



Teachers

Financial Planning

Protection options for individuals

An overview of the various protection options available to you and your family

Protection options are essentially insurance policies. There are various protection options available, all aiming to provide you with the reassurance that your financial commitments could still be met in unforeseen circumstances. For example, if you were unable to work due to an accident or illness, you could take out a type of insurance policy that would provide you with an income while you were unable to work.

If you are employed, your employer may provide some protection policies as part of your benefits package. This is particularly common when it comes to life insurance. However, it is important to take a holistic approach to protection options to ensure that you are adequately covered.

Life insurance

If you have children, dependent relatives or a partner who would struggle to pay the mortgage or other financial

responsibilities on their own, you should consider taking out a life insurance policy. They can pay out a lump sum to your dependants to ensure they are financially secure in the event of your death.

One of the advantages of life insurance is that it can be used to minimise inheritance tax. Individuals who take out a life insurance policy can write it into trust, which allows the pay-out to be passed on to beneficiaries tax-free.

Which type of life insurance policy?

Despite its relatively simple form, there are different types of life insurance policy to choose from. The different types include:

Term life insurance

Term life insurance is life insurance in its original form. The term is the specific period that you are insured for, typically 10-25 years but this can be tailored to your specific needs. The policy will pay out a lump sum to your beneficiary if you

die within that time. However, if you live longer, the policy will not pay out.

There are 3 main types of term life insurance:

Level term: The level of cover and premiums remain the same throughout the term.

Decreasing term: The level of protection decreases over time. This type of policy is typically taken out to cover mortgages or other types of loan, or a liability, such as the potential inheritance tax on a gift, that decrease over time.

Increasing term: The level of cover increases during the term of the policy. The level of cover can increase either at set intervals or when a specific event takes place such as a marriage or birth. This type of life insurance can help to balance the impact of inflation over the years.



Protection UPDATE



Protection options for individuals

Whole of life insurance

There is no set term with whole of life insurance. Instead, the policy will pay out when you die as long as your payments have been made.

The cost of life insurance varies, depending on the type of policy you choose. Whole of life tends to be more expensive than term, due to the fact it will pay out at some point. Care needs to be taken to understand how any policy reviews work. These typically commence at the 10th anniversary of the policy and can result in the premiums being increased or the cover being reduced if the underlying investments in the policy have not performed as well as expected.

Income protection

If you are unable to work due to illness or disability, income protection insurance can ensure that you continue to receive an income to meet your financial commitments. This is particularly useful for those that are self-employed, or employed but don't have sick pay available to them, but applies to anybody who may not be able to pay their bills if their income stopped.

Short term income protection

These policies are designed to pay you an agreed monthly amount over a short period of time - typically 1 year - in the event of accident, illness or unemployment. Short term income protection products include payment protection insurance, which covers the

cost of a specific debt, and mortgage payment protection insurance, which covers mortgage repayments for a specific period of time.

Long term income protection

This generally pays out to replace part or all of your income until you can start working again. There are 3 main levels of cover, which define the point at which the policy pays out:

- **Own occupation** means that you are unable to do your own job
- **Suited occupation** means you can't do your job or a similar one that suits your qualifications
- **Any occupation** only pays out when you are too ill to do any kind of paid work.

Private medical insurance

Private medical insurance (PMI) pays all or some of your medical bills when you are treated privately. In the UK, we are entitled to free healthcare through the NHS but lengthy waiting times mean some people choose to pay for private treatment. PMI can ensure prompt consultations, referrals and treatment.

As with most protection policies, the level of cover varies and will depend on your specific circumstances. Most PMI policies will cover the costs of in-patient treatments such as tests and day-care surgery. Some will extend to out-patient treatments but this will depend on the

policy and the monthly premiums you pay.

Points to consider:

- you won't normally be covered for any existing medical conditions
- most policies will require a full medical history declaration
- curable, short-term illnesses may not be covered
- most private health providers offer the option to pay on demand, so that when you need it you can opt to pay for private medical care.

Critical illness cover

Critical illness insurance provides a tax-free lump sum cash payment if you're diagnosed with one of the serious illnesses covered by your policy. Policies will vary but most will include a range of diseases and conditions.

Critical illness cover could be worth considering if you don't have enough savings to provide a buffer if you become seriously ill and unable to work.

How your adviser can help

Your financial adviser will help you to take a holistic approach to your financial planning. They will look at your lifestyle and needs and work with you to develop a protection strategy that meets your specific requirements.

Important Notice

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. The value of investments can fall as well as rise and you may not get back the amount you originally invested.

Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information. Errors and omissions excepted.