Decreasing Term Assurance and/or Critical Illness Cover

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What is it?

Decreasing Term or Mortgage Protection policies as they are often known, provide cover that matches the outstanding balance of your mortgage/loan and will pay a lump sum that can be used to pay off the remaining balance of your mortgage/loan in the event of death. If critical illness is included in the policy, then the remaining balance of your mortgage/loan will be paid off in the event of diagnosis of a critical illness or death.

Premiums can be guaranteed throughout the term or reviewable at certain intervals, but should you survive the policy term, there will be no benefit. As this type of contract only provides cover in the event of death and/or diagnosis of a critical illness there is no surrender value, so if you stop paying the premiums at any time, your cover will cease.

Decreasing term assurance

Essentially, term assurance is the cheapest type of life cover and is normally used for the benefit of the life assured's family or business, but it does have limitations.

As it has a fixed term, there is no flexibility and you will be unable to increase cover or extend the term. Should your health have deteriorated during the term of the policy, you may be unable to obtain further life cover at the end of the term.

There is no investment element to the policy, and your sum assured will decrease throughout the policy term matching the outstanding balance of your mortgage (providing repayments have been maintained at the expected level). Some products allow you to select the interest rate to match the rate of interest on the mortgage/loan whilst others have pre-set rates, it is important to review the cover if the rate of interest changes on your mortgage.

Premiums are based on your personal circumstances but the main areas for consideration by an insurer are your age and state of health. The older you are, the higher the premium will be. Similarly, if you have or have had a serious ailment, the insurer may seek to charge you more or in some cases be unwilling to cover you at all. Higher levels of cover and longer policy terms all increase cost as will the fact that an individual smokes.

Critical illness cover

A Critical Illness plan is designed to pay out a lump sum if you are diagnosed as suffering from any of the insurer's specified critical illnesses but survive for a period of time after diagnosis (normally 28 days). The lump sum could be used to pay for things like nursing care, home help, adapting your house to accommodate a disability, for a holiday to recover from treatment, but in this case, paying off your mortgage.

Critical illnesses usually include; cancer, coronary artery bypass, heart attack, kidney failure, multiple sclerosis, major organ transplant and stroke. These are known as core conditions and account for the majority of claims. The comprehensiveness of conditions covered by different critical illness policies varies enormously and details of which conditions are covered by the policy will be fully explained in any supporting literature which you should check to ensure it meets your purposes.

In the event that you are diagnosed as suffering from one of the critical illnesses covered by your policy then the sum assured under the contract will become payable. Once this sum assured has been paid the life cover will not remain in force.

Eligibility

You must be aged 18 to take out a life assurance contract.

Taxation

The proceeds of the policy will be paid out free of income and capital gains tax.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Risk considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- Please note that at the end of the term selected, cover will lapse and no further benefit will become payable.
- This contract is designed to provide you with a high level of cover at minimal cost and therefore, if you

stop paying premiums your cover will cease and the policy will not acquire a surrender value at any time.

- Failure to disclose any requested or relevant information may adversely affect any future claim.
- Payment will not be made for a critical illness claim arising from an excluded condition (relevant to Critical Illness only).
- You may have to increase contributions to maintain your desired level of cover or reduce cover to maintain your chosen level of contribution.
- The present tax free treatment of the policy benefits may change.
- If this plan is linked to a mortgage or loan, depending on the interest rate of the mortgage or loan and the interest rate on the decreasing term plan, the policy benefits may be less than the outstanding debt in the event of a claim.
- If any relevant information provided, when applying, is not disclosed accurately and honestly, this could result in any cover offered becoming invalid and/or may result in the non-payment of any future claims.

If this policy is to replace any existing policy offering the same type / level of cover, you should not cancel any existing policy until the new policy is in force.