



Protection Matters

Recognising the benefits and understanding the options available

When you purchase travel insurance or breakdown cover, you understand that when you claim on it, it won't directly replace what you have lost. The plane will still be delayed, the car will still have broken down. The aim of the Insurance is to provide you with a level of compensation so that you can deal with the situation more easily.

Broadly, that is the basis for most forms of insurance and life insurance is no different. Life Insurance (in fact any sort of Protection contract) will never replace what you have lost but will at least enable the people affected to deal with the situation more easily.

Recognising that this is a sensible thing to consider, let's understand what your options are. Bearing in mind that it is much more likely that you will have a serious illness or injury before age 60 than you are to die, perhaps you need to look more closely at protection against that. Or it may be that your employer provides an element of Life Cover, but no critical illness cover.

Whatever your circumstances, there are various options available.

Life Assurance (often called Term Assurance)

Life Assurance is a simple concept that helps you to financially protect your family's future. You choose the amount of life cover you need and how long you

need it for, and you pay your premiums monthly or annually.

If you then die during the term of the contract, it will pay out a cash lump sum. This simple product offers reassurance that your family will be protected should the worst happen.

This sort of cover is often linked to a mortgage with the lump sum payable being the mortgage value. In this instance, it can often be purchased with a decreasing value, so that as you pay the mortgage off, so the cover reduces. The advantage of this is that it also reduces the cost of the cover.

Family Income Assurance (sometimes called Family Income Benefit)

Family Income Assurance is a type of life insurance which pays out a regular income if you die, rather than a lump sum. It's important to consider how your family would cope without an income source and this sort of policy may be more suitable than a lump sum payment.

You choose the amount and type of cover you want and how long you want your insurance to last (the plan term). Then if you die during the chosen term, a tax-free income is paid right up until your insurance comes to an end. You can choose level or inflation-linked cover and it can be set up on a single or joint life basis. Because Family Income Assurance pays a regular income, it's often more affordable than other types of life insurance, which pay out a fixed one-off lump sum.

Critical Illness Cover

Critical illness affects many people, at any age, and can turn families' lives upside down. Whilst many people have life assurance to cover the needs of their loved ones should they die, often there is little consideration for the more likely occurrence of a serious illness. If you were to become seriously ill, would your loved ones struggle to keep up with household bills and the mortgage?

Critical illness cover could pay out a cash sum if you get one of the specified critical illnesses. Most policies cover at least seven of the key conditions, which are: cancer, coronary artery bypass, heart attack, kidney failure, major organ transplant, multiple sclerosis and stroke.

It provides financial protection in the event of diagnosis of a critical illness during the term of the policy.

The conditions covered vary from provider to provider and it is important that you discuss this with an advisor as this additional cover may be desirable if you have a family history of a particular illness.

It is also important to note that Critical Illness Insurance can be taken as a standalone policy or as part of a life insurance policy.

Income Protection

This plan is designed to provide an income sufficient to maintain an adequate standard of living, but also at a level to encourage a return to work, when the benefit payments stop.

No matter how well you feel today, ill health or an accident can happen to anyone, at any time. And if it does, it can be tough to cope financially as the bills don't stop coming in just because you're sick. Put simply, income protection works when you can't.

Income protection covers a percentage of your earnings (typically 50-60%) which is paid directly into your bank account tax-free. The money paid from an income protection policy can help you and your family cope financially with day to day living costs, and those unexpected extra expenses. You can spend the money on anything you want, from the essentials to the fun stuff. Protecting your income is especially important if you have family or people who rely on it. If you lost your salary, what would happen to the lifestyle you all currently enjoy?

Whilst many people think the State will support them, unfortunately, Government benefits pay a lot less than many people think. This sort of Insurance doesn't consider any state benefits you may be entitled to if you're unable to work. However, payments from this policy may affect your eligibility to claim some state benefits and the amount you're able to claim.

You would need to take advice on this sort of policy, to consider how long you would have to wait before the insurance pays out and what level of income is suitable. For example, if you have enough savings to last two months you could choose a two-month waiting period, and your insurance provider would start paying you after. The longer your 'waiting period' the lower your premiums become.

There are two types of income protection, long-term and short-term policies. Long-term income protection will pay out until you're well enough to go back to work, your policy ends, or you die (whichever comes first). Short-term income protection is cheaper but only pays out for a fixed period, typically, one or two years.

Conclusion

Most people recognise that insurance is important whether it be for the car, holiday or house. Yet, the one level of protection that matters the most is so often the one that is considered the least, often because no one wants to discuss the consequences of it.

All we suggest is that you think of protection in the same way you do with any other insurance. It is not a solution to the problem, but something that can make things a lot easier if something really does go wrong.

Finally, do make sure you get advice when dealing with any form of Protection. As you can see from this document, there are many decisions to make and getting advice will ensure you have the correct protection for your circumstances.

In our experience, you will have more than enough to think about should you suffer illness or injury, and it will be even harder for your loved ones should the worst happen. Let's at least ensure that you are sufficiently protected so that bills can be paid, and family are still supported.