A Guide to Income Protection

Understanding the advantages of income protection can help you make informed decisions and ensure you're adequately protected.

The aim of this guide is to answer a few common questions people have about income protection.

What is income protection?

Income protection insurance, often called permanent health insurance (PHI), is designed to provide a portion of your income if you're unable to work due to illness or injury. Unlike critical illness cover, which provides a one-off lump sum, income protection pays out regular monthly payments to cover essential living expenses such as your mortgage, rent, bills and daily living costs. Payments from the policy continue until you can return to work, retire or reach the end of the policy term, whichever comes first.

Income protection usually covers a wide range of medical conditions, from mental health issues like depression to long-term illnesses or physical injuries. Its goal is to protect your financial stability if you're unable to earn a salary for an extended period.

Do I need income protection?

Deciding if you need income protection insurance depends on your personal situation and financial safety net. Consider the following questions:

Can you rely on savings?	Would you be able to cover essential living expenses such as rent, mortgage, bills and food for several months or even years?
Employer sick pay?	Does your employer offer a sick pay scheme? If so, how long will it last, and will it cover all your outgoings?
Self-employed or contractor	If you're self-employed or work as a freelancer/ contractor, you may not receive any income if you're unable to work. How will you cover your outgoings?
Are you the only earner in your household?	How will you cover your monthly outgoings and day-to-day lifestyle?
Supporting any dependents?	If you have any dependents that rely on your income to keep a roof over their head and provide food, can you do so with just one, or no, income?

How much cover do I need?

The amount of cover you need depends on your financial obligations and the level of income you want to replace. Typically, income protection policies cover 50-70%[1] of your monthly pre-tax income. We can help you to determine the level of cover required, considering factors such as:

— **Living expenses:** Including essential monthly costs like rent or mortgage payments, utility bills, food and travel costs.

— **Existing benefits:** Any employer sick pay or state benefits you may receive which can help reduce the amount of cover you need.

— **Dependents:** You may need to support your partner, children or other dependents.

— **Policy term:** Policies typically pay until you can return to work, retire or until a certain age.

We can help you to get enough cover to maintain your financial stability, but not so much that you over-insure and pay more in premiums than necessary.

[1] Money Helper

How much will it cost?

Several factors influence the cost of income protection insurance, including your personal circumstances and the policy details:

Age	Younger people typically pay lower premiums because they are less likely to make a claim.
Health	Your medical history and current health status will affect your premium. If you have pre-existing conditions, you may face higher premiums, or some conditions may be excluded.
Occupation type:	Own occupation – a policy that covers you if you're unable to do your specific job (own occupation cover) is generally more expensive but offers the most comprehensive protection.
	Any occupation – this type of cover pays out only if you are unable to perform any job, not just your current one. It's usually cheaper but may not offer the same level of protection.
Deferred period	The longer the deferred period, the lower the premiums will be. Policies with shorter waiting periods cost more as they pay out sooner.
Indexation	Choosing index-linked cover means your benefits will increase each year in line with inflation, ensuring your payout retains its value over time. This can add to the cost but helps maintain the real value of your income.
Guaranteed vs. reviewable premiums	Guaranteed premiums – these remain the same throughout the policy term, giving you stability and allowing you to budget more effectively.
	Reviewable premiums – these can increase over time, making them initially cheaper but potentially more expensive later.
Policy length	The longer the term of the policy, the higher the cost. Shorter policies that only pay out for a fixed number of years are cheaper but offer less long-term security.

What is a waiting/deferred period?

The waiting or deferred period is the length of time between when you become unable to work and when an income protection policy starts paying out. You can typically choose a deferred period ranging from 4 weeks to 12 months. The length of the deferred period affects both your premiums and how soon you will receive financial support:

— Shorter waiting period (4-8 weeks): If you don't have substantial savings or your employer's sick pay only lasts for a few weeks, a shorter waiting period is helpful. However, premiums will be higher because the insurer will pay out sooner.

— Longer waiting period (6-12 months):

If you have significant savings or your employer provides extended sick pay, a longer deferred period could be more appropriate. This reduces the cost but requires you to manage financially for longer before the policy pays out.

The choice of waiting period should align with your financial resources and how long you can realistically manage without an income.

Waiver of premium

Waiver of premium is an optional extra that allows you to stop paying premiums if you're unable to work due to illness or injury. This ensures that your cover remains active even when you're not working and may struggle to afford premium payments. While it increases the cost slightly, waiver of premium can provide peace of mind, ensuring you don't lose cover during difficult financial times.

