Advice on protecting your family

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It is often easy to think about savings and investments and forget the importance of taking out adequate protection to make sure either yourself, or family members are not burdened with debt due to a death, sickness or critical illness. This document looks at the types of cover you could consider, offers tips on best practice and explains how Bridge Investments can help.

In this brief...

1. Understanding the basics

Let's look at some of the most common Protection Schemes:

Note: the terminology - Insurance versus Assurance - with an "assurance" you are "assured" of a payment.

Whole Life Assurance

Unlike term insurance that only pays out if you die during the term of the policy, a whole of life assurance policy will always pay out on death, providing premium requirements have been met (when you reach a specified age, say 70 or 80, you may not have to pay further premiums but your cover will continue). Whole of life assurance can be more expensive than term insurance. The initial premium is usually reviewed after five or ten years. As with many financial vehicles, there are several types of policies and time needs to be taken to find the most suitable match for the policyholder's needs – they are not suitable for everyone.

Non-profit whole life policies – a level premium payable throughout life, paying out a fixed cash sum at the time of death.

With profit whole life policies – as non-profit policies, but the amount paid on death is the sum assured plus whatever profits have been allocated. The policy holder pays extra premiums to be in a "with profits" fund.

Unit linked – a mix of life cover and investment – each monthly premium is used to buy units in a selected fund at an offer price. Every month the insurer calculates the cost of the life assurance for the next month only and deducts this charge by ‘cancelling’ just enough of the policyholder’s accumulated units to pay for the cover.

Universal whole of life assurance – as unit linked but units can also be cancelled to buy other cover such as critical illness insurance, permanent health insurance and personal accident benefits. Such a policy can cover all protection needs in one policy and provide investment flexibility.

Term Life Insurance and Level Term Insurance

The cheapest and simplest form of life insurance called term insurance, as it is cover over the time (term) of the policy e.g. 5 years, 10 years 20 years etc. It only pays out if you die during the term you have agreed upon.

There are different types of policy you can have, such as:

- policies which pay out income rather than a lump sum
- policies where cover and premiums rise over the years
- policies where cover decreases over the years – suitable for a mortgage perhaps
- policies which let you extend the original term

Note: Level Term refers to level (i.e. fixed from the outset) payments for the term of the policy. It is important to understand the implication of different types of policies and match the likely pay-out terms to the specific needs you are looking to cover.

Mortgage Pay-out Protection

Mortgage Payment Protection Insurance (MPPI) pays your mortgage (and other related expenditure like buildings insurance), in the event of accident, sickness or unemployment. It is however important to look at how long the policy will pay out for and any limits on monthly payments. Policies typically pay out for 12 months or 24 months. It will not pay if you resign, take voluntary redundancy or are dismissed for misconduct, or if you cannot work as the result of an illegal activity. If you are made redundant involuntarily, you will have to be claiming Job Seekers Allowance to get a pay-out from MPPI. Note: Mortgage Protection can often be covered in Critical Illness or Income Protection Policies.

Critical Illness and Children’s Critical Illness

Critical illness insurance is a policy that pays a tax-free lump sum or income on the diagnosis of certain life-threatening or debilitating conditions e.g. a heart attack, a stroke, certain types/stages of cancer, multiple sclerosis, kidney failure, major organ transplant and loss of limbs. The illnesses will be specified in the policy along with any exclusions and limitations.

Critical Illness Policies tend to pay out only once; the pay-out could be used to pay for medical treatment, or to pay off a mortgage. Cover is usually offered for those between the ages of 17 and 70. It can be for a specified number of years - e.g. a mortgage, or for life. Child cover can be added to the policy; it is common for the child cover to cover fewer specified diseases than for the adults covered but some will cater for child specific illnesses. Again a tax-free lump sum is paid, even if the child’s condition improves.

