

## Ways to protect you, your income, and family

This is about things that you may prefer not to pay for, but you (or your family) would be mightily relieved should there need to be a claim down the line

### Life Cover

Lump sum payout on the death of the insured

### Critical Illness

Lump sum payout if you suffer an illness such as heart attack, cancer or stroke

(if specified in the policy)

### Income Protection

Pays out a monthly income if you're unable to work through illness or injury

**98% of all  
Protection  
Claims were  
paid out in 2020**

(Source: Association of British Insurers, May 2021 release)

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# PROTECTING YOU

COVID-19 has had a massive impact on all of us and highlighted, for many, the importance having, taking up, or just simply reviewing the types of **Protection Insurance** we have in place.

» There are various types of protection cover on offer, meeting differing needs such as paying out on loss of life, or loss of income due to a serious illness or injury.

Going back to pre-pandemic times, many people would have entered 2020 in robust physical, mental and financial health, but could now find themselves in a totally different place. Mental and physical health concerns are very much front of mind. And with the recession, furlough, and the impact on entire market sectors, people's financial resilience may have taken a battering too.

In fact, recent research shows that around one in four are now deemed to be financially vulnerable. (Source: Financial Conduct Authority, *Financial Lives 2020 survey, February 2021*)

## What can be done...

In this issue we look at some of the key areas where different types of insurance may deliver the protection you need.

Of course, we understand that some will still view protection insurance as something that is simply *'not for them'*, or it is *'too expensive'*, or they *'don't believe the insurer would pay out in the event of a claim.'*

To counter this, we show that the overall payout of claims is actually 98%.

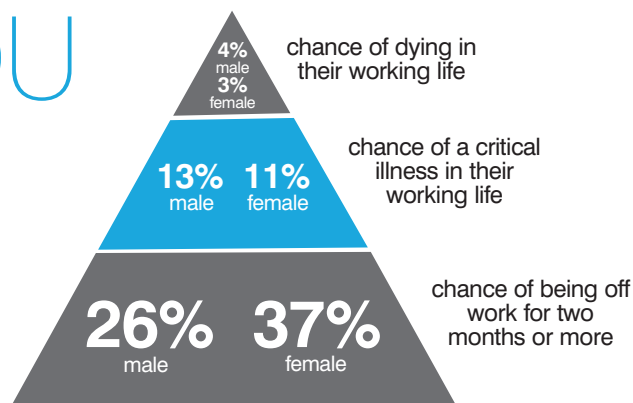
As far as the cost of it goes, you may be pleasantly surprised once we look at what's on offer for you. And the pandemic has generated more interest, with around 1 in 6 people now saying they're more likely to

consider taking up a protection product.

(Source: *Dremberry, Q1 2021 survey*)

As for it's *'not for them'*, surely it's better to have something in place (and possibly never need it), than suddenly need something (and not have it)?

**Life Cover** is a key piece of insurance to have in place, but as the chart above shows, you're possibly at greater risk of being **off work for two months or more**, or **suffering a critical illness** across your working life. And can you be sure your income stream won't be affected?



## Risks faced by both male and female of working age

Both aged 30, non-smokers and plan to retire at 65

(Source: *Royal London, State of the Protection Nation, June 2019, referencing Pacific Life Re research*)

# Are **YOU** the major financial asset?

People may think that their home is their biggest financial asset. Yet, in most cases, it's actually the wage earner(s) in the household. This is where an **INCOME PROTECTION** policy could deliver some peace of mind.

» The average annual income is about £30,000. Across a working lifetime (discounting inflation), this could equate to about £1.4m, which is almost six times the current average value of a UK home - circa £243,000. So, surely it makes sense to **protect this income stream** (and perhaps the same also for your partner, if relevant).

(Sources: *Office for National Statistics, Weekly Earnings, April 2021; Nationwide, House Prices, May 2021*)

## Could it happen to me?

Many of us will feel that we'll never be off work for a long period due to a ill health, or injury. But it does happen; and to many. For example, around 2m people in the UK are off work at any one time due to long-term sickness.\* How would these

people cope when, on average, they are just 24 days from the breadline if their income stream is diminished.\*\*

(Sources: *\*Office for National Statistics, Labour market overview, May 2021; \*\*L&G, Deadline to Breadline, Nov. 2020*)

## Support that may be on offer

The upside (unless you're a contractor or self-employed) is that you may, initially, benefit from ongoing financial support from your employer. This is if you were off work due to an illness, or injury - although it's likely to be there for just a defined period. Plus there's limited state support to try to access too.

In which case you need to look at how you might cover any income shortfall, and this is where you could take out an **Income Protection** policy. If you benefit

from employer support for a limited period, then you could defer payouts from the Income Protection policy for that timeframe, and see lower premiums as a result.