Length of term

The length of an income protection policy, or term, determines how long you will be covered. You can choose:

- Short-term policies which pay out for a limited period, typically 1-2 years, if you are unable to work. These are less expensive but only provide temporary cover.
- Long-term policies which cover you until you can return to work, retire, or reach the end of the policy term (typically up to age 65 or 70). Long-term policies are more expensive but offer more comprehensive protection, ensuring you receive ongoing income for as long as you need.

When choosing the term, it's important to consider your long-term financial commitments and how long you would need financial support in the event of a prolonged illness or injury. We can help you assess the most suitable term for your circumstances.

How we can help

Choosing the right income protection policy can be complex. We work with you to navigate the options available. Here's how we can help:

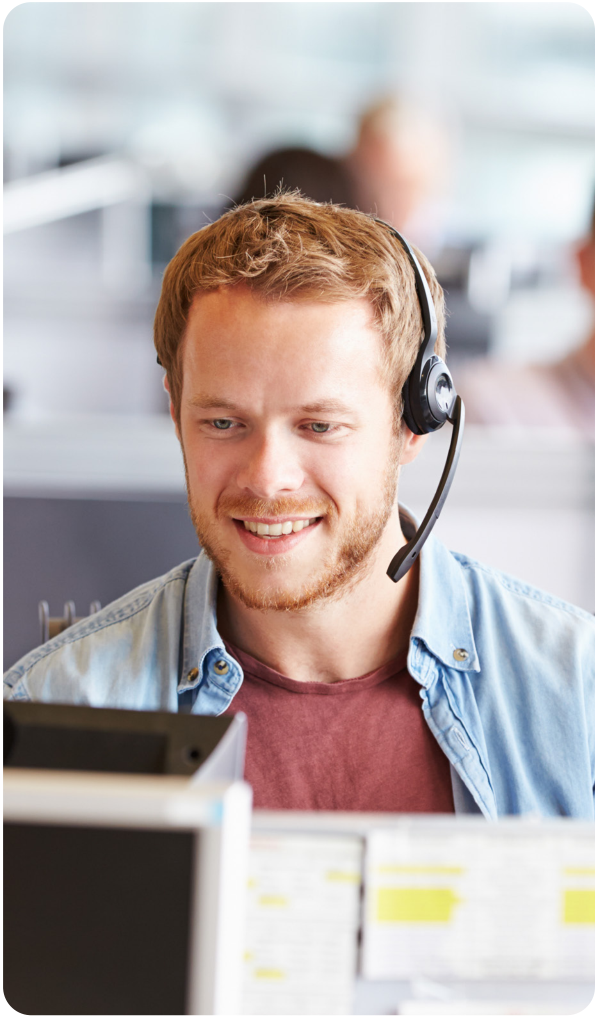
— **Personalised advice:** By assessing your individual circumstances, such as your financial commitments, dependents and health, to recommend a policy that meets your needs

— **Comparison:** With access to multiple providers, we can compare policies and find the most comprehensive cover within your budget.

— **Tailored recommendations:** To suit your unique circumstances

— **Long-term strategy:** We will ensure the policy fits within your long-term financial plans, not just your immediate needs.

Working with an adviser ensures you are not only choosing a policy based on cost, but also one that genuinely protects you.



Importance of reviewing cover regularly

Life is constantly changing, and so are your financial needs. It's crucial to review your income protection policy regularly to ensure it still provides adequate cover. Significant life changes that might prompt a review include:

— **Salary increase:** If your income has increased, you might need to adjust your cover.

— **Change in employment:** Changing jobs or becoming self-employed may affect your income protection needs.

— **Family circumstances:** If you start a family, buy a house or take on new financial responsibilities, you may need to increase your cover.

— **Inflation:** Over time, cost-of-living increases mean you may need to adjust the amount of cover to maintain its value.

— **Policy term:** If you initially took out a short-term policy but now need long-term cover, it's worth revisiting your options.

Reviewing your policy regularly with us ensures that your cover remains appropriate and cost-effective as your life evolves.

Contact us

We understand that it can be difficult to assess the type of protection cover you need and to understand the complexities of income protection. This is where we can help by providing expert advice. If you have any queries about income protection or would like to discuss any aspect of protection insurance, such as life cover or critical illness cover, please do get in touch.

As with all insurance policies, conditions and exclusions will apply

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