Case study

Tom, 35, lives with Beverley, his wife of the same age. Last week, Tom fell down the *stairs and while* his doctor has said there will be no lasting damage, he has torn the muscles in his left shoulder. Tom works as a teacher. He earns £30,000 a year and, while smoking, he is considering joining a gym soon. Beverley is currently looking for work as a personal assistant but is keen to lead a healthy lifestyle. Neither of them drink alcohol. They have a £120,000 mortgage that will be repaid over a 25-year period. They both have reasonably good medical history apart from a knee injury that Beverley has. What cover should they consider?

Peter Chadborn, CBK

The priority is to provide protection for their mortgage, however, personal protection should not be overlooked.

Assuming Tom's position is permanent, he is likely to have employer's death-in-service benefit of twice pensionable earnings, accompanied by a spouse's pension of 50%. He should also have sick pay benefits of full pay for six months and half pay for six months. However, the risk of relying upon these benefits is that he could lose them should he change employment as a new employer may not replicate them. This issue will require careful consideration.

Due to Beverley's employment uncertainty, their protection requirements are likely to evolve unpredictably. Flexibility is therefore important because cover is required, which may need to be adjusted according to her future employment.

Tom and Beverley's desire to lead a healthier lifestyle leads me to recommend the PruProtect plan. This will also provide the flexibility that is evidently required. Individual serious illness cover of £100,000 each, on a comprehensive basis, to anticipated retirement age with the minimum protected account set at 75% would cost £147.78 for Tom and £65.87 for Beverley.

The mortgage only needs to be repaid once so joint life cover tailored to the reducing debt and term will suffice. I would recommend Progress from Royal Liver at £19.01, again for flexibility.

Peter Chadborn

David Macgregor

David Macgregor, Holloway Friendly

I initially suggest a joint-life first-death level term assurance for £120,000 over 25 years to cover the mortgage, with a monthly premium of around £25. Once they have adopted a healthier lifestyle, the cover could be reviewed and premiums most likely reduced.

Protecting their earnings is a greater challenge. Tom would be the only one who would be eligible for full income protection (IP) and, based upon 60% of his earnings, he could request a benefit of £18,000 a year. Assuming he receives six months' full pay followed by six months' half pay, the ideal way to structure the cover would be with a split deferred policy – one with a 26-week deferred period covering £3,000 and the other a 52-week deferred covering £15,000. This would allow him to have maximum cover. The recent injury to Tom's shoulder should not necessitate exclusion, especially in view of the long deferred periods proposed.

Teachers are generally now on occupation class three and Tom is a smoker, so the best option would be to use a Holloway Income Protection plan to provide the cover. The total cost would be in the region of £42 a month for fully-indexed cover.

With Beverley not currently employed, her options are limited and she would not be able to obtain full IP. However, she may consider housepersons IP, which could cost around £6 a month for £2,700 a year of cover after 13 weeks. The basis of incapacity would be assessed on her ability to carry out household tasks.

Zoe Joyce, Legal & General

A joint decreasing term assurance policy with critical illness (CI) to cover the mortgage would cost £106.18 a month, assuming that Beverley is a non-smoker and that there are no previous medical conditions. We would also recommend accident, sickness and unemployment (ASU) cover for Tom, with a 30-day deferred period. This would be on a 'back to day one' basis so the benefit will be backdated to the first day of the claim. A monthly premium of £51.71 would get a monthly benefit of £1,018, which is the maximum available.

Both Tom and Beverley should have mortgage income protection, so we would recommend our mortgage payment insurance. For Tom this would be with a 52-week deferment to coincide with the end of the ASU benefit period. A monthly benefit of £1,127 would be £44.83 a month. There may well be an exclusion for Tom's shoulder injury though.

Mortgage payment insurance for Beverley would be with an eight week deferred period as this is the minimum available. The maximum benefit available for a houseperson is £600, at £84.82 a month. Again, there may be an exclusion for Beverley's knee injury.

We would need to know if Tom and Beverley have any dependant children, in which case we would recommend family protection. We would also need to know if the couple have any other protection plans, debts, liabilities, pensions and savings as well as ascertaining a monthly disposable income.

Zoe Joyce