AWFM Fact File

"Life & Health Insurance"

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When considering life insurance or indeed health insurance, there are many different options to review. We have listed below some of the main types of cover available. This may not be an exhaustive list, but it represents the most commonly used products.

Life Insurance Only

The generic term for life cover, but the main life cover options are:

Term Assurance: This is basically a life insurance policy, with a fixed term. This is the cheapest way of insuring someone against death. The premiums under this type of arrangement would usually be fixed for the full duration of the term. There would be no surrender value or maturity value with this policy, as the low premiums provide <u>protection only</u>. Some options & features within this structure include:

- Term dependent on circumstances – the shorter the term the cheaper the cover.
- Cheaper premiums if benefit paid annually as an income – not a common feature.
- Short-term cover (say 5 years) could be taken, with an option to renew the term every 5 years.
- Premiums could either be fixed or reviewable. Reviewable premiums tend to be cheaper at outset but come with an uncertainty over future premium levels.
- Can be taken on a decreasing sum assured basis to sit alongside a Repayment mortgage – known as "Mortgage Protection" policy.

Whole Life Insurance. Unlike the Term Assurance above, this insurance would have no fixed term, but would continue for life, as long as the premiums are maintained. Premiums can be variable, electing either to pay a higher initial premium or a lower premium, with a greater or lesser investment content to the policy. This investment content would yield a possible surrender value at any time during the contract, but this can be negligible within the first few years. Premiums are usually guaranteed for the first 10 years of the plan, and thereafter would be reviewable. Options would include:

- "Maximum" or "Standard" cover. "Maximum" cover provides the smallest premium designed to pay the cover for the 1st 10 years of the plan, after which point, cover can be reduced, or premiums increased. "Standard" cover is designed for premiums to be level right through to standard life expectancy limits, although premium increases still may apply.
- Provides more flexibility to vary levels of cover and investment options, to suit individual needs.
- Low Cost Whole life is quite often used for planning to pay future Inheritance Tax liabilities.

Endowment Assurance. This is a life insurance policy designed to pay you a lump sum either at a fixed maturity date, or on earlier death. These are the most expensive forms of life insurance, because of the maturity element, so are usually only used for house purchase, or savings. Options would include:

- Full endowment provides little life insurance cover, but high investment content. This would <u>not</u> usually be suitable for house purchase.
- Low cost endowment provides a high initial level of life cover, but lower returns. This is however much more suitable for house purchase based on the amount of life cover within the plan.
- With older Endowments, the initial charges involved in setting up the plan make it worth very little over the first few years. This is not so much the case with new Endowment plans, which are much better value for money in the early years.

Life Insurance Combined With Health Insurance

Critical Illness insurance can be added to each type of policy set out above. Critical Illness insurance is described in more detail over-leaf.

Health Insurance Only

The two main health insurance products are listed below. Other options not listed below include Mortgage Payment Protection Insurance, which usually pays your mortgage for you if you are unable to work due to ill health or redundancy. Often payments are restricted to a maximum of one year. The other main option not listed is Personal Accident insurance, which will usually pay out a lump sum and an income if you are unable to work due to an *accident*. The cover is therefore again restricted, as it does not cover illness. The more comprehensive insurances (in our opinion) are:

Permanent Health Insurance. This is a health insurance policy which provides replacement income if you are unable to work for a prolonged period of time due to any illness or injury. Life insurance cannot be added to this type of policy. The actual sum assured is always linked to your earnings, and in the event of a claim, you will have to substantiate your previous earnings record. The benefit will not commence until a waiting period has expired. The benefit under individual policies is paid completely tax free, but in this case, no tax relief is given on premiums. Options include:

- The waiting period can be 4 weeks, 8 weeks (with some providers), 13, 26 or 52 weeks –the longer the waiting period the cheaper the premium.
- The benefit ceasing age can be 50,55,60 or 65 – the earlier the cheaper!
- Maximum PHI benefits usually run at no more than 60% of earned income. Any excess would be disallowed in the event of a claim.
- Premiums can be either fixed and guaranteed, or reviewable.
- Some companies take "earnings" to be both salary and dividends, where dividends will cease upon ill health.
- If your company pays the premium, the benefit will be taxable, and the premiums will be charged as a benefit in kind.

Critical Illness Insurance. This type of cover provides a lump sum cash payment on the diagnosis of a serious specified illness, such as heart attack, cancer, stroke and permanent disability amongst others, to pay for any unexpected expenses arising as a result of such an occurrence. Options include:

- Life insurance cover can be added, either on a Whole life basis, or a Term Assurance basis.
- A plan is usually sought from the providers who cover the most number of illnesses, although a balance needs to be struck between cost & cover.
- Permanent Total Disability can quite often be an added extra, and can be offered on either an "Own" occupation or "Any" occupation basis. For most people, the "Own" occupation basis would be most beneficial, meaning that the sum assured would be payable if you were unable to carry out your *own* occupation. This is quite often not available for people with manual employment.

Combined Options

As mentioned above, it is possible to combine critical illness with life insurance to provide more cover than either straight life insurance or straight critical illness alone would bear. Whilst the cost is increased, it is usually not significantly more to add in extra options.

Essential Reviews

The most common problem with life insurance arrangements is that policies taken out are no longer suitable for people's circumstances. In particular, problems occur when:

- Insurance plans are not reviewed for many years and premiums become cheaper.
- Personal circumstances have changed and insurance has not been reviewed – the most common change in people's circumstances would include –
    - Starting a family
    - Family off hands
    - Mortgage paid off

We strongly recommend an independent review of your insurance arrangements.

If you have any questions or need an independent review of your financial planning or pension arrangements, please contact us to discuss your situation further. AW Financial Management LLP is an Independent Financial Adviser regulated by the Financial Conduct Authority.

Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.