Life insurance: what you need to know

How much cover you need, the types of policy, and how to choose the right one.

Life insurance exists to deal with the financial consequences of dying. Where nobody would be left in financial difficulty, it is not obviously necessary. Where someone would, it is one of the simplest forms of protection available and one of the most often postponed.

The sensible starting point is to ask what would actually need to happen if you died. Would the mortgage still need paying? Would your family need to replace your income, and for how long? Would there be childcare costs, school fees or university plans? Would there be a bill for care that others would have to meet? Would a business partner need to buy your share? Those questions give you a figure; starting with a round number does not.

There are two main structures. A lump sum policy pays out once if the person covered dies during the term. A family income benefit policy pays a regular income for the remaining years of the term, which can suit households replacing an income, because the payments stop when the need ends. There are also whole-of-life policies, which are designed to run for life and are usually used in a different set of circumstances.

Should the policy be placed in trust? Placing a policy in trust can help ensure it is paid to the people you intend, without waiting for a grant of probate and potentially without forming part of your estate. It is a straightforward step that is often skipped. It is not the right choice in every case, which is worth discussing rather than assuming.

Cover written as single life or joint life makes a difference. A joint policy typically pays out once, on the first death, and then stops. Where two people might each want cover to continue after the other has gone, two separate policies can be more appropriate, whatever the cost comparison shows.

Underwriting is the part people find tiresome, and it matters. Disclosing medical history fully and accurately is what makes a valid claim possible. Anything left out can result in a claim being reduced or declined, and the effect is felt by the people you were trying to protect, not by you.

Finally, cover needs reviewing as life changes. Moving house, having children, changing jobs, starting a business and getting divorced are all reasons to look at it again. Cover taken out at twenty-eight rarely matches life at forty-eight. And it is worth remembering that premiums are not a reason to keep a policy that no longer fits; cover that does the wrong job is not good value at any price.

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This guide is general information rather than personal advice. The right arrangement depends on your circumstances, and a conversation can establish what those circumstances need.

This guide is general information and does not constitute personal advice. To discuss how any of this applies to your own circumstances, contact Conduit Financial Planners on 01708 98 29 58 or info@conduitfp.co.uk.

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