

Six things to check before setting up the family's financial safety net

If you are buying life insurance, remember it's not all about cost, writes **Jennifer Hill**

PERSONAL insurance premiums are set to rise this year, as the market vies to boost profitability.

That was the prediction last week from Axa, after it unveiled a drop in 2010 underlying earnings to £131m from £235m in 2009.

So what better time to make sure you're covered? While hunting down a competitive deal is a must, it shouldn't be your sole consideration.

Peter Chadborn, a director at Plan Money, the independent financial adviser, says: "Don't be fooled into thinking that it's all about cost. There are other valuable features to consider."

Here, we look at everything you need to know when buying a financial safety net for your family:

CHECK YOUR EMPLOYMENT CONTRACT

Many employers provide their workers with life cover as part of their total remuneration package, so check your contract. This is often between two times and four times your annual salary, says Patrick Connolly, at financial adviser AWD Chase de Vere.

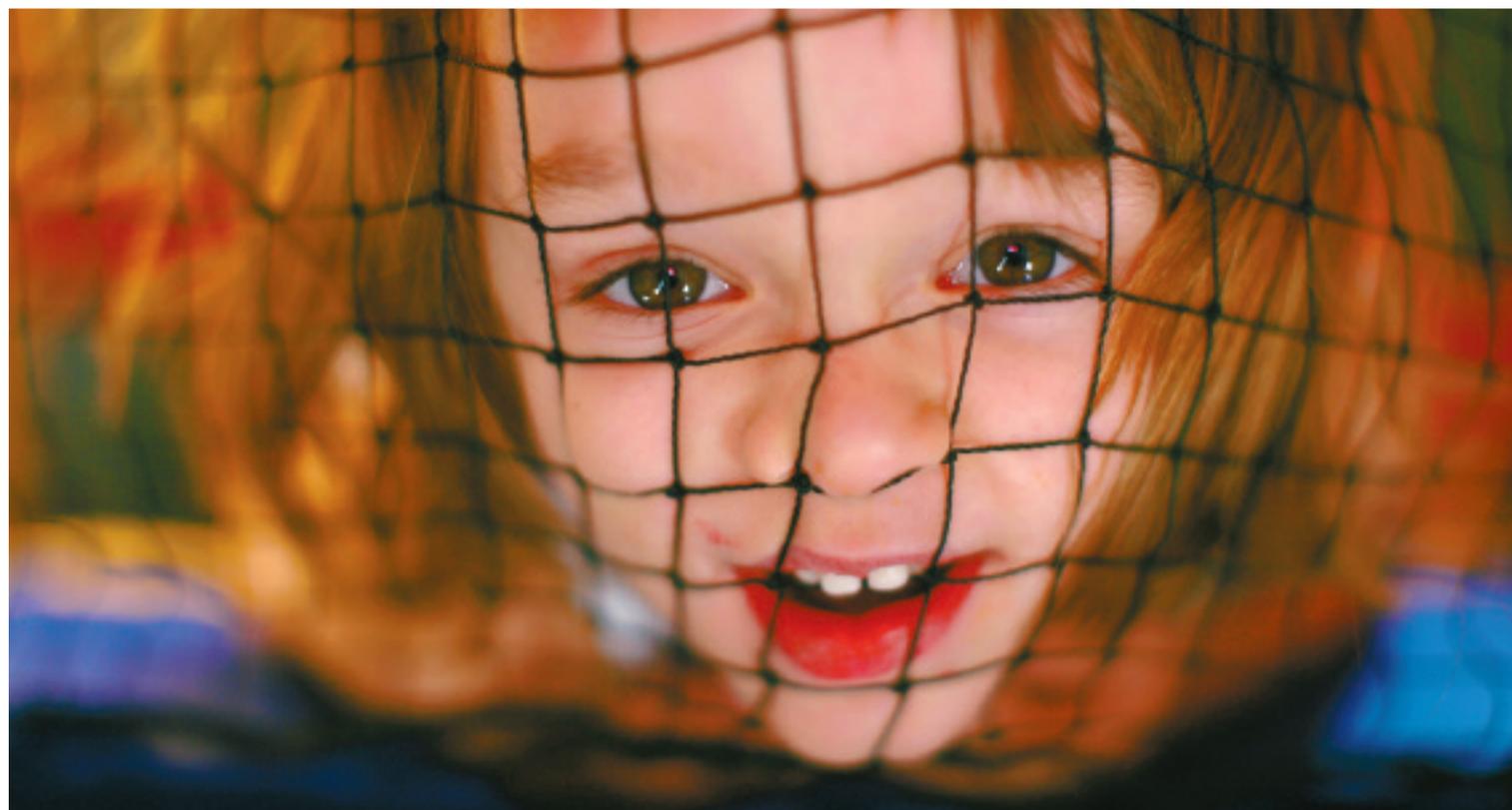
KNOW WHAT YOU NEED

Life cover is often taken out by those with dependent children, but there are different types depending on what the policy proceeds are designed to do. Would your beneficiaries need cash to repay a lump sum debt or replace lost income?

Connolly says the "most appropriate" life insurance for most families is "family income benefit". If you were to die, this would pay a regular tax-free income up until a specified date, usually when dependent children reach age 18 or 21.

