



*When does it
pay to
purchase
life
insurance?*

Protect your family's future

Most of us don't want to think about what would happen to those we leave behind should the inevitable suddenly happen. But for those who do want to safeguard their loved ones' futures, there is life insurance. Despite the grim headlines of late, life cover costs have fallen by an estimated 40 per cent in five years, as a price war has broken out between insurers all keen to be on top of the charts of the price comparison websites.

However, the headline premium rates can be misleading and only those in perfect health are benefiting from the cheapest quotes. Insurers are desperate to get to the top of price comparison sites, but they are subsidising low premiums for those in perfect health by charging those with less than perfect health much more.

Life insurance premiums are based on the probability of the policyholder fulfilling an average life expectancy and any factors that reduce this probability will lead to higher premiums or possibly, exclusion. Short-term impacts, such as pandemics, have little effect on premiums because providers assess risk over long periods of time.

Insurers will look at a variety of factors in setting premiums; age, pre-existing medical conditions and lifestyle are some. Those with high blood pressure or weight problems, smokers or heavy drinkers will face substantially increased premiums. High-risk

jobs and dangerous sports such as diving and parachuting will also make premiums shoot up. However, it is important to note that definitions of what constitutes a high-risk job or hobby will vary from one insurer to the next.

Life insurance falls into one of two basic types – “term assurance” and “whole-of-life” cover but within these two categories there are many variations. Whole-of-life cover guarantees to pay out a lump sum, irrespective of when the holder dies. As there is no time limit, premiums are more expensive. With term assurance however, cover is guaranteed for a limited period of time – typically 10, 15 or 25 years. The cheapest and most straightforward option is level term insurance which guarantees to pay out a fixed amount of money upon death for a fixed-rate premium. By paying extra, it is usually possible to include a waiver of premium which covers monthly payments if the policyholder is unable to work due to ill health. If you wanted to change the type of policy it is relatively simple, but watch out as premiums may go up because of increased age or new medical conditions.

When deciding on the level of cover necessary, you need to consider your personal situation. Most notably, childcare costs, university fees, mortgages and other debts, as well as any investments such as

pensions. In most cases, it is worthwhile seeking independent financial advice. Some people may decide that their savings and pensions provide enough financial security for their families and they need life insurance only to cover their mortgages. Homeowners on repayment mortgages, for example, can opt for a decreasing term assurance when the cover and monthly premiums decrease by a fixed amount each year in line with the mortgage debt.

Alternatively, premiums and cover can be set to increase each year to provide protection against inflation. Renewable term assurance is another option that gives the policyholder guaranteed insurability, irrespective of their health at the end of the term. One of the most important things to do is to write the policy into trust so its value does not form part of the holder's estate. The amount payable would not form part of an Inheritance Tax calculation and it will also allow money to be paid direct to beneficiaries. Most insurers include the option to write the policy in trust at no extra charge. Joint life policies for couples may not be a good idea; the surviving partner could be left uninsured when the first partner dies, and because premiums increase with age, they are likely to pay much more when looking for new cover, and your personal situation will need to be considered.

Levels and bases of, and reliefs from, taxation are subject to change.