CHOICE
mortgage solutions

GUIDE TO FINANCIAL PROTECTION

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A Choice Mortgage Solutions Guide

On average, every day in the UK:

- 420 people die from heart problems (Source: British Heart Foundation)
- 445 people are taken to hospital with head injuries (Source: Headway)
- 250 people experience symptoms of sight loss (Source: Royal National Institute for Blind People (RNIB)
- 14 people are diagnosed with Multiple Sclerosis (Source: MS Society)
- 288 people suffer a stroke (Source: Stroke Association)

These all hold the potential to cause an income shock.

But what does that mean?

An income shock occurs when a household loses a main source of income without warning. This could be temporary, through illness or injury, or permanent, such as in the case of long-term disability or sudden death.

“ **Really helpful and professional.** ”

Steve
Romsey

Why do you need protection?

It can be easy to think "It won't happen to me", but the truth is accidents and illnesses don't discriminate and it very much can happen to you or someone you know.

Every year, almost 1 million households are left in financial distress due to a lack of insurance or safety net. (Source: LV=)

Without savings or insurance to cover the loss of income, how long do your household will remain afloat, if an income suddenly stopped? According to Legal & General, most households could only maintain their current lifestyle for 32 days before running out of money.

Having financial protection, such as Life Insurance or Critical Illness Cover will help you:

To repay a mortgage in its entirety

23% of homeowners say that their current savings would only pay their mortgage for three months (Scottish Widows). Therefore, it is worrying that only half of mortgage holders have Life Cover, while just 17% have Critical Illness Cover. (Source: Scottish Widows)

Having Life Insurance is not a legal requirement for taking out a mortgage, but it is advisable to secure both at the same time.

Consider how your family or dependents will cope with the mortgage repayments if you or your partner were to suddenly fall ill or die. With insurance, you can make sure that there is some money available to alleviate the financial strains of such circumstances.

It is not just mortgage holders who need to take care of their financial protection. Research has shown that 39% of renters could be left homeless if their income stops unexpectedly. However:

- Only 4% have Critical Illness Cover
- Just over one fifth (22%) have Life Insurance

(Source: Scottish Widows)

To help cover your living costs

Unfortunately, if an illness, injury or disability requires care, medication or equipment you may face a double-edged issue; your day-to-day living costs are pushed up by your new needs, while your monthly income is reduced.

You may have taken advice previously which states that you should have a financial safety net containing enough savings to cover your normal livings costs for up to six months. But, if you find yourself in a situation which calls for assistance and aid, that money may not last as long.

There are two things you can do to adequately prepare for this:

1. Make regular savings to provide a financial 'buffer'
2. Invest in Critical Illness Cover, which will provide you with additional capital to cover the costs associated with your condition

