Mortgage Life Assurance

A Special Report by LifeInsure.co.uk

Introduction

Whether you're taking out a new or first mortgage, or even if you've already several years into an existing mortgage, it's wise to consider of mortgage life assurance is the right option for you.

Mortgage life assurance policies differ significantly from standard level term insurance policies and it's important to recognise and understand the difference before taking out a policy. Mortgage life assurance is technically a form of decreasing term life assurance. This means that as time passes the payout offered by the insurance will reduce. At first glance this might seem like a bad deal, but remember the policy is designed to pay off your mortgage which - unless you remortgage - will reduce the longer you pay it. By contrast level term life insurances pay out a fixed sum during a specific period you've insured yourself for. Many take out level term life insurance for the same purpose of mortgage life assurance, but they are very different policies.

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The other policy to avoid confusion with is one that has had some bad press due to being miss-sold by many banks - Mortgage Payment Protection Insurance. While many took out mortgage PPI when they didn't need it, the product is genuinely useful to some as it will make mortgage payments in events such as sickness and unemployment depending on the policy. It differs from mortgage life assurance in that it pays out for events that take place while the policy holder is alive rather than upon their death.

Do you need mortgage life assurance?

Not everyone will benefit from taking out this insurance even if your mortgage lender tries to convince you otherwise. It's primarily aimed at those who would not be able to continue making mortgage payments should the primary breadwinner pass away before the mortgage is fully paid off. This includes situations where joint mortgagees rely on their joint income to pay the mortgage as well as situations where other dependents such as children would be adversely affected financially should one parent pass away.

Even in situations where it would still be possible for the income of the other mortgagee in the case of joint mortgages to cover repayments, the death of one of the mortgage holders would typically lead to a significant reduction in disposable income that would otherwise affect the lifestyle of the family.

Situations where mortgage life assurance would perhaps be less useful are single mortgage holders without children and those with large savings that are more than capable of

covering the mortgage debt should they pass away. Similarly those with other life insurance products such as level term life insurance or a family income benefit policy will often have a high enough level of payout to cover any mortgage debts and therefore may not find taking out a second policy worthwhile.

Those who plan to change house to something more expensive in future should consider if level term insurance might be a better option to avoid having to take out a new policy when they move. The added benefit of this policy is it will typically leave large sums for your dependents to use for other purposes than paying off your house, although typically they are more expensive policies due to this.

Should we get a joint policy?

"... There's no hard and fast rule about whether a joint or single policy is cheaper.."

Joint policies pay out on the death of either partner while single policies only pay out on the death on the insured partner. There's no hard and fast rule about whether a joint or single policy is cheaper, it really does depend on circumstance and insurer, so if both parties want to be insured then it's getting quotes for both options.

Remember though it might not be worthwhile insuring both partners, especially if one has a disproportionally large income than the other. If the lower earning partners death won't affect the ability to pay the mortgage or force other financial compromises then often the money that would be spent on insurance for them would be better put into savings or paying off the mortgage early.

Choosing a policy

As with most things in life the old saying of 'you get what you pay for' has some truth for mortgage life assurance. The cheapest policy may have terms and conditions that mean it won't work out the lowest cost over the life of the policy. That said many policies are quite similar so price comparison is possible.

Check if the policy you are considering has variable premiums. Some insurance policies have reviewable premiums instead of guaranteed premiums. This puts you at significant risk that the insurer will decide to put up their premiums in future if they calculate most of those insured won't switch. It's best therefore to go for guaranteed premiums. Remember that almost all quotes will be based on you maintaining a healthy lifestyle for the duration of the policy.

Making lifestyle changes to reduce your premium

Many mortgage life assurance policies look at your health and other modifiable risk factors in addition to standard medical questions. Most of these are factors that can easily be changed to reduce your premium, but as many require certain periods of time before being taken into consideration it's important to make the lifestyle changes as early as possible.

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Perhaps the most important change for reducing premiums is to quit smoking. Smoking is one of the leading causes of death during typical mortgage-holding age. Sadly the typical requirement to be considered a non-smoker is to have not touched tobacco or a cigarette for a year. Obviously for those who are currently smokers reading this guide that period is likely to be too long to wait before taking out insurance. Don't be put off quitting by this though - you will almost certainly save substantial premiums by changing your policy after you've been smoke free for a year. Don't lie when applying though as this could invalidate your policy. Quitting isn't easy, but with a financial incentive of several thousand pounds less premiums over the life of a policy there is another incentive to try.

