
Life and Health Insurance – Why do I need it?

Insurance pays out when an unpredictable event causes a loss. You need insurance whenever:

- the law says you must have it - for example, if you drive a car, you must be insured;
- an event could happen to you and you would not be able to afford the loss - for example, if a tile fell from your house and injured someone who then claimed thousands of £s for their lost earnings;
- if an event happened, people who are dependent on you could not bear the loss for example, if you died and your children needed the financial support you had previously given.

In some cases, the state provides protection by, for example, paying incapacity benefit if you can't work due to illness, or bereavement benefits to a widowed husband or wife. But state benefits are low and you usually have to pass a number of tests before qualifying for them.

Often a scheme at work provides life insurance - check the cover is enough for your needs. A scheme at work might also provide some health insurance, such as income protection insurance or private medical insurance.

Life insurance policies are designed to protect your family in the event of your death.

Term insurance

Pays out a lump sum if you die within a set period (or 'term'). You get nothing back if you live beyond the term of the policy or if you stop paying the premiums.

Family income benefit

Pays out a regular income if you die within a set period. You get nothing back if you live beyond the term of the policy or if you stop paying the premiums.

Whole life insurance

Pays out whenever you die, so is usually more expensive. Part of your premiums may be invested for you, and if so you may be able to cash in part of your policy eventually.

You can buy the following types of insurance to cover various health problems.

Critical illness insurance

Pays out a lump sum if you are diagnosed with one of a set list of serious illnesses.

Income protection insurance

Pays out a regular income if you cannot work.

Long-term care insurance

Pays an income to cover the costs of care. 'Immediate needs' policies are designed to provide an income now, while 'prefunded' plans are a way of providing for care in the future.

Payment protection insurance

Covers loan or mortgage payments for a limited period if you cannot work because of accident, sickness or sometimes, unemployment.

Private medical insurance

Designed to cover the cost private medical treatment for some types of illness or disease.

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