

The need for income protection

Your plans for the future – that dream family holiday, next year's new car, or helping support your children or grandchildren through university – all depend largely on one vital ingredient: your income. If poor health or an accident stops you working for a lengthy period and money runs short, or worse still you die, these plans could collapse like a house of cards.

This is why it is important to have sufficient life and health insurance in place. Yet many people underestimate their need for protection insurance. They insure their house and other possessions without question but rarely recognize the need to insure their most valuable asset – their lifetime earnings.

Employer's cover

One reason people fail to take out adequate cover is they assume they will get help from their employer. However, this is unlikely to provide them or their family with the same standard of living as before. On death, for example, beneficiaries of individuals employed by the NHS receive a lump sum of roughly twice the deceased's annual income and a 50% widow/er's or civil partner's pension with additional payments for up to two dependent children.

This may sound plenty but a lump sum of this size is likely to be spent quite quickly. For someone in the early stages of their career who has not accrued a large pension, the income their family receives will be limited too. It is vital therefore to ensure you have enough life insurance not only to pay off your mortgage and any other debts but to generate an additional

income to ensure your family does not suffer any financial hardship.

Serious illness

Equally devastating to your finances can be the occurrence of a serious illness. In this situation, the last thing you want to worry about is how you are going to pay your mortgage or children's school fees. Members of the NHS Pension Scheme may be able to receive their pension early (possibly as a lump sum) but this might not be sufficient. One way of protecting yourself and your family in this situation is

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to take out critical illness insurance. These policies pay out a tax-free lump sum if you suffer a serious medical condition such as cancer, heart attack or a stroke.

A range of other conditions which may be covered include kidney failure, paralysis, multiple sclerosis, or the early onset of Alzheimer's or Parkinson's disease. Another valuable feature of many policies is that they will also provide critical illness cover for your children up to the age of 18 years.

While a major illness can stop you working, problems such as back ache or depression can be equally debilitating and lead to long-term incapacity. These types of complaints are not covered by critical illness insurance but they are included under income protection insurance. An advantage of this insurance is that it will continue paying you a monthly income until you reach retirement if you don't recover beforehand.

Income protection insurance can be arranged so that it only starts to pay a benefit once any sick pay received from an employer ceases. This can help to keep the cost down. In the case of the NHS, if you are directly employed your sick pay will be based on your length of service. It ranges from 1 month to 26 weeks full pay followed by 26 weeks half pay for longer serving employees.

Once your entitlement to sick pay from an employer ends you will find yourself having to rely on state benefits if you don't have insurance. Basic long-term incapacity

benefit is just £81.35 a week in the current tax year (2007–8). With income protection insurance you can typically cover up to 50% of your gross income but because the payments are tax free it will come closer to your actual take home income.

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Different policy conditions and different approaches to underwriting mean that it is highly advisable to seek professional help when buying protection policies. A professional adviser can also help you work out how much critical illness insurance and life assurance you need and will advise you on how to put your life assurance in trust so it passes directly to your dependents on your death, free of inheritance tax. You will also be reminded of the need to review your will regularly to make sure it is up to date. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.

Wesleyan Medical Sickness provides specialist financial advice for doctors

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