Income Protector

Safeguard your future

A Guide to Income Protection Insurance

'The average UK employee would run out of money after just 32 days if they lost their income' (Legal & General)
Don't be one of them – safeguard your finances with income protection insurance

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The average employee's 'deadline to breadline' if they lost their income was just 32 days. With 23% saying they don't save any of their monthly income, many people simply don't have the resources to fall back on should the worst happen. (Legal & General, Deadline to Breadline 2017)

Introduction

What is Income Protection Insurance?

An income protection policy will provide you with a monthly, tax-free income if you're unable to work on medical grounds through an event such as an accident, bodily injury or illness.

It offers a crucial safety net if you have insufficient savings or employer sick pay to enable you to manage financially in the absence of your monthly pay.

Why do I need to protect my income?

A recent report by Legal & General revealed that the average UK employee would run out of money after just 32 days if they lost their income.

Despite this, few of us stop to consider how we might cope without our monthly salary.

Income protection insurance is something that every working person should consider – regardless of age or current state of health.

Life is unpredictable, and none of us knows what tomorrow holds.

How long could you keep up with your mortgage, rent payments or other outgoings without your monthly pay?

Income Protection Insurance:
Need-to-knows

Income Protection vs. Employee or State Benefits

To appreciate how valuable income protection insurance is, it's useful to look at the benefits offered by your employer or the state to gauge how far they'd stretch should the worst happen.

Employee benefits

Employers tend to have their own rules when it comes to the benefits they provide if you're unable to work due to ill health or injury. For more information on this, consult your employment contract or ask your HR department.

Questions you might like to consider are:

1) How much sick pay am I entitled to and for how long?

2) Does my employer offer benefits such as life insurance? If so, how much?

3) Am I entitled to anything else, such as critical illness cover, if I fall ill?

By law, all employers must pay you statutory sick pay for up to 28 weeks (eligibility criteria apply) if you're too ill to work for a period of longer than four days.

The current rate of sick pay (as at March 2020) is £94.25 per week. When you consider that the average cost of renting a UK property in the final quarter of 2019 was £886pcm (Zoopla) – statutory sick pay doesn't even meet half of this cost.

"64% of people would struggle within 12 months if forced to take an extended period of time off work. 41% expect to rely upon statutory sick pay, which is less than £100 per week."

(Legal & General)

State benefits

If you're off work long-term due to illness or injury, you may be eligible to apply for state benefits, such as Universal Credit. If you have a long-term health condition or you're disabled, you may be eligible for Personal Independence Payment (PIP).

When your statutory sick pay period is coming to end, you may also be eligible to claim Employment and Support Allowance (ESA).

Income Protection Insurance:
Need-to-knows

Will receiving state benefits affect my Income Protection Insurance policy?

Any non-means tested state benefits you receive will be on top of your monthly income protection insurance payment.

When should I take out Income Protection Insurance and why?

Life doesn't follow a straight path. Circumstances change, and with these your need for financial security also changes. There are some common life changes that many of us experience that may influence the need to protect our income. These include:

1) Family

The birth of a baby or a growing child's changing needs may prompt you to put measures in place to protect your family should anything happen to you. Income protection insurance can support you to safeguard your family's future by helping to cover your rent or mortgage payments and other monthly outgoings, such as child-care and utilities.

2) Buying or renting a property

Taking out a mortgage to buy a home or moving into a rented property are big steps and represent substantial financial commitments. Income protection insurance can offer reassurance that you'll be able to keep up your monthly rent or mortgage payments if you're unable to work through illness or injury.

3) Changing jobs or promotion

Changing jobs or being promoted to a new role is a good opportunity to examine your financial support to ensure that it's in line with your needs.

4) Being single

If you're single or have recently become so, your financial responsibilities are less likely to be shared. Therefore, as a single person, it's vital to make sure you have the support in place to cope with your financial commitments if you're unable to work.

