurance in trust

A trust is a legal document that allows you to specify what will happen to your money after your death. If your life insurance policy is written in trust, any payout will go to the trustees who will ensure the funds are distributed to the correct beneficiaries.

A life insurance policy that has been written in trust does not form part of your legal estate and is not subject to Inheritance Tax, allowing more of your money to pass to your beneficiaries. Life insurance companies also tend to pay the money out much quicker under these circumstances, making things easier financially for your beneficiaries.

Even if your partner is your beneficiary (and therefore the life insurance payment would be exempt from Inheritance Tax under current rules), it can be worth putting your life insurance in trust to ensure payment is made as quickly as possible. We can let you know if your life insurance cover should be placed in trust and can easily arrange this for you. There's normally no charge for this service if it's arranged when the policy is taken out.

Look beyond the price

It may be tempting simply to opt for the cheapest policy available. But it is important to bear in mind that whilst many products may look the same, there can be important differences between them that can be difficult to spot.

This is particularly important with serious and critical illness cover, and income protection insurance, where the cover available from different providers varies more significantly. Care should be taken to select a policy that is most suitable for your particular needs. We can help you make the right selection.

Working with you

Trusted support from recommendation to application and beyond.

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Working with you

Getting to know you

We'll complete a comprehensive Fact Find with you, either face to face or over the phone, so that we can identify the products that suit your needs.

Researching the options

Using our expert product knowledge, we will put together a personal recommendation for you.

Recommending the right solution

Once we have identified the options available, we'll meet with you again or discuss our recommendations over the phone. We'll also write to you so you can review what we have suggested, and why.

Assuming you're happy with our recommendation, we'll work with you to complete the application forms and stay in touch throughout the process – and into the future.

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Next steps

We hope this guide has given you a broad insight into life and protection insurance.

If you'd like to explore the specific options for your circumstances, or simply check if you have the right level of cover in place, please get in touch.

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