FACTS & FIGURES

- **According to CPAG, the cost of raising a child to the age of 18 is around £151,000 for a couple and £185,000 for a single parent family.**
Source: Child Poverty Action Group (CPAG); Sept 2019

- **Total UK personal debt at the end of January 2020 stood at £1.680 billion.**
Source: The Money Charity, March 2020

- **The average UK household owes £60,363 (including mortgages) and £4,264 (excluding mortgages).**
Source: The Money Charity, March 2020

- **2.1 million people are claiming Employment & Support Allowance (ESA) or incapacity benefit.**
Source: Dept. of Work & Pensions Statistical Summary, August 2019

- **4 million people in the UK are expected to be living with cancer by 2030.**
Source: Macmillan Cancer Support, Statistics Fact Sheet; February 2019

CRITICAL ILLNESS

The third main type of protection that we are encouraged to consider is critical illness cover. As the name suggests, this pays out an agreed amount if you become incapacitated or contract a serious illness.

Critical illness cover pays out a lump sum when serious illness is diagnosed – it does not cover accident or injury. It is intended to fund your rehabilitation and pay for any changes that you might need to make to your lifestyle or in adapting your living environment.

For example, you might need to move house to be nearer your relatives or friends. Alternatively, you might need to alter your house to add new facilities or accommodate new mobility requirements. On the other hand, you may simply want to give up worrying about work and money and make the most of your opportunities whilst you still can.

Like PHI, critical illness can be just as beneficial – maybe more so – for single people with no dependants, as for those with a family. For those on their own, the income from such a policy might be their only safety net in the event of such problems.

Note: Critical illness comes in many forms with many different definitions of what constitutes 'critical' (that is, under what circumstances the benefits will be paid). Make sure when you discuss the options for cover with your adviser, that you understand fully what you are getting for your money and, most importantly, what is excluded. Simply looking for 'cheaper' in this particular scenario might leave you with nothing if you do not read all the small print.

contact

We hope you found the information in this guide useful and informative. If any of the points are of interest, or you would like to discuss your own situation in more detail, please get in touch.

Produced by adviser-hub.co.uk on behalf of your professional adviser.

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PROTECTING YOUR INCOME

It is a sad fact that while most of us are quite happy to insure our car, our house, our travel arrangements – even our mobile phones – to their full value, few of us take quite as much care over our own health and that of our loved ones.

According to figures produced by the Association of British Insurers (ABI), 19.3 million of the UK's 26.5 million households had contents insurance in 2018/19, whereas only 4.8 million had whole-of-life assurance, 0.6 million had term life insurance and only 0.2 million had income protection insurance.

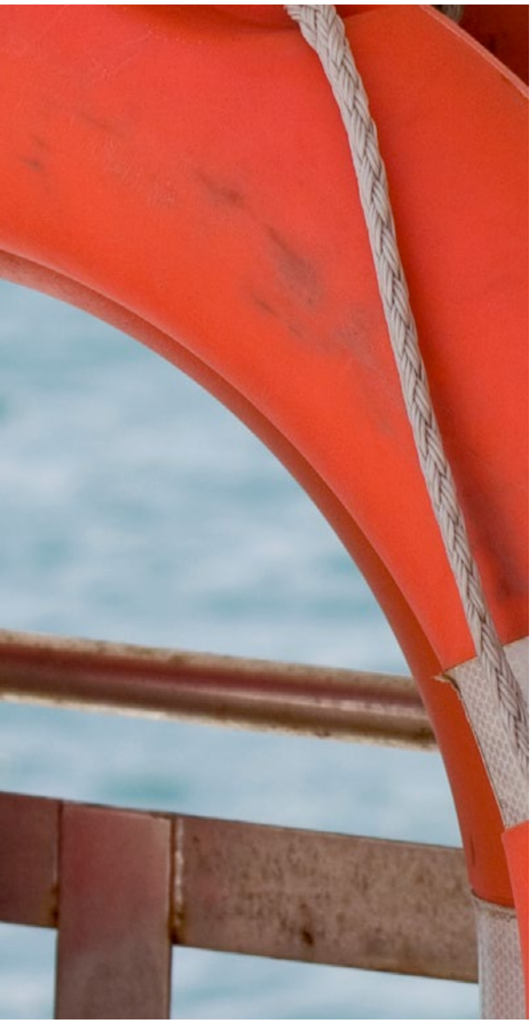
This guide is designed to highlight the issues that might concern you and introduce you to the different types of cover available to help secure your family's future. We outline the different types of insurance and what they could provide and try to give you a basic idea of how to work out the sort of cover you might need.

If any of the information needs further explanation, or you need more details on how your own situation might be best served, please do not hesitate to give us a call on the number enclosed.

WHY INCOME PROTECTION?

It is true that not everyone needs cover. Life insurance, for example, pays out a lump sum on death. For a family with small children, the need for this cover is obvious. Remove the family's main breadwinner, for example, and it would not take very long before the financial stability of the family was seriously affected. Remove the primary carer, and a replacement needs to be found.

