monetary solutions
INDEPENDENT FINANCIAL ADVICE

A Guide to Family Protection

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Prolonged ill-health, disability and death are all major threats to a family's financial security.

Whilst these are not subjects that are particularly pleasant to think about, it is sensible to consider the following basic points.

- Could your family cope without the financial security that your regular income gives them?
- What would be the likely financial effects of you suffering a long-term illness or disability?
- Bearing in mind the above, are you confident you have adequate protection?

It is important to review your insurance arrangements regularly. As circumstances change, so do your insurance needs. A change of house, an addition to the family, a change of job, redundancy or retirement, these are all factors which could influence your insurance needs.

The costs of each different type of insurance will also vary according to a number of factors such as your age, sex, occupation, period of cover and amount of cover.

Life Assurance Cover

It is possible to arrange life assurance to cover a whole variety of circumstances. In most instances, an individual (or a couple) should arrange life assurance for family protection purposes.

This will ensure that, in the event of death, the next of kin is provided with a cash lump sum or income to clear a mortgage, to meet any other bills that may arise and to cover day-to-day living expenses. Additionally, a life assurance policy can be used to fund inheritance tax liabilities.

There are two basic types of life assurance policy; one providing cover over a specified period of time - **Term assurance**, the other providing cover throughout the whole of life - **Whole of Life assurance**.

A **Term assurance** policy will normally provide an amount of cover in the form of a lump sum or income benefit which is payable on death within a period that is determined at outset.

Term policies offering a lump sum benefit, can either be level or decreasing. A level policy simply means the sum assured remains ' level throughout the term of the policy. If you die on the first day of the policy, you get exactly the same sum as you would if you died near the end of the policy. A decreasing term assurance policy on the other hand, will pay out more at the beginning of the policy than it would at the end.

Term assurance and family income benefit policies have no element of saving and cannot therefore be surrendered to provide a cash lump sum. They are pure protection policies that pay out on death but lapse without value if death does not occur during the term of the policy. As a result, they are normally the cheapest form of life assurance.

We would recommend when considering Term Assurance that Critical Illness cover should also be considered.

Whole of Life assurance policies will provide a lump sum on death, whenever it occurs. Although the prime purpose is to provide life assurance cover, this type of policy also normally offers the potential for an investment return in later years once a surrender value has been established. In both cases, policies should normally be written under trust to ensure that the proceeds do not form part of the deceased's estate.

Family Income Benefit

Despite its name, this type of policy has nothing to do with State Benefits, but is an alternative to a term assurance policy. Instead of providing a single lump sum payment on death, it pays a regular income over a specified number of years following the death of the breadwinner to cover, for example, the period whilst the children are growing up. The level of income paid relates to the size of the premiums. Because the benefits from such policies are only payable for a certain term, premiums for such policies can be relatively cheap.

Permanent Health Insurance

Permanent Health Insurance (PHI) is also known as Income Protection Insurance (IPI). Its purpose is to provide financial protection for an individual and his or her family in the event of long-term disability or incapacity due to accident or illness. The monthly income will normally come into payment after a predetermined deferred or waiting period has elapsed after the commencement of the period of incapacity. The income will normally be paid until the individual recovers sufficiently to resume work, retires or dies (whichever comes first).

Typically, the maximum level of income cover that an insurer is prepared to provide is up to 50% of an individual's income less any State Incapacity Benefit that would normally be payable. This restriction provides a financial incentive for the policyholders to go back to work, if possible. The definition of incapacity for the purposes of this form of insurance differs from one insurance company to another. The income benefit is free of tax, as long as the individual insured has paid the premiums. If an employer pays the premiums, then the benefit is immediately treated as taxable income.

Private Medical Insurance

The National Health Service (NHS) is normally an excellent provider of medical treatment for life threatening and emergency situations. However, it is a different matter with non-life threatening medical conditions where there are often long waiting lists for treatment.

Private Medical Insurance was evolved to offer benefits to those people who do not wish to join a waiting list for treatment but would rather pay to have their conditions treated as quickly as possible.

It can, therefore, be a good complement to the NHS for those people who wish to have their medical conditions dealt with as a matter of urgency and who wish to select their own time for treatment.

Most providers of Private Medical Insurance policies offer a range of schemes, dependent on the size of premiums charged. These can include comprehensive cover for virtually all types of treatment with a wide choice of hospitals. Alternatively cheaper "budget" schemes may cover only a limited number of medical conditions, restrict the choice of hospitals available or even only pay the costs of treatment if NHS hospital waiting lists are longer than a predetermined period.

Schemes can be arranged to cover just one individual or the whole family, including children up to majority age.

Many employers provide private medical insurance cover as a benefit for their employees, negotiating lower premium rates for bulk policies.

Critical Illness

Critical Illness is a type of cover similar to whole or term life insurance, except that the sum assured is paid out following diagnosis of a life-threatening illness e.g. cancer or heart disease, rather than on death.

These policies aim to provide a lump sum payment at a time when extra money is often needed to care for somebody who is seriously ill and unable to earn a salary from employment. The lump sum payment is paid free of tax.

Statistics show that, for those still in work, there is far more danger of contracting a critical illness than dying before reaching retirement age. So there is more need for critical illness cover than there is for life assurance on its own, but the premiums can be considerably higher to cover the increased risk. It is becoming common to take out a critical illness policy when applying for a mortgage.

Long Term Care

Long Term Care Insurance is designed to provide payments for those who are no longer able to look after themselves, very often because of increasing debility from advanced age.

The opportunity to buy an insurance policy to cover the costs of long term care is comparatively new, as historically the State has paid in the majority of cases.

The Community Care Act of 1993 changed all that by transferring the burden of financing long term care bills to local authorities with limited resources. The resultant problems have been so great that a Royal Commission was appointed to investigate the matter. It came out with various proposals, but these are unlikely to help individuals unless they have very limited financial resources. Meanwhile it seems inevitable that the cost of providing long term care will increasingly be borne by the individual sector and not the state. As the costs of providing long term care rise with people living longer, so the demand for a source of funds to pay the costs has increased.

New forms of long term care insurance products are entering the market all the time as the seriousness of the potential financial problems become more widely known.

For example, instead of taking out an insurance policy simply to cover the cost of possible long term care, it is now possible to arrange an investment bond which pays out if there is a need for long term care, but also provides an investment return if the need does not arise. Since it is estimated that one in four males and one in three females will need long term care* this latter solution is seen by many to be a good compromise.

To find out more about Long Term Care, simply call us to request a copy of my **Guide to Long Term Care**

Please note that each protection application will be subject to underwriting, and will be rating different on each individual case, dependent on health and personal circumstances.

For further information or to book an initial consultation, please call us free on 020 8760 9940

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