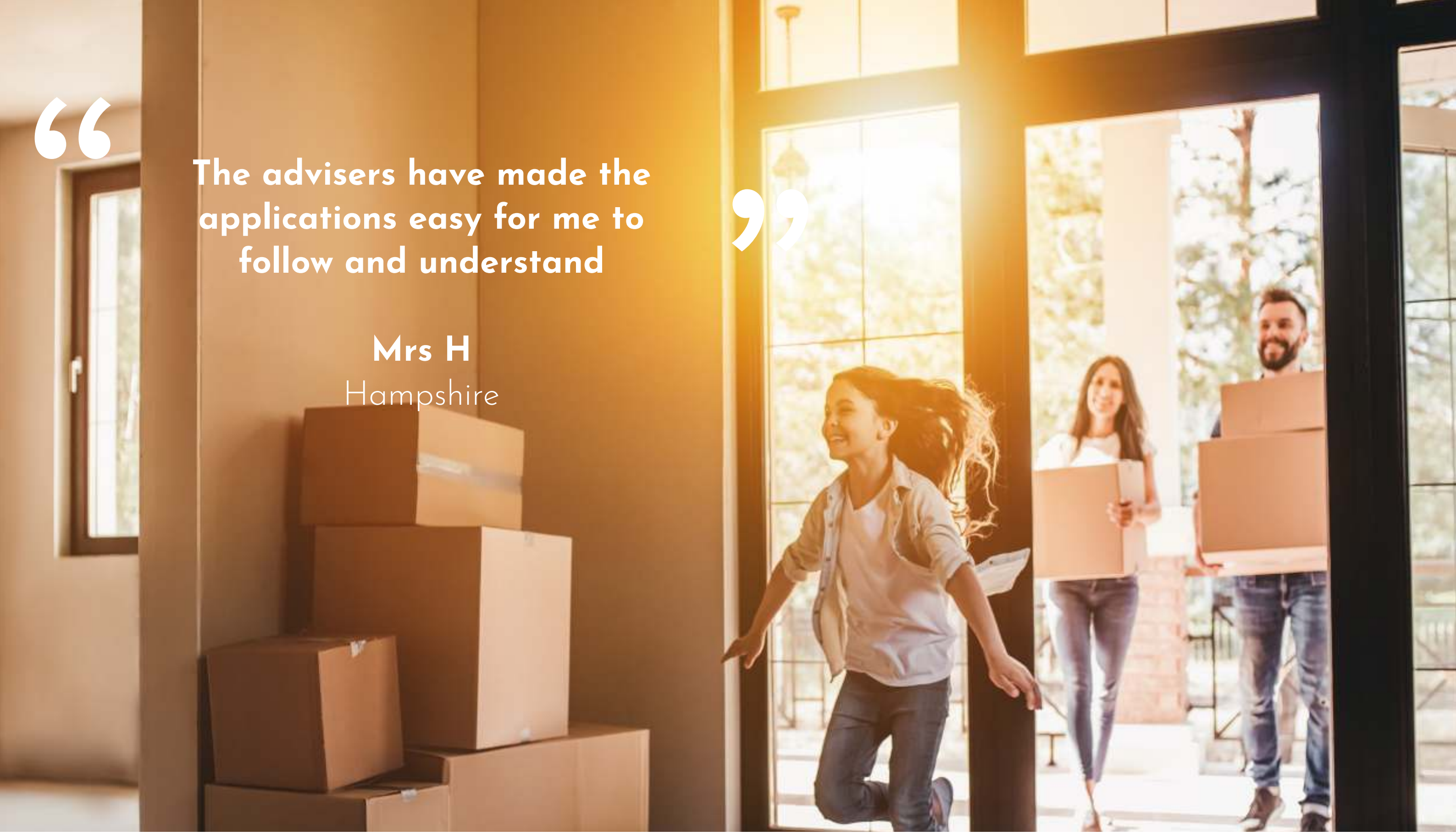
To ensure your family's financial future is secure

Worrying about an ill or injured family member is stressful enough, and that's before considering the financial impact of a lost income.

If a member of the household passes away, it can be even harder to face the practicalities of sorting out their finances and keeping the household running smoothly without their guidance.

The loss of a major household income may also put the physical and mental wellbeing of the remaining family members in jeopardy. With no back-up plan, they could face debts and in the very worst circumstances, homelessness.

Making sure that there is financial protection in place will give you peace of mind, knowing that should the worst become reality, your family will not be burdened with financial difficulties on top of the emotional fallout.



What are the options available?

There are three main options:

1. Life Cover

Usually known as Life Insurance, this is designed to pay-out either a lump sum or monthly income to your beneficiaries if you die within the terms of the policy.

How much will it cost?

The cost of Life Insurance depends on several factors, including your age, medical history and occupation. You should always choose a policy based on an appropriate sum assured (pay-out) and how well the terms suit your personal needs, rather than how little you can get away with paying towards monthly premiums. Having a low-cost policy which fails to pay-out thanks to any small-print terms and conditions is as bad as no cover at all. In fact, it's worse, as you will have thrown away good money paying premiums.

Single and joint policies

If you are partnered or married, you may be wondering whether it is better to take out two separate policies, or one single joint policy.

If you don't have children or dependents, a joint policy may be worthwhile. Typically, a joint policy will pay-out on the first death, but joint policies that pay out upon second death are also available. They are typically cheaper as the likelihood of a claim being made is smaller.

If you have separate policies you can name each other as the beneficiary, ensuring that your spouse or partner benefits from it. That way, the remaining spouse can change their beneficiary to reflect their new circumstances.

