

# **Barchester Briefing**

## **A GUIDE TO LIFE ASSURANCE**

### **Introduction**

Most of us have heard of Life Assurance and appreciate that it is a policy provided by a Life Assurance company, that pays out either a lump sum or a series of payments if or when you die. These payments are normally paid without the deduction of any tax, and in most instances are actually tax-free.

The proceeds of a Life Assurance policy can be used:

- to pay off a debt such as a mortgage
- to provide an income for your dependants
- as a savings plan.

You pay monthly premiums or an annual sum to the Life Assurance company for either a given time span or, in the case of Whole of Life Assurance, normally until death (some Whole of Life policies have a maximum age limit on premiums).

Life Assurance policies can be combined with other forms of insurance, such as Critical Illness insurance so that you receive the lump sum if you are diagnosed with a serious illness.

### **What types of Life Assurance are there?**

There are three main types of life insurance:

*Term Assurance:* this is the most common form of insurance. It pays out a lump sum if you die at any time throughout the term of the policy.

*Family Income Assurance:* this scheme provides an income for your dependants rather than paying them a lump sum, were you to die during the term of the policy. Please note that the income is only paid for the remaining period of the policy term. Therefore you will need to make additional arrangements to provide an ongoing income after the policy expires.

*Whole-of-Life Assurance:* this type of policy is designed to pay out at the time you die whenever that should be. As long as you maintain the policy there is a guarantee that, on your eventual death, the sum assured (level of Life Assurance cover) will be paid to your Estate.

Some policies require premiums to be paid right up until the point of death while others have a maximum period for which premiums are payable. Where this is the case premiums are normally payable up to age 80 or perhaps age 85.

*Endowment Assurance*: this type of policy plays two distinct rolls. It not only provides Life Assurance protection should you die during the term of the policy, which is normally longer than 10 years, but should you survive to the end of the policy term then you receive a lump sum. This lump sum is known as the maturity value.

As there is an investment element within Endowments, normally slightly higher premiums are required to provide for similar levels of Life Assurance protection than an equivalent Term Assurance or Whole of Life policy.

The premiums for Life Assurance policies vary according to your personal circumstances such as age and medical history. Also your choice of Life Assurance company can have a impact on the level of premium required. Pension plans - personal or occupational - sometimes include Life Assurance, which would be payable if you died before reaching the retirement age set within your pension plan. Often in the case of occupational pension schemes the cover is expressed as a multiple of salary.

If your Life Assurance is arranged through an occupational pension scheme offered by your current employer, you must seriously consider starting a new policy, to replace the cover, if you leave your job. This is especially important, as an interim measure, should your new employer only provide Life Assurance protection once you have completed a period of time (e.g. a probation period).

## **What should I think about when considering a policy?**

Your first consideration should be the level of insurance cover required. To do this you might like to think of how much money would be needed to pay off your debts? How much money would your dependants require to continue to live the same lifestyle they currently enjoy?

As a very approximate rule of thumb you should consider insuring your life for between 5 and 10 times your current salary.

Once you have decided on the level of cover, you then must decide on the type of insurance required. Do you want a policy that pays out a lump sum or one that provides an income? Do you want to pay a little more and use your policy as a savings plan; one that pays out whether or not you die during the lifetime of the policy?

When you have established these things you are ready to compare the premiums required by the various Life Assurance companies. Please note that you should always read the terms of the policy to check any restrictions contained within it, such as death caused by undertaking a hazardous pursuit.

### **Can I have a policy where the lump sum changes?**

Within the general definition of Term Assurance, there are a variety of policy types. Level Term Assurance: the premiums you pay and the amount of the cover on your life both remain constant throughout the term of the policy.

Decreasing Term Assurance: the amount of Life Assurance protection decreases over the period of the policy, although you continue to pay the same premiums.

This type of policy could be used to pay off an outstanding debt which decreases over a period of time, such as a Repayment mortgage. It could also be used to cover a potential inheritance tax liability.

Increasing Term Assurance: the amount of cover and the premiums increase each year, generally in line with inflation.

This type of cover can be used to provide an income for your dependants, as it is more likely to track the income they would require were you to die.

Convertible Term Assurance: at the end of the policy, you have the option to convert to a whole-of-life policy or an Endowment Assurance, without having to provide revised details about your state of health (medical underwriting).

These policies normally require you to pay slightly higher premiums than an equivalent level Term Assurance policy. This type of policy may be useful if you believe your health may deteriorate over a period of time.

### **Can I have a joint policy that covers my partner and myself?**

The simple answer to this question is YES. These are known as joint life policies, which will pay out if either of you should die during the lifetime of the policy. If the second person is not your spouse then you will need to prove that their death would cause you a 'financial loss'.

### **Why do I have to provide details about my health?**

The Life Assurance company must decide whether or not you are an acceptable risk. If you or any members of your family have had a history of illness, they will want to check on your general state of health before deciding what premiums to charge for the insurance cover you require.

In most instances the Life Assurance company will be able to offer terms without the need for you to undergo a medical, although they do have the right to request an examination if they feel it is necessary. Just because they request a medical does not always mean they are going to charge you higher premiums.

## **What happens if I stop paying the premiums?**

This does depend upon the type of policy you own. Unless you have an Endowment Assurance or a Whole of Life Assurance, which contains an investment element, you are very unlikely to receive a return of any premiums you have paid. Even in the case of Endowments or Whole of Life plans you may not get back all of the money paid into the policy.

In the majority of instances, if you stop paying the premiums to your policy, the Life Assurance cover will, after a given period of time, cease to be provided (i.e. policy cover will lapse). If, at a time in the future, you wished to reinstate the policy then fresh medical evidence would normally need to be supplied to the Life Assurance Company before new cover could be offered.

## **Green Options**

There are a number of good options for endowment and whole of life assurance, both of which have a large investment component. Term assurances, however, have no investment element and are simply contracts of insurance. They might therefore be termed as 'ethically neutral'.

### **For further details:**

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