LIFE ASSURANCE FACTSHEET

Life assurance is by far the most common form of protection policy, with as many as 6 million households (21%)[1] covered to some extent. As the term suggests, life assurance pays out on most causes of death, although alcohol and drug abuse, suicide and dangerous sports accidents may be excluded. Many employers provide some level of life cover – usually a multiple of salary – while you're employed.

Why bother?

If you're single and have no dependents, there's probably not much point in arranging cover. But if you've a partner, a mortgage and dependent children then life cover is a "**must**". It's a sobering statistic that one child in 29 loses a parent before they grow up.

How much cover?

How much the policy pays out is up to you. The pay-out (known as the sum assured) can be used to clear debts, such as a mortgage, and to replace family income. The higher the cover, the higher the monthly premium you'll pay.

The amount of cover can be set to stay the same for a fixed period of time. This is called term assurance. Alternatively, the cover can be arranged to decrease over a fixed timeframe, often to match the decreasing debt owed under a mortgage. The longer the term, the higher the monthly premiums.

A whole of life policy can be arranged which lasts for as long as you live, paying out a lump sum when you die.

NOTE OF CAUTION

According to the ABI[2], 99% of term assurance claims were paid out in 2015. While this might appear high, it does leave 1% of claims that were declined.

In virtually all cases, claims are declined because policyholders deliberately withheld information on their applications.

This is known as careless or deliberate misrepresentation.

You might be tempted to withhold information in order to obtain lower premiums. But if the policy fails to pay out, the premiums will have been pointless. That could be disastrous for your dependents.

What will it cost?

The main factors which decide the monthly premiums are typically:

- Your age
- Your state of health
- Lifestyle factors (e.g. smokers will find the cost of cover appreciably higher)
- The type of policy you're choosing (e.g. level term, decreasing term or whole of life policy)
- Level of cover required and the length of the term
- Your occupation (and any risky hobbies!)
- Where you live in the UK

When you take out the policy, premiums may be set as:

- **Guaranteed:** they stay the same for the term of the cover. Level and decreasing term policies usually have guaranteed premiums
- **Reviewable:** this option usually starts with lower premiums but the insurer can review the premiums (i.e. increase them) say every five or ten years in order to maintain the cover selected.
- Whole of life cover is different as the policy is linked to an investment. If the investment under-performs, the insurer is entitled to increase premiums.

Other options

- **Single or joint life:** many couples take out joint life insurance, although these policies will only pay out once – on the first death. That is why joint cover can be cheaper than two separate policies, but may be suitable (e.g. when cover is sought specifically to pay off a mortgage debt
- **Family income benefit:** this pays a monthly income from the time of the claim until the end of the policy term
- **Critical illness cover:** this cover can often be included in the life policy, but it will only pay out once; either on critical illness diagnosis or on death. Qualifying illnesses are defined by the policy and would typically include cancer, heart attack, stroke etc.
- **Terminal illness cover:** meaning the policy will pay out on diagnosis, rather than waiting for death
- **Waiver of premium benefit:** this is another common add-on, meaning that the premiums will continue to be paid on your policy if you can't work due to illness or injury.

Tax and life assurance payouts

The policy proceeds are free from Income and Capital Gains Taxes, but may be liable for Inheritance Tax (IHT) if your total estate exceeds the IHT limit. However, life cover will usually be written "in trust", meaning that the proceeds will sit outside your estate for tax purposes and will go directly to the beneficiaries on death without a tax charge, or waiting for probate.

The Financial Conduct Authority does not regulate Tax or Estate Planning.

1. According to the ABI, based on the 2013 ONS Household Survey
2. ABI - Key Facts 2015 booklet

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