

# *What you need to know...*

## **Insurance & Family Protection**



*Offering Independent Mortgage Advice*

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## Why does it matter?

Taking out appropriate insurance is a way of safeguarding you and your loved ones, your home and your belongings against whatever life might throw at you. From minor mishaps to major upheavals; the right cover makes sure you don't end up losing your home, seriously in debt or severely out of pocket.

**TOP FACT:** Organising financial protection for you and your family is so important it is top of the Financial Conduct Authority's priority list of financial arrangements to be put in place by individuals ahead of pensions, savings and investments.



## Why is it so essential?...consider the UK's Health Statistics



### Cancer

- **1 in 2** people born after 1960 will be diagnosed with cancer during their lifetime.
- 359,960 new cases of cancer in the UK each year, that's nearly **990 every day**
- **50% of people survive** cancer for 10 or more years
- **4 out of 5 people** with cancer incur additional expenses each month because of their illness

Sources: Cancer Research UK 2017-2019 | Macmillan – People with Cancer Report July 2017



### Heart Disease

- Coronary heart disease is the UK's **single biggest killer**
- Every **7 minutes** someone in the UK will have a heart attack
- Over 1.6m men and over 1m women are living with Coronary Heart Disease
- Today **at least seven out of 10 people survive** a heart attack.

Sources: Heart UK, 2019 | British Heart Foundation, 2014 & 2017



### Stroke

- Every **5 minutes** someone in the UK will have a stroke
- Around **one in four** strokes happen to **people of working age**
- 600,000 men and 600,000 women are living with the after effect of a stroke
- Almost **two thirds of stroke survivors** leave hospital with a **disability**.

Source: Stroke Association, 2017



### Multiple Sclerosis (MS)

- Around **100,000 people currently live** with the disease
- MS is **most often diagnosed** in people in their **20s and 30s**.
- Approximately **three times as many women** have MS as men.

Source: Multiple Sclerosis Society, 2017 | NHS Choices, 2018



## ...but hang on, the State will help – won't they?

**The state may help a bit  
– but not enough and not for long**



One of the main reasons people may choose not to take out insurance, is that they think the state will take care of them or their loved ones if they were to become disabled, critically ill or die.

### But how much might the government provide, should the worst happen?

The good news is that the state will give you **£94.25 a week** for up to 28 weeks if you can't work due to ill health. But not everyone is eligible for Statutory Sick Pay - it's only available for people who are employed, and Tax and National Insurance are still deducted from your payments.

The bad news is at the end of 2017 the average UK family was spending **£53.30\*\*** a week on food alone. That doesn't leave much for all your other monthly expenses.

(Sources: \* GOV.UK | \*\* ONS, Household expenditure in the UK, financial year ending 2017)

Reason claimed	State benefit	How much paid?	For how long?
<b>Illness</b>	Statutory Sick Pay (SSP)	<b>£94.25 a week</b>	Maximum of 28 weeks
<b>Illness and Disability</b> For example applies when SSP finishes after 28 weeks	Employment and Support Allowance	For a Single person: Assessment Phase <b>Under 25 – up to £57.90 a week</b> <b>Over 25 – up to £73.10 a week</b> Main Phase: Single person <b>Work-related activity grp– up to £73.10 a week</b> <b>Support group – up to £110.75 a week</b>	Assessment Phase (first 13 weeks) Main phase (depends on circumstances)
<b>Long-term health condition</b> Or disability, which includes difficulties with activities related to 'daily living' and or mobility	Personal Independence Payment (PIP)	Personal Independence Payment has two parts called 'components' <b>Daily living component* – max £85.60 a week</b> <b>Mobility component** – max £59.75 a week</b> Some people will be entitled to get just one component, others may get both	Depends on circumstances *a care component (if you need help looking after yourself or managing your medicines or treatments) **a mobility component (if you can't walk or need help getting around)

### If your spouse or registered civil partner died on or after 6 April 2017

Bereavement Support Payment	If you have children under 20 years in full-time education. <b>£3,500 and monthly payments of £350</b> If you don't have children under 20 years in full-time education. <b>£2,500 and monthly payments of £100</b>	Up to 18 months
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Rates correct as at April 2019. This is just a guide. Complete details can be found on the Department for Work and Pensions website [www.dwp.gov.uk](http://www.dwp.gov.uk)

**WHAT PROBLEMS COULD RELYING ON JUST THE FOLLOWING BENEFITS CAUSE YOU?**



Before getting bogged down in the details of different benefits, **you need to be clear on what type of insurances are right for you.** Here is a brief overview of core protection policies to help you out:

Life insurance	
Type of Payment	One lump sum payment
When would I make a claim?	On death of the person insured or if they are diagnosed with a terminal illness
Common reasons for claims being paid	Death or on diagnosis of a terminal illness
Examples of why a claim could be declined	Misrepresentation on the policy application form, for example, stating the person insured was a non-smoker but they died of smoking-related lung cancer
Can I make multiple claims?	No
Policy length (time you're covered for)	The policy ends if a claim is made or the policy term ends
How the claim payment could be used	To pay any outstanding debts including a mortgage and credit cards, pay funeral costs and leave money for loved ones.

