

# Select and protect



Protection for your repayments should your income dry up is often overlooked when you buy a home, but planning ahead could save a lot of potential heartache. **Sarah Wilson** reports.

**W**Income protection, loan payment protection, mortgage payment protection... it's a confusing medley of products dogged by misunderstanding and negative press, and the recent accusations of mis-selling have drawn these products under the spotlight of the financial services regulator, the Financial Services Authority, and the Office of Fair Trading. It's worrying that, as a result, people are indiscriminately giving these products a wide berth and unnecessarily risking financial hardship, when in reality it is only a few bad apples spoiling otherwise sound products which should be an essential consideration in everyone's financial planning – especially homeowners.

The confusion and fear of these products has dealt a poor hand to consumers at a time when arguably they have never needed financial protection more.

#### HOW WOULD YOU PROTECT THE ROOF OVER YOUR HEAD IF YOU LOST YOUR INCOME?

**Fact 1:** Britain's unemployment rate has reached its highest point for six years. Considering over 50 per cent of UK households have no savings put away for a rainy day, a

large proportion of those with a mortgage would be likely to fall behind on their mortgage repayments within a month of redundancy without any form of protection.

**Fact 2:** Since October 1995 new mortgage borrowers will receive no state help for the first nine months of unemployment or disability. Existing borrowers will receive nothing for the first two months and only 50 per cent for the next four months, and then full benefit for mortgages of up to £100,000 but only if they qualify for Income Support. The Government itself estimates that 70 per cent of mortgage borrowers will not get Income Support.

#### WHAT IS PROTECTION INSURANCE?

Protection insurance, or creditor insurance as it is also known, is the umbrella term for all insurance policies that offer some form of financial protection in the event of accident, sickness or unemployment (ASU). Some providers offer a choice of one or a combination of all three.

Increasingly providers are listening to the demands of customers and striving to make their products more flexible, so some policy premiums can also now be calculated according to age, rather than a 'one size fits all'

policy. This is good news for younger policyholders as premiums are cheaper the younger you are. In addition you can choose different periods (waiting periods) of payment ranging from one to six months and the longer you are prepared to wait for your first payment, the cheaper the policy. There are also "exclusion periods", the time you have to wait from the start date of the policy before you can claim unemployment benefit, usually between 60 to 120 days. Back to Day One policies are now offered where the benefit is backdated to the first day of a claim (usually 30 days). These all help to reduce your monthly premium but you should choose carefully for your own needs and requirements.

#### LOAN PAYMENT PROTECTION INSURANCE

has attracted the brunt of the bad press of late due to the inflexibility of the cover, restrictive exclusions, poor sales practices, and 'rip-off' premiums. It is designed to provide ASU cover on debt repayments on an individual loan, eg a car loan. PPI is not compulsory, but it may be difficult for you to cancel so check there are no penalty clauses for doing so. If you do decide to cover a single loan, then be sure to check you are eligible to

## INSURANCE

## INCOME PROTECTION

Age 30	AntInsurance.co.uk			British Insurance			Post Office		
	12	6	3	12	6	3	12	6	3
Months	12	6	3	12	6	3	12	6	3
ASU	£2.10	£1.75	£1.35	£5.00	n/a	n/a	£4.50	n/a	n/a
AS	£1.00	£0.80	£0.60	n/a	n/a	n/a	n/a	n/a	n/a
U	£1.00	£0.80	£0.60	n/a	n/a	n/a	n/a	n/a	n/a

*Example comparison tables for Income Protection and MPPI based on a person aged 30. Prices are per £100 of cover a month*

*(NA) – not offered, (ASU) – full accident, sickness and unemployment cover, (S) – sickness only cover, (U) – unemployment only cover*

## MORTGAGE PAYMENT PROTECTION

Age 30	AntInsurance.co.uk			British Insurance			Post Office		
	12	6	3	12	6	3	12	6	3
Months	12			12			12		
ASU	£2.00			£3.70			£3.95		
AS	£1.20			£2.25			£2.45		
U	£1.20			n/a			£2.45		

