Guide to protecting your home and family

Protect yourself and your family with futureproof cover

MortgageQuest

INDEPENDENT MORTGAGE BROKERS

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Our specialist brokers will be happy to help and advise you

Introduction

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We, as a company, have always encouraged our clients to take insurance along with their mortgage. It just makes sense. Why wouldn't you want to protect what you've worked so hard to attain?

Since July 2023, offering the most relevant insurance has become law for businesses that offer General Insurance and Pure Protection. The act that covers this legal requirement is Consumer Duty.

In addition to simply offering insurance, we must be transparent, upfront and have our clients' best interests at heart. As these tenets made up our ethos even before the FCA drafted in the new legislation, we can proudly say, 'Business as usual, then!'

Life insurance

Life insurance pays out a tax-free lump sum or regular payments to your beneficiaries if you die. You can use the lump sum or monthly payments to cover the expenses that arise in the wake of your passing, such as:

- Funeral costs
- Outstanding debts, such as your mortgage
- To replace your income for your survivors to maintain outgoings or private school fees or further education costs.

Level term versus decreasing term versus increasing life insurance

There are three main types of life insurance: **level term, decreasing term and index-linked**.

The cover amount of a **level term** life insurance policy stays the same throughout the term of the policy.

This means that the original amount of cover you insured yourself for is what the insurance company will pay to your survivors when you die. This is the most common type of life insurance.

Then, there's **decreasing term** life insurance. With this type of cover, the amount you're insured for decreases over time.

Most people take out this type of insurance to coincide with their outstanding repayment mortgage.

As you pay off your mortgage, the amount you owe your lender decreases. Likewise, the value of the insurance policy payout decreases over time, and often expires when you've paid off your mortgage.

Index-linked life insurance means that the amount of cover your policy is worth increases annually, but the premium will also increase. The increase is usually equivalent to RPI (retail price index), to a maximum of 10%.

This policy is commonly used if you want the amount of cover to be worth the same value ten or twenty years since you took the policy out as it was on Day 1.

Factors to guide you to the right level of cover

Choosing a life insurance policy isn't a task to be taken lightly. Getting key elements right is crucial for making the policy fit for purpose. Here are some factors you should consider:

- **How much cover you need:**
  - The amount of cover you take out will depend on your personal circumstances, including your income, debts, and dependents;
- **How long you need the policy to last:**
  - You might choose the policy term to coincide with when you've paid your mortgage off, your children grow up/go through university, or until you retire;
- **The type of policy you need:**
  - Level term life insurance is more common, but a decreasing-term life policy may suit your situation better if you have a mortgage as the latter is more cost effective.
- **How much you can afford to pay in monthly premiums:**
  - Life insurance premiums vary depending on your age, health, and lifestyle; get insured, but not to the detriment of your quality of life.

A big priority when arranging a life insurance policy is to make sure you place it into trust. All insurers allow you to do this at no additional cost.

By doing this, you're allocating who you'd like this policy to be paid to. This will then usually be done outside of your estate, therefore not incurring inheritance tax liabilities.

Critical Illness Cover

Critical Illness Cover pays out a tax-free lump sum on diagnosis of a specific condition to a certain severity. The most common claims on a critical illness policy are due to the diagnosis of:

- Cancer
- Heart Attack
- Stroke

These three conditions make up over 75% of critical illness claims.

Although critical illness cover is roughly five times more expensive than life insurance, you're five-and-a-half times more likely to make a claim on critical illness than you are on life insurance.

Which critical illness policy is right for me?

Many critical illness policies will also pay out if you are diagnosed with:

- Multiple Sclerosis
- Alzheimer's disease
- Parkinson's disease

The policies also include covering children, or at least have the capacity to add your children onto the policy.

Every provider offers a different critical illness policy. Many even offer their own different versions, whereby some are more enhanced than others. It's therefore vital that you choose the policy that suits your circumstances and needs.

Personally, I'd speak to an advisor before choosing critical illness cover. An experienced guiding hand can mean the difference between you eventually making a successful claim or not.

Is it worth having critical illness cover?

In a one-word answer: Yes! But the amount of cover you need (or want) will differ depending on:

- What you are looking to protect yourself from, and
- How much you are happy to pay to do this

In an ideal world, everyone would have a critical illness policy in place. However, we tend to think about this more when someone close to us is diagnosed with or passes away from a critical illness.

With 1-in-2 people being diagnosed with cancer, diagnosis happens too late more often than we'd like. Cancer isn't selective, and being diagnosed with it can happen to anyone at any age.

Income Protection

Income protection is probably the most important (but least spoken about or advertised) policy that everyone needs.

Income protection will pay you a regular income tax free if you're unable to perform your specific job due to an accident or sickness. The most common claims on an income protection policy are due to:

- Muscular-skeletal conditions
- Mental health conditions, and
- Cancer

The reason protecting your income is so important is because, without your salary, you will not be able to continue to pay:

- Your mortgage or rent
- Your bills, or
- The monthly shop to put food on your table

Also, consider beyond the basics, the things that make life worthwhile. You may not be/have been able to:

- Save for your deposit on your home
- Pay for your holiday, or
- Treat yourself to a car

"I'm not worried, I've got savings"

You may have savings to last you for a period of time. But, here's the thing: the average UK household will only be able to last around 21 days on their savings.

The issue with relying on your savings is that once you've spent them, you've nothing left to fall back on. And who wants to spend their savings on the everyday grind, anyway?

