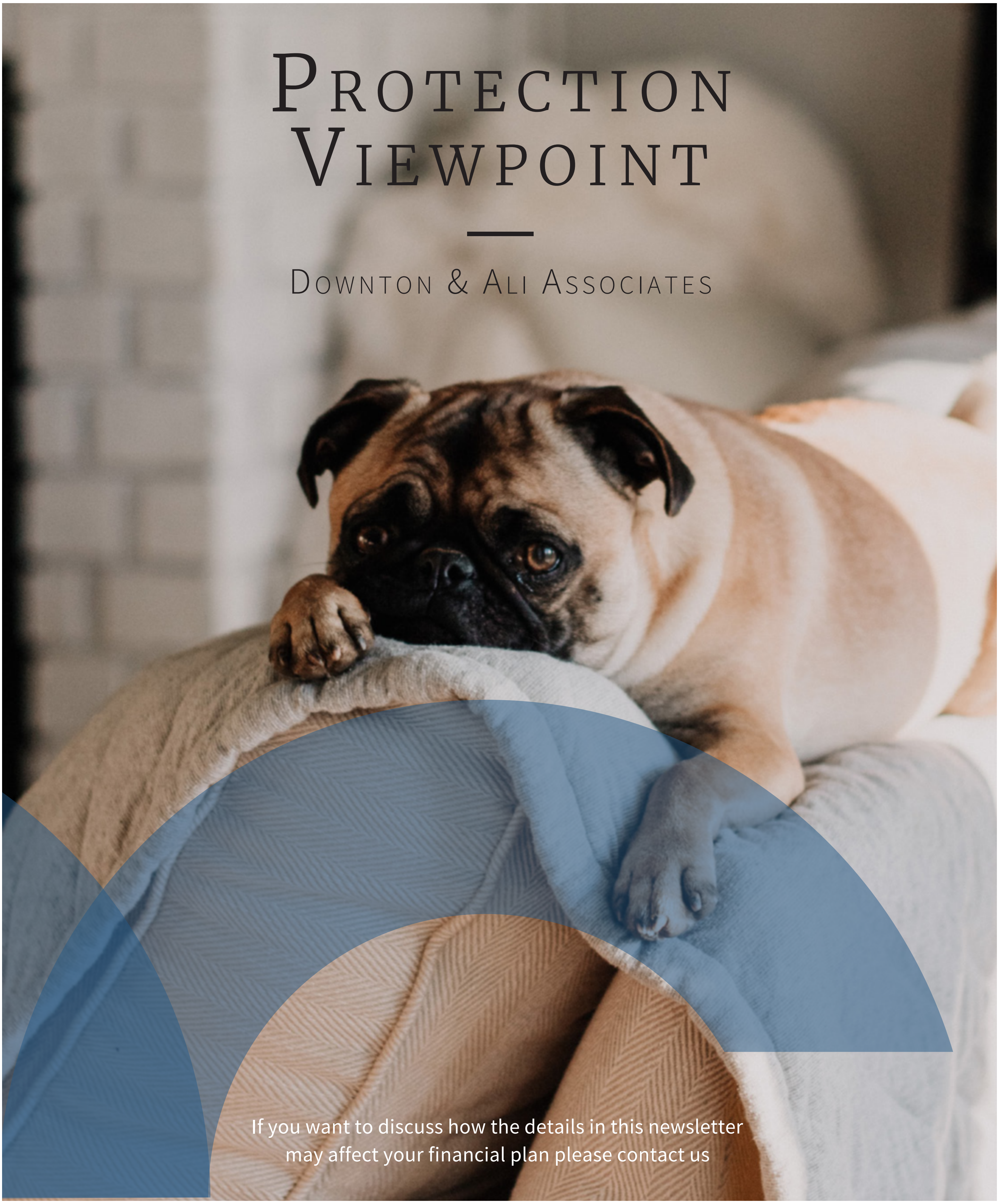
Protection Viewpoint

Downton & Ali Associates



If you want to discuss how the details in this newsletter may affect your financial plan please contact us

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It's time to think about life insurance

If you have dependents – people who rely on you financially – then you should have life insurance. In fact, if you have dependents and don't have life insurance, you are exposing them to grave financial risk. And who would want to do that?

Life insurance tends not to feature on 'to do' lists because it makes us confront uncomfortable questions, such as what would happen to our loved ones if we were to die unexpectedly in the next few years.

However, we all carry a deep responsibility to ensure those we leave behind at least have sufficient funds to carry on with life if we're no longer around. That means putting plans in place to address unpleasant possibilities.

Types of life insurance

There are two main types of life insurance. The one most people need is 'term' insurance. This pays out if the policyholder dies within a stated period – the 'term'.

The other type – 'whole of life' insurance – pays out on your death, whenever that occurs. This is more of an investment vehicle than a financial protection plan and is typically used for estate planning.

