

Keep the family covered

Life insurance will protect your loved ones, if the worst happens. We explain which policies are right for you and how to get the best deals

Life insurance is vital if you have anyone who relies on you financially. Otherwise, they may well struggle when you're not around. However, with so many choices and policies available, finding the right option for your family's needs can be something of a challenge.

This report will guide you to the Best Buy policies (see tables, opposite) and give you an idea of just how much cover you actually need (see 'Insurance calculator', p22).

WHICH POLICIES ARE THERE?

The most basic type of life insurance policy is term insurance. You decide how much cover you need and how long you want to be covered for. If you die within this period, you will be paid according to the amount of cover you bought. Before you decide which policy is best for you, you should check what policies your employer has put into place on your behalf (see 'Checklist', p22, for more).

The main choice with term insurance is between a level- or decreasing-term policy – for most people, a combination of the two will be best.



A level-term policy is good for providing for your family's day-to-day bills



Level term

A level-term policy pays out the same lump sum no matter when you die (within the policy's term).

■ **WHO'S IT FOR?** Everyone. It's good for providing money for your family's day-to-day bills and expenses and providing cover for interest-only mortgages.

Decreasing term

With this type of policy, the amount it pays out falls the longer you have the policy. It is usually used to pay off a repayment mortgage, as the policy can be set up so that the potential payout shrinks at the

LIFE CHANGES

John and Vanessa Waters

41 and 40, social worker and teacher
With a big family relying on his salary and her childcare, the Waters are keen to get their life insurance sorted out. Although they've got a policy to cover the mortgage if John dies, life has moved on since they bought it.

Six children later, they want to buy enough insurance to cover John's £55,000 salary should either of them die, as if Vanessa, 40, died before him, he would want to be able to give up work to care for the children.

They want the policy to last until the youngest children, currently aged two, are 18. A level-term policy would probably suit their needs as it would complement the existing decreasing-term policy.

We advised them to see an independent financial adviser (IFA) specialising in insurance to discuss their needs further.

BOOK OFFER

Which? Money Saving Handbook

Save money on insurance, credit cards and much more

From low-cost air travel and zero per cent finance to cheap mobile phone tariffs, the Which? Money Saving Handbook is the key to becoming smarter with your money. The book separates the cons from the bargains and explains how to avoid hidden charges and penalty fees.

To order the book at £9.99 (normal price £10.99) with free p&p (valid until 31 May 2008), call 01903 828557, quoting code MHW0508 and ISBN 978 1 84490 048 0 or visit www.which.co.uk/books for more information.



same rate as the amount you owe on your mortgage.

Decreasing-term insurance tends to be cheaper than level term – you'll probably pay about a third less.

■ **WHO'S IT FOR?** If you have a repayment mortgage, it makes sense to have it covered by a decreasing-term policy, with a level-term policy to cover everything else.

Joint or separate policies

If you have a partner or spouse, you can buy one policy which covers both of you. This is only a good idea where you are insuring to repay a mortgage or similar debt and you want the policy to pay out when the first person dies.

You're more likely to want level-term insurance which covers day-to-day spending and costs, to pay out when each of you die, because the surviving partner will still need the cover if there are dependent children.



■ **VERDICT** It makes sense to buy a level-term policy for each of you. That way you can get different levels of cover or different terms. Surprisingly, the cost of two policies shouldn't be that much more than if you'd bought a joint one.

Family income benefit

If you'd rather your family had a regular income than a lump sum, you might want to opt for family income benefit (FIB).

This provides a similar level of cover for a similar cost as decreasing-term insurance, but your family gets regular tax-free payments.

DISCLOSURE

Make sure you are completely open

When you apply for life insurance, make sure you are honest about any health problems you may have. If you aren't open (known as 'non-disclosure') the policy could be invalid.

Insurance companies can reject a claim, even if the undisclosed issue has nothing to do with the reason for the claim. One case dealt with by the Financial Ombudsman Service (FOS) was a claim for breast cancer, which was turned down because the claimant failed to disclose back pain following childbirth.

The Law Commission is

seeking to have the law relating to this issue changed, but for now, it's vital to be completely open. If you have a claim turned down and you think it's unfair, take your complaint to the FOS. It will look at your case and, if it decides your non-disclosure was innocent or inadvertent, it may resolve the dispute in your favour.



Best Buy life insurance

The tables show the lowest and highest monthly premiums for level-and decreasing-term policies offering £100,000 cover. Premiums remain unchanged throughout the term. We have excluded policies with a minimum premium which buys more than £100,000. Full tables can be seen at www.which.co.uk/lifeinsurance

LEVEL-TERM INSURANCE £100,000 COVER			
	COMPANY		PREMIUMS (£)
25-YEAR TERM			
Male, 39, smoker	Lowest	Sainsbury's Bank	22.33
	Highest	Skandia	45.54
Male, 39, non-smoker	Lowest	AA Insurance Services Ltd	11.94
	Highest	Scottish Friendly ^a	21.00
Female, 39, smoker	Lowest	Sainsbury's Bank	17.86
	Highest	Skandia	35.63
Female, 39, non-smoker	Lowest	AA Insurance Services Ltd	9.65
	Highest	Engage Mutual Assurance	17.58
30-YEAR TERM			
Male, 29, smoker	Lowest	AA Insurance Services Ltd	11.76
	Highest	Scottish Widows	21.14
Male, 29, non-smoker	Lowest	AA Insurance Services Ltd	7.17
	Highest	Scottish Friendly ^a	13.50
Female, 29, smoker	Lowest	AA Insurance Services Ltd	9.55
	Highest	HSBC Life (UK)	18.00
Female, 29, non-smoker	Lowest	AA Insurance Services Ltd	6.15
	Highest	Scottish Widows	11.67