Critical illness insurance	
Type of Payment	One full payment and possibly other smaller additional payments.
When would I make a claim?	Payment on diagnosis of a specified condition covered in the policy conditions
Common reasons for claims being paid	On diagnosis of cancer, heart attack, stroke, total permanent disability and multiple sclerosis (see an insurers policy booklet for full details of conditions covered)
Examples of why a claim could be declined	Claims made for a condition not covered in the policy, for example, a customer claiming for a heart attack but medical evidence showing they had suffered an angina attack.
Can I make multiple claims?	Yes, but you will only receive one full payment. However, multiple claims could be made on the listed additional payment conditions.
Policy length (time you're covered for)	The policy ends when a claim is made on one of the full payment conditions, or when the policy term ends
How the claim payment could be used	To cover immediate medical costs, pay off a mortgage or other debts and make adjustments to the home (if needed)



Income protection plan	
Type of Payment	A weekly or monthly payment. (Average claim is about 5 years).
When would I make a claim?	When the person insured is unable to work due to an illness or an accident. It's usually paid after an initial waiting (deferred) period
Common reasons for claims being paid	Being unable to work due to suffering with cancer, bad back, mental health issues (stress / anxiety) and accidents.
Examples of why a claim could be declined	A customer saying they're not well enough to work but their GP disagrees
Can I make multiple claims?	Yes, until the policy term ends
Policy length (time you're covered for)	The policy ends when the policy term finishes
How the claim payment could be used	To allow you to continue to pay monthly bills; such as; a mortgage, rent, car insurance and utility bills

## Insurers don't usually pay-out...do they?

### NATIONAL INSURANCE CLAIM STATISTICS



98% of **ALL** protection claims were paid in 2017



92% of all Critical Illness claims were paid in 2017



87% of all Income Protection claims were paid in 2017

Source: Association of British Insurers - [www.abi.org.uk](http://www.abi.org.uk)





## LIFE INSURANCE

### THE BASICS

A lot of lenders will only provide the mortgage if certain conditions are met. Your Prospect Mortgage adviser will notify you of any insurance conditions with your mortgage choice and can ensure these policies are put in place for you.

**We work with a selected panel of insurers including some of the largest providers in the UK**  
(e.g. Aegon, AIG, Aviva, Legal & General, LV=, Royal London, Scottish Widows, Vitality & Zurich)

### Life Insurance – Mortgage Protection / Decreasing Term Assurance

This type of plan will pay a lump sum if the life assured dies or is diagnosed with a terminal illness (usually with a life expectancy of less than 12 months) within the term of the policy. The funds could be used to part or fully pay off your mortgage. If the policy is set up properly, the total sum insured will decrease in line with the outstanding mortgage balance during the mortgage term.

### Level Term Life Insurance

Level term insurance policies have a known level of cover that does not change or decrease which will be paid out in the event of death or diagnosis of terminal illness (usually with a life expectancy of less than 12 months) within the term of the policy. The funds could be used to part or fully pay off your mortgage, other outstanding debts, funeral costs or to leave money for loved ones.





### Whole of Life Insurance

Whole of life insurance is a type of policy that **guarantees** an insurance provider will pay out a lump sum to your loved ones when you die, rather than only if you die within a fixed time frame. The funds are often used to pay for funeral costs and as part of inheritance planning. This enables a person to plan with confidence in leaving monies for loved ones or to cover any potential inheritance tax bill that might be levied against an estate.

