Optimum Solutions IFA Ltd
Buckland Wharf,
Buckland,
Aylesbury
Bucks, HP22 5LQ
Tel: 01296 632624 **Fax:** 01296 632594
Email: info@optimumifa.com
Web: www.optimumifa.com

Term assurance

Can you guarantee on always being there for those who depend on you?

It's essential to have the right sort of life assurance in place. You can't rely on always being there for those who depend on you. There are various ways of providing for your family in the event of your premature death, but term assurance policies are the simplest and cheapest form of cover. The plans have no cash-in value or payments on survival as their design is limited to protecting your family. However, you could also use term assurance in relation to estate planning and for the payment of mortgages or other debts.

Choosing a policy term

Term assurance provides cover for a fixed term, with the sum assured payable only on death. You can choose how long you're covered for, for example, 10, 15 or 20 years (the term). Premiums are based primarily on the age and health of the life assured, the sum assured and the policy term. The older the life assured or the longer the policy term, the higher the premium will generally be.

Term assurance policies can be written on a single life, joint life (first or second death) or on a life-of-another basis. You must have a financial interest in the person that you are insuring when taking out any life-of-another policy and the provider may require proof of this before cover is given.

Types of term assurance

Level term - this offers the same payout throughout the life of the policy, so your dependants would receive the same amount whether you died on the first day after taking the policy out or the day before it expired. This tends to be used in conjunction with an interest-only mortgage, where the debt has to be paid off only on the last day of the mortgage term. With level term assurance, premiums are fixed for the duration of the term and a payment will be made only if a death occurs during the period of cover. A level term assurance policy is taken out for a fixed term. This type of term assurance policy can also be useful for providing security to dependants up to a certain age.

Decreasing term - the cash payout reduces by a fixed amount each year, ending up at zero by the end of the term. Because the level of cover falls during the term, your premiums on this type of policy are lower than on level policies. This cover is often bought to run alongside repayment mortgages, where the debt reduces during the mortgage term.This type of term assurance is less expensive than level term assurance.

Increasing term - the potential payout increases by a small amount each year. This can be a useful way of protecting your initial sum assured during periods of rising inflation.

Index-linked term - some insurers provide you with the option for the premium to be increased each year in relation to the Retail Price Index.

Convertible term - you have the option to convert in the future to another type of life assurance, such as a 'whole of life' or endowment policy, without having to submit any further medical evidence. This conversion option allows you to adapt your plan if your circumstances change. You can convert (usually within certain limits) part or all of your life assurance cover at any time during the term. And, importantly, you won't be asked any health questions at the date of conversion.

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Independent Financial Advisers Ltd.

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Aylesbury
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If the level of cover you selected at the start remains the same, then the premiums will too. If you survive the policy term without any conversion of the plan, there will be no pay out. As this type of policy provides cover only in the event of death (plus the option to convert), there is no surrender value. So if you stop paying the premiums at any time, your cover would cease immediately and you would not receive any money back.

Renewable term - some term assurances are 'renewable' in that, on the expiry date, there is an option for you to take out a further term assurance at ordinary rates without providing evidence of your health status, as long as the expiry date is not beyond a set age, often 65. Each subsequent policy will have the same option, provided the expiry date is not beyond the limit set by the life office.

Family income benefit - instead of paying a lump sum, this offers your dependants a regular income from the date of your premature death until the end of the policy term. This is one of the least expensive forms of cover and differs from most other types in that it is designed to pay the benefit as an income rather than a lump sum. In the event of a claim, income can be paid monthly, quarterly or annually and under current rules the income is tax-free. To ensure that income payments keep pace with inflation, you can usually have them increased as inflation rises. It's also possible to take a cash sum instead of the income option upon death.

Family income benefit can also include critical illness cover, which is designed to pay the selected income if you are diagnosed with a specified critical illness within the chosen term. It is a fixed term and you won't be able to increase your cover or extend the term. If you become ill towards the end of the term (duration of your policy), you might not be able to obtain further cover.

As part of our service we also take the time to understand our client's unique needs and circumstances, so that we can provide them with the most suitable protection solutions in the most cost-effective way. If you would like to discuss the range of protection services we offer, please contact us for further information.