SAUNDERSON HOUSE

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Insurance for Junior Barristers: What do I need to know?

Insurance arrangements can be put in place to pay out in a number of scenarios. This article summarises the key arrangements barristers should consider and the points to take into account when structuring each policy. The arrangements considered below pay either an income due to an inability to work or a lump sum on death or diagnosis of a specified illness.

Income Protection Insurance (IPI)

IPI can provide earnings protection in the event of being unable to work due to injury or illness. Policies typically pay up to 55% of an individual's gross earnings per annum, but do not allow you to take out more cover than this as the cover is paid tax-free and, it is argued, a higher percentage might act as a disincentive to return to work following a successful recovery.

Cover can be taken out over a range of terms, with a term to age 65 (or a specified retirement age) being most common, and provide insurance against being unable to work as a barrister or other occupation.

An issue for barristers is taking out cover where one is self-employed. The true value of a financial adviser is knowing which providers to ask in this regard – some insurers will not cover self-employed individuals; others will, but only to a fairly low maximum and a third group will only cover on provision of evidence of the previous three years of earnings, where those earnings are relatively consistent and the level of cover represents a reasonable proportion of those earnings.

Costs can be reduced considerably by having a deferral period of six months or more, between when the claim is made and when benefit comes into payment. For junior barristers, income shortfalls can be met in the interim period from existing savings and investments, or aged debt.

Critical Illness Cover (CIC)

CIC pays out a lump sum on diagnosis of pre-specified illnesses during the term of the policy, such as cancer, heart attack and stroke. Such policies are, all other things being equal, more expensive than life insurance, reflecting the greater probability of one suffering a critical illness relative to one dying.

You should be aware that providers cover different illnesses and often define those illnesses differently. An experienced adviser can add value by comparing different policies and reviewing the effect of any pre-existing conditions or lifestyle factors on the level of premiums that may be incurred.

Life Insurance

Barristers can find that their need for life insurance evolves. At the outset, cover may be needed for a mortgage liability, and to provide for a spouse and young children. With career progression, and as mortgages are repaid, assets are accumulated to provide a comfortable retirement and children become financially independent. At this point, life insurance may instead be needed more to cover a potential Inheritance Tax liability.

Level Term Assurance pays out a lump sum on death of the life assured within a pre-specified term. Such policies are usually put in place to cover an interest only mortgage or to provide for surviving family, with a term running until when the mortgage might be paid off or to a selected retirement age.

Decreasing Term Assurance policies pay a lump sum, which decreases over the term of the plan – eventually to zero. Such policies are often used in conjunction with capital repayment mortgages, where the policy is set up so the sum assured will broadly reduce in line with the expected reduction in the outstanding mortgage liability. Another example of a decreasing term assurance policy is Family Income Benefit, which pays a regular income for the remainder of the term, rather than a one-off lump sum.

Whole of Life Insurance pays a lump sum on death, whenever this may be, and is often used to provide the means to fund an expected Inheritance Tax liability. Premiums can be fixed and guaranteed for life, or a reviewable policy can be used. Under the latter, premiums are reviewed after ten years, and every five years thereafter, and usually increase, often markedly, at each review in line with higher mortality at higher ages. Though premiums are much cheaper to begin with, there will invariably come an age beyond which the premiums payable under a reviewable policy exceed those payable under a guaranteed policy.

A Convertible Term Assurance policy (a Level Term Assurance policy with the option to later convert the policy to a Whole of Life policy) may be worth considering, as there is no need for further underwriting at the point of conversion, whereas otherwise underwriting is required each time a new policy is applied for.

An experienced adviser can tailor life insurance to your specific needs, working out the most cost-effective way to ensure your current needs are met and that cover is flexible enough to adapt to your needs and circumstances as these may change in the future.

Trusts

Using a trust ensures that benefits can be paid quickly and are not typically subject to Inheritance Tax. Trusts can also offer a surviving spouse greater flexibility from an estate planning perspective.

Great care should be taken in selecting the appropriate trust – selecting an incorrect trust can complicate or impact the speed or ability to pay out benefits to the correct beneficiaries. This is particularly the case where a combined term assurance/critical illness policy is used.

There are three types of trust typically used in conjunction with insurance policies:

- Bare trusts – these allow pre-specified beneficiaries to receive the policy proceeds, providing certainty and peace of mind as to who benefits.
- Discretionary trusts – the trustees can pay the policy proceeds to a wide range of beneficiaries, or hold these until they believe certain beneficiaries are ready to inherit, providing flexibility and control over who benefits and when they do so. The settlor is typically a trustee during his/her lifetime, and can leave a letter of wishes to instruct the remaining trustees thereafter.
- Split trusts – most typically used in combined term assurance/critical illness policies, a split trust allows the benefits payable in the event of a critical illness to be paid to the insured, while the benefits payable in the event of death are paid to other beneficiaries.

A policy is usually placed into one of these trusts by way of completing a trust deed. 'Off the peg' trust deeds are available from most mainstream insurance providers at no extra cost, but bespoke trust deeds can also be drawn up by a solicitor.

A discussion of the advantages and disadvantages of the types of trust and the different tax implications is beyond the scope of this article, though an area where an experienced financial adviser can add tremendous value.

Conclusion

There are a range of policies available to suit younger barristers and their families which provide peace of mind against the unknown, though taking appropriate advice is essential.

Saunderson House is a leading independent wealth management firm, providing a complete financial planning and investment service to individuals at the Bar and within other professional services disciplines. For more information on Saunderson House and a free, no obligation initial meeting, please contact us on 0207 315 6500, mentioning The Barrister magazine, or visit www.saundersonhouse.co.uk.

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