"This is the cheapest form of life cover, so can be afforded by families even if they're on a fairly tight budget," says Connolly.

"As it pays a regular income, the person



setting up the policy doesn't have to calculate a lump sum amount to provide the required level of income for dependents and the beneficiaries don't have to worry about where best to invest the proceeds to generate income."

This is a form of "decreasing term assurance", because the total amount paid out decreases the longer the assured person survives for.

In contrast, "level term assurance" might be appropriate if the payout required doesn't reduce over time, for example if you've taken out an interest-only mortgage.

ACT SOONER NOT LATER

The cost of insurance rises the older you get, given the greater likelihood of your death (see tables below).

A man aged 30 on his next birthday could buy £250,000-worth of level life

Catch them if you fall

Picture: GETTY

cover over 20 years for £11.54 a month with PruProtect, says Chadborn. A man aged 40 on his next birthday would have to fork out £21.55 for the cheapest deal, from Legal & General, and if he waited a further ten years he'd have to pay £54.55 per month, also to L&G.

BE FLEXIBLE

The cheapest isn't necessarily the best. Some policies offer the flexibility to amend the term or cover part-way through the policy. For example, if you were a smoker and became a non-smoker, you could shave pounds off your policy.

Some 13 per cent of insured smokers have not smoked or used nicotine patches for at least a year, yet 51 per cent of them still haven't informed their life insurer of their new "non-smoker" status, according to Sainsbury's Bank.

They could save 46 per cent. Smokers

pay on average £210 a year for life cover, almost double the £114 of non-smokers.

LOOK FOR ADDED EXTRAS

Some policies come with extras, such as access to the best doctors and counselling support services for your beneficiaries in the event of your death. Consider what added extras it might be worth paying a small premium for.

TRUST IN TRUSTS

Should you put your policy in trust? There are a variety of reasons for doing so.

"This could ensure that the proceeds are distributed exactly in accordance with your wishes and facilitate a speedy payment, without having to wait for probate to be granted," says Chadborn. "In certain circumstances, trust can also serve as an effective inheritance tax planning tool."

COST OF £250,000 LIFE INSURANCE FOR A MAN AGED 30 NEXT BIRTHDAY

Provider	Product	Cost per month
PruProtect	Essentials Plan	£11.54
LV=	Online Term	£11.68
Scottish Provident	Self Assurance Term	£11.73
Aviva	Simplified Life Level Term	£11.76
Axa	Protection Account	£11.82

Source: Plan Money

COST OF £250,000 LIFE INSURANCE FOR A MAN AGED 40 NEXT BIRTHDAY

Provider	Product	Cost per month
Legal & General	Level Term Assurance	£21.55
Aviva	Term Assurance	£21.75
Scottish Provident	Self Assurance Term	£21.82
LV=	Online Term	£21.84
Aviva	Simplified Life Level Term	£21.96

Source: Plan Money

COST OF £250,000 LIFE INSURANCE FOR A MAN AGED 50 NEXT BIRTHDAY

Provider	Product	Cost per month
Legal & General	Level Term Assurance	£54.55
Aviva	Simplified Life Level Term	£54.60
Aviva	Term Assurance	£54.75
LV=	Online Term	£54.88
Aegon Scottish Equitable	Personal Protection	£55.03

Source: Plan Money

PERSONAL FINANCE NEWS

BY DONATA HUGGINS

YOUNG FEMALE DRIVERS WILL PAY MORE

The EU gender directive ruling, which is expected on 1 March this year, will decide whether or not it is legal for insurers to charge different premiums based on gender. Under the current rules, young female drivers pay less for their insurance than young men, based on the fact they are less likely to make expensive claims. If pushed through, the ruling is likely to result in further price rises for young female drivers as they absorb the difference between their current rates and those of their male counterparts.

ISA INVESTORS LOOKING TO AFRICA

New research from online stockbroker and fund supermarket Interactive Investor shows that ISA investors are looking further afield for income growth. Figures reveal that nearly a quarter (24 per cent) of investors plan to invest in new emerging markets such as Africa and Vietnam this year, a 52 per cent increase on 2010. The research also reveals that four in ten investors (41 per cent) expect to invest in established emerging markets in 2011 and 38 per cent plan to invest in natural resources and commodities.

BRITS ARE SAVING FOR A RAINY DAY

New research from Confused.com has revealed that as a nation we're saving for a rainy day rather than towards any particular goal. The comparison site found that of the 80 per cent of Brits who save each month, nearly a quarter (24 per cent) don't have a specific focus, whilst one fifth (22 per cent) are saving for the long term and retirement and another 20 per cent are saving for a deposit on a home. And somewhat shockingly, one percent admitted they are saving to leave their partner.

FALLING RATES STILL NOT AT 2008 LEVELS

Although rates for personal loans above £7,500 have been falling steadily since the start of the year, anyone looking to borrow less than this amount was still paying much more. The average rate for the top 10 personal loans at £3,000 is now 14.39 per cent, the lowest average since November 2009, and the average rate for loans at £5,000 is now 10.02 per cent, the lowest rate since June 2009. Despite these positive moves, the rates are still some way off pre-credit crunch levels.