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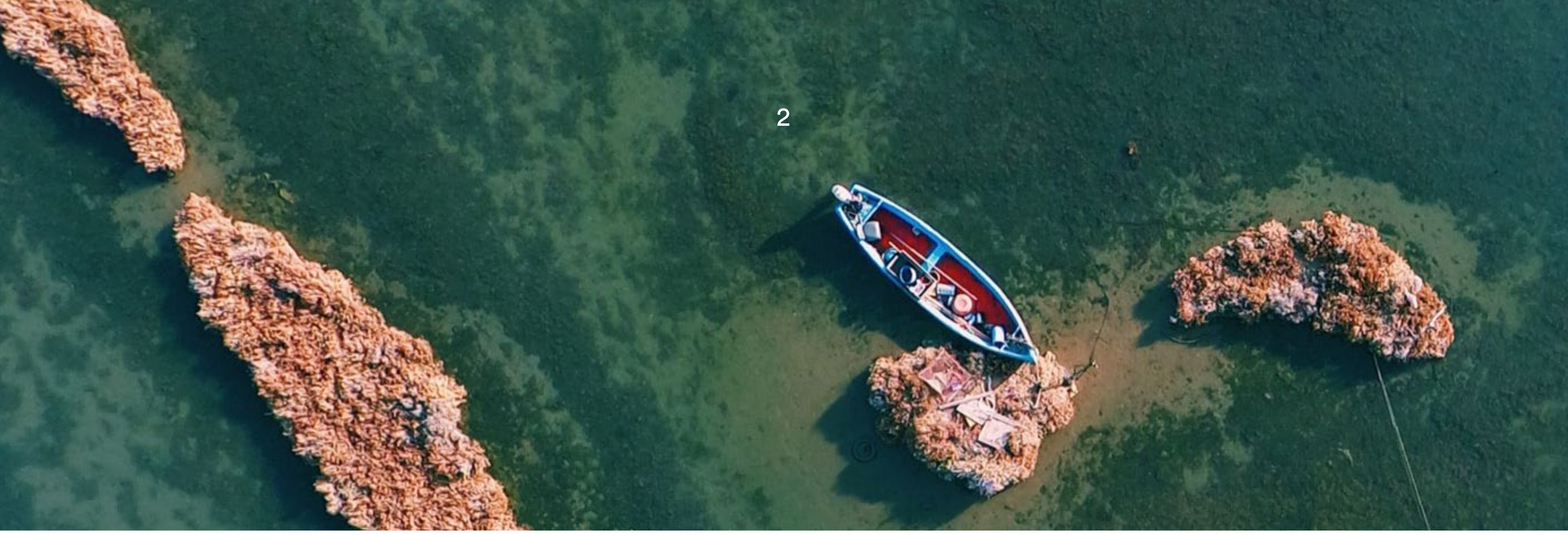
Hartsfield
Planning

8 things to check when you're selecting a protection product

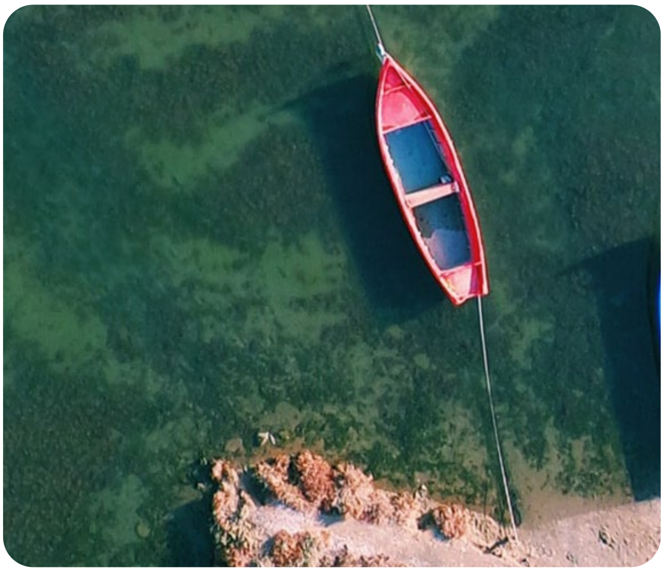


Introduction

Have you taken out a financial protection product? It's a step that can help improve your resilience and give you peace of mind.