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Long Term Care

According to Help the Aged, one in four of us will need long term care at some stage. Most people are not aware of the amount of support a local authority and the NHS will provide. There are many options and choices available, and with early financial planning, these choices and investment opportunities are less restricted, and plans can be made to address common fears of running out of funds and ensuring the kind of care you would want for yourself or loved ones.

Residential Care in Scotland:

In Scotland the cost of residential care is broken down into three constituent parts.

1. "Hotel" or Accommodation Costs 2. Personal Care 3. Nursing

In Scotland providing your needs have been assessed by the Social Work Service department of your Local Authority, they will make flat rate contributions towards the Personal and any Nursing Care you may require, based on need and not financial means:

£171 per week Personal Care contribution and £78 per week if Nursing Care is required (this was effective from April 2015). However, Personal Care contribution is only made if you are over 65 and if you take it you do lose your entitlement to Attendance Allowance or the Care Component of the Personal Independence Payments. Either of these represent £82.30 per week at the higher rate or £55.10 per week (2016/17) at the lower rate – if Attendance Allowance or middle band if Personal Independence Allowance. A financial means test is only carried out to determine whether you have to pay the "Hotel" or accommodation cost: Those with personal capital assessable assets (and ½ of any jointly held assessable assets) exceeding only £25,250 (2015/16) have to pay for all of their accommodation costs.

For residents in England we recommend looking at the Age UK PDF dated August 2015 which describes the changes that came into effect as a result of the April 2014 Care Act. The second part of the implementation has been delayed until 2020, but some of the legislation came into force from April 2015.

Business Protection Insurance

Key Person (Keyman) Insurance

Keyman insurance is a policy designed to pay out an agreed cash sum if a key employee suddenly stops work due to death or a critical illness. That person will be "business critical" – it could be the managing director, a senior finance or sales director or perhaps the head of development – fundamentally a person who is seen as a significant revenue generator or business figurehead. Unlike personal insurance, the payment is a specified sum made to the business. It allows a company to shore up profits, to buy the deceased's shares, perhaps repay company debts or cover recruitment costs. In essence it is an insurance that is often overlooked but represents extremely good planning for small businesses, if the business owners are able to set aside funds.

There are 3 types of Keyman Insurance Policies:

1. Profit protection - uses include shoring up profits, training and recruitment.
2. Corporate loan and overdraft protection - a cash sum for repaying company debt, especially useful if the directors have personal guarantees or second mortgages in place.
3. Ownership Protection - used to buy out the deceased (or critically ill) director's or partner's shareholding

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2. Our tips on best practice

Key Considerations

Affordability and Priorities

Best practice is to fully understand what your individual requirements really are and what you can afford. If you do not have dependents and are the sole income provider, you may for example want to think about a Sickness Income Protection Plan rather than other types of insurance policies.

Existing Protection

We suggest even if you have some form of Protection that you review existing policies to see what your contract covers. For example, you may have Mortgage Protection but is it sufficient or an Income Protection Plan but does it relate to your salary expectations established some time ago? Alternatively, you may wish to reduce payments as you pay your mortgage off over time.

Also consider if you have additional income sources other than salary you could rely on should your circumstances change.

Employer Benefits

Establish if there is any protection afforded to you by your employer and if you are changing jobs see if you can negotiate additional benefits for you (and family members).

What will your employer pay and for how long will they pay if you are unable to work?

Dependents

Think about your dependents and what they are likely to need. You may need to ensure any debts are covered or leave a lump sum to a dependent. Take advice early on long-term care.

Starting Early

The younger you are when you take out such policies the less costly they are likely to be and the more opportunity there is for funds to accumulate.

3. How Bridge Investment can help

What Bridge Investments do

- We will help you identify your insurance needs and provide experienced advice on longterm care, and then help you find the most cost effective plan to meet those needs.
- We are able to offer an extensive range of financial protection options and help you tailor them, as personal circumstances change.

Bridge Investments Partners Ltd are authorised and regulated by the Financial Conduct Authority.

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