

# Welcome

## Mortgage Solutions Limited

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### PROTECTION EXPLAINED

The summary is a useful quick guide but for more information please read the individual sections which are far more detailed.

#### Summary

Once you take out any kind of loan, it's very important that you make all the repayments in full, and on time. If you fail to do so you could lose your home if it's a mortgage or your loan is secured on it. It could also affect your credit rating.

Sometimes, however, the unexpected happens. For example, you might lose your job through redundancy, or find yourself unable to work due to long-term sickness. By law, an employer must pay most employees statutory sick pay for up to 28 weeks though this will probably be a lot less than full earnings. After that, you would probably have to fall back on State benefits. These are limited and means-tested which may mean you won't qualify. If you are self-employed, you have no employer to help, so you would have to turn to the State.

This is when insurance to protect you or your family's income or borrowing can be useful. Listed below are some examples of products and why you might find them useful:

Type of insurance	What's it for	What do you need to know?
Critical illness (CI)	Pays out a lump sum if you're diagnosed with a critical illness, such as cancer, a stroke, MS, a major organ transplant, coronary artery bypass, heart attack and kidney failure. You can use the payout to pay for medical treatment, pay off your mortgage or anything else.	<p>You need to read your insurer's terms carefully, not just for the range of illnesses they cover but also their type. For example, while a heart attack may be covered, a cardiac condition such as angina may not, also not all types and stages of cancer are covered.</p> <p>For a claim to be successful, you normally have to survive a month following the diagnosis.</p>

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<p>Mortgage payment protection (MPPI) – also called accident, sickness and unemployment insurance</p>	<p>A typical policy will start to pay your mortgage repayments one month after your income stops due to redundancy, accident or illness, and continues to pay for 12 months.</p>	<p>You don't have to have this type of cover at all (unless it's a condition of your loan) and you certainly don't have to buy it from your own lender, so shop around for the best deal for you.</p> <p>Check if any medical problems you may have had in the past would be excluded if they cropped up again.</p>
<p>Payment protection insurance (PPI) – also called accident, sickness and unemployment insurance</p>	<p>To help you keep up your loan repayments, for example on a loan or credit card, in the event you can't work because of redundancy, accident or illness. A typical policy will start to pay an agreed amount one month after your income stops due to redundancy, accident or illness, and continue to pay for a set time – usually 12 or 24 months.</p>	<p>You don't have to have this type of cover at all (unless it's a condition of your loan) and you usually don't have to buy it from your own lender, so shop around for the best deal for you.</p> <p>Look at the conditions carefully. For example, what if you wanted to cancel the cover after a few months?</p> <p>And if a medical problem you've had before crops up again, will they still pay out?</p>
<p>Life insurance</p>	<p>Pays out a lump sum if you die.</p>	<p>With some types of cover, called Pension Term Assurance (PTA), you used to get tax relief on the premiums paid into it. This may no longer be available on policies taken out after December 2006.</p>
<p>Mortgage protection life cover (term insurance)</p>	<p>Pays off the mortgage loan if you die.</p>	<p>Endowment mortgages automatically include life cover.</p> <p>If you have a repayment mortgage (so the amount you owe gets smaller over the years), you can buy cover that reduces as the debt reduces.</p>

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Income protection (or Permanent Health Insurance – PHI)	Replaces part of your income if you are unable to work for a long period of time because of illness or disability.	<p>It continues to pay out until you can return to some kind of paid work or reach retirement, whichever is sooner.</p> <p>PHI products have a waiting period before they will start to pay out. The longer you agree you'll wait, the lower your premiums so it is important you find out what income you can get from your employer, and other insurance (such as mortgage payment protection) you can get in the event of illness or disability.</p> <p>This cover might not be available to you if you have existing health problems or a dangerous job.</p>
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## 1. Life Insurance

Life insurance is about providing some financial security for people who depend on you if you died. (So if you don't have a partner, spouse or civil partner, children, or other dependants, you may not need life cover.)

To make sure you buy the right amount of cover, with the right terms and conditions, you should consider getting some advice. The adviser assesses what your family would need, and shops around for the cover that suits you best.

Term insurance is the simplest and cheapest type of life insurance, and is known as term insurance because you choose how long you're covered for, say, 10, 15, or 20 years (the term).

Term insurance only pays out if you die within the term you've agreed. If you live longer than the term, you get nothing. As a couple, you can also take out term cover in both your names, with the policy paying out if either of you die during the term.

Premiums shown are usually fixed for the whole term. There are also contracts where premiums are reviewable after a certain period, usually five years.

By paying extra, you can usually include a waiver of premium. It pays the premiums if you can't work because of a long-term illness so that your cover is not interrupted.

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If you want to change insurer, check the level of premiums for the new contract before switching (premiums may have gone up because of older age or because you have developed medical conditions). Also check the new level of cover compared to the previous one. Different benefits may be available, and different exclusions may be applied – for example you may not be covered for medical conditions that have developed before the switch even if these were covered under the previous contract. If you do decide to change, make sure you do not cancel your original cover until you are fully covered by the new contract.

## **2. Critical Illness**

Critical illness cover (CIC) is a long-term insurance policy designed to pay a lump sum on the diagnosis of certain life-threatening or debilitating (but not necessarily fatal) conditions such as a heart attack, stroke, cancer, multiple sclerosis and loss of limbs.

The illnesses covered will be specified in the policy along with any exclusions and limitations – these differ between insurers. CIC policies usually only pay out once, so are not a replacement for income.

Many people buy CIC when they take on a major commitment such as a mortgage.