Individual policies also give you the freedom to each select different terms to suit your needs; including the amount paid out and length of the policy.

Premium types

There are two types of premium; guaranteed and reviewable.

Reviewable premiums can be changed by the provider over time. This means that, as you age, or your circumstances change, your premiums are likely to rise.

Guaranteed premiums remain the same throughout your policy. That means that you pay the same amount every month and adds some certainty to your budgeting. Usually, guaranteed premiums are higher than reviewable premiums toward the start of a policy. However, as reviewable premiums rise with age and health risks, guaranteed premiums usually end up costing you less overall.

Policies in trust

It is possible to have your Life Insurance policy written in trust, where assigned 'trustees' directly benefit from any pay-out.

This has three main benefits:

1. The policy cannot be lost to the laws of intestacy.
2. The pay-out does not form part of your estate, meaning it is not considered when calculating Inheritance Tax (IHT).
3. The process of the pay-out is much more streamlined, as you do not need to go through probate, a legal process confirming executors have authority to deal with the policy.

2. Critical Illness Cover

Critical Illness Cover offers a tax-free lump sum pay-out if you are diagnosed with a severe or life-threatening illness. You may want to take this out to ensure that, should you need to stop working, you can continue to pay your living costs, as well as covering any medical costs you may incur through illness.

Critical Illness Cover is often offered alongside term-based Life Insurance in a combined policy. This does mean that, should you fall ill and make a claim on the Critical Illness Cover, it will end the policy and your beneficiaries will not see a second pay-out if you die before replacing it.

Reasons for taking out Critical Illness Cover

Everybody's circumstances are different, and therefore everybody will have a unique reason for taking out Critical Illness Cover. The most popular reasons include:

- Ensuring that the mortgage is repaid if you fall ill
- Taking care of your children and partner
- Being able to afford the necessary equipment, medicine and assistance needed for a severe illness or injury.

What illnesses are covered?

That depends on your policy and provider. There are a range of possible illnesses which can be covered by Critical Illness Cover. It is advisable to compare providers to find the policy which provides the best protection for you.

The type of policy you take out will determine how severe your illness must be to be eligible for a pay-out.

Most policies will pay-out the full amount if your illness meets the policy terms. However, there are providers who offer severity-based cover, which pays out in accordance with the intensity of the diagnosis.

> **Excellent service from start to finish.**
>
> **Mark**
> Waterlooville

3. Income Protection

Income Protection (IP) was known as Permanent Health Insurance (PHI) which replaces a proportion of your income if you are forced out of work due to illness or injury. IP is available in two types:

- Long-term: Long-term IP provides covered for a longer period once you stop working. Usually, this policy will continue to pay you until you retire, die or return to work.
- Short-term: Short-term Income Protection (STIP) offers payments for a shorter period and is not guaranteed to provide money in the long-term. However, it could be a useful form of protection to combine with Critical Illness Cover to make sure that your household costs are covered during the early stages of a financial crisis.

Why is IP important?

Most of us have only taken the occasional day off for sickness. But, things are quite different when an accident or diagnosis means that you are unable to work for months or years. Many employers are unenthusiastic about continuing to pay someone who may not return to work, which is understandable.

Statutory sick pay can be paid for up to 28 weeks and means that you could receive up to £96.35 each week instead of your normal salary. This is much less than the national average of approximately £163 (Source: ONS) and will mean that your household income will fall quite sharply.

Of course, you can top up your income with any savings and investments you have, but they may not be enough. With an IP policy, you know that there will be additional income available to help you to afford both living and care costs during your recovery.

When can you claim?

IP policies usually cover both illness and injuries. If you are unable to work for a significant period and will not be receiving your usual income during that time, after a certain number of weeks, known as a deferment period (typically between 4 weeks and up to 12 months), the policy will begin to pay-out.

The majority of IP does not cover a loss of income through redundancy, however, redundancy specific policies are available if this is a particular concern to you.

Choosing your cover

When determining what level of cover you need, it is important to remain realistic. Consider how much your current monthly living costs are, and how long you will need a pay-out to last. Also factor in any potential care costs and what will happen if you are unable to return to work or die because of the illness.

