Later life lending offers opportunities for later life protection

Over the past 30-plus years or so working in the protection industry, I can hardly recall a week when I didn't hear someone mentioning or me picking up a publication and reading about the famed 'Protection Gap'. This phrase is normally preceded by mild adjectives like 'growing' to ones that seem to point to degrees of desperation bordering on Armageddon.

There is of course the age-old question as to how to plug the gap which seems to have reached Black Hole-type proportions. Therein appears to be the problem – the gap is almost immeasurable – and individuals do not seem to care too much about it as it seems to be allied to a pool of growing debt and not an individual responsibility.

Contrast that with the need or desire for life assurance linked to the mortgage for property purchase. While we know that life assurance needs to be 'sold' as opposed to 'bought' many advisers say it is much easier to do this when the sale is linked to a more tangible asset, like a property, that customers one day want to totally own - whether that be for their own benefit or to pass to their family in later life.

Between the 1970s and 1990s, in the main, endowment mortgages provided a vehicle to 'pay off' the capital at the end of a set time period to allow this to happen. If one of the lives assured died during the term, the mortgage was paid off and the asset remained in the estate.

Today however we appear to be in a different world. An ageing population (another well-worn phrase) has meant that properties are not readily 'handed down' as in previous generations but are still very much required to be lived in by those enjoying longer and longer retirements. The methods of which those houses have been purchased have changed substantially and the mortgage market has had to adapt to the type of lending it offers and continues to be in a state of metamorphosis when it comes to lending to those in later life.

The principle of passing on some of the value of the property to family has however not altered, which is where the opportunity remains from a protection perspective. It is still as relevant to those in later life as it is to first-time buyers. We are told that whilst only 16% of the population was aged 65 or over in 2009, estimates are that it will be 23% by 2035 and numbering around19 million by 2050.

Statistically many of these will live well in to their late 80s and early 90s in relatively good health. However many, for one reason or another, will require lending with some urgency (approximately 500,000 interest-only mortgages need to be repaid by 2020) or will want to release some capital.

We also know that some 3.9m people will be eligible for equity release in the next 10 years. Without too much of a fanfare linked to this specific opportunity, life insurances have been adapting their products and criteria so that they now fit perfectly the requirement to help later life families continue the tradition of passing their major asset to their families.

For example, it is not unusual to see life assurers offering straight term assurance cover up to age 90 and indeed some have implemented this change in the last 12 months alone. Even critical illness cover can still be bought up to age 85. Some providers offer simplified options which are designed around concentrating on the core illnesses and therefore can be considerably cheaper than the full blown versions.

This is particularly relevant for older lives as options like child cover, which now account for substantial claim levels (and therefore pricing), are excluded from these plans. The likelihood is that older lives will not need child cover and therefore they are not paying for something they will not use, making premiums more affordable

Recent adaptations to whole of life plans which allow effectively a ‘draw down’ of the plan - should later life care be needed - are also a real alternative to providing life cover for those in later life. For those gifting the estate, GIV or forms of it, can be used to offset IHT too.

The mechanics of life cover can therefore be used for all sorts of eventualities to help older lives manage their finances and to give them surety of fulfilling their own personal wishes. In that sense life cover has become a real alternative for the later life generation and is not only the privilege of young homeowners. Advisers would do well to ensure they cover off these options with their later life clients.

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