Protection planning: be prepared

Mark Blakeman looks at the importance of protecting your income

You may think that paying out on income protection policies is an unnecessary expenditure in these cash-strapped times, but it could be the best money you’ve ever spent.

The key is to spend your money wisely on a policy that suits your particular needs and circumstances. You should talk with an adviser who understands your profession and the benefits offered by the NHS pension scheme, because you want to have the right level of protection and not pay for unnecessary products.

There are many different types of protection products. The following is a guide to what we think are the key areas you should consider to protect yourself and your family if the worst happens.

Critical Illness

This is an insurance policy that will pay out a tax-free lump sum if you are diagnosed with a pre-defined condition, even if you are able to carry on working. So, if for example, you were diagnosed with a degenerative illness you could use the lump sum to adapt your home to make life easier in the future. However, it’s up to you how you spend this money and you could consider paying off your mortgage or other outstanding debts, taking a holiday to con-

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verse or investing it for future income. However you decide to use the money, a critical illness policy can help remove financial worry at a time when you have more pressing concerns.

Critical illness policies will typically cover some forms of cancer, terminal illness, heart attack, stroke and multiple sclerosis. A range of other conditions may also be covered including kidney failure, paralysis and early onset of Alzheimer’s and Parkinson’s disease. A comprehensive policy should cover at least 25 conditions, although some cover almost 40. Some policies will also include critical illness cover for your children up to the age of 18.

The Association of British Insurers (ABI) has created guidelines on what should be covered in a critical illness policy including definitions of illnesses and the severity of illness. Most companies will follow these guidelines but you should check first.

Income protection

While a major illness can stop you working, problems such as backache or depression can be equally debilitating and lead to long-term incapacity. These types of complaints are not covered by critical illness insurance but, if they were to stop you working, you could expect to receive a regular income from an income protection policy. The benefit of this insurance is that it will pay you a monthly tax-free income at, typically, 50 per cent of your pre-incapacity earnings. Also it can help you ease yourself back into work as most plans offer a rehabilitation period, where you receive a reduced income if you return to work on a pro-rata basis.

Key points to consider when looking at income protection are:

• What level of cover do you need? This will be specific to your individual needs and circumstances. You may have other ways of covering loss of income, such as through investments or a partner’s earnings.

• Does the policy have an ‘own occupation’ definition? This means that the policy benefits will be paid if you are unable to carry out your specific job due to sickness or injury. Some income protection products offer an ‘any suited occupation’ definition, which means they won’t pay out if you can’t do your own job but could do other types of work based on your knowledge and experience. This is obviously less desirable as you have studied, trained and worked hard to get where you are in your current role.

• What is the deferred period? The deferred period is a set amount of time from the date the policy kicks in after this might be appropriate.

Life assurance

It’s not a pleasant thought, but you have to be realistic and think about how you would manage financially if they had to survive without your regular salary coming in. The right life assurance policy can pay off your mortgage and other debts which is going to help your family get on an even keel. Life assurance plans can be written in trust so that the proceeds will be paid directly to the stated beneficiaries and not form part of your estate on death, which could be subject to inheritance tax.

Protecting your practice

The cost of running a dental practice can run into hundreds of thousands pounds each year so it is essential that you consider the loss of income that could arise if you or another income provider, such as a dental hygienist falls ill.

• You could consider locum protection that will assist in meeting the costs of employing the service of a Locum tenens in the event of absence through sickness, so that you can continue to provide a full service to patients.

• Key Person Assurance will safeguard your business profits if a key member of staff passes away unexpectedly or is off work sick for a sustained period of time and gives you time to find a replacement if necessary.

• There’s also surgery insurance that will cover you if you suffer loss or damage to valuable equipment.

Before committing to any insurance products, make sure you take good advice. They may all look the same but when you examine the small print you could find some very real differences.

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