MYERS DAVISON GINGER
CHARTERED FINANCIAL PLANNERS

Goldsmiths House
10-14 Cambridge Street
Aylesbury
Bucks
HP20 1RS

Tel: 01296 392999
Email: advice@mdgifa.com
Website: www.mdgifa.com

Income protection insurance

How would you pay the bills if you were sick or injured and couldn't work?

Protecting your income should be taken very seriously, given the limited government support available. How would you pay the bills if you were sick or injured and couldn't work?

Income protection insurance, formerly known as 'permanent health insurance', is a financial safety net designed to help protect you, your family and your lifestyle in the event that you cannot work and cope financially due to an illness or accidental injury preventing you from working. Most of us need to work to pay the bills.

A struggle financially

Without a regular income, you may find it a struggle financially, even if you were ill for only a short period, and you could end up using your savings to pay the bills. In the event that you suffered from a serious illness, medical condition or accident, you could even find that you are never able to return to work. Few of us could cope financially if we were off work for more than six to nine months. Income protection insurance provides a tax-free monthly income for as long as required, up to retirement age, should you be unable to work due to long-term sickness or injury.

Statutory sick pay

By law, your employer must pay most employees statutory sick pay for up to 28 weeks. This will almost certainly be a lot less than your full earnings. Few employers pay for longer periods. If you find yourself in a situation where you are unable to return to work, your employer could even stop paying you altogether and terminate your employment. After that, you would probably have to rely on state benefits. Some employers arrange group income protection insurance for their employees, which can pay out an income after the statutory sick period.

Income protection insurance aims to put you back to the position you were in before you were unable to work. It does not allow you to make a profit out of your misfortune. So the maximum amount of income you can replace through insurance is broadly the after-tax earnings you have lost, less an adjustment for state benefits you can claim. This is usually translated into a maximum of 50 per cent to 65 per cent of your before-tax earnings.

Self-employed

If you are self-employed, then no work is also likely to mean no income. However, depending on what you do, you may have income coming in from earlier work, even if you are ill for several months. The self-employed can take out individual policies rather than business ones, but you need to ascertain on what basis the insurer will pay out. A typical basis for payment is your pre-tax share of the gross profit, after deduction of trading expenses, in the 12 months immediately prior to the date of your incapacity.

Some policies operate an average over the last three years, as they understand that self-employed people often have a fluctuating income.

Cost of cover

The cost of your cover will depend on your gender, occupation, age, state of health and whether or not you smoke. The 'occupation class' is used by insurers to decide whether a policyholder is able to return to work. If a policy will pay out only if a policyholder is unable to work in 'any occupation', it might not pay benefits for long – or indeed at all. The most comprehensive definitions are 'Own Occupation' or 'Suited Occupation'. 'Own Occupation' means you can make a claim if you are unable to perform your own job; however, being covered

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under 'Any Occupation' means that you have to be unable to perform any job, with equivalent earnings to the job you were doing before not taken into account.

Choosing your cover

You can also usually choose for your cover to remain the same (level cover) or increase in line with inflation (inflationlinked cover):

Level cover - with this cover, if you made a claim the monthly income would be fixed at the start of your plan and does not change in the future. You should remember that this means, if inflation eventually starts to rise, that the buying power of your monthly income payments may be reduced over time.

Inflation-linked cover - with this cover, if you made a claim the monthly income would go up in line with the Retail Prices Index (RPI).

Taking out your cover

When you take out cover, you usually have the choice of:

Guaranteed premiums - the premiums remain the same all the way throughout the term of your plan. If you have chosen inflation-linked cover, your premiums and cover will automatically go up each year in line with RPI.

Reviewable premiums - this means the premiums you pay can increase or decrease in the future. The premiums will not typically increase or decrease for the first five years of your plan but they may do so at any time after that. If your premiums do go up, or down, they will not change again for the next 12 months.

Making a claim

How long you have to wait after making a claim will depend on the waiting period. You can usually choose from between 1, 2, 3, 6, 12 or 24 months. The longer the waiting period you choose, the lower the premium for your cover will be, but you'll have to wait longer after you become unable to work before the payments from the policy are paid to you. Premiums must be paid for the entire term of the plan, including the waiting period.

Depending on your circumstances, it is possible that the payments from the plan may affect any state benefits due to you. This will depend on your individual situation and what state benefits you are claiming or intending to claim. If you are unsure whether any state benefits you are receiving will be affected, you should seek professional advice.

As part of our service we also take the time to understand our client's unique needs and circumstances, so that we can provide them with the most suitable protection solutions in the most cost-effective way. If you would like to discuss the range of protection services we offer, please contact us for further information.