Safeguarding your future

In this time of financial uncertainty, protecting your income is proving a good option for dentists

It's easy to be cavalier about the future when you have no responsibilities, and few anticipate disaster when the sun shines. But dentistry is a physically taxing and stressful profession, and as time passes, most of us acquire responsibility, so not investing in income-protection insurance has all too often proved a gamble too far for dentists young and old, and their families.

No-one is immune to ill health or accidents and their potentially catastrophic financial side-effects. Even for those dentists who remain single, the loss of income through incapacity will seriously compromise their quality of life.

Sick-pay arrangements

These vary considerably for employed dentists, and even more widely for the self-employed. Those working in the NHS can expect to receive their full salary for the first six months, and half their normal income for a further six months. Private employers may have in place an income protection plan which pays for a longer period, but in the case of smaller companies you may only receive the statutory minimum, currently £75.40 per week for 28 weeks, of your gross income up to a maximum initial benefit of £1,200 per week, regardless of how often you need it.

State benefits become the only income option. The payments in respect of long-term sickness under standard GDS/PDS contracts are subject to qualification criteria, are not payable for the first four weeks of incapacity, and cease after a maximum of 22 weeks in a 52 week period.

‘The loss of income through incapacity will seriously compromise your quality of life.’

For self-employed associates, sick pay will depend on the terms of their individual contracts of employment. For many, not seeing patients will effectively mean you are not working. As you would expect, the incapacity of working self-employed principals or practice owners who have employed associates will not necessarily force the immediate closure of their businesses, and at least temporarily a proportion of their income will continue. However, the regular payments made under a GDS/PDS contract are liable to claw-back if targets are not achieved and, without established alternative arrangements, radically. Commuting expenses, for example, will cease altogether, while domestic spending will increase – heating costs will rise if you are obliged to stay at home all day, and you may have to pay for medical or nursing care. Unless you have independent means, or some other source of income, it’s almost certain that you will need income protection insurance to safeguard a reasonable standard of living for yourself and your family.

Buying income protection insurance buys peace of mind as well as financial security. If you cannot work, your policy guarantees you will still receive a regular income, free of tax, until you return to work, cancel the policy or reach a predetermined age. And there is no limit to the number of claims you can make. Dentists' Provident, for example, will cover up to 60% of your gross income up to a maximum initial benefit of £1,200 per week, regardless of how often you need it.

Consider financial commitments

Whatever your present state of health, it makes sense to consider the financial implications of not being able to work, perhaps for many months. Specific loan commitments, such as mortgages or credit card debt, are likely to be already covered by discrete insurance as a condition of acceptance, although these policies will usually feature a time limit, typically one or two years from the date of incapacity. But this is not the complete picture.

If you become ill, the pattern of your living costs and discretionary spending will change. Commuting expenses, for example, will cease altogether, while domestic spending will increase – heating costs will rise if you are obliged to stay at home all day, and you may have to pay for medical or nursing care. Unless you have independent means, or some other source of income, it’s almost certain that you will need income protection insurance to safeguard a reasonable standard of living for yourself and your family.

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Check the small print

As with any purchase, you should inspect the goods before making a commitment. For instance, there are different interpretations of ‘incapacity.’

‘Own occupation’ contracts will pay if your incapacity prevents you pursuing your own profession, while ‘any occupation’ policies will only pay if your incapacity means you can do no work at all. As you would expect, ‘own occupation’ agreements are more expensive, but for professional people, such as dentists, they offer the most appropriate protection.
Many policies also feature a ‘deferred period’ clause, which effectively precludes payments until you have been incapacitated for a defined period. This period is usually negotiable, or at least offers a range of options. If you are self-employed, for example, you may want payments to start at once, or at least relatively quickly, while if you are employed you may not need support until work-related payments cease.

You must also decide whether to pay fixed or variable premiums. ‘Guaranteed’ rates cannot be changed by the insurer, except in agreed circumstances (for example, a rise in line with inflation). ‘Reviewable’ rates are based on the insurer’s overall claims and costs and are not influenced by any claims you make personally. ‘Renewable’ rates are set for a fixed period, after which you have the right to renew the contract by paying a new fixed premium for a further fixed period, based on your age at the time of renewal.

What it will cost
Along with the value of the sum insured, these are the principal factors which influence the cost of the insurance—effectively summarised as the degree and type of incapacity covered, the immediacy of payment and the type of premium paid. It’s worth noting that guaranteed rates can initially be significantly more expensive than reviewable rates, as the insurance company must cover itself against unforeseen changes in the market; while renewable rates will naturally become more expensive as you get older and become more likely to make a claim.

Inflation comes into the equation if you ‘index link’ your required benefits to keep pace with the cost of living, a wise precaution when you consider that the cover attached to mortgages, credit card and other household debt is relatively short term. It’s important that your policy, and any payments made from it, remain in force until you reach retirement age and the alternative security of pension income.

Making your choice
It’s a competitive market and there are different types of insurance company as well as different types of policy. While many commercial insurance companies provide policies with no cash-in value, mutual insurers share their profits among their members by offering bonuses or reducing the cost of the insurance.

Friendly Societies are mutual organisations with no external shareholders and which are owned by their members. Some Friendly Societies offer a ‘Holloway Contract’, which combines income protection insurance with a retirement fund. Holloway Contracts include income protection and, at the same time, retain the policyholder’s (member’s) share of the society’s profits to create a lump sum payable to the member on retirement. This lump sum is tax-free under current legislation, and only ten Friendly Societies, among them Dentists’ Provident, are allowed by HM Revenue & Customs to write this type of business.

Dentists’ Provident protects over 15,000 dentists in the UK and Ireland, and each year around 1,500 claim benefits. Some will never return to work, and will receive benefits until they reach retirement age. In light of these statistics, can you afford to be without income protection insurance?

For further information, contact Dentists Provident on 020 7222 2511, write to Dentists’ Provident Society Ltd, 9 Gayfere Street, Westminster, London SW1P 5HN, or visit www.dentistsprovident.co.uk.

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