PROTECTION: GETTING TO GRIPS WITH THE BASICS

BEYOND WEALTH MANAGEMENT

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INTRODUCTION

This guide will help you to get to grips with what's what when it comes to protection. We'll cover the basics: what kind of protection policies are out there, what they are used for, and how they work.

We'll also shed some light on the process for applying for cover and how you actually get it up and running.

What this guide will not do:

This guide won't give you any advice relating to your own circumstances; it won't tell you if you need cover, nor will it let you know how much cover to take out.

Everyone is different so if you need help in this area, you can contact us for personalised advice on corryn.wild@three-counties.co.uk.

LIFE COVER

Life cover can be broadly divided into two camps:

Term Assurance

This is where you take out life cover for a certain amount of years, and if you die during the term, it will pay out. If you survive beyond the term of the policy, there are no refunds, your cover just stops.

Think of it like car insurance; you don't get your money back if you manage to get through the year crash-free. There is no underlying investment element meaning that there's no cash in value. For this reason, it's relatively low in cost and simply offers you cover for the 'what if' scenario. For example, 'What if I die when I still have young children?', or, 'What if I die before I've repaid my mortgage?'

Term assurance can be further divided into different types:

- ***Level Term -*** Where the amount of cover you have stays the same throughout the policy.
- ***Decreasing Term -*** The sum assured decreases slowly over time, often used to protect mortgages.
- ***Family Income Benefit -*** Your overall cover is based on a yearly income requirement, to a certain point in the future. Therefore as the years go by, your income requirement decreases. Think of it like a kind of decreasing term policy, but paying out a monthly or annual benefit on death rather than a lump sum. The less time remaining on your policy, the less income there is still to go.

Whole of Life Cover

As the name suggests, this is designed to be held for as long as you live. You keep paying the premiums, which in turn keeps you insured. Assuming we're all going to die at some point, this one will always be there, waiting to pay out, whenever that occurs. The premiums might go up as you get older; if this is the case, you may need to either pay more to keep the cover, or decrease the sum assured to keep your premiums level. It sometimes has an underlying investment element; if so, this means it can accrue a cash-in value.

Whole of life is often used for things which are expected to happen irrespective of your age or stage in life, such as an inheritance tax bill, or funeral costs.

CRITICAL ILLNESS COVER

This is designed to protect you in the event of a serious illness. It pays out a lump sum once you've been diagnosed with an illness covered on the policy.

Usually there's a survival period to attain before it will pay out, often 14 days.

The list of conditions covered will vary from provider to provider, but you can expect to be covered for at least 30 different illnesses or injuries. The major three that account for most claims are heart attack, cancer and stroke.

Often critical illness cover is built in to a life cover policy, meaning it will pay out on death or critical illness, whichever happens first. It's also possible to take out critical illness cover as a standalone plan.

Critical illness cover tends to be more expensive than life cover; this simply reflects claims statistics that show we are more likely to become critically ill over a certain timeframe than we are to pass away.

INCOME PROTECTION

As the name suggests, this is designed to protect your income if you're off sick. It may be that you have a medical condition that keeps you from going to work, and your employer doesn't offer you sick pay beyond Statutory Sick Pay (SSP).

This is the type of gap that income protection can fill. You can be employed or self employed, and even those that do not work may be able to take out Income Protection to allow for provision to be paid for if childcare and housekeeping duties need to be replaced.

Often called Permanent Health Insurance, Income Protection is often taken out as a long-term policy which can be maintained through working life. You can claim on the same policy again, even for the same condition.

Conversely, it is possible to take out cover to protect your income in the short term, with an Accident and Sickness policy. This is a policy which will typically only last 12 or 24 months, and if you make a claim, you're unlikely to be able to claim again on the plan. For this reason, these policies are usually lower in cost than their long-term equivalents.

> UNDERWRITING

So how do you go from applying for protection, to actually having cover in place?

A process of medical underwriting needs to happen. This is where the insurance company decides whether your health and lifestyle make you any more likely to claim than someone in perfect health. To establish whether this is the case, you need to complete an application form which outlines your health and lifestyle, including whether you smoke, have dangerous hobbies, or take medication. The answers on this application will determine what happens next:

If your state of health is clear-cut, you may be offered terms immediately. This means you can start your cover straight away. If your application form contained information which suggest further detail is needed, the insurance company might:

- ***Ask you some more questions.***
- ***Request further details from your doctor (with your permission).***
- ***Ask you to attend a medical check-up with a nurse, where things like your weight, blood pressure and cholesterol are checked.***

Once the insurer is happy that they have a clear picture of your health and lifestyle, they will be able to proceed to offer you terms. The outcome could be that they:

- ***Offer you cover on the standard terms agreed.***
- ***Offer you cover at an increased cost.***
- ***Offer you cover with exclusions.***
- ***Delay offering you cover, perhaps whilst a condition is being treated or investigated.***
- ***Decline to offer you cover.***

> PREMIUMS

You can choose the type of premium you pay.

Guaranteed premiums are simply that: the price you pay is fixed throughout the term of the cover.

Reviewable premiums are reviewed at least every 5 years. These often start out cheaper, but get more expensive as you get older.

If you have chosen to index-link your cover so that the sum assured keeps pace with inflation, the premium will be index-linked, too. This means it is likely to increase each year. You can usually opt out of this at any point should you so wish.

SUMMARY

When you begin looking into your protection needs it can quickly become clear that lots of decisions need to be made, which will affect you, your family and your finances. When you're ready to make these decisions, we offer guidance and support every step of the way.

Please contact Three Counties on 0191 230 3034 or via ***corryn.wild@three-counties.co.uk***.

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