



# FINANCE UPDATES JANUARY 2021

**HB Dobbin**  
FINANCIAL PLANNING

## PROTECTION FOR YOU AND YOUR FAMILY

Insuring with the short-term and long-term in mind.

Most people dream of living a long life with their spouse or civil partner in a home they love, with secure finances and children and grandchildren nearby.

For some people, life goes exactly to plan until they reach a ripe old age with everything in place. But if there's anything we've learnt over the last year, it's that life can throw serious challenges in the way.

This time last year, few people outside of China had ever heard of COVID-19. Fast forward 12 months and more than 60,000 people in the UK have died from the virus, the economy is 11% smaller, and unemployment is rising.

Stock market volatility has become the norm, businesses in certain sectors have been decimated, and the number of people struggling with mental health issues has soared.

As proved by the global pandemic, the reality is nobody really knows what's around the corner but there are ways you can protect your finances – both for you and your dependants.

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### BUILDING A SAFETY NET

Whether you have a mortgage to pay or financial goals to save for, the odds are most people have plans and commitments that require a protective umbrella.

For many people with families or financial dependants, having a **life insurance** policy is one of the first considerations when it comes to building a complete safety net.

There are three different types of life insurance: level, increasing, and decreasing cover. Level gives you the same cover for the duration of the policy, while the amount of cover you have either increases or decreases over time depending on which of the other two types of cover you go for.

Accidents or illnesses can occur at any time and in some cases, leave you permanently unable to work. Life insurance obviously doesn't include such incidents but there are other policies that might be worth considering.

Life insurance is not to be confused with life assurance, however, which usually covers your entire life, compared to a fixed period of time. Life assurance is also known as whole-of-life cover, which we'll go into more detail later on.

**Critical illness cover** can provide you with a lump sum if you come down with specific serious illnesses, typically involving cancers, heart attacks and strokes.

These three conditions account for around 80% of critical illness claims, according to the Association of British Insurers. The other 20% is made up of various other illnesses and physical or neurological conditions.

**Income protection policies** are designed to do exactly what they say on the tin. They pay out an income if you sustain a long-term illness or injury that results in you losing income.

These can be provided by employers as a type of employee benefit or bought by individuals, although they usually come with a waiting period before the benefits kick in.

With the Office for Budget Responsibility expecting unemployment to hit 7.5% when government support measures are withdrawn in the spring, **accident, sickness and unemployment cover** might be relevant for some.

If you or your partner becomes disabled, temporarily unable to work or are made redundant, this form of income protection policy can replace your income.

It pays you a tax-free portion of your lost salary every month, usually for 12 or 24 months, to help you get back on your feet and ensure that financial fears are not added to your worries.

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## LONGER-TERM OPTIONS

When taking out **term insurance**, you choose how long you want the policy to last. With life expectancy increasing in the UK, however, you run the risk of being without the cover you need once the term of this policy expires.

Lots of term insurance is taken out to cover mortgage liabilities, while other terms can be used for other specific liabilities, such as paying inheritance tax or loans, that might arise in the future.

Most people set up term insurance so that it pays out a tax-free lump sum to either your beneficiaries or to a lender if you were to die before the end of the policy.

Another option to consider is **whole-of-life cover**, which covers your entire life rather than a specific period of time.

This type of protection policy costs more than insuring for a fixed term. They carry investment risk and are not straightforward like term policies.

There are two main types of whole-of-life cover: maximum cover and balanced cover. Premiums and cover are usually guaranteed for balanced cover and reviewable, usually around every ten years, for maximum cover.

If investment performance has been insufficient to maintain cover, either premiums increase or the level of cover reduces.

They are a useful tool, especially for inheritance tax and estate planning purposes. For example, it's possible to write a whole-of-life policy into trust and this can be an affordable way to provide your beneficiaries with the means to pay any inheritance tax charge that might arise on your estate.

To ensure the proceeds of the policy are not included in the value of your estate, the policy must be written in an appropriate trust – usually a discretionary or bare trust.

This is a very specialist area of estate planning, and we offer professional financial advice to help you fully understand your options and the risks that come with them.

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## ARRANGING PROTECTION

If you're employed, you might be entitled to a valuable employee benefit that forms the basis of your family protection plan. Death-in-service means your employer will pay out a tax-free lump sum if you die while employed by the company in question.

Other forms of protection will cost you. How much you pay depends on several factors such as your age, health, lifestyle – how much you drink or smoke, for example – length of cover, and the lump sum you want to pass on.

You have the option to set up single or joint-life policies which will affect how you arrange financial protection for your family.

If you take out a joint-life policy with your spouse or civil partner, for instance, it can pay out when the first person dies. Second death policies are also available in this scenario.

We can help arrange a safety net of protection policies for you and your family. Our advisers provide objective advice and will search the market for the cover you require and the best cost.

Let us talk you through your options so you can make an informed decision on the level of financial protection you need, whether in the short or long term.

**📞 Speak to us about protecting your family.**

## IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any decisions based on its content.

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