A Quick Guide to Life Insurance & Critical Illness Cover

Life Insurance

It is fair to say that life insurance could be one of the most important purchases that you may ever make. Insurance policies could well help determine a significant part of your family's future after you die. If you have chosen the right type of plan, you will be safe in the knowledge that your family will be able to financially support themselves in the years to come after your death. Conversely if you choose the wrong plan or do not get around to having life cover at all, you could leave your family struggling to pay off your debts or even just to pay for your funeral costs, which could in severe cases mean not being able to retain your home.

Due to the fact that death is by its very nature a difficult topic to think about, many of us end up putting off our decision on a life insurance plan until it is either too late or too expensive to take one out. Many people don't consider the fact that the sooner you take out a life insurance plan, the cheaper it will be. This means that by putting it off, you could be costing yourself and your family over the longer term.

Even for those people who have decided that they would like to take out a life insurance policy, it can still be a difficult decision to make. The main reason for this is the fact that there are so many life insurance policies out there. The different types of plans range from completely extensive cover to cover that is just intended to pay off debts such as mortgages in the event of your death.

Term Insurance
One of the most common types of insurance policy is known as term insurance. This type of insurance will cover you in the event of your death in an agreed upon length of time. Generally speaking these types of plan will run for somewhere in between ten and twenty five years but you decide how long you would like to cover yourself for.

If you do die within the agreed upon amount of time, the insurance policy will pay out the sum of money that you signed for at the start of the policy. This sum is known as the "sum assured". There are many term life insurance plans that will pay out if you are diagnosed with a terminal illness and have less than 12 months to live.

It is important to note that some policies will not pay out if you die too soon after taking out the plan. For this reason it is important to pay close attention to the terms and conditions of any plan that you may take out.

Level Term Insurance
One form of term insurance is level term life insurance. This type of insurance is called this because the amount of money that you will receive at the point of a payout will be the same should you die at any point over the course of the plan. This means that you don't have to have any doubts about exactly how much will be paid to your family or dependents.

Decreasing Term Insurance
Another form of term insurance is decreasing term insurance. This type of insurance is called this because the amount that your insurer will pay out in the event of your death will go down gradually over time. This form of insurance is normally taken out in order to make sure that one's family or dependents can afford to pay off any outstanding debts in the event of your death.

Just like the amount you have left outstanding on your mortgage, the payout goes down steadily over time - normally at the same rate as your loan payments. This means that if you take the time to work it all out properly, you will be able to make sure that no matter when you die, your family will have enough to keep your property. These types of plan are normally the cheapest type of term insurance because of the payout decreasing over time.

Increasing Term Life Insurance
The third type of term life insurance is known as increasing term insurance. This type of insurance is called this because the amount that the policy pays out goes up over time. The further through your agreed upon policy term that you die, the higher the amount of money that is paid out will be. The main reason that people take out plans like these is the fact that they do not want their payout to lose value over time due to factors such as inflation.

Increasing term life insurance policies increase their payout at a set rate each year. This rate will either be fixed at a set number - often 5%, or they will be linked directly to the RPI (Retail Price Index) measure of inflation. Unsurprisingly increasing term life insurance is normally much more expensive than both level term and decreasing term life insurance policies. This is because the payout gets larger and larger the longer that you live.

<u>How long should your term be ?</u>

The question of how long you should take out life insurance cover for is not one that can be answered universally with one answer for everybody. This is because everybody's situation is different and everyone has a different level of financial demands upon them.

One thing to consider when you are deciding upon how long to make the term of your insurance is whether or not you have any outstanding debts that will need to be paid off in the event of your death. If this is the case, you should think about how long each of these debts still has left on the terms of the financial agreement. If the debts will be paid off within 10 years, is it necessary to have a life insurance plan that runs past this?

Another thing that you should consider when trying to work out how long to make the term of your insurance, is how long it will take your children to become financially independent. If you have very young children, then you may want to get a considerably longer life insurance term than somebody who has children who are already in their 20s. This is because if your children are still very young, they will need financial support for quite a while after your death. If your children are already grown up, it is less likely that your policy payment will be their only source of income.

How much cover should you purchase ?

As with the length of your policy term there is no universal answer that can be given to the question of how much cover you should try and purchase. This completely depends on how much money you think that your dependents will need to sustain their living costs and also on how much excess you would like them to receive.

One of the things that you should definitely consider is how much debt you will leave behind in the event of your death. The biggest source of debt for most households is the mortgage that they took out in order to purchase the property that their family lives in. It is important to try and work out how much debt you are likely to leave outstanding on these payments if you die. The last thing you want is for your family to lose their home because they can't afford to keep up with the repayments.