Other lifestyle choices are easier to make. Going to the gym regularly or taking part in other forms of exercise such as cycling to work, jogging or taking part sports that aren't considered dangerous will all reduce your premiums with many insurers. Similarly healthy eating and taking vitamin supplements are likely to help with policies that enquire into these habits. Many policies will also enquire into your health stats such as BMI or even require a medical to assess this. Dieting prior to the medical could be a good option to reduce your BMI if you're currently overweight (and those few Brits who are currently underweight should eat high-calorie foods prior to the appointment). Generally your weight will be lower in the morning then later in the day so scheduling a morning appointment for the medical can also help reduce your BMI slightly.

Making an application

If you've chosen to take out mortgage life insurance there are a few things you need to know before taking out an application. These can be vital to both ensuring that you are properly insured and avoiding overpaying on premiums by substantial amount.

Firstly don't go with the mortgage life assurance policy recommended by your mortgage lender. In almost all cases this will be far more expensive than comparable products. Your lender may try to convince you that their policy is the only option - it isn't, and they are

typically promoting this due to substantial commissions on offer to mortgage lenders who sell these overpriced policies.

When you've found a policy that suits your requirements, there are a few things to bear in mind. Firstly and most importantly remember to disclose everything about your medical and health history. This may cause your premium to be higher, but failing to do so invalidates your insurance. With such large payouts life insurance companies spend significant amounts on ensuring compliance with their disclosure policy prior to making a payout which include involve looking over your medical records. Spend some time thinking about all your past conditions and trips to the doctor before making an application so you don't accidentally miss one out that could be later used as an excuse not to pay out. It could be useful to access your medical records if you're not confident that you can remember everything at this point.

".. With such large payouts life insurance companies spend significant amounts on ensuring compliance.."

You also need to consider if you want to write a policy in trust at this point. This will potentially have significant inheritance tax benefits if the policy is paid out as if the policy is not written into trust then it will form part of your estate which is taxable upon death. By writing it into trust instead of forming part of your estate it will be paid directly to your dependents which not only means it avoids being liable for inheritance tax but also means the payout typically takes place much faster. Inheritance tax currently kicks in on assets above £325,000 and is charged at 40% of the value able this figure - those who know their estate will be less than this could do without a trust but it will mean a slower payout for your family.

Many insurers will provide the documents needed to do this at the time you take a policy out. The only major disadvantage to doing this is that trusts are incredibly difficult to alter even when all parties to them consent to the changes. This is particularly relevant if your partner is the beneficiary and you break up or get divorced during the insured period, although an easy way round this potential hazard is for those with kids to name your children rather than their partner in the policy. Trusts can only be taken out at the time of a policy so don't make the mistake of thinking you can leave this for later.

Switching providers

There's no rule saying you have to stick with the same policy for the entirety of your mortgage, and switching can be a great way of saving money. It really depends on circumstances though, this isn't like changing electric provider - you're health and medical history during the period will be assessed and any significant health issues will negatively

affect your chances of getting a lower quote. Nevertheless many will still be able to save money by switching, especially if more of their mortgage is paid off.

It's important to check your existing terms and conditions to see if there are any fees for ending the policy early. Many won't have any fees at all and it will be a simple matter of writing to the insurer to cancel the policy. Typically it's best to wait until your new policy is active before cancelling your existing policy though to avoid any period during which you are uninsured.

Most people wait until they move house before they change insurance. While it's a good idea to do this when moving, there's no reason not to regularly get quotes to see if you could save money.

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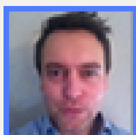
The ways insurance companies and their actuaries assess risk changes with medical advances and changes in life expectancy, and generally risk of early death is reducing. According to Office of National Statistics data deaths prior to age 60 among males has fallen from 20% in 1980 to 16.3% in 1990 and just 15.1% in 2010, which is most likely attributable to decline in dangerous jobs in manufacturing, mining and other trades combined with tighter health and safety standards. Life expectancy among females hasn't improved as much, but those passing away before their 60th birthday have fallen from 12.1% in 1980 to 9% in 2010, although this is actually marginally higher than the 2000 figure of 8.9%. This means those who took a policy out over a decade ago will in most cases benefit from reducing risk of death in their age group, although quotes will obviously depend on your personal health in the intervening period.

The Author



Robert Prime has been involved in the life insurance industry since 2006 and is the co-owner of lifeinsure.co.uk. Having worked within an authorised environment and joint managed several brokerages he has gained a lot of experience in this sector which he is keen to share with the public.