### Family Income Benefit (FIB)

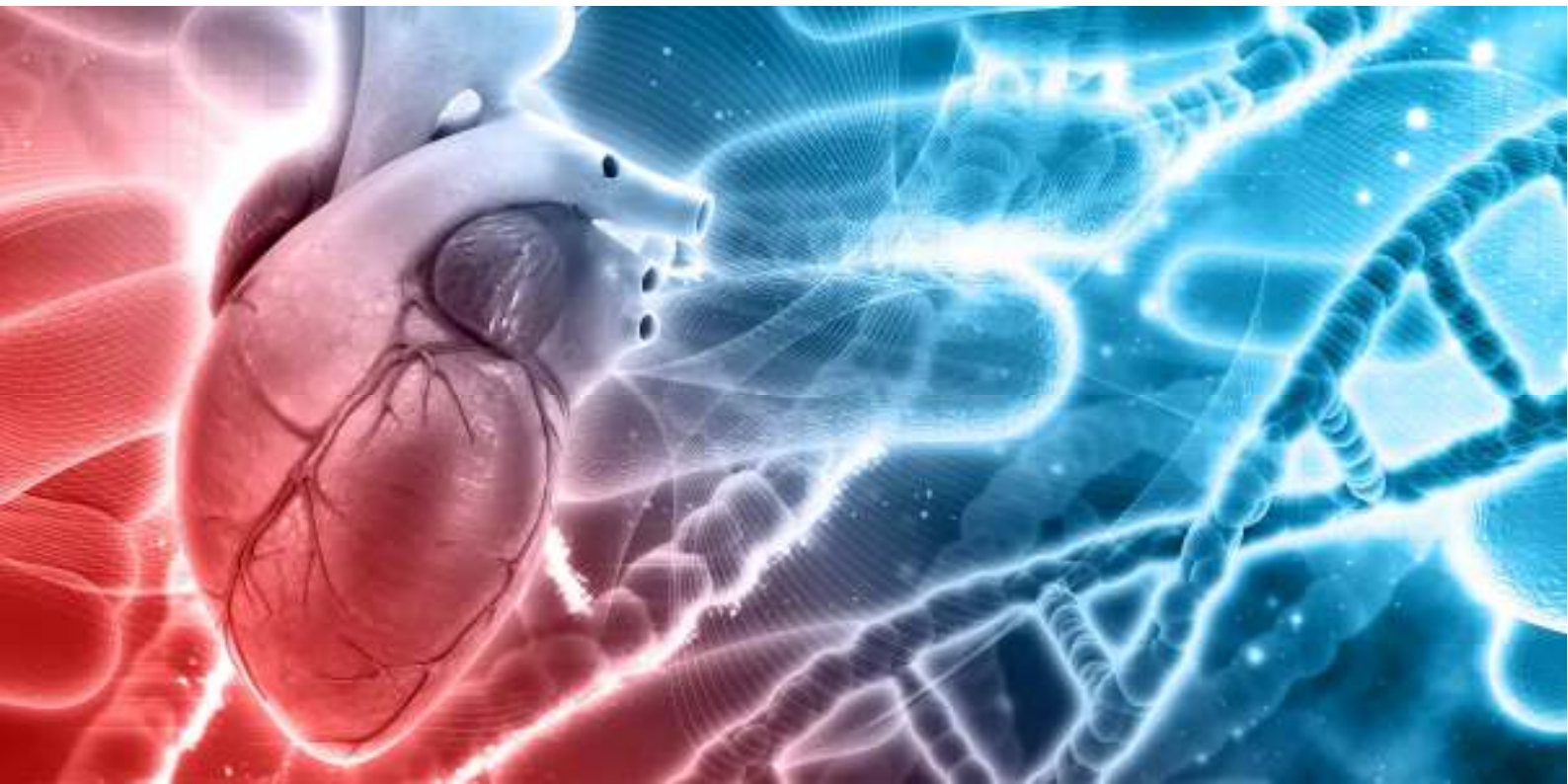
Another form of life cover is called Family Income Benefit. This is designed for parents with children and offers good value protection plans. Rather than delivering a lump sum should you die, it provides a regular, tax-free, monthly (or annual) payment for your dependants – from the time of the claim to the end of the plan term. This enables parents who wish to protect themselves against the loss of an income if a spouse or partner was to die. Family Income benefit plans can also form part of divorce settlements. By setting up a family income benefit policy the recipient of the maintenance payments is protected should the insured die before the children become financially independent.



*I would write the word 'insure' upon the door of every cottage...because I am convinced, for sacrifices so small, families and estates can be protected against catastrophes which would otherwise smash them up forever*

**Sir Winston Churchill 1909**





## CRITICAL ILLNESS INSURANCE

### THE BASICS

Critical illness Cover (CIC), also known as critical illness insurance, is a long-term insurance policy which covers serious illnesses listed within a policy. If you are diagnosed with one of the illnesses stated in the policy then a critical illness policy will pay out a tax-free, lump sum payment.

