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Tilton Conway
FINANCIAL PLANNING

Your **complete guide** to financial protection

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Financial protection is an important part of creating long-term security. Yet, it's something that many people overlook.

Appropriate financial protection can provide you or your family with an income or lump sum when you need it most. It can create a valuable safety net and help ensure you're still able to meet financial commitments if something unexpected happens.

One of the reasons some people don't take out financial protection is that they don't fully understand what it is or how it could support them.

According to an FTAdviser report, almost one in five had never heard of income protection. A similar figure was also unaware of what critical illness cover is.

This is despite 73% of workers saying they had worried about taking time off work due to an illness or injury during the Covid-19 pandemic.

Understanding the different types of financial protection on offer and how they could fit into your financial plan can provide peace of mind.

Financial protection myth: Insurers don't pay out

It's a common misconception that insurers don't pay out when you make a claim. This myth means many people who could benefit from financial protection choose not to take out a policy.

Yet the figures show this isn't the case.

According to the Association of British Insurers statistics, the vast majority of claims are paid. In 2020, insurers paid 97% of life insurance claims, 91% of critical illness cover claims, and 86% of income protection claims.

In total, the industry paid out £17 million every single day in 2020.

Where claims were not paid, non-disclosure was one of the most common reasons. So, it's important to be honest and thorough when taking out financial protection.

Financial protection could boost your wellbeing

Financial protection can provide a vital cash injection when you need it most.

No one wants to plan for becoming too ill to work, but it does happen. While you cannot know what's around the corner, financial protection can mean you have a safety net should you need it. It's a step that could improve your financial wellbeing and confidence in the future.

Statutory Sick Pay is just £99.35 a week. Would this cover your essential costs?

If you're too ill to work, you may be entitled to Statutory Sick Pay (SSP). However, at £99.35 a week in 2022/23, it's unlikely that SSP would be enough on its own to meet your financial commitments.

SSP is also paid for a maximum of 28 weeks. So, if you're affected by a long-term illness, you cannot rely on SSP alone.

If you were too ill or injured to work, some types of financial protection can deliver either a lump sum or a regular income. This can help ensure your essential outgoings are met and mean you can focus on your health.

Despite this, only 7% of people currently have an income protection policy in place, according to an Association of Mortgage Intermediaries survey.

Your employer may also offer an enhanced sick pay policy. You should carefully review what income would be provided and how long for, as this varies significantly between companies.

If you're self-employed, you will not be entitled to SSP. So, having a financial safety net, including appropriate protection, is vital for your wellbeing if you're too ill to work.

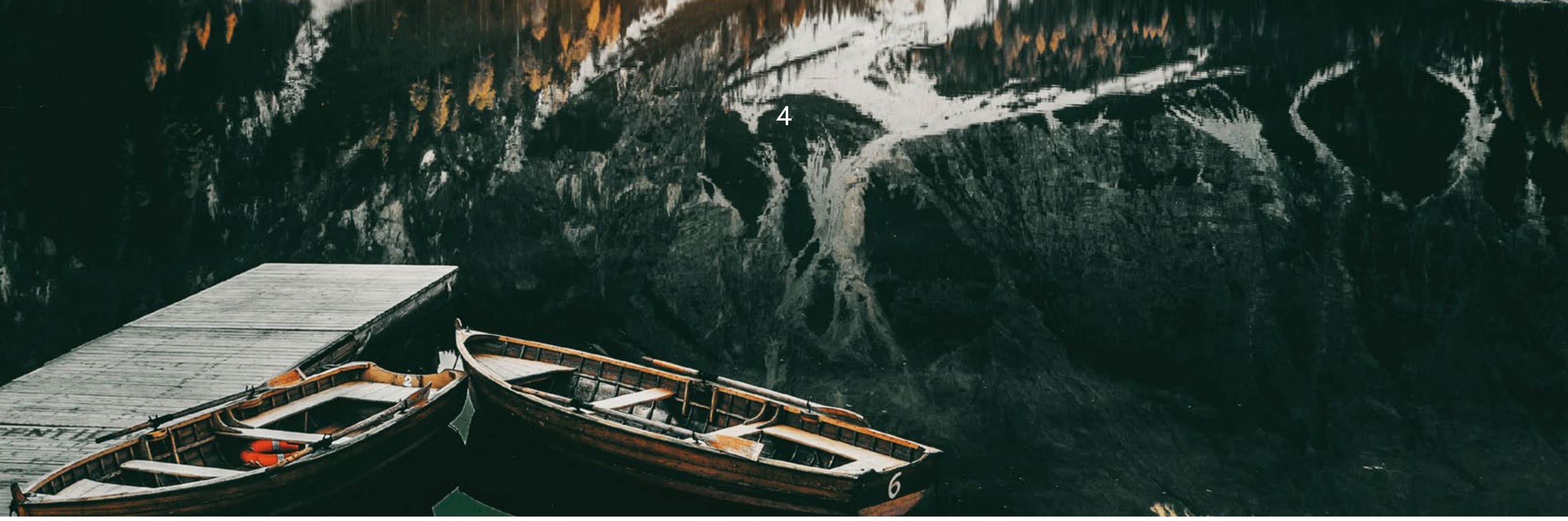
Financial protection myth: I have a pre-existing condition, so I can't take out financial protection

