Mortgage Protection Explanations

Life Insurance

Life insurance is one of the most straightforward types of protection insurance as, put simply, it pays out when you die. There are many different reasons why you might take out life insurance. You might want to ensure your mortgage is paid off if you die, or your main concern might be to leave behind money for your family to live on. Life insurance is the most common type of mortgage protection on the market and is generally seen as the bare basics that anyone with a mortgage should have in place.

With life insurance, you choose the amount you want to be insured for and the period for which you want cover. If you die within the term, the policy pays out to your beneficiaries. There are two main types of term assurance:

- **Level-term:** The amount you're covered for remains level throughout the term. The monthly or annual premiums you pay usually stay the same, too. Level-term policies can be a good option for family protection, where you want to leave a lump sum that your family can invest to live on after you've gone.
- **Decreasing-term:** The amount you're covered for decreases over the term of the policy. These policies are often used to cover a debt that reduces over time, such as a repayment mortgages. Premiums are usually significantly cheaper than for level-term cover.

Critical illness cover

Critical illness cover pays out a cash lump sum if you're diagnosed with one of a number of listed critical illnesses, including some types of cancer, a heart attack or stroke, multiple sclerosis or the loss of limbs. Many people buy life insurance to leave a pay-out for their family if they die. However, within a given timescale, you're much more likely to develop a critical illness than to die.

A critical illness policy could be used to pay for medical treatment, cover adaptations to your home (such as mobility aids, special equipment or structural changes required due to a disability) or to pay off your mortgage. In fact, it can be used for anything.

What critical illness cover doesn't do is produce a regular income. If you were unable to work due to a critical illness, a good income protection policy would cover your ongoing expenditure.

Although more expensive, this provides you with far superior cover than just life insurance on its own.

Income protection

Income protection pays out if you're unable to work due to sickness or accident. Formerly known as permanent health insurance, long-term income protection pays out until retirement, death or your return to work, while short-term income protection pays out for a set period, usually between one and five years.

Pay-outs are usually based on a percentage of your earnings: 50% to 70% is the norm, and payments are tax free. Income protection policies only pay out once a pre-agreed period has passed, generally ranging from one to 12 months after you put in a claim.

The longer the 'deferral' period you choose, the lower your premiums. For example, if your employer pays your salary for six months, then you'll need cover to start from the seventh month of sickness, i.e. a six-month deferral period.

Family Income Benefit (FIB)

Family Income Benefit is a form of life insurance that could offer a cost-effective way of arranging the financial cover you need for your loved ones. In the event of a death, the policies are designed to pay out a regular income until a specified date in order to replace the income that would have been provided by the policyholder. Therefore, a life insurance policy is designed to clear the mortgage and a FIB policy is designed to replace the lost income of the deceased partner.

After a successful claim, pay-outs will be made until the term of the policy ends. This means that if, for example, a claim is made after 10 years of a 20-year policy it will continue to pay out for another 10 years; if the claim was made 15 years into the policy term it would pay out for five years.

This sort of product is often thought to be suitable for young families with children as it can be affordable and may offer the right level of essential cover. A policy may, for example, be set up to run until the youngest child would be expected to finish education and be ready to fully support themselves.

Mortgage Payment Protection Insurance (MPPI)

MPPI pays up to 125% of your monthly mortgage payments in the event of being unable to work through Accident, Sickness or Redundancy. This will pay out for up to 12 months per claim.

For joint a joint mortgage the cover allocates a proportion of the benefit to each person, so that their share of the mortgage commitment is covered.

N.B – We can also provide an advice and recommendation on, Mortgage payment protection insurance, home insurance and private medical insurance. Please let me know if you would like any further information on any of those and I will ask my colleague Francesca to be in touch with you.