Executive income protection –
financial security for directors and executives

Case study

Meet Dan, a company director age 40 who has just set up a limited company. Following advice from the company's accountant, the company needs a workplace pension scheme with pension scheme with pension contributions being paid both by Dan and by the company.

A workplace pension scheme is set up where he's making personal contributions and the company is paying employer contributions. Dan would like to try and retire at age 65 with an income of £30,000 a year.

Dan also knows that should anything happen to him (accident or illness), and he's unable to work, he has no other income. So he decides to take out income protection to protect this.

Scenario one – Personal Income Protection (IP)

- Dan is now aged 50, becomes unwell and has to make a claim on his personal IP policy.
- With personal IP, your pension contributions are restricted to a maximum of £2,880 a year (£3,600 after tax relief) because the claim payments aren't classed as net relevant earnings. However, as Dan could only insure a maximum of 55% of his income under his personal IP policy, he cannot even afford this, so he stops contributing to his pension.
- Dan's personal IP policy doesn't provide cover for the company to continue making employer contributions into Dan's pension.

Consequences

- Dan has protected his income until his retirement age of 65 when his personal IP policy ends.
- At age 65 his claim payments stop.
- But what happens to his income the following month? Instead of potentially retiring with a pension of around £30,000 a year, it could be worth much less as he's been unable to contribute to it for the last 15 years.

Summary

- Dan has protected himself pre-retirement only and hasn't been able to maintain the retirement savings at the level he'd planned.

Scenario two – Executive income protection (EIP)

- Dan is now aged 50, becomes unwell and his company has to make a claim on its executive IP policy.
- As the executive IP claim payments are paid to the company, it can use this to continue paying Dan 75% of his monthly salary. As he'll continue to receive a salary, this counts as net relevant earnings, which means Dan is not restricted by how much he can personally contribute to his workplace pension. As he is still receiving a salary, he can afford to continue making regular pension contributions.
- The executive IP policy covers the company's employer pension contributions, so it can continue making employer contributions into Dan's pension.

Consequences

- When Dan reaches age 65 and his claim payments stop, the following month his pension could potentially be the £30,000 a year he was hoping for.
- This is because both Dan and the company continued contributing to his workplace pension during the time when he was unwell.

Summary

- Dan has protected his pre-retirement income and maintained his and his employer's regular pension contributions – giving himself the best opportunity to achieve his retirement goals.

For help and support with income protection, speak to:

INCOME PROTECTOR

01628 594433

info@income-protector.co.uk

www.income-protector.co.uk

courtesy of AEGON