A pre-existing condition doesn't mean you can't take out financial protection.

It can be more complex, but appropriate protection can still add value.

Some insurers may provide you with cover that excludes pre-existing conditions, or there are specialist providers that could offer more comprehensive cover.

It's important that you disclose all relevant information about your condition and understand what protection would cover.



2 in 5 homeowners don't have life insurance

As well as providing an income if you're unable to work, financial protection can provide your loved ones with financial security if you pass away.

Thinking about dying is difficult, but choosing an appropriate policy can mean the people who are important to you are financially secure if the worst happens.

However, a report in YourMoney suggests that 2 in 5 homeowners haven't taken out a life insurance policy.

A life insurance policy will pay out a lump sum if the policyholder passes away during the term. This could be used how the beneficiaries like, from paying off the mortgage to funding day-to-day expenses.

At a time when a family is grieving, a life insurance policy can provide them with some security and mean they don't need to make immediate financial decisions.

How long would you be able to cope without an income?

You may have taken other steps to secure your finances if your income stopped, such as building an emergency fund. However, have you calculated how long it would last for?

Research from Nationwide found that 30% of people have nothing in place to support them financially, while 29% would rely on Statutory Sick Pay. 55% of people admitted they could only survive financially without an income for three months.

While 45% would use their savings, 25% said they'd need to borrow money from family or friends, and 15% would need to use a credit card or loan.

In addition, using your savings or other assets if your income stopped could affect other plans. For instance, it could delay plans to buy a home or retire.

Financial protection myth: I wouldn't benefit from it

The circumstances that mean financial protection is useful can be difficult to think about.

However, if you'd struggle if your income stopped or your family would face financial challenges if you passed away, financial protection could add value.

It's impossible to know what's around the corner, but financial protection can help you create a safety net in case something does happen.

4 types of financial protection you should consider

There are several different types of financial protection to consider. Which will be right for you, if any, will depend on your circumstances and priorities. In some cases, more than one type of financial protection may complement your financial plan.

Here are four options you should consider.

1. Income protection

Income protection can provide a regular income if you're too ill or injured to work. As a result, it can mean you wouldn't need to worry about how you'll meet essential costs.

It will continue to pay an income until you return to work, retire, or the policy term ends.

Usually, the amount paid each month if you make a successful claim is a portion of your normal salary, such as 60%. The higher the cover you want, the higher your premiums will be.

There will normally be a deferment period before you can make a claim. For example, you may need to be off work for two months before you can claim on your income protection. The longer the deferment period, the lower the premiums will typically be.

As you can choose the deferment period, you can ensure it complements other steps you've taken and your employer's sick pay policy. If your employer will pay your full salary for six months, for instance, you could choose a deferment period that reflects this.

2. Critical illness cover

Critical illness cover would pay out a lump sum on the diagnosis of illnesses named within the policy.

The lump sum can be used however you wish. It could be used to pay off your mortgage, cover living costs, or adapt your home if necessary.

You can choose the level of cover you need to reflect your financial commitments and expenses.

A payout from a critical illness policy can provide you with financial freedom if you'll need to undergo treatment or have a long-lasting condition that affects daily activities.