Whilst you may think financial protection isn't needed, many circumstances are outside of your control and could have an impact. If you were to become ill or involved in an accident, would you still be able to keep up with financial commitments? If you could, how long for? Financial protection can give you some security in these types of situations.

However, it's not as straightforward as taking out the first financial protection policy you come across. You must ensure it's the right product for you.



What is financial protection?

Financial protection products are essentially insurance policies that pay-out when you're unable to earn an income. Taking out the right policy for you can improve financial confidence, should you become unexpectedly ill or involved in an accident.

Broadly speaking, there are three different types of financial protection products to choose from. Which one is right for you will depend on your circumstances, concerns and priorities.

1. **Life insurance:** The most common Life insurance plans pay out a single lump sum if the policyholder dies. It's a policy that can help secure your family's financial future should something happen to you. It's often used to cover outstanding mortgage debt, but this doesn't have to be the case. You can select the level of cover needed, with premiums rising in line with this.

   You can also choose a policy that lasts for a defined period of time or whole of life policy, which will last until the policyholder dies.

2. **Critical illness cover:** This type of policy will pay out on the diagnosis of a condition that is specified in the policy. Most critical illness cover policies will pay out a lump sum once you've survived a pre-determined number of days, normally between 14-28 after diagnosis, but some will provide a regular income. If you're unable to work due to serious illness, critical illness cover can provide you with financial security whilst you hopefully recover. Where diagnosis is more serious, it can be used to support family and ensure you live more comfortably.

3. **Income protection:** Should you be involved in an accident or are too ill to work, income protection products are designed to replace your income. Under certain circumstances, they'll pay out a regular income, usually until you're able to return to work or retire. Typically, income protection cover will be a percentage of your regular salary. It's a policy that can help you maintain financial commitments and lifestyle even if you're unable to work.

With all three types of protection policies, they typically have no cash in value at any time and cover will stop at the end of the term. You need to keep up to date with premiums or the cover may be lost.

When do you need financial protection?

It's typically a significant life milestone that triggers purchasing financial protection; buying a house or starting a family are the top two reasons for seeking protection, according to Royal London.

A friend or relative falling ill or dying is also thought to be one of the triggers people start to look at how secure they are and the steps they can take.

However, if you or your family would struggle to cope financially should something happen, looking at your options is important.

No one wants to think about becoming seriously ill or injured and we often have an 'it will never happen to me' mindset. Yet, the reality is that thousands of people's financial security are put at risk because of circumstances outside of their control every day.

Figures show the following illnesses have the highest number of critical illness claims:

- Cancer makes up 60% of critical illness claims. More than 363,000 new cases of cancer are diagnosed in the UK every year, more than 990 new cases every day, according to Cancer Research
- 16% of claims are made to those affected by a heart attack. Statistics from the British Heart Foundation show heart and circulatory diseases cause more than a quarter of all deaths in the UK, almost 170,00 each year. Coronary heart disease is the most common type and the most common cause of a heart attack. Each year there are more than 100,000 admissions due to a heart attack.
- Patients that have suffered a stroke make up 6% of all claims. The British Heart Foundation research also shows that strokes cause over 36,000 deaths in the UK and are the biggest cause of severe disability.

Of course, it's not just critical illness that may mean you're not earning an income for a significant period of time. Other forms of protection can help you cover a period where you're not earning due to an accident or illness that may not be considered critical too.

Choosing the right financial protection product for you

There's no one-size-fits-all financial protection product, and with a significant market, it can be difficult to find the one that's right for you. The eight things to check and consider as you look at the different options can help you pinpoint a protection product that will give you peace of mind and financial confidence.

1. How long would your emergency fund last?

Before you start looking at financial protection products, you should seek to understand what financial safety nets you already have in place.

If your income were to suddenly stop, how long would you be able to cover outgoings for?

As a rule of thumb, it's advised that you hold three to six months expenditure in an easily accessible cash account. This is designed to give you some breathing space should you face a large bill or your income falls. Yet, according to research from the Yorkshire Building Society:

- One in four people's savings would last them less than a month
- 15% of people admitted to having no savings at all
- In fact, only 42% believe they'd be able to rely on savings for at least three months

The risk of financial insecurity if income stopped isn't just an issue affecting low earners either. Two in five people earning more than £100,000 say that without a job they wouldn't be able to cope financially for longer than three months. Understanding how your current provisions will cover outgoings means you're in a better position to select a policy that suits your current financial position.

