



BEGINNERS GUIDE TO PROTECTING YOUR FUTURE

According to Norwich Union, apathy is leaving 20 million adults at risk because they have no life cover or income protection. It is a sad fact that whilst most of us are **quite happy** to insure our car, our house and our travel arrangements to their full value, few of us take quite as much **care over our health and loved ones**.

This guide is designed to highlight the issues which may concern you and introduce you to the different types of cover available which can help secure your family's future. We outline what the different types of insurance could provide and also try to give you a basic idea of how to calculate the amount to cover you might need.

If any of the enclosed information needs further explanation, or you need details on how your own situation might be best served, please do not hesitate to give us a call on the number enclosed.

*Source, Norwich Union/Swiss Re, March 2008

Why would you need protection?



IT IS VERY TRUE THAT NOT EVERYONE NEEDS INSURANCE. LIFE ASSURANCE, FOR EXAMPLE, PAYS OUT A LUMP SUM ON DEATH. IF YOU ARE A SINGLE PERSON WITH NO DEPENDENTS THEN YOU MAY CONSIDER IT A WASTE OF TIME AS YOU ARE LEAVING NO BURDEN AND THAT LUMP SUM IS OF NO BENEFIT TO YOU.

For the main breadwinner in a family with small children, however, the need is very obvious. Take away that main income unexpectedly and it would not take very long before the financial stability of the family is seriously affected.

Before you make any decisions, therefore, you should consider your situation. Some of our questions (right) may help you start thinking about what is most important to you.

These are very basic and you can probably see where we are going. However, this is not just about life, this is also about the effect of being unable to work, perhaps through accident or ill health. Even for single people, if you want to make sure of your future, then you need to consider the options available to help.

Before you start...



YOU NEED TO CONSIDER YOUR SITUATION CAREFULLY. SOME OF THE FOLLOWING QUESTIONS MAY HELP YOU DECIDE WHAT IS MOST IMPORTANT TO YOU.

- Do you have young children or others who are dependent on you financially?
- How old are your dependents?
- Do you pay school fees or nursing home fees for others?
- Will these people become financially independent and if so, how long will it be?
- Do you have debts (including a mortgage) which your beneficiaries could not manage, even if only for a short time?
- Do you have any investments which might provide income if you were unable to work?
- Do you have any assets which could be sold if you were unable to work?
- Would you need to move house if you were less mobile?
- How do you travel about?
- How far are you from friends, relatives and local amenities?

Facts & figures



1

According to Liverpool Victoria, the cost of raising a child to age 21 is £186,000 – or £24.30 per day.

2

In Inner London, the cost is over £193,000.

Source: Annual Cost of a Child Survey, Nov 2007

3

Average nursing home fees run around **£340** a week or some **£18,000** a year.

Source: Royal Commission on Long Term Care Report 1999

4

Britain's personal debt is increasing by **£1m** every **five minutes**. Total UK personal debt at the end of February 2008 stood at **£1,421bn**.

5

Average household debt in the UK is **£9,100** (excluding mortgages) and **£57,050** including mortgages.

Source: Credit Action as at February 2008

6

2.44 million people have been claiming incapacity benefit for more than six months.

Source: Dept of Work & Pensions as at March 08, based on May 07

7

One in three of us will develop cancer in our lifetime.

Source: Cancer Research June 2007

8

28% of people over 65 are dependent on some form of care.

Source: The Royal Commission for Long Term Care (1999)

Life assurance



LIFE ASSURANCE IS A STAPLE FORM OF PROTECTION THAT MOST OF US NOT ONLY UNDERSTAND BUT ALSO SEE AS A NECESSITY.

The most common reason for investing in life assurance will be to cover a mortgage but it is also part of the review we undertake perhaps after getting married or, more likely, when we have children.

For a single person with no dependents, life assurance may not be necessary. If you have debts and no savings, then a small amount might be necessary to pay expenses and prevent someone else being landed with those debts. There is also an argument that you should cover a mortgage but in this case, if you are happy to pass the property back to the bank, or if your beneficiaries are more than able to cover two or three mortgage payments whilst the house is sold, then there is probably no need for it.

