

# Introduction to protection

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## Protection basics:

### ▶ **Life cover**

*Life insurance is the simplest form of protection you can buy, it provides basic cover for a fixed number of years. It pays out a lump sum if you die during the term of the policy.*

*Many policies also pay out if you're diagnosed with a terminal illness during the term and have been given 12 months or less to live.*

*You can have life cover that is indexed to increase each year so that the sum assured keeps pace with inflation*

*You can also have cover that reduces each year, this is usually taken out in conjunction with a mortgage where the amount you owe is reducing each year. The monthly premiums stay the same throughout the term of the plan but the starting cost is cheaper than if you kept the same level of cover for the whole term of the plan.*

*If you have a young family you may feel that a regular monthly income is more appropriate than a cash lump sum. If that's the case a family income policy or choosing a monthly income option, if the cover offers this, may be a better option.*

*The above options provide cover for a fixed term but you may want life cover throughout your lifetime.*

*A Whole of Life insurance policy would provide this cover, it guarantees a payout when you die as long as you keep paying the premiums...*

*Payouts from a life policy are free from income tax or capital gains tax. However, inheritance tax (IHT) may be payable on the cash sum if the payout, when added to the your estate, puts the whole estate over the threshold for paying no IHT.*

*A solution to this would be to place the policy in trust so it doesn't form part of your estate. However putting your life cover in trust is a complex issue so you should discuss this with us to ensure that it is right for you.*

### ▶ **Critical illness cover**

*Critical illness insurance can pay out a tax free cash sum if you are diagnosed with one of a range of specified critical illnesses while the policy is in force.*

*Critical Illness Cover can be either arranged on its own or added to a life policy.*

*Critical Illness polices can vary in the illnesses they cover but most cover illnesses which are consistent with the Association of British Insurers' list of critical illnesses. These include some forms of cancer, heart attack and stroke.*

*You can choose the length of time you want the policy to run for – many will stop when you reach 70 years of age – but it could coincide with the end of your mortgage or children finishing school or university.*

## Protection basics:

### ▶ **Income protection insurance**

*Income protection insurance provides you with a guaranteed regular income if you are unable to work due to sickness or injury.*

*You usually continue to receive this income until you return to work.*

*This type of policy is also known as permanent health insurance.*

*The maximum income is typically up to 65% of your earned income. The payments are tax-free though, so the shortfall might not be as much as you think.*

*You need to choose when you want the regular payments to start should you have to make a claim.*

*It usually depends on how long you will receive your salary from your employer but typically these plans start at 4, 13 or 26 weeks from the date you become unfit to work.*

*Income protection payments will stop if you do go back to work. If you were to fall ill again you may be able to claim again.*

*This type of cover is a very valuable benefit for the self employed, especially those who only earn when they are working.*

*The cost of all types protection cover can either be 'guaranteed' at the outset or 'reviewable'. A guaranteed policy could cost more but gives you the peace of mind of knowing that the amount you pay for the insurance won't change. With reviewable policies, the amount you pay can increase when rates are reviewed, typically every five or ten years. There are usually no limits to how much your premium may increase when rates are reviewed.*

*If you think you need some form of cover please contact us, we can help you to assess the amount and type of cover you need.*