Protection BULLETIN

MERRIGAN REIS

From Sarah Fox - Merrigan Reis

2025 issue

Life Cover

Lump sum payout on the death of the insured

Income Protection

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

Critical Illness

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

(if specified in the policy)

Almost 98% of all Protection claims are paid out.

(Source: Association of British Insurers, 2023 claims statistics, released September 2024)

PROTECT your FAMILY, INCOME, and YOURSELF

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The CALL...

All too often we'll hear words to this effect from a client: *"Remember that **Protection Insurance** policy that I was unsure about, but you set out the importance of having this level of protection in place, well..."*

» News such as this will obviously generate mixed emotions, as you're pleased that you delivered good advice to this client, and (hopefully) they took it up, but also sad to know that they've had to face a death, or a life-changing experience.

Balancing act

Of course, in the current climate (with rising mortgage costs), we fully understand that some of you will still view protection cover as something:

- that's simply ***'not for me'.***
- that's ***'too expensive'.***
- where ***'I don't believe the insurer will pay out in the event of a claim'.***

With regard to the latter, almost 98% of claims are actually paid out.

(Source: ABI, 2023 data, September 2024 release)

Protection across your working life

For some, there will be employer financial support in the event of death, or serious illness. Plus, there may be limited financial help from the government. But would that be enough?

In the example below we've considered a couple, both aged 30, both non-smokers, who plan to retire at 65. That amounts to **12,775 remaining days** of being in the workplace for each of them. And you only need a bad event to occur on 1 or 2 of those days, to have a sizeable financial impact on you, and/or your family.

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

Wide range of plans

In this issue we cover some of the key areas to consider, be it life cover, or protection insurance should you face a serious illness and be off work for a long period - which is far more likely in your working lifetime, as the chart shows.

Although, don't totally discount the possibility of a death across the working lifetime, as 3 to 4 in every 100 of those 30 year-old, non-smokers, may not make it to 65.

Value-added benefits

Anyhow, whatever you opt for, you may be surprised at how much the protection industry has evolved over recent years, with a multitude of options, and benefits on offer, which could be tailored to meet your needs.

For example, aside from any possible payout (in the event of a successful claim), here are some examples of the **practical and emotional help** that may be on offer:

- Access to a remote GP, when needed.
- Access to other specialist support, such as telephone counselling (bereavement, work-related stress, marital and family issues), carer support services, rehabilitation services, debt management advice, and consumer rights.
- The availability of apps and introduction of wearable technology to monitor your lifestyle. Which, in turn, may result in lower premiums, to acknowledge you're living more healthily.
- Other incentives to assist your general well-being, such as discounts off health club membership, and cinema tickets.

Some services could be accessed from day one of taking out a policy, and in some cases, there may be no need to make a claim.

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

Issues a 30 year-old may face up to 65 years-old	Male	Female
Chances of being UNABLE TO WORK for two months or more	38%	36%
Chances of suffering a SERIOUS ILLNESS	13%	11%
Chances of DEATH	4%	3%
Likelihood of ANY of the above happening	43%	41%

(Source: www.riskreality.co.uk, findings for a male/female couple, both aged 30, and both non-smokers, who plan to retire at 65)

LIFE Cover

Around 650,000 people in the UK die each year, **which includes about 95,500, who are aged just 20-64.** This equates to around 260 deaths a day!

(Source: Office for National Statistics, England and Wales death registrations for 2022, and then a pro-rata calculation for the rest of the UK)

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

The tax-free payout on Life Cover (if the claim is successful) is often in place 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 is **not just homeowners** that should consider taking out a life plan; the benefits would be equally applicable to **those who are 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.

What about costs...

Whatever you opt for you may be pleasantly surprised at how little it may hit your pocket. So, don't delay considering life cover due to worries about the cost or, perhaps, your perceived invincibility!

Part of the issue is that the monthly premium cost will generally rise, the older you get, which could be a dangerous false economy if, for example, your policy ended at 66.

The 30 year-old you, might, strangely enough, end up paying a similar total amount of premiums by 66, as your older 50 year-old self (who takes out a plan at 50). With the latter missing out on the reassurance of 20 years of potential cover.

