smartmoney

Complete ADVICE SERVICES

NOVEMBER 2019

GUIDE TO

INCOME PROTECTION INSURANCE

WOULD YOU STILL NEED A MONTHLY INCOME IF YOU CAN'T WORK?

Complete Advice Services Ltd, 38 Waterloo Road, Wolverhampton WV1 4BL
T: 01902 421 114 • E: info@completeadvice.co.uk • W: www.completeadviceservices.co.uk

GUIDE TO

INCOME PROTECTION INSURANCE

~

Would you still need a monthly income if you can't work?

Have you ever considered what would happen to you or your loved ones if you couldn't work due to a long-term illness or injury which results in a loss of earnings? It's important to be able to keep your finances healthy as you recover.

No one likes to think that something bad will happen to them, but if you couldn't work due to a serious illness, how would you manage financially? Being unable to work can quickly turn your world upside down. How would you cover your outstanding bills or childcare costs? Could you survive on savings or sick pay from work? If not, you may need some other way to keep paying the bills – and you might want to consider income protection insurance.

You might think this may not happen to you, and of course we hope it doesn't, but it's important to recognise that no one is immune to the risk of illness and accidents. No one can guarantee that they will not be the victim of an unfortunate accident or be diagnosed with a serious illness. This won't stop the bills arriving or the mortgage payments being deducted from your bank account, so going without income protection insurance could be tempting fate.

Sudden loss of income

Income protection insurance is a long-term insurance policy that provides a monthly payment if you can't work because you're ill or injured, and it typically pays out until you can start working again, or until you retire, die or the end of the policy term – whichever is sooner.

Many people have never even considered what they'd do if they couldn't work because of long-term illness or injury. For most people, experiencing a sudden loss of income due to illness or injury could be devastating for them and their family.

Keep your finances healthy as you recover from illness or injury:

- Income protection insurance replaces part of your income if you become ill or disabled
- It pays out until you can start working again, or until you retire, die or the end of the policy term – whichever is sooner
- There's a waiting period before the payments start, so you generally set payments to start after your sick pay ends, or after any other insurance stops covering you. The longer you wait, the lower the monthly payments
- It covers most illnesses that leave you unable to work, either in the short or long term (depending on the type of policy and its definition of incapacity)
- You can claim as many times as you need to while the policy is in force

Long-term health problems

When you suffer a serious illness or injury, the last thing you should worry about is how you'll pay the bills while you're off work. After all, what if your sick pay should run out while you're still recovering?

Some people may receive generous sickness benefits through their workplace, and these can extend right up until the date upon which they had intended to retire. However, some employees with long-term health problems could, on the other hand, find themselves having to rely on the state, which is likely to prove hard.

Tax-free monthly income

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 currently 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.

Percentage of your salary

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 typically translated into a percentage of your salary before tax, but the actual amount will depend on the company that provides your cover. It is advisable to talk to your employer about whether they provide this company benefit and to understand the support services available to you.

Self-employment

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 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.

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

- **Level cover** – with this cover, if you made a claim, the monthly income would be fixed at the start of your plan and would not change in the future. You should remember that this means if inflation eventually starts to rise, 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)

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 typically 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.

Individual situation

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. This market is subject to constant change in terms of the innovative new products that are being launched. We can check to see whether any state benefits you are receiving will be affected. ■

Looking for peace of mind if you're unable to work because of an accident or ill health?

Life can be unpredictable, so we're here to help make sure you're prepared. Being unable to work can quickly turn your world upside down. To discuss the options available to you, please contact us. We look forward to hearing from you.

THESE PLANS HAVE NO CASH IN VALUE AT ANY TIME AND WILL CEASE AT THE END OF THE TERM. IF PREMIUMS ARE NOT MAINTAINED, THEN COVER WILL LAPSE.

READY TO DISCUSS ARRANGING YOUR COVER?

You've worked hard to get where you are. But just how secure is your lifestyle? If you can't work because of incapacity due to injury or an illness that results in a loss of earnings, would you be able to cover your monthly living costs?

Don't leave it to chance – please talk to us.

This guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. All figures relate to the 2019/20 tax year, unless otherwise stated.

Published by Goldmine Media Limited, Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL

goldmine media