If you have dependents, however, you need to look at the consequences for them if your income were removed. How much do you earn? Do you have debts? How much is your mortgage or rent? Do you pay school fees? How long before your children will be working? Does your partner work? Could they continue to do so without your support? Even if you don't work, there can be a considerable cost involved in replacing what you do to look after children and/or the house.

Finally, life assurance can be used in inheritance tax planning. If your estate is above the threshold (£300,000 for 2007/08), it can prevent your beneficiaries from having to sell personal assets and sentimental treasures to meet the bill.

Health insurance



REGARDLESS OF WHETHER YOU ARE SINGLE OR HAVE 10 DEPENDENTS, IF YOU ARE SUDDENLY UNABLE TO WORK, YOUR INCOME DISAPPEARS COMPLETELY – AND THIS HAS A DIRECT IMPACT ON YOU AS WELL AS ON THOSE AROUND YOU.

Permanent Health Insurance (PHI) is less well known than life assurance but potentially has more applications. What it does is replace your income in the event you are unable to work. Typically, you can cover up to three quarters of your gross income – less any state benefits which you become eligible for.

This income is paid until retirement age, until the end of the policy term or until you are able to return to work, whichever is the earlier. Consequently, whilst you are rehabilitating or coming to terms with changes in your life, your financial position is secure and you are able to pay the same bills and keep up the lifestyle. This can be of particular benefit if you are self-employed, ie: when your job does not come with any sick pay.

PHI is considered expensive insurance, however, it comes with a choice of deferment periods and extending this to meet your own needs can reduce the costs. The more savings you have, the longer you can fund yourself before a claim needs to start paying out – and therefore the cheaper the policy will be.

Critical illness



THE OTHER MAIN TYPE OF COVER WHICH ALL OF US SHOULD CONSIDER IS CRITICAL ILLNESS COVER.

Like PHI, this pays out while you are still living but become incapacitated through serious illness or accident. Like life cover it pays out a lump sum, the objective of which is to help you fund changes which may need to be made to your lifestyle as a result of that illness.

For example, you may need to move house to be nearer relatives or friends. You may need to make changes to your existing house to meet new mobility requirements. Alternatively, you may simply want to give up worrying about money and make the most of your opportunities whilst you can.

Like PHI, critical illness can be just as beneficial, maybe more so, for single people with no dependents as it could be the only source of ongoing financial support in the event of serious illness.





Long term care



AS YOU WILL NO DOUBT BE AWARE FROM ALL THE TALK ABOUT PENSION FUNDING IN THE NEWS THESE DAYS, WE ARE ALL LIVING LONGER.

However, in doing so, another issue has arisen which is causing as much financial insecurity and issues for the State as pension funding itself – the cost of long term care.

According to the National Statistics office, the proportion of people over the age of 65 will total almost a quarter of the population by 2031. However, as we get older, we need more healthcare – and we are more likely to require 24 hour a day support than the rest of the population. The funding of long term care is one of the top political priorities. Arguments are already raging about both the quality of State care and the right of the State to insist on the sale of individuals' assets – including the family home – to help with the increasing costs of provision.

Long term care planning is a specialist area of financial planning which is designed to ensure you can pay the cost of medical expenses or care home fees if you are no longer able to live independently. There are many types of cover – from an immediate annuity, which pays an income to a care home in exchange for a lump sum, to a pre-funded insurance plan, where premiums are paid into a policy which will pay your fees in future – should they ever be required.

Long term care cover is relatively expensive – but this is because the fees in care homes are expensive, and continue to rise. Those who have equity in their houses or substantial savings may be happy to sacrifice them to help pay for any requirements in future. However, this could jeopardise the chance of handing over your assets to children or other beneficiaries later on. In addition, with no guarantee of how long care fees will need to be funded, a non-insurance approach can prove a bit of a lottery as to whether there will be enough money available to cope.

Further information



If you would like to discuss any of the issues raised in this Guide, please contact us on the telephone number enclosed. We can provide a comprehensive review of your position and put together a plan which is tailored specifically to meet your own needs.