Different types of cover

The options on offer are numerous, such as:

Joint, or Individual plans - both have their merits, and it really depends on what your particular circumstances are, before we can identify the best route.

Level term - you choose the amount you want to be insured for, and the period for which you require cover.

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.

Or perhaps a different kind of life insurance may be better for you, such as:

Limited period plans - this could encompass policies such as **Family Income Benefit,** which is a short-term plan that provides cover when you have young children - and since it would generally end when the parents are still fairly young, the premiums should be lower to reflect that.

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.

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

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

CLAIMS PAYOUTS

97.4% of all claims were paid out in 2023, equating to a record £20.1m per day!

Life Cover

- 99.4% of all Life claims were paid out.
- Average payout of £80,403 (term), £5,760 (whole of life).

Critical Illness

- 90.5% of all claims were paid out.
- Average payout of £68,354.

Income Protection

- 81.3% of all claims were paid out.
- Average payout of £22,270.

(Source: Association of British Insurers, 2023 data, September 2024 release)

INCOME Protection

Income Protection claims.
81.3% paid out.
Average payout **£22,270.**
(Source: Association of British Insurers, 2023 claims statistics, released September 2024)

With the current demands on our disposable income, imagine what would happen if a wage earner faced being unable to earn an income if **off work long-term, due to an illness, or injury.** Could they survive financially?

» Many may feel that being off work long-term, and unable to earn an income is unlikely. However, there are almost **2.8m people in the UK, that are currently off work due to long-term sickness,** equating to around 1 in 9 of those in full-time employment! *(Source: Office for National Statistics, Labour market overview, December 2024 release)*

If you found yourself in this position, you may initially benefit from financial support from your employer. However, that's only likely to be there for a defined period. Plus, there's limited state support to access, with Statutory Sick Pay at £116.75 a week.

Would that be enough to ensure you can continue to put food on the table and a roof over your head (via continued mortgage or rental payments)? And that's just for starters.

A solution for you...

Whilst many will willingly insure their home, and sensibly take out life cover to help pay off the outstanding mortgage (as a minimum), far fewer apply the same principles to their own income stream.

However, an option exists to help protect your income if a long-term illness or injury occurs, due to issues such as:

- **Musculoskeletal** (problems affecting your muscles, bones, tendons, ligaments, joints, cartilage, and fractures).
- **Cancer.**
- **Mental health.**
- **Heart-related.**

The product to help protect you should you suffer a long-term serious illness is **Income Protection,** which will generally cover up to around 60-65% of your gross income.

And, dependent on the type of plan you opt for, it could be a tax-free monthly payout until you're well enough to return to work, retired or have died, whichever occurs first.

Short-Term Income Protection

If you recognise the importance of having some degree of cover in place, but are concerned about minimising your outlay, then a shorter-term version is also available.

This option is designed to still deliver important financial support (if off work) but for a more limited period of generally up to two years - even five, in some instances.

Broadly, for those that may be looking for £1,500 of monthly payments across a claim period of 2-years, then the monthly cost for a 30-year-old could be just over £10/month. *(Source: Lifesearch, Pricing information obtained 08/06/2023. This data is based on a client with no medical history, a 3-month deferment period, with a 2-year claim period in an administrative role)*

How is it costed?

The cost of the monthly premium is partly dependent on your age, health, whether you smoke, your occupation and if you've any hazardous or high-risk hobbies.

It'll also take into account what you earn, and require as an income stream (if incapacitated), for how long, and the length of any deferment period, before payments kick in. The longer you opt to defer (before a successful claim payout), the lower the monthly premium could be.

And, it's growing in popularity

Sales of individual Income Protection policies hit a **record 247,000** in 2023, a 16% year on year increase. With the Association of British Insurers saying that 97% of policies were taken up with advice given, reinforcing the important role advisers play in increasing consumers' financial resilience.

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

Do it for the KIDS

An estimated 46,300 dependent children (aged 0-17) are bereaved of a parent each year. That equates to **127 newly bereaved children each day.** *(Source: Child Bereavement UK, Website, May 2024)*

» As depressing as this issue may be - and hopefully unlikely - it makes sense to plan ahead, and we set out here a few options that you should consider with regard to the future well-being of your children.

