

Protection explained

A guide to personal and family protection



One solution for all your financial needs

This guide explains the different types of protection policies 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.

Preparing for the unexpected

We all hope that our lives will come to an end when we're old and our loved ones are financially secure. Sadly, this isn't always the case.

Most of us wouldn't think twice about insuring our home, car, TV or smart phone - the material things we see and use every day. We even make sure our pets and holidays are covered. So why don't we feel the same about protecting our families?

Even if we do live a long and happy life, we may at some point suffer an illness or accident that prevents us from working, or makes us a victim of unemployment.

So it's sensible to consider how best you'd protect your finances – and those of your family – if the unexpected were to happen.

What types of policies are available?

Whether it's coming to terms with the loss of a loved one, dealing with a serious illness, the consequences of an accident, or losing your job, it can be comforting to know there are no additional financial worries to take care of.

Life and protection insurance policies are designed to protect you and your family from the financial consequences of death, a serious accident or illness, or unemployment.

Far from being a luxury, protection insurance should be considered essential, especially if you have dependants, perhaps a family or other people who rely on your income.

If you suffered a serious illness or injury, you may lose your income – this could lead to you losing your home. Similarly, if you died, would your loved ones be able to maintain their current lifestyle without your income?

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.

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.

Life and protection insurance can help you secure your financial future against the risk of an unexpected loss of income. We're generally laid back about personal risk, but it's worth considering the facts:

- Half of people in the UK will be diagnosed with some form of cancer during their lifetime¹
- 31,000,000 working days in the UK were lost due to back and neck-related problems during 2013²
- There are up to 175,000 heart attacks in the UK each year³

¹ Cancer Research UK, February 2015

² Office for National Statistics, Sickness Absence in the Labour Market, February 2014

³ British Heart Foundation, Cardiovascular Disease Statistics - Headline Statistics, February 2015

Why you might need it

If you or your family faced a similar situation, a protection policy could help to:

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

Life insurance

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

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 your dependants should the worst ever happen.

Why you might need it

Although money can't replace a loved one, it can help those left behind weather the financial storm. For example,

it could pay off the mortgage or provide an income to help cover regular household expenditure.

Types of life insurance

1. Term insurance

This is the simplest type of life insurance. You choose how long you're covered for, e.g. 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 or by a predetermined amount
- **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 pays out a regular income. 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.

What if...?

If you were to die, would your dependents be able to meet the cost of, typically...

- **£517** is the average weekly expenditure of UK households⁴
- **£28,712** is the average amount owed per UK adult (including mortgages)⁵
- **£229,251** is the average cost of raising a child from birth to the age of 21⁶

⁴ Office for National Statistics, December 2014 (based on 2013 figures)
The Headlines: Household Expenditure at a Glance

⁵ The Money Charity Debt Statistics, May 2014

⁶ LV= Cost of a child calculator, January 2015

Serious and critical illness insurance

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

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. Policies 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.

Why gamble on your future?

On average, approximately 70% of the UK adult population regularly plays national lottery games⁷. Yet you're much more likely to suffer a serious illness than see your numbers come up. In fact, the harsh reality is:

- Winning the lottery jackpot: **1 in 13,983,816** chance⁸
- Having a stroke: **1 in 6** chance⁹
- Getting diagnosed with cancer: **1 in 2** chance¹⁰

⁷ camelotgroupcareers.co.uk/about

⁸ theguardian.com, The national lottery numbers: what have we learned after 20 years?

⁹ World Stroke Campaign, The Facts Behind "1 in 6"

¹⁰ Cancer Research UK, February 2015

Income protection insurance

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

What it does

Income protection insurance pays out a regular tax-free replacement income if you become unable to work because of illness, injury or – with certain policies – unemployment. 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, 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 any possible loss of income, and speed your return to work.

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 replacement 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. 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.

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.

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.

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.

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 best 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, and we'll write to you so you can review what we have suggested and why.

Working with you

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

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.

Please call us on 020 3714 9565 for a confidential conversation about how we can help you, or ask us to call you by sending an email to admin@onefinancialsolutions.co.uk.

How can One financial Solutions help you?

We advise on a wide range of financial services including protection for both you and your business, general and business insurance, savings and investments, commercial finance, pensions and auto enrolment, employee benefits, profit extraction and mortgages: our aim being to offer you 'one solution' for all your financial needs.

We provide truly independent financial advice, sourced from the whole of the financial marketplace, for individuals and commercial businesses throughout the United Kingdom.

Please call us on 020 3714 9565 for a confidential conversation about how we can help you, or ask us to call you by sending an email to admin@onefinancialsolutions.co.uk.

One Financial Solutions is an Appointed Representative of 2plan wealth management Ltd. 2plan wealth management Ltd is authorised and regulated by the Financial Conduct Authority. It is entered on the Financial Services Register (www.fca.org.uk) under reference 461598.