

Case study

Hugo, a teacher, has a mortgage and three separate loans. All have payment protection insurance (PPI) associated on an individual basis. He has recently started a family and is looking at a broader policy. He is healthy but has a BMI of 34. What would be suitable?

Peter Chadborn, CBK (Colchester)

Hugo is at that point in life where his protection needs are likely to be higher than at any time and his disposable income is going to be at its tightest. He needs effective debt repayment cover in the event of disability, serious illness or death. He now also needs to provide financial security for his new family against the loss of his income in the same events. These needs also apply to Hugo's partner but will vary depending on the family's financial reliance upon both their incomes.

As a teacher Hugo will receive death-in-service benefits and generous sick pay.

Appropriate scrutiny will be applied to understanding the effectiveness of the payment protection

insurance, however; it is not likely to represent value for money, particularly as it will have a limited benefit period and potentially excludes back and stress related claims. The premiums saved on this cover could well be put to better use in providing a broader, more comprehensive protection solution.

Hugo's expectations and budget need to be managed carefully when conducting research and presenting recommendations because his BMI is very likely to mean loaded premiums.

The protection structure is going to have to change as the family's requirements evolve. I would therefore consider a fully flexible menu plan in which the various covers can be adapted to accommodate the family's changing requirements.



Peter Chadborn



Stephen Crosbie

Stephen Crosbie, Protection & Investments AEGON

Hugo may want to review how much the four PPI policies are costing.

A full assessment of needs could present an opportunity to recommend an income protection (IP) policy alongside the PPI policies to start when PPI cover ends. Or, if there are sufficient savings to act as an emergency fund in the short term, it could be an option for him to replace the PPI policies with a good IP policy with a shorter deferred period and unemployment protection.

Hugo's BMI means that he may only be able to get cover with rated premiums across all benefits, however, it would depend on Hugo's age and other risk factors such as smoking/blood pressure/cholesterol and family history.

As a teacher, Hugo would not qualify for our own occupation definition but he would get income protection on an 'any suited occupation' basis.

The flexibility of a menu based product where more than one benefit can be added and tailored accordingly, might be the most appropriate and with plans for growing his family, Hugo might benefit from a more affordable product like Family Income Benefit.

An assessment of the existing arrangements and requirements for life and/or CI cover would need to be carried out for the right cover to be put in place.

AEGON's Personal Liability Audit and the Pre-sale Underwriting Questionnaire can be helpful for carrying out this exercise.

Steve Casey, Bupa Individual Protection'

If Hugo works in the public sector, his sickness entitlement will be clearly set out in the 'Burgundy Book' which details the national conditions of service for schoolteachers in England and Wales. Some Local Education Authorities offer alternative schemes, so he should check.

He would also be wise to add his newborn child onto his payment protection policy at the next renewal.

Hugo could consider a Bupa income protection policy. To ensure he receives maximum payment for as long as possible, depending on his employment contract, he should take out a split deferred period. This means that the payments will be split over a

period of time, for example 50% will be available after three months and 100% after six months.

One of the advantages of Bupa's income protection policy is that it offers a budget option which can be linked to Hugo's mortgage term and liabilities. A typical policy would cover 140% of mortgage costs (which include council tax and utilities) and stop paying at the end of the mortgage term. A mortgage outlay such as this would take into account Hugo's outgoings as these will continue even in the event of disability or other inability to work.

It also offers additional benefits such as child critical illness cover. While Hugo is generally in good health, his Body Mass Index is rather high. This may have an impact on his premiums.



Steve Casey