^a Plan only available through direct marketing channel ^b Online prices

DECREASING-TERM INSURANCE £100,000 COVER			
	COMPANY		PREMIUMS (£)
25-YEAR TERM			
Male, 39, smoker	Lowest	Marks & Spencer Money ^b	15.90
	Highest	Co-operative Insurance	27.67
Male, 39, non-smoker	Lowest	AA Insurance Services Ltd	8.82
	Highest	Co-operative Insurance	15.26
Female, 39, smoker	Lowest	Sainsbury's Bank	12.64
	Highest	HSBC Life (UK)	23.00
Female, 39, non-smoker	Lowest	AA Insurance Services Ltd	7.26
	Highest	Co-operative Insurance	12.71
25-YEAR TERM			
Male, 29, smoker	Lowest	Marks & Spencer Money ^b	8.20
	Highest	Phoenix Life	16.90
Male, 29, non-smoker	Lowest	Lutine Assurance	5.08
	Highest	Phoenix Life	10.50
Female, 29, smoker	Lowest	AA Insurance Services Ltd	6.25
	Highest	Phoenix Life	13.48
Female, 29, non-smoker	Lowest	Lutine Assurance	4.25
	Highest	Phoenix Life	9.35

Figures are sourced from Moneyfacts and are correct as of March 2008

It's easy to work out how much cover you need with FIB, as you can arrange for it to pay out a sum equivalent to your current monthly income.

However, your family may not get as much back with FIB as with level-term insurance, because if you die late in the term you've paid for – for example, 22 years into a 25-year policy – your family will only get the income for the years left on the term, in this case, three years.

With level-term insurance on the other hand, the lump sum remains the same no matter when in the policy term you die.



■ **VERDICT** This type is suitable for people who'd rather not deal with a large lump sum.



Shop around

The cost of life insurance varies, so it's worth shopping around. The cheapest policy could be as much as 55 per cent cheaper than the most expensive (see tables, p21). Compare quotes from several different companies and have a look online, but if you're unsure, think about seeing an independent financial adviser (IFA).

The younger you are when you get life insurance, the cheaper it should be. Men tend to pay more than women. You will also pay more if you smoke – you have to have given up for 12 months to be seen as a non-smoker.

Once you've bought the policy, however, your premiums should stay the same. If you want to make sure your premiums are still

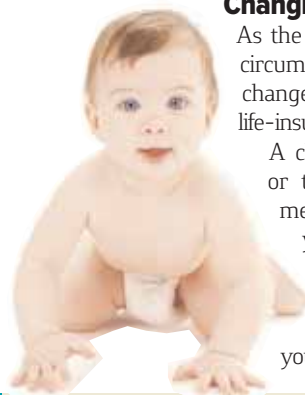
paid if you fall ill and can't work, you can usually pay for an extra policy called a waiver of premiums.

Changing situations

As the years roll by, your personal circumstances will almost certainly change – and that could mean your life-insurance needs change, too.

A change of job, a new house or the birth of a child could mean that you need to review your life insurance and make sure it's still good enough.

See 'Insurance calculator', below, to work out whether you've got enough.



Contacts

Lifesearch
IFA specialising in protection insurance; www.lifesearch.co.uk

IFA Promotions
To find an IFA

www.unbiased.co.uk
The Insurance Surgery
Specialist IFA for people with pre-existing medical conditions
www.the-insurance-surgery.co.uk

Insurance calculator

How much cover do I need?

Follow these simple steps to work out how much life insurance cover you need for family protection (but not mortgage cover) or go to our online calculator at www.which.co.uk/lifeinsurance.



■ IMMEDIATE COSTS

Work out how much your family would need for immediate costs, such as funeral expenses, and to pay off debts such as credit cards and loans. Deduct any emergency savings you already have.

■ **INCOME** Work out how much income your family would need to replace your income if you died. Look at your monthly take-home pay and add on any additional expenses they would incur if you weren't around, such as extra childcare costs. Then deduct any state or bereavement benefits they might be entitled to, plus any expenses they would no

longer have, such as mortgage repayments if the mortgage is going to be paid off. This is the income they need.

■ ANNUAL AMOUNT

Multiply the figure you get from step 2 (income) by 12 to get an annual figure and then multiply this annual figure by the number of years your family would need the income for – for example, until the children are independent or until your partner retires. Add this total figure to the immediate costs figure.

■ **THE FINAL TOTAL** Deduct any life cover you already have from your employer or other policies, but not any policies covering your

mortgage. The result is the amount of cover you need.

■ **DON'T PANIC** Even if it seems like a lot. It probably is an overestimate of what you need because you can invest the money you're not using until you need it. If you can't afford the total amount, don't overstretch yourself. Get as close to your ideal amount as possible.

■ **FOR CARERS** If you're a full-time carer without a salary, don't assume you don't need life cover. You and your family need to work out how much it would cost each year to pay for the care you provide if you weren't around.

Checklist

How to make sure you get the right cover

- **Check** the cover you already have, including anything you get through your work. Top up with another policy if necessary.
- **Decide** what you want cover for – just your mortgage, or will your family need income, too?
- **Write** the policy 'in trust' for quicker payouts and to reduce the risk of relatives paying inheritance tax.
- **Shop around** for the cheapest cover. You can buy life insurance direct from companies, online or through brokers or IFAs.
- **Work out** whether two separate level-term policies are better value than a joint one.
- **Be honest** about any factors that might affect your health, such as smoking or alcohol consumption.
- **Talk** to an IFA, if you're unsure what sort of insurance you want.
- **Review** your life insurance needs regularly.