Insurances: A Guide

Hello, and welcome to our guide to mortgage-related insurances, which we hope will give you a useful introduction to the types of cover you can take out to protect your home and family. As with mortgages, there's no substitute for expert advice, and only by sitting with a consultant and discussing your needs in detail can you be sure that you're making the right decision on any cover you take. So take a read, then get in touch when you're ready to talk through your needs.

We know that insurance is not an exciting prospect. The best you can hope for is that you pay your premiums every month, nothing bad happens, you never need to claim, and the insurer keeps all the money you've paid! But to leave your home or mortgage uninsured is to take an enormous risk, which is why we recommend taking out insurance to protect you, your family and your home.

What cover is right for you will depend on your circumstances, your attitude to risk your budget, and your existing levels of cover. For instance, you may already have cover through your employer. Some employers offer "death in service" benefit, a variant of life insurance that covers you for as long as you work for your employer. You may also have an income protection plan or critical illness policy arranged through your employer (for explanations of these cover types, see below). We will also need to consider any policies you already have in place when we speak to you, such as existing life and/or critical Illness cover, endowment savings plans, or income protection.

New clients often tell us how they have previously been pressured into taking insurance products that they later find they didn't really need. Sometimes, they have been given the impression that certain insurances are mandatory when they're not. We will give you simple, honest advice about what you need- and what you don't. Our guide is broken down into sections as below.

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A mortgage is a loan secured against your home. Your home may be repossessed if you do not keep up repayments on your mortgage or any other debt secured on it.

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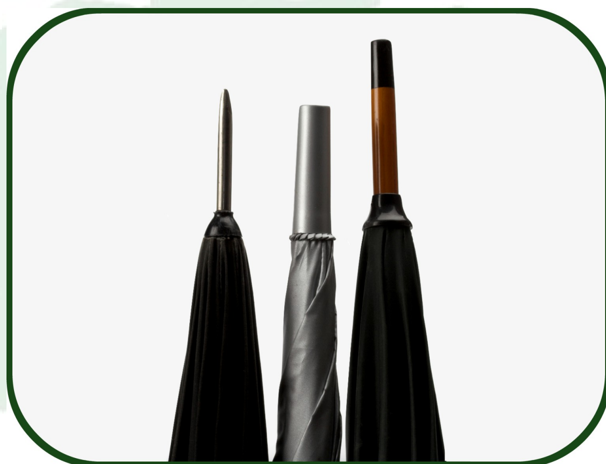
Life Insurance



If you or your partner were to pass away during your mortgage term, could your surviving partner and/or family still afford the mortgage? If your answer is "no", you should consider life insurance.

The simplest, and often the cheapest, form of mortgage-related insurance, life insurance guarantees a lump sum payment should the worst happen. You can protect just your mortgage balance (e.g. someone with a £100,000 mortgage taking out a policy that pays out £100,000 if they die), or take out extra cover to also protect the lifestyle of the loved ones you could leave behind.

There are two main types of life insurance policies; *level* term, and *decreasing* term (historically, endowment plans have also provided life insurance, and we will need to check if you have one of these policies before making any recommendation, but these are no longer available to buy as new policies). The key differences between the two main types of life insurance policy are as follows:

- *Level term* policies will pay out the same amount whenever you claim, no matter how far you are into the policy.
- *Decreasing term* policies cover you for less and less as time goes on, on the premise that that your mortgage balance (and thus the amount you want to cover for) is also decreasing.

Typically, decreasing term policies are most suitable for those clients with a repayment mortgage (whose mortgage balance will decrease over the term of their mortgage), and level term policies for those with an interest only mortgage (whose mortgage balance will stay the same over the term of their mortgage). Turn over for a graphic illustration of level term and decreasing term policies.

