

Glossary of Protection Terms



Introduction

Taking out an insurance policy that will protect you and your loved ones should the unexpected happen can give you much-needed peace of mind. But with so many different options available, finding the product that's right for you can be a complex decision.

To help you make sense of it all, we've created this helpful glossary of words and phrases that you might hear throughout your protection journey.

Critical Illness Cover (CIC)

Critical illness cover (there is also a variation called serious illness cover) is a type of insurance that pays out a tax-free sum if you're diagnosed with a serious or critical illness that meets the policy definitions during the policy term. The policy does not cover every illness, and illnesses that are covered may have limits regarding how severe the illness must be to make a claim. It may also cover your children should they be diagnosed with a serious or critical illness.

Children's Critical Illness Cover (CCIC)

This will pay out a tax-free sum if your child or children are diagnosed with a critical illness that meets the policy definitions during the policy term. It is an option when buying adult's critical illness cover, although some insurers also allow this as a stand-alone option to be bought alongside adult's life cover. The policy does not cover every illness, and illnesses that are covered may have limits regarding how severe the illness must be to make a claim.

Bare Trust

A bare trust is a basic trust in which the beneficiary has the absolute right to the capital and assets within the trust, as well as the income generated from these assets.

Decreasing Term Assurance (DTA)

This is generally the cheapest form of life cover. The sum assured decreases each year that the life assured lives, usually on a fixed scale, until at the end of the term the amount is zero. It is designed to cover repayment mortgages and decreases in line with your mortgage debt decreasing.

Deferred Period (for income protection)

This is the period of time you are prepared to wait before your income protection policy starts to pay out if you make a claim. You can choose your deferred period when you take your policy out – you can usually choose from as little as 1 day up to 104 weeks.

Deferred Period (for waiver of premium)

This is the period of time you are prepared to wait before your premiums are waived in the event of illness or injury. With income protection your deferment period will typically be the same as the deferment period you chose for your income protection policy. For life and critical illness policies, some insurers will let you choose your deferment period, whereas others will only offer one option, such as six months.

Discretionary Trust

A trust in which the trustees have the discretion to decide how much to pay out, to who and when to pay. This is often used where the beneficiaries are too young to deal with their own money.

Family Income Benefit

Family income benefit pays out a regular income upon either death, or diagnosis of a specified critical illness, depending on the cover type chosen. The income is paid for the remainder of the policy term. If you need life cover or critical illness cover, it can be a cost-effective option as it's typically cheaper than level term assurance and critical illness cover policies.

Fracture Cover

Fracture cover will pay out if you experience a fracture as outlined by the insurer's terms and conditions. The amount paid will depend on the specific fracture.



Guaranteed Life Insurance

A type of whole of life cover that you'll be accepted for regardless of your health and is often referred to as an 'Over 50s' policy. You won't be turned down for cover and there's no medical exam although you usually have to be paying premiums for a minimum period of time before a claim can be made.

Income Protection

This type of cover pays out a tax-free monthly or weekly sum to replace part of your income if you are unable to work due to illness or injury. It continues to pay out until you have recovered or until your retirement, your death, your policy ends or the limited claim period on your policy ends (whichever is sooner). Housepersons can also take this cover out to protect against illness or injury, to reflect the contribution they make to the household and the financial value of the responsibilities they undertake, such as childcare.

Increasing term assurance (ITA)

Life cover also sometimes known as index-linked life insurance, is a life insurance policy that rises in value over time. With indexation in the benefits payable are linked to one of the indicators of inflation or alternatively can increase by a set percentage which you select at outset. Your premiums will also increase over time, but the value of your cover and therefore the benefits you could receive if you claim, will also increase.



Indexation

Indexation is a facility which helps you to maintain the value of the potential benefits payable. With indexation, normally the premiums (and therefore the benefits payable) are linked to one of the indicators of inflation, or alternatively can increase by a set percentage which you select at outset. This means that your premiums will increase over time but the value of your cover and therefore the benefits you could receive if you claim will also increase.

Level Term Assurance (LTA)

This is an insurance policy that provides a set sum assured (the amount of money your beneficiaries will receive upon your death) if you die within a defined period (the term). The word level is used because the sum assured remains the same throughout the term. The word term is used because the policy covers you for a set length of time.

Life Insurance

This type of cover pays out a sum of money on the death of the person insured. The policy is usually taken out for a set number of years (the term of the policy). After that the policy ends. No money would be paid out if the insured person dies after the policy ends.

Any Occupation

Your plan would pay out should you suffer an injury or illness that prevents you working in any occupation including those that may not be your usual job and you meet the other terms and conditions of the policy.

Own Occupation

Your plan would pay out should you suffer an injury or illness that prevents you working in your own occupation, and you meet the other terms and conditions of the policy.

Suited Occupation

Your plan would pay out should you suffer an injury or illness that prevents you from working in an occupation suited to your experience, training and/or qualifications and you meet the other terms and conditions of the policy.

Private Medical Insurance (PMI)

Private Medical Insurance (PMI) is designed to pay some or all your medical bills if you're treated privately. It may cover a range of different options including choice of hospitals, diagnostic tests and outpatient care and may be limited to health issues that occur after cover started. This type of policy will not cover every type of treatment (such as for chronic illnesses like diabetes); this will be explained in the terms and conditions.





Term

This is the period of time the policy will be in force for. You select how many years you need to be covered for, which is known as the 'term'.

Terminal Illness Benefit

Many life insurance policies include terminal illness benefit. This means the insurer would consider a claim if you're diagnosed with an illness where you are not expected to live longer than 12 months. Once the terminal illness benefit has been paid, the life insurance policy ends, and won't pay out when you die.

Total & Permanent Disability

This cover is commonly offered on critical illness insurance policies. It pays out an agreed sum of money if you have an illness or injury that means you are totally and permanently incapacitated with no chance of recovery.

Trust

A trust is a legal agreement which enables the 'settlor' (the person setting up the trust) to specify what happens with the proceeds from their insurance policy. Trustees are appointed and they ensure that any money paid out from the policy goes to the people you would want it to go to (your beneficiaries). As proceeds paid would sit outside of your estate, it can avoid a claim payment being delayed due to probate and potentially reduce inheritance tax liabilities.

Waiver Of Premium (WOP)

If you become incapacitated by illness or injury the insurer will 'waive' your premiums during this period, subject to the plan terms and conditions. For income protection plans it is usually included for no additional cost, but for life and critical illness policies you can choose to pay to include this option.

Whole Of Life Cover (WOL)

This is life insurance that covers you for the entirety of your life, rather than for a set term. It means your family will receive a pay-out however long you live, as long as you keep paying the premiums.

Work Tasks/Activities Of Daily Living

Your plan would pay out if you are unable to undertake a specific number of tasks as outlined in the policy conditions and you meet the other terms and conditions of the policy.

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