However, if you are single and have no financial dependants, you might consider it a waste of time leaving a lump sum that is unnecessary and will just cost you money to fund. Nevertheless, if you are single, you should still consider what would happen if you fall ill or have an accident and are unable to work. The state benefits available are only intended to provide a safety net. They will not help you keep up a lifestyle of holidays and eating out or make any inroads into repaying a mortgage.



Therefore, before you make any decisions, you need to look at your own situation. Some of the following questions may help you to start prioritising what is most important to you:

- Do you have young children or others who depend on you financially?
- How old are your dependants?
- Will your dependants be heading to university?
- Do you pay school fees or nursing-home fees for others?
- Will any current dependants become financially independent and if so, how soon will that be?
- Do you have debts (including a mortgage) that your beneficiaries could not manage, even if it were only for a short time?
- Do you have investments that might provide an income if you were unable to work?
- Do you have any assets that could be sold if you were unable to work?
- Would you need to move house if you were less mobile?
- How do you travel about?
- How far are you from friends, relatives and local amenities?

As you can probably tell, this guide is not just about life cover. It is also about raising awareness of the impact of being unable to work, perhaps through accident or ill health, for the long term. While it is unlikely that any of these issues will affect every individual reading this guide, they will affect some readers in future. It does not cost much to make sure that, if it happens to you, you are fully prepared.

PROTECTION OPTIONS

"THIS GUIDE IS NOT JUST ABOUT LIFE COVER. IT IS ALSO ABOUT RAISING AWARENESS OF THE IMPACT OF BEING UNABLE TO WORK"

LIFE ASSURANCE

Life assurance is a staple form of protection that most of us understand and many see as a necessity.

The most common reason for buying a life assurance policy is to cover a mortgage but it should also form part of any review we undertake – perhaps after getting married or, more likely, when we have children. Their financial future and care needs to be secured, just in case the worst happens.

For a single person with no dependants, life assurance may be completely unnecessary. If you have debts and no savings, however, then a small amount might be useful. There is also an argument that you should cover a mortgage but if you are happy to pass the property back to the bank, or if your beneficiaries are more than able to cover mortgage payments while the house is sold, then there might be no need for it.

Life assurance comes in three main forms:

- Level term assurance: in return for a fixed monthly premium, a fixed amount of cover is provided that will become payable to your beneficiaries if you die within a set period of time.
- Decreasing term assurance: this also provides a pre-agreed level of cover that becomes payable if you die within a set period; in this case, however, that level of cover decreases over the term. This makes it particularly suitable – and more cost-effective than level term – for covering reducing liabilities such as repayment mortgages or loans.
- Whole-of-life : as the name implies, this covers you for a fixed amount of cover for the rest of your life – but, as the payout is guaranteed (in other words, there is zero chance you will outlive the policy itself unless you stop paying the premiums), it can be more expensive and may even come with reviewable premiums. Nevertheless, this type of policy can prove particularly useful for inheritance tax planning where the liability is definite and will not change and, when written in trust, can ensure that money is put in the right hands in advance of any bill needing to be paid.

If you have dependants, you need to consider the consequences for them if your income were removed. Your income pays for the mortgage or rent, for food, utilities, entertainment, holidays and maybe school or university fees. Without you, the family would need to source an income from elsewhere – which might mean children losing their carer or going out to work rather than entering higher education.

Even if you do not work, if the family were to lose you, the support you give the children and household would still need to be provided – and there could be a considerable cost involved in replacing that, particularly if your children are still very young.

In addition to supporting these fundamental requirements, however, life assurance can also be used to reduce the financial impact of inheritance tax – or rather, to protect financial assets that have sentimental value but might be vulnerable to being sold.

INCOME PROTECTION INSURANCE

Regardless of whether you are single or have several financial dependants, your income is likely to disappear completely if you are suddenly unable to work. This will have a direct impact on both you and those around you.

Income protection insurance (IPI – formerly known as "permanent health insurance") is less well known than life assurance but is just as important. In the event that you have an accident or contract a serious illness and are unable to work, IPI is designed to cover a proportion of the income you lose. This income is paid until the end of the policy term, or until you are able to return to work, whichever comes first. Consequently, while you are rehabilitating or coming to terms with changes in your life, you can be reassured your financial position will be unaffected and that the bills will continue to be paid.

This type of policy can be of particular benefit if you are self-employed or if your job does not come with any sick pay or protection scheme benefits (of which this form of cover can sometimes be a part).

IPI can seem expensive; however, there are different price bases from which to choose. The premiums paid on a guaranteed policy will remain unchanged, whereas a reviewable policy will be cheaper at first, but the premiums will be reviewed every few years. There are also policies that take into account lifestyle factors and higher-risk occupations; the premiums on these policies are relatively inexpensive at first, but will rise each year by an agreed amount.

"IN ADDITION TO SUPPORTING THESE FUNDAMENTAL REQUIREMENTS, LIFE ASSURANCE CAN ALSO BE USED TO REDUCE THE FINANCIAL IMPACT OF INHERITANCE TAX."