You should also try and establish whether or not your place of work offers any death in service benefits. This form of benefit is paid out to your dependents in the event of your death but the amount offered varies from company to company. Generally speaking the amount paid out will be somewhere within the region of four times your yearly salary. This amount of cover will not normally be considered enough for your family to survive off of on its own but is worth taking the sum of money into account before deciding upon a life insurance plan.

It is also worth considering the fact that the cost of taking out life insurance goes up considerably as you get older so it is worth taking out a policy as soon as possible to avoid overpaying.

How much does life insurance cost ?

The cost of taking out a life insurance policy has fallen a lot over the past couple of years. This means that getting a decent amount of cover should not be too expensive. In fact if you took out life insurance cover a few years ago, you could be able to find a life insurance plan that is actually cheaper than the one you are currently on - even though you are older.

In the past women could look forward to paying less for life insurance than men could. The reason for this is that women have statistically longer life expectancies than men and therefore represent a lower risk to insurance companies. This was the case until recently when new European legislation declared that this policy was at odds with laws on discrimination. Since then the difference between insurance premiums for men and women has disappeared.

One factor that will definitely impact the amount that you pay is your occupation. If you are employed in an area that is generally associated with being higher risk such as construction, then you will probably be charged more for life insurance. Conversely, if you work in an office, you will be considered to be a lower risk candidate and will therefore pay less for your life insurance.

Another thing that insurance companies will take into consideration when you apply for a life insurance plan is the state of your general health. If you are somebody who has never suffered from a serious illness or medical condition, you will not be charged as much on your life insurance premiums. On the flipside of this if you have a history of medical illness, you will probably have to pay out more in order to get life insurance.

One major factor in the cost of your life insurance will be whether or not you are a smoker. If you do smoke, you will have to pay a lot more for a life insurance plan than someone who does not. The reason for this is that insurance companies charge premiums depending on how likely you are to make a claim. This means that by smoking, you make yourself statistically likelier to die during the term of your insurance plan.

To qualify for life insurance as a non-smoker you must have not smoked or used any nicotine based products for twelve months prior to taking out a policy. This means that you cannot be using things such as e-cigarettes or nicotine patches. It may be tempting to think that you could get away with claiming to be a non-smoker, just to lower your premiums. However, this is illegal and means that if found out, your insurance company could refuse to pay out any sum to your family in the event of your death. Therefore it pays to ensure full and accurate disclosure at the point of application.

Reviewable or Guaranteed Premiums ?

Having an insurance plan with guaranteed premiums means that you know that your premiums will stay the same, no matter what happens. This means that you can have a lot more certainty when it comes to budgeting for your plan. Other insurance policies have "reviewable" premiums, this means that the cost of your plan is subject to change at any point and can sometimes be put higher if your medical situation changes.

As a general rule plans that offer guaranteed premiums will be more expensive when you first buy the cover. However these types of plans can often save you money in the long run because they are not subject to change and do not increase if you medical condition changes.

Should you take out joint cover with your partner ?

Many people often assume that the best option available to them when it comes to life insurance is to take out a joint policy with their partner. Whilst this can be true, it is not always the case. Joint policies are not always cheaper so it is important to consider single policies when shopping around One thing to consider is the fact that joint policies work on a "first death" basis. What this means is that the insurance policy will only pay out on the first partner that dies. This means that the second partner will be left without cover and the policy will expire. As a result of this, if you want to take out a new policy once your partner has died, you will most likely be charged quite a lot due to the fact that you will probably be significantly older than you were at the start of the policy.

Purchasing two single life insurance policies will afford you a greater degree of flexibility and often won't cost that much more. It also allows you to insure yourselves for different amounts and in different ways. This allows you to plan for a greater variety of eventualities.

What other forms of life insurance are there ?

Term insurance is the most commonly taken out type of life insurance but there are quite a few other forms of life insurance that are out there.

Family Income Benefit

Normal term life insurance gives its payout in the form of one lump sum but many people prefer to receive their payment in the form of a monthly income. Doing this may make things simpler for the dependents that receive the payout because they do not have to come to a decision on what must be done with one large lump sum of money. The monthly income will be tax free and can even be designed to increase over time to take inflation into account and to mirror pay rises that you could have expected to receive.

One thing to bear in mind if you are considering this type of life insurance plan, is that the income your family will receive will stop once the term has ended. This means that if you take out a 25 year policy and die in the 23rd year, the plan will only pay out for the remaining two years of the term.