5) Being self-employed

Being self-employed means you're not entitled to statutory sick pay from an employer. If you're self-employed, this therefore means you're forced to rely on your savings and/or take out suitable insurance to make sure you have financial support if you're unable to work.

Income Protection Insurance:
Need-to-knows

The previous list of circumstances aside, income protection insurance is best taken out when you're young and healthy as this means lower premiums due to you being considered lower risk. It's therefore a wise option to think about insuring your income at an early stage of your life, without waiting for a significant life change.

Key considerations when taking out Income Protection Insurance

When taking out income protection insurance – as with any insurance – there are a number of key considerations to be aware of. These include:

1) Level of cover

You can protect 50-70% of your gross (pre-tax) earnings. The more you want to insure, the higher your premium will be. Be sure to avoid over or under-insuring yourself by working out the essentials you'd need to cover in the absence of your salary.

2) Deferral period

This refers to how long you're off work before your payments start. The longer the deferral period, the lower your premiums will be. The default deferral period with most policies is 13-26 weeks.

3) Stepped benefit income protection

Check with your employer how much pay you'll receive and for how long in the event of illness or injury. If your employer reduces how much it pays you over time, stepped income protection could be a useful option.

With this type of protection, you can start off with lower insurance payouts when your employer pays you a higher percentage of your salary and then increase these payouts when your pay from your employer decreases.

4) Policy cease age

This is normally set to match your expected retirement age. Some policies can run beyond this, but the premiums for doing so are likely to be high.

5) Premium type

Your choice of premium (monthly payment) type can have a lasting effect on the cost of your insurance.

• Guaranteed premiums vs. reviewable premiums:

Some income protection insurance policies offer you the choice of a fixed or guaranteed premium. Guaranteed premiums mean you will always pay the same (fixed) monthly sum for the life of the policy. While guaranteed premiums can cost slightly more in the short-term, many people like the security of knowing what their monthly payments will be in the future.

Income Protection Insurance:
Need-to-knows

Alternatively, you might like to consider reviewable premiums whereby rates are typically reassessed every five years. The initial cost of reviewable premiums tends to be lower, but premiums can rise significantly over time and are influenced by your age as well as prevailing medical advances.

• Age-banded premiums: These premiums – despite starting off cheaper – will increase over time in line with your age and increased risk of claiming. They can only rise by a set percentage each year, however.

6) What about indexation?

If you decide to link your monthly insurance payout to changes in inflation, known as indexation or index-linking, it's usually the case that both your monthly premium and monthly payouts will rise each year – even with guaranteed premiums. This is to compensate for the fact that your insurance benefit is rising annually in line with inflation.

The type of premium you choose will ultimately depend on your circumstances. We recommend that you seek impartial advice to obtain an affordable, long-term solution that best fits your needs. Please contact us for support with this, we'll be happy to discuss this (or any other questions you may have) with you.

Income Protection Insurance verses Critical Illness Cover and ASU:

Income Protection vs Critical Illness and Accident, Sickness & Unemployment (ASU) Insurance

So, you've decided to protect yourself and your family from financial insecurity by investing in an insurance policy. But, how do you choose the correct insurance?

Here is a summary of the key features of three common insurance types:

INCOME PROTECTION INSURANCE	CRITICAL ILLNESS INSURANCE	ACCIDENT, SICKNESS & UNEMPLOYMENT (ASU) INSURANCE
Pays you a monthly benefit if you're unable to work due to illness or injury.	Pays you a one-off lump sum if they suffer a critical illness as outlined in the policy's terms.	Will pay you a sum of money to help cover monthly repayments of existing debts (such as mortgages, loans and credit cards) in the event of accident, ill health, death or unemployment.
Protects your general income, allowing you to cover essential monthly outgoings whilst you're off work (e.g. mortgage or rent payments).	Is often used to cover the outstanding balance on a mortgage loan so that the debt can be paid off should you suffer a critical illness.	Covers your monthly debt repayments for a fixed period of time (usually one to two years). For credit card debt, this type of insurance normally only covers the minimum monthly repayment.
Is used to pay out for **any** medical condition that prevents you from working (except in the case of exclusions covering pre-existing conditions as outlined in the policy's terms).	Policies typically cover up to 40 **specified** illnesses and injuries.	Several restrictions and exclusions tend to apply, e.g. concerning existing medical conditions and employment circumstances.
Payouts begin after the agreed deferral period and continue until you're able to resume work or the policy end date (whichever comes first). See point 2), page 8*.	A lump sum is paid upon the insurer receiving evidence that you have one of the conditions specified in the policy.	Many policies only cover a maximum of one year's repayments.
Often works out cheaper as the policy is designed to pay an income for a limited period rather than cover one lump sum.		As these policies are sold without full medical underwriting, you may have less certainty of being covered if you make a claim.