*Only 12 months minimum cover options available for MPPI*

*(NA) – not offered, (ASU) – full accident, sickness and unemployment cover, (S) – sickness only cover, (U) – unemployment only cover*

## TOP TIPS

- DON'T** Be put off protecting your finances by ill-informed comment
- DO** Calculate your total monthly outgoings, including your mortgage payment, and work out how long you could survive on your savings without an income. If you can survive for up to 12 months on your savings if your mortgage was covered then opt for MPPI, otherwise look at IP.
- DO** Decide on whether you would need 3, 6, or 12 months of cover
- DO** Check you are eligible to claim on the policy under its exclusions (dangerous sports can be excluded and in some instances this includes motorcycles)
- DO** Consider consulting an IFA to establish which options are suitable for you and then shop around for the best deal
- DO** Always read the policy wording

claim, and compare costs with standalone providers as cover provided by your lender is rarely the cheapest.

**MORTGAGE PAYMENT PROTECTION (MPPI)** is perhaps the best known protection product by most people as this is the insurance

policy your mortgage lender or broker will recommend to you when you take out a mortgage. MPPI covers your mortgage payments and associated mortgage costs and payment is usually made direct to the lender. In most instances you will need to take out a new MPPI policy too if you change mortgage

providers, to remortgage for example, and this can increase your premiums if your policy is age banded or if a previous illness is now classed as a "pre existing condition".

As the single biggest expenditure in most people's monthly outgoings, covering the mortgage is generally a priority. For the minority of the population who do have some form of savings to pay for other living costs, MPPI is a useful minimum form of protection.

However, MPPI is not the only way to protect your mortgage, and if you are ever likely to remortgage, then income protection might be a better option to cover your mortgage payments – removing the need to switch policies can offer significant cost savings.

**SHORT TERM INCOME PROTECTION (IP)**

could perhaps more usefully be called income replacement insurance. Rather than cover the payments on an individual loan or mortgage, IP will pay you directly up to 75 per cent of your income in the event of accident, sickness or unemployment. As it is not tied to an individual loan or repayment, it can be used to cover any financial outgoing of your choice, whether it be the mortgage, a loan payment, utility bills, mobile phone bill, your rent payments, school fees or your Sky subscription, all under the same policy.

Most policies provide 12 months cover, however it's worth asking yourself how long it will really take you to find another job. The latest Labour Market Trends report from the Office of National Statistics reveals that 63% of the unemployed find work within six months of losing their job. The only company currently offering a choice of repayment periods is newly launched AntInsurance.co.uk that offers a short-term 'band aid' option of three or six months cover, as well as the standard 12. This option offers the cheapest standalone protection, and is useful if your employer already provides a favourable redundancy or accident package, or if you only need short term cover to get yourself back up on your feet and working.

Unlike MPPI, income protection (IP) policies are not tied to any particular mortgage or loan and so you don't need to change your policy if you move your mortgage.

**SHOP AROUND**

There is a huge difference in price for all protection products depending on where you buy them and what you want to cover. The key is to shop around. It may take a little time, but the savings to be had are significant. PPI, MPPI, and IP can all be bought via an IFA, a mortgage broker, from your high street lender, bank or building society, or on the internet.

High street lenders will only generally provide one option, and on the whole are the most expensive – up to 20 times more expensive in some cases than the cheapest on the market. It's a good idea to get some advice from an IFA regarding the best type of cover for you, and then shop around and compare policies and prices available from online and other standalone providers, as well as from your lender.

	Income Protection	Payment Protection	Mortgage Payment Protection
Covers your mortgage repayments	✓	✗	✓
Covers your loan repayments	✓	✓	✗
Covers rent payments	✓	✗	✗
Covers credit card repayments	✓	✓	✗
Covers utility bills	✓	✗	✗
Covers school fees	✓	✗	✗
Covers telephone and mobile bills	✓	✗	✗
One policy for life	✓	✗	✗
Offers three-months only benefit period	✓	✗	✗
Offers six-month only benefit period	✓	✗	✗
Offers 12 month benefit period	✓	✓	✓