FrancisCole
Professional Financial Services

One Life
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Life Cover For Mortgages

Your Take-A-Minute Guide

More Than Insurance **It's About Love**

When taking out a mortgage, it is really important to put some Life Cover in place. Invariably there are 2 types of mortgage that you can have.

There is the Capital Repayment mortgage which is a mortgage whereby the balance of the mortgage reduces over time as you pay your monthly mortgage payments.

Then there is an Interest-Only mortgage whereby the balance of the mortgage doesn't reduce over time as you are literally just paying off the interest.

The type of mortgage that you have will play a part in deciding what type of Life Cover policy you have.

Decreasing & Level Term Life Cover

Typically, there are 2 types of Life Cover policy that people consider when taking out a mortgage called 'Decreasing Term Life Cover' and 'Level Term Life Cover'. Both types of policy will pay out a one-off lump sum amount to your partner/family if you die, but here's the difference:

With 'Decreasing Term Life Cover' the lump sum amount decreases over time and it designed in such a way that it reduces approximately in line with your Capital Repayment mortgage. This means that you wouldn't really have any surplus i.e. this type of cover would purely be there just to pay off the outstanding balance of the mortgage.

With 'Level Term Life Cover' the lump sum amount does not decrease over time. Invariably, this is what someone would choose if they have an Interest-Only mortgage because this type of mortgage also doesn't decrease over time.

How would a policy work in a real-life scenario?

Generally speaking, when people take out a mortgage and consider Life Cover, they don't just want enough Life Cover to pay off the mortgage. They also want to make sure that there is additional money to support the family financially through that difficult period, particularly if they have children who are financially dependent. With that in mind, let's imagine 2 couples who want to ensure that both the mortgage is paid off and the remaining family have surplus money for financial support. Richard and Kate have 3 children and Mark and Louise are a younger couple who have no children at present. Both couples have Capital Repayment mortgages over a 25 year term for £300,000. Each couple take different approaches/ strategies to their Life Cover which are follows:

Richard & Kate

They decide to have a Decreasing Term Life Cover policy for £300,000 that will solely deal with paying off the outstanding balance of the mortgage, whatever that might be at the point of death during that 25 year term. They also choose to take out a separate Level Term Life Cover policy for £250,000 that is guaranteed to pay out that amount to the family for additional financial support. It is worth noting that if they had an Interest-Only mortgage and wanted the guarantee of a £250,000 surplus, they would need to take out one Level Term Life Cover policy for £550,000 i.e. £300,000 to pay off the mortgage balance, which isn't decreasing, and then £250,000 left over.

Mark & Louise

They decide to have a Level Term Life Cover policy for £300,000. This would enable them to pay off the mortgage and have surplus money for financial support. That surplus would obviously depend on what the outstanding mortgage balance is at the time of death. Therefore, for example, let's imagine Mark died and the outstanding mortgage balance at the point of death was £175,000, the surplus amount of financial support for Louise would be £125,000 i.e. the policy would pay out £300,000 to Louise who would use £175,000 of that to pay off the mortgage and then have £125,000 remaining. Although this is a valid Life Cover strategy, the difference between the 2 couples is that for Mark & Louise, the surplus money for financial support is unknown as it wholly depends on what the balance of the mortgage is at the time. Of course, if either of them die early on, the amount of surplus financial support isn't going to be that high.

It is worth highlighting that you can either choose to have a Joint Life Cover policy where both people are on one policy, or 2 Single Cover policies whereby each person has their own policy. Personal circumstances and situations will determine which is the right way forward for you.

You can also look at Family Income Benefit Life Cover as well which pays out a monthly income rather than a one-off lump sum. When someone dies, their income goes with them. Family Income Benefit Life Cover solves the problem of the lost income stream.

For specific quotations, and accompanying information, contact us at either timfrancis@franciscole.co.uk or 07785 921234.