Income Protection Insurance verses Critical Illness Cover and ASU:

What makes Income Protection Insurance particularly valuable?

As the table illustrates, there are significant differences between these three insurance types. Here are some compelling reasons why income protection insurance is so valuable:

1) It's not restricted to a defined list of illnesses/conditions

Income protection insurance pays out on any physical or mental illness or injury that prevents you from doing your specific job (not just any job). Unlike critical illness insurance, the cover is not limited to a pre-determined list.

2) It pays out for as long as you're ill (*unless you have taken out a short-term policy for a cheaper premium)

Income protection insurance will pay out for as long as you're unable to work – or until the policy end date (whichever comes first), unless you've taken out a short-term policy for a cheaper premium. So, unlike a lump sum payment, there's less risk of the money running out – offering you greater peace of mind.

3) It's an affordable solution

In our view, income protection insurance stands head and shoulders above other insurance types. Policy holders can choose their deferral period, as well as long-term or short-term claim periods. This ensures an insurance plan that's right for your needs as well as your pocket. Receiving independent advice from a well-informed advisor can make all the difference in finding a policy that works for you.

4) It prioritises the greatest risks

Thousands of individuals have been sold life insurance, but remain exposed to a bigger risk if an illness or accident prevents them from earning on a long-term basis. We believe it always makes sense to prioritise the largest risk.

Why NHS professionals need specialist Income Protection Insurance:

Ill health or accidents can happen to anyone, including medical professionals.

As a medical professional, your sick pay entitlement is subject to several changes in your first five years of working for the NHS. It increases gradually for the first five years until you reach the maximum entitlement (six months' full pay, followed by six months' half pay).

If you leave your position for 12 months or more, you'll need to build up your entitlement from scratch on your return.

Special Sick Pay Arrangement

Due to the complex sick pay system, it can be difficult for NHS professionals to know what deferral period to choose for an income protection policy.

Taking out specialist income protection – featuring an NHS Sick Pay Arrangement – addresses this issue. It does so by allowing you to receive insurance payouts in advance of your chosen deferral period according to how long you've been working for the NHS.

Example: Chloe has worked as an NHS doctor for two and a half years and earns £50,000.

She selects a 12-month deferral period and opts to protect the full 60% of her pre-tax income that her policy allows. This translates to £30,000 or £2,500 per month as her income protection benefit.

In accordance with her NHS sick pay entitlement and length of service, she receives four months' full pay initially. She then receives four months' half pay as well as 50% of her income protection benefit, or £1,250 per month. After eight months, her NHS sick pay stops. Chloe then receives 100% of her income protection benefit, or £2,500 tax-free per month.

Additional benefits

In addition to the Sick Pay Arrangement, many policies for NHS professionals offer a host of other advantageous features. These include:

1) Sabbatical break cover

If you want to travel, take time to raise a family or pursue further study, for example, many policies will cover you as if you're still at work. (There may be time restrictions on this cover, however, according to your policy's terms.)

Why NHS professionals need specialist Income Protection Insurance:

2) Overseas cover

If you wish to work abroad, many policies will cover you to work in a range of countries. (The NHS Sick Pay Guarantee will not apply in these circumstances if you're no longer working for the NHS.)

