Income Protection – Is your cover appropriate for your needs?

Dino Charalambous discusses things when looking at income protection

Income protection provides you and your dependents with protection should serious illness or incapacity affect your ability to work and cause you financial hardship. It provides you with a regular tax free income. Income protection can cover employed or self employed dentists. The market has a variety of income protection policies for dentists, all with their own criteria, features and incentives. Some of the important options to consider when looking for a policy are:

1. **Do I need it?**
   - If your answer is no or maybe, then you need to ask yourself some further questions:
     - If you fell ill, will you still receive a percentage of your income indefinitely?
   - If not, and you are a part of a couple, could you pay the bills and live off your partner’s income indefinitely?
   - If not or you are single, do you have savings you could live off indefinitely?

2. **Amount**
   Most providers will only insure you for a percentage of your income; typically 50 to 60 per cent of your income. So, for example, if your net income is £100,000 per annum, you would be covered for £60,000 or £5,000 per month. The insurer may also have a maximum amount that may be insured per month, so even if £5,000 per month is the 60 per cent limit, they may have a limit of £4,000 on their criteria.

3. **Pay-out amount**
   The amount the policy would payout depends on the type of cover you have selected or been recommended. You can either get a fixed payout, so if for example you insure yourself for £2,000 per month it will pay out £2,000 per month until you are able to return to work. Other
policies would payout £2,000 per month for the first six months, then drop to 50 per cent of the insured amount, ie £1,000 per month, after a further six months it will then drop to 50 per cent of the insured amount, ie £600 per month. This is quite an important factor to consider when reviewing an Income Protection policy.

Will £600 per month be sufficient to cover your outgoings should you have a long term illness?

4 Term of cover
The insurer will also have a maximum age at which they will insure you to, typically 55 or 60. Obviously the longer the cover, the higher the premium.

5 Cost
The cost of a policy can vary hugely; the cost is based on your gender, occupation, general state of health, age, whether you are a smoker and level of cover required.

6 Fixed or reviewable premiums
The monthly premium for the policy can either be fixed, which means that the premium will be fixed for the term of the policy or reviewable premiums which would be reviewed every few years to ensure that the premiums are market related. Reviewable premiums tend to be cheaper, however they may be increased in the future.

7 Occupation definition
It is very important to ensure that your income protection policy has an ‘own occupation’ definition. This will insure that should you be unable to work as a dentist due to accident or illness, it will pay out. There are other policies which will not pay out if you can do a ‘suited occupation’. For example if you can’t work as a dentist but as a nurse, then it won’t pay out as you can do a ‘suited occupation’.

For example if you can’t work as dentist but as a nurse, then it won’t pay out as you can do a ‘suited occupation’. The other definition is ‘activities of daily living’ this means that if you can do three out of five daily activities then they won’t pay out either. The daily activities would be disclosed in their policy schedule.

8 Deferred period
A deferred period on an Income Protection policy would pay out the benefit after a deferred period as chosen by you when you set up a policy. These can be from 0 weeks to 24 weeks; a typical deferred period is three months. A deferred period could also coin-
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Income protection policies with an investment attached to it

There are income protection policies that have an investment attached to them. The idea is that the investment portion will grow and provide a lump sum payment at the end of the term of the policy. These policies may be slightly more expensive than a standard income protection policy, due to the investment portion incorporated into the policy. In 2012 the Financial Services Authority (FSA) may be changing the rules on these types of policy arrangements, i.e. protection and investment, insurers may have to drop the investment portion of these policies; further guidance is still being sort from the FSA. In addition, should you cancel this type of policy you may forfeit some of the gains on the investment. It is best to get guidance from an IFA before cancelling any of these policies.

Tax implications

The amount paid out by the insurer will normally be paid tax free, in line with current legislation. There are no limits to the amount of times you can claim on the policy. When taking out a new bank loan for practice purchase, some banks will insist on having Income Protection as a condition of their loan. Whether the banks require a policy or not, it is still good advice to have one in place to cover you in the event of accident or illness.

Labour market statistics - September 2010

- More than 2.6 million people are claiming benefits from the State due to incapacity.
- Labour market statistics September 2010 (As at February 2010)
- More than 2.2 million people in the UK have been off work due to long term sickness.

The idea is that the investment portion will grow and provide a lump sum payment at the end of the term of the policy.

Labour market statistics - September 2010

- Statutory Sick Pay is £81.60 a week for up to 28 weeks.
- Department of Work and Pensions 2010
- If you have been off work for six months, you have an 80 per cent chance of being off work for five years.
- Department of Work and Pensions 2010

If you require a new income protection policy it is best to weigh up all the options above before making any decision. If you have an income protection policy in place it is best to review what you have and make sure that you are happy with your cover; if not it is still good advice to seek further advice.

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About the author

Dino Charalambous works for Frank Taylor and Associates and has been a Mortgage and Protection Broker for more than seven years and provides a personal service for his clients in mortgages, life insurance, critical disease cover, income protection and general insurance. Where possible, he likes to provide face to face interviews so as to get a full understanding of his client’s requirements. Dino will take charge of your application and chase it to the end so that there is less hassle for the client. This also ensures his clients have the appropriate cover for their needs. The dental sector is his main focus as he has worked with many dentists over the past seven years and has an insight into the sector as most of his friends are dentists!

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