Guide to Life Insurance for parents

Come on, let's be honest. From the second you know you're pregnant, you give up sushi, avoid cocktails and wrap yourself up in cotton wool. Then come the sleepless nights, a sensible, family car and stair gates. So you manage to kiss goodbye to vices, cool cars and even being able to walk down your stairs. But you just can't quite make it to sort out life insurance…REALLY!!??

If you die without life cover, then who would pay the mortgage? Who would pay the bills? What would happen to your family? So unless you are married to a diamond-encrusted squillionaire, read on.

Let's deal with the excuses

I can't afford it

- It is an extra monthly cost, yes, but it is probably not as much as you think. An industry survey suggested that the average person thought that to insure your life for £100,000 would cost about £51 a month. In fact it's nearer a tenner for a 40 something in good health.

I can't afford it, again!

- More pet owners have pet insurance than UK adults have life cover. So Fido and Moggie get the priority in terms of time and cash outlay. OK so we're a nation of pet lovers but that's just crazy!

I've already got it

- Many employers offer 'death in service' as a snappily-named fringe benefit with many employment contracts. So you may not think you need to do anything about this. However in recent times company downsizing and redundancies have been prolific – so just double-check what your current entitlement is.

I haven't got the time

- *"I'd rather watch paint dry than spend hours sorting out my insurance!"* We're all busy and time poor and many of us think that the only way to obtain life cover is to commit 2 hours of our time to see an adviser or the bank. This is no longer the case. It can be done quickly, online, at home. We completed a trial run in 8 minutes via a comparison website.

WE'RE MORE LIKELY TO INSURE OUR DOGS THAN OURSELVES!

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Here is a story shared – By Ruth Sturkey, advisor from The Red House

My story is heartfelt and happened to a dear friend of mine.

Peter walked out one sunny Saturday morning to pop to the cashpoint and buy a newspaper before driving from his home in Birmingham to join his wife, Sally, and their two daughters, Jessica and Emma, 5 and 3, at Sally's parents in Cheltenham. They were going to celebrate Emma's 3rd birthday.

The thing is that party never happened; Peter waved to a neighbour as he crossed the road, not seeing the lorry bearing down on him. That was it. He was left with critical head injuries. He died the next day. A man of 35 doesn't get run over does he? The reality is yes, it happens.

Thank goodness that Sally and Peter had taken out life insurance days before Peter got killed. Sally and the girls' life changed forever that day but at least money was not one of their issues.

How would you and your family survive if this was your family's Saturday? Please take advice now.

Why should I bother?

One of the major impacts will be on your mortgage. If you and your spouse hold the property as joint tenants, the survivor will automatically get it – and that includes any outstanding debt on your joint mortgage. If you have a life insurance policy in place, then that could pay off this debt. If not, the survivor will have to continue paying off the mortgage. Imagine they also need to pay all other bills by themselves – this could become really hard to do. Especially if they're the primary child carer! The only option may be to sell the property – and keep any money that's left from the sale, once the mortgage debt has been paid.

If you don't have life insurance would your family need to sell the house to pay back the mortgage??

If there are any further debts (in addition to your mortgage) these will also need settling which will reduce the value of your estate further. This could leave your family without a home and struggling financially.

There's more. If your estate is over the Inheritance Tax threshold, currently £425,000 including a house, and you have not made a will, the outstanding amount of Inheritance Tax owed normally has to be paid within 6 months following the date of your death. Oh isn't this jolly!

The bureaucrats don't leave your family alone at this time either. After this time interest will be applied to the outstanding amount at approx 3%. If the estate does not have enough cash or 'liquid assets' to pay the tax bill, surviving family will be asked to pay the bill.

And by the way, for all of you 'living in sin', our system is still a bit medieval. Couples who are not married or in a civil partnership are not protected by the laws of intestacy. If one partner dies without a valid will, the other stands to inherit nothing, even if you have been living together for many years and have children together. How would they pay the mortgage and the electricity bills?

So the bottom line, in summary is, it can all get a bit grim.

Holy moly, we're depressed! So what should we do?

