

PROTECTION INSURANCE

There are many trials in life that can inevitably lead to financial hardship. These include death, survival following diagnosis of a critical illness, being unable to work in the medium to long-term through any injury or illness. If advised appropriately, such events need not necessarily lead to money problems that would otherwise exacerbate the worry at a time when you least need it.

Our Advisers are experienced and proficient in advising on the best way to mitigate potential financial hardship in these circumstances, matching the most appropriate products to your personal circumstances.

We use mainstream insurers whose products are not only competitively costed, but which have added benefits that are often not available when individuals arrange this type of Cover directly with an Insurer.

Essentially, the three main categories of Protection are Life Insurance, Critical Illness Cover and Income Protection Insurance (also known as Permanent Health Insurance – PHI).

Life Insurance

- Family. It is not only the protection of the family's breadwinner that needs to be addressed in the event of death, but also the homemaker, whose demise would inevitably necessitate additional expense going forward. The overheads involved in raising a young family should either parent unfortunately pass away could be vast and far beyond the affordability of the surviving parent, whether income-earning or not.
- Life Insurance can also play an important role in Inheritance Tax (IHT) planning. When written appropriately and with the relevant Trust arrangement, a Life Insurance Policy can cover the Inheritance tax due on the deceased's estate – completely tax free and without the need to wait for Grant of Probate, etc.
- Business Partnership Protection. Life Insurance can play a vital part in a partnership. It can easily and cost effectively protect a Partner's shares so that the surviving partner can buy out the deceased's partner's share from the family.

This would benefit both parties – (a) the deceased Partner’s family would benefit from the payment of a lump sum when it is most needed and (b) the surviving partner can run the business without the input of a widow or widower who may know nothing about the business.

- Key Person Insurance. This is an important form of business insurance. There is no legal definition of “key person insurance”, but in general, it can be described as an insurance policy taken out by a business to compensate that business for financial losses that would arise from the death of an important, or ‘key employee’ of the business.
- Relevant Life Policy. This is a tax-efficient life insurance policy, allowing companies to offer a death-in-service benefit to individual employees (including salaried directors). It is set up by the company and pays out a tax-free, lump sum on the death of the person insured. The proceeds go directly to the employee’s family or financial dependants.

Critical Illness

Critical Illness Insurance is a policy that pays out a Tax-Free cash payment if you survive for 14 days following diagnosis of any one of the specific illnesses on the Insurance Company’s predetermined list. The Policy terms contain specific explanations that define the term ‘critical illness’ relating to any of the medical conditions covered. They may state that the diagnosis need be made by a physician who specialises in that illness or condition, or they may name specific tests required – for example, an ECG to monitor changes of a myocardial infarction, that confirm the diagnosis of a heart attack.

Critical Illness Cover can be a ‘bolt-on’ to a Life Insurance Policy, so that one Policy can provide a payout:

Either on Death or earlier diagnosis of a Critical Illness (in the case of a critical illness claim, the policy would terminate and there would be no further Life Cover)

Or on the diagnosis of a Critical Illness, and then subsequently a further payout (the same amount again) on death within the Policy term.

The Policy term would be chosen at outset, be that 10, 20, 30 years or for life – depending on your needs and circumstances.

A Critical Illness claim can solve many would-be financial hardships caused through a family member’s diagnosis – for example:-

- Repaying all or part of your mortgage and/or short-term debts, to alleviate some of your regular outgoings when income could be cut off suddenly.
- To provide a lump sum payment to enable a re-modelling of your home – or a move to single storey accommodation – should the outcome of the illness so require.
- To provide an income to allow you to pay for full or part-time care as a result of the illness suffered.
- Or, assuming you survive the ‘event’ for 14 days after diagnosis and you can return to ‘normal life’, the money received can be used for any purpose of your choosing.

As with Life Insurance, a Critical Illness Policy can be ‘indexed’ annually, so that the amount of Cover increases by a given rate (e.g. 3 or 5% or by the rate in rise of the Retail prices Index). Naturally, the monthly premium you pay will also increase to meet the cost of the additional Cover, but these annual increases are without the need for any further medical evidence of health, once the initial underwriting has been completed at the start of the Policy.

Various benefits can be added, including: 'Waiver of Premium' and 'Total Permanent Disability' benefits to name but two – which we will be happy to discuss with you.

There is no limit set on how much Cover you can apply for, though most insurers will require justification over certain amounts.

Income Protection Insurance

This is also known as 'Permanent Health Insurance (PHI) and provides a replacement income if you are unable to work through injury or illness (any illness). This income is payable to you free of tax and no 'reporting' for tax purposes is necessary.

There are limits of Cover applicable, and the various choices to be made at outset include:-

- Termination age of the Policy (e.g., 60 or 65 to coincide with retirement, perhaps).
- The 'deferred period' – i.e. how many weeks after you become unable to work you will be prepared to wait before receiving the replacement income from the Policy.

This could be 4, 13, 26 or 52 weeks, depending on your financial circumstances. You may choose a deferred period that dovetails into a benefit you may have at work, for example, full pay for 3 months, then half pay for 3 months. We would help you with such a decision based on your personal situation. (Obviously, the shorter the deferred period, the higher the monthly premium).

- How much of your income to cover. You can usually insure up to 50% of your 'net relevant earnings' and still claim 'state benefit'.

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**Contact us about Protection Insurance on 020 3114 2112
or email mail@sycamorewealth.co.uk**