

## The case for income protection

A steady income is something we generally take for granted until we find ourselves unable to work as a result of illness or injury. Then the question of how to cover outgoings, such as the mortgage or children's school and university fees, comes sharply into focus. You may think that NHS sick pay will be enough to cover all your regular outgoings, but in fact there are few, if any, employers who will replace 100% of what someone earned if they become incapacitated. So there is always going to be a financial shortfall that needs to be filled, which is why every professional should consider income protection.

### At what stage of my career do I need to think about income protection?

Income protection provides important cover at every stage of your career, whatever sector you choose to work in. For example, newly-qualified medical professionals will often start their careers with a significant amount of debt. The British Medical Association Medical Students Committee (2008) stated that the average debt of a graduating medical student is £37 000, which is higher than the basic annual salary of a junior doctor. If you fell ill at this stage you would be especially vulnerable financially as the debt won't just disappear. Also NHS sick pay for medical professionals in the early stages of their career starts at very low levels and is gradually increased over a number of years. So the need for income protection really starts very early in your career – even before you become fully qualified.

For experienced medical professionals, the need to protect income is just as important, whether you work in the NHS or in private practice. NHS employees are entitled to sick pay benefits, which build up gradually over time. After 5 years service with no gaps, for example, an employee is entitled to 6 months full pay followed by 6 months half pay. It is important to bear in mind that this sick pay only covers basic

salary and doesn't take account of many of the other elements that can significantly boost your regular take-home pay such as a salary band uplift. NHS sick pay may therefore cover less than half your regular take-home pay. Income protection policies, on the other hand, are generally based on your full earnings and not just basic salary.

Once NHS sick pay ceases you are entitled to statutory sick pay, which runs for 28 weeks. After that, you could be entitled to State Incapacity Benefit, although the criteria are quite strict and the short-term higher rate is currently £75.40 a week.

Looking at the private sector, the sick pay cover in place is likely to be very specific to what your employer, or partnership if applicable, has arranged, so providing for yourself is more important. You should carefully check what sick pay provision is in place and consider how this would affect you in the event of incapacity and whether you would need additional cover.

### How do I choose the most appropriate cover?

There is a wide range of income protection products available and there are some key considerations you should bear in mind when looking at them. The level of cover you need will be specific to your individual needs and circumstances. You may have alternative ways of covering loss of income such as through investments or a partner's earnings. You should take this into account when deciding exactly what level of cover you need under a policy. Most policies replace up to a maximum of 50–60% of pre-incapacity earnings because the income protection payout is not taxed and aims to replace some or all of your net income.

You should look for a product with what is called an 'own occupation' definition. Own occupation means that the policy benefits will be paid if you are unable to carry out your specific job because of sickness or injury. Some income protection products offer an 'any suited occupation' definition, which means they won't pay out if you can not 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.

All policies have what is called a 'deferred period'. This is a set amount of time from the date you are incapacitated, after which income payments will start to pay out. You can opt to defer income payments for the amount of time that suits your situation, up to a maximum of 52 weeks. In general, the longer the deferred period the cheaper the policy. When considering a product, it is important to choose carefully what deferred period would be appropriate for you based on your circumstances. For example in the case of an NHS employee, you might receive basic full pay for 6 months so a deferred period that kicks in after this might be appropriate. On the other hand, private practitioners may require income payments to be paid straight away, if no other sick pay provision is in place and some products offer a nil deferred period to meet this need.

There may be times in your life when you want to increase your income protection cover, for example on marriage or the birth of a child. Some, but not all policies, will allow you to do this without the need for further medical evidence and this is known as a 'guaranteed insurability' option.

Most income protection plans pay out until you return to work, are no longer suffering from a loss of earnings – for example if you start receiving a pension income, you reach the maximum age for the policy or you die.

### Conclusions

With careful planning, income protection policies can enable you to maintain the level of income you received before sickness or injury. The level of protection required depends on your own circumstances and lifestyle requirements. There are a wide range of products available and not all will match your particular needs, so choose carefully. It is sensible to take professional financial advice to ensure you find the right cover for you which will not leave you over- or under-insured. **BJHM**

British Medical Association Medical Students Committee (2008) *A need for change*. British Medical Association, London

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