Dealing with debt

Term insurance pays out money that can be used to clear debts such as a mortgage, lifting a huge financial burden and enabling your loved ones to stay in the family home.

It can also provide for day-to-day living expenses – everything from groceries to utility bills, and from school and university fees to family holidays.

Key points

GET ENOUGH COVER
Buy sufficient insurance to take care of your family until the youngest is financially self-sufficient.

YOU BOTH NEED IT
If you're in a couple, you both need cover, even if one of you stays at home. The proceeds can pay for services such as childcare and keeping up the house.

BUY SEPARATE POLICIES
Joint life insurance covers you both under one policy, but separate policies are more flexible and provide greater protection, although they cost a bit more.

WORK COVER ISN'T ENOUGH
Many firms offer 'death in service' life insurance. However, once you've worked out how much cover you need, you'll probably realise this isn't enough and you'll need a policy of your own.

THE SOONER THE BETTER
The older you are, the more expensive life insurance is, so bite the bullet and buy young.

PUT YOUR POLICY 'IN TRUST'
Doing so places the proceeds outside your estate so it can be paid to your beneficiaries without any delay associated with probate. It also keeps the money from the clutches of the tax man.

REVIEW REGULARLY
Monitor your life insurance coverage to make sure it keeps pace with your circumstances. Events such as marriage, the birth of children and moving home might prompt you to increase the amount of insurance you have.

It is important to take professional advice before making any decision relating to your personal finances.

Protect yourself and your family in 2020

While most of us don't go through life expecting something bad to happen, the truth is that we never know what's around the corner. Why not make 2020 the year you put plans in place to safeguard yourself, your family and your home, so that you know you're protected against life's unexpected events?

When to take out protection cover

Most people look into buying a Life Insurance, Critical Illness or Income Protection policy following a significant life event: buying a home, getting married or having children.

Before taking out a policy, however, be sure to check if any protection cover is included in your workplace benefits, as your employer may already be providing cover.

Review your policies regularly

If you don't review and update your policies on a regular basis, you could find yourself underinsured. If you upsize and your mortgage increases, for example, your current policy might not pay out enough to cover your new monthly repayment. In fact, a huge 73% of people aren't sure they have the right level of protection cover. By ensuring you regularly review your cover, you can make sure you're not in this situation.

Reduce stress, both now and in the future

Do you worry about your income and how you and your family would cope if anything happened to you? Are you ever concerned that you might struggle to keep a roof over your head? One way to rid yourself of these niggling worries is to take out protection cover. With only 44% of 18 to 35-year-olds saying they could cope for more than three months on their savings if they lost their income due to illness or injury, it's more essential than ever to plan for these eventualities.

It's not just about life insurance

Protection cover isn't just there to pay out to your family when you die. You can also take out serious or critical illness cover, as well as policies that pay out if you get injured or made redundant. With rent or a mortgage, household bills and other expenses, imagine how much stress could be alleviated if you have a steady income from an insurance policy while you're unable to work.

It won't happen to me...

This is an assumption many of us are guilty of making; however, latest government figures for 2018 show that one in twenty-five employed people had a spell of long-term sickness absence. It might not happen to you – but if it does, having cover could make the world of difference.

Income Protection claims

You might believe you'd be more likely to call on your income protection policy later in your working life, but data from protection insurer, The Exeter, show their ***average claimant was 40, and on certain products, just 33.***

Income protection is designed to pay an income if you're unable to work as a result of an accident, illness, or, with some policies, unemployment. The benefit usually kicks in after what's called a deferred period and can last until you're able to return to work or you retire.

Cover for physical, and non-physical conditions
Every year, one million workers will have to stop work due to prolonged sickness or injury, but the number having to take a break because of mental health issues is sadly growing. As well as revealing the surprisingly young age of some of their claimants, The Exeter said that mental health-related issues were accounting for a growing number of its claims; reaching 10% in 2018.

The Association of British Insurers (ABI) had previously reported that mental health was the most common cause of claim on income protection policies in 2017; perhaps unsurprising given that one in four of us in the UK will be affected by a mental health problem in any given year.

Whether your reason for claiming on your income protection policy is physical or mental, having cover in the first place is crucial – especially if you have a mortgage or people who rely on your income.

Income protection tips
Check if your employer provides cover as part of your employee benefits. If so, how much do they provide and for how long?

If you need to take out separate cover, don't leave it too long; the younger you are, the cheaper the policy.

Make sure the cover you take out complements your existing cover. For instance, if your work policy ends after six months, choose a six-month deferred period.

If you're self-employed, you might consider a shorter deferred period since you'll have no employer's cover. You might have savings that could see you through the first few weeks or months of being unable to work.

If you'd like to find out more about the features and benefits of income protection, please get in touch.

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