



# 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 – and 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 a recent survey published by consumer website unbiased.co.uk, 30% of people in the UK are uninsured against events such as death or critical illness. Meanwhile, 8% of Britons have either cut back their insurance cover during the past 12 months or cancelled it altogether.**

This guide is therefore designed to highlight the issues that may 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 calculate the amount of cover you might need.

If any of the enclosed 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 very 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 intended to provide a safety net only. 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 take a look at your own situation – and 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 are dependant 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 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. The chances are small that any of these issues will affect any individual reading this guide – but they will affect some readers and we have no way of knowing whom until after the event. 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 to pay expenses and prevent someone else being landed with those debts. 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 yes, there is probably 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, which will become payable to your beneficiaries if you die within a set period of time.
- Decreasing term assurance: also provides a

pre-agreed level of cover that becomes payable if you die within a set period, but in this case, 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 in this case 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. However, 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 well in advance of any bill needing to be paid.

If you have dependants, however, you need to look at 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 and 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. If your estate is worth more than £325,000 (during the tax year 2012/13) then your assets become liable for inheritance tax on death and, if beneficiaries are unable to meet that tax bill from other liquid assets, they may have to sell personal items – the family home, jewellery, antiques and so forth – to meet the Treasury's demands.

#### ● PERMANENT HEALTH INSURANCE

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

Permanent health insurance (PHI) 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, PHI is designed to replace the income you lose. This is typically up to three-quarters of your gross income (in other words, approximately equal to your net take-home pay), minus any state benefits for which your situation might entitle you.

This income is paid until retirement age or 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, when your job does not come with any sick pay or group pension and protection scheme benefits (of which this form of cover can sometimes be a part).

PHI has a reputation for being expensive; however, it comes with a choice of deferral periods and the longer that deferral, the lower the risk. Therefore, if cost is an issue, simply extend that deferral period beyond one month to perhaps three, six or even 12 months, and the costs come down significantly. If you receive minimum sick pay from work or savings that can get you through the short term, this cover can be very cost-effective.

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

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## FACTS & FIGURES

- According to Liverpool Victoria, the cost of raising a child to the age of 21 has reached £218,000 – or almost £28.50 per day.

*Source: Annual Cost of a Child Report, 26 Jan 2012*

- Total UK personal debt at the end of March 2012 stood at £1,458bn.

- The average UK household owes more than £7,903 (excluding mortgages) and £55,436 (including mortgages).

*Source: Credit Action as at March 2012*

- More than 2.6 million people are claiming sickness benefits, and almost 900,000 have been claiming incapacity benefit for over a decade.

*Source: Dept of Work & Pensions statement, April 2012*

- One in three of us will develop cancer in our lifetime.

*Source: Cancer Research, Cancer in the UK, April 2011*

## ● CRITICAL ILLNESS

The third main type of protection that we are all 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. The objective is that you can then fund your rehabilitation and pay for changes you need to make to your lifestyle or adapt your living environment.

For example, you may need to move house to be nearer your relatives or friends. Alternatively, you may need to make changes to your house to add new facilities or accommodate new mobility requirements. Alternatively, 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 may be all they have to fall back on 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.*

*This guide is intended to provide information only and reflects our understanding of legislation at the time of writing. Before you make any decision, we suggest you take professional financial advice. April 2012*

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