2. Do you have any existing policies?

Don't start looking at new financial protection policies before fully understanding those you may already hold. You may decide that an additional policy will be worthwhile, that you can end the current one, or that you should simply stick with what you already have in place.

Even if you do already have financial protection in place, it's advisable to assess its suitability. Your situation and priorities may have changed since taking it out.

It's also worth remembering that your employer may offer financial protection as part of your benefits package. For example, you may benefit from enhanced sick pay or life insurance. It's worth checking your contract and speaking to Human Resources if you're unsure to ensure you're aren't covered for the same thing twice and to select a policy that complements existing cover. If your employer offers extended sick pay, for instance, you may be able to opt for a longer deferment period to reduce premiums.

3. What type of cover do you need?

With several different types of financial protection to choose from, you'll need to decide which is the right option for you. This will be dependent on a range of factors, such as what your priorities are and other measures you already have in place. For some people, receiving a lump sum to pay off the mortgage would be preferred over a monthly regular income to cover outgoings, for example.

It can be difficult to understand which policies are best suited to your needs and circumstances. If you're unsure which option to go with, or whether you'd benefit from a combination of policies, we're here to help. We'll take the time to understand your situation, concerns and current financial situation to offer advice on appropriate options you could choose. In some cases, there may be other steps you can take to improve your long-term financial security alongside taking out a protection policy.

4. What level of cover do you need?

If your income were to stop due to accident or illness, how much would you need to receive to ensure your financial security, either as a lump sum or ongoing payment?

There are different levels of cover to choose from; the greater the cover you want, the more you'll pay in premiums. Looking at how much of your income is essential for paying bills and the amount that's needed to maintain your lifestyle is important here. You should also factor in other sources of income. For example, when you consider a partner's earnings you may find that you can opt for a lower level of cover and still have confidence in your financial security.

Whilst reducing the premiums is important, you need to ensure that the level of cover taken out will give you the protection needed.

5. How long do you need protection for?

As with the level of cover, the term of a protection policy can vary too. Again, you should think about your personal situation when you choose the term of the policy.

If being able to pay off your mortgage is your biggest concern, you may decide to select an option that's linked to this. Alternatively, your biggest concern may be providing for your family and, as a result, the term may be affected by how old children are. With this in mind, it's important to review your policy regularly, as your circumstances and needs may change.

6. Is there a deferment period?

This is an issue that's most commonly associated with income protection policies, but it's always worth checking if you'd be affected by a deferment period.

This is the period between when you make a claim and when the policy will make the first pay-out. Typically, the longer the deferment period is, the lower your premiums will be. However, you'll need to ensure that you have other provisions you can fall back on during this period. This may be an emergency fund or sick pay from your employer.

7. Would joint cover suit your needs?

If both you and your partner could benefit from financial protection, joint cover may be an attractive option. It can be more cost-efficient and be particularly useful if both of your incomes are essential for maintaining your lifestyle. One key question to ask if you're considering joint cover is whether you'd both benefit from the same type or level.

It's worth checking what level of cover and the premium would be for an appropriate policy and comparing this to separate policies. The joint option won't necessarily be cheaper. If one of you has a health issue, for example, you may find the additional penalty applied to joint cover means it isn't the most cost-effective option.

8. Is the policy affordable?

Considering financial protection should be included in part of your financial plan. However, you also need to consider how affordable the premiums will be. Taking out financial protection can improve your long-term financial security should something happen, but it shouldn't affect your financial security now.

There are many things that will affect how much your premiums are. This includes the type of policy you choose and the level of cover, as well as your personal health and whether or not you smoke. There are many different providers on the market to choose from and the way they calculate costs can vary significantly. As a result, shopping around is important. If you have an existing condition, there may be specialist providers who can help you get the cover you want.

It's important to look at protection policies in the wider context of your financial situation. This is an area we can help you with.

Reviewing your financial protection

Just as important as taking out the right kind of financial protection for your circumstances, is ensuing it remains appropriate. Over time, your priorities and financial situation will change, in turn, affecting how well suited your existing policies are. We advise reviewing your financial protection on an annual basis as part of your financial plan and after big life events, such as getting married, starting a family or following divorce.

If you have any questions about financial protection, whether you have an existing policy in place or not, please get in touch. We'll be happy to help you understand how and where a policy can benefit you.

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