3) Own occupation cover

This type of cover will pay out for anything that medically prevents you doing your specific job. Suited occupation cover, by contrast, will only cover you if you're so unwell that you can't work in your current role or in any other role you'd be qualified for. For example, you might be a surgeon who has been prevented from carrying out surgery due to a hand injury but who's well enough to teach medicine. With suited occupation cover, you could potentially be denied payouts in these circumstances.

4) No needle-stick exclusions

Many policies designed for NHS professionals do not include exclusions for conditions contracted from needle-stick injuries. Health professionals are at higher risk of these type of injuries than most, so this is a valuable feature.

Group Income Protection Insurance:
The benefits for employees and employers

What is Group Income Protection Insurance?

Group income protection is a benefit offered to employees by their employers. It provides a replacement income to an employee if they're unable to work for an extended period due to illness or injury and normally pays a percentage of the employee's salary.

What are its benefits for employees and employers?

Loss of income over an extended period can have dire consequences for an employee and his/her family. As well as mitigating this financial risk, group income protection offers a host of other benefits. These include:

1) Attracting and holding onto talent

Group income protection offers employees long-term financial security and is therefore an appealing benefit for employers to offer.

2) Doing what's right

Employers need to prepare for how they might handle an employee being off work unexpectedly, including how they would financially support that individual.

The way in which an employer deals with this is likely to have a major impact on how the workforce views the employer.

3) Financial security

Many employers do not provide further financial support to individuals who are absent beyond 28 weeks. The employee may then find his or herself without a source of income. Group income protection avoids this scenario, giving the employee peace of mind and long-term financial security.

4) Built-in additional support

One of the most significant advantages of this type of insurance is the free support services that are often available. These include:

- Triage: e.g. assessment for musculoskeletal conditions
- Rehab assessment: e.g. a telephone or face-to-face appointment to discuss a treatment plan and steps to aid recovery
- Progress reviews: to discuss additional measures to assist recovery, e.g. patient self-help measures

Group Income Protection Insurance:

The benefits for employees and employers

- Practical support/information: e.g. advice on legal or financial matters
- Counselling: to support the employee with their well-being and mental health
- Case management: to support employers in managing employee absence and assist employees through their recovery and return to work
- Employer support: to help employers reduce the impact of long-term staff absence and assist them in formulating and managing internal processes for absence

Executive Income Protection

An Executive Income Protection (EIP) is an important, tax-efficient employee-benefit for business owners and for their employees considered to be essential to the success of their business.

EIP is particularly relevant and important for directors and key employees who have little or no sick-pay entitlement, should they become too ill or injured to work. Furthermore, EIP's are often arranged for businesses that want to provide an individual employee with income protection as an Employee Benefit.

An EIP policy is owned by the employer but is underwritten on the life of a shareholding director or an employee. If that insured employee is unable to work because of illness or injury, the EIP policy will pay a monthly benefit to the employer, which is then paid to the insured employee.

Under an EIP, gross taxable earned income, employer pension contributions and National Insurance (NI) contributions can all be insured.

What is gross taxable earned income?

This is income that will be lost in the event of incapacity and a range of flexible cover and benefit payment options enable you (the employer) to arrange EIP cover to meet the needs of your business as well as your insured employee. It could include:

- Salary
- Commission
- Bonuses/overtime (as long as the insured employee can prove that this has formed part of their normal salary over the last three years)
- P11D benefits which could be lost in the event of incapacity

Income for a shareholding company director of their own business is the salary and dividends received from the profit generated, after deduction of corporation tax in the 12 months before a claim.

How does it work?

You (the employer) will choose when you want income payments to start and then for how long you want the income payments to be paid.

At the start of the policy, you will choose a deferred period of 4, 8, 13, 26 or 52 weeks before the monthly benefit amount will commence.

You will also choose the payment term; often, an EIP will offer you a choice of a 2-year, 5-year or full term benefit payment period.

