

PROTECTION: AN OVERVIEW

APRIL 2025

Deciding what **type** and **level** of financial protection you might need **is the cornerstone of a sound financial plan**. Arguably your priority should be ensuring that you and your family are financially protected from the worst that may happen, before planning for the life you hope to live in the future.

Here we give an overview of the main types of protection available, and what you need to consider before taking out a policy.

Please refer to our notes on each specific type of policy for more details.

SUMMARY

The choices involved in buying life cover and illness protection can be complex, and it is important to take your time in evaluating the **type** and **level** of cover that will suit your needs best.

If you already have cover, it is worthwhile **revisiting** this area periodically, as personal circumstances and premium costs change. The cost of term assurance especially has fallen substantially in recent years, as the market has become more competitive and also as average life expectancy has increased.

As a simple starting point, **ask yourself 'what if?' questions**, e.g. 'What would happen to my family's financial position if I should die?' In deciding what cover you need, **don't just focus on the main breadwinner**. Should the child or home carer fall ill or die, additional costs would be incurred to enable the main breadwinner to continue work.



MAIN TYPES OF COVER

LIFE COVER

Term Assurance

Provides a specified cash sum if you die within the term, nothing if you don't. Cover is therefore cheaper than whole of life cover, which has to pay out at some point. The market has become very competitive in recent years, leading to even lower premiums.

Whole of Life

Provides a specified cash sum on death. Policies can include an investment element to help provide a cushion against the rising insurance costs as you grow older. The amount of investment element chosen, and the performance of this, will influence the amount that premiums rise by on each review. Whole of life cover with no investment content is also available. Cover is generally much more expensive than term assurance.

ILLNESS COVER

Critical Illness

Pays a cash lump sum on diagnosis of certain illnesses or injuries, whether or not you are able to continue work. The cost will depend upon age and the sum assured.

Income Protection Insurance

Pays out a replacement income if you are unable to continue work in the long term as a result of illness or injury. The cost will depend upon the level of income and the term selected.

JOINT POLICIES

These can pay out the specified sum on the first event, and nothing on the second, thereby potentially reducing the premium cost. For example, joint life and critical illness can pay out on either death or critical illness, whichever might occur first.

Alternatively, you can have joint life policies where payment is made on the first or second death. Clearly payment on the second death would be cheaper, as the chances of both lives surviving the term specified would be greater than the chances of one or the other surviving. However, payment on first death may still be cheaper than two individual policies.

SPECIFIC PURPOSE POLICIES

Mortgage Term Assurance

A form of decreasing or level term assurance, designed to match your mortgage liability should you die before the end of the mortgage term.

Gift Inter Vivos

A form of decreasing term assurance designed to pay the Inheritance Tax liability should death occur in the seven years following a Potentially Exempt Gift.

MAIN CHOICES TO MAKE

Once you have decided on the type/s of policy that most suit your needs, you will also need to make decisions regarding the various policy options, including:

- **Level of cover**

Consider one off expenses that may be incurred by death or illness, e.g. repayment of debt, funeral and probate costs. Also consider ongoing costs, for example the cost of employing a nanny or housekeeper should the child/home carer die, or loss of the main breadwinner's income in meeting household costs or school and university fees. Remember to take into account any existing insurance provision, pension funds and other assets that would be left.

- **Length of term**

The length of term that is most suitable for you depends upon how long you expect your circumstances to remain the same. For example, if you have reducing liabilities as children leave university, then perhaps this would be an appropriate timescale to consider. A further consideration is your family history, as an indication of whether future ill health may be likely, and thus whether a conversion option may be more useful.

- Whether a **joint policy** might be suitable, as discussed above.

- **Level or increasing cover**

Level cover will decline in real terms each year; increasing cover can provide protection against inflation, but the premiums will also usually increase by a similar rate.

- **Waiver of Premium benefit**

Quotations usually include the cost of waiver of premium benefit. In the event of serious illness or disability, the insurance company will pay your premiums after a deferred payment period until the earlier of your return to work, the policy maturity or expiry, or your retirement. This is an option on most types of insurance policy. In deciding whether to pay this additional premium you should consider whether, in the event of long term illness preventing you working, you will have sufficient income to continue paying the policy premium, and also whether it would be necessary to continue paying the policy premiums in this event.



INDICATIVE COSTS (SINGLE LIFE ONLY)

Term	Aged 40		Aged 50	
	10 years	20 years	10 years	20 years
Level Term Assurance	£5.00	£5.10	£9.70	£14.30
Critical Illness	£27.10	£31.60	£58.70	£69.40
Combined Term Assurance and Critical Illness	£24.60	£28.30	£52.00	£61.20

Notes

- 1. Rates from Iress March 2025.
- 2. Combined policies pay on first event only.
- 3. Critical Illness assumes own occupation definition for permanent total disability, core conditions. Basis of cover is level term.
- 4. Rates quoted are monthly guaranteed premium costs for a non-smoker with sum assured of £100,000.
- 5. Rates are based on nil commission taken. Clients of clarity benefit from rebate of commission, which reduces the premium cost for them.



RISK FACTORS

Please be aware that the term-based contracts have no cash-in value at any time and that nothing is payable in the event of you reaching the end of the term without making a claim. Therefore you should evaluate whether you consider that such a policy would offer value for money.

The costs quoted will be based upon an assessment of your health, which assumes that you will be accepted on ordinary rates of premium. In order to implement the cover, you may have to undergo a medical assessment, which will formally determine the eventual premiums.

Whole of Life Policies – Risk Factors

These policies are designed to provide a lump sum payment upon death, whenever it may occur. The premiums are fixed for a set number of years and after this time may be reviewed up or down by the insurance company. Should you discontinue the policy, you would lose the benefits provided and it may have little or no cash-in value. For with-profits policies, the return on the investment depends upon the profits made by the life office and on its policy as to their distribution (whether on early encashment or in adverse market conditions or other circumstances).





Important Information: Our views are based upon our understanding of current legislation in England, unless stated otherwise. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances.

Risk Warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. This document is provided for information only and does not constitute advice. You should not act on any of the information without seeking professional advice.

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