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David Ruler Financial Planning

AN INTRODUCTION TO

▶ Life Insurance

GETTING TO GRIPS WITH THE BASICS



Deciding how much cover is right for you
Term insurance or whole-of-life policy?
Choosing a joint or single policy

Critical illness cover explained
Why starting early can save you money
We're here to help



Life insurance may not be at the top of many people's 'to do' list, but arguably it's one of the most important financial products anyone can take out, and one of the best ways of protecting your loved ones financially. Here, we'll provide answers to a few of the questions we're regularly asked by clients.

DO I NEED LIFE INSURANCE?

If you need convincing that life insurance is a good product to buy, ask yourself this question. If you were to die, how much money would your family have to live on? Many families would find themselves running short of money very quickly. Your salary would stop, but the household bills would keep coming in.

A payout from a policy could make the difference between your loved ones facing a financial struggle at a challenging emotional time, and being able to maintain the sort of lifestyle they enjoyed when you were still around.

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

UK insurers pay out a staggering £14.5m every day on protection policies including income protection, critical illness and life insurance, and 97.6% of claims are paid¹.

HOW MUCH COVER DO I NEED?

There's no simple answer to this, as the amount will vary with your lifestyle and your circumstances. You may want to protect your mortgage, cover household bills or provide a lump sum so that your children get a good education. The great thing about life insurance is that it can be tailored to your needs. We can help you assess how much is right for you, depending on your family circumstances.

WHAT IS TERM INSURANCE?

Term life insurance policies run for a fixed period of time such as 10 or 25 years and pay out if you die during the term of the policy. There are various forms of cover to choose from, including level term insurance, where the cover remains at a constant level throughout the policy, or decreasing term insurance where the level of benefit decreases over the policy term, although the premiums remain level. This type of cover is typically used in conjunction with a repayment mortgage, with the intention of repaying the outstanding amount if death occurs during the term. During the life of the 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.

If the plan has no investment element it will have no cash in value at any time and will cease at the end of the term. If premiums are not maintained, then cover will lapse.



If you're new to life insurance, we can help you get the right cover in place for your needs

WHAT IS A WHOLE-OF-LIFE POLICY?

Whole-of-life policies, as their name suggests, 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, if premiums are maintained.

HOW MUCH DOES INSURANCE COST?

The simple answer is probably less than you think. The cost of life insurance premiums has tended to come down over the last few years. For example, a healthy non-smoker aged 30 could get a 25-year term policy that would pay a lump sum of £100,000 for as little as £7 per month. It's a very small price to pay when you consider that having no insurance could mean real financial hardship.

WHAT IS CRITICAL ILLNESS COVER?

Many people take out critical illness cover when they take out life insurance. It provides additional cover that means

that their family would be financially protected if they were to suffer a critical illness and find themselves unable to work. Combining these two types of policy can result in cheaper premiums than if two separate policies were to be taken out. As with life insurance you can specify the level of cover you want. The illnesses covered are set out in the policy and include the major ones such as cancer and heart disease, however illnesses covered can vary between providers and it is vital to check what's covered and any exclusions that may apply.

HOW CAN MY ADVISER HELP?

It can be hard to assess how much life insurance you need on your own, but that's where we can help you. In order to reach a suitable figure, you will need to discuss and consider how much debt you have, including your mortgage, other loans you may have, including credit card debt, and also check if you have any life cover available as part of your employment package.

We will spend time assessing your needs and have the specialist expertise and knowledge that's needed to help ensure you get the right policy in place.

¹Association of British Insurers, 2019



WE'RE HERE TO HELP

Finding the right life insurance policy is important; no-one wants to leave their family facing financial hardship if they were no longer around to provide for them. We're only a phone call away, so if you have queries or would like to discuss the sort of life insurance policies that would work best for your financial circumstances, please do get in touch.

Critical illness plans may not cover all the definitions of a critical illness. The definitions vary between product providers and will be described in the key features and policy document if you go ahead with a plan.

➤ Top Tips



STARTING EARLY SAVES 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. Acting sooner rather than later means you'll be able to lock in a lower premium for the duration of the cover.

ADOPT A HEALTHY LIFESTYLE

The cost of life insurance is based on a number of factors. These include not only the amount of cover you take out and the length of the policy, but also your age, state of health and lifestyle. Stopping smoking or losing a significant amount of weight could mean you get a better deal with cheaper premiums.

GET THE COVER YOU NEED

People's insurance needs change when they buy a property or have a family, take on more debt or change jobs. Cover can be combined with protection against accidents, critical illness and unemployment too.

JOINT OR SINGLE POLICIES

Generally the cost of two single policies doesn't cost much more than a joint policy. A joint policy only pays out once and would leave the surviving person without cover. Taking out single policies means that if a claim is made on one, it doesn't impact the other.

WRITE YOUR POLICY IN TRUST

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. Putting a policy in trust isn't usually a difficult or time-consuming process.

REVIEW YOUR POLICY FROM TIME TO TIME

People's life insurance needs change throughout their lives, for instance when they buy a property, have a family, change jobs, or take on more debt. It's often at times like these that it's worthwhile considering combining life cover with protection against accidents, critical illness and unemployment too. Reviewing your policy regularly will help ensure that you always have the right level of cover in place to meet your family's needs.

Warning statement

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor. No part of this document may be reproduced in any manner without prior permission.