Income Protection will generally cover up to around 60-65% of your gross income, and dependent on the type of product you opt for, it could be a tax-free monthly payout until you're well enough to return to work, retired or died, whichever occurs first.

Alternatively, if a lower monthly premium is better for your pocket, then you could opt for a scheme that only pays out for a specific period of time.

**As with all insurance policies, terms, conditions and exclusions will apply.**

Over £200m  
has been paid  
out by insurers  
for deaths  
attributable  
to COVID-19  
(Source: Association of British  
Insurers, March 2021 release)

In 2019, in pre-COVID times, as many as 604,707 people died in the UK (that's more than 1 a minute). If this is not bad enough, in 2020 (as we encountered the pandemic) 690,439 died - an 85,732 increase!

(Source: Office for National Statistics, National Records Scotland, and Northern Ireland Statistics & Research Agency, actual 2019 figures & provisional 2020 data)

# Looking after others

» Hopefully, most of us will live a long life, but COVID has sadly shown that many families have experienced unexpected personal loss, or know of people who have died.

Plus, it's not just the pandemic that you need to consider. In a normal year, such as 2019, 605,000 people still died from a multitude of ailments, such as cancer, heart diseases and dementia & Alzheimer's. That's more than one person a minute.

If you have people who are financially dependent on you, then you really should consider having an element of **life insurance** in place.

This is often set up to ensure that the mortgage can be paid off. Ideally, you may want to exceed that amount to provide additional funds for those left behind, enabling them to get through a difficult emotional and financial period, as painlessly as possible.

Also, it's **not just homeowners** that should consider taking out a life plan, the benefits would be **equally applicable to those renting**.

Of course, you will need to balance any 'personal' life cover with any 'death in service' benefit that may be in place through your employer.

## Different types of cover

There are different options, such as:

**Level term** - you choose the tax-free amount you want to be insured for, and the period for which you require cover. If you die within

the term, the policy pays out.

**Decreasing term** - the actual amount paid out on a successful claim reduces over time. This may be relevant if you have a repayment mortgage, where it could reflect the reducing loan amount owed.

For all term assurance plans, should you not die within the policy period, then it doesn't pay out, and the premiums you've paid are not returned to you.

## Add Critical Illness Cover

Whilst you may feel death is a long way off, suffering a critical illness such as a heart attack, stroke or cancer, might be a greater cause for concern.

Once we've gone through your needs and budget, then it may make sense to add this element to your life cover. In the event of a successful critical illness claim, your life cover element should still continue to insure you.

## Consider setting up a Trust

Writing life insurance in trust is one of the best ways to protect your family's future in the event of your death.

- Trusts are a straightforward legal arrangement that's a sensible option in most cases.
- You decide on who benefits – this is important if you're not married or in a civil partnership, as the life cover payout may not transfer to the intended recipient.
- Faster access to the tax-free payout. If a trust is not in place when you die, your

beneficiaries would need to obtain probate, which can cause delays. With a trust arrangement, your beneficiaries could receive their inheritance shortly after the death certificate was issued, with possible tax benefits too.

**We can assess your particular needs and identify a suitable route forward.**

**As with all insurance policies, terms, conditions and exclusions will apply. The Financial Conduct Authority does not regulate trust advice.**

## 2020 CLAIMS PAYOUTS

98% of all claims were paid out in 2020, equating to £17m a day!

### Life Cover

- 99.5% of all claims were paid out.
- Average payout of £79,304 (term), £4,026 (whole of life).

### Critical Illness

- 91.3% of all claims were paid out.
- Average payout of £67,011.

### Income Protection

- 86.5% of all claims were paid out.
- Average payout of £22,170.
- Average length of claim could be around 6 years.\*

(Sources: Association of British Insurers, 2020 data, May 2021 release; \*2020 claims data from LV and Aviva)



# Managing your Costs

Whilst you may recognise the benefits that **Protection insurance cover** could deliver for you and your family, there are likely to be many demands on your income stream. If cost is an issue, then do consider these two products that may better suit your pocket.

## FAMILY INCOME BENEFIT

General life cover that pays out a lump sum (if a valid claim is made) is often in place to help settle the outstanding mortgage. That's a great help, but for the partner left behind and their children, what about ongoing everyday items such as food, clothes, utility bills, childcare, or other expenses like holidays and university costs?

This is where a **Family Income Benefit** plan could deliver much-needed support. In the event of death, it would provide a

regular tax-free income for your loved ones from the time of the claim to the end of the plan term.

It's often taken out over a 10 to 20-year term, or whatever may be appropriate in your circumstances. The idea is that should you have a valid claim, then it's in place to **pay out until the children have grown up**.

It's generally viewed as a good value plan, because the potential 'total' payout over time decreases the further through the policy you get, which is reflected in a lower premium cost.