If, for example, you choose the 2-year benefit payment period, the monthly benefit amount will be paid for a maximum of two years. Payment will start at the end of the chosen deferred period and will end on the 24th month (earlier, if fit to return to work). Then the insured employee will need to return to work for a period of six months before you (the employer) can claim again for that employee.

If you choose the full term benefit payment period, the monthly benefit amount will be paid for as long as the insured employee meets the definition of incapacity that applies to the policy or until the policy ends.

The EIP policy conditions will provide full details of the cover.

Executive Income Protection

What's the maximum benefit amount?

The maximum benefit calculation is:

- 80% of the insured employee's pre-incapacity taxable earned income, up to a maximum of £150,000 a year, plus
- The yearly contribution towards the insured employee's pension made in the previous 12 months by the company, plus
- Employer NI contributions, up to the amount paid for the insured employee in the last 12 months.

The combined overall limit for pension and NI contributions is £30,000. The total benefit amount available is £160,000 a year.

What are the age limits?

1. Age at entry: 18 to 59 years old
2. Term: 5 to 51 years
3. Maximum age at benefit expiry: 70 years old

How long will EIP be paid?

- The monthly benefit amount will be paid until the earliest of:
- The end of the benefit term for full-term EIP
- The end of the benefit payment period for 2-year EIP;
- The insured employee no longer meets the definition of incapacity that applies to the policy;
- The insured employee stops suffering a loss of earnings;
- The insured employee's employment with the company ends, or
- The insured employee dies.

What happens if the company stops trading?

If a valid claim is not being paid at the time, the EIP cover will end.

If a valid claim is being paid, it will to be paid until it stops due to one of the above circumstances. In this scenario, the meaning of income will be restricted to no longer include pension or NI contributions.

Why choose Executive Income Protection?

It can help small and medium-sized businesses attract and retain key talent

Such businesses don't have the scale to qualify for group risk schemes, but a competitive employee benefits package could help you attract and retain the right employee base.

We can design a unique employee benefits packages for you.

Normally tax-efficient

Your policy premiums will normally be allowed as a business expense if they meet the 'wholly and exclusively' for the purposes of the business test.

Executive Income Protection

As you (the employer) own the EIP policy, the policy payments aren't treated as a benefit in kind for the insured employee. When a claim is being paid to the business, you can then pay your insured employee via PAYE, as relevant UK earnings.

Rehabilitation benefit and proportionate benefit

A reduced benefit amount could be paid to you (the employer) if the insured employee is no longer able to carry out their normal occupation but is able to return to work with fewer duties or working less hours, or can take up different work within your company at a lower income.

Helps employees to continue saving for retirement

As an EIP covers employer's regular pension contributions, you can continue contributing to the insured employee's pension. This means, as well as providing pre-retirement cover for your insured employee, the latter individual can also continue saving towards their retirement goals.

Waiver of premium

Waiver of premium benefit is automatically included, which means no premiums are payable while benefits are being paid.

Additional benefits at no additional cost

Both you (the employer) and the insured employee will have access to a second medical opinion service, 24/7 health and wellbeing service, and a key person replacement service throughout the term of the policy, at no extra cost (full information will be provided).

This information is based on our understanding of current taxation law and HMRC practice, which may change.

Conclusion

Conclusion

Income protection insurance is a highly valuable method of protecting individuals and their employers from the consequences of unforeseen absence from work due to ill health or injury.

The figures to substantiate this speak for themselves, in that a large number of individuals would quickly find themselves in extreme financial difficulty without their monthly salary to rely on.

If you want impartial and independent advice about income insurance, don't delay: please get in touch. Our advisor will be happy to provide you with free guidance, prior to collating the necessary information to make an insurance application on your behalf.

You can also obtain an instant quotation at exclusive discounted rates – which you will not get by going directly to the same insurance providers – by visiting the quotation page of our website.

Don't put things off until it's too late.

Call us on: 01628 594433

Email us on: info@income-protector.co.uk

Office: 44 Broadway, Maidenhead SL6 1LU

Or complete the Contact form on our website and we'll get back to you as soon as possible.