It's important to note that a diagnosis that is not named in the policy would not result in a payout. So, it's vital you understand how comprehensive your cover is and what's included. Illnesses covered are usually long-term and considered serious.

There are three core conditions that all critical illness policies must include – cancer, heart attack, and stroke.

3. Life insurance

Life insurance is a way to ensure your family would be financially secure if you passed away.

Life cover will pay a lump sum to your beneficiaries, which could be your partner or children, if you pass away. If you're planning with a partner, you may choose to take out a joint life insurance policy.

Most life insurance policies will have a defined term, such as 20 years. Often, this is linked to milestones, such as paying off your mortgage or children reaching adulthood.

You can choose a whole of life insurance policy, which will run until you pass away. However, premiums will usually be much higher, and this type of policy may not be right for you.

A life insurance policy can mean your loved ones don't have to worry about money or make large financial decisions, like selling property, while they're coming to terms with a loss. It can also help them maintain their standard of living. For instance, it could ensure your children are still able to attend the same school or participate in activities.

Again, you can choose how much a life insurance policy will pay out to suit your family's needs.

4. Family income benefit

Family income benefit is another way of providing your family with financial security if you were to pass away.

Rather than paying out a lump sum like life insurance, family income benefit would pay out a regular monthly income for a specified length of time. You may choose this time frame to support your children growing up.

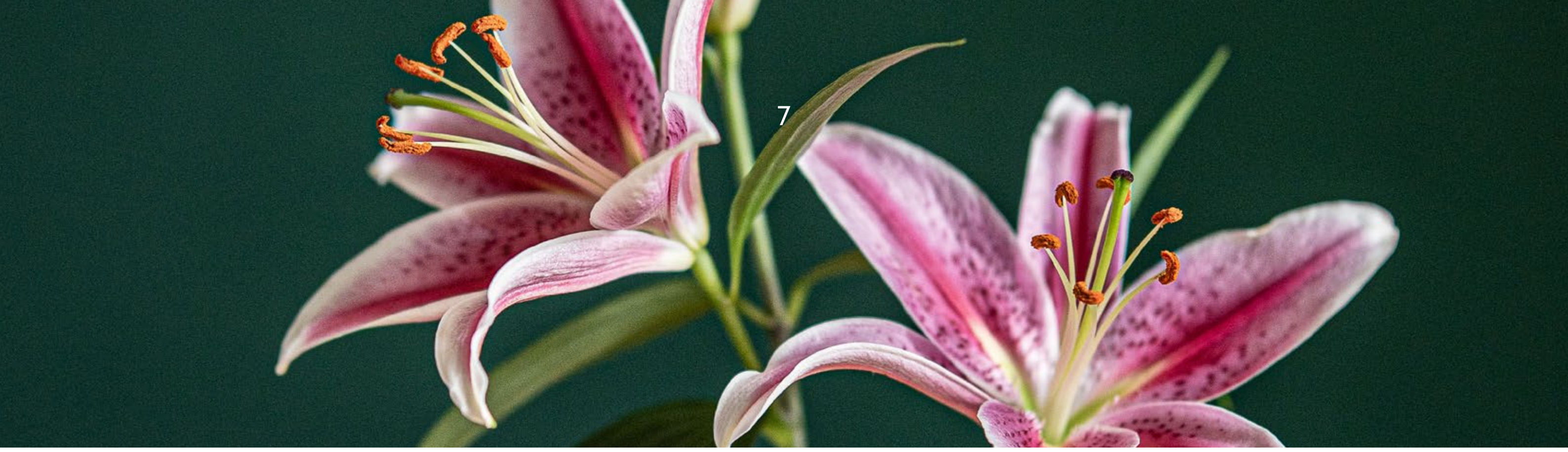
This option can mean your family can maintain their standard of living. For some, this option is preferable when compared to a life insurance policy as it can be challenging to know how best to use a lump sum payment.

As with life insurance, you can choose a joint policy and the level of cover.

Who should financial protection cover?

If you plan financially with a partner, you should think about who needs to be covered.

Often, families focus on choosing policies for the main income earner. However, there are other factors that may be important too. If the partner that provides most of the childcare became ill, for example, a family could find that their expenses are higher than normal or that the main income earner needs to take some time away from work.