You have two options. If you're confident you have the knowledge to choose the cover you need there's always the option of using a comparison site and going DIY online.

Otherwise you could consider using a financial adviser to look at all your stuff in the round and see what you actually need, where the gaps lie and what cover will give you peace of mind.

FINANCIAL ADVICE USUALLY COSTS ABOUT £150 AN HOUR

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Step One – Decide what sort of life cover you need

There are many types of life cover: term insurance, and whole-of-life insurance. And once you know this, you have to choose your 'flavour' – how long does this policy last for and what are you actually covering?

Type 1 – Term Insurance: Term insurance is the most popular kind of cover. It pays out a lump sum or a monthly income if you die within a set period of time. If you don't die, then the policy simply lapses and you get nothing back. But you probably won't be complaining about that.

Type 2 – Whole of life insurance: Whole-of-life insurance: as the name suggests, offers protection for your lifetime until your eventual death, whenever it occurs, and therefore premiums are much higher.

Step Two – Which flavour

If you're plonking for term insurance, then you have a few choices. Here are some of the 'flavours'. If you take comfort in doing what most other people do, then the bog-standard choice is level term insurance.

LEVEL TERM INSURANCE pays out a fixed lump sum if you die during the policy term. This lump sum doesn't change over time, so you know exactly what any dependents will be left with in the event that you die. So, you take out £100 grand of life cover for 20 years and – yup – your family gets £100,000 if you die within this timeframe. Nice and simple. Well, maybe just simple.

INCREASING TERM INSURANCE Many people want to take out life insurance which will factor in the rising cost of living, and therefore opt for increasing term insurance. The sum insured either increases by a fixed amount each year, or rises in line with the Retail Prices Index (RPI) measure of inflation. So you'll pay a little bit more every year BUT if you meet your maker after 10 years, not 5 years (for example) your family's payout will be a bit bigger.

DECREASING TERM INSURANCE If you are looking for life insurance to cover a debt that will gradually reduce over time, such as a repayment mortgage, then decreasing term insurance is worth considering. With this kind of cover, any pay-out also reduces over time, which means the premiums are lower than for level term insurance.

JOINT LIFE INSURANCE If you are married or have joint financial commitments with a partner or relative, you may want to consider a joint life policy rather than two single policies. However, although this will mean premiums may be cheaper than if you have two separate plans, remember that joint life insurance is normally written on a "first death" basis.

This means that there is only one pay-out when one of the policyholders dies, at which point the policy ends. If the remaining partner wishes to remain insured, they will then have to look for another policy when they may be much older and premiums will be considerably higher.

Opting for two separate policies means that the surviving person will still have cover in place even if the other person dies. This has the advantage that any future dependents will be financially protected, and the surviving policyholder won't have to look for new cover. It also means that, in the event a relationship breaks down, there won't have to be any negotiations over what happens to the policies, as each plan is separate from the other.

LEVEL TERM INSURANCE IS THE BOG STANDARD CHOICE

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Step three – OK bossy boots you've talked me into it. Where do I go?

If your situation is fairly simple, check out some online comparison sites for some quick immediate quotes.

If you want to speak to someone and validate your decisions, or sort out something a bit more complicated, we suggest **Life Search** – a phone-based adviser service which is a good mid-range option and well-respected.

If you need some more detailed advice, see a financial adviser. Hourly rates vary depending on where you are in the country but £150ish is a guide. **VouchedFor** is a website which provides some feedback and info on advisers near you.

Independent advisers will review all of the insurance products on the market, whilst restricted Advisers will only review from a pre-selected panel. They can really add value as they will look at what you need in the round, and talk to you about other related things such as Power of Attorney or Income Protection. Have a look at **Unbiased** or VouchedFor for advisers in your area. Although not always a guarantee of service, the best qualified advisers are Chartered Financial Planners.

ONLINE COMPARISON SITES CAN GET YOU A QUOTE IN LESS THAN 10 MINUTES

Here are the web links in full:

Life Search	www.lifesearch.co.uk
VouchedFor	www.vouchedfor.co.uk
Unbiased	www.unbiased.co.uk