Also consider how many working years you have left before State Retirement Age, alongside how long you can live on your current savings if you are suddenly unable to work.

If you are close to retirement, short-term cover could be sufficient. However, if you are in your 20s, 30s or 40s, look for a policy which keeps you financially stable for longer.

Types of insurance & their purposes

Insurance comes in all shapes and sizes and can be used as protection against a range of eventualities. The most common difference between insurance types is the amount and frequency paid when a claim is made. It might sound like lower payments are a drawback, in some circumstances, this is the most suitable option.

1. Level Term Assurance

Level term policies provide a lump-sum payment when a claim is made. When taking out this policy, you decide how much you want to be able to claim and pay premiums in accordance with that level.

This is possibly the most common type of insurance and it is usually intended to both pay off any debts you leave behind and provide some financial security to your loved ones.

Who is it for?

This type of assurance is best suited to people who are looking to make sure that there is a set amount available when they die. This could be to provide financial stability for your partner or children or may even be used to pay the amount of Inheritance Tax (IHT) due on your estate, to save your beneficiaries money.

2. Decreasing Term Assurance

The amount paid out by a decreasing term policy gradually lessens over time.

Who is it for?

This is often used as a guaranteed way to pay off a capital repayment mortgage in the event of death. Any debt which is repaid in instalments should be covered by a policy which matches the remaining balance.

Whilst a decreasing term policy will not provide additional money or financial security for your family, it does guarantee that they will not have to worry about finding the capital to repay huge debts, such as a mortgage. That means that both you, and your loved ones can benefit from the peace of mind that comes with knowing that they have a secure place to live, no matter what happens.

3. Family Income Benefit

This is a type of Life Insurance policy which pays a tax-free income to your family if you die within the terms. Payments will only be awarded until the end of the policy, so it is worth choosing a longer term for increased protection.

Who is it for?

Family Income Benefit is best suited to those who want to make sure that their family's household income is maintained, in the event of a lost income.

> **"Insurance comes in all shapes and sizes and can be used as protection against a range of eventualities."**

How much cover will I need?

When deciding how much your policy will need to pay-out, and how long you want it to cover, you will need to consider:

- Your personal circumstances: The younger you are, the longer you will need your cover to last.
- Your family: If you have a partner and children, you will need to make sure that your cover is enough to maintain their lifestyle in your absence.
- Your goals: If your intention is to ensure that the mortgage can be paid using this cover, make sure that the policy length is equal, or longer than your mortgage.
- Inflation: The cost of living is increasing year-on-year, so factor this in when planning how much your family will receive when you die.

Common myths and misconceptions

“It costs too much!”

That’s a common myth, but it’s exactly that, a myth. For example:

1. A non-smoking 35-year-old could buy £250,000 of Life Insurance for:

£9.24 per month

That’s less than a medium pizza.

2. A non-smoking couple, aged 38 could buy £500,000 of Life Insurance for:

£34.59 per month

Or... 2.5 medium pizzas.

3. A non-smoking couple, aged 30 could buy £200,000 of Life and Critical Illness Cover to protect their mortgage for:

£61.66 per month

Or… 4.5 medium pizzas

“Insurers don’t pay-out!”

This is another myth which discourages people from protecting their family.

Many people believe that:

- Only 48% of Critical Illness Cover claims are successful.
- Insurers spend time and money trying to avoid paying out to entitled claimants.

Meanwhile:

- 33% of people admit to lying on the life insurance application
- 53% have not read the terms of their policy

How can financial planning help?

Talking to a professional protection adviser will give you better insight into your current circumstances and the potential effects and financial crisis would have on those you love and provide for.

At Choice Mortgage Solutions, we offer comprehensive protection planning, which accounts for all possibilities, including the best and worst-case scenarios.

Seeking expert advice gives you the benefits of knowing exactly how your money will work for you, in both the short and long-term. On top of this, you have the support and confidence that comes with knowing that a professional is on your side and that you have all the information necessary to make solid financial decisions.

To read about real clients who have benefitted from financial protection, click here.

Or, to get in touch with us, give us a call on 0800 612 8099.

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