### How does it work?

More insurers are including additional payment conditions within a policy which qualify for an additional lump sum payment over and above the amount insured, (e.g. £25,000 or a specified percentage of the total sum insured). Cover for these less severe conditions (e.g. some low-grade cancers) add extra value to a critical illness policy and could result in a person receiving more than the total sum insured if they later claim for a condition qualifying for a full payment pay-out.

A critical illness insurance policy ends when a claim is made on one of the full payment conditions, or when the policy term ends. The benefits of a critical illness policy can help to pay for a mortgage, private medical costs, rent, debts, or alterations to your home, such as wheelchair access, should you need it.

Definitions of a critical illness vary between different insurers and you should review a list of which illnesses are covered within the **Key Facts Document** when reviewing any policy proposal.





### Examples of critical illnesses that might be covered include:

- Cancer – excluding less advanced cases  
(less advanced cancers maybe covered as an additional payment condition)
- Coma
- Dementia
- Heart attack
- Kidney Failure
- Liver Failure
- Multiple sclerosis.
- Parkinsons Disease
- Stroke
- Total and permanent disabilities as a result of injury or illness.

### Other points to consider



### Critical Illness Cover for your children

Often children can be covered under the parent's policy for a small additional cost or sometimes at no extra cost. If a child is diagnosed with one of the specified critical illnesses then an additional pay-out over and above the amount insured, (e.g. £25,000 or a specified percentage of the total sum insured) could provide financial support to help care for them at home or allow a parent to take leave from work.

### Fracture cover

Often an optional extra which can be added to a critical illness policy. A person will be paid a lump sum if they're diagnosed with a specified bone fracture. There is usually no waiting period and clients can spend the money on whatever's important to them, although they might use it to cover a shortfall in income or pay expenses associated with their injury.



**TOP FACT:** Every year, one million workers in the UK unexpectedly find themselves unable to work because of injury or illness, according to the Association for British Insurance (2015).





## INCOME PROTECTION PLAN

### THE BASICS

How would you pay the bills if you couldn't work? Most of us don't even want to think about it which is why 30% of employees in the UK don't have any financial back-up plans if they were affected by long-term critical illness, disability, loss of salary, redundancy, or death.

Most people can't rely on savings to get them through. 23% of UK households do not save any of their income each month and even though households on average in the UK have just over £6,500 in savings this could be quickly depleted.

**Your income should be one of the first things you protect, helping to ensure your monthly outgoings are covered.**

From mobile phones and pets, to cars and even fridges, **people protect everything except themselves, their lifestyle and what pays for it.** For example, it is reported that people are four times more likely to have pet insurance than income protection. If you don't insure your income, how can you pay for everything else? The main objective of an income protection policy is to give you a monthly tax-free income, which can be used to help pay your bills, your mortgage or even medical costs as you re



### How does it work?

To apply for an income protection plan you would usually need to be over 18 and be working either employed or self-employed.

All income protection policies stipulate a maximum income benefit limit. Typically, this is in the region of 60–75% of your monthly net earnings in the year prior to sickness/injury.

Benefits from other income protection policies will usually be taken into account, and it is common for State incapacity benefit to be taken into account in calculating the benefit limit.



### How long do I have to wait before I get paid?

The benefit will normally start at the end of an initial waiting (or deferred) period, which is normally **4, 8, 13, 26 or 52 weeks** long. This waiting period is usually set depending on how much support you might receive from an employer. As an example, an employer might provide support to an employee of full pay for up to 6 months, where others might operate a limited statutory sick pay arrangement – so check this out carefully before deciding on your waiting period.

The longer the waiting (deferred) period the cheaper your premium will be, but you will have to wait before you receive your money.



### How long do I get paid for?

Your benefit could be paid for as long as you are sick/injured during the policy term – this is called full term cover

Alternatively, you could set up a policy with a limited payment term where the benefit is payable for a maximum set period (e.g. 2-years). Usually, once you've gone back to work for a period of time (e.g. six months) you can claim again.

In both cases, payments stop when you recover and return to work, you die or the policy term expires. The policy term is usually linked to your expected retirement age.





### When can I claim?

You will receive your monthly benefit if you're unable to perform your own job role due to ill health, accident or sickness.

Usually it is required that you are unable to do **the main tasks of your occupation** and that you aren't doing **any other paid or unpaid work**. By main tasks these are generally the things which can't reasonably be left out of your job role, by you or your employer. You aren't expected to go back to work in a different occupation - for as long as you are unable to do your normal occupation; your policy will continue to pay out

### How many times can I claim?

Generally, policies allow you an unlimited number of claims during the term of your policy.

