

## PRESS ARTICLE

### PROTECTING YOUR INCOME | MAY 2011

Against a backdrop of rising inflation and State benefit reform, it is becoming ever more important to protect your income against illness and incapacity.

The consumer website 'Which' suggests that "The one protection policy every working adult in the UK needs, is the very one most of us don't have – income protection."

So what is income protection and why should you have it?

Income protection is an insurance that provides a regular tax-free income of up to 50% to 60% of your employment income if you become unable to work due to illness or incapacity.

The benefit will be payable after a waiting period, also known as the deferred period, which you choose when you take the policy out and which is normally 4, 8, 13, 26 or 52 weeks.

The longer the waiting period, the cheaper the cover will be as the risk of the insurer having to pay the benefit reduces.

It is therefore important to consider what sick pay entitlement is in place with your employer, what State Benefits you may be eligible for and any sources of income that you can rely on when deciding on the length of the waiting period – e.g. if your employer will continue to pay you full salary for eight weeks, then your waiting period should be no less than eight weeks.

Your occupation is also a major factor in determining the cost of the cover as the more physical your job, the higher the risk of an illness or injury stopping you working. It is therefore important that wherever possible, the cover is based on your inability to continue to do your "own occupation" rather than "any occupation" or your inability to perform certain day-to-day tasks that insurers use to assess the extent of incapacity.

The term of the policy will normally be until age 65 at the most, as it is designed to run for your working life, although some providers are now extending this for certain occupations to reflect increasing retirement ages. Unlike a critical illness insurance policy which pays out once, income protection cover will pay the income benefit until you are fit to return to work but will remain in force when you do go back to work. This means that you can have more than one claim on the policy during its life which makes it a very valuable form of insurance.

It is also worth noting that a parent with no income who stays at home to look after their children can have income protection cover. The purpose of this cover is to protect the family against increased childcare costs or other expenses that will arise if they become ill and unable to look after the house and children.

This is an often overlooked area as the focus is understandably on protecting the earnings of the employed parent but the effect of them having to pay for, or provide, additional childcare may be a reduction in their income which could be avoided by having income protection cover in place.

We all spend valuable time and money ensuring that our lives, cars and houses are adequately insured so why not spend a bit of time thinking about insuring your income as well? After all, without any income even these most basic and essential insurances are at risk.