Whole of Life Cover
Whole of life cover is the second of the main two forms of life insurance - the first being term life insurance. Term insurance only insures you for a previously agreed upon amount of time and therefore does not guarantee a payout in the event of your death, unless it occurs within the term. Whole of life cover on the other hand, insures you for the entirety of your life. This means that no matter when you die, you are guaranteed that the insurance company will payout to your family. It is for this reason that whole of life cover is often referred to as "life assurance".

It is worth noting that life assurance plans are much more expensive than term life insurance plans. This is because a payout is guaranteed, not just a possibility. It is for this reason that most people decide to choose term life insurance instead.

There is a form of term life insurance called convertible term insurance which gives you the option to change your term insurance to whole of life cover. However these policies are normally much more expensive than standard term insurance policies and the premiums go up a lot should you change.

Critical Illness Cover

If you become seriously ill to the point where you can no longer work to earn a living, then you might need help to keep up with mortgage and debt repayments as well as general day-to-day living costs.

Critical illness cover can do just that, paying out in the event that you contract a serious illness, helping your family cover the costs that you no longer can.

How does critical illness cover pay out ?

When you purchase critical illness cover, both the length of the term of the policy and a list of conditions or illnesses will be set.

Should you contract one of the specified illnesses during the policy term, a tax-free lump sum of money will be paid to you and your family to ease the financial burden you suddenly feel put upon you.

You can then use the money paid out to put towards any debts or mortgage repayments you would normally be able to pay, as well as any medical bills that you may now have to pay.

The money will also help your family on a daily basis pay for the things that you'd normally pay for with your income if you were still able to keep working.

What conditions will be covered ?

Different providers will offer critical illness cover against different conditions, but generally the list of health problems covered such as cancers, heart attack, stroke, often extend to over 30 different illnesses forming the basis of the Association of British Insurers (ABI) standard definitions.

Most of the time, the illness you contract has to be particularly severe for the insurer to accept your claim. For example, a mild heart attack or even some milder or more easily treated forms of cancer might not be accepted as claim worthy. This is where the experience and expertise of a professional Indepdendent Financial Adviser (IFA) could prove invaluable in sourcing the most appropriate cover and provider.

Certain providers can cover over 100 different illnesses and provide payouts based on a proportionate basis i.e. pay out 15%, 25%, 50% of cover (upto 100% in total) based on the severity of a specified illness, whilst retaining any remaining balance of cover.

You should always make sure you read your policies small print to identify any exclusions before you purchase critical illness cover as you want to be certain that you're getting the cover you want and need.

Cover for Children

Often, insurance companies may allow you to add critical illness cover for children onto your existing policy at no extra charge, with a pay-out generally limited to up to £25,000. This will allow you to cover any expenses associated with your child becoming seriously ill (like medical bills), reducing financial stress at a time when emotional stress can be particularly high.

You should check with your insurer to see both whether or not such cover is available, and what kind of limit is imposed upon it.

Premium Costs

The cost of your premiums will be based on the likelihood of you making a claim, so older customers, customers with existing health problems and customers with potentially dangerous lifestyles (like smokers) will pay more than others, all other things being equal.

Full disclosure is important at this stage – if you are found out to have withheld any relevant information about your health or lifestyle from your insurer you could find your entire policy invalidated and you will not receive a pay-out.

One way to get cheaper critical illness cover is to purchase it along with a conventional life assurance policy. While this will generally keep costs down, you should be aware that often you will only get a single pay-out with such a policy. This means that if you contract a serious illness, you will get your pay-out then, but will not get a further pay-out in the event of your death.

Your critical illness cover will remain active until either the policy term comes to an end, or you can no longer afford to pay for your premiums – so you should make sure that you are going to be able to maintain payments constantly when you open up the policy.

It is important to bear in mind that if either of these things happen without you falling ill, then you will not see any cash return on the premiums you've already paid.

Claims & Paying Out

While some insurance companies might charge particularly low premiums, you should check to see if this is related to a particularly low proportion of pay-outs from the provider in question.

All insurance companies are obliged to make this kind of data about their claims publicly available so if it looks like you're getting a suspiciously good deal, have a look at all of the information you can to make sure everything is at it seems.

The purpose of this article is to provide technical and generic guidance and should not be interpreted as a personal recommendation or advice.

So if you are interested in taking out protection but are not sure what type(s) and level of protection is suitable, please feel free to contact us on the details provided or book a no obligation consultation online at www.opesifas.co.uk/bookameeting

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