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INDEPENDENT INSURANCE BROKERS & FINANCIAL ADVISORS

How to make sure your life policy pays out

This article details the importance of life assurance, the information you will need and the various types available.

What are the chances of the roof of your home collapsing? What is the likelihood of you needing a major operation in a private hospital? Are you likely to die? The chance of the first 2 happening is fairly small. The probability of the third question happening is extremely high, in fact 100%.

For many people the most important consideration is what is going to happen to your loved ones if you should pass on unexpectedly. Most people who die younger than expected leave behind debt liabilities such as mortgages or deprive a family unit of a big chunk of its regular income.

This makes life assurance an important part of any individuals financial armoury.

Households and types of products

Compared to some other kinds of insurance policies, life assurance is relatively uncommon. According to the Office for National Statistics, **of the 26.7 million households in the UK in 2013:**

- 20.4 million had contents insurance
- 20.1 million had motor insurance
- 17 million had buildings insurance
- 1.9 million had private medical insurance
- 5.7 million had whole of life assurance
- 0.6 million had term life assurance
- 0.3 million had income protection.

The importance of life assurance

The loss of a family member is an event that is seismic enough without adding a heavy layer of financial uncertainty to it.

The main reasons that people cite when taking out a life assurance policy are:

- protect loved ones
- to insure that debts and other expenses are paid off
- to cover funeral costs
- to leave an inheritance by naming your loved ones as beneficiaries
- to make sure there is a constant level of financial security
- to give some semblance of peace of mind
- to give a gift to charity.

Insurance or assurance?

The terms life insurance and life assurance are virtually interchangeable. Strictly speaking, insurance is for something that may happen, while assurance is something that will happen. Death is inevitable and therefore assured. The only thing not known is when you will die. The insurance is to cover you for a specified period of time.

How to make sure your life policy pays out

Term or whole of life?

There are 2 basic kinds of life assurance policy: term assurance and whole of life policies.

Term insurance provides coverage for a set amount of time at a fixed level of premium. A level-term policy will pay out a lump sum if you die within a specified period of time, which can allow you to make sure you have protection until you have other measures in place or have cleared certain debts.

Decreasing term polices on the other hand, feature cover that reduces over time and are usually take out to cover debt that will also reduce over time.

Whole of life policies stay in place for the insured's entire life and provide a sum of money to the insured's family or estate when the insured dies.

These policies tend to be more expensive than term policies because it is guaranteed that the policy will have to pay out when you die, and the premium includes both a protection element and an investment element.

The level of cover is usually guaranteed for the first 10 years, after which there is a review to see how much protection can be provided in the future based on the investment performance achieved.

If this is insufficient to maintain the level of cover you can either increase the premium to do so or reduce the level of cover.

We can answer your questions about life assurance.

The importance of full disclosure

You'd expect life policies to have a pretty good track record when it comes to payouts.

However, one of the most frequent reasons given for refusing to pay claims of this, or any other protection insurance, is non-disclosure of a medical condition when the policy was taken out. And this is one of the reasons that worry people most.

The Financial Ombudsman is a good source of information about why claims are rejected. It has highlighted the problem that is a perpetual source of dispute when it comes to disclosure: whether undiagnosed symptoms amount to pre-existing conditions.

One example it gives is that of a consumer suffering from headaches. The consumer may not consider that they have a condition that needs to be declared. But if the consumer subsequently has a brain tumour diagnosed, these headaches may well have been related. Should the consumer have known? Is the insurer right to refuse a payout?

The Financial Ombudsman has a list of criteria which it looks at before making a decision. It may come as small comfort to know that "the insurance sector accepts that ordinary consumers are not expected to have expert knowledge about the state of their health".

How to obtain your medical records

Since 2000, every person in the UK has had the right to apply for access to their own medical records. The only exception to this is if a healthcare professional believes that information in the records would cause serious harm to your physical or mental health.

The Data Protection Act 1988 entitles you to see all your health records, usually for the payment of a fee of £10. This includes private health records, dental records and even your optician's records, although there may be a fee of up to £50 to obtain copies of paper based medical records held by public organisations such as the NHS.

Any records held by your employer relating to your physical or mental health should be disclosed to you if you submit a request to access them.

Knowing this may help you to ensure that the information you give to your insurer is accurate.

Life assurance and inheritance tax

There are 2 main ways in which life assurance can be used to potentially reduce the inheritance tax (IHT) owed on a particular estate.

Firstly, if you have a whole of life policy you can set up the policy to cover the amount of IHT that you think will be due on the estate. This will mean that more of your estate is actually passed onto your beneficiaries.

You will, however, need to make sure that the payout from the insurance is not included in in your estate when you die. One way to do this is to write the policy in a trust, although this is a complicated and technical area of estate planning.

The premium paid on the whole of life assurance policy will also act to reduce the value of your estate while you are still alive, which in turn could reduce your IHT liability further, although there are specific rules about the payment of very large premiums.

Secondly, a decreasing term policy can be used in conjunction with gifting part of your estate. If you die within 7 years of making the gift there could still be an IHT liability. A 7 year decreasing term policy could be used to cover this liability.

Making plans to ensure that your death does not leave a huge financial hole in the lives of your loved ones is essential.

We can help you decide what kind of policy you need, advise you on making a full disclosure and how to factor life assurance into your financial planning.

Get in touch today to talk about your insurance.