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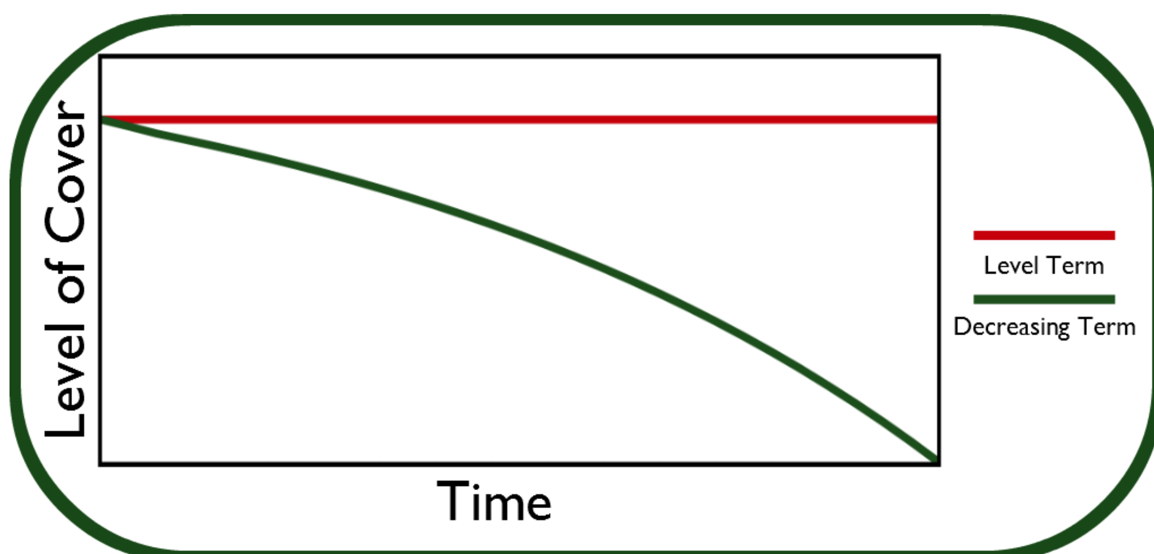

There are two elements of risk to be aware of when considering a level term policy:

- Every decreasing term plan has a built-in assumed interest rate. In accordance with this interest rate, the level of cover falls over time. Much like the outstanding capital on a repayment mortgage, the amount of cover declines more slowly in the early years and more rapidly in the latter years. The assumed interest rate of the policy means that the sum assured amount against the loan would be covered in full, **provided that the mortgage interest rate does not rise above the assumed interest rate on the decreasing term plan.**
- If you were to run into arrears on your mortgage payments, the capital would reduce more slowly than the assumed interest rate allows for, or not at all.

Waiver of Premium Benefit

Life insurance policies also carry an optional "waiver of premium" facility to give extra peace of mind. This is effectively an insurance on an insurance. For a surcharge on your premium, you can protect your polici(es) from future financial hardship caused as a result of long-term sickness. Your premiums are paid for by the insurer if you are too ill to undertake your normal occupation for a particular period as determined on the policy (typically six months) or due to incapacity caused by illness or injury. The insurer will continue paying your premiums until you are able to return work, or until the end of the policy. If you are not working at the time of the waiver of premium claim, the insurer will verify your claim by confirming your ability to carry out basic physical tasks such as walking, lifting objects, climbing stairs or writing. They will then pay the premiums for you until the policy ends or you are able to carry out these tasks again.

THE PLAN 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.

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Critical Illness Cover

Critical Illness Cover (or CIC) shares many features with life insurance, in the sense that it can be arranged on a decreasing or level term basis, you can cover just your mortgage or an extra amount, and it pays out a lump sum on a particular trigger event. However, rather than the benefit being paid out on the death of the policy holder, CIC offers lump-sum cover in the event of diagnosis of one of a list of critical illnesses or an occurrence of certain medical incidents. A few examples of typically covered conditions include heart attack, stroke, advanced cancers, Alzheimers, blindness, loss of speech and third degree burns. Insurers' full lists of conditions are generally far more comprehensive. There are certain exclusions and limitations to this cover which we will discuss with you in detail. For instance, diagnosis of HIV is specifically excluded from cover unless contracted through a blood transfusion or through working in the emergency services.

