White Dragon Communications
Client: Paradigm Mortgage Services/Paradigm Protect
Publication: Mortgage Introducer
Word count: 741 words
Date: 01/05/18

**The Adviser Conundrum – life versus CI v IP – is getting harder**

Advisers undoubtedly have a hugely difficult task in trying to ensure they do their best for their clients. When it comes to looking at client needs versus affordability these problems are exacerbated, especially when looking to recommend products to sit alongside a mortgage.

Some advisers would recommend life cover before critical illness and then maybe add income protection if it was at all affordable – and statistics on sales volumes by product would seem to bear this out. However, clients buying a property nowadays are faced with a host of costs whether it be a first-time buyer or someone moving up the property ladder – so what is the right thing to recommend that’s affordable?

Clearly affordability of all three types of product will depend on age and health factors, but should we be looking at pure price as the driver or should we be looking at it from another angle? If we consider propensity to claim it gives us a totally different outlook.

According to the Office of National Statistics there were 58,768 deaths in 2016 and a total of just over 1.3 million policies issued, so effectively for each death there were 20 life policies sold. During the same period according to the DWP, there were just under 867,000 claims for ESA but only around 117,000 IP policies issued, so seven times more claims than policies sold.

On the face of it therefore the likelihood of becoming ill and needing State support is far greater than the chance of dying in any particular year. To further back up this view if we take an average age at which a client claims, according to one major UK insurer’s latest figures we see that death is 60, Critical Illness is 50 and Income Protection is 48.

It is not the job of an adviser to second guess longevity, however a customer’s own view may be taken in to consideration. Interestingly, research published by the Institute for Fiscal Studies last week shows that when people expect to die influences how much they save for retirement or spend when they have stopped work. The study says individuals in their late 70s and 80s overestimate their chances of surviving to ages 90, 95 and above, on average, while people who overestimate their survival chances at an older age may show an undue reluctance to spend their remaining wealth near the end of life.

Those who underestimate their chances of surviving through their 50s, 60s and 70s, may save less during working life and spend more in the earlier years of retirement than is appropriate given their actual survival chances. Advisers appear divided into two schools of thought on the longevity problem. The first is that longevity is so unpredictable that it cannot be used by advisers to help clients plan for retirement.

The second is it is essential to be making the most out of planning, for example, a personal pension. Whilst the research focuses more on savings and retirement, having a client's own view of areas such as propensity to claim, may help influence their own buying decisions.

As we move into an era of later life lending, with clients working longer before retirement, it could be argued that how a budget should be divided between the three core areas of protection should at least be considered. It perhaps should also be remembered at this point that State Support for Mortgage Interest changed on the 6th April this year too.

For homeowners, the help towards mortgage interest payments (not any repayment of capital) for loans of up to £200k is still available (although still means-tested), but it has now changed from a benefit to a loan for new and existing claimants – it is subject to compound interest (1.5%) and a property charge, repayable on change of property title.

In addition, as the State rolls out its new Universal Credit proposal to replace six differing types of benefit, it appears if the benefits of a Critical Illness plan were used to pay off reasonable levels of debt that figure would be disregarded in a calculation of client assets.

However, someone with a personal income protection plan in receipt of benefit would have their entitlement reduced pound for pound thereby complicating the debate as to which is the better or most appropriate benefit even further. As mentioned at the start, the job of advising is not easy and the changing economic landscape is making it harder still.

**Mike Allison is Head of Protection at Paradigm Mortgage Services**