

Contractor Doctor: Will my current life insurance cover me when I go contracting?

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Dear Contractor Doctor

I have just signed my first contract, handed in my notice and I start with my first ever new client in four weeks time. I am busy incorporating my new company, talking to accountants, opening a bank account and checking what insurances I need.

A few years back, when I got made redundant, I took out a life insurance policy to pay out a lump sum so my partner and children would have some cash if anything happened to me. Even when I found a new job that gave me death in service, I kept paying the premiums. I know I lose my death in service when I leave my job, so I'm thinking that my old policy might still be good.

Will my current life insurance policy cover me when I go contracting?

Thanks,

Aisha

Contractor Doctor says:

"There is no reason why a personal life insurance won't pay out even though an individual has changed jobs, so the short answer to Aisha's question is 'yes,'" explains [Mark McBurney](#), life and [income protection](#) insurance expert at [Contractor Financials](#).

"However, although the old life insurance premium may still pay out if Aisha dies prematurely, it may not pay out a sufficient sum to account for her new contracting lifestyle. It may also not be the most cost effective option, as improved mortality rates can make new policies cheaper."

New contractors should always consult a financial adviser

McBurney urges all new contractors to contact a financial adviser who is a specialist in contractor finances and conduct a review of their protection requirements: "All new contractors should have the right level of life insurance and income protection in place.

"When you go contracting, you no longer have the comfort blanket of an employer to pay sick pay or even death in service if the worst happens."

As McBurney explains, that initial review can be crucial: "A financial adviser will start by understanding what the contractor's needs are, what needs to be protected and what that figure should look like. Then the adviser will take a view as to the best options: new cover, extend existing cover and so on."

How much life insurance does a contractor need?

According to McBurney, most new contractors see their income increase significantly and make lifestyle changes as a result: "Through a combination of higher fee income and tax efficiency, an IT contractor could easily expect to double their net earnings when they make the transition between being employed and being a limited company contractor.

"Then what tends to happen is that the contractor buys a larger house with a bigger mortgage, higher monthly outgoings and even new expenses such as school fees. But what many don't do is take this lifestyle change into account when choosing life insurance."

Life insurance is typically used to pay off a mortgage and to provide a cash lump sum or income for the contractor's family. Contractors need to regularly review their requirements to ensure that the life insurance payout is sufficient to cover the mortgage and to support the family at an appropriate level.

Adjusting life insurance to a contractors new lifestyle

If the contractor's existing life insurance cover is insufficient for the family's need, and in McBurney's experience is usually is even for new contractors, then there are several options, once the contractor's needs have been understood by their financial adviser.

He explains: "If there is an existing policy in place that does not provide sufficient cover, depending on the provider and the competitiveness of the policy, we may approach the provider and ask if they will increase the policy.

"If this is not possible, or desirable, another option is to take out another new policy to 'top up' the one already in place. Alternatively, depending on the age of the policy and provider, we may decide to start again with a completely new policy.

This is because mortality rates have improved and that means that some new policies can be cheaper, so it can be more cost effective for the contractor to start afresh.

"It may also be possible to tax efficiently supplement personal policies with [relevant life cover](#) through the contractor's limited company," adds McBurney.



Mark McBurney

Protection Team Manager

ContractorFinancials

Mark McBurney is an experienced financial adviser, with ten years' history in the mortgage market, now specialising in protection for contractors.

Contractor Financials specialise in providing financial advice tailored to the needs of contractors and freelancers. [Read Full Profile...](#)

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"When you make the transition from employee to contractor, you have to adopt a completely different mindset about how you market yourself, how you are remunerated, how you take time off and so many other things," concludes McBurney.

"Your financial wellbeing is no different, so any new contractor should always undergo a review with a financial adviser so they can be sure their family is protected if the worst should happen."

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