5 things you need to consider when weighing up financial protection

If you could benefit from financial protection, there are some things you need to consider first. These five questions can help you choose the cover that suits your needs and other financial decisions you may make.

1. How much do you have in your emergency fund?

Your emergency fund can provide you with short-term security if your income unexpectedly stops.

Ideally, you should have three to six months of expenses in an accessible account. Yet, more than half of Brits don't have enough emergency savings, according to an International Adviser report. Even among households with an income of more than £100,000, 25% of families couldn't cover their essential outgoings for three months.

This is important when calculating what financial protection is necessary as it can highlight gaps and the length of deferment period that's appropriate if you are taking out income protection.

2. Do you have any existing financial protection?

If you've taken out financial protection in the past, review your existing cover before you take out more.

You may already have adequate cover or don't need as much as you think you do. A thorough review can mean you avoid paying for multiple policies covering the same thing.

Some services you're already paying for, like a bank account, may also come with benefits that you can make use of.

3. Does your employer provide any benefits?

As well as cover you've taken out, your employer may also offer some protection as part of your benefits package.

Start by reviewing your employer's sick pay policy. Many companies will offer an enhanced policy that means you'll be secure if you were unable to work for the short- or medium-term. Check how long your sick pay would cover and whether it would be your full salary or a portion of it.

In addition, your employer may offer life insurance, often linked to your salary, and may offer additional support if you're diagnosed with a critical illness.

Knowing how your employer would support you means you can choose financial protection to fill in the gaps and reduce the cost.

4. What level of cover would you or your family need?

You can choose how much you or your family would receive if you needed to make a claim.

It's important to understand what level of cover is right for you. It can cover essential outgoings, help you to maintain your lifestyle, and ensure you're not left in a financially vulnerable position.

If you'll be taking out income protection, what regular income would you need to pay for your mortgage, utility bills, and other financial commitments?

For critical illness or life insurance, what size lump sum would you or your family need to create long-term security? This is a question that can be difficult to answer, but we're here to help.

5. What would the premiums be?

Understanding the cost of financial protection is important.

Several things will affect how much your financial protection premiums are.

First, the level of cover will play a key role, as well as things like the deferment period if you're taking out income protection.

Second, your age, health, and lifestyle will be considered by the provider. A young, healthy person will receive a quote with lower premiums than someone who is older or has a pre-existing medical condition. Lifestyle factors, like smoking, can also increase your premiums.

While health and lifestyle may mean your premiums are higher compared to others, it doesn't mean financial protection will be expensive. Receiving quotes from providers can give you a clearer idea.

If you want to take out financial protection, you should shop around. Different providers can offer very different prices, but make sure you understand what's covered in each. A lower premium may not be as valuable as it first seems if the policy isn't as comprehensive.

While it can be tempting to hold back information to benefit from lower premiums, keep in mind this could invalidate your policy.

Financial protection myth: It's too expensive

Financial protection could be cheaper than you think.

According to a report in Professional Adviser, 31% of people say the cost of protection policies is too expensive to consider taking out.

Yet, cover can start from less than £10 a month, and the safety net it can provide means it adds far more value.

How do you make an insurance claim?

To start a claim, you should contact your provider, who will provide a form that you will need to fill in. If you have any questions about what is covered or how the process works, you can contact your insurer.

When filling in the form, give as much information as you can to avoid potential delays. You will need to supply additional documents, such as medical records, evidence from a doctor, or a death certificate.

How long it will take for the policy to pay out will depend on the circumstances. For straightforward cases, it can be a matter of days, while others may take several weeks if the circumstances are complex.

How does financial protection fit into your plans?

You shouldn't consider financial protection in isolation, but how it fits into your wider plan. This approach can highlight how financial protection will support your priorities and complement other steps you may be taking, like making contributions to your pension or creating a nest egg for children.

Financial protection myth: It is difficult to organise

While there are many providers to consider and you will need to provide information, organising financial protection doesn't have to be complicated or time-consuming.

We're here to help you find the providers that match your needs and streamline the process. In many cases, setting up financial protection is relatively straightforward.

If you'd like help understanding what type of financial protection could add value to your plan and finding the right option for you, please contact us.

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Please note: This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

Financial protection policies typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.