MGP (Employee Benefits) Limited
16 The Courtyard, Common Lane,
Culcheth, Warrington WA3 4HA
Tel: 01925 765821
Fax: 01925 764871
Web: www.mgpeb.co.uk
Email: enquiries@mgpeb.co.uk

FACTSHEET

Life insurance

Providing a financial safety net for your loved ones

Getting the right life insurance policy means working out how much money you need to protect your dependants. This sum must take into account their living costs, as well as any outstanding debts, such as a mortgage. It may be the case that not everyone needs life insurance (also known as 'life cover' and 'death cover'). But if your spouse and children, partner, or other relatives depend on your income to cover the mortgage or other living expenses, then the answer is 'yes'.

Life insurance makes sure they're taken care of financially if you die. So whether you're looking to provide a financial safety net for your loved ones, moving house or a first-time buyer looking to arrange your mortgage life insurance – or simply wanting to add some cover to what you've already got – you'll want to make sure you choose the right type of cover. That's why obtaining the right advice and knowing which products to choose – including the most suitable sum assured, premium, terms and payment provisions – is essential.

KEY EVENTS HAPPEN THROUGHOUT YOUR LIFE

The appropriate level of life insurance will enable your dependants to cope financially in the event of your premature death. When you take out life insurance, you set the amount you want the policy to pay out should you die – this is called the 'sum assured'. Even if you consider that currently you have sufficient life assurance, you'll probably need more later on if your circumstances change. If you don't update your policy as key events happen throughout your life, you may risk being seriously under-insured.

NEEDS OF YOUR FAMILY AND DEPENDANTS

As you reach different stages in your life, the need for protection will inevitably change. How much life insurance you need really depends on your circumstances, for example, whether you've got a mortgage, single or have children. Before you compare life insurance, it's worth bearing in mind that the amount of cover you need will very much depend on your own personal circumstances, such as the needs of your family and dependants.

There is no one-size-fits-all solution, and the amount of cover – as well as how long it lasts for – will vary from person to person.

These are some events when you should consider reviewing your life insurance requirements:

- Buying your first home with a partner
- Covering loans
- Getting married or entering into a registered civil partnership
- Starting a family
- Becoming a stay-at-home parent
- Having more children
- Moving to a bigger property
- Salary increases
- Changing your job
- Reaching retirement
- Relying on someone else to support you
- Personal guarantee for business loans

INDIVIDUAL LIFESTYLE FACTORS DETERMINE THE COST

The price you pay for a life insurance policy depends on a number of things. These include the amount of money you want to cover and the length of the policy, but also your age, your health, your lifestyle and whether you smoke.

REPLACING AT LEAST SOME OF YOUR INCOME

If you have a spouse, partner or children, you should have sufficient protection to pay off your mortgage and any other liabilities. After that, you may need life insurance to replace at least some of your income. How much money a family

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needs will vary from household to household so, ultimately, it's up to you to decide how much money you would like to leave your family that would enable them to maintain their current standard of living.

TWO BASIC LIFE INSURANCE TYPES

There are two basic types of life insurance, 'term life' and 'whole-of-life', but within those categories there are different variations.

The cheapest, simplest form of life insurance is term life insurance. It is straightforward protection: there is no investment element and it pays out a lump sum if you die within a specified period. There are several types of term insurance.

The other type of protection available is a whole-of-life insurance policy designed to provide you with cover throughout your entire lifetime. The policy only pays out once the policyholder dies, providing the policyholder's dependants with a lump sum, usually tax-free. Depending on the individual policy, policyholders may have to continue contributing right up until they die, or they may be able to stop paying in once they reach a stated age, even though the cover continues until they die.

REMOVE THE BURDEN OF ANY DEBTS

Generally speaking, the amount of life insurance you may need should provide a lump sum that is sufficient to remove the burden of any debts and, ideally, leave enough over to invest in order to provide an income to support your dependants for the required period of time.

The first consideration is to clarify what you want the life insurance to protect. If you simply want to cover your mortgage, then an amount equal to the outstanding mortgage debt can achieve that.

To prevent your family from being financially disadvantaged by your premature death and to provide enough financial support to maintain their current lifestyle, there are a few more variables you should consider:

- What are your family expenses and how would they change if you died?
- How much would the family expenditure increase on requirements such as childcare if you were to die?
- How much would your family income drop if you were to die?
- How much cover do you receive from your employer or company pension scheme and for how long?
- What existing policies do you have already and how far do they go to meeting your needs?
- How long would your existing savings last?
- What state benefits are there that could provide extra support to meet your family's needs?
- How would the return of inflation to the economy affect the amount of your cover over time?

MAKE SURE YOU CHOOSE THE RIGHT TYPE OF COVER

Getting the right life insurance policy means working out how much money you need to protect your dependants. This sum must take into account their living costs, as well as any outstanding debts, such as a mortgage. Life insurance makes sure they're taken care of financially if you die. So whether you're looking to provide a financial safety net for your loved ones, moving house or a first-time buyer looking to arrange your mortgage life insurance – or simply wanting to add some cover to what you've already got – you'll want to make sure you choose the right type of cover. That's why obtaining the right advice and knowing which products to choose – including the most suitable sum assured, premium, terms and payment provisions – is essential. To discuss your requirements, please contact us.