Beginners Guide to Life Insurance

Life ‘assurance’ or life ‘insurance’, so what’s the difference ? Insurance is protecting yourself against something that ‘might’ happen, assurance is something that ‘will’ happen. Death and taxes, will happen, you can be assured of them !

Often life insurance is a cheaper alternative to life assurance but sometimes you might want cover that runs to the grave. Funeral expenses, or paying a tax bill after your death for instance. Life Assurance is also often termed whole of life or whole life assurance or WOL for short. Usually more expensive than it’s little brother, term life insurance, the whole of life plan will run on until, well, until you don’t.

The reason Life Insurance is cheaper than whole of life assurance is that it runs for a finite term, ie 5,10,15, 20 years etc etc. The choice of the term might be decided by yourself or your financial adviser. For instance you may have taken out a mortgage at the bank and the loan is set to run for 25 years. It would make sense therefore that your Life insurance runs for the same term, ie 25 years. It might be that you have an 11 year old child and you want to ensure that if one of the parents die that there will be enough life cover paid out to help financially with bringing the child up. It figures then that the term of such cover may be 10 years to take them through to beyond University or 12 years if they’re studying further, whatever fits. So why is it cheaper ? Well the good news is that you will statistically not die and the plan will run its term and then end. The insurer has had the premiums and you have had the peace of mind of the cover over those years. We cover this in a little more detail further down.

Premiums can be guaranteed or reviewable and remember you may need to be able to keep on paying your plan well into your retirement, so you need to factor this into your future outgoings when your income may drop post retirement. Whole of life assurance plans are more in-depth than simple term life insurance policies and you would be well advised to consider seeking independent financial advice if you’re contemplating this kind of cover.

Life insurance or to give it some of it’s other names, life cover, term cover, term life insurance, is one of the most purchased types of life insurance when it comes to family protection. Life cover forms the bed rock of any foundation when it comes to protecting the family in the event of death of one of the parents. Don’t think for a second that just protecting the breadwinner is all you need to do. Of course that’s important, but if one of the parents or guardians is a non earner then you can bet they’re still working. School runs, house cleaning, shopping, washing, ironing, feeding and the list goes on. So if you’re in the market for cheap life insurance or shopping around for life insurance quotes well consider both parties when you compare life insurance.

So what’s it all about and how does it work? Well, the plan runs for a finite term, hence the name, and the choice of that term is up to you. A term could be anything from 18 to 85 years of age. The idea of life insurance is not so that the grieving spouse can profit from their partners death, but so they have funds to alleviate the financial burden of that death. Popular periods where people look to cover themselves could be the period when the children are growing up or through unto a retirement age. For example, you may have two lovely children age 3 and 7. It might be that you choose life cover with a term of 18 years, Why ? Well in 18 years time the youngest of the children will be 21 and hopefully just finishing university and the older one will already be through university. It may be you choose cover beyond this, the choice is yours. Remember however, the more life insurance cover you have and the longer the term the dearer it will be. Feel free to play around on our life insurance quotes engine to see the difference in price.

How much cover should I have ? Well again the choice is yours, but if you need a little help then try our life insurance calculator. The choice however may be more straightforward, ie you owe £98,000 on an interest only loan so it figures you will need £98,000 of life cover.

Life insurance can be provided for single, joint or even dual cover. A claim on a single plan would have no effect on anyone else's cover, whereas a joint plan would cease entirely after the first event or claim or death and the other named person on the plan would be left with no cover. A dual plan offers two separate individual covers built within the same policy, just like having two single plans but one premium.

Your life insurance can be level or index linked so it rises each year to keep pace with inflation but bear in mind your premium may also rise each year. You can build in extra benefits like critical illness or waiver of premium benefit or premium protection benefit as it is sometimes called. This pays the monthly plan premium during times of sickness from work.

Another thing to bear in mind is that you might feel you don't want a lump sum paid out in a single go and would rather it paid each month like an income. This can be accommodated for and in the industry this type of policy is often referred to as family income benefit.

One final consideration. It's well worth considering that you put your life policy into trust. Besides other things, this helps to ensure that any benefit after your death is paid out speedily to who you want it to go to. Most of the insurance companies provide guides and forms free of charge to allow you to put your plan into trust. If you're unsure seek professional guidance from a solicitor.

Guaranteed, Reviewable & Renewable Premiums

Guaranteed life cover or guaranteed life insurance is not really a product as such but more of a way that you can set life insurance or critical illness insurance up specifically with regards to the premium you will pay. Let me explain the different ways.

Guaranteed Plans – These plans guarantee that the premium will never increase during the life of the policy regardless of any changes in your health during that time, so if it's a 20 year plan and it costs £10 per month at outset then you will still be paying £10 per month in 20 years time. The guarantee applies from when the policy starts. This is how it works. You research the plan you want and see a plan showing as guaranteed premiums of let's say £10 per month. You decide that's the one for you and apply for the plan. During the applications and questions and underwriting (the process by which the insurer determines risk both medical and lifestyle), all your answers to the health questions are no, you're fit and well and there's no dangerous jobs or hobbies to worry about and you've told the truth about your smoking status etc then the chances are that the plan will be accepted at standard rates and the £10 per month premium originally quoted will run for the lifetime of the plan.
If however it's determined that you have a dangerous job or hobby or that your health is not so good then the insurer can decide to decline your application, defer it, impose special

conditions or rate or load it. Let’s say that in this scenario the insurer feels you are a higher risk than Joe average and they decide to rate your plan by 50%. This means the premium would be increased to £15 per month in this example. They then offer it back to you and if you’re happy with their decision the plan can begin at £15 per month guaranteed and that guaranteed premium will then remain for the lifetime of the plan.

Reviewable Plans – This plan has a reviewable premium. Often the premium quoted may be less than a guaranteed premium at outset but not always, it pays to shop around. The reviewable premium will then be looked at by the insurance company on a continuing basis throughout the life of the plan. This could be on ad hoc basis but is far more likely to be on a regular basis such as annually, 5 or 10 yearly. When the review comes around it has nothing to do with you personally. The review is with regards to the insurance companies costs or claims experience. Imagine they’d never paid out a penny and no-one ever died or got ill then you might expect the premium to go down...hmm, almost never happens. The reality is either the premium stays the same if their calculations were right at outset or they increase the premium due to higher than expected costs on their part. That’s it then until the next review. Remember, Insurance company’s are global players and events which appear to have nothing to do with you may still impact on an insurance policy back in blighty. Tsunami’s, melting nuclear power stations in Japan, oil leaks in the gulf, they all add up.

Renewable Plans – Not to be mistaken with reviewable. This insurance premium feature obligates the insurer to continue coverage as long as the premiums are continued to be paid on the policy. While re-insurability is guaranteed, premiums can still rise based on the filing of a claim, injury, or other factor that could increase the risk of future claims. Premiums can also be raised on an entire class of insured people during the life of a guaranteed renewable policy for health, life or disability insurance. One such increase was on the teaching profession for Permanent Health Insurance. Once considered a bastion of blue collar safe work, many teachers began to claim on the grounds of ill health through stress and as a result the risk rating for their entire profession was increased.
Renewable Plans also figure heavily in the make-up of life insurance for businesses or to be more accurate those people in the business such as Keyperson assurance or keyman as it is sometimes called. There’s also Business or partnership assurance. Advice should be sought when seeking these types of plans to ensure any trust documentation is set up correctly.