



Insurance – are YOU covered?

Most people have insurance in place for their car, their home and for other things such as travel insurance. While these are important needs, it's worth considering if you have the most appropriate insurance in place for yourself.

The main types of insurance which I would normally recommend are life insurance and income protection and I've explained them in a bit more detail below.

Life Insurance

Sadly premature deaths do occur and having life insurance in place can at least provide some financial assistance at a time of need.

Life Insurance can be available either as a lump sum or as regular income over a set period of time. Life insurance is commonly used to protect your family in the event of an untimely death. It can also be used in a business context to protect the business on the death of a key business person (director, partner, key employee).

Taking the case of using life insurance to protect the family. If the level of protection required was to cover outgoings of £20,000 per annum. This can be done using Family Income Benefit or Level Term Insurance. I've assumed that the insurance will be required for 20 years to cover the period when the children are dependants.

For Family Income Benefit the cover required would be £20,000 per annum. This would be payable from the date of death to the end of the original 20 year period. For example, if death occurred after 10 years, the benefit would be £20,000 per annum payable for 10 years.

An alternative would be to use Level Term Insurance for an amount of £250,000. This level of cover is aimed at being able to support £20,000 per annum at outset assuming that the growth rate on the lump sum payment is 5%.

The monthly cost of these benefits is shown in the table below for non-smokers.

	Family Income Benefit	Level Term Insurance
40 year old female	£14.44	£18.75
40 year old male	£18.39	£23.81

(Source: Assureweb 14.09.10)

These costs assume that there are no medical conditions which would result in the insurers increasing the premiums. The costs will remain at these levels throughout the duration of the policy. In practice the monthly costs will depend on age, sex, health, job, hobbies and interests and smoking status.

Note that the monthly premium for a male smoker for £250,000 of level term insurance cover is £45.88; this is 93% higher than the non-smoker premium of £23.81. There's an incentive to give up smoking!

The actual level of cover that you require will depend on your individual circumstances; often the lump sum can be used to pay off debt such as a mortgage.

Income Protection

In this case the insurance pays out if you fall sick and becomes payable after a period of time known as the deferred period and continues to be paid until you recover or reach a selected age. The payments can be in addition to or make allowance for any benefits payable from the State (known as Employment and Support Allowance).

The deferred period would normally be between 6 months and 2 years. The period chosen would take account of any benefits that might be payable from a company scheme and any savings set aside to cover this type of eventuality.

The level of cover required will normally sit somewhere between the amount required to cover regular outgoings and 50% of gross income.

As an example of the cost of cover I've shown below the monthly premiums for cover of £20,000 per annum payable after a deferred period of 6 months and up to age 60. I've assumed that the occupation is an IT analyst. It is worth pointing out that the cost is much more dependent on occupation in the case of Income Protection than for Life Insurance. In the case of an IT analyst the benefits are paid if the individual is unable to follow their normal

occupation as a result of sickness or accident. Different definitions can be used for other occupations.

	Monthly premium
40 year old female	£48.14
40 year old male	£26.74

(Source: Assureweb 14.09.10)

The premiums shown above are reviewable which means that they can be varied by the insurer if there are changes in the assumptions they have made to calculate the premium. It is possible to have guaranteed premiums by paying a bit more.

As for life insurance, these costs assume that there are no medical conditions which would result in the insurers increasing the premiums or excluding any conditions. In practice the monthly costs will depend on age, sex, health, job, hobbies and interests, smoking status, deferred period and expiry age.

Mowatt Financial Planning can help you assess your life insurance or income protection needs and will search for a competitive price by comparing premiums across the whole market.