

# HB Dobbin

FINANCIAL PLANNING

## Why you need personal insurance

Financial protection for you and your family.

Insurance can often seem a strangely intangible product. It's something that affects the future more than the present, and provides a safety net rather than an immediate reward.

It's about preparing for the unexpected, and guarding yourself against the potential shocks to your income that could come with unpredictable events, such as falling ill or suffering an injury.

Of course, no one likes to dwell on the worst-case scenario, and it's hard to be forced to think about how you or your family would cope in a financial crisis.

However, failing to prepare for these situations can have worrying effects on overall wellbeing that extend beyond cash matters alone.

According to Zurich UK, more than one in three people do not feel financially resilient. Of these people, 43% say they don't feel in control of their life, and 41% don't feel positive about the future.

It's even been shown to disrupt sleep for some people, as 55% of those who don't feel financially resilient are likely to wake up at night worrying, compared to 36% of those who feel they could withstand a financial shock.

While there are some things you can't predict, having personal insurance in place can lessen the financial burden and take a weight off your mind.

### Why get personal insurance?

Here are just a few of the reasons you might start thinking about taking out a personal insurance policy.

#### Your family rely on your income

If you have a partner or children with no other source of income, or not enough income to manage alone, it's important to think about what they would do if you were no longer able to provide for them financially.

Certain insurance policies offer a payment to you or your family in the event that your income is no longer available in the event of illness or injury.



### You're prompted by a life event

For many people, events like getting married, buying a home and having children or grandchildren will often prompt them to reflect on their overall financial position.

These stages in life each come with their own financial commitments, whether that's ensuring mortgage repayments are made on time or paying school or university fees.

### You're self-employed

While many employers offer some kind of insurance as part of their package of employee benefits, when you're self-employed you have to organise this yourself.

If you wouldn't be able to get by comfortably without your income for a period of time, it may be a good idea to consider taking out income protection. We'll cover this in more detail later in this article.

### You have limited savings to fall back on

It can be difficult to live on savings alone if you no longer have your main source of income.

Insurance relieves you from having to cover all the costs in this situation, so you don't have to eat into the money you've saved up.

### Five types of personal insurance

There are several different kinds of insurance product on the market, offering cover for different situations. Here are some of the main types to consider.

#### Life insurance

Life insurance policies offer a lump sum or regular payments to your dependants in the event of your death.

If you choose, this could cover specific payments, such as a mortgage or rent. It could also be used to help cover funeral expenses.

The cost of life insurance can depend on factors like your age, health and lifestyle, and some existing medical conditions may not be covered.



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It does not cover you if you're unable to work because of an illness. There are two main types of life insurance policy.

**Term-life insurance policies** run for a fixed period of time, and only pay out if you die during the term of the policy (typically 10 to 25 years).

**Whole-of-life policies** pay out no matter when you die, but the premiums may increase over time depending on the policy.

## Critical illness cover

This type of insurance will provide a lump sum, or in some cases a regular income, if you're diagnosed with a serious illness.

The policy will set out the types of illness that are included, and how serious they must be. Make sure you fully understand what's covered in the policy, as not all illnesses are included.

Any health conditions you already had before taking the insurance out are unlikely to be covered.

Critical illness cover relates specifically to illness, rather than death, but it can often be purchased in combination with life insurance.

Premiums on critical illness cover can be guaranteed or reviewable.

**Guaranteed** premiums are fixed for the duration of the policy. This is the more costly of the two options as you pay extra for the certainty of knowing how much you'll be paying throughout.

**Reviewable** premiums are the cheaper option as the price of the premiums is typically fixed for the first five years, after which your provider will almost certainly increase your premium.

## Income protection

If you can't work for a period of time because of illness or disability, income protection will pay a percentage of your take-home pay until you can start working again.

Surprisingly, this is one of the most undersold types of insurance, with Zurich's research showing only 8% of people have taken out this product in 2018.

It covers most illnesses that would leave you unable to work, and you can claim it as many times as you need to while the policy lasts.

There's usually also a deferral period, for example four weeks or three months, in which you cannot claim after falling ill.

However, be aware that the definition of 'unable to work' may differ depending on the policy, and you might not get cover if you have existing health problems or a dangerous job.

## Payment protection

Most people have heard about payment protection insurance (PPI), following the scandal that saw millions of people mis-sold the policy.

PPI is still on sale and can cover your monthly mortgage, loan and credit card repayments in the event you have an accident, become ill and unable to work, or lose your job.

It usually won't cover you if you're self-employed, retired or unemployed.

## Private medical insurance

You may choose to take out private medical insurance to supplement the healthcare available on the NHS. This can offer more choice in the care you get and the way it's provided.

The types of medical care covered depend on the policy, and some will extend to specialist treatment.

## Tips for choosing insurance

There are a lot of insurance options out there – so how do you go about picking the one for you?

### Set a budget

A good first step is to draw up an out-of-work budget, to figure out what your policy will need to cover and how much it should provide.

In many cases, you may find that your outgoings when out of work will be less than usual, so be careful not to over-insure.

### Check your current policies

Before you take out a new policy, make sure you're clear on precisely what you're already covered for.

If you're employed, it's worth checking whether you already have insurance of some kind as part of your employment benefits.

### Read the small print

As you research your options, pay close attention to all the details of the policies to check they suit your needs.

Premiums vary from policy to policy, and are not always fixed, so pay attention to the different costs and how they could change over time.

### Get a second opinion

Most importantly, make sure you talk through your options with a professional before you commit to a policy. We're happy to guide you in choosing the right policy for your circumstances.

Get in touch for advice on personal insurance.

### Important information

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation.

While considerable care has been taken to ensure the information contained in this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.