Yes: family or friends may help for a short time. But they'll still have their own bills to pay and won't be able to support you indefinitely.

How long will a policy pay my income for?

A full-term policy will continue to pay you every month until you return to work. Or, if you're unlucky enough to be told you can't work again, it will continue to pay you until the policy expires. This is usually until age 70, which is the maximum age the policy can run unto.

The second option is a 5-years policy, which will pay you for a maximum of 5 years per claim. This means that if you don't return to work within 5 years of making your claim, the policy payouts will stop.

A 5-years policy is slightly cheaper than the full-term option. But there is always the risk that if you can't return to work, you'll have no income beyond the fifth anniversary of your claim.

Finally, there are the 12-month and 24-month claim period policies. These policies at least give you peace of mind. and ensure that you have income coming over the one- or two years.

They allow you to continue honouring your monthly commitments and give you time to make other arrangements should you be unable to return to work beyond the respective payout periods.

What else do I need to consider when protecting my income?

You need to consider what deferment period you would like to have. This is the time between you being signed off work and when the policy starts paying you.

Deferment period options range from one week to 104 weeks. However, most people choose between one month and six months, depending on:

- whatever sick pay they're due to receive from their employers, and
- savings that they're happy to use towards covering their monthly bills.

The shorter the deferment period is, the higher your premium will be. That's purely because there's a higher risk of you making a claim sooner.

How much should I cover myself for?

The amount of cover you need is very important. Insurers typically cover up to 65% of your gross annual income tax-free. But, you may only want to cover your monthly outgoings. If covering your monthly expenditure is sufficient for you, it will reduce the monthly premium you pay.

Just like life insurance and critical illness cover, you can opt to have a level term policy or an index-linked policy. The latter will ensure the amount of cover you have in place increases in line with the cost of living.

What else do I get when I do take out a life insurance, critical illness or income protection policy?

The priority with any insurance is the financial support it will provide for you and your family should you need to claim.

However, many insurers have value-added services that come as part of the package when you arrange the policy. These are:

- 24-hour GP services
- Second medical opinion services
- Mental health support
- Physiotherapy
- Many more

These add-ons are accessible to the policyholder and their immediate family.

Final thoughts

You've worked hard for everything you've achieved. Do you really want to risk losing it all by not having any or sufficient protection in place?

If you feel you've sufficient cover through work or existing personal policies, at least review them with an advisor. Best case scenario, you get peace of mind that you've all the protection you need.

At worst, the advisor will make suggestions about where you can improve the protection you have.

Either way, you'll receive advice and all the information you need to enable you to make an informed decision about how you can best protect yourself and your family.

Now's the time to be selfish. Protect what's most important to you: for now, for the future.

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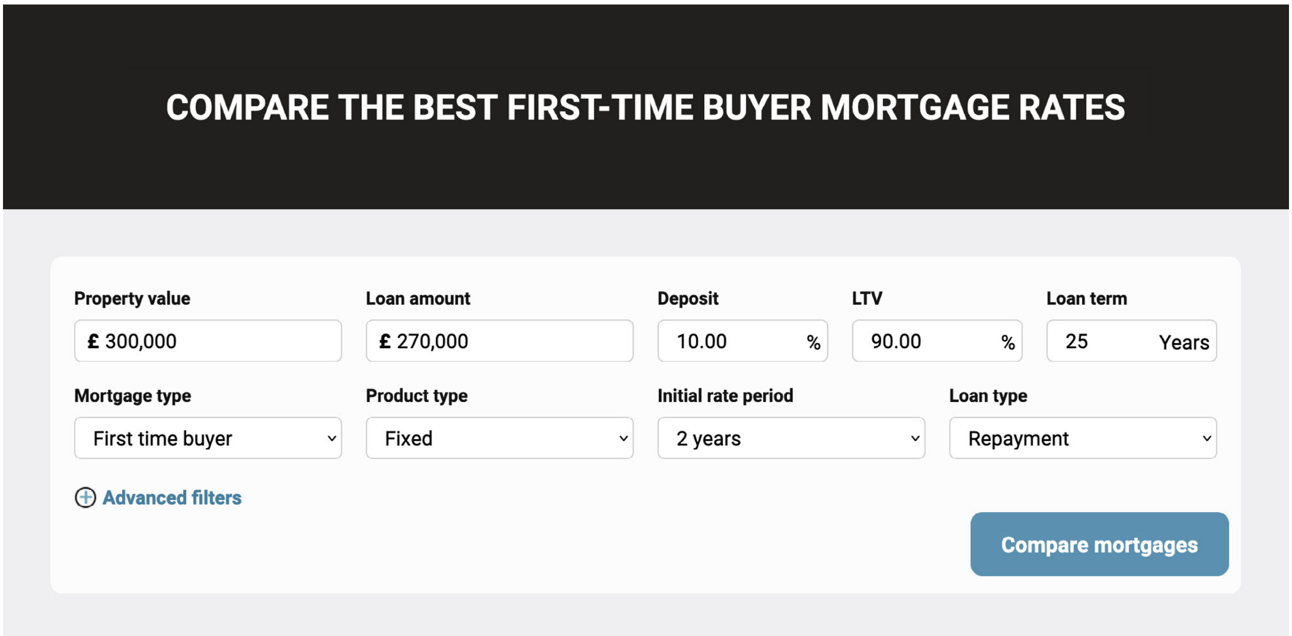

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