With limited payment term policies (e.g. 2 years), if you have reached the end of your limited payment term you cannot claim again until you have gone back to work for a specified period of time (usually 6 months).



### Choose whether your benefit goes up over time

You likely expect your income to increase over time. Given that many income protection policies are long term policies, often running for decades, you might decide that your benefit increases each year without you needing to answer any further lifestyle / health questions. This is called '**increasing cover**'. Often people link the increase in benefit to a fixed percentage (e.g. +3%) or link the increase to the Retail Price Index (RPI). It is important to note that as your benefit goes up so does your premium.





## ACCIDENT, SICKNESS & UNEMPLOYMENT PLANS

### THE BASICS

Designed with similar objectives and functionality to a traditional income protection plan the key difference with an Accident, sickness and unemployment (ASU) plan is that they are **general insurance products with annually reviewable premiums offering shorter term cover** (maximum 24 months).

It is good to note though that redundancy or unemployment cover is a rare commodity in the insurance world. So, while long-term income protection policies are in the main more comprehensive, they are not designed to protect people against redundancy. Another perceived benefit of ASU plans is that they have a simple underwriting strategy. In respect of pre-existing medical conditions these are usually overlooked if you have been symptom-free in the 12 months before the policy start date.

### How does it work?

- Customarily provides a monthly tax-free income of up to 60-70% of your gross monthly income
- You must be over 18 years and working at least 16 hours per week and live in the UK.

*Generally, if you are*

- **Employed** – you must have been with your employer for at least 6 continuous consecutive months,
- **Working under a fixed-term contract** – you must have been with your current employer for at least 24 continuous consecutive months
- **Self-Employment** – you must have been trading for at least 6 continuous consecutive months.

Please note that customarily ASU plans carry an exclusion that any sickness contracted within an initial exclusion period (often 30 or 60 days) after the policy start date will not be covered.



## Other things to consider



### Joint or single policies?

Sometimes it is only slightly more expensive to own individual plans rather than a joint life policy and is therefore much better value for money, as potentially two separate policies can offer double the pay-out should both parties die during the policy term.

### Fixed Premiums or Reviewable Premiums?

Some companies offer guaranteed or fixed premiums, whilst other plans reserve the right to review premium levels on a periodic basis. There is usually a small additional charge for the advantage of guaranteed premiums for the duration of the term of a policy.



### Waiver of Premium

Sometimes known as payment protection (PPI), this option ensures that premiums continue to be paid in the event that you are unable to work as a result of an accident or sickness. This benefit commences after a specified waiting time, referred to as the deferred period.

### Policy exclusions

You probably won't be covered for health problems you knew you had before you took out the insurance. This will be decided during the application underwriting process and any exclusions will be specified on your insurance policy documents. You will have the opportunity to accept the terms you are offered by an insurer before your policy begins.





## DON'T BE FOOLED...NOT ALL POLICIES ARE THE SAME!

**Insurance is a very personal thing - different policies suit different people.**

Some are very basic and focus more heavily on the up-front cost. Others come with plenty of added extras to give you more reassurance. Then there are those that concentrate on service and supporting you when you need to make a claim. They all have their pros and cons, but ultimately it comes down to your individual priorities.

**Price is important, but the cheapest insurance in the world is no use if it doesn't cover what you need it to.**

### DEFAQTO STAR RATINGS – BASED ON FACTS, NOT OPINION

Defaqto do all the hard work for you when you come to choose insurance products. Defaqto analyse policies, terms and conditions and rate them on a scale of 1 to 5 based on the quality and comprehensiveness of the features and benefits they provide.

A 1 Star rating indicates a basic product, with a low level of features and benefits, while 5 Star products have a high level and indicate a comprehensive product.



**At Prospect Mortgage Services we can help you cut through the fog and clearly outline customised recommendations for you to consider based on your preferences.**





*We can tailor a customised protection package in line with your priorities and available budgets,*

## REMEMBER - WE ARE HERE TO HELP

With so many options available in today's market, insurance can be a confusing business. We are here to help make the process clearer and easier. We can **research the market** on your behalf. If you have a pre-existing medical condition we will liaise directly with insurers' underwriting teams to see who might offer you the best terms possible. The process is often quicker and easier than trawling the internet yourself and you have the peace of mind that the policy selected is comprehensive and tailored to your personal needs.



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