FINANCE Q&A's



Mortgage Life Insurance

To avoid burdening loved ones with debt following your death it's critical to have the right cover in place. Lakeside Financial Consultant *Rebecca Venton*, talks mortgage life insurance options and benefits.

What is mortgage life insurance?

R: Mortgage life insurance is a protection policy designed to specifically repay mortgage debt in the event of the death of the insured person.

In what circumstances would you advise a client to take this type of cover?

R: Mortgage life insurance is recommended to any client with a mortgage agreement. It provides peace of mind that the outstanding balance would be repaid if they died during the plan term, meaning that the debt would not be passed on to their next of kin. However, it isn't just about covering mortgage debt; cover can be provided to ensure lifestyle is maintained. This can mean that other types of protection, such as additional life cover or critical illness cover, are also recommended. This is also beneficial to anyone with dependants, as, again, it takes away the worry and provides reassurance that you are leaving a legacy for them.

What types of mortgage life insurance are available, and what are the pros and cons of each?

R: There are different types of life cover available; the names of these are decreasing term, level term and indexed.

A decreasing term plan typically runs alongside a mortgage. The length of the plan and the amount of cover would be set to match the mortgage at that point, and then the amount of cover reduces each year, mirroring the mortgage balance reducing as each payment is made. These plans are usually slightly cheaper as the cover amount is reducing. If you restructured your mortgage, for example, to borrow more money and didn't change the plan, then there would likely be a shortfall in cover.



A level term plan remains consistent throughout the term. Whatever the cover amount is set to at the beginning would remain static. Therefore if a claim was made after three years or 23 years, you would have the comfort and knowledge of the amount you would get in the event of a claim. This type of plan would mean that after the mortgage balance is repaid, there is likely to be surplus to go into the bank account and support everyday living costs.

An indexed plan increases in value each year. So the opposite of the decreasing term option. This type of plan is usually linked to the retail price index, which means as the cost of a loaf of bread increases each year, so too does the plan. In theory, this means the amount of cover at the start of the plan would be able to buy the same amount of goods or services in future.

How can you help a client wanting to take out mortgage life insurance?

R: For any client looking at this type of cover, it can be confusing. A call or meeting with an adviser gives clients greater clarity and control. We have a chat and understand your needs and objectives, and put together the right plan for you.

Please feel free to contact us for further information: *admin@lakesidefs.co.uk*

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