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FAMILY VALUES, MONEY MINDS

A GUIDE TO INCOME PROTECTION INSURANCE



Introduction

The insurance known as Permanent Health Insurance (PHI) is also sometimes simply called “Income Protection Insurance". The two ways of describing it are inter-changeable.

Income Protection Insurance is probably best, because it accurately explains what the insurance is for.



It is there to help you replace your income should you be unable to work due to accident, illness or injury.

In this short guide we aim to outline for you why this is such an important insurance to have in place, what some of the key factors are, and how you should go about exploring this and putting a plan in place.

Why you should have an Income Protection Plan



As with any insurance, the best way of thinking about this is to ask “what if?”

So, you might reasonably ask yourself, “what if my house burns down?” and the answer is you will need to rebuild it, or buy another house. Hence, why you need home insurance.

When it comes to your income, you can ask the same sort of question, for example “what if I cannot generate an income from my work because I am ill or get injured?”





The answer here is less clear cut, because if you are off for a week, that is probably not a catastrophe and your finances should cope.

But if you are off for any sustained period, then the position is likely to be very different.

What about a year, for instance? Five years?

The problem with a long-term illness or injury – or maybe even a medium term one – is that your expenditure is unlikely to reduce, whereas for millions of people their income would reduce.

That's because for the majority of people there is limited (if any) help for a sustained period.

Many UK workers are not entitled to sick pay, or if they are, their sick pay provisions will be insufficient to meet all of their regular outgoings, particularly long-term.





Losing an income due to illness or injury is a real and serious risk for most of us, as we end up still having to pay all the same bills, but without the income to pay for them.

That's where Income Protection Insurance comes in, because it is there to provide an income to help meet the bills.

Just how likely is it that this insurance will be needed?

The risk is clear and obvious, so why don't more people have this insurance in place? In fact, why doesn't everybody have this in place?

Partly due to a lack of awareness, but more likely because of a misunderstanding of the risk.

Here are some relevant facts about illness and injury in the UK in 2022, in relation to long-term absenteeism:



- Between June and August 2022, around 2.5 million people reported long-term sickness as the main reason for economic inactivity, up from around 2 million in 2019 (Office for National Statistics 10 November 2022)

- Those aged 25 to 34 years saw the largest relative increase in long-term sickness between 2019 and 2022 (Office for National Statistics 10 November 2022)

How Income Protection Plans work:

The plan is an insurance against being off work due to illness or injury. If you need to claim on the policy then you will receive a percentage of your gross monthly earnings, until you can return to work. There is no limit to how many times you can make a claim, so you could do so several times.



The Cost

The premium or monthly cost of this type of insurance policy will vary depending on your age, medical history and the type of job you do.



You decide when taking out the policy:

- How quickly you want the policy to pay out (the waiting period before your replacement income starts).
- How much of your income you want to cover. For example, 50% of your gross income.
- How long you want the policy to last and what age do you want the policy to run to? For example age 65.
- Whether you want the policy to be inflation linked, so it rises in value each year in line with inflation.

All of these factors affect the cost, the more comprehensive the cover, the higher the monthly cost will be. The easiest thing to do to get more detail is to ask us to get a quote for your specific circumstances and needs.





Waiting periods

You choose a waiting period – which could be anything from a week to 24 months. The longer the waiting period the lower the cost of the policy. A waiting period is the time you have to wait before the income replacement starts to pay out. If you have the ability to withstand a loss of income for a few months, then you may want to go for a longer waiting period, if on the other hand you have limited support, a shorter period would be better.

What's covered and when would a policy pay out?

Income protection insurance is arguably the only protection product that provides adequate protection against common mental health conditions and those that are likely to result in both short or long-term sickness absence.



A policy will pay out if you've been signed off work for any medical reason, so long as you meet your insurer's definition of incapacity. You will need to be signed off by a medical professional.

If you meet the criteria above, then your replacement income will start to be paid to you after the waiting period you have chosen.

Own occupation/Any occupation



Your insurer's definition of incapacity is a very important aspect of choosing the company, the insurer, you take your policy out with. That is because different insurers may have different ways of assessing a claim, based on their definition of your occupation.



The two most common ways are known as:

Own Occupation – a claim will be based on your inability to do the main things your current job requires you to do.

Any Occupation – a claim will be based on your inability to do not just your own job, but any job.

You will see that the Own Occupation definition is less onerous.

There could be other definitions in some cases:

Activities of Daily Living Occupation – this is where a claim will be assessed on your inability to do everyday things that aren't necessarily related to your job – like walking, lifting, using stairs, or getting in and out of a car.

Suited Occupation Definition – this will be assessed on your inability to do not just your own job, but any suitable job based on your skills and experience.





The definitions and basis for claims are an important part of a policy and you should be careful to ensure your policy is set up to meet your work circumstances and needs. We can help you with this before you make an application.

Choosing the level of cover

Income Protection pay outs are usually based on a percentage of your earnings: 50% to 70% is the typical maximum, this can vary from Company to Company.

The pay out is tax free, that helps to level out the difference between say 50% and 100%.

For instance, if you chose a policy to cover 50% of your earnings and your income is £36,000 per year, then the policy would pay £18,000 per year or £1,500 per month. That payment would continue until you return to work or to the end date of the policy.



The length of the policy

Policies will have a date, commonly linked to your age, that they will run to. For instance, age 60 or age 65. This end date is important because this is when the replacement income will paid to, unless, of course, you return to work before this.

Other things to consider

Income Protection Plans are distinct from Accident, Sickness and Unemployment (ASU) policies. The ASU policies generally do not have medial underwriting and are designed to cover shorter term situations, unlike Income Protection that is there for the long-term absences from work.

Likewise, they are not the same as Critical Illness insurance, which pays out a lump sum on diagnosis of a critical condition, such as cancer.

If you have an Income Protection policy and you need to claim on it, then the resulting income you receive from the policy could impact any state benefit payment you may be entitled to, such as payments under the Universal Credit system.





If you have an existing medical condition, this could be excluded, depending on how the insurer assesses this in the application process. In other words, they may not pay out against this existing condition, should this be the reason you are unable to work. Again, we are here to help you navigate this, if possible, before you take out a policy.

Why getting a quote from and using an intermediary like us, makes perfect sense.

The various insurers offering this type of policy have different policy terms and can categorise occupations differently, judging the risk for a particular job more or less risky than their competitors.

They also may have different ways they define your 'inability to work' and whether you are unable to work in your 'own occupation' or 'any occupation'.



These and other aspects can make a claim invalid and there is nothing worse than having an insurance and it then doesn't pay out because of some glitch or small print, related to the terms and conditions. Working with us we will ensure you are with a Company that has a good claims history and can check that you have a suitable policy in place from the start, based on your circumstances and needs.

There is also the other point about cost, we can scour the market to keep the monthly cost as low as possible given your circumstances.

Important note

This guide is intended to provide you with an overview of Income Protection Insurance and the main factors to consider. It is not a technical guide nor should it be used as the basis for deciding to take out a policy. Nothing should be relied upon in this respect. You should always take regulated advice before taking out a policy or making a financial decision about anything related to this subject.

About us

Go Finance was established in September 2009 by Neil Moorhouse, our Managing Director. Since then, our team, led by Neil's daughter Hayley and supported by our dedicated Broker Support team, has grown into the Go Finance that we are proud of today!



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