## How it works

If you took out a 20-year term, which was set up to pay out £20,000/year and it was claimed against after one year, then the family would receive £20,000/year for the next 19 years, equating to a total payout of £380,000 (if there was no index-linking).

However, if for the same plan, there wasn't a claim until 18 years into the policy term, the total payout would be just £40,000. If, fortunately, there was no claim at all within the 20-year period, then the policy simply runs the whole term without any payout.

## SHORT-TERM INCOME PROTECTION

Income Protection is designed to pay out a tax-free monthly sum in the event that you can't work due to illness or injury. If you like the idea of having this type of cover, but want to minimise your outlay, a **short-term version** is also available. This could still deliver important financial support (if still off work) for generally one to two years - and even up to five, in some instances.

**You may think you can't afford protection cover at the moment, but can you afford not to have any at all?**

**As with all insurance policies, terms, conditions and exclusions will apply.**

How to find those extra £s  
(if lockdowns haven't already made those savings for you!)

Putting aside the money to fund a Protection plan may be easier than you think when you consider all those little items we may take for granted, like the odd drink or a magazine. We don't expect you to give up all of life's little luxuries, but if you cut out just one unit each week of the items below, then you could save around £150 across a month. In many cases, that'll be more than you need to cover the cost of a protection policy.

Treats	£ Cost/unit (est.)
Soft drink	1.00
Snack	1.00
Magazine	1.50
Coffee (takeaway)	2.50
Pint of beer or lager	3.50
Glass of wine (175ml)	3.50
Taxi	5.00
Cigarettes (pack of 20)	10.00
Takeaway meal	7.00
<b>Total =</b>	<b>£35.00</b>



# RELAX: Workplace Life Cover

A **Relevant Life Plan** enables businesses to offer **Life Cover** to its employees (including salaried directors), and may bring with it a number of advantages...

» Relevant Life Plans are life cover plans set up by employers for employees. They are designed to pay out a lump sum to the family of the person covered, should they die (or possibly be diagnosed with a terminal illness) across the period of the cover. The plan could be in addition to any other 'personally funded' life cover that might be in place.

It's largely designed for **small and medium-sized businesses**, although it's not generally available to sole traders, equity partners of a partnership, or members of an LLP set-up.

## Tax-efficiency

A Relevant Life Plan can be a tax-efficient way to secure some all-important life cover. In this respect, do take advice from an accountant if you want further clarification.

Even though the company makes the payments (a saving for the employee on premiums against paying personally for life cover), it's not typically treated as a 'benefit in kind', and would therefore not be included in the employee's income tax assessments.

Also, those with a substantial pension pot may benefit, as the plan will not form part of the lifetime pension allowance.

And, as the plans are generally written into trust, any payout should not form part of the deceased's estate, with possible Inheritance Tax benefits, plus it could be paid out quite swiftly.

Additionally, the payments may also be an allowable expense for the company when calculating its own tax liability.

## It's transportable

Writing the plan under trust, also provides flexibility when it comes

to stopping or changing employment, as the plan can be converted into a 'personal policy' should the person leave employment. Although if the 'life covered' starts to pay the premiums, then some tax advantages may no longer apply.

Alternatively, if there's a move to a new employer, and that employer is willing to take on the Relevant Life Plan, and any required change to the trustees, then it can simply move across.

## To Re-cap

- The Company takes out a Relevant Life Plan.
- The Employee's life is insured at the agreed multiple level.
- The Relevant Life Plan is put in Trust with the Beneficiary(ies) chosen by the Employee.
- If the Employee dies during the term period of the plan, a claim is made by the Trustee(s).
- The plan pays out to the Trustee(s), who would then make arrangements to pass on this payment to the Beneficiary(ies).

**Whatever your status, do talk to us to find out if a Relevant Life Plan could be a suitable option for you.**

**As with all insurance policies, terms, conditions and exclusions will apply.**

**HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.**

**The Financial Conduct Authority does not regulate trust and taxation advice.**

## IT'S MOST SUITABLE FOR:

- High-earning directors and employees who don't want their death-in-service benefits to count towards their lifetime pension allowance.
- Small companies, with too few members for a group life scheme, that want to provide employees and directors with tax-efficient death-in-service benefits.

■ The contents of this newsletter are believed to be correct at the date of publication (June 2021).

■ Every care is taken that the information in the *Protection Bulletin* is accurate at the time of going to press. However, all information and figures are subject to change and you should always make enquiries and check details and, where necessary, seek legal advice before entering into any transaction.

■ HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

■ The information in this newsletter is of a general nature. You should seek professional advice tailored to your needs and circumstances before making any decisions.

■ Please contact us if you'd like to discuss your protection needs:

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