

# **Guide To Income Protection**



**What you need to know to get the right policy for  
the best possible price**

Dear Client

Choosing an income protection policy isn't easy as you are bombarded with confusing information and high pressure sales. This can often stop people taking action on a policy that is very important for the benefits it provides them.

We wrote this guide to help you make an informed intelligent decision and if you have any questions you are invited to call on 01722 717427 and we will be very happy to help you.

We have dedicated our business to helping educate you in financial matters.

A handwritten signature in blue ink that reads "Gavin Park". The signature is written in a cursive, flowing style.

Gavin Park  
Premier Financial Planning

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# Income Protection

## What is income protection?

Income protection is a policy provided to replace your income in the event of illness or accident. This is usually required by the self employed as they have very little in the way of sick benefits and for those that are employed to start after their sickness benefits at work finish.

## Selecting the right company

Every occupation has its own individual risks and due to this the terms and costs insurance companies are willing to offer vary considerably and this is discussed below.

## Own occupation

The 'Own Occupation' definition is the desirable cover for an income protection policy. This means that you are covered in the role you perform and therefore the benefit will be payable to you if you cannot perform your own occupation. Providing you are signed off work by a doctor then the benefit can be payable.

There are other definitions that many insurance companies levy on certain roles such as 'Any Occupation', this would mean that the benefit would not be payable until you could not perform any job (there are usually certain function tests that are used to ascertain this).



## **Deferred period**

Your actual sick benefits vary depending on if you are self employed or you are working on an employed basis. Whilst you are being paid sick benefits by employment the income protection benefit will not pay to you as you already have income (it may pay some if the sickness benefits are low). Therefore you can select your deferred period. This is the time from when you stop work due to illness or accident to when the benefit will be payable to you.

Many factors should be taken into consideration when selecting a deferred period such as; existing sick benefits, savings you are happy to use to supplement income in the short term and your budget towards the policy.

## **The length of a claim**

In the event of a claim there are generally only three reasons the payments would stop:

- You die.
- You go back to work.
- You reach a prearrange finish date (such as age 60).

You are able to make multiple claims on a policy over the years and with many companies if the claim is for the same reason within a short period of time (say a year since the last claim) then they will waive the deferred period and pay the claim straight away.

Unlike general insurance policies, the insurance company is unable to increase the premium or place exclusions on the policy due to your personal claims on your existing policy. The terms of the policy are decided at the start by assessing your health at that point, you therefore know the terms before you commit to the policy.

## **Claims history**

This is a very important factor when choosing an income protection company. You want a provider with a positive claims history so that you know if you ever need to call on the policy then you won't have issues with claiming (providing it is a true claim). Many companies publish their claims history and this allows comparisons to be made.

## **What level of cover do you actually need**

An income protection policy can cover you up to a maximum of 50-70% of your gross earnings depending on the insurance companies criteria. This payment is tax free (unless you claim the premiums as a business expense) and therefore this bridges the gap and makes the payment close to your actual net pay.

The question to ask yourself is what level of cover do you need?

In order to answer this question it is advisable to review your personal expenditure, mortgage, bills, etc. So that you can gauge the level you require.

## **The reasons for a claim**

If you have an 'Own Occupation' policy then any form of illness or accident that your doctor will sign you off work for means that the benefit of the policy could be payable to you. This includes such things as mental illness.

## **Your personal health**

As stated before your health will be determined at the application stage so that you know the terms of the policy before committing to it. This is usually in the form of answering some medical questions and if there is further information required the insurance company will get you to sign an access to medical records form so that they can obtain your doctors notes in order to make an informed decision.

If there is insufficient information once they have this then they may ask you to have a short medical by a qualified nurse or your own doctor. However this is usually only required if there is reason to due to current health issues or for high levels of cover.

## What the state will provide you with

### **For the Employed: (Statutory Sick Pay)**

If you do not have any set sick pay and you are working for an employer under a contract of employment then you are entitled to statutory sick pay (SSP). This is payable after four days in a row (including weekends and bank holidays and days that you do not normally work). It is then payable for 28 weeks.

To qualify you must have average weekly earnings of at least £102 a week. Your average weekly earnings are worked out by using your earnings in the eight weeks before your sickness began.

The standard weekly rate for SSP is £81.60 a week. Your employer will work out a daily rate of SSP if necessary. They will do this by dividing the weekly rate by the number of days you'd normally work in that week. For working out SSP a week runs from Sunday to Saturday.

SSP is subject to tax and National Insurance contributions. If you only receive SSP your earnings may not be high enough to pay tax unless you get other payments on top of your SSP. (This is based on information provided by [http://www.direct.gov.uk/en/MoneyTaxAndBenefits/BenefitsTaxCreditsAndOtherSupport/Illorinjured/DG\\_10018786](http://www.direct.gov.uk/en/MoneyTaxAndBenefits/BenefitsTaxCreditsAndOtherSupport/Illorinjured/DG_10018786) for the tax year (2001/2012).

### **For the Self Employed:**

The self employed cannot claim statutory sick pay, instead they are potentially eligible for employment and support allowance. There is an initial 13 week assessment phase where you are assessed to see what work you can and cannot do and they will help you to find alternative work. During this time someone over the age of 25 will receive £67.50 per week. After this assessment time if you are still eligible then the rate could increase between £94.25 per week and £99.85 per week depending on the outcome of that assessment. This means that for the first 3 months you have to live on £9.64 per day.

If you are severely incapacitated then you could potentially be entitled to other benefits, however this will depend on the severity of your incapacity. (This is based on information provided by [http://www.direct.gov.uk/en/MoneyTaxAndBenefits/BenefitsTaxCreditsAndOtherSupport/Illorinjured/DG\\_171896](http://www.direct.gov.uk/en/MoneyTaxAndBenefits/BenefitsTaxCreditsAndOtherSupport/Illorinjured/DG_171896) for tax year (2011/2012).

## How long could you cope for with No income?

You have to be realistic with yourself, how long could you cope with your income? Your bills are not going to change by much because you are not working and therefore you will have to rely on some means of support. This could be existing savings however this will whittle them down at a faster rate than you could save them.

Family support to help you pay the bills, however I am sure they have their own financial commitments so this would place a larger burden on them.

"Is that Bloggs Insurance? I've been having second thoughts about that sick-pay income protection cover we talked about. Is it possible to take out back-dated cover?"



## **How to pick a Financial Adviser**

Without a financial adviser to guide you selecting the right income protection provider can take up a fair amount of your time, here are three things to consider when picking an adviser to help you:

### **Are they Independent?**

Many advisers are tied to a specific company or only have a 'panel' of providers to select from. Ensure that the adviser you are dealing with is independent so that they are researching the market to provide you with the most suitable policy for your individual needs.

### **How do they get paid to provide you with advice?**

There are two methods that advisers get be paid by providing advice. Firstly is by charging a fee directly to you for the time and advice provided. This payment is typically for the advice and not for acceptance of the policy. The second way is by a commission directly from the provider, this is paid after the policy has been set up for you, this payment is not an additional fee on top of your monthly payments. Ensure that the adviser offers both systems so that you have the choice.

## **Here's what to do now.....**

1. Make a list of your current expenses to ascertain what level of benefit is relevant to you.
2. Consider how long in reality you could cope without income so that you can choose a deferred period.
3. Decide upon what level of budget you would be comfortable putting towards paying for an income protection policy.
4. Call or email us to arrange some time to discuss your circumstances so that we are able to provide you with your free no obligation personalised report on your options.

## Contact Details

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