- Critical illness cover pays you a lump sum if you are diagnosed as suffering from one of the specified illnesses.
- Policy summaries will often set out a list of illnesses covered, but this is only a guide and full details will be in the policy document. This will also set out the criteria that have to be met before the insurer will pay a claim, including defining the level of severity of the illness.
- As an example, in the case of cancer, not all cancers or stages of cancer are covered. And for heart attacks, the insurer will need to have medical evidence of the severity of the condition before paying a claim. So make sure you check which illnesses are covered.
- CIC does not cover simply any sickness that affects your ability to work – it is specific about which illnesses are covered.
- Some insurers exclude all pre-existing conditions but others will decide on the basis of your personal medical history.
- CIC differs to other types of protection insurance such as income protection or payment protection, so make sure you understand what it does and whether it is right for you.

## **3. Income Protection**

If you are an employee and you fall ill, your employer might pay you your full pay for a few weeks or months. By law, an employer must pay most employees statutory sick pay for up to 28 weeks, though this will probably be a lot less than your full earnings. After that, you would probably have to rely on state benefits.

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However, some employers arrange group income protection insurance for their employees as a perk of their job, which can pay out an income after the statutory sick period. So check what you are entitled to.

If you are self-employed, you won't have this option.

State benefits are not generous. You would probably see a substantial drop in your income if you were out of work for more than a few months because of illness or disability.

Insurance aims to put you back to the position you were in before you suffered a loss. But it does not allow you to make a profit out of your misfortune. So the maximum amount of income you can replace through insurance is broadly the after-tax earnings you have lost less an adjustment for State benefits you can claim. This usually translates into a maximum of, say 50% to 65% of your before-tax earnings.

If you can't work because of illness or disability, income protection insurance (also called **permanent health insurance**) pays out a tax-free income.

#### **Example of working out how much cover you need:**

Sue is single and earns £26,000 a year before tax and other deductions. She estimates that, if she was ill for a long time, her budget would be affected as shown in the table below.

<b>Sue's budget calculations in the event that she couldn't work</b>	<b>Her estimates</b>
<b>Income she would lose</b> Her take-home pay	<b>£18,000</b>
<b>Deduct income she would gain</b> Approximate long-term incapacity benefit	<b>£4,000</b>
<b>Deduct expenses Sue would save</b> Work-related costs, mortgage interest payments if covered by mortgage payment protection insurance	<b>£3,000</b>
<b>Add extra expenses she would pay</b> Allowance for, say, cost of special equipment or treatment, cost of heating her home for more time	<b>£2,000</b>
<b>EXTRA INCOME NEEDED</b>	<b>£13,000</b>

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Sue reckons she would need around £13,000 a year to maintain her lifestyle. This is half her before-tax pay of £26,000.

Sue also works out that as a perk of her job, her employer will pay her half a salary for 52 weeks after the statutory sick pay period of 28 weeks. She therefore arranges for her policy to pay out after 80 weeks of incapacity (see **waiting period** below).

You pay a monthly premium throughout the term of the policy. Cost depends mainly on:

- **Your age** – at the time you start the policy. Older people are more likely to suffer an illness, so pay more.
- **Your sex** – gender can have an affect on the premium you pay.
- **Your health** – at the time you start the policy. If you have existing health problems you might be refused cover or have to pay more.
- **Your job** – some jobs are more likely than others to contribute towards illness. For example, a bank clerk is deemed to have a very safe job but a deep sea diver runs high risks and so would have to pay more.
- **Hobbies and lifestyle** – for example, smoking makes you more likely to become ill, so you'll pay more.
- **Waiting period** – once you claim, there is a delay before payments start. You can choose how long this is - for example, from 4 weeks up to 104 weeks. The longer the waiting period, the less you pay.

If your health is poor or your lifestyle is considered risky, you may be refused cover or have to pay more than normal.

Check whether you already have protection in place in case you get incapacitated, and for how long that protection would last. For example your employer may have an income protection scheme in place you can benefit from, or you may have a payment protection insurance that covers your mortgage.

Check whether the policy reduces what it pays out if you receive state benefits or claim money under any other insurance policy.

Some policies only pay out if you can't do any work, but you would have to be seriously incapacitated for you not to be able to work at all. Others cover being unable to do any work for which you are suited. The best pay out simply if you can't do your normal job, but premiums tend to be more expensive.

Some advisers suggest that critical illness cover (CIC) – which pays out a tax-free lump sum if you are diagnosed with a life-threatening condition listed in the policy – is a cheaper and simpler alternative to income protection insurance. But there are lots of common situations when CIC would not pay out – for example, if you had back problems or a stress-related illness. Additionally, not all occurrences of the critical illnesses listed are covered, for example some early stages of cancer are not covered.

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#### 4. Payment Protection Insurance

Payment protection insurance, or PPI, is insurance that will pay out a sum of money to help you cover your monthly repayments on mortgages, loans, credit/store cards or catalogue payments if you are unable to work. This could be because you have an accident or sickness, or become unemployed through no fault of your own.

This means that the insurance company will pay the monthly repayments (or a percentage of them) on your behalf for a fixed period of time if you become unable to work. It is sometimes known as ASU (accident, sickness and unemployment) insurance, Account Cover or Payment Cover.

- PPI only pays out for a set period of time, generally either 12 or 24 months.
- To claim on the unemployment part of the policy typically you must have been employed continuously by the same company for the last 12 months on a permanent contract.
- Check carefully if you are self employed and require cover – the policy may not cover you.
- You may not be able to make a claim for an illness you already have or have had before. Make sure you check this before you take out the policy. This will be called a **pre-existing medical condition** and can include any medical conditions you have, even if they haven't troubled you for a while.
- Stress or back complaints, and possibly other conditions, may not be covered, even if you can't work because of them. Again, it's worth checking before you take out the policy.

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