As with Life Cover, we will always examine your existing CIC arrangements as part of our review and recommendation. Your existing cover may be enough for your needs, or that a "top-up", where a smaller additional policy is written to compliment an existing one, would be most suitable.

Another useful benefit of many CIC policies is total permanent disability (TPD) cover, where the policy pays out if you become permanently unable to perform any occupation for medical reasons. The definition can cover any condition not specifically covered elsewhere under the CIC plan, and which results in total and permanent disability. TPD is defined as "expected to last throughout the insured person's life, irrespective of when the cover ends or the insured person retires".

If you are not confident that you or your family could continue to afford your mortgage if you developed a serious medical condition (but did not pass away as a result), CIC is a type of cover you should seriously consider. It can be arranged as a built-in option on a life insurance policy, or as a standalone policy. You can choose to take out the same level of CIC as life cover, or a different amount (e.g. £100,000 of life cover, and £50,000 of CIC).

Please note that a claimant normally has to survive for a period of 28 days after diagnosis before Critical Illness Cover benefit pays out.

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THE POLICY MAY NOT COVER ALL THE DEFINITIONS OF A CRITICAL ILLNESS. FOR DEFINITIONS PLEASE REFER TO THE KEY FEATURES AND POLICY DOCUMENT.

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Income Protection Insurance

Accident, Sickness & Unemployment Insurance

Both income protection insurance and accident sickness and unemployment insurance (or ASU) are designed to pay out a monthly benefit if you become too ill to work, or in the case of ASU, if you are made redundant from your job. The two policy types are very similar, with some key differences, which we've included below.

Income Protection Insurance

Should you become unable to work, income protection insurance will pay a fixed amount each month until you are able to return. The monthly amount you would be due to receive is partly up to you, and will obviously have a bearing on the premiums, but there is an upper limit (typically 50%-60% of your last year's earnings) that you can cover yourself for.

At what point the benefit from an Income Protection policy becomes payable depends on the *deferred period.* The deferred period is the pre-determined time that needs to elapse between your absence from work through sickness and the time of making a claim. The deferred period can range from three months to a year. Someone with a deferred period of six months, for example, could not claim on their Income Protection policy until they had been off work for that six month period. You can choose the deferred period to meet your needs, but the shorter the period, the higher the premiums are likely to be.

It is important to note the following about income protection:

- Income protection insurance will not cover you if you lose your job.
- If at the time of making a claim you are receiving any state support in the form of employment and support allowance (ESA), this is likely to reduce the payments you receive from your insurer.

Mortgage Protection is perhaps more suited to those people who only wish to have sufficient benefit to cover their monthly mortgage costs. However, Income Protection and CIC (see above) are complementary benefits. Imagine, for example, that you had a heart attack which meant you were off work for a year. If you had both CIC and Income Protection in place, the CIC would pay out a lump sum, and the Income Protection would then pay you a monthly benefit after the

deferred period had passed.

Accident, Sickness and Unemployment Insurance

There is a lot of overlap in the features of Accident, Sickness and Unemployment insurance and Income Protection insurance (above). There are two key differences between income protection insurance and ASU:

1. ASU will cover you should be made redundant from your job, where income protection insurance does not.
2. ASU will generally only pay out for a maximum of 12 to 24 months before benefits stop.

As a result of the shorter maximum payment period, ASU is generally the cheaper of the two policy types. Speak to us to get a quote for both policies, and to talk through them in more detail.

Home & Contents Insurance

Of all the mortgage-related insurances, home insurance is the only mandatory type. Mortgage lenders will insist on property owners holding suitable home insurance. Home insurance covers you against the risk of damage to your precious home, so it's in your interests to hold it too!

It often makes sense for both financial and practical reasons to take home insurance and contents insurance from the same provider. Contents insurance will cover you against the risk of damage to or theft of the contents of your home.

Speak to us for expert advice on what type of cover you need, and the options available.

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