

Why contractors need life insurance

[Get life insurance quotation now](#)

Contractors need life insurance because when they go contracting, they lose all their employee benefits and become responsible for their own financial affairs.

According to [Mark McBurney](#), life and [income protection insurance](#) expert at [Contractor Financial's](#), life insurance is an essential protection insurance to ensure a contractor's loved ones have a financial safety net should the contractor die prematurely.

"When contractors leave employment," he says, "they lose benefits such as death in service that might have paid off household debts like mortgages and contributed to household running costs."

Why contractors need life insurance

In McBurney's experience, contractors typically enjoy a sharp increase in their earnings and disposable income. This then generally leads to improvements in a contractor's lifestyle and often a larger property and mortgage.

"But too many contractors don't think to add life insurance to the shopping list of financial products they might buy with their increased income," continues McBurney. "In most contractor families, the contractor is the primary earner and the mortgage debt is based on their earnings.

"In most instances, their spouse or partner, regardless of any children, is unlikely to be able to return to work and have the same earning power to make the mortgage payments. So, the number one priority is for the contractor to ensure that the mortgage is paid if they die."

Contractors may also take out life insurance if they have other dependents, such as elderly parents or siblings not able to take care of themselves. They may simply wish to pass on a paid-for property and a lump sum to their family.

"In the case of separated or divorced contractors, part of the maintenance provision for the children may be to provide a home, so a contractor may be court mandated to take out life insurance until their children reach 18," adds McBurney.

Life insurance options for contractors

Life insurance generally fulfils two aims. McBurney explains: "It is there to pay off any mortgage balance so the contractor's family continues to have a roof over its head, and to provide additional financial support for the family's living costs."

Contractors typically have three options:

Relevant life cover: this is similar to the death in service benefit that employees enjoy, and pays out a lump sum based on a multiple of the contractor's earnings. It is an option available for limited company contractors as the scheme must be run through the company

Mortgage related life cover: a contractor would take out this cover personally, and it is tied into the mortgage, paying off the outstanding balance in the event of the contractor's death. It can be very cost effective, as the sum insured falls as the mortgage balance decreases

Additional lump sum and monthly family income benefits: many contractors also want their families to live a comfortable lifestyle if they die. These policies are taken out personally and can either pay out a cash lump sum, or provide a regular income which can also be index linked.

"The value of money halves approximately every seven years, so a cash lump sum paid out now will be worth considerably less in years to come," notes McBurney. "Index linking a regular income can ensure that the contractor's family's standard of living does not drop."

What are the alternatives to life insurance?

McBurney does find that some contractors consider choosing alternative strategies to protect their families and pay off the mortgage: "We do see contractors who say they will aggressively pay down their mortgage over a short period of time.

"But this strategy assumes the contractor will be fit and well enough to work and make the payments for the next 'X' number of years. You just can't be sure of that, and if the worst happened tomorrow, the contractor's family would face selling their home."

Another strategy McBurney has encountered is using investment properties as a form of 'insurance': "That's a possible solution, but what is the contractor's position post-retirement? They will be depending on the properties for an income and if the contractor dies and the family sells the assets they then have no income."

McBurney concludes: "As well as the welcome change in income and earning potential, contractors also need to change their mindset when they go contracting. They are now responsible for the financial wellbeing of themselves and their family, not their employer.



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...](#)

[View all our experts](#)

"Fortunately, there are a range of [life insurance options](#) available to ensure that whatever happens, the contractors family will be financial secure and can continue to live a comfortable lifestyle."

Published: Wednesday, May 13, 2015

© 2016 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#).



ABCe verified website - last audit confirmed 134,482 monthly unique visitors

© Copyright 2016 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)