

# FIRST FINANCIAL

## Financial Protection

Creating Wealth

Protecting Assets ...



Premature death and serious illness are fortunately relatively rare, so much so that insuring against these risks is not expensive – especially if you are reasonably young. But they happen frequently enough for life and health protection to be essential financial products.

## Choosing life policies

Most people believe that life insurance is ‘a good thing’. For most of us, it underpins our financial planning, protecting our family, while for others it can be a key business tool or estate planning mechanism.

Life insurance can also be a complicated business – full of jargon, legalese and long application forms. Yet it need not be like that. Understand the fundamentals, and life insurance becomes relatively straightforward – the problem is that no-one bothers to explain those fundamentals to us in the first place.

The prime purpose of any life insurance policy is to provide money where there is a financial need resulting from a death. There may be other reasons to buy life insurance, but they are subsidiary to this main need.

## Why might money be needed?

- To pay off a mortgage (or other loan) if a borrower dies. Mortgages and loans still have to be repaid, even if the borrower has died.
- To protect a family against the early death of a spouse, partner or parent. Life insurance can provide a lump sum or income to help compensate for the permanent loss of someone’s salary. Where there are young children, any need is likely to be even greater but will decline as they get older.
- To pay for a funeral.
- To protect an estate against inheritance tax.
- To protect a business against the financial consequences of the loss of a business owner or person key to that business.

## On whose life should the policy be taken out?

You can have life insurance on the life of one person or on the joint lives of two (more is possible, but this is unusual except for group life insurance – which is usually bought by employers).

If it is your income that will be lost if you die, you are the life to be insured.

If you live with a spouse or partner, you can insure both lives. In that case, the policy will pay out if one of you dies. If you are insuring to pay inheritance tax, a second death policy is needed. This only pays out once both of you have died – which makes the insurance much cheaper.

## How we can help

Once you have identified what sort of cover you need, and how much, the process of choosing the right insurance policy can start in earnest. This is where we can help, too.

Our role is to do three things:

1. To know enough about you to be able to make the right recommendations. We do that by asking you a series of questions – called a factfind – that take account of facts about you, but also about your preferences and views too. We don't expect you to be an expert on life insurance, but before we can make any recommendation we need to know whether you are the sort of person who is prepared to take some risks – for example, that your premiums might rise in future – or whether you want a solution that is guaranteed no matter what.
2. To help you to identify your priorities. If you were insured against absolutely everything, most people would end up paying more than they could comfortably afford on premiums each month. So prioritising needs is important, perhaps too working out how things might change in future, e.g. if you have a family, change jobs or retire.
3. Recommend the best solutions to meet your needs. Choosing the right insurance policy and insurer is important, but there may be other things too – such as having a will or writing policies in trust. Most insurance solutions will involve you paying a monthly (or sometimes annual) premium, and you usually have to continue paying each month or the cover will stop almost immediately. Once that happens, it can be impossible to continue and you would have to start again with a new policy, so always think very carefully before stopping any policy.

As you can see, there is quite a lot of work involved in choosing the right life insurance policy – it is not as simple as just looking up who is cheapest in a magazine or on the internet. However, once you have the right protection in place, keeping arrangements up to date is a much more

straightforward process. In effect, a few hours of investment now can really pay financial dividends in the future.