

# PARTNERS WEALTH MANAGEMENT

AN INTRODUCTION TO

## Life Insurance

DECIDING HOW MUCH COVER IS RIGHT FOR YOU

TERM INSURANCE OR WHOLE-OF-LIFE POLICY?

HOW MUCH DOES LIFE INSURANCE COST?

CRITICAL ILLNESS COVER EXPLAINED

WHY STARTING EARLY CAN SAVE YOU MONEY



**Life insurance** rarely features at the top of anyone's 'to do' list, but arguably it's the single most important financial product you will ever take out, as it provides financial security for your loved ones. Here, we provide answers to some of the questions our clients commonly ask about life cover.

## Do I need life insurance?

If you need convincing about the merits of life insurance, then ask yourself this question: If you were to die, how would your family cope financially without you? Clearly, many families would find themselves running short of money very quickly. Your salary would stop, but the household bills would keep rolling in.

Even if you are not the main 'breadwinner', you may still be the primary carer, providing housekeeping and other home-based services that are vital to your family's well-being and would be costly to replace.

Every day UK insurers pay out a staggering £14.5 million on protection policies including life insurance, critical illness or income protection.<sup>1</sup> And a pay out from a life policy could make all the difference between your loved ones facing a financial struggle at a challenging and emotional time or being able to maintain the standard of living they enjoyed while you were still around.

## How much cover do I need?

There's no simple answer to this question, as the amount will vary depending on your lifestyle and individual circumstances. You may want to protect your mortgage, cover household bills or provide a lump sum to ensure your children receive a good education. The great thing about life insurance is that it can be tailored to meet your specific needs. And we can help assess how much cover would be the right amount specifically for you.

## What is term insurance?

Term insurance policies run for a fixed period, for example 10 or 25 years, and pay out if you die during that period of time. There are two main types: level-term insurance where the cover remains constant, and decreasing-term insurance where the level of cover decreases over the policy term. The latter type of cover is typically used with a repayment mortgage, with the intention of repaying any outstanding debt if death occurs during the term. Throughout



the life of a term policy, cover will cease if premiums are not maintained. There is no payment at the end of the term; if you live beyond the term of the policy, the cover terminates.

## What is a whole-of-life policy?

As the name suggests, whole-of-life policies provide cover that lasts a lifetime. This type of policy doesn't normally have an end date, so premiums are paid until you die, at which point the policy pays out (sometimes premiums end at a certain age, say 80, but cover continues until your death). This type of cover is generally more expensive than term insurance as the policy will inevitably pay out one day, so long as premiums are maintained.

## Can life policies be written under trust to minimise Inheritance Tax?

Putting your life insurance policy in trust ensures that in the event of your death the proceeds will not form part of your estate when it comes to calculating Inheritance Tax. There is another benefit too, as life policy proceeds can be paid out before probate is granted and therefore provide an effective means of getting money quickly into the hands of beneficiaries, or of paying the Inheritance Tax due before probate can be granted. While putting a policy in trust isn't usually a difficult or time-consuming process, it is the one thing that people typically fail to do when arranging their life insurance cover. And, sadly, doing so becomes all too evident when beneficiaries are left facing a hefty inheritance tax bill.



## How much does life insurance cost?

The simple answer is probably less than you think particularly as the cost of life insurance premiums has generally declined in recent years. For example, a healthy non-smoker aged 30 could certainly arrange a 25-year term policy that would pay a lump sum of £1 million for under £40 per month. That seems a small price to pay when you consider that having no insurance could result in real financial hardship for your loved ones.

## What is critical illness cover?

People often take out critical illness cover alongside life insurance. This product provides additional cover that means your family are financially protected if you suffer a critical illness and find yourself unable to work. Combining the two policies can result in cheaper premiums than if two separate policies are taken out. As with life insurance you can specify the level of cover you want. Illnesses covered are set out in the policy and include major ones such as cancer and heart disease, although the cover does vary between providers and so it's vital to check exactly what is covered and any exclusions that apply.

<sup>1</sup>Association of British Insurers UK Insurance & Long-Term Savings Key Facts, December 2019

## \* We're here to help

Finding the right life insurance policy is vitally important as no-one wants to leave their family facing financial hardship if they are no longer here to provide for them. However, it can be difficult to assess how much cover you actually need and to ensure you avoid all of the potential pitfalls such as not writing your policy 'in trust'. This is something lots of people forget to do.

We have the specialist knowledge and expertise to recommend life cover that specifically caters for your needs. We're here to help, so contact us.

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# Top Tips

## Starting early can save you money

The younger and healthier you are, the lower your premiums are likely to be. As you get older you'll be seen as a higher risk to insurers. Arranging cover sooner rather than later can therefore enable you to lock into a lower premium for the duration of the cover.

## A healthy lifestyle will reduce premiums

The cost of life insurance is based on a number of factors. These include not only the amount of cover you wish to take out and the length of the policy, but also your state of health. Adopting a healthier lifestyle, for instance by stopping smoking or losing a significant amount of weight, could therefore result in you securing cheaper premiums.

## Don't forget to cover the stay at home parent

Although it's obviously vital to ensure the main family 'breadwinner' is adequately covered, it's also important to consider the financial significance of parents who stay at home to look after children. According to research by Legal & General, the work completed by a full-time parent costs in the region of £30,000 per year. It's therefore essential that this role is not forgotten when considering your family's life insurance needs and that stay at home mums, or dads, are adequately insured too.

## Joint policies often represent poor value

Although the cost of arranging a joint policy will typically be a little cheaper than taking out two single policies this can represent false economy. This is because most joint policies will only pay out on the first death which leaves the surviving partner without any cover. Taking out two single policies therefore means that if a claim is made on one policy, it does not impact upon the other.

## Honesty is the best policy

It's extremely important to provide your insurer with accurate information during the application process. Although the vast majority of life insurance claims are successful, insurers do look at a policyholder's medical history when a claim is made. So, if you didn't answer all of the questions honestly or didn't disclose something you should have done, your insurer could refuse to pay out.

## Regularly review your life insurance needs

Your life insurance needs will change as you progress through the various life stages. For instance when you buy a property, start a family, change jobs, or take on more debt. It's often at times like these that it's worth considering combining life cover with protection against accidents, critical illness and unemployment too. And reviewing your life policy regularly will ensure you always have the right level of cover in place to meet your family's changing needs.

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