Family Income Benefit

This is an alternative (or additional) type of life cover to consider, if you have young children.

Whilst you may have normal life cover in place to help pay off the mortgage, what about the everyday items such as food, clothing, bills, fuel and other expenses such as a new car, or holiday?

This is where Family Income Benefit could help, as this **generally lower-costing product** is designed to pay out a tax-free amount until the children have grown up. This means it's normally taken out over a shorter time period of, say, a 10 to 20-year term.

If there was a claim in the first year, then it would provide a monthly payment until the end of the policy period. Alternatively, if a claim was made with two years left, then it would simply pay out for the last two years, or not at all, if there was, fortunately, no claim made.

Guardianship arrangement (or Will)

Again, this is pretty morbid stuff, but vital, and once done you can file it away, and return to your normal parenting needs.

But first, here's the horror bit. Did you know that if there isn't a Guardianship arrangement in place to protect your young children - and, for example, both parents sadly perish in a car accident - **then the children may have to initially go into Care!**

The simplest way to protect against this is through a Will, or by having a Guardianship letter in place, both of which will set out your wishes, and whom you want to appoint as their guardian. Yet just over half of all UK adults (51%) have not made a Will*, let alone ensuring that a Guardianship letter is in place.

*(Source: *Canada Life, March 2024)*

Similar circumstances might occur if a couple aren't married and the mother dies and hasn't previously granted parental rights.

As unlikely as this event may be, it would prolong a nightmare scenario if the worse did occur, and it's relatively easy to sort out.

Trusts

A Trust is another legal arrangement, which could benefit the children, along with other dependants. For example, it can **help ensure that life policies are paid out speedily to the beneficiaries.**

It can also protect beneficiaries who might be too young to handle their affairs.

Or, it could potentially enable you to ringfence any payouts to help reduce a future Inheritance Tax liability.

However, not all protection policies should be written in Trust, so do take advice.

Whatever your situation, do talk to us to establish the best way forward for your needs and circumstances.

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 will writing, trust or taxation advice.

Recovering from a **Serious Illness**

The improvements over recent decades in the survival rates for serious illnesses such as heart attack, cancer and stroke are, obviously, welcomed, but **if the stricken individual needed time to recover, and was off work,** then this creates a different set of problems.

Fortunately, there's a product - **Critical Illness Cover** - that can deliver protection for you, should you suffer a serious illness.

Critical Illness - what it covers

These days, the plans may encompass a far wider number of conditions beyond heart attack, cancer and stroke, such as the loss of a limb, Multiple Sclerosis, Parkinson's, and Alzheimer's/Dementia.

Also, don't just think that this should only be a concern if you're much older. The average age of critical illness claimants across insurers is around late 40s to early 50s, with cancer being the main reason for claiming.

Evolving marketplace

Critical Illness Cover has seen a great deal of enhancements over the years:

- The number of health conditions covered has increased significantly (in some cases more than a hundred).
- Additional and partial payments have been introduced. The advent of partial payments, for example, for less serious conditions has probably been one of the most welcome developments in this sector. This means that clients may still be covered, when in the past their diagnosis could have resulted in a declined claim, due to the condition not being deemed to be serious enough.
- Also, the introduction of enhanced payments may allow the claimant to receive an additional or higher payout if they are diagnosed with an illness that has a bigger impact on their life than expected.

How the tax-free lump sum payout from a personally paid Critical Illness plan helps

1. Dealing with possible life-changing needs: If you are diagnosed with a serious illness covered by your policy, the payout could help cover medical expenses, ongoing treatment costs, or any adjustments needed in your lifestyle due to the illness.

2. Income Replacement: If the serious illness prevents you from working, the lump sum payment could also act as a financial cushion, helping to replace lost income during the recovery period. This can be crucial in maintaining your standard of living and meeting financial obligations.

3. Peace of Mind: Knowing that you benefited from a payout can enable you to focus all your energies on recovery.

The next step

You'd decide the level of cover you require at the outset, and it can be taken as a stand-alone policy, or as a bolt-on to a life insurance plan. The policies will vary with regard to the illnesses covered, and in some cases, it could also include cover for your children up to age 18-21 (if applicable), within a specified payout limit.

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

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.

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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.

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