MoneyMarketing

Cover plans

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We are moving home and restructuring our mortgage and are keen to ensure our life cover is sufficient for our family of two parents and two financially dependent children. We only want to address life cover requirements at present. How can we best achieve this?

Your process should begin by assuming you have no life cover, then ascertain the ideal levels of cover needed in the event of the death of either of you, then cross-reference this against existing cover and employer provision to identify the shortfalls and areas for improvement.

With a young family, you ideally need to assume that if either of you dies, there is enough cover to grant the remaining parent maximum options and choices. For example, whether to go to work and fund the cost of child care or be at home with the children but have enough income to maintain a satisfactory standard of living.

In terms of life cover, for ease of management, it is advisable to separate debt repayment and income replacement.

Starting with your mortgage, you need life cover on both of you tailored to the mortgage structure, the outstanding balance and the remaining mortgage term. Since the debt only needs to be repaid once, a joint-life, first- death policy will suffice.

For income replacement, the first step is to complete a budget planner. This is an essential tool for all manner of financial planning exercises and in this instance it will be used to identify the level of life cover required to maintain financial security for the family in the event of the death of either parent.

Look at your outgoings, assume the mortgage would be repaid on death and work out what level of outgoings will need to be met in the event of the death of either of you. It is quite likely that the sum will be different for each of you. This is a more accurate way to asses the required level of life cover rather than using a crude multiple- of-income method.

The next step is to cross-reference your existing provision against the established life cover needs. This includes existing policies, any death-in-service benefit and occupational pension spouse's benefit provided by your employers.

When checking the suitability of existing policies we need to ensure the cover structure is appropriate, such as the policy's remaining term.

You need to be aware that if you rely on benefits provided by your employer, these benefits could be lost if you lose or change your job.

The most cost-effective method of providing this income replacement will be via a family income benefit policy which should have a term equal to the anticipated term of financial dependency of the children.

If your preference is for the provision of a lump sum from which an income can be derived, a term insurance providing a lump sum payout will be required, likewise for any anticipated increased future expenditure which needs to be factored in, such as future university fees.

Be aware that even with just life cover, cheapest is not always best as many quality products provide additional policyholder benefits and product flexibility.

Think about the merits of index-linking the cover and, if applying for multiple benefits, a menu plan is likely to be most efficient in several ways.

Finally, seriously consider the merits of writing the individual covers in trust, for speed of payment, to ensure the correct recipient of the benefit and, in certain circumstances, to potentially mitigate inheritance tax.

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