

Life Insurance – explained

The need for life assurance stems from the certainty that everyone will die, but that the timing is unknown. There is no way to ensure everything has been taken care of before you die. Life Assurance will provide a capital lump sum or regular income, which can provide for dependent families in the event of premature death. In most cases, payments from Life Assurance policies will be paid tax free to the person nominated to receive the benefit.

Insurance companies will require the completion of medical questionnaires, and occasionally medical examinations before they will agree to insure someone. This is to enable them to ascertain the level of premium. In the event that the applicant has had previous health problems, or a family history of health problems, the likelihood is that the premium will be higher. In some cases, the insurance company may refuse cover or only offer limited cover, as the risk is too great. There are specialist providers who offer preferential terms to applicants who have been refused cover elsewhere.

Level Term Assurance

This type of plan offers Life Assurance of a fixed amount, payable only in the event of the death of the assured during the term of the policy. The benefit and premiums will remain constant throughout the term. It must be noted that inflation will have an effect on the eventual purchasing power of the benefit, and also that at the end of the specified term, the plan will cease without return.

Decreasing Term Assurance

This is commonly used in relation to the repayment of a loan or a capital and repayment mortgage. The level of cover will gradually reduce over the specified period, in line with the reduction of borrowing. This type of cover is generally the cheapest available, and again, the premiums will remain level throughout the term of the contract.

There are exceptional circumstances whereby the life cover will fall at a faster rate than the outstanding capital of the loan. Each individual policy will warn of this, and the most common circumstance is where interest rates for mortgages increase above 10%. At the end of the term, the plan will cease with no return as there is no investment element included within the contract.

Family Income Benefit

This is a slightly different form of protection and is a variation on the decreasing term assurance described above. Instead of a lump sum being paid out, in the event of death, the plan will payout an income each year, for a specified period of time. As the name suggests, this is most commonly used for family protection to ensure sufficient income for dependent children.

Benefits can be increased annually to counteract the effect of inflation throughout the term. If this option is selected, the premiums will also increase. In addition, most plans have an option whereby the benefit can be commuted and paid as a lump sum after the life assured has died.

Critical Illness Cover

This contract is designed to pay out a tax free capital lump sum in the event of diagnosis of a critical illness. It is available in the form of both Term Assurance and Whole of Life, the latter being considerably more expensive than the former. The illnesses that are covered are defined within the policy schedule provided by the Insurer. The definitions and range of illnesses vary from company to company. The applicant will have to satisfy medical underwriting requirements, and this will determine the level of premiums that are payable. The Whole of Life contracts will have an investment element as with the life cover detailed above.

Critical Illness cover is available as a stand along contract as well as being linked to life cover, and endowment plans. Where it is included as an added option, most contracts will only pay out in the event of critical illness or death whichever is first.

The majority of Critical Illness contracts include payment in the event of total permanent disability and many will pay smaller amounts where a lesser disability arises. The option of "buyback" can also be included. This enables the policyholder to retain the plan following a claim without further medical evidence. This will often incur increased premiums. In some cases, certain illnesses may be excluded from the policy and therefore a payment will not be made in the event that the policyholder suffers from the illnesses specified.

Critical Illness Cover, when provided alongside Income Protection, offers valuable additional protection reducing the impact of lost future earnings and helping to cover expenses such as home modification which often follow a serious illness.

Income Protection (Permanent Health Insurance).

This benefit will replace a proportion of your income in the event that you are unable to work due to ill health for a certain length of time. Payments will continue until such time as you return to work or retire. Some providers will take account of the state invalidity benefit and reduce the benefit where this is payable and others will pay a benefit in addition to this. On the provision that premiums continue to be paid, the insurer cannot cancel cover irrespective of the number of or length of claims made.

Premiums

These are determined by the level of benefit selected, age, sex, health, family history and also the period before which benefits will be paid. It is possible to arrange for benefits to commence between 4 and 104 weeks following illness. The longer the period before benefits are required, the cheaper the benefit. Premiums can often be significantly higher for women as statistics demonstrate that women are more likely to claim than men are.

Benefits

Benefits will be paid after the policyholder has been unable to work for a specified period of time. For all plans that commenced after 1996, payments will be made as regular tax free income and will continue until retirement or earlier return to work. In the event that a lesser job is taken as a consequence of the illness or disability, a proportion of the benefit can sometimes be payable to cover the shortfall in earnings.

Benefits can be written on two bases, "own occupation" and "any occupation". The former will be more expensive and is a valuable benefit for people employed in specialist roles. "Any occupation" means that the benefit will only pay out if the claimant is unable to undertake any employment, this may not bear any relation to the current occupation. In addition to this, it is possible to write the plan so that the benefits (and therefore premiums) increase each year to take account of inflation. There is also the option for these increases to continue once the plan is in payment. Most plans will have some policy exclusions and these vary from provider to provider. Additional exclusions and loadings may be applied to premiums where the applicant has or has had health problems.

Accident and Sickness Insurance

This is a relatively simple form of cover. The tax free benefit will be payable if the policy holder is off work due to accident or sickness. Most contracts are only available on an annual basis, and the Insurance Company will reassess their offer of cover each year on the basis of up to date medical evidence.

In general, a lump sum will be payable in the event of death, permanent disablement, loss of one eye or loss of one limb, and permanent total disablement. Cover for temporary disablement and medical expenses will also be available for an additional premium. In the event of temporary disablement, a weekly sum will be payable for a defined period if the policy holder is unable to carry out his own occupation for a time.

Payments in the event of sickness will also be made on a weekly basis for a maximum specified number of weeks. A deferment period will be included as with Income Protection, however, as the premiums tend to be cheaper a shorter deferment period may be affordable.

Policies such as these are commonly used for travel insurance, or to bridge the gap between an employers sick pay ceasing and the Income Protection benefit coming into force.

We are able to provide plans to specifically cover your mortgage payments or loan / credit agreements with the inclusion of Unemployment cover.

Contribution Insurance (Waiver of premium)

The plans detailed above will offer this benefit subject to satisfactory medical underwriting. In return for a small additional premium, the insurance company will maintain premiums as having been paid in the event that the policy holder is unable to work through sickness or injury. Premiums will continue to be paid until a claim is made, the policyholder returns to work, or until retirement. The availability of this option will depend on the age and health of the applicant.

Guaranteed insurability

This option is available to applicants aged 45 and younger. It offers the option to increase the benefits payable under the above contracts, within certain limits, without additional medical evidence being required. As with the "buyback" option for Critical Illness cover, it will increase the price of the plan, and where the applicant is in good health, it may be possible to secure superior benefits elsewhere for a lower cost.