Indexation

Explaining the need to index

Protection

Inflation proof your client's protection cover

Choosing level cover isn't always the best option as it can mean that the amount of cover may not keep up with your clients earnings, which will generally increase over time. This is where indexation can help.

Adding indexation gives your client that **reassurance** that should a claim need to be made in years to come, the pay-out is more likely to reflect their financial needs as the amount of cover will have increased over time. And cover can increase every year without the need for any medical information.

Why consider adding indexation?

Indexation means your client's protection cover will maintain its value over time.

Most protection plans come with options for the cover to increase regardless of whether they are lump sum or income cover amounts. This could be by the increase in RPI (retail prices index), subject to a minimum of 2% and a maximum of 10%, or a fixed percentage each year the cover is in force – 2%, 3%, 4% or 5%.

Choosing the RPI indexation option allows your clients cover to keep pace with the rate of inflation. Whereas a fixed indexation option provides a more defined increase amount each year, which may be preferable for some clients.

It's worth noting that indexation generally costs more than level cover.

If you don't index your client's cover, the real value of the cover will be eroded over time.

Here's an example:

John takes out income Protection cover of **£15,000 per year** over a team of **25 years**.

Why choose Royal London?

Choice

There's is a range of options for your clients to choose from, not just inflation linking.

An increased pay-out

With the indexation option, any claim that's paid during the term of the cover will be increased. This could help the pay-out to keep pace with the increase in the cost of living, or possibly exceed it if a higher fixed indexation option has been chosen.

Competitive premium increases

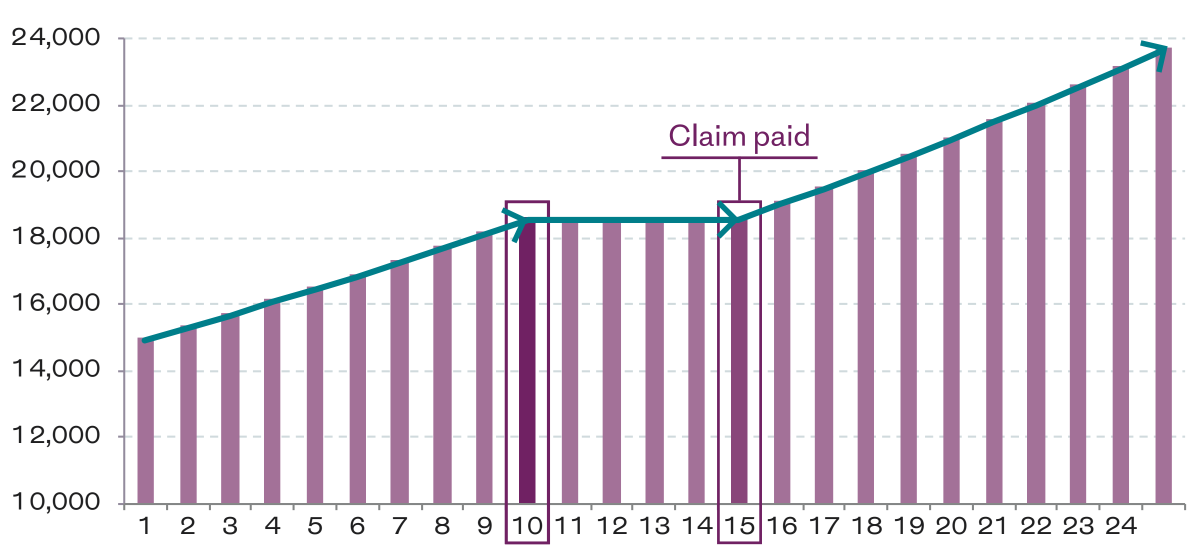
Premiums increase by a factor of 1.2 times the rate of increase in the amount of cover (many competitors use a factor of 1.5). This helps smooth out premium changes, increasing the chances that your clients will maintain their coverages as they get older, even with potential increases.

Flexibility

We won't automatically take the indexation option away if your clients are finding it difficult to afford the indexation option for one year. We'll stop offering the option if your client refuses the increase for two years in a row.

He sets this up with an inflation (RPI) indexation option and agrees to increases to his cover up to year 10. He doesn't want to increase the cover from then on so the level of his cover at this point is £18,514 per year.

After 15 years John goes off sick at work and makes a claim. Royal London agrees his claim and his first payment is made in year 15, once the deferred period has elapsed. On the anniversary date of the plan, his payment amount will increase by the rate of inflation and this will continue to increase yearly, as long as his claim is paid. This could be up to the end of the term.



Claim indexed each year to end of 25 year term.

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We’re happy to provide your documents in a different format, such as braille, large print or audio, just ask us when you get in touch.

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